

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

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

7 In the Matter of the Application)
of)
8)
9 PUGET SOUND POWER & LIGHT)
and)
10 WASHINGTON NATURAL GAS COMPANY) DOCKET NO. UE-960195
For an Order Authorizing the) VOLUME 13
11 Merger of WASHINGTON ENERGY) Pages 1708 - 1911
COMPANY and WASHINGTON NATURAL)
12 GAS COMPANY with and into PUGET)
SOUND POWER & LIGHT COMPANY, and)
13 Authorizing the Issuance of)
Securities, Assumption of)
14 Obligations, Adoption of)
Tariffs, and Authorizations)
15 in Connection Therewith.)
-----)

16
17 A hearing in the above matter was held on
18 November 7, 1996, at 9:10 a.m. at 1300 South Evergreen
19 Park Drive Southwest, Olympia, Washington before
20 Commissioners RICHARD HEMSTAD and WILLIAM R. GILLIS
21 and Administrative Law Judges MARJORIE R. SCHAER and
22 JOHN PRUSIA.

23
24 Cheryl Macdonald, CSR
25 Court Reporter

1 The parties were present as follows:

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

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

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

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

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

18 INDUSTRIAL CUSTOMERS OF NORTHWEST
19 UTILITIES, by CLYDE H. MACIVER, Attorney at Law, 601
20 Union Street, 4400 Two Union Square, Seattle,
21 Washington 98101.

22 SEATTLE STEAM COMPANY, by FREDERICK O.
23 FREDERICKSON, Attorney at Law, 33rd Floor, 1420 Fifth
24 Avenue, Seattle, Washington 98101.

25 WASHINGTON PUD ASSOCIATION, by JOEL MERKEL,
Attorney at Law, 1910 One Union Square, 600 University
Street, Seattle, Washington 98101.

PUD NO. 1 OF SNOHOMISH COUNTY, by ERIC E.
FREEDMAN, Associate General Counsel, 2320 California
Street, Everett, Washington 98201.

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

NATIONAL RESOURCES DEFENSE COUNCIL and
NORTHWEST CONSERVATION ACT COALITION, by DEBORAH
SMITH, Attorney at Law, 601 Last Chance Gulch, Helena,
Montana.

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1

I N D E X

2

3	WITNESS:	DIRECT	CROSS	REDIRECT	RE CROSS	EXAM
4	MARTIN		1711	1748	1758	1739
5	SCHOOLEY	1764	1767			1798
6	MIERNYK	1810	1812	1878	1883	1872
7	MAGLIETTI	1896	1899			

8

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10	EXHIBIT	MARKED	ADMITTED
	T-184	1764	1766
11	185	1764	1766
	186	1764	1766
12	187	1764	1766
	188	1764	1767
13	189	1764	1769
	190	1764	1778
14	T-191	1809	1811
	192	1809	1811
15	193	1809	1811
	194	1809	1836
16	195	1809	1872
	196	1875	1875
17	T-197	1896	1898
	198	1896	1898
18	199	1896	1902
	200	1896	1899
19	201	1896	1900
	202	1896	1900
20	203	1896	1901
	204	1896	

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1 P R O C E E D I N G S

2 JUDGE SCHAEER: Let's be on the record.

3 This hearing will come to order. This is a hearing
4 before the Utilities and Transportation Commission
5 considering docket No. UE-951270 and docket No. UE-
6 960195. Today's date is Thursday, November 7, 1996
7 and we're in the Commission's hearing room in Olympia,
8 Washington in the middle of cross-examination of staff
9 witness Roland Martin. Did you have more questions
10 for Mr. Martin, Mr. Manifold?

11 MR. MANIFOLD: Yes, I do.

12

13 CROSS-EXAMINATION

14 BY MR. MANIFOLD:

15 Q. Good morning, Mr. Martin.

16 A. Good morning.

17 Q. I think where we were yesterday is that we
18 were just starting to talk about conservation
19 advertising and I think you had acknowledged the
20 foundation question that on page 8 of your testimony
21 at line 22 you indicate that current rates include
22 \$2.1 million for conservation advertising; is that
23 correct?

24 A. That's correct.

25 Q. And is it your understanding that Ms.

1 Lynch's Exhibit 28 includes these costs in the
2 "nonpower" power cost category?

3 A. It's my understanding that there's some
4 elements of conservation advertising costs but nowhere
5 in the level that's embedded in rates right now to
6 recover those type costs.

7 Q. Could you explain that?

8 JUDGE SCHAEER: Before you do, would you
9 pull your microphone much closer, please.

10 A. As I have said in my testimony, there's a
11 rate element that is designed to recover certain level
12 of conservation advertising, and based on my knowledge
13 on the actual costs incurred that level of actual
14 costs is nowhere the level of the amount of the
15 revenues that are intended to be recovered for this
16 rate element, so I recognize in my Exhibit TS-177 that
17 potential excess revenues that will be used to relieve
18 some cost pressures the company identified.

19 Q. So over the term of the rate plan as
20 proposed by staff, the amount of revenues currently
21 being authorized based upon conservation costs is an
22 element which cuts in the company's favor in terms of
23 relieving other cost pressures. Is that what you're
24 saying?

25 A. Yes. You can describe it that way.

1 Q. Is it correct that in response to public
2 counsel request No. 47 you provided actual
3 conservation advertising expenses for recent years?

4 A. Yes.

5 Q. And do you have that data request with you?
6 If not I can ask you to accept a couple of numbers
7 subject to check.

8 A. I believe the amount in 1995 actually spent
9 on conservation advertising is approximately \$98,000.

10 Q. Yes. I believe the response showed \$98,615
11 and in 1994 would you accept subject to check it was
12 \$567,397?

13 A. Yes, subject to check.

14 Q. And that difference is what you're
15 accounting for in TS-177 at line 28?

16 A. The amount in 28 is the \$2.1 million
17 coupled with the growth in revenues. Because of the
18 growth in sales it would grow up to approximately 2.7
19 in year 2001 and the total over the five-year rate
20 plan period it's about \$12.5 million.

21 MR. CEDARBAUM: Your Honor, if I could
22 interject for a second, and the numbers that are being
23 referenced now are off of a TS exhibit, and I don't
24 know if that's a problem for the company or not.

25 JUDGE SCHAEER: Mr. Van Nostrand, do you

1 have any concern about --

2 MR. VAN NOSTRAND: That particular line is
3 fine.

4 MR. CEDARBAUM: Thanks.

5 JUDGE SCHAEER: Thank you for checking. You
6 may proceed.

7 Q. To your knowledge, did Mr. Lazar make any
8 similar adjustment in his revision of Ms. Lynch's
9 exhibits?

10 A. I don't believe so.

11 Q. Would you agree that if that adjustment had
12 been made by him it would show more favorable
13 financial results from the company's perspective than
14 were otherwise shown?

15 A. That will be the effect, yes.

16 Q. I have a couple of questions about Intel as
17 shown on TS-177. In general, I think we touched on
18 this yesterday, what you're doing at lines 52 to 58 is
19 adjusting for lost revenues from special contracts
20 including schedule 48 and Intel?

21 A. Yes. What is special category in my
22 exhibit TS-177 is recognizing the incremental revenue
23 requirement impacts of these customers.

24 Q. And that's a loss in revenue to the company
25 in general?

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1 A. In general, yes.

2 Q. And that loss for most of the special
3 contracts is calculated as the difference between the
4 normal tariff rate and the special contract rate,
5 which is a lower rate?

6 A. The way this was calculated is comparing
7 the impact on the financial forecast the effect of
8 these customers subscribing to schedule 48 or going
9 into contract rates.

10 Q. And that impact is the difference between
11 what they would have been paying under normal tariffs
12 versus the special contract rate?

13 A. Yes, since the base forecast contains these
14 customers at the tariff rate.

15 Q. And that base forecast was the one provided
16 by the company?

17 A. Yes.

18 Q. As to Intel, which is shown as a negative
19 number, that represents -- is that number
20 confidential?

21 MR. VAN NOSTRAND: No. The Intel contract
22 is public.

23 Q. I don't need to necessarily get into the
24 number. Just wanted to be careful. The numbers shown
25 as a negative number on TS-177, is that because it's

1 represented as additional revenue compared to what was
2 contained in the initial forecasts?

3 A. That's correct.

4 Q. Is that additional revenue calculated as
5 the revenue from the Intel contract or as the amount
6 of revenue that would be available if Intel were
7 paying regular tariffed rates?

8 A. It's the amount of revenue that Intel will
9 bring into the company at a contract rate. That's the
10 assumption.

11 Q. And that's the rate under the contract that
12 was filed previously for Intel?

13 A. Yes.

14 Q. If they elect to take service -- if Intel
15 elects to take service under a special contract under
16 schedule 48, will that number change?

17 A. Yes, slightly. I think it will be a little
18 bit less.

19 Q. I have a couple of questions about DSM
20 prospective costs and staff's proposed treatment of
21 them. Do you expect that there will be some DSM
22 expenditures by the companies after 1-1-97?

23 A. Yes. As a matter of fact, built in our
24 recommendation to amortize DSM costs not in rate base
25 is approximately \$4.3 million of expenditures during

1 the year 1997.

2 Q. And these are reflected in TS-177?

3 A. Yes.

4 Q. If the company makes expenditures that are
5 different than those reflected in your TS-177, what is
6 your recommendation on how those would be handled for
7 recovery?

8 A. Do you mean the expenditures after 1997?

9 Q. Yes.

10 A. Those are -- the magnitude and the type of
11 conservations are not yet known at this time, and I
12 believe we concur with the company's proposal to carve
13 this out, so I wouldn't have a definite answer to your
14 question how exactly they will be treated.

15 Q. That would be a carve-out from the rate
16 plan, the five-year rate plan?

17 A. Yes.

18 Q. Does that mean that if there are
19 expenditures for DSM by the company -- well, let me
20 start over again. The company has already pledged a
21 certain amount of DSM expenditures over the period of
22 the five years and to not seek any rate recovery for
23 that, isn't that true, of about a million dollars a
24 year?

25 A. Yes. I believe that they propose to treat

1 those as an expense and which will not impact the
2 customers.

3 Q. So what we're talking about is any DSM
4 expenditures above that level of one million?

5 A. If any.

6 Q. If any?

7 A. Yes.

8 Q. If there were expenditures that are above
9 the one million, and let's just for hypothetical
10 purposes, to make it easier, say it was still at the
11 \$4 million range, would you anticipate some sort of
12 mechanism during the rate period under which the
13 company could recover that additional DSM expenditure?

14 A. I think that is a matter that will be
15 determined. I cannot have a definite answer at this
16 point.

17 Q. If there were some rate adjustment for
18 recovery then that would affect what -- that would
19 affect what the rate decrease or increase or rate
20 amount would be during the five-year rate plan?

21 A. That's correct. Assuming a hypothetical
22 that there's an agreement to track it as a rider or
23 something then that will be an element which will
24 impact the final effect of the rate reduction that
25 we're proposing during the rate plan period.

1 Q. Couple of questions about rate stability,
2 rate plan generally. Do you have available the
3 response to public counsel data request No. 1 to the
4 staff? I may be able to provide you one,

5 A. Yes, I do.

6 Q. This was a data request to Ms. Linnenbrink
7 which you were responsible in part for preparing, the
8 response of which you were responsible for?

9 A. Yes. Mr. Maglietti and I responded to the
10 first question or request.

11 Q. And the response was for -- is it correct
12 that the response sought the net effect on residential
13 rates under the staff proposed rate plan, net meaning
14 after taking into account the BPA residential
15 exchange?

16 A. Yes, that was the essence of the request.

17 Q. And the response was that staff doesn't
18 have the data to calculate that?

19 A. Yes.

20 Q. I'm going to try to basically skip to the
21 bottom line, but I will come back and do this by
22 pieces if you want. Would you agree that if the
23 current residential exchange were eliminated that
24 would result in an increase of about 16 percent to
25 residential rates over the period of the five years?

1 A. I don't have the data to calculate the 16
2 percent, but if that's your representation I can
3 accept that.

4 Q. If you would accept that subject to check
5 based upon the current schedule 94 credit and the
6 current schedule 7 rates?

7 A. Yes.

8 JUDGE SCHAER: Mr. Martin, are those the
9 data that you would need to be able to calculate the
10 percentage?

11 THE WITNESS: I believe I know at this
12 point what the schedule 94 rate is and if you
13 eliminate that I can calculate the impact on current
14 rates.

15 JUDGE SCHAER: Thank you.

16 MR. MANIFOLD: Thank you very much. No
17 further questions.

18 JUDGE SCHAER: Mr. Finklea, did you have
19 questions for Mr. Martin?

20 MR. FINKLEA: Yes, Your Honor.

21

22 CROSS-EXAMINATION

23 BY MR. FINKLEA:

24 Q. Good morning, Mr. Martin. I'm Ed Finklea.
25 I represent the Northwest Industrial Gas Users. We

1 have just a few questions in the area of your proposed
2 20/80 distribution of costs and savings between the
3 gas and electric sides of the merged company's
4 operations. My questions go to page 12 of your
5 testimony. Am I correct that your proposed 20/80
6 split of the merger benefits is not based on an
7 allocation study; is that correct?

8 A. It is not based on an allocation study. As
9 I have stated in my testimony, it's based on the
10 relative contributions of the two companies merging
11 together.

12 Q. Am I correct that it is not a staff
13 proposal that should these companies merge that a
14 20/80 split between gas and electric would be a proper
15 way to allocate either joint costs or revenues of the
16 merged company?

17 A. It is not an allocation factor for cost.
18 It is a guide to determine the fairness of the
19 distribution of savings.

20 Q. Are you familiar with the allocation
21 formulas that have been forwarded by the companies
22 that they say should be used should the company be
23 merged?

24 A. I am generally familiar and Mr. Schooley
25 addresses that specific methodology in allocating cost

1 between the two companies.

2 Q. Do you take any issue with that approach
3 that's been forwarded by the companies as opposed to
4 this 20/80 approach?

5 MR. CEDARBAUM: Your Honor, I will object.
6 As Mr. Martin just indicated, that is a subject that's
7 covered specifically by Mr. Schooley and I think he's
8 the appropriate witness for that question.

9 JUDGE SCHAEER: I'm going to sustain the
10 objection. Also because I think I've heard Mr. Martin
11 say that he views this as a method to share benefits
12 and not an allocation factor so I don't think it
13 should be called an allocation.

14 MR. FINKLEA: We can explore it with Mr.
15 Schooley as well.

16 JUDGE SCHAEER: Thank you.

17 MR. FINKLEA: I have nothing further.

18 JUDGE SCHAEER: Thank you. Mr.
19 Frederickson, did you have questions for Mr. Martin?

20 MR. FREDERICKSON: No, I do not, Your
21 Honor.

22 JUDGE SCHAEER: Mr. MacIver?

23 MR. MACIVER: Just a couple of questions.

24

25 CROSS-EXAMINATION

1 BY MR. MACIVER:

2 Q. Mr. Martin, on your calculation of lost
3 revenues from special contracts, schedule 48, am I
4 correct in understanding your testimony that you
5 assume that all qualified customers would take
6 schedule 48?

7 A. Yeah. That was the request of the company
8 to recast the forecast, assuming that there's full
9 subscription to the schedule 48 schedule.

10 Q. And are you assuming approval of the Intel
11 contract in your calculation?

12 A. These figures assume that the Intel
13 contract is approved as filed.

14 Q. And do your figures assume that without the
15 special contracts that it would be business as usual
16 and that all customers would stay on the system at
17 their current levels?

18 A. I don't believe that that is an assumption
19 that I made in my analysis. I assume that in doing
20 this comparison of savings and cost pressures that
21 these -- if these customers subscribed to schedule 48
22 or they continue with their special contracts that
23 there will be some revenues lost or filed in face of
24 Intel.

25 Q. As compared to what the revenues would have

1 been had all the affected customers remained on the
2 system at current levels?

3 A. Yes. I think the base forecasts contained
4 figures at the schedule 49 rates for some of these --
5 for these type customers.

6 Q. So is it fair to state then that in
7 evaluating the impact of schedule 48 and/or the
8 special contracts that you have made no adjustment for
9 potential impact on revenues from customers who would
10 reduce usage or leave the system but for a special
11 contract?

12 A. I believe you can say that.

13 MR. MACIVER: I have no further questions.

14 JUDGE SCHAEER: Thank you. Mr. Wright, did
15 you have any questions?

16 MR. WRIGHT: Yes, Your Honor, if you don't
17 mind.

18

19 CROSS-EXAMINATION

20 BY MR. WRIGHT:

21 Q. Just a couple of quick ones. Mr. Manifold
22 had asked if you would calculate the effect on Puget's
23 residential rates of eliminating the residential
24 exchange credit, and I wondered if you have any basis
25 for believing that the residential exchange credit

1 will in fact be eliminated?

2 A. I don't have any basis.

3 Q. And in making the calculation that Mr.
4 Manifold has requested, could you tell me what the
5 source for that calculation will be?

6 A. I would simply remove the existing schedule
7 94 rate and find out what's the impact on the
8 residential rates under that assumption.

9 Q. And are those figures based on Bonneville's
10 1996 proposed rates?

11 A. The figure that I will be using to
12 respond to Mr. Manifold's scenario is the figure that
13 we have in schedule 94 rates now, which I think was
14 set last year based on the last rate change.

15 Q. And your calculation would simply eliminate
16 those figures?

17 A. Yes, not knowing what will happen in the
18 future.

19 MR. WRIGHT: I don't have any more
20 questions. Thank you.

21 JUDGE SCHAEER: Ms. Smith.

22 MS. SMITH: Yes, thank you. I have just a
23 couple of questions.

24

25 CROSS-EXAMINATION

1 BY MS. SMITH:

2 Q. Good morning, Mr. Martin.

3 A. Morning.

4 Q. I would like to ask a couple of questions
5 based on Mr. Manifold's questions to you yesterday
6 concerning your testimony -- I guess that's TS-176 at
7 pages 11, lines 22 and 23. You were discussing with
8 Mr. Manifold, I believe, your opinion as to whether
9 this case was a general rate case; is that correct?

10 A. Yes. I believe I responded that from my
11 perspective this is a general rate case to resolve the
12 PRAM issues.

13 Q. Mr. Martin, was the staff a party to a
14 proposal to terminate the PRAM which was filed with
15 the Commission earlier this year or was it last year?

16 A. In answer to your first question, yes, the
17 staff was a party to the collaborative that
18 recommended termination of the PRAM.

19 Q. And that proposal, I believe, was filed in
20 1995?

21 A. Subject to check. My mind is not really
22 clear on the dates right now.

23 Q. Well, that's not particularly important.
24 Did the proposal in which staff joined include the
25 termination of all parts of the PRAM?

1 MR. CEDARBAUM: Your Honor, I guess at this
2 point I will object on the basis of relevance. Couple
3 of questions on it wasn't a problem but getting into
4 the detail of that joint proposal to terminate PRAM
5 seems to me to be beyond the scope of this testimony,
6 especially given the Commission's order approving the
7 joint motion earlier in docket UE-951270, which really
8 dispensed of all those issues with respect to the PRAM
9 issues that Mr. Martin referred to as being part of
10 this general rate case. So I just don't see the
11 relevance of getting into the details of how PRAM
12 ended.

13 JUDGE SCHAER: Ms. Smith.

14 MS. SMITH: Thank you, Your Honor. Your
15 Honor, while I don't intend to go into the details
16 about why PRAM ended, I think it's quite relevant that
17 PRAM ended and in fact in the Commission's order
18 approving the termination of PRAM the Commission made
19 it quite clear that rate issues with regard to what
20 rate proposal would be endorsed, ultimately ordered by
21 the Commission for the company, would be decided in
22 this docket.

23 As you are aware, my client, Northwest
24 Conservation Act Coalition, Natural Resource Defense
25 Council, opposed the termination of PRAM, not all

1 parts of it, but a certain part of it. That issue is
2 to be resolved in this proceeding. I don't have much
3 cross. I don't intend to digress into areas that have
4 already been resolved by the Commission, but I would
5 like to, since Mr. Roland has testified both in his
6 prefiled written testimony and here on the stand that
7 this is a general rate case for purpose of resolving
8 PRAM, I think my questions are appropriate.

9 MR. CEDARBAUM: Your Honor, I'm sorry, can
10 I just respond for a second? That just makes me more
11 confident that these are not relevant. I'm not
12 questioning any party's ability to present a rate plan
13 in this proceeding. I'm not questioning Dr. Power's
14 ability to put his testimony in, and we can consider
15 it, but these questions about how and why PRAM ended
16 and the details of that, even at this level, are
17 beyond the scope of this witness's testimony and if
18 Ms. Smith wants to ask questions about the staff rate
19 plan, that's fine. Finally, yesterday, maybe even the
20 day before, I discussed with Ms. Smith that if she had
21 any questions about staff's position on Dr. Power's
22 testimony those questions should be directed to Mr.
23 Maglietti.

24 MS. SMITH: My questions are --

25 MR. CEDARBAUM: I think we're getting far

1 afield.

2 MS. SMITH: My questions --

3 JUDGE SCHAEER: I'm ready to rule at this
4 point. I'm not going to rule that this is irrelevant
5 because I think with the proper witness and a proper
6 opening it might be relevant, but I am going to rule
7 that this is beyond the scope of Mr. Martin's
8 testimony. I don't see anything on page 11, lines 22
9 and 23 that opens up the details of an order in case
10 terminating the PRAM, and I also think that those
11 orders are available to be cited in brief without
12 having to ask a witness about them during hearing
13 time. So let's continue, please.

14 MS. SMITH: Thank you, Your Honor. Just a
15 moment.

16 Q. Mr. Martin, I would like to ask you now --
17 I would like to follow up on questions that Mr.
18 Manifold asked you just earlier today concerning how
19 additional DSM revenues will be determined in the
20 future. What I mean by additional revenues, that are
21 beyond the scope that you include in your testimony.
22 Do you envision that there would be some proceeding
23 before the Commission in which the company would ask
24 for permission to recover those revenues?

25 A. There might be. Since it's a carve-out

1 there might be some proceedings or some collaborative
2 approaches or other type of initiatives that will be
3 done to address that.

4 Q. And I just want to make sure that I
5 understand. This proceeding would be in addition to
6 anything that is presented in the scope of your
7 testimony with regard to your rate stability plan; is
8 that correct?

9 A. Yes.

10 MS. SMITH: Thank you. I have no further
11 questions.

12 JUDGE SCHAEER: Mr. Freedman, did you have
13 any questions?

14 MR. FREEDMAN: I have no questions, Your
15 Honor.

16 MR. MERKEL: I have no questions.

17 JUDGE SCHAEER: Commissioners, did you have
18 questions for Mr. Martin?

19

20 EXAMINATION

21 BY COMMISSIONER HEMSTAD:

22 Q. On page 7 of your testimony you discuss at
23 the bottom of the page WNP 3. Was the WNP 3 cost
24 recovery either allowed or ordered by the Commission
25 to be charged on a clear kilowatt hour basis?

1 A. It was included as part of the general
2 rates and I guess could be found in any portion of the
3 rate structure being collected right now, but it's not
4 a specific surcharge, if that's what you mean.

5 Q. How many more years is it to be amortized?

6 A. This particular project was decided in
7 docket U-89-2688-T, and I believe that became
8 effective early in 1990, so the amortization period is
9 ten years. It will expire after ten years since 1990.

10 Q. You were asked various questions with
11 regard to the DSM. Do you have any reason to believe
12 that PSE will not pursue DSM during the five-year rate
13 plan period?

14 A. No. As a matter of fact, in their proposal
15 they already committed a million dollars for lower
16 income program and as to the types of conservation we
17 have treated it as a carve-out meaning that the
18 company fully intends to spend more on conservation
19 during the rest of the rate plan period.

20 Q. Do you have any reason to believe that the
21 applicants will be able to exceed the best practices
22 and power stretch goals envisioned in their forecast?

23 A. Based on the qualifications attached to the
24 financial forecast that the figures or data in the
25 forecast may be lower or higher, so there might be a

1 chance that it will exceed the numbers contained in
2 them.

3 Q. You say there might be a chance. You mean
4 you would describe that as a possibility or not
5 particularly likely?

6 A. I cannot put the specific probability on
7 that. I'm just reading literally what that particular
8 qualification as is stated in the financial forecasts
9 means.

10 Q. Well, if the applicants are not able to
11 exceed those goals, do you think there should be some
12 sharing of whatever goals are reached between
13 shareholders and ratepayers?

14 A. Sharing of the amount not achieved or --

15 Q. Yes, the amount not achieved.

16 A. In a sense I believe that that sharing may
17 be a possibility, but our assumption is under a staff
18 rate plan there is some buffer or cushion that will
19 contribute to the firming of those numbers, because we
20 didn't recognize in our presentation potential areas
21 of additional savings. I believe this is another
22 category which is not explicitly recognized in the
23 financial forecast, but in answer to your question I
24 don't have any basis to say about any potential future
25 sharing mechanisms that might be adopted.

1 Q. Finally, if the Commission were to accept
2 the staff proposal, what benefits do you believe would
3 flow to the shareholders?

4 A. Mr. Sonstelie outlined the different good
5 effects that makes -- that make the merger good sense
6 or that makes the merger sensible, and I believe, as
7 far as I recall, there are advantages in terms of
8 having a stronger company, being able to obtain a
9 stronger position in the competitive environment, that
10 there will be better corporate image, that there will
11 be a potential for lower cost of capital, and other
12 things that will make attainment of benefit areas
13 which would not be possible absent the merger.

14 Q. Are those benefits under the staff proposal
15 able to be quantified in any way other than purely
16 speculative?

17 A. Some of those factors cannot be quantified.
18 Some of those are qualitative like a stronger
19 corporate image and stronger management. I don't
20 believe we can explicitly quantify those.

21 COMMISSIONER HEMSTAD: That's all I have.

22

23 EXAMINATION

24 BY COMMISSIONER GILLIS:

25 Q. Returning again to the commitment of the

1 company is one million dollars a year to DSM, is that
2 correct, without affecting rates?

3 A. Yeah.

4 Q. Do you happen to recall what Puget Power's
5 commitment to the Northwest Energy Efficiency Alliance
6 is, their annual commitment?

7 A. I'm not familiar. I haven't been
8 participating in those initiatives, so I don't have
9 explicit knowledge in what their commitments are.

10 Q. I don't have it in front of me either.
11 From my memory it was more than a million dollars a
12 year. I will check it out with the company's witness
13 later, but if it is more than a million dollars a year
14 for that particular activity, would that mean they
15 would have to come before us for additional approval
16 to meet that commitment?

17 A. I believe they may come to propose some
18 mechanism to recover that, but I am not really sure
19 because we are prepared to deal with that outside of
20 this proceeding, because we treated this as a
21 carve-out.

22 Q. There's additional one million dollars
23 carve-out for low income programs as well, within
24 their proposal, do you recall?

25 A. One million dollars?

1 Q. My facts might be faulty. As I recall the
2 proposal. I'm just checking.

3 A. Maybe Mr. Maglietti will be able to shed
4 more light on the specific treatments of that.

5 Q. I will check on that. Just to give Mr.
6 Maglietti an alert, what I'm asking for is there's
7 some commitments to carve-outs within the company's
8 proposals and I am interested if the Northwest Review
9 came up with the 3 percent target and I am just
10 wondering where that matches up. The carve-outs that
11 they've suggested, do they match up to the 3 percent
12 target for public purposes that are suggested by the
13 review, but I will ask that of Mr. Maglietti or the
14 company witness or somebody along that line.

15 So you've, I assume, reviewed Mr. Story's
16 rebuttal testimony?

17 A. Yes.

18 Q. Do you have any comments regarding his --
19 do you have any comment on Mr. Story's rebuttal
20 testimony regarding your adjustments to the units used
21 in Exhibit 28?

22 A. Do you have a specific reference in his
23 rebuttal testimony?

24 Q. Sorry, I don't. Let me ask this. If Mr.
25 Story used the unit and costs from UE-921262, is that

1 a reasonable approach to determining the power costs?

2 A. That analysis is trying to calculate how
3 much revenues they are allowed under the recovery
4 mechanism or the PRAM, but since the PRAM is not a
5 general rate case the unit figures are not necessarily
6 representative of costs, because under the PRAM
7 mechanism the company is allowed some revenues both
8 resource and nonresource or base costs, and we allow
9 that the base some of the cost is very subject to
10 decoupling, the Commission has given them an allowance
11 per customer and there's no checking back or going
12 back to reconcile whether those revenues actually are
13 above or below actual costs, so those are indications
14 of what the company is receiving right now as revenues
15 in the period basis.

16 As to the determination of whether those
17 revenues are actually recovering actual costs, that is
18 a determination that is normally made in a general
19 rate case, a general rate case which they did not --
20 which we are not undergoing right now, so that remains
21 a question.

22 Q. In Mr. Story's rebuttal testimony at page
23 10, he states that your fixed charge adjustment should
24 use the actual vintage years of affected properties.
25 Did you consider this in making your adjustment and if

1 so why did you decide not to do it?

2 A. Actually, he's correct in saying that the
3 applicable fixed charges or fixed charge rate for each
4 of the different properties that are going to be
5 disposed of because of the merger, there are four
6 properties subject to disposition in this savings area
7 calculation, and I have knowledge that there should be
8 separate and distinct fixed charge rate for each group
9 property, and we recalculated that, and bottom line
10 impact on my figures in Exhibit RCM-2, which is
11 Exhibit 178, the final impact is not very material
12 over the five-year period. I believe our
13 recalculation resulted in an even higher amount of
14 savings by some \$200,000 over the five-year period,
15 but we deemed that that is not very material
16 difference.

17 Q. In your Exhibit RCM-1 you use levelized
18 costs and savings; is that correct?

19 A. Which exhibit?

20 Q. RCM-1 which is TS-177.

21 A. These are all nominal amounts not
22 levelized.

23 Q. So they aren't levelized?

24 A. No.

25 Q. What would have been the impact if they

1 would have been levelized?

2 A. For those merger savings calculated by Mr.
3 Flaherty he used levelized fixed rate charges, and
4 that impacts the figures. In my exhibit RCM-2,
5 Exhibit 178, page 3 of 3, you will see the difference
6 between staff and company, and one of the contributing
7 factors in that difference is Mr. Flaherty's use of
8 levelized fixed charge rates and the staff's use of
9 unlevelized fixed charge rates.

10 JUDGE SCHAEER: Over what time period did
11 you levelize?

12 THE WITNESS: The time period -- I mean,
13 the levelized fixed charge rates were calculated on
14 the basis of the life of the particular assets being
15 avoided or being a source of savings.

16 Q. Is this proceeding the proper forum for
17 determining the treatment of regulatory assets that
18 may arise during the five-year rate plan?

19 A. I believe so, yes. That is our
20 recommendation under our staff rate plan.

21 COMMISSIONER GILLIS: Thank you. That's
22 all my questions.

23

24

25

EXAMINATION

1

2 BY JUDGE SCHAEER:

3 Q. Mr. Martin, to start with I have some kind
4 of global questions about how all of the different
5 pieces of DSM adjustment fit together. Are you the
6 right witness to ask those questions or should I ask
7 you and if you're not could you tell me who to ask
8 them of?

9 A. That's fair.

10 Q. General questions about the DSM proposals,
11 the conservation grantor trust of 1995 and interplay
12 of all these adjustments. Is it true that Puget
13 created the -- that when Puget created the trusts it
14 sold bonds and the proceeds from those bonds went to
15 Puget to take DSM assets off their books?

16 A. That's correct.

17 Q. So are the DSM assets on Puget's books or
18 have they been assigned to the trust?

19 A. I believe those were sold for financial
20 purposes so they are off books.

21 Q. Has only a portion of Puget's DSM been
22 assigned to the trust?

23 A. The amount assigned to the trust, I think,
24 includes the level of conservation investments as
25 approved up to the PRAM 4 level.

1 Q. So in dollar terms what amount of DSM
2 assets are still in the books?

3 A. The PRAM 5 layer and the amount of
4 conservation expenditures after the cut play in PRAM 5
5 and they will continue to -- they continue to spend
6 conservation and they also are projected to spend
7 additional \$4.3 million for calendar year 1997.

8 Q. And where is that number found in the
9 record, the number that shows the DSM assets still on
10 the books? Is it anywhere in this record that you
11 know of?

12 A. As to the amount of conservation not yet in
13 rates, that is the subject of our proposed
14 amortization during the rate plan period, and as to
15 the amounts that are not assigned to the trust, those
16 are still on the books of the company and are being
17 amortized.

18 Q. Are those numbers shown somewhere in the
19 record in this proceeding?

20 A. Not distinctly, I believe.

21 Q. Will those amounts be affected by staff and
22 public counsel recommendations made in this proceeding
23 if those recommendations were granted?

24 A. Could you repeat the question, please.

25 Q. Will the amount of DSM assets still on the

1 books be affected by either the staff or the public
2 counsel recommendations that have been made in this
3 proceeding if either one of those were to be granted?

4 A. As far as staff's proposal is concerned,
5 those will be affected because what we are proposing
6 is to amortize those to income over the five-year rate
7 plan period. Those assets that are not yet in rates.

8 Q. And are you aware of what the public
9 counsel's recommendation would do with those or should
10 I ask them?

11 A. I think it's better to ask public counsel.

12 Q. Is it also true that DSM rates are
13 earmarked to pay off bond holders?

14 A. Yes. I think that's the provision which
15 was considered in granting the company these bonding
16 -- under the bonding proposal.

17 Q. Several times during your testimony today
18 you mentioned that DSM expenditures during the
19 five-year rate plan period could be carved out. Would
20 you just spell out for me in a little bit more detail
21 what a carve-out means in this context?

22 A. What do I mean by a carve-out is at this
23 point the company does not have a definite proposal or
24 projection on what they will actually spend on
25 conservation expenditures other than the one million

1 committed by the company for low income, so carving it
2 out means that there will be opportunity for the
3 parties to get together to develop suitable programs
4 and the corresponding spending levels and also the
5 manner or the type of recovery mechanisms that will be
6 fitted to apply to those agreed programs or
7 expenditures.

8 COMMISSIONER GILLIS: Could I interrupt
9 just a second?

10 JUDGE SCHAEER: Certainly.

11 COMMISSIONER GILLIS: That's where I think
12 I got lost. The one million dollars for the low
13 income carve-out was the same thing as you're
14 referring to for one million dollars for conservation
15 carve-out; is that right?

16 THE WITNESS: Yeah.

17 COMMISSIONER GILLIS: Okay, that's where I
18 got lost.

19 Q. So as I understand it there's been a
20 commitment by the company to spend at least a million
21 dollars a year on low income conservation and then
22 there have been what I read to be discussions of
23 something like a conservation rider or some other
24 mechanism more like the Washington Water Power company
25 has now.

1 A. Yes.

2 Q. For recovery of conservation costs that
3 aren't spread through everyone's rates.

4 A. That may be one of the options which will
5 be adopted, but as far as the recovery mechanism, the
6 one million dollars, I think the Commission -- I mean
7 the company has already stated that those will not be
8 collected from the customers.

9 Q. So that the low income customers would be
10 able to get conservation without having to pay a rider
11 on their bills but other customers might be paying
12 more directly for their conservation through a rider
13 or some other mechanism?

14 A. That's my understanding.

15 Q. On page 8 of your testimony in your
16 discussion of DSM, in prior years did Puget Power
17 spend less on DSM than the amounts included in rates
18 for conservation programs?

19 A. Are you referring to line 27?

20 Q. I believe you've already testified today
21 about the level of advertising set in rates and the
22 amount actually spent, but is there something similar
23 for any other DSM programs or are they treated
24 differently in current rates? I'm looking more at
25 line 7 and 8 and your answer to the first question

1 shown on this page. Particularly the sentence
2 reading, "During the rate stability period the level
3 of conservation revenues will grow with load but
4 actual costs will decline as the vintage layers of DSM
5 costs are fully recovered."

6 A. Yes. What I am saying here is that we are
7 aware that the company spent millions of dollars in
8 conservation during the past years and those are --
9 those expenditures are recovered through rates and as
10 they get recovered, after the termination of the PRAM,
11 the vintages that are fully recovered will not be
12 tracked, so the level of revenues that they will be
13 collecting will be higher than the actual cost which
14 will be going lower and lower as the other vintages of
15 DSM expenditures are fully amortized.

16 Q. Looking at page 16 of your testimony, about
17 lines 22 and 23, would you just briefly describe to me
18 the value you see from a report on item 1 and the
19 value of a report on item 2?

20 A. Part of the value --

21 Q. Why should the company be required to do
22 those things? What good comes out of that?

23 A. On the first item we are requesting that
24 there will be a condition -- it would be made a
25 condition to have the company file a report truing up

1 Mr. Flaherty's savings and cost estimates because the
2 value of this is we are proposing an 80/20 split of
3 the merger savings so that knowing what the levels of
4 cost before and after the merger will give us the
5 actual distribution of the cost -- I mean actual
6 distribution of the savings. So knowing where the
7 actual distribution of the savings are, we will be
8 able to gauge against our 80/20 guide where the cut --
9 whether that is being accomplished or not. If we find
10 out that there is substantial deviation from this
11 fairness guide then we will be able to make a
12 corrected measures to steer the distribution towards
13 the more equitable fairness guide that we established.

14 Q. How about the second one?

15 A. The second one, it will be, I believe, a
16 very important piece of information to determine how
17 well the -- pardon me, I was referring to No. 3 and
18 No. 4 but for No. 2, we are not able at this point --
19 we are not able to know at this point what is the
20 relative distribution of the merger benefits because
21 the company was not able to provide a desegregated
22 results of operations between gas and electric.

23 This requirement would provide such a
24 determination what is the expected approximately
25 merged result of operations of the company as

1 disaggregated between gas and electric, but by having
2 this report filed we, at least on a perspective basis,
3 we will have an indication, again, on where the
4 savings are being realized at least on a projected
5 basis, so that is the purpose of report No. 2.

6 Q. And finally, looking at page 17 of your
7 testimony and the discussion on line 14 of the
8 criteria enunciated by the Commission in cause No.
9 U-72-30, would you just tell me a little bit how you
10 see this work? Let me give you some background. I
11 went and looked up the order in U-72-30 and what we
12 had in that situation is a case where a company had
13 filed for general rate relief and then had sought in
14 the general rate increase filing interim rate relief
15 that would allow them to get their rates up sooner
16 than the end of the 11-month filing period, so are you
17 assuming that if Puget finds itself in the kind of
18 straits described in this order that it would have to
19 come in and file -- or not Puget, but Puget Sound
20 Energy have to come in and file a complete general
21 rate case and as part of that would have to prove that
22 these criteria apply at some early stage of that, or
23 how do you see this working because I'm not sure I
24 understand procedurally what the company who brought
25 this up or the staff has in mind.

1 A. It's my understanding that they can only
2 come in and file for rate relief under the
3 extraordinary circumstances that it's been considered
4 in that specific order in U-72-30, that there's an
5 extraordinary need need to seek rate increase. That's
6 the only time that they will be able to come in and
7 file for the relief needed.

8 Q. And what will they file? Will they file a
9 complete general rate case?

10 A. I am not sure.

11 Q. Meets the filing requirements in the
12 Commission's procedural rules or --

13 JUDGE SCHAEER: I guess I would really like
14 all the parties to think about that and make sure that
15 when we talk about this, which seems to be an
16 uncontested thing, that we're all talking about the
17 same thing.

18 Is there any redirect for this witness?

19 MR. CEDARBAUM: Yes.

20 JUDGE SCHAEER: I'm going to suggest that we
21 take our morning recess at this time and let you
22 proceed with that at 10:30. Would that be all right?

23 MR. CEDARBAUM: Sure.

24 JUDGE SCHAEER: Let's be off the record.

25 We'll take our morning recess and please be back at

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1 10:30.

2 (Recess.)

3 JUDGE PRUSIA: We're back on the record
4 after our morning break. I believe we're now ready
5 for the redirect examination.

6 MR. CEDARBAUM: Yes, thank you, Your Honor.
7 Also just to state for the record prior to the break
8 there was a question from Judge Schaer about the piece
9 of DSM from PRAM 5 that's not in the conservation
10 trust and where that number appeared on the record.
11 We're in the process of trying to find that out and
12 that question can be asked of Mr. Schooley when he
13 takes the stand.

14 JUDGE PRUSIA: Thank you. And also just
15 for the record my name is John Prusia. I'm an
16 administrative law judge with the Commission.
17 Proceed, Mr. Cedarbaum.

18

19 REDIRECT EXAMINATION

20 BY MR. CEDARBAUM:

21 Q. Mr. Martin, I have a few areas for you
22 starting off with some questions that came from the
23 bench this morning. There may still be some confusion
24 on the DSM cost issue with respect to the one million
25 dollars that the company has proposed to spend for low

1 income households and other costs that might be spent.
2 Is it correct that the one million dollars that's in
3 the company's case is something that they expect to --
4 they propose to expense without any additional
5 revenues?

6 A. Yes.

7 Q. And what we've been calling a DSM carve-out
8 would be for expenditures above that one million
9 dollar amount; is that right?

10 A. That's correct.

11 Q. And what the staff is proposing is that the
12 issue of -- the amount of the expenditures and the
13 type of expenditure above that one million dollars
14 will be deferred for a separate future proceeding; is
15 that right?

16 A. That's right.

17 Q. You were also asked some questions with
18 respect to the reports that you proposed be filed by
19 the companies if the merger is approved and you
20 outlined those on pages 16 and 17. You were
21 specifically asked about the value of the reports 1
22 and 2 on page 16. Would there be value to the
23 Commission staff and other parties in having those
24 reports filed in anticipation of any emergency rate
25 relief that might be requested?

1 A. Yes.

2 Q. Why is that?

3 A. Because those reports will show to what
4 extent the envisioned merger savings were achieved
5 and those will be determined by operations on a
6 disaggregated basis.

7 Q. One more or less housekeeping matter. You
8 were asked by public counsel with respect to public
9 counsel data request No. 1 of staff whether or not you
10 confirmed for him that the response was that staff did
11 not have data by which to calculate staff's estimate
12 of gross and net residential rates for each year of
13 the rate predictability plan before and after the BPA
14 credit. Do you recall that?

15 A. Yes.

16 Q. Is it true that the data that staff did not
17 have which would be necessary for that calculation is
18 the projected customer class billing determinants and
19 also the future levels of the BPA credit?

20 A. That's correct.

21 Q. Yesterday, Mr. Van Nostrand asked you some
22 questions about the staff proposed \$75 and a half
23 million electric rate reduction. Do you recall that?

24 A. Yes.

25 Q. If you could turn to page 2 of your

1 testimony, lines 26 through 28 where you state as
2 follows: "The unbundled DSM rate will be decreased
3 annually to reflect the difference between DSM
4 embedded revenue requirement and actual DSM revenue
5 requirement in each year of the rate plan." Is that
6 right?

7 A. That's right.

8 Q. And the unbundled DSM rate that you're
9 talking about there is the methodology by which the
10 staff proposal electric rate reduction will occur?

11 A. Yes.

12 Q. And that testimony accurately describes the
13 methodology by which you calculated the staff proposed
14 rate reduction?

15 A. That's correct.

16 Q. When you said in that statement -- I quote
17 -- "DSM embedded revenue requirement" that refers to
18 the revenue requirement embedded in PRAM 5; is that
19 right?

20 A. That's right.

21 Q. And this testimony was filed and submitted
22 to the company on September 23, 1996; is that correct?

23 A. That's correct.

24 Q. Along with your testimony, as you submitted
25 it to the company, both Puget and Washington Natural,

1 you provided them with your work papers as well; is
2 that right?

3 A. That's right.

4 Q. And one of those work papers is attached to
5 your deposition, which is Exhibit 180, and I am
6 looking at deposition Exhibit No. 2. Do you have that
7 in front of you?

8 A. Yes.

9 Q. And can you please describe what this work
10 paper compares or calculates?

11 A. This work paper compares the differences
12 during the rate plan period between the DSM revenue
13 requirement and the actual cost during the -- for DSM
14 during the rate plan period.

15 Q. And this page of the work paper calculates
16 a \$75 and a half million figure?

17 A. That's right.

18 Q. And is this work paper, as you've described
19 it, consistent with the testimony that I discussed
20 earlier as well?

21 A. Yes, and as noted in the exhibit, this
22 supports the line item in my exhibit TS-177.

23 Q. Looking at Exhibit No. 1 to your deposition
24 which calculates an amount of \$103.4 million, can you
25 explain what this work paper represents?

1 A. Yes. This work paper supports the
2 description and the numbers in my testimony and
3 exhibits, and these represent the amount of DSM
4 revenues over DSM revenue requirement during the rate
5 plan period.

6 Q. And that will clearly not be a calculation
7 consistent with the testimony that I read to you
8 earlier?

9 A. That's correct.

10 Q. Is it also correct that in our response to
11 the company's data request No. 35 we provided them
12 from Dr. Lurito alternative scenarios that the staff
13 considered for an electric rate reduction?

14 A. Yes. I believe those were provided to the
15 company.

16 Q. And those are alternatives that were not
17 proposed by staff?

18 A. Yes.

19 Q. And one of those was \$103.4 million
20 electric rate reduction?

21 A. Yes.

22 Q. Is it correct that that data request
23 response was provided to the company prior to yours or
24 Dr. Lurito's deposition on October 4?

25 A. That's right.

1 Q. Is it also your understanding of Dr.
2 Lurito's testimony from last -- earlier this week,
3 excuse me -- that he felt that the -- both the \$103
4 million reduction and the \$75 million reduction were
5 within a zone of reasonableness but that the \$75
6 million was more reasonable; is that right?

7 A. That's right.

8 Q. And so was this a situation where staff was
9 looking for a number that pushed the companies to the
10 edge of financial viability?

11 A. This is a situation where the \$75 million
12 makes Dr. Lurito more comfortable.

13 Q. Now, looking at Exhibit 183, which was the
14 -- this is a document that you faxed to Mr. Story on
15 October 16; is that right?

16 A. That's right.

17 Q. And this was your attempt or your
18 recalculation of his table on page 3 of his rebuttal
19 testimony?

20 A. Yes.

21 Q. And this calculates the \$75.4 million -- 75
22 and a half million staff proposed rate reduction?

23 A. Yes.

24 Q. And did you call Mr. Story as well and
25 explain this exhibit to him?

1 A. We discussed couple of pages and after our
2 conversation I mentioned to him that I prepared this
3 table and faxed to him.

4 Q. So at least by my count there were four
5 instances where the staff communicated to the company
6 the methodology and calculation of the \$75.5 million
7 rate reduction?

8 MR. VAN NOSTRAND: Is there a question?

9 MR. CEDARBAUM: I'm going to ask him.

10 MR. VAN NOSTRAND: Your Honor, I just
11 object to the continuing leading questions of this
12 witness.

13 JUDGE PRUSIA: If this will make the
14 proceedings proceed more rapidly I don't have a
15 problem with the leading question as long as you're
16 not putting an answer into his --

17 MR. CEDARBAUM: I'm just trying to
18 summarize the last series of questions.

19 Q. By my count, again, Mr. Martin, those four
20 instances were the testimony itself and the work
21 papers, your deposition where this amount was
22 discussed, the fax to Mr. Story, and the response to
23 staff -- to Puget Sound Energy's data request No. 35?

24 A. Yes.

25 Q. You were also asked in your deposition

1 about whether the merger -- excuse me -- about whether
2 the best practices and power stretch savings were
3 known and measurable. Do you recall that?

4 A. Yes.

5 Q. Would you also -- would you characterize
6 the merger savings of Mr. Flaherty's estimates as
7 known and measurable in the context of ratemaking?

8 A. In the context of traditional ratemaking,
9 no. Those are contingent upon -- first of all, if the
10 Commission does not approve the merger then those
11 merger savings will not occur.

12 Q. And then finally you were asked some
13 questions by Commissioner Hemstad this morning about
14 whether or not the benefits to shareholders were
15 quantified. Is it correct that Dr. Lurito has
16 quantified a rate of return on equity and coverages as
17 far as his testimony is concerned?

18 A. Yes, he did.

19 Q. Is it also correct that under the staff
20 rate plan that of \$120 million in lost revenues from
21 schedule 48 and special contracts that shareholders
22 will be held responsible for only \$17.8 million?

23 A. That's the implication based on the staff's
24 exhibit.

25 Q. He also asked you whether or not there was

1 any kind of a sharing mechanism in the staff rate plan
2 if the companies were to fall short in achieving power
3 stretch savings. Is there any kind of a mechanism and
4 if not why not?

5 A. The staff's plan contemplates that the
6 company will try its best to achieve the stretch
7 goals, and to the extent that they over or under
8 achieve those goals it will either be an additional
9 list or benefit to the company on what the final
10 outcome is going to be.

11 Q. So to the extent that the company does not
12 recover what they've estimated to be their power
13 stretch savings they are at risk for that amount?

14 A. Yes.

15 Q. To the extent that they over achieve those
16 savings they keep them dollar for dollar?

17 A. Yes.

18 MR. CEDARBAUM: Thank you. Those are all
19 my questions.

20 JUDGE PRUSIA: Does the company have any
21 recross for this witness?

22 MR. VAN NOSTRAND: Yes, I do, Your Honor.
23 Thank you.

24

25

1 Q. You were also asked as far as your
2 assumptions regarding levels of DSM spending by the
3 company during the rate plan, your analysis assumes
4 that the company will continue to make some DSM
5 investments during the rate plan; is that right?

6 A. That's right.

7 Q. But your analysis also assumes that there
8 will be no conservation advertising performed by the
9 company during the rate plan. Isn't that true?

10 A. In calculating the magnitude of
11 overrecovery I assume that there will be no
12 conservation advertising, but to the extent that
13 future DSM require conservation advertising then those
14 will be matters that will be considered in the
15 carve-outs or initiatives.

16 Q. But the Commission's treatment of
17 conservation advertising as it stands now should be
18 treated as part of general rates, isn't it?

19 A. Yes, it's part of an expense.

20 Q. So it would be inconsistent with the
21 Commission decision in the '92 rate case if
22 conservation advertising were recovered as part of a
23 DSM rider, wouldn't it be?

24 A. I don't believe so.

25 Q. Isn't that the effect of the treatment of

1 conservation advertising in the '92 rate case which
2 you're adjusting on line 28, line 27 of your Exhibit
3 TS-177, wasn't that to recover conservation
4 advertising as part of general rates?

5 A. This adjustment that you term as adjustment
6 is merely showing that embedded in the rates is a rate
7 element that's recovering a certain level of
8 conservation advertising, and it is a source of rate
9 pressure relief because based on my knowledge of the
10 actual expenditures, the amounts being collected, it's
11 much more than the amounts being actually spent.

12 Q. And so you were assuming that any
13 advertising component of a future conservation program
14 will be part of the DSM rider; is that correct?

15 A. I disagree with your statement that there's
16 already immediate percentage that there will be a DSM
17 tariff rider. I'm not saying that, that there will be
18 a definite DSM tariff rider. As to the exact
19 mechanism of how future DSM costs are going to be
20 recovered, that will be the subject of the carve-out
21 or initiatives that will ensue.

22 Q. We can say for purposes of your analysis
23 that you are assuming no conservation advertising is
24 part of general rates by your assumption of zero on
25 line 27?

1 A. There was assumption based on the specific
2 calculation, but, as I have said, any actual levels of
3 conservation advertising which might be a component
4 part of a future DSM program that those will be
5 considered in the initiatives that will be established
6 under the carve-out proposal.

7 MR. VAN NOSTRAND: I have no further
8 questions. Thank you, Your Honor.

9 JUDGE PRUSIA: Does any other party have
10 recross for this witness? Public counsel.

11 MR. MANIFOLD: No.

12 JUDGE PRUSIA: Mr. Finklea?

13 MR. FINKLEA: No.

14 JUDGE PRUSIA: Mr. Frederickson?

15 MR. FREDERICKSON: No.

16 JUDGE PRUSIA: Mr. MacIver?

17 MR. MACIVER: No.

18 JUDGE PRUSIA: Mr. Wright?

19 MR. WRIGHT: No, Your Honor.

20 JUDGE PRUSIA: Ms. Smith?

21 MS. SMITH: No.

22 JUDGE PRUSIA: Mr. Freedman?

23 MR. FREEDMAN: No.

24 JUDGE PRUSIA: Mr. Merkel?

25 MR. MERKEL: No.

1 JUDGE PRUSIA: Commissioners have any
2 additional questions?

3 COMMISSIONER HEMSTAD: No.

4 JUDGE PRUSIA: Before we excuse the
5 witness, it's been brought to my attention that some
6 of our copies of Mr. Martin's deposition ended at page
7 37. Was that intended or is there something missing
8 from these copies?

9 MR. CEDARBAUM: So does mine.

10 MR. VAN NOSTRAND: There should be one more
11 page 38. We can hand out that page, the additional
12 page. It actually ends on page 38.

13 JUDGE PRUSIA: Can you hand that out after
14 the lunch hour?

15 MR. VAN NOSTRAND: Yes. Thank you, Your
16 Honor.

17 JUDGE PRUSIA: This witness may be excused
18 then. Let's be off the record to allow the next
19 witness to take the stand. Will any parties having
20 exhibits to hand out for the next witness, who will be
21 Mr. Schooley, please distribute them during the break.

22 (Recess.)

23 JUDGE PRUSIA: Let's be back on the record.
24 Whereupon,

25 THOMAS SCHOOLEY,

1 having been first duly sworn, was called as a witness
2 herein and was examined and testified as follows:

3 JUDGE PRUSIA: First let's mark the
4 predistributed exhibits. There are four items of
5 prefiled testimony. I've marked for identification as
6 Exhibit T-184 the testimony of Thomas E. Schooley.
7 Marked for identification as Exhibit 185 TES-1. I've
8 marked for identification as Exhibit No. 186 TES-2.
9 I've marked for identification as Exhibit No. 187
10 TES-3.

11 In addition there were three documents that
12 were distributed while we were off the record -- or
13 one was distributed yesterday, and that's the
14 deposition of Thomas Schooley. That's been marked for
15 identification as Exhibit No. 188. And then the two
16 that were distributed while we were off the record,
17 marked for identification as Exhibit 189 is staff
18 response to PSE deposition request No. 1. That's a
19 two-page document and marked for identification as
20 Exhibit No. 190 is a one page document staff response
21 to public counsel data request No. 71.

22 Is any of this testimony or exhibits
23 confidential or top secret?

24 MR. CEDARBAUM: I don't believe so.

25 JUDGE PRUSIA: Proceed, Mr. Cedarbaum.

1 (Marked Exhibits T-184 and 185 - 190.)

2

3 DIRECT EXAMINATION

4 BY MR. CEDARBAUM:

5 Q. Will you please state your full name and
6 spell your last name.

7 A. My name is Thomas E. Schooley, S C H O O L
8 E Y.

9 Q. And Mr. Schooley, you're employed by the
10 Commission as a revenue requirement specialist?

11 A. That's true.

12 Q. Directing your attention to what's been
13 marked for identification as Exhibit TS-184, does this
14 document constitute your direct testimony in this
15 proceeding?

16 A. Yes.

17 Q. And it was prepared by you or under your
18 supervision?

19 A. Yes.

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

22 A. Yes, but I have one error to correct.

23 Q. Go ahead.

24 A. On page 16, line 13, about halfway through
25 the sentence that says "on line 10" and that should

1 say "on line 14."

2 Q. With that correction, then, is your direct
3 testimony accurate?

4 A. Yes.

5 Q. Do you also have before you what's been
6 marked for identification as Exhibits 184 -- excuse me
7 -- 185, 186 and 187?

8 A. Yes.

9 Q. And do those exhibits -- are those exhibits
10 that accompany your direct testimony and that are
11 referenced in your direct testimony?

12 A. Yes.

13 Q. And Exhibits 185, 186 and 187 were all
14 prepared by you or under your supervision?

15 A. Yes.

16 Q. Are they true and correct to the best of
17 your knowledge and belief?

18 A. Yes.

19 MR. CEDARBAUM: Your Honor, at this time I
20 would offer Exhibits T-184 and 185 through 187.

21 MR. VAN NOSTRAND: No objection.

22 JUDGE PRUSIA: Is there any objection from
23 any party to these exhibits? Hearing none Exhibits
24 T-184 and Exhibits 185, 186 and 187 are admitted into
25 the record.

1 (Admitted Exhibits T-184 and 185 - 187.)

2 MR. CEDARBAUM: If I could just ask one
3 question of Mr. Schooley which I am not sure he has an
4 answer for right now but --

5 Q. Mr. Schooley, you were in the hearing room
6 when Judge Schaer asked for a number with respect to
7 DSM. Do you recall that?

8 A. Yes.

9 Q. Do you have that now or do you need more
10 time to find it?

11 A. I have a rough estimate of that number.
12 It's a combination of two different ways of figuring
13 it out, but I can get you in the ballpark for it.

14 Q. Well, why don't we not do that then and
15 make sure we can pin down a number exactly and try
16 after lunch.

17 A. Okay.

18 MR. CEDARBAUM: With that the witness is
19 available for cross-examination.

20 JUDGE PRUSIA: Does the company have
21 cross-examination of this witness?

22 MR. VAN NOSTRAND: Yes, Your Honor. Just a
23 few questions.

24

25

1 CROSS-EXAMINATION

2 BY MR. VAN NOSTRAND:

3 Q. Good morning, Mr. Schooley.

4 A. Good morning.

5 Q. You have before you what's been marked for
6 identification as Exhibit 188?

7 A. Yes.

8 Q. Do you recognize that as the transcript
9 from your deposition conducted on October 4?

10 A. It's much bigger than the one I got, but
11 yes, it's the same, I believe.

12 Q. Do you have any additions or corrections to
13 make to that document?

14 A. No, I do not.

15 MR. VAN NOSTRAND: Your Honor, I move the
16 admission of Exhibit 188.

17 JUDGE PRUSIA: Are there any objections to
18 the admission of Exhibit 188?

19 MR. CEDARBAUM: No.

20 JUDGE PRUSIA: The exhibit will be
21 admitted.

22 (Admitted Exhibit 188.)

23 Q. One of the items you discuss in your
24 testimony on page 27 is the allocation factors which
25 PSE will follow post merger; is that correct?

1 A. Yes.

2 Q. And in respect to your proposal, begins on
3 the middle of the page on page 27, you propose to
4 remove account 565 from one of the factors; is that
5 right?

6 A. Yes.

7 Q. In your deposition you stated that you had
8 considered how this item was handled by other
9 utilities; is that right?

10 A. Yes.

11 Q. And in particular you looked at how it is
12 handled by the only combination utility in the state,
13 Washington Water Power; is that right?

14 A. Yes.

15 Q. And you stated in your deposition that
16 account 565 is not included in the allocations as
17 Water Power performs them; is that right?

18 A. That's what I thought at the time, yes.

19 Q. And do you have before you what's been
20 marked for identification as Exhibit 189?

21 A. Yes.

22 Q. And that's a response to deposition request
23 No. 1?

24 A. Yes.

25 Q. And your response to the deposition request

1 indicates, doesn't it, that Water Power in fact uses
2 account 565 in the calculation of the four-factor
3 allocator?

4 A. Yes, it does, and on further investigation
5 into this I did discover that they had a discrepancy
6 between two of their pages which led to my error, and
7 they do include account 565 in their four-factor
8 calculations.

9 MR. VAN NOSTRAND: Your Honor, move the
10 admission of Exhibit 189.

11 MR. CEDARBAUM: No objection.

12 JUDGE PRUSIA: Exhibit 189 is admitted.

13 (Admitted Exhibit 189.)

14 Q. I have a few questions on the treatment of
15 conservation investment. During your deposition we
16 discussed Puget's accounting treatment for its
17 conservation expenditures and your proposal to
18 amortize during the rate period of the conservation
19 expenditures not in rates. Do you recall that?

20 A. Yes.

21 Q. And did I understand your proposal
22 correctly that you would accelerate the recovery of
23 this conservation investment so that it was recovered
24 over the five-year rate period rather than the ten-
25 year period that the conservation investment is

1 usually amortized over?

2 A. Yes.

3 Q. And during your deposition you indicated
4 that existing orders may allow a utility to defer and
5 record certain regulatory assets, and the disposition
6 of a regulatory asset once accumulated would be
7 addressed in a subsequent order. Do you recall that
8 from your deposition?

9 MR. CEDARBAUM: Do you have a page number
10 for that, please.

11 MR. VAN NOSTRAND: Pages 11 and 12.

12 A. Trying to see if I said it exactly as you
13 characterize it.

14 Q. I guess I'm looking at lines -- on page 11,
15 lines 20 through 22.

16 A. Yes.

17 Q. The question and answer there at the bottom
18 of 25 -- bottom of page 11 and the top of page 12.

19 A. So what's the question about this?

20 Q. I just have a follow-up question. Would
21 you agree under generally accepted accounting
22 principles before an item can be recorded as a
23 regulatory asset it must be probable in recovery?

24 A. Yes.

25 Q. And in your opinion, if the disposition of

1 amounts recorded can be changed by a subsequent order,
2 would that allow regulatory assets to be recorded on
3 the books under generally accepted accounting
4 principles?

5 A. I believe so.

6 MR. VAN NOSTRAND: I have no further
7 questions, Your Honor.

8 JUDGE PRUSIA: Public counsel.

9 MR. MANIFOLD: Yes, I have a few questions.

10

11 CROSS-EXAMINATION

12 BY MR. MANIFOLD:

13 Q. On page 8 of your testimony --

14 A. Yes.

15 Q. -- you note that by the end of 1997 there
16 will be some \$21.4 million in conservation investment
17 on the company's books that are not in rates, is that
18 correct, that were not previously included in revenue
19 requirement?

20 A. Yes, and some of that is a projected
21 portion as projected by the company.

22 Q. And your proposal is that these costs would
23 be expensed because they will be offset by other
24 savings as testified to by Mr. Martin?

25 A. They would be amortized over the five-year

1 period. In that sense yes, they are expensed over
2 that time instead of over ten years as the
3 conservation has been amortized over the past several
4 years.

5 Q. So would that mean that these expenses
6 would never appear in rate base amortization or any
7 other cost recovery in a general rate case under the
8 staff plan?

9 A. If there were a general rate case after the
10 year 2001 they should be amortized by that point in
11 time.

12 Q. Amortized to zero?

13 A. Yes.

14 Q. So is the difference between the staff and
15 the company plan for these pre-1998 conservation
16 expenditures that the company proposes to offset them
17 against gains on sale of real estate and in the staff
18 plan the DSM is offset against other savings?

19 A. I would say that the company basically is
20 proposing to write these off in one year. The fact
21 that there's gains from property is sort of a side
22 effect or some mitigating effect on their part, but
23 they are proposing to just take this -- the
24 conservation not in rate base and amortizing it in one
25 year, not even amortizing it, just expensing it in one

1 year. We are proposing to extend that amortization
2 over five years and absent that amortization or the
3 costs then there would be greater savings which could
4 be passed on to ratepayers, so in essence we're using
5 some of the savings to amortize expenses.

6 Q. Under the staff plan gains on the sale of
7 real estate would be deferred until some future rate
8 proceeding?

9 A. Yes.

10 Q. And I think we discussed with Mr. Martin
11 earlier today that the 1997 conservation expenditures
12 currently budgeted by Puget are \$4.3 million as shown
13 in Exhibit 61. Will you accept that subject to check?

14 A. I will accept that subject to check, yes.

15 Q. I suppose it's \$4,363,000 so maybe we
16 should say 4.4.

17 A. Right.

18 Q. Is that amount included in the \$21.4
19 million invested by the end of '97 that you used in
20 your testimony?

21 A. Yes. It's a subset of that which, in
22 essence, means that for 1996 there's only \$18 million
23 roughly on the books at the end of 1996.

24 Q. Does that answer the earlier pending
25 question then from the ALJ?

1 A. Not entirely because there's a PRAM 5 layer
2 that needs to be included on top of what's sitting as
3 not in rate base.

4 Q. Would you suppose for a moment the
5 comprehensive review recommendation that utilities
6 invest 3 percent of gross operating revenues in public
7 purposes once the conservation is implemented and
8 therefore Puget has more than \$20 million of
9 investment in DSM during 1997 as compared to the \$4.4
10 million that has been assumed. Would this increased
11 level of DSM also be fully offset by the merger
12 savings as you describe on page 8 of your testimony or
13 would there be need for some additional cost recovery?

14 A. That was not anticipated or included in my
15 testimony, so it would be a totally new subject that
16 is -- that would be widely discussed, I'm sure.

17 Q. You're not able to say at this point
18 whether if that were to come to pass that amount would
19 also be capable of being offset by merger savings as
20 you've analyzed them?

21 A. Not as we've analyzed it or included it in
22 our plan.

23 Q. Did you hear the earlier questions and
24 answers to Mr. Martin regarding the staff
25 recommendation that the company file a true-up of

1 staff merger savings? Did I say staff file -- sorry,
2 Puget would file a true-up of merger savings.

3 A. I haven't heard us characterize it as a
4 filing to true up merger savings as if there was a
5 projection and then a recalculation to see exactly
6 what happened. I don't believe that's part of our
7 plan.

8 Q. How would you characterize it? I may have
9 misstated it.

10 MR. CEDARBAUM: Your Honor, I guess I will
11 -- not an objection but Mr. Martin's testimony covers
12 the true-up reports. There's an exhibit that was
13 introduced through him that describes that event. I
14 think public counsel can be directed to that testimony
15 rather than asking this witness what Mr. Martin
16 testified to.

17 MR. MANIFOLD: Right. I only mention this
18 as a foundation question. I didn't mean to cause you
19 to testify for him.

20 Q. I understood it to be some sort of truing
21 up of Mr. Flaherty's savings and cost estimates is in
22 Mr. Martin's Exhibit 176, page 16. Would you accept
23 that subject to your check?

24 A. No, I don't accept that subject to check.
25 I don't think that's a true characterization of our

1 plan at all. I don't think there's any truing up
2 involved in it.

3 MR. CEDARBAUM: Your Honor, again I'm
4 looking at Exhibit 182, the second page, which is our
5 response to the company's sixth data request. That
6 explains exactly what we meant by that report. I
7 don't know if the witness has it or not.

8 THE WITNESS: I don't have 182.

9 MR. MANIFOLD: Me either.

10 MR. CEDARBAUM: And I am not trying to cut
11 off the cross or anything. I just want to make sure
12 this witness isn't being unfairly asked to
13 characterize another witness's testimony.

14 MR. MANIFOLD: Same here.

15 JUDGE PRUSIA: Is there any other way to
16 ask the question or does the witness need an
17 opportunity to look at the exhibit?

18 Q. That was the foundation question. Let me
19 ask you the question I was really headed towards and
20 see if it's necessary to even sort that out. Would an
21 ability to, by staff or others, to determine how DSM
22 expenses could or could not be offset against merger
23 savings be one benefit of the report that the staff
24 proposes that Puget file post merger?

25 A. The reports, as I understand them, would

1 simply be stating what the merger savings are. They
2 would not be used specifically to say, oh, you guessed
3 \$30 million and it's actually \$34 million, but if the
4 reports showed there were greater savings than what
5 had originally been projected, then I suppose it could
6 be used in that sense by some party. We're certainly
7 not proposing anything to that effect.

8 Q. Do I understand that for conservation
9 expenditures after 1997 -- that is during 1998 and
10 beyond, if any -- staff is proposing that there be
11 some sort of cost recovery mechanism for those
12 additional DSM costs?

13 A. Staff isn't proposing anything at this
14 point in time. That would be the subject of future
15 discussions.

16 Q. You're leaving it open that there could be
17 --

18 A. There could be, yes.

19 Q. Like to turn to property sales for a
20 moment. On page 11 of your testimony you discussed
21 the sale of land by Puget Power utility to Puget
22 Western, its subsidiary; is that correct?

23 A. Yes.

24 Q. And are these the sales that are listed in
25 Mr. Story's Exhibit JHS-14 on rebuttal?

1 A. I believe so.

2 Q. The only sales you discuss are the general
3 office parking lot and the land under the One Bellevue
4 Center building. Are both of these pieces of property
5 currently being used by Puget for its utility service?

6 A. I believe so, yes.

7 Q. In Mr. Story's exhibit there are a total of
8 26 different land sales from Puget Power to Puget
9 Western. Would you accept that subject to your check?

10 A. Subject to check, yes.

11 Q. Do you have before you what's been marked
12 as Exhibit No. 190, which was the staff response to
13 public counsel data request No. 71?

14 A. Yes.

15 Q. Is that true and correct?

16 A. Yes. I took those numbers straight off of
17 JHS-14.

18 MR. MANIFOLD: Your Honor, I would offer
19 the admission of 190.

20 JUDGE PRUSIA: Is there any objection to
21 the admission of that document? What has been marked
22 for identification as Exhibit No. 190 is admitted.

23 (Admitted Exhibit 190.)

24 Q. Is what's on 190 an example of -- well, an
25 instance of one of the transactions that's included on

1 Mr. Story's exhibit, information about one of those
2 transactions?

3 A. About that particular transaction. The
4 many transactions in that report show booked values
5 and sales prices that are all over the map.

6 Q. Right. I don't mean to suggest this is
7 typical. It just is one?

8 A. Right.

9 Q. And the booked value is the booked value on
10 Puget Power's regulated books?

11 A. I believe it's on their financial books as
12 well.

13 Q. And the sales price is the price that Puget
14 Power the utility reported for the sale to Puget
15 Western?

16 A. Yes.

17 Q. Do you know what Puget Western did with
18 this particular property, the GO parking lot?

19 A. No, I do not.

20 Q. Do you know what Puget Western did with any
21 of the other properties that were sold to Puget
22 Western by Puget Power?

23 A. No, I do not.

24 Q. Do you know if any of those other pieces of
25 property besides the two that you've mentioned in your

1 testimony are currently being used for utility
2 purposes? I assume you do not from your previous --

3 A. Not specifically. I noticed that the
4 Auburn service center was one of those properties and
5 that the land under the Auburn service center was sold
6 to Puget Western, and I believe that's the one that
7 they're keeping. I'm not sure, though. That they're
8 consolidating services into the Auburn center.

9 Q. Have you seen the press release that Puget
10 issued on October 22nd regarding its third quarter
11 financial results?

12 A. Yes, I have.

13 Q. Do you have a copy with you by any chance?

14 A. I have one page of it.

15 Q. Is it correct that the second paragraph in
16 the press release begins with the sentence, "The
17 company said third quarter earnings benefited from
18 lower interest" rates --

19 A. "Interest expenses."

20 Q. Excuse me. "And from after tax gains
21 associated with the sale of real estate during the
22 period by the company's wholly owned real estate
23 subsidiary, Puget Western, Inc."

24 A. I see that.

25 Q. Is it possible that Puget Power sold --

1 that some of the property that Puget Power sold to
2 Puget Western was then resold by Puget Western?

3 MR. VAN NOSTRAND: Objection, calls for
4 speculation.

5 Q. Do you know if Puget Western resold any of
6 the property that Puget Power sold to it?

7 A. I don't know.

8 MR. VAN NOSTRAND: He just answered that
9 question earlier. Asked and answered.

10 JUDGE PRUSIA: He said he doesn't know.

11 Q. So, at this point, at least, you don't know
12 whether Puget Western realized any further gain on any
13 of those property sales?

14 A. No, I don't know.

15 Q. Has Puget provided any information to staff
16 which would allow the staff to trace the parcels of
17 land to determine whether there had been any gain or
18 loss on the Puget Western?

19 A. Since it's been sold to Puget Western?

20 Q. Yes.

21 A. No, nor have we requested that yet.

22 Q. When Puget Power sells land to Puget
23 Western, do you know if there's a transfer of title
24 and a real estate transfer tax paid?

25 A. I don't know.

1 Q. I guess that was a compound question. Do
2 you know if there's a transfer of title?

3 A. No, I don't know.

4 Q. Do you know if there's a real estate
5 transfer tax paid?

6 A. No, I don't know.

7 MR. MANIFOLD: Thank you. I have no
8 further questions.

9 JUDGE PRUSIA: Mr. Finklea.

10 MR. FINKLEA: Thank you, Your Honor.

11

12 CROSS-EXAMINATION

13 BY MR. FINKLEA:

14 Q. Mr. Schooley, I'm Ed Finklea. I represent
15 the Northwest Industrial Gas Users. My questions go
16 strictly to your allocation of general overhead. I
17 have a couple of follow-up questions from the
18 questions you had from Mr. Van Nostrand from the
19 company. Looking at what's been marked as Exhibit 189
20 in this proceeding, I now understand that you have
21 since the deposition determined that account 565,
22 transmission of electricity by others, is taken into
23 account by Washington Water Power in how it allocates
24 its general overhead; is that correct?

25 A. They -- yes. They began their four-factor

1 allocations when they acquired the Oregon gas
2 properties and the staff at that time didn't approve
3 nor disapprove of their allocation factors. We just
4 said it looks reasonable at this point in time. We'll
5 take it up in a general rate case when it becomes
6 important, so as of this time they do include account
7 565 in the direct O and M accounts.

8 Q. And the allocation formula that's being
9 proposed by Puget Sound Energy is consistent with how
10 Water Power currently does it; is that correct?

11 A. Only in that it includes account 565.
12 There are substantial differences between the other
13 accounts that are included.

14 Q. As to this 565 issue?

15 A. Yes.

16 Q. And am I correct that the -- when you
17 looked back over the period 1992 through 1994 at what
18 Washington Natural's actual general overhead costs
19 were compared to what they would have been under this
20 merged company that you concluded that with your
21 allocation formulas the overheads would have been \$5.6
22 million higher than they were actually -- than
23 actually incurred over that three-year period?

24 A. Could you state the concluding part of that
25 question?

1 Q. That you're stating -- direct you to page
2 27 of your testimony at lines 15 to 17. That when you
3 look back over the period 1992 to 1994 that you find
4 that with the allocation factors you're recommending
5 that Washington Natural's general overhead expenses
6 would have been \$5.6 million dollars than those that
7 were actually incurred over that three-year period?

8 A. I wouldn't say that general overhead
9 expenses would have been higher, but if you're
10 assuming the actual expenses incurred by that company
11 over that period of time are representative of what
12 the overhead expenses will be in the future, then you
13 might say my allocation factors would shift some
14 expenses to the gas side, but those -- the fact that
15 we have an answer in this case to determine the
16 allocators I think is a false assumption. I don't
17 think we have that answer to compare what the
18 allocators are.

19 Q. You would agree when you looked backwards
20 there was a \$5.6 million difference?

21 A. There is \$5.6 million difference for the
22 '92 through '94 period. There's a \$5.1 million
23 difference from '93 through '95. It's not a static
24 figure.

25 Q. So we're running in the one to two million

1 dollars figure on an annual basis; is that correct?

2 A. Yes. And if you look at the same sorts of
3 data from the company's calculations in their
4 proposals it can run from \$60,000 to a million dollars
5 over five years, so theirs is variable as well.

6 Q. Looking at your response to the PSE
7 deposition request 1. That's in the Exhibit 189. The
8 last sentence, I take it that the reason that you
9 haven't changed your conclusion as to how this ought
10 to be handled is because it has a, quote, minimal
11 impact on the result; is that correct?

12 A. At Washington Water Power it's definitely a
13 minimal impact. It doesn't change things by more than
14 about three-tenths of one percent. And account 565 is
15 a much greater factor in Puget's operations than it is
16 to Washington Water Power, and we have not determined
17 whether at Water Power whether it's appropriate to
18 keep that in their allocation factors or not.

19 Q. Is it your testimony that if Washington
20 Natural was collecting from its ratepayers a million
21 to two million dollars annually more in general
22 overhead expenses than it was actually incurring
23 today prior to the merger that that would be such a
24 minimal impact that it would be overlooked by this
25 Commission?

1 A. First I don't agree that it would be a
2 million dollars --

3 Q. I just need an answer first, sir.

4 MR. CEDARBAUM: Your Honor, I think the
5 witness is entitled to dispute one of the assumptions
6 that is made in the question.

7 MR. FINKLEA: I think the question calls
8 for a yes/no and then an explanation.

9 MR. CEDARBAUM: The question assumes a fact
10 that this witness won't agree to.

11 JUDGE PRUSIA: Sounds like Mr. Finklea is
12 asking him to assume that fact.

13 MR. FINKLEA: I can have the question read
14 back. I think I'm just asking a straightforward
15 question that calls for a yes/no and then if there's
16 an explanation I'm obviously happy to hear the
17 explanation.

18 JUDGE PRUSIA: Let's have the question back.

19 (Record read as requested.)

20 MR. CEDARBAUM: I don't think Mr. Finklea
21 was asking that question as a hypothetical.

22 JUDGE PRUSIA: I believe he was asking it
23 if that was his testimony. He can answer that yes or
24 no, is that what he testified to.

25 MR. CEDARBAUM: Maybe I misheard the

1 question. I want to ask it be reread, but I thought
2 the question was if Washington Natural were -- if
3 rates reflected one million dollars more in costs than
4 Washington Natural actually incurred is that fair in
5 the witness's opinion and the witness is not willing
6 to accept the assumption of a million dollars.

7 MR. FINKLEA: Your Honor, the word fairness
8 is not in the question. I'm just trying to probe the
9 use of the term minimal impact in Exhibit 189.

10 MR. CEDARBAUM: I guess -- fine. That's
11 the way the question was stated. The question still
12 asks Mr. Schooley to accept that figure which he is
13 not willing to do. That's all. So I object to the
14 question. It assumes a fact that is not in evidence
15 and this witness is not accepting.

16 JUDGE PRUSIA: I understood the question to
17 be whether that would be his testimony or if that is
18 his opinion and I think he can answer that yes or no
19 and if he disagrees with it then the answer is no and
20 he can explain what his disagreement is.

21 You can answer.

22 A. My testimony is no, that is not what I
23 testified to. I testify that in the past if we accept
24 the past as a judge to the future then it would shift
25 a million dollars towards a gas side. In the future,

1 though, all these expenses will be far less than what
2 they are now because most of the merger savings come
3 out of the general overheads, a vast amount of them
4 do.

5 So the total number will be down, the
6 amount allocated will therefore be down. As to how
7 you would determine whether these were past gas
8 expenses or past electric expenses is a moot point in
9 the future, they're just overhead expenses. It's a
10 difficult situation to say that the past in this
11 instance reflects what the future would be.

12 Q. Assuming that the over allocation to the
13 gas side stayed at one million dollars annually, do
14 you consider that a minimal impact on gas customers?

15 A. A million dollars is about at the threshold
16 where we would consider this to be of substance or not
17 of substance.

18 MR. FINKLEA: No further questions.

19 JUDGE PRUSIA: Mr. Frederickson.

20 MR. MANIFOLD: Your Honor, may I ask leave
21 to interrupt? I neglected to ask one final question
22 to Mr. Schooley in my line of questions and I don't
23 think it will disrupt much if I could do that now.

24 JUDGE PRUSIA: Very well. Proceed.

25 MR. MANIFOLD: Is the reason that it wasn't

1 important for staff to examine Puget Western's gain or
2 loss on Puget -- what property that had been Puget
3 Power's that under the staff's case these issues would
4 be deferred to some future rate proceeding?

5 THE WITNESS: Yes. I believe my testimony
6 basically points to the fact that there is controversy
7 over this subject and the company's request is to have
8 an accounting order to change how the property gains
9 have been handled since approximately 1993, and so my
10 recommendation ultimately is that we deny that
11 accounting order and take up this issue at a future
12 time.

13 MR. MANIFOLD: Thank you, Your Honor.

14 JUDGE PRUSIA: Mr. Frederickson.

15

16 CROSS-EXAMINATION

17 BY MR. FREDERICKSON:

18 Q. Good morning, Mr. Schooley. My name is
19 Fred Frederickson and I'm counsel for Seattle steam
20 and I have just a few questions for you this morning.
21 I wonder if I could refer you to your prefiled
22 testimony, Exhibit 184, and I am going to begin with
23 about the first six or seven lines and my first
24 question is, what do you mean by the term direct
25 assignment?

1 A. What page was this?

2 Q. It's on page 25. In line No. 3 you talk
3 about direct assignment.

4 A. Those are the expenses which can be
5 directly attributed to a gas function or an electric
6 function, that there's no question about whether which
7 side they belong on. Like fixing overheads line is
8 definitely an electric expense, fixing underground
9 pipes for gas is definitely a gas expense.

10 Q. Maybe you could help me out a little bit.
11 I'm just focusing on the definition, if you will, of
12 direct assignment. What does that mean?

13 A. That the expense is directly assigned to
14 either the gas operation or the electric operation
15 based on the function that caused its incurrence.

16 Q. In the same paragraph you talk about
17 allocation factors or an allocation formula. Could
18 you explain to me what the function of an allocation
19 formula is?

20 A. The function of the formula is to attribute
21 expenses to either or the other operation based on
22 some arbitrary factor. Those expenses cannot be
23 directly attributed to either gas or electric. You
24 could say the costs of the financing operation of a
25 business can be said to be either gas or electric.

1 It's just that the business needed to sell these bonds
2 and they're used for the general purposes of the
3 business. Well, that cost then needs to be allocated
4 to one side or the other for many different reasons.

5 Q. And is it allocated arbitrarily in your
6 opinion or should it be allocated arbitrarily?

7 A. The determination of an allocating factor
8 can be almost anything. It's not an arbitrary
9 decision ultimately, but it is one that's highly
10 subject to more art than science, you might say.

11 Q. If you would turn to page 27 of your
12 Exhibit 184, in particular lines 9 through 13. In
13 connection with your discussion of the four-factor
14 allocation formula which the applicants have proposed,
15 would you agree that where it is possible direct
16 assignment of costs is preferable to the use of an
17 allocation formula?

18 A. Yes.

19 Q. In those instances where direct assignment
20 of costs is not possible, would you agree that the
21 purpose of the allocation methodology utilized as a
22 substitute would be to produce results that
23 approximate the results reached under the direct
24 assignment of costs?

25 A. No. I don't think that's exactly a true

1 statement.

2 Q. And why not?

3 A. There should be some consideration to the
4 difficulty of the two tasks at hand, and the degree of
5 management either one or the other needs in order to
6 run that business. You could have one very simple
7 business that produces a high amount of direct
8 expenses but not a lot of management intervention and
9 another business that has perhaps a low amount of
10 direct expenses but requires a lot of management
11 attention. So, therefore, I wouldn't say the
12 allocations to those two businesses would directly
13 follow the number of directly assigned expenses.

14 Q. The allocation formula, though, is, when
15 used, a surrogate for direct allocation of costs?

16 A. It's a surrogate for the direct assignment
17 of costs, but as I think I state in my testimony, it's
18 the type of thing that perhaps doesn't even need to be
19 considered, certainly not from a management point of
20 view. It's only when it comes to the ratemaking
21 setting that you want to see that the two sides of an
22 operation are contributing fairly to the total
23 overheads and you don't even need to assign indirect
24 expenses for that purpose.

25 Q. I guess, speaking hypothetically, once you

1 -- let me start again. Once you've determined that
2 you can't use the direct assignment of costs then
3 you're going to use some other methodology, and I
4 suppose that what I am trying to drive at and perhaps
5 I can ask it to you hypothetically, the objective, if
6 you had a situation where you could hypothetically try
7 to achieve something that would be similar to direct
8 assignment, even though you couldn't use that
9 methodology, that would be preferable, would it not?

10 A. What type of a circumstance are you
11 thinking of?

12 Q. Well, once you cross the line and say that
13 direct assignment of costs is not possible then posing
14 the question of trying to get to something that's not
15 possible in the first place is certainly a difficult
16 question, but I am trying to find out in terms of the
17 -- at least the underlying theory of an allocation
18 methodology that if you could look at that and say,
19 well, that comes pretty close to what a direct
20 assignment would have been, that would be the
21 objective that you would strive for using an
22 allocation methodology?

23 A. I guess my trouble with the question is
24 saying that this is what a direct assignment would
25 also accomplish. I think the allocations are more to

1 determine what's fair to both sides of the business,
2 and there is a great deal of leeway between how much
3 is fair. I mean, you can say this allocation is fair
4 and another allocation using a completely different
5 set of allocators could also be fair, even though it
6 comes out somewhat different answers on either one. I
7 don't think there's a direct correlation between
8 trying to decide what could be directly allocated -- I
9 mean directly assigned.

10 Q. Of course premerger everything is directly
11 allocated; is that correct?

12 A. If you consider a natural gas business and
13 an electric business as two separate entities, yes,
14 but within each one of those there are many overhead
15 assignments as well for the subsidiaries, the extent
16 of management that's assigned to subsidiary
17 operations, for instance.

18 Q. Well, let's exclude subsidiaries. If we're
19 talking just about a gas business, an electric
20 business, then virtually by definition the costs are
21 directly assigned; is that correct?

22 A. Just like you could consider it a gas
23 business in a bakery. I mean, there would be no need
24 to say any difference between them. It's the same --
25 the two totally different operations, yes. I know --

1 no allocation is involved, if that's what you're
2 getting at.

3 Q. Let's forget the bakery. Just a gas
4 business. By definition that would be directly
5 assigned; is that correct? All costs are directly
6 assigned to the gas business because in default there
7 is no other business?

8 A. If you don't look at the operating
9 divisions within the gas business, such as
10 distribution, maintenance or gas purchasing, those get
11 assignments of overhead to those divisions, but
12 there's no other business involved in it, if that's
13 what you mean.

14 Q. Do you agree that no allocation method or
15 formula provides precise results on a consistent basis
16 over time?

17 A. Not precise results, no. The ultimate
18 question is whether they're fair results.

19 Q. Are the results of the allocation
20 methodology more important than the actual mechanics
21 of the formula itself?

22 A. Yes.

23 Q. When an allocation formula is necessary
24 is due to the situation when one tries to create a
25 formula which comes as close as possible to

1 replicating actual cost in occurrence over time; is
2 that correct?

3 A. Well, again, I have trouble with the
4 replicating actual cost in occurrence. I think it's,
5 as I've said before, a question of whether the
6 allocation of indirect overheads is fair to both
7 divisions but I don't think there's a replication
8 involved here.

9 Q. Would you say that fair is more important
10 than accurate?

11 A. Yes, because I don't believe that accurate
12 is an operating word in this circumstance.

13 Q. Would you explain why you advocate a
14 technical change to the applicant's allocation
15 formula?

16 A. Yes. I believe that if you look at the
17 functions included in the allocating factors there is
18 a misalignment between the two businesses. I think of
19 transmission by others that represented by the costs
20 in account 565 as quite similar to the functions of
21 the Northwest Pipeline Company bringing natural gas
22 from Canada to Puget Sound, and those expenses happen
23 to be recorded in account 804, which is basically
24 considered just a cost of producing the gas, which
25 isn't really true any more. That's more or less an

1 artifact of different circumstances in the gas
2 business. So if you're going to include transmission
3 by others for electricity it would only seem fair to
4 include the transmission of gas by third parties for
5 the gas company or to leave both of them out. That
6 seems to me to be fair, level treatment of similar
7 expenses.

8 Q. Have you attempted to devise some formula
9 which you consider to be more accurate than the ones
10 that the applicants have proposed?

11 A. Well, I think the one I proposed which
12 simply leaves out transmission by others is a fair
13 formula. Like I've said before, accuracy is not
14 possible in these situations. It's only -- it's a
15 nonfunctional concept. Fairness is the only thing
16 left.

17 MR. FREDERICKSON: I have no further
18 questions. Thank you.

19 JUDGE PRUSIA: Thank you. No other party
20 reserved time for cross-examination of this witness.
21 Did any other party have any questions for the
22 witness? Do the Commissioners have any questions for
23 this witness.

24

25

EXAMINATION

1

2 BY COMMISSIONER HEMSTAD:

3 Q. I believe you were asked by public counsel
4 as to whether the two properties, the building and the
5 parking lot, having been sold to a subsidiary have in
6 turn been resold. Do you know the answer to that?

7 A. No, I do not know the disposition of those
8 properties from Puget Western.

9 Q. What would this Commission do if we can
10 conclude that the transaction, those two transactions,
11 violate the state law? Would be an order directing
12 the company to void the intra-company transfer and
13 return to the books of the regulated utility?

14 A. I believe that is provided for in the law.
15 That would of course be your decision as to how to
16 handle that. That would be the extreme position, I
17 think.

18 Q. At page 23 in your discussion of
19 transaction costs, line 14, the question, "What's the
20 point then?" And then the answer, the second sentence
21 of your answer, "However, these expenses are
22 nonrecurring ongoing costs of the test year." I don't
23 really quite understand the consequence here. Are you
24 contesting the transaction costs or how they are dealt
25 with in the company's proposal?

1 A. Yes, I think I am contesting these
2 transaction costs in that they are described as being
3 costs for consulting fees and on the merger itself,
4 legal expense, investment banking fees, direct large
5 expenses necessary to accomplish the merger. When you
6 look through the list of expenses that are in addition
7 included in transaction costs you find such things as
8 several different photographers and box lunches and
9 things like that. So I think it's an area that the
10 company has used to dump miscellaneous expenses into
11 there. The effect of this is to bulk up the
12 transaction costs thereby reducing the merger savings,
13 and therefore there are less savings to be shared
14 between the parties. So, to me the question is one of
15 the merger savings in ultimately since the total
16 savings are reduced by the transaction costs.

17 Q. Well, is an actual adjustment made for that
18 in Mr. Martin's exhibit?

19 A. No, it isn't, but if this were to be a
20 situation where the actual expenses were reviewed in
21 the future to determine if -- what total merger
22 savings are, then I think there could be dispute
23 brought up about what's proper in these accounts.

24 Q. Do you have a specific recommendation as to
25 how it should be dealt with in this proceeding?

1 A. Other than how we've included total merger
2 savings in our rate plan, no. There's been no
3 reduction to the company's claims of the degree of
4 savings, as itemized by Mr. Flaherty for this site.

5 COMMISSIONER HEMSTAD: Thank you. That's
6 all I had.

7

8 EXAMINATION

9 BY COMMISSIONER GILLIS:

10 Q. Mr. Cedarbaum's redirect of the last
11 witness and Mr. Manifold's question of you have
12 clarified for me what staff's plans are as far as
13 prospective treatment of conservation investments, but
14 I want to pursue that one step further with you.

15 A. Okay.

16 Q. It appears to me from your testimony that
17 you include an opinion that the ratemaking treatment
18 for prospective investments in energy efficiency and
19 low income programs should not be a consideration by
20 this Commission in the merger decision. Is that
21 accurate?

22 A. Yes.

23 Q. Why?

24 A. I think because there are no specific plans
25 on the table now as to how that would be handled. Mr.

1 Manifold brought up some questions about a regional
2 review that would perhaps impose conservation
3 expenditures of a certain level on all utilities in
4 the region. I believe that's what the -- what's being
5 discussed. Puget has said that they will come up with
6 different plans in the future in a collaboration
7 between interested parties, so I think there's too
8 many unknowns to make any particular decision today in
9 this proceeding about what will happen a year or two
10 from now.

11 Q. Do you consider energy efficiency and low
12 income programs to be important public interest
13 concerns?

14 A. I think they are important public interest
15 concerns, and the operating word in that sentence is
16 the public, so that they shouldn't necessarily be
17 investor-only, utility-only concerns. So I think
18 there's a much bigger question to be addressed here.

19 Q. Do you think that the organization of a
20 company whether it be merged or stand alone would have
21 any implications for the efficacy of a company
22 implementing such public purpose programs?

23 A. No. The form of the company itself
24 shouldn't have any bearing on that decision.

25 Q. I have a question regarding existing

1 conservation costs not yet in rates. Do you see any
2 inconsistencies with your proposed treatment of those
3 costs compared to the staff proposed treatments of
4 revenues from those programs?

5 A. Revenues from which programs?

6 Q. From these -- from energy -- or DSM
7 conservation investments that are not yet in rates.

8 A. I'm still confused, if you could clarify
9 that.

10 Q. There's a revenue flow from conservation
11 investment, correct?

12 A. For conservation investments in rates, such
13 as --

14 Q. Conservation programs produce revenues in
15 terms of savings.

16 A. Frankly, I've always had a difficulty with
17 that concept, but theoretically that's true. Savings
18 in avoided costs if that's what you mean in the need
19 to buy resources to replace the electricity that's not
20 used by implementing a conservation program.

21 Q. Right. Well --

22 A. So is what you're getting at is that the
23 quicker amortization of the conservation expenses may
24 overshadow the savings that those measures have
25 produced?

1 Q. No. What I am asking is do we know the
2 time frame that those benefits from those conservation
3 investments are going to occur, the ones that are
4 already existing investment not yet in rates?

5 A. I haven't seen any direct data about that
6 other than what's been brought forth in prior
7 proceedings as to the efficacy of any particular
8 measures or set of measures.

9 Q. From ratemaking treatment standpoint,
10 anyway, you're asking to amortize those investments
11 over a shorter period of time, five years; is that
12 right?

13 A. Yes.

14 Q. And if the benefits flow over a longer
15 period of time is that an inconsistency or a problem
16 in your view of those same investments?

17 A. No, because I see those benefits as
18 something that's not a controllable factor. I mean,
19 those will occur whether the amortization is annual or
20 over 20 years. The benefits will occur as they occur.
21 If you're trying to match the expenses to the benefits
22 there's been a great deal of controversy about that
23 over the years as well. And ten years was just an
24 almost arbitrary decision, that some are longer and
25 some have shorter, so I don't know what's been

1 implemented recently to determine whether it's longer
2 or shorter than five years or ten years.

3 Q. The avoided costs would -- the benefit of
4 the avoided costs to the company and the ratepayers
5 would occur as they accrue in an accounting sense over
6 time?

7 A. They do accrue over time but it's something
8 that never enters the accounting functions of the
9 company, not the avoided costs. By definition they're
10 avoided accounting entries, too.

11 Q. So the answer to the question is you don't
12 see any inconsistency between the treatment of the
13 costs and the benefits?

14 A. No, I don't.

15 JUDGE PRUSIA: I have a few questions.

16

17 EXAMINATION

18 BY JUDGE PRUSIA:

19 Q. Mr. Schooley, please turn to page 4 of your
20 testimony, line 4.

21 A. Yes.

22 Q. There you refer to the negotiated
23 stipulation in docket UE-951270. Is this the
24 agreement between staff and Puget regarding the review
25 classification of PRAM revenues into general rate

1 schedules?

2 A. Yes.

3 Q. Also on page 4 at line 11, you state that
4 the applicants include then adjustment in docket UE-
5 951270 for storm damages. Why is that significant?

6 A. That comes into significance because the
7 company is requesting an accounting order to -- maybe
8 they're not. Let me think. 951270 includes an
9 adjustment for storm damages. The company should have
10 begun by now amortization of at minimum the storm
11 damages included in their adjustment which we did not
12 contest in that thing.

13 Now, the whole case was only a stipulation
14 on a total revenue requirement amount; no specific
15 issues were agreed to or disagreed to. My proposal to
16 amortize storm damages on their books as of this point
17 in time will reduce that regulatory asset over the
18 next five years, and I believe the importance is that
19 some of that should be occurring now. I don't know if
20 it is or not. We'll clarify that later. So I am
21 trying to say that I am proposing that some dollars of
22 storm damages, 16.9 million of storm damages be
23 amortized over five years and that there is at least
24 10.9 of that is from the Inaugural Day storm of three
25 years ago, three and a half years ago.

1 Q. Is that your complete answer there?

2 A. There's one thing I would add to that is
3 that the company shouldn't expect to hold on to these
4 regulatory assets and get recovery of them at another
5 time in the future.

6 Q. On page 6, lines 17 to 21 of Exhibit 184,
7 which is your testimony, you discuss environmental
8 remediation costs and their treatment. You state that
9 WNG's analysis did not allow a comparison of average
10 costs to the balance at June 30, 1996. Can you
11 explain why?

12 A. The documents they gave us concerning this
13 doesn't show the annual or quarterly amounts, I mean,
14 for the same time period and they didn't detail it in
15 the same way that Puget did, so I didn't have
16 comparable data to put into one unified exhibit.

17 Q. Have you received information since the
18 filing of your testimony that would be more indicative
19 of the status of WNG's environmental remediation
20 costs?

21 A. I think the level I have identified here is
22 indicative of their costs for the projects they have
23 listed. The only difference is that it's more
24 difficult to state that it has remained almost as an
25 even cost over the past two or three years. The

1 proposal would be to amortize what's on their books
2 over the next five years so the average -- averages of
3 Puget's was mostly to show what's been on their books
4 for the past three years or so.

5 Q. I guess the question asked whether you
6 received additional information.

7 A. No, I haven't.

8 Q. If the Commission were to adopt your
9 proposal for the treatment of environmental
10 remediation costs and it turned out that the estimates
11 used in your adjustments were way off, what treatment
12 would you propose for the difference between actual
13 costs and your estimates?

14 A. I don't propose anything be done with
15 those. I think that would then be the responsibility
16 of the company, and that way off could go in either
17 direction. I think if my proposal were accepted the
18 companies could even more vigorously pursue insurance
19 recoveries, and if they were able to get more
20 recoveries than what they have supposed and actually
21 booked as receivable, then that would be their money
22 to keep as well.

23 Q. My final question. On page 22, line 13 you
24 state that the applicant overestimated executive
25 separation costs. Have you formed any conclusion with

1 regard to the accuracy of the estimate of wage savings
2 for that group?

3 A. I didn't directly investigate the savings
4 side of this. I was only looking at the costs to
5 achieve, but my understanding of the \$130,000 per
6 executive, which I understand includes some of the
7 executive secretaries, is reasonable for the group as
8 a whole, and therefore I base my costs to achieve on
9 that same number. But as I said, I didn't directly
10 investigate the savings side of that equation.

11 JUDGE PRUSIA: Thank you, Mr. Schooley.
12 Mr. Cedarbaum, how much redirect do you estimate you
13 have?

14 MR. CEDARBAUM: Zero.

15 JUDGE PRUSIA: Very well then. There is no
16 redirect, then there should be no recross. Does
17 anyone have any additional questions, though, for this
18 witness that have been brought to mind? There being
19 nothing further then the witness is excused and we'll
20 take our lunch break at this point and be back
21 promptly at 1:30.

22 (Lunch recess taken at 12:10 p.m.)

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AFTERNOON SESSION

1:35 p.m.

JUDGE SCHAER: Let's be back on the record after our lunch recess. While we were off the record Mr. Miernyk has taken the stand. Has everyone distributed any exhibits they have for Mr. Miernyk. Whereupon,

JAMES MIERNYK,

having been first duly sworn, was called as a witness herein and was examined and testified as follows:

JUDGE SCHAER: Mr. Miernyk prefiled testimony and two additional exhibits, I have marked his testimony for identification as Exhibit T-191, and his Exhibit JWM-1 as Exhibit 192 and his exhibit JWM-2 as Exhibit 193.

In addition I have a document which is entitled Staff Response to Public Counsel Data Request No. 62 and I will mark that for identification as Exhibit 194. And a one page exhibit entitled Summary of Comparative Rate Data from Exhibit JWM-1. I will mark that exhibit for identification as 195.

(Marked Exhibits T-191 and 192 - 195.)

1 DIRECT EXAMINATION

2 BY MR. CEDARBAUM:

3 Q. Would you state your full name and spelling
4 your last name.

5 A. James W. Miernyk. Last named spelled
6 M I E R N Y K.

7 Q. Mr. Miernyk, you're employed by the
8 Washington Utilities and Transportation Commission as
9 a rate research specialist?

10 A. That's correct.

11 Q. Directing your attention to what's been
12 marked for identification as Exhibit T-191, does that
13 exhibit constitute your direct testimony in this
14 proceeding?

15 A. Yes.

16 Q. And it was prepared by you?

17 A. Yes.

18 Q. And the exhibit is true and correct to the
19 best of your knowledge and belief?

20 A. It is. There is an error, a typographic
21 error, that I would like to correct.

22 Q. Why don't you go ahead and do that.

23 A. Page 6, line 8, last word should be "of"
24 rather than "if."

25 Q. Is that the only correction that needs to

1 be made?

2 A. Yes.

3 Q. Referring you to what's been marked for
4 identification as Exhibit 192 and 193, are these
5 exhibits that are referenced in your direct testimony?

6 A. Yes.

7 Q. And these exhibits include responses by
8 Puget Power to data requests in docket UE-960299?

9 A. That's correct.

10 Q. I should say that's for 192 and for Exhibit
11 193 it's a response in docket UE-960696; is that
12 right?

13 A. That's correct.

14 Q. So these documents were not prepared by you
15 but you've relied upon them in your testimony?

16 A. That's correct.

17 Q. And they're true and correct copies of the
18 responses as indicated?

19 A. Yes.

20 MR. CEDARBAUM: Your Honor, at this time I
21 would offer Exhibits T-191 and Exhibit 192 and 193.

22 JUDGE SCHAEER: Any objection?

23 MR. VAN NOSTRAND: No.

24 JUDGE SCHAEER: Documents are admitted.

25 (Admitted Exhibits T-191, 192 and 193.)

1 MR. CEDARBAUM: Witness is available for
2 cross.

3 JUDGE SCHAEER: Mr. Van Nostrand, did you
4 have questions for this witness?

5 MR. VAN NOSTRAND: Yes, I do, Your Honor.
6 Thank you.

7

8 CROSS-EXAMINATION

9 BY MR. VAN NOSTRAND:

10 Q. Good afternoon, Mr. Miernyk.

11 A. Good afternoon.

12 Q. Your testimony at page 6 refers to large
13 use customers having the economic means to achieve
14 special rate arrangements. When you say large use
15 customers, do you mean those customers whose usage is
16 higher than the 2.4 megawatt threshold which is
17 incorporated in schedule 48?

18 A. In general I'm referring to high voltage
19 level customers as well as the customers that you
20 referred to.

21 Q. Do you believe the 2.4 megawatt threshold
22 is a reasonable dividing line between large use
23 customers and other customers?

24 A. Based on my analysis of the issues in
25 recent special contract proceedings and schedule 48 I

1 would say yes.

2 Q. When you say these customers have the
3 economic means to achieve special rate arrangements,
4 is it fair to say that these customers have the
5 financial resources to pursue competitive
6 alternatives?

7 A. I would agree that that would be one factor
8 that would enable large use customers to pursue
9 competitive alternatives.

10 Q. And would another factor be they have the
11 sophistication to evaluate and investigate competitive
12 alternatives?

13 A. Yes.

14 Q. And another may be that they have large
15 enough usage that it becomes easier to cost-justify
16 pursuit of a competitive alternative?

17 A. Yes.

18 Q. And would you agree with the Commission
19 statement in its schedule 48 order, which is now
20 Exhibit 86, "these customers are most susceptible to
21 opportunity in the evolving competitive marketplace"?

22 A. I have a copy of that order, if you can
23 refer to the page I would be glad to.

24 Q. Yes, the paragraph at the top of page 10.

25 A. Which paragraph, please?

1 Q. That first full paragraph on the top of
2 page 10, the second sentence in that paragraph.

3 A. The answer to your question is yes.

4 Q. You would agree with that statement?

5 A. Yes.

6 Q. I want to turn to the quantification of the
7 lost revenues, the \$121 million figure which you have
8 in your testimony on page 11, lines 13 and 14. Is the
9 analysis which produces that figure, is that based on
10 single estimate of secondary market rates?

11 A. Are you referring to line 14?

12 Q. Yeah. It's really just the quantification
13 of lost revenues as being \$121.3 million during the
14 rate plan period. My question is whether or not the
15 calculation of that depends upon a single estimate of
16 secondary market rates.

17 A. The determination of the lost revenue
18 figure is addressed in Mr. Martin's testimony. I
19 believe he relied upon the company's forecast for
20 coming up with a net number, but in the context of
21 examining the magnitude of lost revenues in recent
22 special contract and schedule 48 docket, as I recall,
23 the calculation was based on estimates of secondary
24 prices.

25 Q. And what would the impact be on that lost

1 revenue calculation if actual secondary price turned
2 out to be higher?

3 A. It would be lower.

4 Q. And under schedule 48 customers also have
5 the option of purchasing firming services; is that
6 right?

7 A. That's correct. That's one of the optional
8 services in schedule 48.

9 Q. And if there are -- if schedule 48
10 customers choose to purchase the optional firming
11 services, would that also reduce the lost revenue
12 figure?

13 A. I have not reviewed the itemized component
14 of the net \$121.3 million lost revenues. However, I
15 believe in an earlier examination of lost revenues in
16 the context of schedule 48 the firming charge was
17 included by the company in its estimates.

18 Q. You're saying that the company assumed that
19 it would get some revenues from optional firming when
20 it calculated its estimates?

21 A. To the best of my knowledge that's correct.

22 Q. And it's true, isn't it, that there will
23 not be any reductions in the rates under schedule 48
24 until July 1, 1998?

25 A. Prior to answering that I would like to

1 have an opportunity to check some information I have
2 that may clarify the last answer. My answer to that
3 last question stands. The answer is yes.

4 Q. My next question had to do with whether
5 there were any revenue losses under schedule 48 prior
6 to July 1, 1998.

7 A. Can you repeat that, please?

8 Q. Is it true there will not be any revenue
9 losses associated with schedule 48 prior to July 1,
10 1998?

11 A. No.

12 Q. And how would revenue losses arise?

13 A. In the sense that schedule 48 incorporates
14 a rate design change there are opportunities for
15 certain customers to achieve a greater level of great
16 benefit. Therefore, there's the possibility of some
17 lost revenues prior to that.

18 Q. Mr. Martin did not assume any lost revenues
19 for those reasons in his calculation of revenue
20 losses, did he?

21 A. Can you repeat that, please.

22 Q. Mr. Martin did not assume any revenue
23 losses for those revenues when he did his revenue loss
24 calculation, did he? I mean, the load factor
25 variances that you mentioned that might give some

1 customers some savings?

2 MR. CEDARBAUM: I guess -- I don't know
3 whether to object or not. I mean, this is beyond the
4 scope of this witness's testimony. If he's
5 comfortable answering it, that's fine, but Mr.
6 Martin's calculations are Mr. Martin's and this
7 witness may be being asked to answer a question beyond
8 the scope of his testimony. If he knows that's fine,
9 but I would just caution him that he can defer that
10 question.

11 JUDGE SCHAEER: I share that concern, Mr.
12 Van Nostrand. It looks like on page 11, line 15 that
13 you were told the calculation was described by Mr.
14 Martin, and if this witness can answer that's fine,
15 but it may be that these questions need to be
16 addressed to Mr. Martin and if he needs to be recalled
17 for that purpose it may be that we could even allow
18 that.

19 MR. VAN NOSTRAND: No, that wouldn't be
20 necessary, Your Honor.

21 Q. Is it fair to say that prior to July 1,
22 1998 that the revenue losses on schedule 48 are fairly
23 small?

24 A. Compared to the revenue losses in later
25 years, yes, that's correct.

1 Q. Is it fair to say that the quality of
2 service which schedule 48 customers received is
3 different than that provided to core customers?

4 MR. CEDARBAUM: Your Honor, I will object
5 on the basis of relevance. I mean, I can see the
6 relevance of asking about the \$121 million. I can see
7 the relevance about asking what's a large customer,
8 what's a small customer, because Mr. Miernyk discussed
9 that in his testimony, but now we're talking about
10 type of service that is received or not received under
11 schedule 48 and that's a schedule 48 issue which was
12 handled in that proceeding, so I don't see the
13 relevance of this line of questioning at this point in
14 his testimony.

15 MR. VAN NOSTRAND: I'm referring to his
16 testimony on page 5, lines 3 through 8 which has a
17 pretty extensive discussion of what schedule 48 does
18 and doesn't do.

19 JUDGE SCHAEER: I'm going to allow the
20 question.

21 A. Can you repeat the question, please.

22 Q. Is it fair to say that the quality of
23 service which schedule 48 customers receive is
24 different than that provided to core customers?

25 A. When you use the word quality it puts a

1 different twist on my understanding of the risks
2 associated with schedule 48. I don't believe I'm
3 prepared at this point to offer a judgment, given that
4 the schedule just went into effect a few days ago, a
5 definitive answer on the quality of service under
6 schedule 48.

7 Q. It is fair to say that the schedule 48
8 customers will bear the risks in variability in the
9 price of power, isn't it?

10 A. Yes.

11 Q. And if they don't choose the optional
12 firming service the customer may bear some of the
13 risks of unavailability of power?

14 A. That's correct.

15 Q. Your testimony on page 10 refers to price
16 increases associated with Puget's PURPA contracts as
17 being a cause for Puget's recent special contracts and
18 proposed schedule 48. Do you recall that from your
19 testimony?

20 A. Yes.

21 Q. Are you aware of any other utilities in the
22 region that are offering special rates to large
23 customers?

24 A. Yes.

25 Q. And the Commission's schedule 48 order in

1 fact acknowledges that a number of utilities in the
2 region are offering pricing proposals of this type for
3 large volume customers; is that correct?

4 A. Yes. Other utilities are offering those
5 types of pricing arrangements.

6 Q. And specifically the order mentions
7 Portland General Electric, Seattle City Light, Tacoma
8 Public Utilities and Snohomish PUD; is that right?
9 That's on page 10 of the order?

10 A. That's correct.

11 Q. Now, do these utilities like Puget also
12 have PURPA contracts and therefore must enter into
13 special pricing arrangements with their largest
14 customers?

15 A. I don't know.

16 Q. The same statement that you make with
17 respect to the PURPA contracts being a cause for
18 Puget's special contract, you think that same
19 statement applies to these four utilities as well?

20 MR. CEDARBAUM: Objection, it's been asked
21 and answered. He didn't know whether those other
22 utilities had PURPA contracts so how can he answer
23 this question?

24 JUDGE SCHAEER: Sustained.

25 Q. Are you aware of other utilities in the

1 region that have special contracts for large
2 customers?

3 MR. CEDARBAUM: It's been asked and
4 answered.

5 JUDGE SCHAEER: Sustained.

6 MR. VAN NOSTRAND: I believe the previous
7 question related to special pricing arrangements not
8 special contracts.

9 JUDGE SCHAEER: I believe about two
10 questions before that you read a list of utilities in
11 the region that have special prices and that that was
12 agreed to, Mr. Van Nostrand.

13 MR. VAN NOSTRAND: And that would apply to
14 special contracts as well as pricing proposals?

15 JUDGE SCHAEER: Well, perhaps you should
16 repeat the question because I believed that you had
17 discussed this but I don't remember the precise
18 wording. Go ahead.

19 Q. Well, the question was whether or not other
20 utilities in the region apart from the pricing
21 proposals mentioned in the Commission's order whether
22 or not they have special contracts for large
23 customers?

24 JUDGE SCHAEER: You're discussing a kind of
25 special contracts that Washington utilities would have

1 under the Commission's contract rule, those types of
2 things?

3 MR. VAN NOSTRAND: Yes, not just Washington
4 utilities but others in the region.

5 JUDGE SCHAEER: Okay. Go ahead and answer.

6 A. I have heard of other utilities entering
7 into special contracts with customers.

8 Q. Which utilities?

9 A. Are you asking --

10 MR. CEDARBAUM: Your Honor, just a second.
11 I'm sorry to disrupt the flow, but I would like an
12 establishment of relevance of what special
13 arrangements or contracts, tariffs, with utilities not
14 regulated by this Commission has to do with this
15 merger proceeding.

16 JUDGE SCHAEER: Mr. Van Nostrand, the
17 objection is relevance.

18 MR. VAN NOSTRAND: It bears on the
19 statements in his testimony that the only reason Puget
20 has to enter into special pricing arrangements are
21 Puget's PURPA contracts, and the issue is, is Puget
22 unique in regard to having to enter into special
23 pricing arrangements and are there other utilities in
24 the region that have similar arrangements.

25 JUDGE SCHAEER: Would you give me the page

1 and line reference that the only reason is the PURPA
2 contracts, please?

3 MR. VAN NOSTRAND: Page 10, lines 14 to 16.

4 MR. CEDARBAUM: Your Honor, it doesn't say
5 the only cause. It says a cause, on line 15, third
6 word in from the left.

7 JUDGE SCHAEER: Was there some other
8 reference that said the only reason, Mr. Van Nostrand?

9 MR. VAN NOSTRAND: Page 9, line 9 said the
10 primary cause. And lines 12 and 13 refers to the
11 price increases as being a major source.

12 MR. CEDARBAUM: Your Honor, there's been
13 testimony from company witnesses to that effect. I
14 don't think that's disputed. Mr. Miernyk does not say
15 they are the only cause so I don't see the relevance
16 of chasing down lines of questioning about what
17 nonregulated utilities, from this Commission's point
18 of view, has to do with this merger proceeding.

19 JUDGE SCHAEER: I don't see that relevance
20 either, Mr. Van Nostrand. Please move on.

21 Q. Your testimony acknowledges that these
22 particular PURPA contracts were evaluated by the
23 Commission in the prudence proceeding; is that
24 correct?

25 A. Can you please refer to the testimony?

1 Q. Page 10, lines 4 through 8.

2 A. Can you repeat the question, please.

3 Q. Your testimony acknowledges that these
4 PURPA contracts were evaluated by the Commission in
5 the prudence proceeding; is that correct?

6 A. That's correct.

7 Q. And as a result of the Commission's order
8 in that proceeding a portion of Puget's power supply
9 costs associated with two of these contracts was
10 disallowed; is that correct?

11 A. I don't believe I state in my testimony
12 anything to that level of detail.

13 Q. Were there disallowances in the prudence
14 proceeding?

15 A. Yes.

16 Q. Do you know the magnitude of those
17 disallowances?

18 A. I don't include those in my testimony, and
19 I don't have them at the top of my head. I do --
20 well, I believe I have a copy of the prudence order in
21 my work book and if you would like I can search for an
22 answer.

23 JUDGE SCHAER: Would you like to ask
24 something subject to check or would you like him to
25 look that up, Mr. Van Nostand.

1 MR. VAN NOSTRAND: There's no need for him
2 to look that up.

3 Q. I guess my next question would be how does
4 the disallowances in the prudence proceeding relate to
5 the \$17.8 million which you recommend be borne by
6 shareholders in your testimony?

7 A. The purpose of this portion of my testimony
8 is not to suggest that the prudence proceeding be
9 reopened or revisited in the context of staff's rate
10 plan. It's merely to indicate that the price
11 increases associated with those PURPA contracts are a
12 contributing cause for Puget's special contracts and
13 proposed schedule 48.

14 Q. Is it the same underlying power costs which
15 formed the prudence proceeding disallowances and which
16 underlie the \$17.8 million figure in your testimony?

17 A. Can you rephrase that question, please.

18 Q. Is it the same underlying power contracts
19 which generated a disallowance in the prudence
20 proceeding which underlie the \$17.8 million figure in
21 your testimony?

22 A. No.

23 Q. How are they different?

24 A. Staff's rate plan included the lost revenue
25 -- the net lost revenues from special contracts and

1 schedule 48 just as it considered merger savings,
2 power stretch savings and best practice savings. In
3 the sense that the lost revenues, net lost revenues,
4 are a cost pressure the \$17.8 million that the staff
5 rate plan recommends be borne by shareholders is
6 described in Mr. Martin's Exhibit TS RCM-1, page 2 of
7 2.

8 Q. Your testimony at the bottom of page 11,
9 lines 20 and 21 talks about the remaining PSE electric
10 customers funding Puget's ability to serve large users
11 at special rates while making the company and its
12 shareholders whole for power costs. Do you see that?

13 A. Yes.

14 Q. And isn't it true that the rate plan
15 calling for the 1 percent electric rate increases was
16 proposed in February 1996 as part of the merger
17 application?

18 A. Can you repeat the question, please.

19 Q. Isn't it true that the rate plan which
20 includes the 1 percent electric rate increases was
21 proposed by the company in February 1996 as part of
22 the merger application?

23 A. I don't recall precisely when the merger
24 application was filed.

25 Q. Will you accept subject to check it was

1 February 20, 1996?

2 A. Yes.

3 Q. And the schedule 48 rate filing was made on
4 May 24, 1996?

5 A. That's correct.

6 Q. And the Georgia Pacific and BCS contract
7 were filed with the Commission on May 7, 1996?

8 A. I believe that's correct.

9 Q. Would you agree that the revenue increases
10 associated with the 1 percent electric increases
11 proposed in the application would generate about \$143
12 million over the rate period?

13 A. I believe that's correct as expressed in
14 Ms. Lynch's exhibit CEL-3, which I believe is Exhibit
15 28 in this proceeding.

16 Q. Will you agree that the company has also
17 estimated that its power costs will increase by
18 approximately \$320 million over the rate period?

19 A. Yes.

20 Q. So given that power costs are estimated to
21 increase by \$322 million over this period and the
22 revenue losses which Mr. Martin calculate are \$121
23 million and the 1 percent increases would result in
24 only \$143 million of additional revenue, how do you
25 conclude that these rate increases would make the

1 company and its shareholders whole for power costs
2 deemed uneconomic by large users?

3 A. In the sense that the applicant's rate plan
4 does not include the lost revenues from special rates,
5 as well as not including the savings from best
6 practices and power stretch, then I have concluded
7 that the lost revenues would result in customers being
8 worse off.

9 Q. Would you agree that the 1 percent -- the
10 revenue sharing generated by the 1 percent increase
11 are insufficient to cover the \$322 million increases
12 in power costs over the rate plan period?

13 A. If you provide the full parameters for that
14 question I probably could answer it, but -- in other
15 words if you could provide the net figures I can do
16 the comparison.

17 Q. I'm just speaking of the same \$143 million
18 from Exhibit 28 as compared to the \$320 million
19 increases in power costs referred to earlier in your
20 testimony. You would agree that the \$143 million is
21 insufficient to cover the \$320 million increased power
22 costs?

23 A. Yes.

24 Q. I believe you just mentioned that under the
25 rate plan proposed by staff that the assumption is

1 that company would achieve the power cost stretch
2 goals; is that right?

3 A. Yes, that's correct.

4 Q. And that's assumed as part of the rate
5 plan. Is it fair to say that the shareholders are
6 bearing the risks of achieving those power cost price
7 goals?

8 MR. CEDARBAUM: Your Honor -- never mind.

9 A. Can you repeat the question, please.

10 Q. If the staff rate plan assumes that these
11 power costs stretch goals will be achieved then don't
12 the shareholders bear the risk of actually achieving
13 those power cost price goals?

14 A. As I mentioned a moment ago, the staff rate
15 plan, which is expressed in Mr. Martin's Exhibit TS
16 RCM-1, includes merger savings, best practice savings,
17 power stretch savings. It also includes a variety of
18 production related and nonproduction related cost
19 pressures in addition to staff's proposed rate
20 decreases and the lost revenues, forecast lost
21 revenues, from special rates. So in the sense that it
22 addresses all of those topics then the burden is upon
23 the company for achieving those merger savings.

24 Q. And the savings that are associated with
25 power cost stretch goals?

1 A. Yes.

2 Q. And if those power cost stretch goals are
3 not achieved shareholders would bear much more of
4 these costs than the \$17.8 million referred to in your
5 testimony, won't they?

6 MR. CEDARBAUM: Your Honor, I guess I will
7 object to the form of the question as "much more." I
8 don't know what that means. Maybe you can put some
9 more of a quantification around that.

10 MR. VAN NOSTRAND: Greater than \$17.8
11 million.

12 JUDGE SCHAEER: Please answer the question.

13 A. That's a possibility. Can you repeat the
14 question, please.

15 Q. If power stretch goals are not achieved
16 shareholders would bear more of these costs than the
17 \$17.8 million referred to in your testimony?

18 A. Staff's merger rate plan is broader than
19 the relatively narrow focus of my testimony. Mr.
20 Martin describes staff's rate plan in his testimony
21 and the parameters for that are included in TS RCM-1.
22 If you're asking a hypothetical question about any of
23 these various elements of TS RCM-1, perhaps you can
24 clarify that.

25 Q. I'm really just focusing on the portion of

1 your testimony at the bottom of page 13 and the top of
2 14 where you state that the shareholders would bear
3 \$17.8 million, which seems to be the focus of your
4 testimony is what portion of the lost revenues will be
5 borne by the shareholders. My question relates to
6 wouldn't the amount borne by shareholders be much
7 greater than \$17.8 million or greater at all than
8 \$17.8 million if the power cost stretch goals are not
9 achieved?

10 JUDGE SCHAEER: Mr. Van Nostrand, are you
11 saying all else remaining equal are the power cost
12 stretch goals greater than \$17.8 million so that if
13 they didn't achieve but everything else was achieved
14 at the same level? I'm getting confused by how this
15 ties into all the other pieces that could go up and
16 down also.

17 MR. VAN NOSTRAND: Question has to do with
18 staff's rate plan shareholders already bearing the
19 risk of power cost stretch goals, which I believe Mr.
20 Miernyk agreed was the case. If they're already
21 bearing those and the risks of achieving those power
22 cost stretch goals and if they are not in fact
23 achieved won't they end up bearing more of those costs
24 than the \$17.8 million which Mr. Miernyk's testimony
25 suggests they are limited to.

1 MR. CEDARBAUM: The question does assume
2 that all other pots of savings remain unchanged.
3 We're just focusing on power stretch?

4 MR. VAN NOSTRAND: Yeah. That's fine for
5 purposes of this question, yes.

6 JUDGE SCHAEER: That's what I was trying to
7 get clarified because you can't tell what savings
8 might be achieved in other areas. Go ahead, please.

9 A. Well, at this point I'm confused what the
10 question is. Can you please restate the question.

11 Q. Given that shareholders bear the risks for
12 achieving power cost stretch goals under the staff
13 rate plan, if power cost stretch goals are not
14 achieved wouldn't shareholders end up paying more of
15 the costs than the \$17.8 million reflected in your
16 testimony?

17 A. I guess I'm comfortable in saying that's
18 possible but in the same sense if they -- the company
19 were able to achieve a greater level of those savings
20 then that burden would be less.

21 Q. Have you done any analysis to suggest that
22 the company will be able to achieve a greater level of
23 those savings?

24 A. No.

25 Q. Your testimony indicates that adopting this

1 proposal is necessary so that there is appropriate
2 incentive for Puget to mitigate uneconomic production
3 costs; is that correct? I'm looking at page 14, lines
4 10 through 11.

5 A. That's correct.

6 Q. And if shareholders already bear the risk
7 for achieving power costs stretch savings under
8 staff's rate plan, isn't there sufficient incentive
9 already to mitigate uneconomic production costs?

10 A. When you refer to already being sufficient
11 incentive, I'm uncertain exactly what you're referring
12 to, but I can state that this testimony on the
13 incentive in a sense intends to implement what I
14 understand are the directives in the Commission's
15 orders in recent special contracts and schedule 48
16 that the burden of any lost revenues is upon the
17 company.

18 Q. Is this a general rate proceeding for
19 purposes of those special contracts?

20 A. No.

21 Q. So your calculation of the \$17.8 million
22 doesn't do anything with respect to the risks
23 allocated to shareholders for revenue shortfalls under
24 those special contract orders, does it?

25 A. Are you asking if my testimony on that

1 topic is intended to go further or to a greater
2 extent on the topics addressed in the special contract
3 orders?

4 Q. Yes.

5 A. No.

6 Q. Does your analysis take into account that
7 the company may be able to mitigate some of these lost
8 revenues?

9 A. My analysis and a key theme in my testimony
10 is on the importance, particular importance, of the
11 power stretch savings, so in a sense I am attempting
12 to highlight the critical nature of those savings.

13 Q. Isn't one aspect of the schedule 48 rate
14 the freeing up of resources which formerly were
15 dedicated to core customers?

16 A. You asked if one aspect of the rate?

17 Q. Of approval of schedule 48 was a noncore
18 service, was freeing up service that formerly served
19 core customers?

20 A. Schedule 48 and the creation of a new class
21 of noncore service would in essence free up a portion
22 of the load that was dedicated to serve those
23 customers on a firm basis.

24 Q. And if the company is able to remarket
25 those resources, wouldn't it have an opportunity to

1 mitigate some of these revenue losses that is
2 identified in staff's rate plan?

3 A. Yes.

4 Q. And your analysis of the \$17.8 million here
5 would not preclude that mitigation from happening,
6 would it?

7 A. No.

8 MR. VAN NOSTRAND: I have no further
9 questions, Your Honor.

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

12 MR. MANIFOLD: Yes, I do.

13

14 CROSS-EXAMINATION

15 BY MR. MANIFOLD:

16 Q. Do you have before you what's been marked
17 as Exhibit 194? That's the staff response to public
18 counsel data request No. 62.

19 A. Yes.

20 Q. And is this an accurate and complete
21 response -- or copy of that response?

22 A. Yes.

23 MR. MANIFOLD: Your Honor, I would move for
24 the admission of Exhibit 194.

25 JUDGE SCHAEER: Any objection? That

1 document is admitted.

2 (Admitted Exhibit 194.)

3 Q. Regarding schedule 48, I think you were
4 asked questions earlier about the ability of or the
5 option for customers electing service under schedule
6 48 to obtain firming for their service by paying an
7 additional fee; is that correct?

8 A. That's correct.

9 Q. Do you recall what the price for that
10 firming is?

11 A. I believe it's 50 cents per KVA month.

12 Q. Is that about one mill per kilowatt hour?

13 A. I believe a public counsel witness
14 calculated that to be one mill.

15 Q. Would you accept that?

16 A. I think when I calculated I got a little
17 higher number, but I will accept that the public
18 counsel witness calculated it as one mill.

19 Q. Well, what do you think the right number
20 is?

21 A. I thought it was about a mill and a half.

22 Q. At what load factor did you make your
23 calculation?

24 A. Just a second. I will try to find it.

25 JUDGE SCHAEER: If you found your materials,

1 go ahead, Mr. Miernyk.

2 A. I believe -- well, I didn't put down my
3 load factor but I do have a notation that I calculated
4 that to be about 1.4 mills per kilowatt hour.

5 Q. Would you agree that the formula for
6 calculating a cost in mills per kilowatt hour would be
7 to take the 50 cents and divide by 720 hours per month
8 and then divide that by the load factor that one
9 chooses to use, whatever the appropriate load factor
10 is?

11 A. You would have to calculate in a power
12 factor.

13 Q. And where would that be? You divide by it
14 or multiply by it?

15 A. Well, you would have to multiply it, the
16 KVA, by a power factor to get into a KVA format and
17 then you could do what you suggested.

18 Q. At page 6 of your testimony, line 3, you, I
19 think, conclude that you believe that large use
20 customers find Puget's rates to be uneconomic compared
21 to market prices. Is that a fair summary, based upon
22 the observations that you have in that answer?

23 A. I believe I make that statement a bit more
24 definitively, page 9, lines 8 through 9.

25 Q. Thank you. Do you have an opinion about

1 the -- whether or not Puget's current tariffs are
2 economic or uneconomic from the standpoint of other
3 than large use customers which, for the purpose of
4 this, I will just refer to as small use customers
5 although I mean that to mean everybody other than
6 whoever you mean by large use.

7 A. Public counsel asked a data request in this
8 regard.

9 Q. That would be No. 59.

10 A. Thank you. As I indicate here, at this
11 point I've drawn no conclusion on whether the cost for
12 power in Puget's current tariff rate is economic for
13 small use customers.

14 Q. Does the fact that Puget's rates are higher
15 for small use customers than the same rates for
16 surrounding utilities tell you anything about whether
17 or not Puget's rates are economic?

18 A. Yes. In the sense that my testimony
19 addresses large use customers it reflects the reality
20 of those customers' intent and ability to obtain rate
21 concessions, if you will. I don't believe that that
22 same ability exists for small use customers at this
23 time, but as I point out in this data request response
24 that staff hopes that the open access pilot project,
25 which the Commission has ordered in docket -- in the

1 schedule 48 docket will help provide insights into
2 those issues.

3 Q. So my understanding is that from your
4 analysis whether or not costs are economic or
5 uneconomic for a particular set of customers depends
6 in part upon whether those customers have the ability
7 and the motivation to avail themselves of any
8 alternatives to the prices that they're facing?

9 A. That's correct.

10 Q. Would you agree that residential and
11 commercial customers of Puget Power have been leaving
12 Puget's system for gas service where they are able to
13 do so?

14 MR. VAN NOSTRAND: Object. Beyond the
15 scope of this witness's testimony.

16 Q. Well, do you have any -- in terms of what
17 small -- well, just talk residential for a moment.
18 Your statement is that residential customers may or
19 may not find Puget's rates to be economic because they
20 don't have any alternatives. Isn't it true, though,
21 that residential customers who live where they are
22 served by Puget for electric service and some other
23 company for gas service have an alternative for
24 certain end uses such as space heat, water heat, et
25 cetera?

1 A. Your question is, if I understand it, is it
2 true that they may have an alternative and I can
3 answer yes but only to that general level.

4 Q. You haven't examined whether or not those
5 customers have availed themselves of those
6 alternatives to avoid Puget's high costs, high rates?

7 A. Your question is whether I've examined that
8 or intuitively if that's a possibility?

9 Q. Either one. Both.

10 A. Yes.

11 Q. Yes, you think that's a possibility?

12 A. Yes.

13 JUDGE SCHAEER: So which question are you
14 saying yes to? Have you examined it?

15 THE WITNESS: No.

16 JUDGE SCHAEER: So your answer yes is an
17 intuitive response?

18 THE WITNESS: Yes.

19 Q. If commercial customers had available to
20 them either electric service from Puget or gas service
21 from another utility, such as Washington Natural or
22 Cascade, and chose gas service for particular end uses
23 because they were faced otherwise with Puget's
24 electric rates, would you consider that to be an
25 instance of customers having the availability and the

1 opportunity to avoid Puget's highest costs in the
2 region for a major utility?

3 A. In the general sense that a small use
4 customer could pursue other sources of power, I
5 believe you're implying less expensive source, then I
6 agree that it is possible that there could be that
7 motivation. Again, that's the extent to which I feel
8 comfortable answering that.

9 Q. Are you aware of gas companies such as
10 Washington Natural Gas advertising that its product
11 can result in substantial savings to residential and
12 commercial customers when used for customer end use
13 purposes such as space heating and heating water?

14 MR. CEDARBAUM: Your Honor, I will object
15 at this point. I think the witness has demonstrated
16 that he's reached the limit of his opinion on this.
17 He's uncomfortable answering to begin with.

18 JUDGE SCHAEER: Sustained.

19 Q. Looking at your Exhibit 192, which is
20 JWM-1 for the residential comparisons which is
21 appendix A, the first appendix. Would you agree with
22 an observation that Puget's rates for residential
23 service are as great a difference from its neighboring
24 utilities for residential customers as they are for
25 Puget's industrial customers measured as a percentage

1 of the given rates? This is a general observation.

2 A. I believe I quantified two percentage
3 examples in my testimony comparing Puget's rates with
4 a regional average, and according to my testimony at
5 page 7 a comparison showed that industrial rates were
6 approximately 20 percent above the current average and
7 residential rates not factoring in the exchange were
8 35 percent above the regional average.

9 Q. Has BPA proposed reducing the residential
10 exchange credit for Puget?

11 A. In a general sense I can answer this
12 question by saying yes, but I don't feel comfortable
13 in going beyond that with respect to my relatively
14 limited understanding of exactly what's going on with
15 the BPA residential exchange.

16 Q. I think one other question in that general
17 area. Do you know if BPA has notified Puget that BPA
18 is terminating its purchases from Puget under the
19 exchange program effective by the year 2001?

20 A. I don't know.

21 Q. Your testimony at pages 5 and 6, there's
22 some testimony obviously on schedule 48. I just
23 wanted to confirm that in your analysis you did not do
24 any specific study of the potential for physical
25 bypass by Puget's customers who would be eligible for

1 schedule 48?

2 A. Are you asking if I represented conclusions
3 from a study of that manner in my testimony?

4 Q. No. I'm asking if you did that at all, not
5 just in your testimony, but in your preparation, in
6 your work.

7 A. In a general sense I have considered the
8 possibility of large customers to bypass Puget's
9 system.

10 Q. I guess in your terms I'm asking, in your
11 consideration of that did you look or do any analysis
12 at the 65 customer sites who would be eligible for
13 schedule 48 to determine which if any of those had an
14 opportunity for physical bypass of Puget's system?

15 A. No. In a broad sense I'm convinced that
16 Puget's large customers have the ability to pursue
17 special rate arrangements in lieu of bypass.

18 Q. You touched on the basis for that earlier
19 in your testimony in your response to Mr. Van Nostrand
20 as being that they have the capability based on their
21 size and interest and size of their utility bills, et
22 cetera. Is that the sort of thing you're relying on?

23 A. I tried to do a good job in answering a
24 public counsel data request in this regard and that is
25 the response to data request 54 where I indicate that

1 I had not prepared a formal study or report on those
2 issues but did include a variety of information.

3 Q. You didn't do any particular study on
4 whether or not there were economically efficient
5 opportunities for bypass at these particular customers
6 sites, is that correct, other than the qualifications
7 you stated already?

8 MR. MACIVER: Your Honor, I would ask --
9 object to the form of that question unless he explains
10 to the witness what he means by economically
11 efficient.

12 Q. Do you understand what I mean by
13 economically efficient?

14 A. Are you asking me if I quantified the
15 ability of each of these customer sites to invest
16 capital in new facilities and examine their forecasts
17 for purchases of power and things like that and came
18 up with a range of numbers and compared that with
19 schedule 48 or something like that?

20 Q. Yes.

21 A. No, I didn't do that.

22 Q. And that's the sort of analysis that has
23 been done previously in special contract cases, for
24 instance, in the gas industry where a bypass
25 possibility has been alleged. And there wasn't time

1 or opportunity or for whatever reasons that wasn't
2 within what you were able to do in this context.

3 A. Yes.

4 Q. And one final question on that area. You
5 didn't as part -- since you didn't study the
6 economics, you didn't look in to see whether what
7 effects any FERC regulation such as order 888 and
8 similar matters would have upon the economics of a
9 company attempting to bypass Puget?

10 A. Since I answered the last question no I
11 will feel comfortable answering this question no as
12 well.

13 Q. Were you aware of the matter involving
14 Washington Water Power's desire to serve the Tosco
15 industrial facility in Bellingham generally?

16 A. Yes, generally aware of that.

17 Q. Is it your understanding that in order for
18 -- that the Commission approved Water Power providing
19 service to that customer?

20 MR. CEDARBAUM: Your Honor, I will object
21 on the basis of relevance.

22 JUDGE SCHAEER: What is the relevance, Mr.
23 Manifold?

24 MR. MANIFOLD: The relevance is that it
25 goes to the ability of a customer within Puget's

1 service territory obtaining service from someone other
2 than Puget without Puget's acquiescence in wheeling or
3 otherwise making power available to that customer.

4 JUDGE SCHAER: And what part of Mr.
5 Miernyk's testimony raises that issue?

6 MR. MANIFOLD: The parts concerning the
7 economics of serving customers under schedule 48 and
8 his observations that he's given on whether large
9 customers compared to small customers have economic --

10 Q. -- whether or not Puget's rates are
11 economic for large customers as compared to small
12 customers? If you're not familiar with that I can
13 drop that and move on.

14 JUDGE SCHAER: Well, I don't want him to
15 answer the question until I rule on the objection.

16 MR. MANIFOLD: I was meaning to withdraw
17 it.

18 JUDGE SCHAER: That's fine. Move on.

19 Q. On page 7 you have a table showing
20 production costs embedded in rates for Puget. In data
21 request No. 58 public counsel asked staff whether or
22 not certain costs were reflected therein. Do you have
23 a copy of 58 available?

24 A. Yes.

25 Q. I just want to go through some of the items

1 that are and are not included in the data from which
2 you took this table, which I think is from another
3 case in something provided by Puget. Am I correct
4 that federal income tax associated with the return on
5 production plant was not included in that set of
6 numbers?

7 A. Yes.

8 Q. Am I correct that the revenue-related tax
9 that was associated with the revenues for production
10 plant is also not included?

11 A. I believe that's correct as well.

12 Q. Am I correct that these numbers, the source
13 of which you cite -- I mean, you just adopted some
14 numbers that Puget responded to in another case --
15 that those numbers do not reflect any transmission
16 costs?

17 A. That's correct.

18 Q. Is it your understanding that transmission
19 costs are sometimes classified or segregated into
20 generation-related transmission as opposed to network
21 transmission costs?

22 A. Yes.

23 Q. An example would be the Colstrip plant
24 which is obviously several hundred miles distant from
25 the service territory and needs transmission to get

1 the power over?

2 A. Yes.

3 Q. Is it correct that in response to staff
4 request No. 8 in the schedule 48 proceeding Puget
5 identified the generation-related transmission costs
6 as being 1.5 mills per kilowatt hour -- you can just
7 accept this subject to check if you want -- the A and
8 G costs to be around 3.5 mills per kilowatt hour for
9 high voltage and the A and G costs to be about 6 mills
10 for primary voltage. That's generation-related A and
11 G. Would you accept that subject to check?

12 A. This is in schedule 48 informal data
13 request No. 8?

14 Q. Yes.

15 A. Yes, I will accept those subject to check.

16 Q. Would you agree that adding these
17 generation-related transmission and generation-related
18 administrative and general costs would increase the
19 costs for all classes of customers shown in table 1?

20 A. I would agree in the sense that these
21 figures include or do not include all costs for the
22 production function, that some of the things you just
23 mentioned could make those higher.

24 Q. Couple of questions about the pilot -- the
25 open access pilot program that's to be -- that has

1 been the subject of discussion in schedule 48. Do you
2 agree -- is it your belief that most customers would
3 participate in a pilot program in order to obtain
4 lower rates or lower bills, i.e., to save money?

5 A. Intuitively it would seem that the answer
6 to your question is yes.

7 Q. Would that influence your thinking on what
8 the transition charges ought to be in the context of a
9 pilot program?

10 MR. CEDARBAUM: Your Honor, I will object
11 as being beyond the scope of this case. We're not in
12 that pilot program. Might be public counsel's issue
13 but it's not staff's in this proceeding.

14 MR. MACIVER: Your Honor, I would join in
15 that objection also because the terms and conditions
16 and the risks to the customer of the pilot program are
17 not known or not described by Mr. Manifold in his
18 question so it's difficult to know what would motivate
19 people without more particulars.

20 JUDGE SCHAEER: What's the purpose of this
21 line of questions, Mr. Manifold?

22 MR. MANIFOLD: In response to public
23 counsel data request 59 I think the witness indicated
24 -- and excuse me if I skipped over this and shouldn't
25 have -- that the pilot program, a purpose was to

1 provide useful information on what "uneconomic power
2 costs" are for other customers, as we discussed
3 earlier in the examination that was elsewhere in his
4 testimony. And the relevance and purpose of these
5 questions are to set some parameters on what
6 conditions are necessary in order to obtain the
7 expected information.

8 JUDGE SCHAEER: So is it your expectation
9 that the Commission will be setting conditions of a
10 pilot program post merger decision in this proceeding?

11 MR. MANIFOLD: Yes.

12 JUDGE SCHAEER: What witness proposal is
13 that?

14 MR. MANIFOLD: George Sturzinger for public
15 counsel.

16 MR. CEDARBAUM: Your Honor, I understand
17 that's part of public counsel's case but, again, it's
18 beyond the scope of this witness's testimony. And the
19 fact that we may have touched on that subject in
20 response to a data request I don't think opens up our
21 testimony broader than it is.

22 JUDGE SCHAEER: Is there something you can
23 make reference to in Mr. Miernyk's testimony, Mr.
24 Manifold?

25 MR. MANIFOLD: Just a moment. No.

1 JUDGE SCHAER: Then I'm going to sustain
2 the objections. Please move on.

3 Q. On page 9 of your testimony you suggest a
4 surplus of generating capacity. I think that's at
5 line 15.

6 A. Yes.

7 Q. And we asked you about that and you
8 provided what has now been marked Exhibit 194
9 regarding resource in the region?

10 A. That's correct.

11 Q. Is it correct that the Western System
12 Coordinating Council forecasts deal only with peaking
13 capacity and does not indicate the surplus or deficit
14 with respect to energy?

15 A. I believe I provide --

16 Q. Excuse me. I just don't want to mislead
17 you. That was -- the Western System Coordinating
18 Council was in a different data response than the one
19 we've put in.

20 A. That's correct, and can you repeat the
21 question, please.

22 Q. Sure. Let's just take it in one step
23 at a time. In response to another data request you
24 provided us with the Western System Coordinating
25 Council forecasts; is that correct?

1 A. That's correct.

2 Q. And is it correct that those forecasts deal
3 only with peaking capacities and not energy?

4 A. I believe they address both, but for the
5 purposes of assessing surplus and deficit the emphasis
6 is on peaking capacity.

7 Q. Would you agree that in the northwest
8 because of the flexibility of the hydro system to meet
9 peaking demands we have historically focused on energy
10 surpluses and deficits rather than peaking capacity?

11 A. Historically focused on --

12 Q. Well, let me focus that. Would you agree
13 that in Puget's 1995-96 integrated resource plan,
14 which you provided as part of your response to data
15 request No. 61, the entire analysis of load resource
16 balance is on an average energy basis not a peak
17 demand basis?

18 A. Yes.

19 Q. Does Exhibit 194 portray the regional load
20 resource balance as prepared by the Pacific Northwest
21 Utilities Conference Committee often referred to as
22 PNUCC?

23 A. Yes, there are three load resource balance
24 summaries included in that Exhibit T-194.

25 Q. Just to clear up a typo, on the cover sheet

1 it's referred to as 1991, 1995 and 1995. The second
2 reference should be 1996 to be consistent with what's
3 behind it?

4 A. That's correct.

5 Q. And the PNUCC forecast is one which
6 aggregates all of the utility forecasts for the
7 region?

8 A. That's my understanding.

9 Q. Looking at the 1991 PNUCC forecast on the
10 second and third page of the exhibit, do you know when
11 the first years in which -- can you determine in which
12 year the forecasts projected a firm energy deficit of
13 more than 2,000 average megawatts? And I would guide
14 you to 1999-2000.

15 A. Sheet 2 of 4?

16 Q. Yes.

17 A. Your question is do I see that number?

18 Q. Is that the first year in which there was
19 at that time projected a deficit of more than 2,000
20 average megawatts?

21 A. Yes. That appears correct.

22 Q. And as of 1991 for the eight years in
23 between the date of the forecast and the year we just
24 mentioned, it showed no deficit larger than that
25 amount?

1 A. That appears correct.

2 Q. Let's look for a moment at the 1996
3 forecast which is the last one in the packet. Does
4 this one show a projected firm energy deficit of more
5 than 2,000 megawatts in the 1996-97 year?

6 MR. VAN NOSTRAND: Your Honor, I would like
7 to pose an objection and ask how this ties to Mr.
8 Miernyk's testimony in any way.

9 MR. MANIFOLD: Yes.

10 JUDGE SCHAEER: Brief response.

11 MR. MANIFOLD: At page 9 of his testimony,
12 line 15, he says that the low prices result in part
13 from the surplus of generating capacity in the region,
14 and this ties into the, if you will, the final
15 question on this line, which is coming up shortly,
16 which is that I was going to ask him that the current
17 competitive market is not based so much on surplus as
18 much as different marketing arrangements within the
19 region and a different concept by utilities and
20 customers, I guess, about how to use hydro resources
21 and by the price of gas to operate combustion
22 turbines.

23 JUDGE SCHAEER: I will overrule the
24 objection.

25 Q. Can we skip to the bottom line question?

1 A. Sure, can you repeat it.

2 Q. I'm not sure. Would you agree that the
3 current market situation in the northwest is a
4 function of the low price of natural gas and different
5 concepts by utilities about how to market and regard
6 their power supply under average versus critical water
7 conditions?

8 A. My testimony doesn't address that to that
9 sophisticated of a level. At page 9 I list
10 approximately four factors that, in my view, were
11 causes, if you will, for the low prices, and I would
12 note that applicant witness Sonstelie agreed that
13 these were all relevant factors as well and that is at
14 transcript page 339 and 40.

15 Q. Are you going to refer a question to them?
16 What I'm really just trying to get at is that based
17 upon these PNUCC forecasts it doesn't look like
18 there's a surplus of generating capacity, and so I was
19 really getting to the point of shouldn't that one at
20 least be considered for elimination from your list of
21 factors?

22 A. Well, when I look at the '96 forecast I see
23 a January peak deficit in the year 1999 through 2000.

24 MR. MANIFOLD: May I have just a moment? I
25 may be done but I'm not sure.

1 Q. I just have one line left of questions. On
2 page 11 of your testimony at line 2, continuation from
3 the previous page obviously, you say it's appropriate
4 to address those resource acquisitions in this
5 proceeding, referring to the PURPA contracts. Is that
6 correct?

7 A. Yes.

8 Q. And what is staff's recommendation on how
9 to address those resource acquisitions in this
10 proceeding?

11 A. In public counsel data request 63 I tried
12 to clarify what was intended by that statement and the
13 staff case does not propose that the Commission's
14 decision in that docket be reopened and re-examined.
15 The scope of my testimony on that subject was intended
16 to highlight that the power cost increases associated
17 with those contracts, in addition to the current
18 embedded production costs for large use customers,
19 contribute to Puget's recent special contracts and
20 schedule 48. And I also point out that those in turn
21 contribute to the lost revenues and in the sense that
22 the staff case captured the cost pressures from the
23 lost revenues we were unable to propose a greater
24 level of rate reductions for remaining customers.

25 MR. MANIFOLD: No further questions. Thank

1 you.

2 JUDGE SCHAER: Mr. Finklea, did you have
3 questions?

4 MR. FINKLEA: No questions.

5 JUDGE SCHAER: Mr. Frederickson?

6 MR. FREDERICKSON: No questions.

7 JUDGE SCHAER: Mr. MacIver?

8 MR. MACIVER: Just a few.

9

10 CROSS-EXAMINATION

11 BY MR. MACIVER:

12 Q. Mr. Miernyk, in response to Mr. Manifold's
13 questions about whether or not you did a company by
14 company bypass study, if you will, of those companies
15 for industrial customers who would qualify for
16 schedule 48, did the investigation that you conducted
17 and the materials and statements submitted in
18 schedule 48 proceeding in fact satisfy you that large
19 use customers of Puget have the economic means and
20 economic incentives to bypass Puget absent a rate
21 arrangement such as schedule 48?

22 A. Yes.

23 Q. Which would be most harmful to Puget
24 customers? The bypass of Puget by a large industrial
25 customer or the bypass of Puget by any given

1 residential customer?

2 A. I assume it's a hypothetical question.

3 Q. Yes.

4 A. In a general sense which is more harmful?

5 Q. Yes, to the remaining customers of Puget.

6 A. Well, assuming the large customer provides
7 a greater contribution to fixed costs then, again,
8 intuitively I would say the large customer would
9 provide a greater harm.

10 Q. When you say -- use the term uneconomic
11 rate, do you include -- do you intend to cover the
12 situation when you use that term where the existing
13 Puget rate is uneconomic as compared to market rates
14 available to that customer?

15 MR. CEDARBAUM: Just by clarification, can
16 you point where in the testimony that term is used
17 just so we're in the right context.

18 Q. I believe on page 9 of your testimony you
19 used the word "perceived" by industrial customers to
20 be an uneconomic rate.

21 A. Yes. In general I am referring to the
22 comparison of Puget's current tariff rate with a
23 competitive market price.

24 Q. Which would be more harmful to other Puget
25 customers? A large -- number one, a large customer

1 bypasses Puget and leaves the system, or two, a large
2 customer stays with the system but at a lower rate
3 such as a schedule 48 rate?

4 A. I believe to answer that there would have
5 to be a number of other factors presented but, again,
6 intuitively it's better to retain a large customer and
7 keep their contribution to fixed costs than it is to
8 lose a large customer and lose that contribution of
9 fixed costs in a general sense.

10 Q. Right. And so in a general sense if
11 schedule 48 succeeds in incenting large industrial
12 customers to stay with Puget, the other customers are
13 in fact better off than they would be or are better
14 off with schedule 48 rates than they would be without
15 schedule 48 rates. Is not that true?

16 A. I would say that's true, and the
17 Commission's approval of the schedule 48 rate appears
18 consistent with that.

19 Q. Just one final question or two on a pilot
20 program. Do you have an opinion as to whether
21 residential customers would be willing to shift to
22 market rates if they had to bear the risk of variable
23 market prices?

24 MR. CEDARBAUM: Your Honor, I guess I will
25 object. As before, this seems beyond the scope of

1 this witness's testimony, and I think Mr. MacIver even
2 joined in one of those objections so I'm not quite
3 sure why he's asking this.

4 MR. MACIVER: I'm asking the question
5 because Mr. Manifold asked whether or not residential
6 customers -- due to the variance between the
7 residential rates of Puget being above average rates
8 of other utilities and industrial customers' rates
9 being above average rates for the utilities he asked
10 Mr. Miernyk whether or not residential customers would
11 go to, I believe, a pilot program to achieve savings
12 at lower rates, and my question is a follow-up on that
13 question. Maybe I've worded it incorrectly earlier,
14 Mr. Cedarbaum.

15 Q. Would residential customers, in your
16 opinion --

17 JUDGE SCHAEER: Let me go ahead and rule. I
18 think that question was asked and answered and I think
19 that the way the question was asked as to whether or
20 not he's formed an opinion is one he can answer and if
21 he hasn't then you will have to live with that also.
22 So go ahead and answer the question that was put to
23 you.

24 A. I haven't formed an opinion on that at this
25 time. We're hoping to explore some of those questions

1 in the pilot and in the collaborative process that
2 will be utilized to frame the pilot.

3 Q. So you don't have an opinion whether they
4 would or would not either way -- "they" being
5 residential customers -- move to a market rate if they
6 had to assume the risk of variable prices?

7 A. I don't know if the answer -- my answer is
8 not that I don't have an opinion but those are the
9 very types of questions that we're hoping to tee up
10 and address in the pilot.

11 MR. MACIVER: No further questions, Your
12 Honor.

13 JUDGE SCHAER: Ms. Smith, do you have
14 questions for this witness?

15 MS. SMITH: I have no questions.

16 JUDGE SCHAER: Mr. Freedman?

17 MR. FREEDMAN: I have no questions, Your
18 Honor.

19 JUDGE SCHAER: Mr. Merkel.

20 MR. MERKEL: Just a few.

21

22 CROSS-EXAMINATION

23 BY MR. MERKEL:

24 Q. Mr. Miernyk, I'm Joe Merkel appearing for
25 the Washington PUD Association. You've testified that

1 Puget has the highest rates in the region; is that
2 correct?

3 A. That's correct.

4 Q. And you've testified, I think there were
5 earlier questions on this, that these high rates are
6 across customer classes affecting residential,
7 industrial, commercial; is that correct?

8 A. Actually, my testimony does provide only
9 examples of residential and industrial, but I
10 certainly would agree that for commercial that is the
11 case as well.

12 Q. Does the table 1 at page 7 suggest that
13 they have high production costs across the entire
14 spectrum of customer classes?

15 A. Table 1 provides costs of production
16 embedded in rates by class, and assuming that
17 production costs are the biggest component of rates,
18 then, yes, I would answer your question yes.

19 Q. Now, as I understand your testimony, it is
20 that certain PURPA contracts entered into by Puget are
21 a chief major cause of their high rates with regard --
22 comparative to other utilities in the region?

23 A. My testimony refers to the PURPA contract
24 price increases as causing upward pressure on rates
25 and are the chief cause for large use customers'

1 pursuit of special rates.

2 Q. Were these PURPA contracts limited to --
3 the power purchased under these PURPA contracts
4 limited to large use customers or were they purchased
5 for the entire load that Puget serves?

6 A. To the best of my knowledge they were
7 purchased for the entire load.

8 Q. Were these contracts voluntarily entered
9 into, to your knowledge?

10 A. Voluntarily entered into?

11 Q. Let me rephrase it. Was it a management
12 decision by Puget to enter into these contracts, as
13 far as you're aware?

14 A. Yes, as far as I'm aware.

15 Q. You state at the top of page 9 that Puget
16 has estimated the average monthly regional nonfirm
17 rates are not expected to rise above 20 mills per
18 kilowatt hour in any month through 2001; is that
19 correct?

20 A. Yes. That statement is based upon my
21 Exhibit JWM-2, which is Exhibit T-193.

22 Q. I believe you go on to state that to the
23 extent the terms and conditions of the PURPA contracts
24 -- that the terms and conditions of the PURPA
25 contracts in effect limit the company's ability to

1 utilize these low rates that are available for power
2 supply?

3 A. I'm not sure if I would phrase it that way,
4 but my statement at page 9 at the bottom in essence
5 relies upon my understanding that the fact that these
6 are take-and-pay contracts and there is limited
7 displacement opportunity, therefore, core customers
8 have little opportunity to achieve lower rates from
9 accessing market prices.

10 Q. Well, is it -- I'm not sure that I
11 understood whether you answered that the PURPA
12 contracts in effect did limit Puget's flexibility to
13 access these other lower costs sources of power? Was
14 the answer to that yes?

15 A. My understanding of the nature of those
16 contracts caused me to believe that the answer to the
17 question is yes.

18 Q. Well, isn't the fact that Puget has higher
19 rates than all other utilities in the region somewhat
20 of a self-inflicted wound?

21 A. Can you explain to me what you mean by that
22 question, self-inflicted wound?

23 Q. Well, referring back to the previous
24 question. If the inability to access lower cost power
25 which would reduce their rates was a management

1 decision, and that decision limited their flexibility
2 to access current power markets in the range of 20
3 mills for the next five years, wasn't that decision in
4 effect -- when I call it a self-inflicted wound, a
5 management decision that was voluntarily entered into
6 which prevented them from accessing these more
7 favorable power costs? I simply mean, wasn't this a
8 voluntary decision which they entered into and any
9 lost resulting from the inability to access these more
10 favorable markets is as a result of their own
11 decision?

12 A. My testimony -- in my opinion my testimony
13 is fairly explicit on the point, and I wasn't
14 intending to go much further beyond the point that's
15 included in my testimony at page 9 at the bottom lines
16 17 through 19.

17 Q. We'll move on from that. I would ask you
18 to refer to the Exhibit 195. I would, by way of
19 explanation, explain to you that I have created this
20 table by taking the cost or rate data that is included
21 in your exhibit JWM-1 and in summary form placed it in
22 this table. Have you had a chance to look at the
23 exhibit?

24 A. Yes.

25 Q. As far as you can tell and subject to

1 check, does it accurately reflect the information
2 contained in your exhibit?

3 A. Before answering, I would ask if the
4 last two columns are intended to be averages.

5 Q. Yes. Those were --

6 A. Regional averages.

7 Q. -- regional averages.

8 A. Then the answer to your question is yes.

9 MR. MERKEL: I would note for the record
10 that in the reference to the schedule 90 in the
11 residential that is an error. It is actually schedule
12 7.

13 Q. Now, doesn't this data show that in general
14 the rates of the regional investor-owned utilities
15 with the sole exception of Puget are roughly
16 comparable and competitive with the rates of
17 government-owned utilities?

18 A. Can you repeat the question, please.

19 Q. Does this data show that in general the
20 rates of regional investor-owned utilities with the
21 sole exception of Puget are comparable and competitive
22 with the rates of government-owned utilities? By that
23 I mean if you look at the -- if you compare columns 4
24 and 5, those rates, which are the IOU rates and the
25 government-owned utility rates, are quite comparable,

1 some a little higher on the IOU side, some a little
2 lower, varies from customer to customer, but in some
3 instances the IOUs are lower than the government-owned
4 utilities, in some instances they're higher, on
5 average they're comparable?

6 A. Many of these rate examples for IOUs are
7 comparable with government-owned utilities. I
8 wouldn't say all of them. Many of them.

9 Q. In some instances the IOU rates are lower,
10 aren't they?

11 A. I see an instance -- I see a couple of
12 instances, yes.

13 Q. Would you say that in all instances the IOU
14 rates are closer to the government-owned utility rates
15 than they are to Puget rates?

16 MR. CEDARBAUM: Your Honor, I will object.
17 We can all look at the numbers and come to our own
18 conclusions about whether it's close or not, so I
19 think the exhibit speaks for itself.

20 JUDGE SCHAEER: I'm not comfortable going
21 much farther with this without you offering this
22 exhibit, Mr. Merkel, for identification.

23 MR. MERKEL: I would offer this exhibit.

24 JUDGE SCHAEER: And seeing if it's going to
25 be part of the record to begin with. Is there any

1 objection?

2 MR. CEDARBAUM: Your Honor, we haven't had
3 a chance to review it, bottom line, and so I would
4 like you to hold your ruling in abeyance or enter it
5 subject to your ability to change the numbers if when
6 we review Mr. Miernyk's exhibit we find errors. For
7 example, and I could be completely wrong about this,
8 but there's a footnote in the Puget column for
9 residential, and I just haven't had a chance to check
10 all this out.

11 JUDGE SCHAEER: What was the source for this
12 data again?

13 MR. MERKEL: This is Mr. Miernyk's Exhibit
14 JWM-1, which is explained to be rate data produced in
15 response to public counsel requests for information
16 228, so that I understand these rate comparisons to be
17 data supplied by the company.

18 JUDGE SCHAEER: So this is data applied by
19 the company to public counsel but Mr. Miernyk put it
20 in an exhibit and then you have taken data and
21 extracted it from his exhibit and put it in your
22 exhibit.

23 MR. MERKEL: And summarized it on a one
24 page table.

25 JUDGE SCHAEER: I think it's reasonable to

1 allow this witness to review this before he's asked to
2 be the sponsor of it as being something accurate.

3 MR. MERKEL: I'm more than happy to --

4 JUDGE SCHAEER: Have you shared this with
5 Mr. Miernyk before he went on the stand today so he
6 had a chance to do that?

7 MR. MERKEL: This is the first time he's
8 seen it and I'm more than happy to wait for its -- the
9 ruling on its admission until any checks have been
10 made of its accuracy and if there are any inaccuracies
11 of course change them.

12 MR. CEDARBAUM: It's not just that. I'm
13 just not prepared to do any redirect on it until we've
14 had a chance to review it. I guess what I would
15 suggest is that we just hold -- I don't know how many
16 more questions you have, Mr. Merkel, on other
17 subjects, but I would suggest we hold this one in
18 abeyance, we can check it and come back tomorrow and
19 finish it or later on today.

20 JUDGE SCHAEER: Well, we're going to be
21 taking a recess in about four minutes. Would you see
22 at the end of the recess if that's been sufficient
23 time for you to look at it? I'm not sure it will be
24 or not but I prefer not to have this hanging until
25 tomorrow if we can avoid that, so I'm not going to

1 rule on this at this point, but since those data are
2 already in the record you can already argue what's
3 close and what's far. I don't see any point to
4 continuing to question in any greater detail which
5 ones he thinks are closer and which ones he thinks are
6 not close.

7 MR. MERKEL: That's fine, Your Honor.

8 JUDGE SCHAEER: So if you would move on with
9 that, please.

10 MR. MERKEL: Yes.

11 Q. Now, in your testimony you said that a
12 chief or major cause of the rate disparity between
13 Puget and other regional utilities are the PURPA
14 contracts. With respect to the company's right to
15 purchase federal power from BPA, are you aware of any
16 basis on which Puget is any differently situated than
17 other investor-owned utilities in the northwest?

18 A. Can you direct me to where you're referring
19 to in my testimony, please?

20 Q. Well, your reference to the PURPA costs
21 being a major source of the price discrepancy appears
22 at several points. It appears at page 3. It appears
23 on page 8, lines 14 and 15 where you refer to Mr.
24 Sonsteli's reference to embedded costs. I'm just
25 trying to find out from you whether in addition to the

1 PURPA contracts as a source of a cost problem that the
2 company is differentially situated with regard to its
3 ability to acquire resources from BPA than other
4 investor-owned utilities.

5 A. I don't know the answer to that question.

6 MR. MERKEL: I have no other questions.

7 JUDGE SCHAEER: Let's take our
8 afternoon recess at this time. Let's be off the
9 record and return at 3:45 and we'll take the questions
10 from Commissioners and the bench for Mr. Miernyk.

11 (Recess.)

12 JUDGE SCHAEER: Let's be back on the record
13 after our afternoon recess. Were you able to resolve
14 anything regarding what's been marked for
15 identification as Exhibit 195 over the recess, Mr.
16 Cedarbaum?

17 MR. CEDARBAUM: Yes, Your Honor. Mr.
18 Miernyk just now completed a review of cross-checking
19 the numbers off the Exhibit 195 to Exhibit 192 and
20 they appear to be an accurate portrayal of those
21 rates. We will have redirect on the exhibit. I
22 should point out just a typographical error which I
23 think we found. If you look on the schedule column
24 for physician's office and printer those should both
25 be schedule 24 and not schedule 25.

1 JUDGE SCHAER: So we previously had a
2 correction to the first line to make it schedule 7 and
3 then the next two should be 24 instead of 25; is that
4 correct?

5 MR. CEDARBAUM: I believe that's right.

6 JUDGE SCHAER: Mr. Merkel, did you want to
7 reoffer this exhibit then?

8 MR. MERKEL: Yes. I would offer Exhibit
9 No. 195.

10 MR. CEDARBAUM: I have no objection.

11 JUDGE SCHAER: That document is admitted.
12 (Admitted Exhibit 195.)

13 JUDGE SCHAER: Commissioners, did you have
14 any questions for Mr. Miernyk?

15 COMMISSIONER HEMSTAD: I don't.

16 COMMISSIONER GILLIS: I don't have any.

17

18 EXAMINATION

19 BY JUDGE SCHAER:

20 Q. Mr. Miernyk, looking at page 3 of your
21 testimony, on lines 3 and 4 you state that under
22 applicant's rate plan customers other than schedule 48
23 customers would not have opportunities to take service
24 at rates less than current tariffed rates; is that
25 correct?

1 A. That's correct.

2 Q. Isn't it true that the applicant's rate
3 plan has the opportunity to design electric rates to
4 meet individual customer needs?

5 A. Yes. I believe that's a carve-out in the
6 applicant's rate plan.

7 Q. And couldn't this result in tariffs similar
8 to schedule 48 for other customers?

9 A. Yes, that could.

10 Q. And the applicants have not limited their
11 request for a carve-out to large customers, have they?

12 A. No, they have not.

13 Q. Beginning on page 6 of your testimony, you
14 describe rates associated with Puget's embedded power
15 costs; is that correct?

16 A. Yes.

17 Q. Can you describe some of the fundamental
18 differences between power at embedded costs and what
19 is being called market power? And in particular I'm
20 looking for a discussion of the price risk associated
21 with each.

22 A. Well, in general these costs that I include
23 for production in table 1 are generally based on firm
24 resources acquired on a long-term basis to serve all
25 customers, and in the sense that I refer to market

1 prices or competitive prices in other portions of my
2 testimony I'm referring to a short run or an index
3 type price.

4 Q. And are there differences in the price risk
5 associated with embedded costs as opposed to market
6 costs?

7 A. Yes.

8 Q. What are those, please.

9 A. I guess in general the fact that the
10 embedded production costs, as I include in table 1
11 are, as I noted, a long-term acquisition. There are
12 different risks associated with that. There are costs
13 of capital that may be different than the short run
14 reference and there may be other items, other items
15 related to incremental costs. In the sense that I
16 point out a couple of, I believe, four initiatives
17 that have resulted in a broader or greater
18 availability of market prices that could also have an
19 effect.

20 Q. Looking at your table 1 on page 7, is there
21 something on the record in this case that shows us how
22 these figures were derived?

23 A. Again, the reference, please?

24 Q. Table 1 on page 7.

25 A. The derivation of this was included in

1 response to a public counsel data request and to the
2 best of my knowledge that hasn't been entered into the
3 record. There's a source note at page 7, line 17,
4 which indicates that those prices were determined from
5 Puget Power's response to public counsel data request
6 221 in the Intel docket.

7 MS. SCHAER: As bench request 5, would you
8 please provide us with a copy of that data request
9 response, and I would like to provide that response
10 as Exhibit No. 196 and admit it to the record at this
11 point. Is there any problem with that with any party?

12 (Marked and Admitted Exhibit 196.)

13 MR. CEDARBAUM: We'll have copies tomorrow.

14 Q. On page 9 of your testimony beginning on
15 line 17 you state that the company has limited ability
16 to take advantage of low wholesale spot market prices;
17 is that correct?

18 A. That's correct.

19 Q. Are you aware to what extent if any Puget
20 uses the spot market now?

21 A. Well, am I aware of the level of spot
22 market sales and purchases the company makes?

23 Q. If you would like to define it that way
24 that would be fine.

25 A. I recall a forecast for power costs that is

1 a portion of an exhibit in this docket or in this
2 proceeding that includes some forecasts secondary
3 purchases and sales. I might be able to find that and
4 I could reference that, if you would like.

5 Q. Well, do you have any kind of just general
6 sense of how much of their power is spot market
7 purchases or would you need to look at that in
8 response?

9 A. The statement in my testimony is based upon
10 my understanding that these contracts are of a
11 take-and-pay nature. Therefore, there's a limited
12 displacement opportunity. In essence there are
13 limited opportunities for the company to not purchase
14 under those contracts and instead purchase at spot
15 market prices. Now, with respect to your question of
16 what evidence I have on the level of secondary market
17 activity, there is a data request that shows some
18 forecasts and I could find that. I don't feel like I
19 can say comfortably a particular quantity.

20 Q. And is that response part of the record?

21 A. Yes, it is.

22 Q. Would you give me that exhibit reference
23 then?

24 A. Yes, I can get that. Would you like it
25 now?

1 Q. Please.

2 A. Number that I was referring to is included
3 in the work papers that I have marked as Exhibit T-66
4 and it would be at work paper page 4.

5 Q. You're saying that those work papers have
6 been admitted as an exhibit in this case; is that
7 correct?

8 A. That's correct. I have it marked as T-66.

9 MR. CEDARBAUM: Your Honor, I think it's
10 exhibit -- I think what the witness is looking at is
11 Exhibit 66, which was the company's response to ICNU's
12 data request 65, and if you look about six pages back
13 there's a handwritten 4 at the top. Under table 5
14 there's a line for secondary sales. Is that what
15 you're looking at?

16 THE WITNESS: Yes.

17 JUDGE SCHAEER: Thank you, Counsel.

18 Q. While you've got that open, do you know
19 what percentage of power needs are met by market
20 purchases in a typical or average water year?

21 A. No.

22 Q. On page 11 of your testimony, at line 11,
23 beginning at line 11, you describe the impact of
24 Puget's special rates for large customers on its rate
25 plan for all electric customers. You testify that

1 nonschedule 48 customers will be worse off under the
2 applicant's rate plan due to lost revenue; is that
3 correct?

4 A. That's correct.

5 Q. And have you or any other staff member
6 calculated the effect on remaining customers if
7 schedule 48 customers were to leave Puget's system
8 entirely?

9 A. No.

10 JUDGE SCHAEER: Thank you. That's all I
11 had. Is there any redirect, Mr. Cedarbaum?

12 MR. CEDARBAUM: Yes.

13

14 REDIRECT EXAMINATION

15 BY MR. CEDARBAUM:

16 Q. Mr. Miernyk, let's start off with Exhibit
17 195 and if you could also have out in front of you
18 Exhibit 192, which is your JWM-1.

19 A. I've got them.

20 Q. And staying in Exhibit 192, appendix B are
21 the pages from which Exhibit 195 was derived, is that
22 right, the rates off of appendix B?

23 A. It would be both appendix A and appendix B.
24 Appendix A is a single page sheet with residential
25 rates.

1 Q. Let's stay in appendix B for purposes of my
2 questioning. So, for example, if we were to look at
3 appendix B schedule 24 for physician's office, the
4 6.59 for Puget is shown at the top of the page; is
5 that right?

6 A. That's correct.

7 Q. And that's reflected in Exhibit 195 for
8 that particular column?

9 A. That's correct.

10 Q. Is it also correct that the amounts for
11 government-owned utilities, Exhibit 195, come off of
12 what is shown for each for the pages in appendix B of
13 your Exhibit 192 under the section for the government-
14 owned utilities?

15 A. That's correct.

16 Q. Is it correct that what is shown in the
17 column for government-owned utilities on 195 is
18 basically a simple average of all of the government-
19 owned utilities that you show in your exhibit?

20 A. Yes.

21 Q. So it would include all of the small
22 government-owned utilities that are listed there, for
23 example, Mason County versus the much larger ones such
24 as Snohomish PUD, Tacoma City Light and Seattle City
25 Light; is that right?

1 A. Yes.

2 Q. If we were to recast Exhibit 195 just to
3 include the three large government-owned utilities of
4 Snohomish PUD, Tacoma and Seattle -- let me ask you
5 this. First of all, on appendix B, staying again on
6 the schedule 24, physician office page, the average
7 big three government-owned utilities, which is toward
8 the bottom, would include Snohomish PUD, Seattle, and
9 Tacoma; is that right?

10 A. That's my understanding.

11 Q. And so if we were to recast Exhibit 195,
12 the last column, only to include the three big
13 government-owned utilities off of Exhibit 192, what
14 would that do to the amounts in the column on Exhibit
15 195?

16 A. It would generally make those smaller.

17 Q. So, for example, we would replace what's
18 shown as four cents -- 4.94 cents per kilowatt hour on
19 Exhibit 195 for physician's office with 4.33 cents per
20 kilowatt hour; is that right?

21 A. That's right.

22 Q. And likewise we could do that for each of
23 the schedules shown in Exhibit 195?

24 A. Yes.

25 Q. Looking at the total up on Exhibit 195 for

1 IOUs, the second one in from the right?

2 A. Yes.

3 Q. Is it correct that the 5.29 cents per
4 kilowatt hour amount shown for residential includes
5 Puget Power?

6 A. Are we referring to residential or the
7 physician's office example?

8 Q. I'm sorry. I'm at the residential. The
9 5.29 cents per kilowatt hour figure for residential
10 IOUs includes Puget?

11 A. That's correct.

12 Q. Is it also correct that all of the
13 remaining numbers in that column exclude Puget?

14 A. That's correct.

15 Q. If we were to recast the IOU column to
16 include Puget for all of those numbers what would the
17 effect on those numbers be?

18 A. Generally they would become larger.

19 Q. Let's turn away from those exhibits. I
20 just have a few questions going back to what Mr. Van
21 Nostrand was asking you about. He asked you some
22 questions about the staff -- excuse me, the Commission
23 order disallowance from the prudence review. Do you
24 recall that?

25 A. Yes.

1 Q. Did the staff consider in any way in its
2 rate plan in this proceeding the specific disallowance
3 that the Commission ordered from the prudence review?

4 A. No.

5 Q. They are separate matters?

6 A. Yes.

7 Q. He also asked you some questions with
8 respect to a hypothetical that went as follows: He
9 asked you to assume that the company was not able to
10 achieve all of the power stretch savings that staff
11 has reflected in its rate plan, and whether or not
12 everything else being -- staying the same,
13 shareholders would be burdened for more than the \$17.8
14 million that you're referencing in your testimony. Do
15 you recall that?

16 A. Yes.

17 Q. And is the answer to his question yes or no
18 that they would be burdened? Let me ask it again.
19 Would shareholders be burdened with more than the
20 \$17.8 million referenced in your testimony for power
21 stretch savings dollars that are not achieved?

22 A. Yes.

23 Q. And if more than the estimate of the power
24 stretch savings are achieved, what is the impact on
25 shareholders?

1 A. Less of an impact.

2 Q. So they would be benefited by that?

3 A. They would benefit.

4 Q. To the extent that more power stretch
5 savings are achieved would the returns on equity that
6 Dr. Lurito has calculated increase?

7 A. Yes.

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

10 JUDGE SCHAEER: Is there anything further
11 for this witness?

12 MR. MANIFOLD: Just a couple of questions,
13 Your Honor, if it's my turn.

14 JUDGE SCHAEER: Anything from the company?

15 MR. VAN NOSTRAND: No.

16 JUDGE SCHAEER: Go ahead, Mr. Manifold.

17

18 RE-CROSS-EXAMINATION

19 BY MR. MANIFOLD:

20 Q. Just a couple of questions to follow up on
21 questions that you were asked by Mr. MacIver and by
22 the bench. Have you done any analysis of what would
23 happen to core customer rates if the schedule 48
24 eligible customers were to leave Puget's system, in
25 particular including what regulatory response there

1 might be to excess capacity or what sort of fees those
2 customers might have to pay on leaving such as exit
3 fees or FERC imposed fees?

4 A. No, I haven't done a study to that level.

5 Q. In order to make an assessment of whether
6 other customers would be worse off or better off or
7 just the same if any particular customer left the
8 system, one would have to analyze a number of things
9 such as that, including what contributions each
10 customer was making to the fixed overhead costs and
11 whether there were other alternatives for using those
12 facilities and similar questions?

13 A. Sure.

14 Q. To your knowledge, has anybody done that on
15 this record?

16 A. No.

17 Q. Is the document that you will be providing
18 in response to the bench request that was just made
19 and which was marked as Exhibit -- or designated as
20 Exhibit 196, is that the staff request to public
21 counsel data request No. 158?

22 A. You mean the staff response?

23 Q. I do.

24 A. Yes. That also includes a cost of service
25 which supports the calculation of the production

1 costs.

2 Q. That included within that is the Puget's
3 response to public counsel data request No. 220 in the
4 Intel contract proceeding?

5 A. That's correct.

6 MR. CEDARBAUM: While we're on it, can I
7 ask a clarifying question? My understanding of the
8 bench request was that we were supposed to provide the
9 company's response to public counsel data request 221
10 from the Intel docket, and we can do that, and Mr.
11 Manifold's asking about a data request response in
12 this case that includes the Intel data request
13 response but more, and we can provide that too. I
14 just don't know what I'm supposed to provide.

15 JUDGE SCHAEER: What you're supposed to
16 provide is numbers that show us how the figure
17 included in table 1 on page 7 were derived, so if
18 those figures were derived from just the source shown
19 here, which is the Puget response to the public
20 counsel data request 221, then that would be all that
21 you would provide. If Mr. Miernyk has used some data
22 from some other source to modify those numbers to get
23 to these numbers, we want to be able to see how these
24 numbers were derived and so that's what you need to
25 provide to us.

1 MR. CEDARBAUM: I was just trying to clear
2 up my own confusion on what was supposed to be in that
3 exhibit. Thank you.

4 JUDGE SCHAEER: Thank you.

5 Q. First of all, would you accept subject to
6 your check that it was public counsel data request No.
7 220 not No. 221?

8 A. I thought it was 221. I can confirm that
9 if you would like.

10 Q. Sure.

11 A. You're right. It's 220.

12 Q. Does 220 show that the revenue for the high
13 voltage service class, their contribution to the
14 company's revenue requirement is at 88 percent of the
15 cost of service? My copy doesn't have page numbers or
16 I would refer you to it. It seems to be behind
17 something called appendix A.

18 JUDGE SCHAEER: Mr. Manifold, let me ask if
19 the numbers you're talking about now are numbers that
20 go into deriving what's shown in table 1.

21 MR. MANIFOLD: If I knew the answer to that
22 I would certainly answer it. I don't know. It's part
23 of the document.

24 JUDGE SCHAEER: I don't want to open this up
25 to a fishing expedition.

1 MR. MANIFOLD: Sure. That was my only
2 question, and I can just ask him to accept that
3 subject to check. That's my only question about the
4 number.

5 Q. That sort of number is the sort of thing --
6 Mr. Miernyk, that sort of calculation or data is the
7 sort of thing one would need to look at to determine
8 whether a customer leaving the system was better or
9 worse for other customers. That would be one of the
10 inputs to that calculation?

11 A. I would agree that could be one of them.

12 MR. MANIFOLD: Thank you.

13 JUDGE SCHAEER: Is there anything further
14 for this witness? Mr. Merkel.

15 MR. MACIVER: I have a question.

16 JUDGE SCHAEER: Okay, Mr. MacIver.

17

18 REXCROSS-EXAMINATION

19 BY MR. MACIVER:

20 Q. Mr. Miernyk, Mr. Manifold asked you a
21 question as to whether or not you had gone through the
22 very detailed and specific exercise to determine the
23 exact impact on core rates in the event schedule 48
24 customers left. Do you recall that question?

25 A. Yes.

1 Q. And of course you hadn't done that and
2 didn't know the specific impacts; is that correct?

3 A. That's correct.

4 Q. You do know, however, though, that schedule
5 48 customers do contribute to the fixed costs, do you
6 not?

7 A. Yes.

8 Q. And it is your opinion, is it not, that if
9 48 customers bypass the system and were not covering
10 those fixed costs that would have an adverse impact on
11 the remaining customers. Is not that true?

12 MR. MANIFOLD: Objection. The witness has
13 shown no basis for that conclusion. He's already
14 stated that he hasn't done a study on that.

15 JUDGE SCHAEER: I'm going to overrule the
16 objection and allow the witness to give us his
17 understanding.

18 Q. Would you please answer the question, Mr.
19 Miernyk?

20 A. Could you repeat the question.

21 Q. Yes. In acknowledging that schedule 48
22 customers do contribute to the fixed costs of Puget,
23 is it not your opinion, then, that if 48 customers
24 left, bypassed the system and were no longer
25 contributing to the fixed costs of Puget that that

1 would in fact have an adverse impact on the remaining
2 customer base?

3 A. In general, yes.

4 JUDGE SCHAER: Mr. Merkel.

5 MR. MERKEL: A few follow-up questions to
6 the questions asked by Mr. Cedarbaum.

7

8 RE CROSS-EXAMINATION

9 BY MR. MERKLEL:

10 Q. He asked you, I believe, if the column
11 identified IOU, cents per kilowatt hour in the top
12 entry under residential, you indicated that the 5.29
13 includes Puget?

14 A. Are you asking -- can you repeat the
15 question, please.

16 Q. Yes. I believe Mr. Cedarbaum asked you
17 whether the 5.29 cents that appears in the column
18 under IOU cents per kilowatt hour for residential
19 service, he asked you whether that 5.29 average
20 included Puget and you said yes. Is that correct?

21 A. Yes.

22 Q. If you took Puget out of that number
23 wouldn't the 5.29 go down? Since Puget has 5.94 and
24 the average is lower than 5.94, wouldn't it have to go
25 down?

1 A. Yes.

2 Q. Now, if you looked at the average for the
3 so-called big three utilities, Seattle, Tacoma, and
4 Snohomish, isn't it correct that Seattle and Tacoma,
5 particularly Seattle, both have -- excuse me, Seattle
6 Tacoma, particularly Seattle, has a lot of its own
7 hydro power or do you know the answer to that?

8 A. I don't know the answer to that.

9 Q. If it did have its own hydro power would
10 that -- could that lower the cost, its average cost,
11 based on the fact that it had its own resources that
12 were very low cost and purchased at an earlier time or
13 built at an earlier time?

14 A. Are you asking if it could lower it lower
15 than the rates I'm showing in this exhibit?

16 Q. Wouldn't the fact, if Seattle had a
17 substantial amount of its own hydro power at a very
18 low embedded cost, wouldn't that contribute to
19 Seattle's low rates?

20 A. I suppose, yes.

21 Q. If you could look at schedule 49, this page
22 in your exhibit, do you see Idaho Power under
23 investor-owned utilities?

24 A. There's two 49s. I believe there's a
25 manufacturer and university.

1 Q. Manufacturer, the last one.

2 A. Yes, I see that.

3 Q. And is that rate lower than Seattle's or,
4 excuse me, lower than the average of the big three?

5 A. Yes.

6 Q. Do you know why it's lower?

7 A. No.

8 Q. If you look at the big three, Tacoma,
9 Seattle, and Snohomish in that schedule, do they range
10 from 2.63 to 3.96 for manufacturer service?

11 A. Yes. It appears that that's the correct
12 range.

13 Q. And among the investor-owned utilities the
14 range is from 2.55 to 4.08?

15 A. That's correct.

16 Q. Would you say that the difference between
17 those two categories of utilities for this type of
18 service is roughly -- the range between the high and
19 low is roughly comparable?

20 MR. CEDARBAUM: Your Honor, I guess I will
21 object to this question. The numbers again are on the
22 exhibit. They can speak for themselves. We went over
23 this before when we were asking about something close
24 or not. Seems to me to be the same type of questions
25 so --

1 MR. MERKEL: I will withdraw it.

2 JUDGE SCHAEER: I'm going to sustain the
3 objection.

4 Q. In constructing the table, did you take
5 account or do any study of whether utilities' rates
6 for a particular class of service involved any
7 subsidization?

8 MR. CEDARBAUM: Your Honor, I will object.
9 The witness did not construct either table on 192 or
10 the table on 195.

11 MR. MERKEL: I simply asked him --

12 JUDGE SCHAEER: I'm going to sustain that
13 objection also. The record reflects this is not
14 something constructed by this witness.

15 MR. MERKEL: Okay.

16 Q. Would you say that the allocation of costs
17 among customer classes has something to do with the
18 level of rates for any particular class?

19 JUDGE SCHAEER: Mr. Merkel, I think you're
20 getting far beyond redirect at this point.

21 MR. MERKEL: I just had one other question
22 which pertained to page 5 of his testimony.

23 JUDGE SCHAEER: Is this something that he
24 was asked about --

25 MR. MERKEL: Something I left out the first

1 time around, if I could be indulged to ask it.

2 JUDGE SCHAEER: You can have one indulgence
3 today.

4 Q. On line 16 you refer to 65 customer sites
5 as being eligible for service under schedule 48; is
6 that correct?

7 A. That's correct.

8 Q. Are these existing customers of Puget?

9 A. Yes.

10 Q. Was schedule -- does schedule 48
11 contemplate or allow Puget to offer service under that
12 schedule to customers that are not existing customers?

13 A. It's possible that a new customer could
14 take service under schedule 48.

15 Q. Is it possible that an existing customer of
16 another utility could take service under schedule 48?

17 A. I don't know.

18 Q. When schedule 48 was constructed was it
19 contemplated -- when the staff recommendation was
20 constructed was it contemplated that it could be used
21 for new loads or existing loads of other utilities?

22 MR. CEDARBAUM: Objection, asked and
23 answered. He just said he didn't know.

24 JUDGE SCHAEER: I also think we're going
25 quite a bit beyond the one question.

1 MR. MERKEL: That would be my last question
2 if he could answer it.

3 JUDGE SCHAER: Do you know what the company
4 did when it constructed this in that arena?

5 A. I can tell you what the staff's thought was
6 on that if that's what you would like.

7 Q. That's what I was asking, yeah.

8 A. In general staff views schedule 48 as a
9 tool to allow Puget to keep existing customers that
10 may have competitive -- that have competitive
11 alternatives.

12 JUDGE SCHAER: Is there anything further
13 for this witness?

14 MR. CEDARBAUM: One question.
15 Mr. Miernyk, Puget owns its own hydro facility,
16 doesn't it?

17 THE WITNESS: Yes.

18 MR. CEDARBAUM: Thank you.

19 JUDGE SCHAER: Is there now anything
20 further for this witness?

21 Thank you for your testimony. Let's go off
22 the record for a very brief moment to allow the next
23 witness to take the stand.

24 (Discussion off the record.)

25 JUDGE SCHAER: Let's be back on the record.

1 Whereupon,

2 FRANK MAGLIETTI,

3 having been first duly sworn, was called as a witness
4 herein and was examined and testified as follows:

5 JUDGE SCHAER: Mr. Maglietti has prefiled
6 testimony which I will mark for identification as
7 Exhibit T-197. He has filed an exhibit which I will
8 -- which is FJM-1, which I will mark for
9 identification as Exhibit 198. In addition there has
10 been distributed a document which states scenario 1 at
11 the top.

12 MR. HARRIS: It's a single page exhibit,
13 Your Honor.

14 JUDGE SCHAER: Document which has scenario
15 1 and scenario 2 on it which I will mark for
16 identification as Exhibit 199. Next single page
17 document which is the staff response to PSE data
18 request No. 19 which I will mark for identification as
19 Exhibit 200. Next is a one page document identified
20 as staff response to PSE data request No. 22. Mark
21 that as 201. Next a single page document titled staff
22 response to PSE data request No. 23. Mark that 202.
23 Next document identified at the top is staff response
24 to PSE data response No. 26, 203.

25 (Discussion off the record.)

1 JUDGE SCHAEER: Let's be back on the record.
2 While we were off the record copies of exhibits were
3 supplied to Commissioners, Mr. Frederickson and the
4 accounting advisor. Then I have a document which is
5 WN U-2 at the top, Washington Natural Gas Company
6 schedule No. 57, and that will be marked as Exhibit
7 204 for identification. Your witness is sworn, Mr.
8 Cedarbaum.

9 (Marked Exhibits T-197 and 198 - 204.)

10 MR. CEDARBAUM: Thank you, Your Honor. I
11 guess I should state for the record that pages 1 and 2
12 of Exhibit 198 for identification should indicate that
13 they were revised on October 29, 1996 and we've
14 previously predistributed those.

15

16 DIRECT EXAMINATION

17 BY MR. CEDARBAUM:

18 Q. Could you please state your name and spell
19 your last name.

20 A. My name is Frank Maglietti, last name M A G
21 L I E T T I.

22 Q. Mr. Maglietti, you're employed by the
23 Commission as a utilities rate research specialist?

24 A. Yes, I am.

25 Q. Directing your attention to what's been

1 marked for identification as Exhibit T-197, is this
2 your direct testimony in this proceeding?

3 A. Yes, it is.

4 Q. And this was prepared by you or under your
5 supervision and direction?

6 A. Yes, it was.

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

8 A. Yes, I do. I have one correction. On page
9 10 on line 18, the line reads, "in order for all
10 natural gas customers." After gas insert the words
11 "only and electric only."

12 Q. Maybe you can go ahead and read that
13 sentence just the first line of it.

14 A. "In order for all natural gas only and
15 electric only customers to have the opportunity to
16 receive the same benefits" should be how it reads.

17 Q. With that correction is your testimony true
18 and correct to the best of your knowledge and belief?

19 A. One change that was made was page 7 and I
20 don't believe you told the record that that was
21 revised on the same day to reflect --

22 Q. I'm sorry, I missed that. That's correct.
23 So the copy that should be in the record should
24 indicate that it was revised on October 29, 1996?

25 A. Yes, that's correct.

1 Q. With that then your testimony is true and
2 correct to the best of your knowledge and belief?

3 A. Yes, it is.

4 Q. Directing your attention to Exhibit 198 for
5 identification, is that the exhibit that is referenced
6 in your direct testimony?

7 A. Yes, it is.

8 Q. And Exhibit 198 with the revised pages that
9 I discussed earlier was prepared by you or under your
10 supervision?

11 A. Yes, it was.

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

14 A. Yes, it is.

15 MR. CEDARBAUM: Your Honor, at this time I
16 would offer Exhibits T-197 and Exhibit 198.

17 MR. HARRIS: No objection.

18 JUDGE SCHAEER: Those documents are
19 admitted.

20 (Admitted Exhibits T-197 and 198.)

21 JUDGE SCHAEER: Is the witness available for
22 cross?

23 MR. CEDARBAUM: Yes, he is, I'm sorry.

24 JUDGE SCHAEER: Mr. Harris, do you have
25 questions.

1 MR. HARRIS: Yes, I have questions.

2

3 CROSS-EXAMINATION

4 BY MR. HARRIS:

5 Q. Good afternoon, Mr. Maglietti.

6 A. Good afternoon, Mr. Harris.

7 Q. Could I direct your attention to what's
8 been marked for identification as Exhibit 200?

9 A. Yes.

10 Q. Could you identify that for me, please?

11 A. Yes. It is staff's or my response, excuse
12 me, to PSE data request No. 19.

13 Q. So it was prepared by you and it's complete
14 and accurate?

15 A. Yes, it is.

16 MR. HARRIS: We would offer Exhibit 200.

17 MR. CEDARBAUM: No objection.

18 Q. Direct your attention please --

19 JUDGE SCHAEER: That document is admitted.
20 (Admitted Exhibit 200.)

21 Q. Direct your attention, please, to what's
22 been marked for identification as Exhibit 201.

23 A. Yes.

24 Q. Could you identify that, please?

25 A. Yes. It is my or staff's response to PSE

1 data request No. 22.

2 Q. And was that also prepared by you?

3 A. Yes.

4 Q. Is it complete and accurate?

5 A. I believe so, yes.

6 Q. We would offer what's been marked for
7 identification as Exhibit 201?

8 MR. CEDARBAUM: No objection.

9 JUDGE SCHAEER: That document is admitted.

10 (Admitted Exhibit 201.)

11 Q. Like to direct your attention, please, to
12 what's been marked for identification as Exhibit 202.

13 A. Yes.

14 Q. Would you identify that, please?

15 A. Yes. It is staff's response to PSE data
16 request No. 23.

17 Q. Was that prepared by you?

18 A. Yes, it was.

19 Q. Is it complete and accurate?

20 A. Yes, it is, to the best of my knowledge.

21 MR. HARRIS: We would offer Exhibit 202.

22 MR. CEDARBAUM: No objection.

23 JUDGE SCHAEER: That document is admitted.

24 (Admitted Exhibit 202.)

25 Q. Finally, direct your attention to what's

1 been marked for identification as Exhibit 203.

2 A. Yes.

3 Q. Could you identify that, please.

4 A. Yes. It's staff's response to PSE data
5 request 26 and it was prepared by me and it looks
6 like it was complete.

7 MR. HARRIS: Thank you. We would offer
8 Exhibit 203.

9 MR. CEDARBAUM: No objection.

10 JUDGE SCHAEER: Document is admitted.

11 (Admitted Exhibit 203.)

12 Q. Your testimony, Mr. Maglietti, addresses
13 the issue of transfer pricing, doesn't it?

14 A. With respect to gas costs, yes.

15 Q. When we talk about transfer pricing with
16 respect to gas costs we're talking about prices that
17 will be set for gas used by PSE for generation?

18 A. For electric generation, yes.

19 Q. And Mr. Amen addresses the same subject in
20 his rebuttal testimony, does he not?

21 A. Yes, he does.

22 Q. Have you had an opportunity to review that
23 rebuttal testimony?

24 A. I have reviewed it, yes.

25 Q. Would it be a fair characterization of that

1 rebuttal testimony that it clarifies and further
2 explains your testimony?

3 A. Well, I believe my testimony was clear, but
4 it basically matches my testimony to my belief.

5 Q. You don't disagree with Mr. Amen's
6 testimony on the issue of transfer pricing?

7 A. No, I do not.

8 Q. And I believe that you have prepared a
9 couple of examples that explain how you believe this
10 transfer pricing scheme will work?

11 A. Yes, I have, in conversations with Mr.
12 Amen.

13 Q. Thank you. Turning to what's been marked
14 for identification as Exhibit 199, are these the two
15 examples?

16 A. Yes. These were two of the four scenarios.

17 Q. And these scenarios were prepared by you?

18 A. They were prepared under my supervision,
19 yes.

20 MR. HARRIS: We would offer Exhibit 199.

21 MR. CEDARBAUM: No objection.

22 JUDGE SCHAEER: Document is admitted.

23 (Admitted Exhibit 199.)

24 Q. Like you to step us through these two
25 scenarios and I will start with scenario 1. Starting

1 with the assumptions. Well, first could you explain
2 what the first line means where it says sales customer
3 need all must-take gas and market price guarantee
4 flexible price contracts?

5 A. Yes. Basically let me explain staff's
6 interpretation or my interpretation of my testimony.
7 Staff's belief and interest with respect to the
8 transfer price of gas was to make sure that PSE as a
9 grouped company, to make it possible to have PSE
10 electric buy gas from PSE gas to make sure that they
11 acted as they would in the market.

12 In scenario 1 sales customers need all the
13 must-take gas and if you look below under ID there is
14 three contracts labeled C1, C2 and C3. As you see
15 under the assumption 1 of that scenario there's 24 --
16 it says that PSE gas needs 24,000 MMBTUs of gas for
17 that day. If you look down at the must-takes there
18 are only 20,000 in total at one dollar. In this case
19 PSE gas would use -- in this case PSE imputes 2,000
20 MMBTU at 85 cents.

21 Q. Can I stop you for just a second?

22 A. Sure can.

23 Q. If we could back up just a little bit to
24 the assumption, could you just step us through each of
25 the three assumptions first?

1 A. I'm sorry. I was going a little fast, I
2 guess. The first assumption is that PSE -- I will say
3 PSE gas which is the gas company -- needs 24,000
4 MMBTUs on that day. The second assumption says that
5 PSE electric needs 2,000 MMBTUs for generation. The
6 third assumption says that the market price for gas on
7 that date is 85 cents.

8 Q. Thank you. And then if you could explain
9 the three contracts that are listed below.

10 A. Three contracts below, in my example, the
11 first two contracts are must-take contracts for 10,000
12 each at the price of one dollar. The third contract
13 is a flexible contract that the company does not need
14 to take on that day for 5,000 at 75 cents.

15 Q. So the flexible contract is at a below
16 market price at that time?

17 A. Yes, it is.

18 Q. Under those assumptions and with those
19 contracts, is it true, then, that the 24,000 MMBTUs
20 would be taken from C1, C2 and C3 up to 4,000 of C3?

21 A. Yes.

22 Q. And then under your scenario the company
23 would take the final thousand from C3 and use that for
24 electric generation purposes but at a rate of 85
25 cents instead of 75 cents?

1 A. Which was the market, yes.

2 Q. Which was the market and then go to market
3 for the remaining thousand of need?

4 A. Yes, as it would.

5 Q. Could you explain, then, what in this case
6 PSE imputes? Two thousand MMBTUs at 85 cents, that
7 line there, I think it's self-evident but just to be
8 clear, could you explain that line.

9 A. Yes. In this case since PSE gas or PSE gas
10 only -- sorry. In this case PSE imputes 2,000 MMBTUs
11 at 85 cents. One thousand of those, which is the
12 market -- one thousand of those comes from what is
13 left over as a flexible contract C3 and the PSE pays
14 85 cents but since the gas company bought that gas for
15 75 cents there's an extra 10 cents that would flow
16 back to the gas customers. The other would be what
17 would be purchased on spot at market for 85 cents.

18 Q. And the last line there, sales customers
19 receive value of transportation capacity assuming
20 excess sales transportation capacity. What does that
21 mean?

22 A. Yes. My scenario here is just for the
23 commodity. If there's any upstream transportation
24 that would be extra through the capacity release.

25 Q. If we could turn now to scenario 2. As I

1 read scenario 2 it is identical to scenario 1 with one
2 important change and that is that the market price is
3 60 cents instead of 85 cents so the market price is
4 below the flexible price of C3?

5 A. Yes. That is what scenario 2 says.

6 Q. Could you explain what happens under
7 scenario 2?

8 A. What happens under scenario 2, basically,
9 is the company would not use any of its flexible
10 contract for that date of 75 cents, which is above the
11 market price which they can go out and buy the gas, so
12 therefore all the remaining gas would be -- the
13 company would buy it on the market for 60 cents.

14 Q. So the company would go to market both to
15 complete its gas sales needs and for the entire 2,000
16 MMBTUs needed for generation?

17 A. Yes.

18 Q. And the transfer price used for the
19 generation MMBTUs would be the current market price of
20 60 cents?

21 A. Yes, as my scenario states.

22 Q. Is there anything else that you want to
23 explain about the scenario 2 or have we covered it?

24 A. I believe we've covered it.

25 Q. Is it fair to say that this is one area,

1 however small, where the joint applicants and staff
2 appear to agree?

3 A. Yes, it is.

4 Q. In your testimony on page 5 at lines 16 to
5 17 you discuss or set forth a definition of natural
6 monopoly?

7 A. Yes.

8 Q. Putting aside generation and just looking
9 at transmission and distribution, would you agree that
10 transmission and distribution is a natural monopoly?

11 A. I currently would agree with that.
12 However, in the future those definitions would change.

13 Q. The definition of a natural monopoly could
14 change?

15 A. No, but the situation could change. I'm
16 sorry.

17 Q. What could change that would cause you to
18 conclude that transmission and distribution is no
19 longer a natural monopoly? Do you have something
20 specific in mind is my question.

21 A. Well, the only thing I have specific would
22 be how the system is unbundled. Anything can happen.
23 I've also stated in my testimony that fuel cells may
24 become more cost-effective and that could have some
25 effect on the natural monopoly itself in the electric

1 industry.

2 Q. On page 11, at lines 5 to 7?

3 A. Yes.

4 Q. You talk about possible increase in main
5 extensions?

6 A. I say that a primary benefit would be that
7 main extensions may be economically justified more
8 rapidly.

9 Q. What do you mean when you say economically
10 justified more rapidly?

11 A. I answered that in a public data request
12 No. 34 that I would take your attention to in which
13 case I state that the statement refers to the fact
14 that the increases in trenching efficiencies may lower
15 the cost of extending gas service. I do not advocate
16 change in line extension policy with the exception of
17 updating costs and determining if cost differences
18 exist for unity trenching which is similar to
19 Washington Natural Gas's current schedule, which
20 differentiates between nonjoint and joint trenching.

21 Q. And you view this as one of the benefits of
22 the merger?

23 A. I see it as one of the benefits, yes.

24 Q. Would you agree that it is in fact
25 pro-competitive?

1 A. Would you repeat the question.

2 Q. Would you agree that in fact it is
3 pro-competitive?

4 A. If it is done competitively, yes.

5 Q. And what do you mean when you say -- what
6 is your qualification if it is done competitively?

7 A. If the company is not subsidizing it in an
8 unfair manner to keep other parties out.

9 Q. So if the company is properly applying its
10 line extension policy you would agree then that it has
11 a pro-competitive effect?

12 A. I would agree that the company has followed
13 the rules, yes.

14 Q. No, the question was not whether the
15 company had followed the rules but whether in fact the
16 extension of gas service to more customers is
17 pro-competitive.

18 A. I will agree that it is competitive, yes.
19 I will not -- I don't know what you mean by
20 pro-competitive.

21 Q. Does it foster competition or undermine
22 competition to extend gas to more customers?

23 A. If you're doing it economically, which I
24 guess you would if you were doing what your line
25 extension policy says, I guess I would agree with you.

1 Q. So the answer is that provided we follow
2 the line extension policy it would foster competition?

3 A. Yes.

4 Q. On page 15 down at the bottom you start a
5 discussion about a collaborative?

6 A. Yes, I see that.

7 Q. And since the time of your testimony an
8 order has been issued in the schedule 48 proceeding?

9 A. That is my understanding, yes.

10 Q. And as part of that order there has been
11 established or will be established a Commission
12 sponsored collaborative. Are you familiar with that?

13 A. I am briefly familiar with it, yes.

14 Q. Given the establishment of that
15 collaborative, is it still staff's recommendation at
16 this time that the collaborative that you describe in
17 your testimony also be formed?

18 A. Yes. I believe so. The purpose of the
19 collaborative, as I state, is that as we change from
20 the traditional way the business is being done there
21 may need to be some time where all parties can discuss
22 costs of service and rate design issues for all types
23 of service.

24 Q. Can you envision folding that collaborative
25 into the collaborative established by schedule 48?

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1 Let me rephrase that. Is that something that you've
2 considered?

3 A. It is something I've considered, yes.

4 MR. HARRIS: Thank you. No further
5 questions.

6 JUDGE SCHAEER: Thank you.

7 MR. MANIFOLD: If it's of any assistance my
8 estimate has been reduced to about five minutes but
9 whatever you want.

10 JUDGE SCHAEER: I think that we'll break now
11 and come back and conclude this witness's
12 cross-examination tomorrow morning at 9:00. Is there
13 anything that needs to come before us before we
14 adjourn today?

15 MR. FREDERICKSON: Could I ask what the
16 order of witnesses will be tomorrow?

17 JUDGE SCHAEER: We will finish with Mr.
18 Maglietti. We have three witnesses who need to get on
19 tomorrow, Mr. Marcus, Mr. Sturzinger and Mr. Power and
20 I would probably take them -- I don't care about the
21 order but I would probably take them in that order
22 unless someone has concerns about that, and after they
23 conclude if we have time remaining we would take Mr.
24 Lazar. So we are adjourned until 9:00 tomorrow
25 morning. We're off the record.

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(Hearing adjourned at 5:00 p.m.)

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