BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant,	)	DOCKET NO. UG-940034
vs.	)	DOCKET NO. UG-940814
WASHINGTON NATURAL GAS COMPANY, Respondent.	)	VOLUME 2
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A hearing in the above matter was held on October 5, 1994, at 9:30 a.m. at 1300 South Evergreen Park Drive Southwest before Chairman SHARON NELSON, Commissioner RICHARD HEMSTAD and Administrative Law Judge LISA ANDERL.

The parties were present as follows:

WASHINGTON NATURAL GAS COMPANY, by DAVID S. JOHNSON, Attorney at Law, 815 Mercer Street, Seattle, Washington 98109.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF, by ROBERT CEDARBAUM and ANNE EGELER, Assistant Attorneys General, 1400 South Evergreen Park Drive Southwest, Olympia, Washington 98504.

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

NORTHWEST INDUSTRIAL GAS USERS, by PAULA PYRON, Attorney at Law, Suite 1100, One Main Place, 101 SW Main Street, Portland, Oregon 97204.

Cheryl Macdonald, CSR
Court Reporter

APPEARANCES (Cont.)

PARTNERSHIP FOR EQUITABLE RATES FOR COMMERCIAL CUSTOMERS, by CAROL ARNOLD, Attorney at Law, 5000 Columbia Center, 701 Fifth Avenue, Seattle, Washington 98104.

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

I N D E X

P R O C E E D I N G S

JUDGE ANDERL: Let's be on the record. The Washington Utilities and Transportation Commission has set for hearing at this time and place consolidated docket Nos. UG-940034 and 940814. The respondent in this case is the Washington Natural Gas Company. We are convened in Olympia, on October 5, 1994 to hear the direct testimony of the company and cross-examination thereof. My name is Lisa Anderl. I'm the administrative law judge presiding. Hearing the case today will be Commissioner Hemstad and Chairman Nelson. Like to take appearances at this time beginning with the company.

MR. JOHNSON: David S. Johnson representing Washington Natural Gas Company. My address is 815 Mercer Street, Seattle, Washington 98109.

MS. PYRON: Paula Pyron with Ball, Janik & Novack representing the Northwest Industrial Gas Users, 101 Southwest Main, Suite 1100, Portland, Oregon, 97201.

MS. ARNOLD: Carol Arnold for Partnership for Equitable Rates for Commercial Customers, or PERCC, 5000 Columbia Center, 701 Fifth Avenue, Seattle, 98104.

MR. FREDERICKSON: Frederick O.

Frederickson, representing Seattle Steam Company, Graham & Dunn, 1420 Fifth Avenue, Seattle, 33rd floor, zip code is 98101.

MR. TROTTER: For the public counsel section of the attorney general's office, Donald T. Trotter, assistant attorney general, 900 Fourth Avenue, Suite 2000, Seattle, 98164.

MR. CEDARBAUM: Robert Cedarbaum and Anne Egeler for Commission staff. Our address is the Heritage Plaza Building, 1400 South Evergreen Park Drive Southwest, Olympia, Washington 98504.

JUDGE ANDERL: There is a staff motion pending before the Commission. There will be oral argument on that after the lunch recess. Anything else to come before us? Hearing nothing, then, Mr. Johnson, you may call your first witness.

MR. JOHNSON: Like to call Ronald Davis, please.

JUDGE ANDERL: Mr. Davis, if you would take the stand. Mr. Davis's prefiled testimony has previously been identified as Exhibit No. T-1.

Whereupon,

RONALD DAVIS

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

DIRECT EXAMINATION

BY MR. JOHNSON:

Q. Good morning. Please state your full name and spell your last name for the record.

A. Ronald E. Davis, D A V I S.

Q. What is your occupation, Mr. Davis?

A. I'm employed by the Washington Natural Gas Company as vice-president for rates and planning.

Q. Do you have before you what has been marked as Exhibit T-1 for identification?

A. Yes, I do.

Q. Is Exhibit T-1 your prefiled direct testimony in these proceedings?

A. It is.

Q. Was Exhibit T-1 prepared by you or under your supervision or direction?

A. It was.

Q. Do you have any changes or corrections you wish to make to your testimony?

A. No, I do not.

MR. JOHNSON: Your Honor, I move for admission of Exhibit T-1 into the record.

JUDGE ANDERL: Is there any objection, Mr. Cedarbaum?

MR. CEDARBAUM: No objection.

JUDGE ANDERL: Mr. Trotter.

MR. TROTTER: No.

JUDGE ANDERL: From the intervenors.

Hearing no objection, Exhibit T-1 will be admitted as identified.

(Admitted Exhibit T-1.)

MR. JOHNSON: Mr. Davis is available for cross-examination.

JUDGE ANDERL: Mr. Cedarbaum.

CROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Morning, Mr. Davis.

A. Morning.

Q. I have some questions for you of a general nature concerning the cost of service studies contained in Mr. Feingold's testimony as they relate to the last rate proceeding the company had before the Commission in docket UG-931405, and because of that, I would like to ask them of you, but if they're beyond your knowledge or in more detail than you can answer, you can certainly refer them to Mr. Feingold or Mr. Amen.

A. I will do that. It's quite likely.

Q. In Mr. Feingold's testimony he states at page 4 that the company's filing contains a series of cost of service studies using revenues and costs from the company's most recently completed rate proceeding, docket UG-931405. Is it correct that that prior case resulted in a settlement amongst the parties that was approved by the Commission?

A. It was.

Q. And in that settlement the parties agreed to an increase in the company's revenue requirement of 19 million which the Commission accepted?

A. That's correct.

Q. And is it correct, to your knowledge, that the cost of service studies included in Mr. Feingold's testimony begin with the adjusted results of operations presented by the company on rebuttal in that prior case, adjusted to the $19 million revenue increase?

A. I believe that is correct.

Q. And because the company's rebuttal case in that prior proceeding proposed a $26.7 million increase in revenues rather than $19 million, Mr. Feingold's studies show a total company rate of return of 8.44 percent rather than 9.15 percent?

A. That's correct.

Q. Is it correct that the adjusted revenues, expenses in rate base from the company's rebuttal case in UG-931405, which were utilized by Mr. Feingold in the cost of service studies in this proceeding, were not agreed to amongst the parties in that prior case?

A. They were not.

Q. And they were also not accepted by the Commission in that prior case?

A. That's correct.

MR. CEDARBAUM: Your Honor, I just have one exhibit to offer.

JUDGE ANDERL: Next exhibit for identification is Exhibit No. 20. I'm going to mark for identification as Exhibit No. 20 the Commission's order with a service date of May 27, 1994 entitled Fourth Supplemental Order Accepting Settlement Agreement in Docket 931405.

(Marked Exhibit 20.)

Q. Mr. Davis, referring you to Exhibit No. 20 for identification, do you recognize this as the Commission's fourth supplemental order accepting settlement agreement in that prior case that we have been discussing along with the attachment which is the settlement agreement itself?

A. Yes, I do.

MR. CEDARBAUM: Your Honor, I would offer Exhibit 20, please.

JUDGE ANDERL: Any objection?

MR. JOHNSON: Your Honor, I think the Commission could take judicial notice of its own order, but if the Commission cares to have it in the order, I have no objection.

MR. CEDARBAUM: I think as a matter of convenience, I think the practice has been to put them into evidence. I agree that the Commission could take official notice of it if it chose to.

JUDGE ANDERL: Since it's been distributed and marked and there's no objection, I will include it as Exhibit No. 20. It's admitted.

(Admitted Exhibit 20.)

Q. Mr. Davis, the test year that was utilized in docket UG-931405 was the year ended September 30, 1993; is that right?

A. That is right.

Q. Is it correct that the company has been going through a corporate reorganization over the last several months?

A. Yes, it has.

Q. And as part of that reorganization, is it correct that the company has had employee cuts in its customer service departments?

A. Yes, it has.

Q. Do you know about how many employees are in this customer service department today compared to the number that was there in September of 1993?

A. In that department, no, I do not. I can speak to overall cuts or the level of cuts in that department, but I could not speak to prior and current numbers in that department.

Q. Is it also correct that there have been employee cuts in the division of staff marketing departments in this corporate reorganization?

A. Yes, there have.

Q. Why don't we ask you then as record requisition No. 1 to provide an employee count by department or section at September 30, 1993 compared with September 1994.

MR. JOHNSON: By way of clarification, September 1994 meaning September 30, 1994?

MR. CEDARBAUM: That's right, I'm sorry. So we can have an apples to apples comparison of those two time frames.

JUDGE ANDERL: Does the company have in mind what that record requisition is or do you need further clarification?

THE WITNESS: We have it in mind as long as there's an understanding that when you reorganize, the departments are no longer comparable. So the totals will add up but the line items will be difficult to follow.

Q. Well, to the extent that we need to clarify that with you, we can do that off the record.

A. Fine.

JUDGE ANDERL: Record requisition No. 1 then.

(Record requisition 1.)

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

JUDGE ANDERL: Thank you, Mr. Cedarbaum. Ms. Pyron.

CROSS-EXAMINATION

BY MS. PYRON:

Q. Good morning, Mr. Davis.

A. Good morning.

Q. Referring to page 4 of your testimony, Exhibit T-1, you state that the collaborative has laid much of the foundation for the company's current filing; is that correct?

A. Yes.

Q. What do you mean by that statement, a foundation?

A. By foundation I mean we established a list of issues and directives that were given by this Commission in prior orders. The group reviewed those issues and orders from this Commission, discussed them at length and came up with what the group believed in consentual matter -- not that everyone agreed on every item -- as to what needed to be addressed by the company, and that is what I referred to as lay the foundation.

Q. Are there areas of agreement that you could identify that are in this filing from the collaborative?

MR. CEDARBAUM: Your Honor, it's not my witness, I recognize, but I'm just -- I'm concerned that the witness is testifying to his understanding of what other parties may or may not have agreed to. I don't know for a fact that will be representative of what those agreements are, if any.

JUDGE ANDERL: Let's take that up on a question by question basis in terms of how the question is phrased and what his answer is. I don't know what he's going to say.

MR. TROTTER: Your Honor, just for

clarification, is the question agreement on resolution of issues or an agreement on what the company needs to address in the filing?

JUDGE ANDERL: Ms. Pyron, can you clarify the question.

MS. PYRON: Just simply an identification from the company's perspective those things that they consider to be in the filing that they would identify -- Mr. Davis would identify -- as being an area of agreement from the collaborative as far as he knows, realizing that disagreement could occur during the course of this proceeding.

A. We did not seek agreement on issues during the collaborative. We did seek consensus input where the group had reached a consensus on an item or an issue and the company went forward on that basis. There were considerable, in our opinion considerable, number of consensus items reached, such as the selection of the model that we are using today. That's an area I would say of consensus. Was there an agreement as such? No, there was not. Well, you could ask the other parties the same question. I believe there were many series of consensus that was reached there. There were no agreements that I understand.

Q. Are there any other areas of consensus in addition to you identified the computer model, for example? Was there a consensus that a transportation service cost should be identified for all classes of service?

A. Yes, there was. That is my understanding at least. There was a consensus that there should be a delivery or transportation service cost identified for all classes of customers.

Q. Was there a consensus, in your opinion, on a bottom-up approach to cost classification as opposed to a top-down approach?

A. I do not recall that. There was a consensus reached that the company had to specifically identify the cost of transportation as opposed to the kind of rationing analyses that have been done in lieu of cost. That almost necessitates what you've referred to as, quote, a bottom-up approach. That is, in starting a -- building a delivery service as a function, if you do not, as you say, do a bottom-up how one would construct a transportation service except by some arbitrary subtraction as has been done in the past, we do not know how that would be done.

Q. Mr. Davis, I have a couple of questions related to terms in the filing for transportation service, and if it's appropriate to defer those questions to Mr. Amen or Mr. Feingold, please just say so.

On page 7 of your testimony on line 2 of T-1, you state that your filing includes a two-year minimum term for transportation service with a re-entry fee to sales; is that correct?

A. Yes, that is correct.

Q. What, if any, policy considerations underlie this choice of two years for the term of service?

A. The policy considerations that underlie that -- and you can address the question more fully with Mr. Amen, but the policy considerations that addressed it were during the collaborative we discussed much about the dysfunction of customers being allowed to shift between sales and transportation, what it results in, what had actually happened to this company on about the time when it changed its term and notice from the 920840 Cs, that considerable dysfunction occurred when over two thirds of our customers switched back to sales service and we actually incurred supply interruptions which were unknown on our system before that time.

Distribution and transmission interruptions were normal, planned for, but supply interruptions as such were not, and that kind of dysfunction seems to need a policy management tool unless you exceed one planning year, that is, one full winter; whether that is two years, three years, five years is judgment call but it's something greater than one year. You have a planning consideration that you have a duty to fulfill. That is the potential that these customers who are, say, taking one class of service will want a different one; that is, transporters will want gas supply service, and you have a duty to serve them. We want to clearly define that responsibility. The two year is a judgment call of it needed to be greater than one year.

Q. How long has the company's current requirement of one year been in place?

A. About one year.

Q. You identified a need in your answer for a planning horizon. Are you talking about buying gas for an interruptible sales customer in that planning horizon?

A. That's included in there.

Q. Is it your testimony that the company buys gas for interruptible sales customers on the long-term planning horizon?

A. It plans for the needs of interruptible sales customers in that it seeks to improve the load factor on the agreements we enter into for our firm requirement customers; and hence we plan the amount and type of storage, the draw-downs of storage and the load factor utilization of firm contracts for firm sales customers with our interruptible customers' needs in mind.

Q. And what kind of planning horizon is involved in planning only for interruptible sales customers?

A. It's the same planning horizon as firm sales customers because we only typically meet our interruptible sales customers with the better utilization of firm sales customer contracts. They're inextricably linked. One can't say they're just spot gas purchases. It's not that simple.

Q. Is it also what's left over and not used for the firm?

A. Essentially.

Q. And it takes -- is it your testimony that from a policy perspective you need two years in order to make those planning decisions?

A. I need greater than one year and the customers have asked for the years that are not the dates the company specifies, such as we have now. Customers would -- expressed a preference that they be allowed to pick when their year is, for instance, and both to accommodate flexible planning years on their part and a minimum of a planning year on our part for them to shift back to sales service, we need something longer than a year. Is that two years or five years, I'm not arguing, but I would argue with you that we believe to plan for sales service we need longer than one year.

Q. Could you address the company's need with different dates assigned to different terms for different customers, for transportation customers?

A. As long as it was greater than one year.

Q. Without going as long as a term, could your company needs from your perspective be addressed by shorter than two years but with staggered terms for when those elections take place?

A. That could be arranged.

MS. PYRON: I don't have any other questions at this time. Thank you.

JUDGE ANDERL: Ms. Arnold.

MS. ARNOLD: Thank you.

CROSS-EXAMINATION

BY MS. ARNOLD:

Q. Good morning, Mr. Davis.

A. Good morning.

Q. Am I correct that you're the policy witness for the company this morning?

A. Yes, you are.

Q. At the bottom of page 6 in your testimony you describe the transportation service proposal as a single declining block rate schedule with no annual minimum volume requirements, no monthly minimum bills. Now, I don't want to make a speech or I'm supposed to be asking questions, but the schools and hospitals have been asking Washington Natural Gas for a number of years for a transportation schedule that is open to smaller customers, that is, that does not contain minimum volume and minimum bill requirements. Can you tell us what the company's policy considerations were in designing a transportation tariff such as you have that is open?

A. I think for the first time, to my knowledge, in this state a gas distributor has come forward with a cost-supported proposal on delivery or transportation services on its system as opposed to doing its best as it could with cost of service for fully bundled rates, and policies of the Commission, of the companies, that constituted practice over time. This is the first time a utility has taken the time, done the analysis to support -- cost support that is -- each of the elements in its pricing and terms for delivery or transportation service downstream of the city gates. I really believe that's the reason why we were able to make the changes we did. If you look at underlying sales tariffs of this utility or others, you will find they have the kinds of things that you've asked us, why do you have these? Almost all sales rates, contemporaneous sales rates, have those, and we typically looked in this state to equivalent sales margins and equivalent sales terms in setting transportation rates. Until one comes back with a cost study that supports transportation as a distinct and unique class of service, which this filing does, I think it's just history. I'm sorry, I wish it were some better answer than that.

Q. I would like to say it's our brilliant lobbying for the past few years.

A. Perhaps it was.

Q. To follow up on a question Ms. Pyron asked you about the two-year contract requirement, you said that a few years ago many transporters switched back to sales all of a sudden and it created supply problems for the company. What year was it you said that happened?

A. Mr. Amen can correct me later if I misspeak, but I believe that was in the implementation of the 928040 case which would have been in the October 1993 time frame and that winter then would be subsequent to that, such as January, February of this year, of 1994 is when those supply curtailments would have occurred. Subsequent to that switching so I don't know which month in the winter January, February, it happened, but it was subsequent to October.

MS. ARNOLD: I would like to make a record requisition for the dates on which the conversion from transportation to sales occurred, the number of customers who made the conversion, the volume that was converted from transportation to sales, the dates of the supply curtailments, and the volumes curtailed.

Q. And I will ask you this, but my guess is it needs to be part of the record requisition, were firm sales customers curtailed or just interruptible sales customers?

A. I do not know. To the best of my knowledge they were interruptible only.

Q. If that proves not correct, would you include that?

A. We will include all the curtailments in the response.

JUDGE ANDERL: That's record requisition No. 2.

(Record requisition 2.)

MS. ARNOLD: That's all my questions. Thank you.

JUDGE ANDERL: Mr. Frederickson.

CROSS-EXAMINATION

BY MR. FREDERICKSON:

Q. Good morning, Mr. Davis.

A. Good morning.

Q. I have a few policy questions that I would like to ask you. I would like to discuss WNG's policy in connection with system capacity reinforcement solely to benefit interruptible customers, and in particular is it WNG's policy to enlarge its distribution system for the sole purpose of reducing the amount of capacity constraint, related curtailment or interruption experienced by interruptible customers?

A. That issue is in no way a consideration when we do reinforcements or capacity additions.

Q. So the answer is no?

A. The answer is no.

Q. Is it correct that once the interruptible distribution -- excuse me. Is it correct that once the initial distribution system has been constructed by WNG interruptible customers are provided service only to the extent capacity exists or is available after the full requirements of all WNG's firm customers are satisfied?

A. Yes, that is true but it also applies to when we rebuild the system or reinforce it.

Q. Would you explain that?

A. Reinforcements are an ongoing process, as is reconstruction of the system, but when we reinforce or reconstruct the system we build it to meet -- or rebuild it to meet -- firm requirements on peak day, design peak day. And we do not include interruptible requirements in those considerations.

Q. Would an interruptible transportation customer be correct in expecting a reduction for deterioration of the quality of service as WNG adds more firm, i.e., residential or small commercial, customers to its system until such time as the demand of all firm customers requires WNG to reinforce its system?

A. Yes.

Q. Mr. Davis, hypothetically assume that there is a single interruptible transportation customer in a remote area. My question is whether WNG would add capacity to the remote area solely to reduce that customer's interruption caused by growth in residential and commercial customers?

A. No, it would not, not only not solely but not at all.

Q. I want to switch gears for just a couple of final questions. Are you aware that Seattle Steam is an interruptible transportation customer under WNG's schedule 57 and that its plant is located in downtown Seattle near the waterfront at almost the extreme end of that portion of your distribution system extending from the Renton city gate of Northwest Pipeline?

A. Yes, I am.

Q. I want to focus on the November to March period during the years 1990 through 1994, and my question is whether Seattle Steam has been interrupted during this period by WNG from time to time due to constraints on WNG's distribution system between Northwest Pipeline's city gate and Seattle Steam's plant?

A. Yes, it has.

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

JUDGE ANDERL: Thank you, Mr. Frederickson. Mr. Trotter.

CROSS-EXAMINATION

BY MR. TROTTER:

Q. Mr. Davis, the company's line extension policy does not distinguish between firm and -- the nature of a customer, whether it's firm or interruptible, does it?

A. No, it does not.

Q. You were asked by Ms. Pyron a question or her question referred to what's left over and not used in terms of what serves interruptible customers. Do you recall that question?

A. Yes, I do.

Q. Could you tell us what it is that is left over and not used?

A. Essentially it's the load factor utilization of the system by firm customers and it's by city gate or by distribution main. That is, when the firm requirements are met, if there's still capability to deliver interruptible loads, we do.

Q. Now, as a result of the discussions that occurred last spring which have been characterized as a collaborative, there was no consensus document that was produced and signed by all parties as a result of that effort, was there?

A. No. As I stated, there was no formal agreement or document.

Q. And by agreement, I think you distinguished between agreement and consensus. There was also no consensus document, was there?

A. There was no document; however, there was consensus reached on many items which are inherent in this filing.

Q. Those agreements were not reduced to paper and signed by all parties, were they?

A. No. There were no formal documents. That is not quite correct, my answer. We did file reports with this Commission that could constitute formal document, and to that extent my answer was in error. We filed progress reports stating our work and what we had learned as we went, and the parties all had an opportunity to comment if they saw the work of the collaborative differently, and that is a matter of formal record.

Q. There was a consensus, was there not, that the Commission's filing date requirement be relaxed?

A. Yes, there was.

Q. But in terms of these progress reports, et cetera, would you characterize those as consensus?

A. No, only as formal record. You asked was there any formal record. I wanted to correct my answer.

Q. At the bottom of page 1 of your testimony you indicate the last time you testified before the Commission was in UG-901459, a Water Power proceeding. If you will just identify what your job title and responsibilities were at that time.

A. Yes. At that time I was director of marketing and sales for Washington Water Power Company in Spokane, Washington.

Q. And in that capacity you were the company's lead in that case as well as U 88-2380; is that right?

A. That's correct.

Q. In both of those proceedings issues related to cost allocations between large volume competitive sector customers and small captive customers were raised, were they not?

A. Yes, they were.

Q. And in each case the Commission basically reaffirmed its decision in the Cascade U 86-100 docket with respect to allocation of pipeline costs, transmission costs, distribution costs and administrative and general costs; is that right?

A. Yes, that's correct, notwithstanding the directive it provided to the Water Power and other companies to do what this company has done in this filing.

Q. And in those dockets Water Power advocated a gas cost of service methodology which assigned more costs to the smaller captive customer group and fewer to the large volume customers; is that right?

A. That was the result of it. They used what's referred to as a peak day methodology.

Q. And as the company's lead witness in those dockets, did you personally support the methodology offered by the company at that time?

A. Yes, I did.

Q. On page 5 of your testimony, first paragraph, you are referring to Mr. Feingold, Mr. Feingold's approach contrasting with the method the Commission has historically used and you state that the two methodologies arrive at very different results with respect to cost allocation. Do you see that?

A. Yes, I do.

Q. Assume that the Commission was to reverse itself and adopt the company's methodology in this case. The company is not proposing to immediately change rates to reflect the cost of service methodology it proposes; is that correct?

A. I don't think we're asking this Commission to reverse itself, so I'm confused somewhat by the nature of the question. The Commission asked us to do certain things which we think we did. We're not asking them to reverse themselves, so I'm lost.

Q. I meant reverse itself in terms of the methodology it approved in the cascade formula and so on.

A. Again, we're not asking them to reverse themselves. They asked us to do a volumetric method which we have done.

Q. Rephrase the question. Assume that the Commission adopts whatever the company is proposing in this case. The company is not proposing to immediately change rates to reflect the cost of service methodology it proposes?

A. We are asking --

Q. To fully reflect.

A. No. We are not asking to fully reflect the the cost of service but we are asking to immediately change rates to reflect the cost of service.

Q. Key word is fully.

A. Yes, it is.

Q. Over what time in your view is it reasonable to phase in -- to fully phase in a different approach to allocating costs between customer classes?

A. The answer to that is very dependent on the circumstances and what is commonly referred to as the shock or rate impact on the parties that are affected. In this case, there is not what we would see in major classes, the two classes being industrial and residential that are largely impacted -- there is not what we see as great rate shock and therefore no more than two to three at the next proceeding should be necessary to fully implement this cost of service study.

Q. Are you the witness to stand cross on rate shock or is that Mr. Amen?

A. The answer to both parts of that is yes, myself and Mr. Amen. If you ask a question I'm not comfortable with, I will be happy to defer it to Mr. Amen. I'm sorry, I didn't mean to be flippant.

Q. Are Mr. Amen's duties to implement the rate -- the cost of service study in this case?

A. And to develop the rate design that implements it.

Q. We'll talk to him about rate shock.

On page 7 of your testimony you were asked questions earlier about the two-year minimum term as a penalty or re-entry fee for the transportation customers; that is correct?

A. Yes, it is.

Q. What amount of advanced notice is required at the end of that two-year period for a customer to extend that service or to change to another type of service?

A. I believe it is six months.

Q. Now, is that six months from the end of the two years or -- two years is 730 days; would the company just show up on day 731 and say I want to be a sales customer or how would the mechanics work in that context?

A. The actual mechanics you should probably refer to Mr. Amen. My impression of what we have done is that six months prior to the term notice of the individual agreements the customer would have to give the company notice that it sought to change it and have a different type of service.

Q. So if there's a two-year minimum term, if a customer signs up for two years at a year and one half, 18 months, customer would have to notify you of what their intent was at the end of the two-year period?

A. That's correct.

MR. TROTTER: Nothing further. Thank you.

JUDGE ANDERL: Thank you, Mr. Trotter. Do you have any questions for this witness?.

COMMISSIONER HEMSTAD: I have no questions.

JUDGE ANDERL: Anything on redirect?

MR. JOHNSON: No, Your Honor.

JUDGE ANDERL: Thank you, Mr. Davis, for your testimony. You may step down. Call your next witness.

MR. JOHNSON: Like to call Russell Feingold, please.

(Recess.)

JUDGE ANDERL: Back on the record. While we were off the record Mr. Feingold took the stand. Whereupon,

RUSSELL FEINGOLD,

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

JUDGE ANDERL: During the pre-hearing conference in this matter Mr. Feingold's testimony was identified as Exhibit T-2 and his exhibits RAF-1 through RAF-8 were identified as Exhibit 3 through

10. Go ahead, Mr. Johnson.

DIRECT EXAMINATION

BY MR. JOHNSON:

Q. Good morning, Mr. Feingold.
A. Good morning.
Q. Please state your full name and spell your last name for the record.
A. Russell A. Feingold, F E I N G O L D.
Q. What is your occupation?
A. I'm a vice-president of J. J. Rudden Associates, R U D D E N Associates.
Q. Mr. Feingold, do you have before you what has been marked for identification in these proceedings as Exhibit T-2?
A. I do.
Q. Does that exhibit represent your prefiled direct testimony in these proceedings?
A. Yes, it does.
Q. Was that exhibit prepared by you or under your supervision or direction?
A. Yes, it was.
Q. Mr. Feingold, do you also have before you what has been marked as Exhibits 3 through 10 for identification?

A. Yes, I do.

Q. Were those exhibits prepared by you or under your supervision or direction?

A. Yes, they were.

Q. Taking your testimony first, Mr. Feingold, are there any changes or corrections that you wish to make to your testimony?

A. Yes, there are.

MR. JOHNSON: Your Honor, as we indicated we have an errata sheet for Mr. Feingold's testimony. We circulated it to the parties.

JUDGE ANDERL: As I stated, Mr. Johnson, I'm not going to give this an exhibit number. After your witness tells what it is we'll probably just include it as a part of T-2.

Q. Mr. Feingold, have you reviewed the errata sheet that has been prepared for your testimony?

A. Yes, I have.

Q. Does that errata sheet include all of the corrections or changes that you wish to make to your testimony?

A. It does.

Q. And so I take it there are no other changes that you wish to make to your testimony other than as shown in that sheet?

A. That's correct.

Q. Are there any changes or corrections that you wish to make to any of your Exhibits 3 through 10?

A. No, not at this time.

MR. JOHNSON: Your Honor, I would like to introduce into the record Mr. Feingold's testimony T-2 with the errata sheet appended as well as Exhibit 3 through 10.

JUDGE ANDERL: Is there any objection to those exhibits from staff?

MR. CEDARBAUM: No.

JUDGE ANDERL: Public counsel?

MR. TROTTER: No.

JUDGE ANDERL: From the intervenors?

Hearing no objection, Exhibit T-2 and 3 through 10 will be admitted as identified.

(Admitted Exhibits T-2 and 3 through 10.)

MR. JOHNSON: Mr. Feingold is available for cross-examination.

JUDGE ANDERL: Go ahead, Mr. Cedarbaum.

CROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Good morning, Mr. Feingold.

A. Good morning.

Q. At the bottom of page 7 and the top of page 8 of your testimony you indicate that you performed close to 50 cost of service studies for LDCs located throughout the U.S. and Canada. Do you see that testimony?

A. Yes, I do.

Q. Is it correct that in response to public counsel data request No. 5 you indicated that since 1990 you've prepared five gas cost of service studies including the one you've prepared in this proceeding, and that you were involved in five others but didn't actually prepare those studies?

A. That's correct. And the five that you referred to in the latter part of your question, I participated in them, but did not ultimately sponsor them as the witness so that I was involved in one degree or another in providing input with regard to the conceptual frame works of the studies and the particular elements that went into the studies.

Q. In response to public counsel data request No. 6 you were asked to provide the last three cost of service studies and the associated testimony that you provided to state regulatory commissions in the United States; is that right?

A. That's correct.

Q. And your response included testimony dating back to February 1991 for cases involving Pacific Gas & Electric, Columbia Gas of Ohio and Atlanta Gas Light; is that right?

A. That's my recollection, yes.

Q. And those three cases were included in the five studies that you listed in your response to public counsel data request No. 5; is that right?

A. Yes, I believe so.

Q. The testimony that you provided concerning PG&E involved that company's gas brokerage function; is that right?

A. That's correct.

Q. And in public counsel data request No. 7 when you were asked for a copy of the Commission decision from that case your response indicates that your firm didn't retain a copy of that Commission decision?

A. That's correct.

Q. Your response to public counsel data request No. 7 also indicates that the Columbia Gas of Ohio proceeding ended in a settlement amongst the parties that was approved by the Ohio Commission?

A. That's correct, and I believe a copy of that settlement was provided in response to a data request.

Q. As to the Atlanta Gas Light proceeding, you indicated in your response to that public counsel data request No. 7 that at least as of August 1st, 1994 there was no Commission decision issued yet. Is that still the case, to your knowledge?

A. The circumstances with regard to Atlanta Gas Light was that after a tentative settlement was structured by the company with the parties in the case, it went before the Commission. I testified before the Georgia Public Service Commission and subsequent to that cross-examination of myself as well as other company witnesses, the company chose to withdraw the case and the Commission accepted the withdrawal of the case.

Q. So none of the substantive issues then that were presented in that proceeding actually went to a Commission decision?

A. That's correct.

Q. On page 23 of your testimony, lines 4 through 12, you testified that you regressed the company's annual throughput against the feet of distribution main installed by Washington Natural Gas for the years 1974 through 1993; is that right?

A. That's correct.

Q. And that regression analysis is shown on page 1 of Exhibit 9 which is your Exhibit RAF-7 in tabular form and in graphic form on page 2?

A. That's correct.

Q. You state in your testimony that only about 33 percent of the variation in the company's footage of mains can be explained by the variation in annual throughput volumes. Is that correct?

A. Yes, that's correct.

Q. The regression analysis that you present in your testimony on this subject doesn't differentiate between the size of distribution mains, does it?

A. No, it does not.

Q. And your regression analysis also did not use weather-normalized data; is that correct?

A. That's correct.

Q. And the regression analysis that you present doesn't differentiate between the number of customers or customer classes; is that right?

A. It does -- one of the regression analyses does reflect difference in customers over the years that were stated at page 23 of my testimony.

Q. Looking at Exhibit No. 9, page 1.

A. I have it.

Q. This doesn't differentiate -- you don't segregate out classes of customers or numbers of customers on this exhibit, do you?

A. Well, on the page you referred to I wouldn't have because it was the throughput-based regression. If you look at page 3 of 6, which is the customer regression, there is a change in the average number of customers over the years I analyzed.

Q. And that page of your exhibit doesn't differentiate among classes of customers, just total average, I suppose?

A. That's correct, because it was not necessary to differentiate between customer classes for purposes of my analysis within the context of the testimony.

MR. CEDARBAUM: Like to distribute an exhibit, please.

JUDGE ANDERL: The next exhibit in line is 21. That's a multi-page document. On the front it is dated August 16, 1994 and it indicates that it is public counsel data request No. 2 and the response.

(Marked Exhibit 21.)

Q. Mr. Feingold, referring you to Exhibit No. 21 for identification, do you recognize this as your response to public counsel data request No. 2?

A. Yes, I do.

Q. And the attachment to the cover of the response are the external allocators used in cost of service study?

A. Yes.

MR. CEDARBAUM: Move the admission of Exhibit 21.

JUDGE ANDERL: Mr. Johnson, any objection?

MR. JOHNSON: No, Your Honor.

JUDGE ANDERL: From any other party?

Hearing no objection, Exhibit 21 will be admitted as identified.

(Admitted Exhibit 21.)

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

JUDGE ANDERL: Thank you, Mr. Cedarbaum. Ms. Pyron, you gave me an estimate of about an hour with this witness; is that correct?

MS. PYRON: About 45 minutes.

JUDGE ANDERL: Let's go ahead and take our morning recess before you go into that, then. Be back in 15 minutes, please.

(Recess.)

JUDGE ANDERL: Let's be back on the record after our morning recess. As we discussed off the record, the commissioners would like to go ahead and hear argument on the pending motion at this time. Ms. Egeler, if you want to just summarize it very briefly and then we'll hear what the other parties have to say.

MS. EGELER: Very briefly, Your Honor, the staff would like to request that the Commission rehear the sixth supplemental order in docket No. UG-920840 for the limited purpose of considering whether Washington Natural should be permitted to sell compressed natural gas or CNG to end users. Both the legislature and the Commission have expressed a desire to encourage the development of a retail market to promote the sale and use of compressed natural gas. It is the staff's belief that nothing has occurred since the Commission's order in December of 1993 to encourage that progression. It is our understanding that a market has not developed and that Washington Natural is not experiencing any competition whatsoever. For that reason staff believes it is important for the Commission to rehear the issue and to consider why nothing has changed and what adjustments can be made in the market to promote that use of compressed natural gas.

The staff further requests that the Commission consolidate that limited issue with this proceeding. The Commission could either decide to allow the staff to submit testimony on that issue or it could consider the merits of this motion through oral argument at a later date or additional written briefs, whatever it prefers.

CHAIRMAN NELSON: Thank you. So your proposal is you would submit testimony in your phase of the proceeding and the company could file rebuttal to whatever you propose?

MS. EGELER: Correct.

JUDGE ANDERL: And the company's response.

MR. JOHNSON: Your Honor, we think the motion is procedurally defective and substantively unnecessary, and we oppose it for several reasons. First of all, the motion does not contain a certificate of service. We just received it on Monday of this week, late Monday. Bears no certificate of service as required by 480-09-120 in the WAC which expressly states that filing of a proceeding with the Commission is not complete until service is evidenced by a valid certificate of service. So on that basis alone we think the motion should be denied.

If the Commission is inclined to approach it from a substantive level, we see that there are three issues involved in the motion. First, the issue of whether we should be in the compressed natural gas market at all. Staff asked for rehearing or reconsideration, both terms are used in the motion. Staff made exactly the same argument in 920840 and that argument was expressly rejected by the Commission in both the fourth and sixth supplemental orders in that proceeding. We think the time for reconsidering that on a substantive level has long passed.

Additionally, the docket that has been established for the question of whether the Commission and the company has a cost-based CNG rate, which is docket No. 940034, tees up the issue of CNG service. There is no need whatsoever to bring in docket No. 920840 into this case either by way of reconsideration, rehearing or anything else. Any issues to the extent that they are appropriate regarding CNG are appropriate for 940034. If the motion simply seeks to tee up this issue for purpose of that docket or any other docket, we still think that there are problems. We asked why there has not been any position expressed or motion presented on this point up to this week. There have been -- 940034 was initiated in January of this year. There has been pre-hearing conference in this case, supplemental testimony filed by Mr. Amen, several opportunities for staff to bring up the issue that they are bringing up now, and we think that it's a little late in the game to present this by way of a motion to the Commission without any evidentiary support, only the unsupported statement that Ms. Egeler makes in her motion.

And if staff does in fact believe that we stifled the market for compressed natural gas, which we don't feel we did, but if staff makes that point and feels that we do, staff is certainly entitled to present testimony or evidence on that point in their direct case, but there is no need and no reason for the Commission to bless that position by way of a decision on this motion at this point in the game. It's inappropriate at this point.

There are two other issues that staff raises. The first is that we should file a tariff exclusively for the sale of uncompressed natural gas for resale. We think that point and staff's motion should be rejected for two reasons. First, again, it is too late in the game. The argument was made in docket 920840, it was rejected, the Commission did not order the company to exclusively file a tariff for uncompressed natural gas, and just as the reconsideration argument should be rejected on CNG, it should be rejected for the sale of uncompressed natural gas as well.

But more importantly --

COMMISSIONER HEMSTAD: Counsel, may I interrupt? Was that issue of whether there should be a tariff for uncompressed natural gas for resale directly addressed in the prior case?

MR. JOHNSON: I can't specifically recall whether it was directly addressed in the prior case. I know it was addressed in staff's brief, and it was addressed in the Commission's either or both of the fourth or sixth supplemental orders. The Commission dealt with the issue of a sale of uncompressed natural gas for resale and stated that the Commission would not require us to file that tariff.

I would like to make my second point, though, with respect to what happened last week. The Commission, as you are aware, entertained a petition by the company to remove the sale for resale restriction in our tariffs, a petition which we filed on our own initiative in the beginning of September, and by a letter order from Mr. McLelland our petition was granted without qualification. We filed that petition to facilitate possible station development, CNG station development, and staff noted that position in its what we saw as an unqualified, unconditional recommendation for approval.

So we don't see that there is any barrier at this point in time in our tariff structure to a customer buying uncompressed natural gas under any of our rate schedules, and then compressing that for resale. That's the purpose of the removal of the sale for resale restriction, to allow customers under any rate schedule they choose to buy uncompressed natural gas, compress it on their own, and do with it what they want. So the second issue that staff raises simply is unnecessary for the Commission to deal with in light of the order that was reached on the petition request last week.

The third issue is staff's request to consolidate the petition issue with this hearing or somehow condition it to a more expansive decision on CNG, and this argument, Commissioners, really perplexes us because last week staff, as I indicated Mr. Maglietti and Mr. Ramirez, filed a recommendation on the petition which was unconditional in nature, and that was on last Wednesday, September 28. Staff's motion is dated September 27th, the day before, and tries to condition the waiver issue on all of these other issues. So we think that the waiver -- the issue of whether there should be consolidation of the petition with this proceeding, one, is moot because of the decision the Commission reached last week, and two, staff's waived that argument because of the position that Mr. Maglietti and Mr. Ramirez took before this Commission last Wednesday.

In summary, the motion is defective procedurally. It's too late in the game. Any issues that staff cares to develop on CNG should be developed in their direct case and not be decided by way of a motion at this premature time.

COMMISSIONER HEMSTAD: Is it your position, then, that if the staff includes this -- well, put it this way. Were we to deny this motion for consolidation but the staff includes in its responding case here testimony on this issue that it would be relevant and appropriate for us to decide in any event?

MR. JOHNSON: I think that issue was teed up, Commissioner, in 920840 when the Commission said that the company may sell compressed natural gas so long as it is compensatory. We have to reach the issue of is the sale of gas compensatory, then we address the issue, well, if it's not should Washington Natural Gas Company nonetheless be in the market. What I hear staff saying by this motion is we shouldn't get to the issue of compensatory at all. We should just be ordered not to participate in the market. So my point is staff can present any evidence they want in its direct case. It's relevant after the Commission first addresses the issue of is there a compensatory rate, and that's the entire purpose that we understand 940034 has been set up, to explore that issue. So it's relevant when we get to that preliminary issue. It's certainly not relevant at any point in the game right now.

COMMISSIONER HEMSTAD: Staff counsel, I think, was asserting that from the time of our December 1993 order when that came down until now that, quote, nothing has happened, unquote, or if I'm accurately paraphrasing, and therefore that is now appropriate to take another look at this. What is your response to that?

MR. JOHNSON: The problem that I have with responding substantively to that point is that there's no evidence in the record either upon which Ms. Egeler bases her statements, there's no evidence that I have to support or refute that, and so we're asking -- the motion is asking the Commission to predetermine an issue without any evidentiary support. That's why I said that if they want to introduce evidence that customers feel -- potential market participants feel that they are being stifled by Washington Natural Gas Company's participation in CNG, let them introduce that evidence. Let them make that point at the appropriate time. I don't have evidence one way or the other to respond to your point today, which is my concern, that we are attempting to resolve a substantive issue too early without a proper evidentiary foundation. I just don't have the evidence to respond at this point.

COMMISSIONER HEMSTAD: Well, of course this is a procedural motion. It wouldn't be predetermining the ultimate substantive issue itself or are you suggesting it in effect attempts to do so?

MR. JOHNSON: Our reading of the -- although the motion is, I will acknowledge, unclear in many respects, as we read the motion it asks for reconsideration of a substantive determination that the Commission made in 920840 and that's why I argued that based on my understanding of the rules on reconsideration, the time is long past to do that. If it is just teeing up the issue, now is not the time to tee up the issue. The issue should be teed up when staff -- if staff cares to do so with proper evidentiary support when they file their direct case.

JUDGE ANDERL: Do the intervenors have any comments on this motion?

Public counsel.

MR. TROTTER: Just briefly. We viewed this as a motion for rehearing even though the word reconsideration is used, but we view this as rehearing. We did not view it as calling for a decision on the merits of any factual issue. We did view it as precautionary to have the substantive issue of whether there ought to be CNG service at all be available in this proceeding, and if the company is saying that that issue is already -- can be raised in this proceeding, and although there was a lot of words said around that -- I'm not quite sure that's what they said -- but if that issue is fair game in the 940034 docket rather than that docket simply being implementing a Commission order, then maybe the motion is unnecessary. I'm not quite sure the company conceded that point.

So I view this as a motion to commit the parties to raise that issue and prevent another party from saying it's res judicata or collateral estoppel or all of those types of arguments that the decision of whether there's to be a rate has already been made. I think it probably does behoove the Commission to grant rehearing and allow that issue to be raised unless we can all concede that we agree it can be raised in this case. I didn't quite hear the company say that. So we'll support the motion.

With respect to the service element, I guess the staff will have to speak for itself on that. If there needs to be a certificate filed and party comes forward later that's prejudiced, so be it, but the motion as heard today, we would support it.

JUDGE ANDERL: Ms. Egeler, brief response.

MS EGELER: Briefly, I apologize for the lack of certified service. We've had a lot of secretarial problems in our office, we're pretty out of whack right now, but I do know that the company received the motion, so I fail to see how they've been substantially harmed by this. This is a motion for rehearing not for reconsideration and this is the appropriate time under 480-09-820. It would have been inappropriate for us to proceed and just present evidence to the Commission on this issue without receiving their permission to rehear that docket number, and that's why we're proceeding in this manner.

Staff would be most pleased to present evidentiary support of its allegation that nothing has happened in the market, and that's exactly what we're asking for, and be happy to have the company respond to that, and that is -- again, is why we wanted this consolidated with this matter. It doesn't appear to make a lot of sense to hold a separate evidentiary hearing strictly on this issue. Appears to us that it would be more effective time-wise to consolidate it with this issue.

CHAIRMAN NELSON: What's the other docket you've all referred to?

MR. JOHNSON: 940034, Chairman.

MS. EGELER: Which is consolidated with this case.

CHAIRMAN NELSON: What's the subject matter of it, CNG?

MR. JOHNSON: We filed that docket back in January, my recollection, of this year to determine whether the company had in fact a cost-based rate for compressed natural gas.

COMMISSIONER HEMSTAD: I'm sorry, and what was the disposition of that?

MR. JOHNSON: That has been consolidated -- already consolidated with 940814, which is the cost of service transportation filing.

COMMISSIONER HEMSTAD: Ask staff counsel on this matter, who in your opinion has the burden of proof were we to grant the motion?

MS. EGELER: We would be willing to accept the burden of proof to show that nothing has occurred in the market and that changes do need to be made.

JUDGE ANDERL: Thank you for your presentations on this motion. We'll defer ruling on that right now and resume with the cross of Mr. Feingold. Ms. Pyron, I believe we're to you.

CROSS-EXAMINATION

BY MS. PYRON:

Q. Morning, Mr. Feingold.

A. Good morning.

Q. Going back to the statement on page 8 of your testimony, Exhibit T-2, where you state that you have done close to 50 cost of service studies for LDCs around the country. Among these 50 have you ever recommended that a local distribution company base its cost of service study on a peak demand allocation method?

A. Yes, I have.

Q. And in approximately how many cases have you done so?

A. It's hard to go through a precise

reconciliation of the numbers, but I would say generally speaking that the majority of them were premised on a peak-type allocation methodology.

Q. And in your experience with these 50 cost of service studies that you've been involved in, have utility commissions adopted a peak demand method in the majority of those cases?

A. It's hard to tell. Unfortunately, in a number of the cases the substantive issues we've related to the cost of service studies are never addressed specifically because, in some cases, the cases have ended in settlement. I would say based in -- again, this is over a period of now we're talking about 15 or so years, so my recollection doesn't go all the way back. I would say in probably more than half of those studies the Commission accepted a peak allocation methodology for purposes of adjusting class revenue levels and rates to the classes.

Q. In those circumstances when you have advocated peak demand allocation method for demand-related costs, what analysis underlied your recommendation?

A. It wasn't so much a specific analysis that underlied the recommendation, it was more a recognition of the manner in which an LDC incurs costs to serve its customers. And what I'm talking about specifically is the manner in which an LDC designs its distribution system to serve customers, and that design criteria in all cases that I am aware of with regard to demand-related cost, which really the peak allocation methodology relates to, is to base the design on a peak-hour-type analysis of the LDC's firm loads.

Q. Peak hour or peak day?

A. In the case of engineering design, if you look at many of the standards and you look at the sizing of things like meters, regulators and so forth, they are stated on an hour, peak hour, basis in terms of cubic feet per hour, in the case of meters, and in the case of load flow analysis, programs, computer programs that are used to design distribution systems, in many cases they look at hourly as well as daily loads. The peak day for purpose of an allocation methodology tries to capture that design characteristic of a peak hour consideration.

Q. Would you agree that an LDC must design its system based on peak day demand?

A. If it hopes to have sufficient capacity to serve the firm requirements of its customers on a design peak day, yes, it does need to design it in that fashion.

Q. In your evaluation of Washington Natural Gas, is that how Washington Natural Gas designs its system?

A. That's my understanding, yes.

Q. Then why did you not recommend a peak day method here?

A. I spent a good deal of time in the course of my work with Washington Natural Gas reviewing many of the regulatory decisions that have been issued by this Commission over the years as it related to LDC cost allocation methods, and as I talk about in my testimony with regard to the cost of service framework that I use in evaluating the appropriateness of a particular cost allocation approach for a client, one of the considerations that I mentioned are the regulatory perspectives and considerations of the Commission which regulates that particular LDC. And in the case of Washington Natural Gas I had a series of Commission decisions starting back in 1986 with the Cascade decision and going forward to some of the more recent decisions issued on the part of the company, so I had a fairly long history of cost of service study determinations that have been made by the Commission over the years, and I also had a very good audit trail, if you will, to evaluate the types of proposals that have been submitted before this Commission up to this time with regard to cost allocation methodologies that have been accepted or that have been rejected or where no determination has been made on the allocation studies.

So essentially what I'm saying is that based on the review of those regulatory perspectives, I chose to put forward in the company's allocation proposal an approach that would not only capture cost causation through the use of the load factor technique that I address in my testimony but also capture the essence of my reading of the Commission's perspectives over the years that some level or some recognition of utilization of the system was important for purposes of allocating costs of the classes. So there was a balance, and I think a reasonable balance, as I tried to address in my testimony.

Q. So would you characterize the method that you've recommended as a peak and average allocation method?

A. I would characterize it as a modified peak and average where the modification comes in through the use of the system load factor of the LDC, which, as I've said in my testimony, is a prime determinant in evaluating the relative utilization of the system and most specifically the capacity that is installed for the LDC system. So as opposed to using a simple or pure peak and average which effectively allocates fixed costs on the basis of 50 percent to a demand factor and 50 percent to commodity, in the case of Washington Natural Gas, that split between demand and commodity was premised on something that was more related to the particulars of the LDC's system, that is, the system load factor. And in the case of Washington Natural that resulted in a 36 percent system load factor, so that 36 percent as opposed to 50 percent of the costs were allocated on a commodity or volumetric basis.

Q. I believe in response to a public counsel data request you identified some other jurisdictions that used a peak and average methodology?

A. Yes, I did.

Q. And do you recall what they were?

A. I believe it was New Jersey, Pennsylvania, and then I think there was one other. I can check.

Q. Would that be Michigan?

A. I believe so, yes.

Q. Do you have citations to those cases or can you provide them or the references to the decisions?

A. I can check through my files back in my office in Pittsburgh to see if those are available, but part of the problem is that over my long career in the consulting business it's been difficult to maintain all of the decisions and all of the records that go along with the assignments that I've been involved in, especially recognizing that it's been over the course of three different firms that I've worked in the utility consulting business. I'll endeavor to do that to the extent that I have the records available.

MS. PYRON: Can we make that a record requisition? I believe it would be No. 3.

JUDGE ANDERL: It would be No. 3.

(Record requisition 3.)

MR. JOHNSON: Point of clarification. Would it just be for those three states or any states that have adopted adopted a peak and average methodology?

JUDGE ANDERL: Which one do you want?

MS. PYRON: I would like it to be for those three states and any others that he identified.

Q. Turning to page 18 of your testimony, Mr. Feingold. On lines 11 to 12 you make a statement that under utilization of an LDC's system should not be encouraged because higher system utilization results in lower unit costs to all customers. Is that an accurate paraphrase of your testimony?

A. Yes, it is.

Q. Can you explain to me what you meant by that statement?

A. Essentially what I'm saying is that if a local distribution utility has invested certain funds in fixed facilities, for example, a distribution main, that is common to a number of the classes that are served by that LDC, to the extent that that facility can be utilized at a higher rate, i.e., a higher load factor, recognizing that the cost does not change, but the denominator or the volumes that move on that system change, it would derive a lower unit cost that would be attributed to the customers served off of that facility, and that's what I'm getting at by that point in my testimony.

Q. In that analysis, would it be because a throughput or a commodities-based allocator inaccurately allocates fixed demand costs? You used the example of a main.

A. My comment within the context of the broader testimony on these pages was in dealing with demand allocation methodologies, and my point of bringing up this system utilization issue was to point out that if you are going to -- let's take an extreme case -- rely on a cost allocator which allocates solely on the basis of throughput there would be no signal or benefit that would be derived through the rates that are charged to customers if the customer was able to increase his load factor or increase his capability to utilize the system more efficiently.

Q. In looking at your testimony, for example, at page 19, you advocate a bottom-up approach to a cost of service study. Is that an accurate characterization?

A. Yes, that's correct.

Q. Do you then agree that the Commission should have a goal of identifying the costs of transportation service for all customers as a result of this proceeding whether they're sales or transportation customers?

A. I followed you until the last part. I mean, I agree with the goal of the Commission to evaluate the costs associated with providing transportation service, but I also would add that it's good policy to at the same time evaluate the costs associated with any other service that the LDC would provide to be sure that there are no artificial incentives or signals provided to one class or the other for purposes of the customer evaluating which service is most economic to him.

Q. On the page 19 that we were at, at line 24, you included in your cost of service study costs you identified as any incremental costs associated with transportation service. Are there not also incremental avoided costs because a customer is not a sales customer but is a transportation customer?

A. Yes. And we identified those in the costs of service study as well.

Q. Can you reference to me where you've identified those avoided costs?

A. Yes. Probably the easiest place to find this would be under Exhibit No. 4, which is RAF-2, which is the summary pages of the case one cost of service study which is the company's proposed cost of service study, and if we refer specifically to page 6 of 11 and 7 of 11, let me explain the intent of those two pages, and then we can talk about the avoided costs. Page 6 of 11 is characterized as the case one margin after settlement. What that means is that this is a summary of the costs of service study proposed by the company after all gas costs have been excluded from the analysis, so effectively what this page represents are the costs assigned to customers other than gas costs, i.e., margin. And essentially the total of approximately $167 million, if you look about halfway down the page under grand total revenue requirements, that represents the company's nongas cost of service. So that's one benchmark we need to look at.

Now, if you go over to the next page, page 7 of 11, that page represents what I characterized in my testimony as the delivery service cost of service study. By delivery service what I'm talking about is the cost of physically moving gas volumes on Washington Natural's system.

Q. For all classes of customers?

A. That's correct. Making the presumption that whether you're a transportation or sales service customer you have to have delivery service to move gas on the company's system.

Now, if you go down to the similar part of this page under grand total revenue requirements, and you see a number of approximately $163,800,000.

Q. That's halfway down the page?

A. That's correct. That number is approximately $3 million lower than the comparable number on page 6, and that $3 million effectively captures the costs that are not required to move gas on Washington Natural's system, and primarily those costs relate to 80 percent of Jackson Prairie storage, which was the portion of Jackson Prairie that we determined was associated with sales service as opposed to balancing or the delivery function, and the other portion of the dollars that make up the $3 million represents the propane air plants or LPG plants that Washington Natural has for serving its most extreme needle peaks on behalf of sales service customers.

Q. Other than those two costs, are there any other incremental avoided costs that you attempted to identify that are included within that $3 million?

A. Not to my knowledge other than recognizing that there are some associated overhead costs and expenses that would go along with the plant investment in Jackson Prairie or the propane air plants so that you would have a fully loaded avoided cost, if you will.

Q. Did you attempt to quantify, for example, if a transportation customer is making his own nomination what his gas service is going to be that there's not a Washington Natural Gas employee involved in determining how much gas they need?

A. We did make a determination with regard to the nomination activity, and those costs and those staff members from the company were captured in the incremental administrative costs that I addressed earlier. Recognizing that in some cases a determination had to be made on what portion of a person's time would be associated with transportation versus sales with regard to, for example, nominations, so in my view the level of activity on the part of transportation customers was captured in the administrative costs that we included in the cost study.

Q. You mean in making those percentage allocations of those employees?

A. That's correct.

Q. If you would turn with me, please, to page 23 of your testimony, in the regression analysis that you performed of the Cascade methodology.

A. I might just clarify that it was not a regression analysis of the Cascade methodology per se. It was a regression analysis which tried to evaluate which cost allocation bases were most related to a particular plant investment category, in this case distribution mains.

Q. A correlation?

A. That's correct.

MS. PYRON: I have an exhibit I would like to distribute.

JUDGE ANDERL: I've been handed a single-page document which is entitled WUTC data request. It's request No. 12 and the response by Mr. Feingold for identification. That's Exhibit No. 22.

(Marked Exhibit 22.)

MS. PYRON: That would be No. 22.

JUDGE ANDERL: Yes.

Q. Mr. Feingold, I've handed you a response to WUTC data request No. 12, and I would ask if you could review and identify that.

A. I have prepared that response.

Q. Mr. Feingold, why did you not use annual weather-normalized throughput in your analysis that you describe on page 23 of your testimony?

A. As I indicated in the response to the data request, because an LDC does not design its gas distribution system or make capital investment to serve normalized gas loads, I didn't believe it was appropriate for the purpose of my testimony to use normalized volumes and instead I chose to use actual volumes.

Q. And is that because the system is designed

-- WNG system -- is designed to meet peak day demands?

A. That's right. And as I went on to say in the response, the annual normalized throughput fails to capture the extreme gas consumption characteristics which an LDC must design its system for, and in my view can't fully capture or adequately capture the cost causative characteristics associated with the costs of serves customers on the system.

MS. PYRON: Move for the admission of Exhibit 22, please.

JUDGE ANDERL: Mr. Johnson, any objection?

MR. JOHNSON: No objection.

JUDGE ANDERL: Exhibit No. 22 will be admitted as identified.

(Admitted Exhibit 22.)

Q. Mr. Feingold, is it a fair characterization of your testimony that relative to your regression analysis doesn't the data show that throughput is the weakest cost causal allocator among those you analyzed?

A. That is the result of the regressions, yes, for purposes of my determination on which allocation basis should be most heavily or, for that matter, least relied upon for purposes of allocating the costs.

MR. TROTTER: Your Honor, in another hearing this week I was subjected to a friendly cross objection, and I think we're getting into that area, so I guess I will make it at this time.

JUDGE ANDERL: Any response, Ms. Pyron?

MS. PYRON: I have questions related to the representation of my clients that obviously it's not time for NWIGU to present its direct case but they certainly relate to a peak demand allocation methodology which, unfortunately from our perspective, Mr. Feingold has not advocated and so I don't think the questions that I have that are related to peak demand are friendly cross.

JUDGE ANDERL: I don't think it's the most hostile cross I've ever heard but it's not -- I will overrule the objection. Go ahead.

Q. Mr. Feingold, are you familiar with the general principles of demand-side management for a gas utility?

A. Generally speaking, I am, yes.

Q. Would it be accurate to say that a peak demand allocation method is more consistent with demand-side management principles?

MR. CEDARBAUM: Your Honor, it's not my witness, but I will object to the lack of foundation as to what those principles are, definition of the terms used in the question itself. I just think that more foundation is necessary, especially given the witness's statement that he's generally familiar but we don't know the extent of his familiarity.

JUDGE ANDERL: You need more foundation.

MS. PYRON: I will rephrase.

Q. Would you describe your understanding of demand-side management principles for a gas utility?

A. Generally demand-side management principles relates to the activity associated with providing certain incentives to customers to change their demand characteristics within the context of the broader supply/demand profile of the particular LDC.

Q. Would you agree that a peak demand allocation methodology is more consistent with those -- advancing those principles that you've identified for demand-side management?

A. I believe that any cost allocation method or methodology that fairly reflects the costs of serving customers is consistent with demand-side management principles.

Q. Would that be so if the cost allocation methodology encourages an underutilization of an LDC's system by higher load factor customers?

A. In my mind any allocation methodology that does that -- and if we take a simple example, a throughput-only-based allocation methodology, then I would say it's not consistent with demand-side management principles, as I tried to indicate in my testimony that we discussed earlier.

Q. As a general principle, Mr. Feingold, would you agree that a principle of direct assignment of costs should be followed in a cost of service study before you get to the question of how to allocate joint costs?

A. Yes, very much so. As I state in my testimony, wherever possible and wherever information is available to facilitate use of a direct assignment, in my view and based on views that I have seen elsewhere in the industry, that is a more defensible and more appropriate approach to assigning cost to classes so that to the extent I have the ability to directly assign in a fashion that equitably attributes cost to classes, I will try to do so.

Q. Turning to page 13 of your testimony at lines 27 to 28 at the bottom of the page, the question is, "Is it realistic to assume that a large portion of the plant and expenses of a utility can be directly assigned?" And the answer at the top of the next page is "No, it is not." Can you reconcile that for me? Why did you answer the question in that fashion?

A. Well, as I state in the remainder of the response, the nature of utility operations is characterized by the existence of common or joint use facilities. For an example, transmission mains would be characterized as a common or joint use facility as opposed to a metered or a regulator where you can say with certainty that if I am a certain sized customer I need a certain size meter or regulator to serve that customer; but not only is it important to know that fact, you are also able to go back to company records on the investment to be able to say with a high degree of certainty what the cost is of that particular facility, so through that matching process, you can say with a much higher degree of precision what is the cost of serving that customer, at least with regard to the meter and regulator I use in my example.

To the extent that you don't have the data to facilitate that analysis and to the extent that the equipment or the facilities in fact is a common or joint-use facility, out of necessity you have to rely on some type of common or system-wide allocation basis. But to the extent that you can avoid doing that, because there are inherent differences of opinion with regard to common allocators, I believe that you are in a better position to track cost causation through the direct assignments.

Q. So your answer would be that to the degree that the data is available? Is that an accurate paraphrasing?

A. To the degree that the data is available and to the degree that the design of the system can support direct assignments, then I think it's appropriate to use those whenever possible.

MS. PYRON: Like to distribute another exhibit.

JUDGE ANDERL: Next exhibit will be Exhibit No. 23.

(Marked Exhibit 23.)

JUDGE ANDERL: I've been handed a multi-page document which is Northwest Industrial Gas Users' data request No. 1 and a response by Mr. Feingold. That's Exhibit No. 23.

Q. Mr. Feingold, I would ask if you would take the time to review the document that I just handed to you, the response to NWGIU No. 1.?

A. I reviewed it.

Q. Can you identify that document?

A. Yes. This is a response to a Northwest

Industrial Gas Users' data request dated July 14, 1994 dealing with the issue of how the company derived the annual load factor or system load factor based upon design day demand which was used to split costs where appropriate between demand and commodity for allocation purposes.

Q. Could you please walk me through your calculation, please, from this exhibit.

A. Yes. Very simply, load factor is a measure of average demand divided by maximum or peak demand. And all this calculation does is start with the annual throughput on the company's system of approximately 900 million therms, and if you were to divide that by 365 days, that would give you the average demand on Washington Natural's system. If that average demand was then divided by the design day peak of 6.8 million therms per day, that would give you the 36 percent system load factor which is derived at the bottom of the calculation.

Q. And from where did you derive the design day peak numbers that you used in this exhibit?

A. The design day peak numbers were derived from an analysis that the company conducted, I believe, as a part of its least cost plan that was accepted by this Commission whereby it used a base load heat factor type approach to drive the class-by-class peak day demands premised upon a design day temperature or heating degree day established for the company. And I believe that was in a series of work papers in a binder that was provided in response to another data request, I believe on the part of staff or one of the other parties in the external allocators factor binder.

MS. PYRON: I would move the admission of Exhibit 23, please.

JUDGE ANDERL: Mr. Johnson, any objection?

MR. JOHNSON: No objection.

JUDGE ANDERL: Exhibit 23 will be admitted as identified.

(Admitted Exhibit 23.)

JUDGE ANDERL: This next exhibit is going to be Exhibit 24. It is entitled Northwest Industrial Gas Users' data request No. 9 and response by Mr. Feingold.

MS. PYRON: This will be 24?

JUDGE ANDERL: Yes.

(Marked Exhibit 24.)

Q. Mr. Feingold, could you please review what I handed you is a copy of the response to NWIGU data request No. 9?

A. I have.

Q. And can you identify that document as being one that you prepared?

A. Yes, it is.

Q. Mr. Feingold, if you would turn, please, to the second page, the sheet 2.

A. I have it.

Q. Going over to the far right-hand column, the annual load factor, can you please tell me what that column represents.

A. It represents on a class-by-class basis the measure of each class's average demand divided by its peak day demand, and the calculation is performed by taking the annual throughput in column C, dividing it by 365 days to derive an average demand and dividing that by the peak day demand that's presented in column I, and that derives the annual load factor.

Q. So, for example, the residential heating class rate schedules 23 and 24 are 35.1 percent annual load factor; is that correct?

A. That is correct.

Q. And that's below the system load factor that you used in your cost of service study?

A. Numerically, that's correct.

Q. And looking at Exhibit 24, for example, on line item customer class 8, that's the class for interruptible 87 sales and transportation on 57; is that correct?

A. That's correct.

Q. And for that class, Washington Natural Gas has a 74.7 percent annual load factor?

A. Washington Natural does.

Q. Just clarify that that class has a load factor of the interruptible 87 or transportation 57 has a load factor of 74.7 percent on Washington Natural Gas's system?

A. That's correct, an annual load factor.

Q. As the result of the method of cost of service methodology that you have used, the modified peak and average method, is there a penalty, if you will, to a customer class bearing more costs that has better than the load factor of 36 percent?

A. Not sure what you mean by penalty.

Q. Does -- let me rephrase the question. Of the classes of customers on Exhibit 24 that have higher than a 36 percent annual load factor, would you identify those classes for me?

A. If I refer to column J, it would be the residential heating class.

Q. That's above 36?

A. Oh, did you say above? I'm sorry.

Q. Yeah.

A. The general miscellaneous, the C and I high load factor, the Armed Forces, interruptible firm and interruptible sales rate 85 and transportation rate 58, the sales rate schedule 87 and transportation rate schedule 57 and the CNG service G 50 rate.

Q. And you did not mean to include the residential heating class? I just want to clarify.

A. That's correct. The residential heating class is below the 36 percent.

Q. In looking at the annual load factors of these various classes and looking at the 36 percent system load factor that you used in your cost of service allocations for common costs, is the result of using a 36 percent load factor that classes that have an annual load factor that is higher than 36 percent bear a proportionately greater amount of the common costs?

A. I'm having difficulty with the way that you characterized the question, proportionately higher. It seems it would have to be relative to a particular benchmark. I would say that the load factors that we just discussed have a bearing on how costs are assigned to the classes. With regard to fixed costs or demand-related costs, I would have to run through the calculations precisely to say what the changes would be. My view is, though, if you have a higher load factor, to the extent that you allocate some fixed costs on volume as opposed to allocating no fixed costs on volume, that customer class would receive more costs assigned to it under the allocator that relies upon throughput as opposed to the allocator that does not rely upon throughput.

Q. And in deriving the 36 percent figure that you used for system load factor, it does have a basis in the throughput, the annual throughput of the company, that's how that number was derived, correct?

A. The 36 percent was based on the particular load characteristics of Washington Natural Gas.

Q. For all classes?

A. For all classes, correct.

MS. PYRON: Two other exhibits that I would like to distribute. Like to do them at the same time.

JUDGE ANDERL: While Ms. Pyron is distributing the next two exhibits in line, which will be 25 and 26, we should clarify for the record whether the handwritten notations on Exhibit No. 24, page 2, are yours, Mr. Feingold.

THE WITNESS: I would have to look at the original. That is not my handwriting but it's possible that those were put in there by someone under my direction for purposes of clarifying which allocators those columns relate to.

JUDGE ANDERL: Ms. Pyron, can you represent whether those handwritten notes on that exhibit are as you received then from the company?

MS. PYRON: That is as I received it from the company, so as to whose handwriting is on there, perhaps we could have that as a record requisition from the company.

JUDGE ANDERL: Maybe the witness could just clarify it.

THE WITNESS: Well, what I can clarify is that in fact those designations that have been placed there by company personnel relate to the allocators, the names of the allocators that I have used in the costs of service study to facilitate cross-referencing this data with the allocators that we've used in the cost of service study. And to my knowledge they are correct.

MR. JOHNSON: Your Honor, I understand that the notes were made by company personnel.

MS. PYRON: Can I clarify for the record that the notes are accurate to Mr. Feingold's knowledge that are on there?

THE WITNESS: I believe I just stated that. Yes, to my knowledge they are correct.

JUDGE ANDERL: The two additional exhibits which have been distributed, the first one is a multi-page document; the response to Northwest Industrial Gas User's data request No. 2 is Exhibit 25 and the single-page document, which is response to UTC data request No. 14, would be Exhibit No. 26.

MS. PYRON: So that I'm accurate, 14 is Exhibit No. 26 and No. 2 is No. 25.

JUDGE ANDERL: Yes.

(Marked Exhibits 25 and 26.)

Q. Mr. Feingold, could you please review the two documents that I handed you, the response to WUTC data request No. 14, which has been marked Exhibit 26 and the response to NWIGU request No. 2 which has been marked Exhibit No. 25?

A. I've reviewed them.

Q. And can you identify these documents as being documents that you prepared?

A. Yes, they were prepared by me.

MS. PYRON: I would move the admission of Exhibits 25 and 26 as well as 24 if it wasn't already admitted. I'm sorry.

JUDGE ANDERL: Mr. Johnson, any objection?

MR. JOHNSON: No objection.

JUDGE ANDERL: Those three exhibits will be admitted as identified.

(Admitted Exhibits 24, 25 and 26.)

Q. Mr. Feingold, in preparing the cost of service method that you have used, you have used a direct allocation methodology for distribution mains and associated investment; is that accurate?

A. I've used a direct assignment method for a portion of the distribution mains installed by the company with regard to the company's larger customers, the rate 85 and rate 87 customers.

Q. And can you describe how that methodology was -- how that direct assignment was done of the distribution mains?

A. Yes. The exhibits that were just marked, Exhibit 25 and Exhibit No. 26, both relate to the analysis that was conducted to facilitate the direct assignment of a portion of distribution mains at the rate 85 and rate 87 customers. Also refer you to my testimony starting at the bottom of page 35 and continuing on to page 36.

And I can try to summarize all of those documents briefly. Essentially what I attempted to perform was an analysis to more closely evaluate the nature of the company's distribution system, primarily account 376 distribution mains, with the objective of equitably assigning and/or allocating the investment dollars associated with distribution mains. And to facilitate doing that, it was appropriate to look at the largest customers on the company's system, that is, the rate 85 and rate 87 customers, to determine what facilities were installed to serve those customers, and specifically the distribution mains, again.

As the analysis indicates in the testimony on these exhibits, what the company performed was a specific analysis of each and every rate 85 and rate 87 customer to be able to identify from accounting records of the company the type and cost of facilities associated with distribution mains to arrive at an evaluation which more appropriately assigned cost to those customers. Recognizing where those customers are in the distribution system and also recognizing that based on the nature of those customers, to the extent you would have to rely on a common allocator to allocate distribution mains to those customers, there will be a greater chance of imprecision in terms of trying to track the cost of serving those customers.

So for each and every customer we evaluated the size of main, the footage of mains that would connect that customer to the upstream portion of the company's distribution system. That portion represented a direct assignment to those customers. Then to facilitate moving gas from that point upstream to the city gate or to capture the cost associated with the upstream facilities, we relied upon a common allocator for any main that was four inches or larger in recognition of the point that once we were no longer able to identify specific facilities associated with the customer, because we were moving upstream into the joint facilities, that we had to rely upon a common allocator to assign some of the costs to those large customers. In my view that approach more fairly assigned distribution mains to those customers, and at the same time more fairly assigned costs to all the other customers on the company's system.

Q. So mains that were sized four inches and greater were treated as common?

A. Mains four inches or greater, four inches or larger, were viewed as common mains.

Q. To all customers including the transportation 57 and 58 and 85?

A. That's correct.

Q. And you based that on the data that's set forth in Exhibit 25?

A. That's correct. Essentially the data provided us with a reasonable break point between upstream and downstream facilities relative to these larger customers to enable us to utilize that split of distribution mains.

Q. Do you recall from the data, or in looking at Exhibit 26 of the mains that are sized less than four inches in diameter, how much of that could be traced at all to the larger customers under 85, 58 and 87 and 57 rate schedules?

A. Yes, we were able to determine that. As I indicated in the response on Exhibit No. 26, less than .35 percent or approximately 38,600 feet of main sized less than four inches in diameter was assigned directly to the rate 85 and rate 87 customers. Very small portion.

JUDGE ANDERL: Ms. Pyron, how are you doing on time?

MS. PYRON: I'm almost finished. Two minutes.

Q. Looking at your testimony on page 38, and then recognizing the corrections that have been made to that testimony, page 38, line 9, should that be 51 percent?

A. That's correct.

Q. And that would mean that the total result of this cost of service study is then that 51 percent of the total gross distribution plant has been covered by the most accurate method of direct assignment available given the data from Washington Natural Gas as opposed to a common cost allocation method?

A. Most accurate and most reasonable from the standpoint of available data, yes.

Q. And then going to line 14, then 49 percent of the total has then been allocated among all customer classes; is that correct?

A. That's correct, but I want to point out that the 51 percent was also allocated to all the classes using special studies or direct assignment.

Q. Not just transportation and large volume customers?

A. That's correct.

MS. PYRON: I have no other questions at this time.

JUDGE ANDERL: Thank you very much. We'll break for lunch. Be back at 1:30 and begin with you, Ms. Pyron.

(Lunch recess.)

AFTERNOON SESSION

1:30 p.m.

JUDGE ANDERL: Let's be back on the record after our lunch recess. We'll pick up -- although I may have misspoken before lunch, we will pick up with Ms. Arnold.

CROSS-EXAMINATION

BY MS. ARNOLD:

Q. Hello, Mr. Feingold.

A. Good afternoon.

Q. On page 19 of your testimony you were answering a question that Ms. Pyron asked you this morning about the incremental costs associated with transportation service, and she asked you if you had made any calculation of the avoided costs that the company saves by having some customers transporting rather than taking sales service. Do you recall that line of questions?

A. Yes, although I'm not sure the line of questions talked about costs that were saved. I mean, they were characterized as avoided costs. The costs are still there. They may not be attributable or utilized by certain customers.

Q. I think you said that you had identified some $3 million in avoided costs?

A. That's right. Costs that would not be attributed to the delivery service function but costs that would be attributable to the sales service function.

Q. She asked you whether you made any determination of costs that were avoided such as a determination of how much gas each customer needed for each day, and I don't think you answered that. Did you make any kind of calculation of the avoided cost of calculating -- not actually handling the nomination but figuring out what the nomination should be for each customer each day?

A. And I think I had answered in response to Ms. Pyron's question that the level of nomination activity attributable to transport versus sales was embodied in the analysis that dealt with incremental administrative costs and the percentage of each person, or each staff person's, time that would be attributable to that function.

Q. But aren't there functions that are avoided altogether? For example, someone at the company has to make a calculation each day of what the -- how much gas the company is going to have to nominate for its sales customers. A transportation customer makes that calculation for himself. Did you make any calculation of that avoided cost?

A. No, I didn't. But in the particular example that you mention, I guess it's my understanding that that same person who makes the sales nomination would have to take into account the transportation customer's nominations as well when they go to pipeline to make a system-wide nomination.

Q. I'm not sure that we're communicating. It seems to me that there's two functions involved in nomination. One is transmitting the nomination to the pipeline; the other is figuring out what the nomination is going to be. And someone has to make that calculation for each sales customer. Maybe it's done on an aggregated basis but somebody has got to figure out what the temperature is going to be tomorrow.

A. You're talking about the person that would run a computer model to be able to calculate that.

Q. Yes.

A. We didn't take that into account in the analysis.

Q. You itemize some activities that are included with the administrative costs associated with transportation service at lines 26 and 27. One of those is transport billing. Would I be correct that a customer who has transport billing does not also utilize the billing services of the company in calculating the sales bill; isn't that correct? I mean, there are two different functions, aren't there?

A. In theory there are two different functions, but I'm not sure that you can so finally separate those two functions to be able to come up with a meaningful cost differential. We didn't look at it. We looked at it in the context of the incremental costs that were captured in the numbers that I have in my testimony but did not get into that kind of detail. At least I did not.

Q. In theory, though, if you have 36 transportation customers that's 36 fewer bills for sales customers that the utility has to handle, isn't it?

A. In theory; whether that has any cost implications, I'm not sure.

Q. What do you mean by gas measurement support?

A. I was talking about that more in a generic sense. Gas measurement support, in my mind, has to do with the actual metering and the activities dealing with the meters of customers, and being able to determine on a daily basis how much gas is brought into the system and who is using that gas and how much gas is being delivered by customers, both sales and transportation customers.

Q. Isn't there an avoided cost there also, and that those 36 customers don't have to have their meter read on a monthly basis by the regular meter readers?

A. Subject to looking at the particular cost, I'm not sure that the gas measurement support is a meter reading function per se. I would have to look at the work papers associated with this to confirm that. I think what we're talking about here is the daily measurement of gas volumes into the system, and the utilization and delivery of volumes into the system as opposed to the actual meter reading at the customer's burner tip.

Q. You also listed customer assistance and service, and again, my question is, I'm not sure how that's an incremental cost because doesn't the company provide customer service and assistance to sales customers as well?

A. Yes, it does. I think the term incremental was only meant to mean in the case of the customer assistance that there was a portion of the customer assistance expenses normally incurred by the company that would be attributable to transport customers over and above that which would be attributed to sales customers, so to the extent that there would be a disproportionate amount of activity or of costs associated with that function, that would be captured in what we are calling incremental.

Q. Can you identify what that additional activity would be that would not be offered to a sales customer? Typically here we're talking about industrial sales customers.

A. And I don't have it at my fingertips. I can look at the work papers and try to answer the question if you want me to take the time now to do that.

Q. Maybe I should ask you my next question and it might work in better there. If you would turn, please, to page 41. It's my understanding that the list from lines 8 through 13 is an itemization of the incremental administrative costs that you attribute to transportation; is that correct?

A. That's correct.

Q. Now, you mentioned the work papers. I have a work paper. Do you have the white book it's called?

A. Yes, I do. I believe that's the -- well, there was one on -- public counsel I believe had asked data request No. 37, and it was referred back to a Northwest Industrial Gas Users' data request No. 3 on administrative costs.

Q. That's the one I'm looking at. I believe that is in the white book.

MS. ARNOLD: Your Honor, I didn't make copies of this because I thought everyone had this work paper book. I don't know that it will be necessary to make it into an exhibit anyway.

JUDGE ANDERL: Okay. If your questions are not clear without us looking at it, you may need to provide copies on the break then as an exhibit.

Q. Was that the work paper you were referring to?

A. Yes, it was.

Q. Can you tell us, referring to that work paper if you need to, what incremental administrative activities are involved with the costs you've listed under account No. 807, "other purchased gas expenses." What are those incremental activities that you attributed to transportation?

A. The $18,000 that we're talking about for account 807 is attributable to a position associated with transportation.

Q. Is that one person or more?

A. That I would have to go back and ask company personnel for the specifics on that. I don't have that as part of this work paper.

Q. So you don't know if that's one position or more than one position?

A. No, I don't.

Q. What is the activity of that person involved in purchased gas expenses?

A. My understanding is that by transport coordination we're talking about the daily measurement of volumes associated with transportation service that have to be looked at in conjunction with the sales volumes that are moving on the company's system.

Q. Do you mean measurement or do you mean adding up the nominations each day?

A. Well, I believe that the direct nomination activity would be in the line below that.

Q. 902, meter reading expenses?

A. Correct.

Q. Can you explain what activities are associated with that administrative cost?

A. Not beyond the position description at this point until I have a chance to confer with company personnel.

Q. So you don't know what that person or persons do?

A. Not beyond the functional description that is contained in this work paper.

Q. It's my understanding that this person receives nominations each day from the transportation customers by fax or telephone call; is that correct?

A. I believe that's correct, subject to, as I said, in further confirmation with company personnel.

Q. And am I also correct that the company transmits its nomination to the pipeline in the morning?

A. I believe it does based on some papers that I had looked at as part of the collaborative process.

Q. Do you know whether this $42,075 is the salary of one full-time person or do you know what it represents?

A. I don't have that handy at this time.

Q. Do you know, if we are in fact correct that this nomination process is completed by the morning, what this person does the rest of the day?

A. I don't have information to answer that.

Q. The next item is account No. 903, customer records and collection expenses. Do you know what activities are represented by this $59,575 in costs?

A. Did you say 902 or 903?

Q. 903. Actually, I think that these are reversed. I think that --

A. Are you referring to my testimony or referring to the work paper binder.

Q. I'm referring to page 41 of your testimony. Account No. 903 says customer records and collection expenses and I think, according to the data request response, that that's actually supposed to be $42,075.

A. That's correct. That was one of the corrections made on the errata sheet.

Q. Well, anyway, can you tell us what that cost for customer record and collection expenses represents, what activities that represents?

A. Again, the activities are represented by the position descriptions at the left part of the work paper, transportation coordination, direct nomination, billing supervision, automatic meter reading support.

Q. But you're not sure how many?

A. I don't have the number of people readily available to be able to give you specificity on that.

Q. And you're not sure what they do specifically?

A. What I am sure of is the position descriptions indicate the functional activities that they're involved in, and they were developed by company personnel as part of my interest in developing administrative costs on an incremental basis. I don't have the particulars in this work paper to answer the question.

Q. The next item is customer assistance expenses, and according to the worksheet it represents 25 percent of someone's annual salary of $255,000. Do you know how many individuals that involved?

A. No, I don't.

Q. Do you know what those individuals do?

A. Not beyond the functional description of customer assistance and servicing related to transportation.

Q. And you're not sure if there is in fact an avoided cost for those people who no longer have to render customer assistance in servicing to sales customers; is that correct?

A. Well, presumably the avoided costs is that now 75 percent of the costs of that individual or individuals is not attributable to transportation.

Q. I see. Are these costs that are listed on page 41, the $183,400, are those directly allocated to the transportation customers?

A. Yes, they are. Directly assigned.

Q. Are these costs based on September 1993 test year? Is that what I heard you say?

A. I didn't say it, but yes, the cost study is based on 12 months ending September 30, 1993.

Q. I think you already answered this but I've forgotten your answer, have you confirmed to see whether the company's downsizing has affected any of the employees represented by these costs?

A. No, I have not.

Q. Would you turn to RAF-2 which is Exhibit 4, page 7 of 11, please. You list customer-related costs for schedule 85/58 of $389,638, and you also list customer-related costs attributable to -- that you've allocated the firm and interruptible 87/57 of $616,680. Do those costs include the costs that you have listed on page 41 of your testimony? Are those part of these amounts?

A. Yes, they are.

Q. To make sure I understand, the $183,000 is allocated only to those two columns and not to any of the others; is that correct?

A. My understanding, yes.

Q. In addition to that, you have allocated a percentage of the total other customer costs to those two groups; is that right?

A. Correct.

Q. Do you have Mr. Amen's testimony there in front of you?

A. Yes, I do.

Q. Would you look, please, at his Exhibit RJA-6, page 1 of 2. Line No. 1, executive and regulatory, total of $21,945?

A. Yes.

Q. Did you directly assign any of that cost to the transportation customers in your cost of service?

A. I don't believe I did.

Q. At page 42, lines 5 through 7, you mention the unit cost of system balancing, and you base that cost on a throughput of $900,260,358 therms; is that correct?

A. That's correct.

Q. Is that throughput or is that sales volumes?

A. That's throughput.

Q. Total throughput?

A. Correct.

Q. And is this cost of a tenth of a cent per therm allocated to all customer groups in your cost allocation or is it allocated just to sales customers?

A. The portion of Jackson Prairie attributable to balancing is assigned to all customers in the delivery cost of service study under the presumption that if you are delivering gas on the system that there is a cost of balancing that goes along with the delivery.

Q. Well, this may be a question that you will want to defer to Mr. Amen, but if all the customers are paying their allocable share of the Jackson Prairie cost of balancing, why is it that the company is also proposing an optional balancing service charge for transportation customers if they're already paying the Jackson Prairie cost of balancing?

A. Well, it's my understanding that's why there was a credit in the rate schedule 57 tariff of one cent per therm to reflect the fact that they had previously paid for that and that now they're paying for it on an unbundled basis under the optional daily balancing service.

Q. But I'm having a hard time reconciling your calculation that it costs a tenth of a cent per therm to do this balancing service with the company's proposal for a balancing charge of 2.4 cents per therm.

A. And that's because in my testimony the one cent per therm unit cost is stated as a per unit of throughput as opposed to per unit of imbalance, and if you were to restate the same Jackson Prairie costs and restate it on a unit basis, per unit of imbalance, that's where you derive the higher unit cost that formed the basis for the optional daily balancing service charge.

Q. So it costs a tenth of a cent if everything is in balance?

A. No. It costs a tenth of a cent if you recover that cost on a bundled basis from sales and transportation customers.

Q. Well, I'm not sure I understand still, but I will ask Mr. Amen.

A. Well, I think I can clarify it if you just give me a moment. As I stated on page 42, if we start with the presumption that the cost of balancing from Jackson Prairie is the $919,000, on line 1 of page 42, and that represents 20 percent of the company's total cost of Jackson Prairie storage, the way that you unitize that cost, the unitization of that cost will vary depending on what your denominator is, and if you want to restate that on a per unit of throughput basis, as I have on this page by dividing it by the 900 million therms, you get the one-cent-per-therm unit cost such that if you --

Q. You mean the tenth of a cent?

A. Tenth of a cent, one cent per decotherm. If you were to charge that rate to everyone, sales and transportation customers, you would fully recover the $919,000. Now, if you want to measure that cost on a unit basis per unit of imbalance, the level of imbalances on Washington Natural's system represents a number that is far less than the 900 million therms such that when you restate that cost on a unit basis, you derive the unbundled balancing service charge that's incorporated in the rate 57 proposal. I was going to refer in my testimony where that was stated. I believe it was in one of the work papers, I believe in response to public counsel's data request No. 40, there was a calculation which showed that higher unit cost.

Q. Did you do any investigation to determine whether the company's balancing account, if that's the correct word, for its sales customers is always in balance or if it also goes out of balance occasionally?

A. We did the latter, and that was the reason why we developed a unit cost of balancing on a systemwide basis to avoid having to determine whether sales or transportation customers were out of balance at any particular time; we were able to evaluate imbalances on the company's system across all customer classes.

Q. So the tenth of a cent covers the company's imbalances as a whole?

A. That's correct, and the 20 percent of Jackson Prairie represents the portion of storage that's necessary to keep the entire system in balance irrespective of whether it's transport volume or sales volume.

MS. ARNOLD: Thank you very much. That's all my questions.

CROSS-EXAMINATION

BY MR. FREDERICKSON:

Q. Good afternoon, Mr. Feingold.

A. Good afternoon.

Q. Like to direct your attention to Exhibit 9 and page 3 of Exhibit 9. If I'm reading that correct, the average number of customers in 1974 was 211,676 and that number grew to 423,142 in the year 1993. Is that how the table works?

A. Yes, that's correct.

Q. So it was roughly doubled during the 19-

year period from 1974 to 1993?

A. Yes, that's correct.

Q. Of that increase, in other words, the increase in the number of customers from the year 1974 to the year 1993, would you tell me approximately what percentage of those customers were residential customers?

A. I can't provide you with a percentage other than just based on my knowledge of the company's growth over the years, it has been more so in the residential market than any of the other markets.

Q. Based on your knowledge, would you be able to estimate it roughly?

A. I believe that the company has information that could be compiled that would allow that estimation to be performed.

MR. FREDERICKSON: I wonder if we could make a record requisition request that the company provide us with the percentage increase in residential customers from the year 1974 through 1993.

JUDGE ANDERL: That's record requisition No. 4.

(Record requisition 4.)

THE WITNESS: Your Honor, I was just trying to recall. I believe there was a data response that was provided by the company recently in response to either a public counsel section or a staff request which provided a breakdown of customers by residential, commercial and industrial over I believe this same period or a comparable period.

JUDGE ANDERL: Then if that's so and that would meet what Mr. Frederickson needs, you can just in your response to No. 4 refer him to that response.

THE WITNESS: Fine.

MR. FREDERICKSON: I believe that Ms. Arnold just handed me that. It's request No. 11, WUTC data request dated September 16, 1994, so that's the sort of information.

Q. What is the annual load pattern or, more specifically, the annual load factor of the average residential customer?

A. If you refer to my Exhibit No. 8, which is RAF-6, which was discussed earlier, there is an annual load factor calculation on that for the residential and it's 35.1 percent.

Q. Again, could you give me the citation on that, please?

A. Yes. Exhibit No. 8, line 1, column J.

Q. Is Exhibit 8 a one-page exhibit?

A. Yes, it is.

Q. Then if you would turn, please, to page 5 of Exhibit 9. Is the increase of residential customers the primary cause of the peak day throughput as shown on this exhibit?

A. You can't tell from this exhibit, but I would say that if the change in customers over the years is primarily in the residential market, then I would think that the peak day throughput on the company's system would also be driven by the increase in residential load due to the increase in residential customers.

MR. FREDERICKSON: Thank you, I have no further questions.

CROSS-EXAMINATION

BY MR. TROTTER:

Q. Mr. Feingold, this is the first time you've testified in this jurisdiction; is that true?

A. That's correct.

Q. Turning to your Exhibit T-2, page 2, in the first paragraph you indicate that you have advised and assisted utility management, industry trade and research organizations and energy users in matters pertaining to rate design and so on. Do you see that?

A. Yes, I do.

Q. Would you please define the energy users that you have reference to there?

A. The energy users I'm referring to is, number one, my first employment was at the Port Authority of New York and New Jersey which is a bistate governmental agency. I was involved in energy activities for that organization and then over the years I've been involved in evaluating gas supply and pricing issues for selected industrial customers. I don't have the names offhand.

Q. What kind of industries would your customer groups come from?

A. They could be process use-type customers, steel, aluminum production and so forth.

Q. And have you personally advised such energy users and others on competitive market analysis, for example, one of the items listed in your --

A. No, I have not.

Q. So you must have advised utility management on competitive market analysis?

A. Sure, within the context of integrated resource planning, developing rate design to meet alternate fuels and things of that nature.

Q. As well as sales and revenue forecasting, gas supply planning issues, mergers and acquisitions, corporate restructure?

A. That's correct.

Q. Have local distribution companies such as Washington Natural Gas become increasingly more risky over the past several years as a general proposition?

A. I think certain elements of the LDC segment of the industry have become more risky in the post 636 environment, primarily because of the gas supply purchasing responsibilities being placed squarely on LDCs that was before upon pipelines.

Q. Would another major factor related to that be the concern over bypass?

A. It's possible that bypass existed before 636.

Q. Did it become a more significant or less significant factor after that docket?

A. I think in some jurisdictions it became less significant.

Q. What about in Washington?

A. I can't really say because I haven't had the opportunity to look at the nature of bypass activities over a longer period of time in this state.

Q. So you have no opinion whether bypass is a factor in this jurisdiction?

A. I think bypass is a factor for any LDC.

Q. Are there any other major factors that have increased the relative risk of local distribution companies currently?

A. I think those would be the ones that I think the industry views as the most significant.

Q. In your testimony you have presented no evidence about the relative risk borne by the company in serving its various class of customers, have you?

A. No, I have not.

Q. Have you relied on evidence presented by others or any other analysis on that issue in preparing your studies here?

A. If you're asking me if risk differentials were taken into account in the cost of service study, they were not.

Q. Were there risk differential studies available that you did not take account of or there was --

A. I was not aware of any.

Q. Turn to your Exhibit 7, page 1. And this is your cost of service study, and in this study you compare the actual and relative rates of return for the company's major customer groups; is that right?

A. That's correct.

Q. And looking at page 1 of Exhibit 7 at the bottom two lines, you show -- in the Total Company column you show the return on rate base of 8.44 percent; is that right?

A. That's correct.

Q. And below that is the unitized rate of return which is simply the 8.44 divided by itself, right?

A. That's correct.

Q. And then for the other classes, you show the rate of return relative to that unitized number, correct?

A. Well, all of the numbers are unitized. The numbers are shown relative to the overall company rate of return which is the unitized number.

Q. And so you just took each class's return on rate base and divided by 8.44?

A. That's correct.

Q. Were you specifically instructed by the company to calculate unitized class rates of return?

A. I didn't seek out that type of instruction because it is typically the case that you provide rates of return information and relative rates of return as the result of the cost study.

Q. So if nobody told you to do it you just did it because that's a standard thing to do?

A. It's a standard that I've seen in the industry, yes.

Q. Is there anything in your direct testimony or your exhibits which indicate that each and every customer class served by the company should be charged rates that would be -- that will produce the allowed system average rate of return?

A. The only reference to that type of issue, I believe, is when I talk about how the result of the cost of service study can be used for class revenue and rate design purposes, and I talk about the rates of return serving as a guide to move in the direction of costs, but I don't believe I state anything specifically that addresses movement to unit is necessary within the context of this testimony.

Q. Back on page 2 of your testimony. On lines 25 through 28 you indicate that you were retained to provide an independent expert assessment of certain things including the regulatory perspective of this Commission. Do you see that?

A. Yes, I do.

Q. And did you gain that perspective by reviewing anything other than pertinent Commission orders?

A. Yes.

Q. What else did you look at?
A. I was a participant in the collaborative process which staff was a part of.
Q. Anything else?
A. No.
Q. You are generally familiar with the Commission's past decisions on gas cost of service, in particular the Cascade and Water Power decisions?
A. Yes, I am.
Q. I take it you did not review the underlying testimony relied on by the Commission in those dockets such as the testimony of Mr. Lazar, Dr. Power, Dr. Ben Johnson and Ms. Herbig, H E R B I G, in Cascade, or Mr. Bushnell, Dr. Power and Mr. Lazar in the Water Power proceeding?
A. I reviewed all of that testimony.
Q. So when I asked you whether you gained your perspective based on your review of the Commission orders, you also reviewed the underlying testimony?
A. Of all parties in the proceedings, yes.
Q. Let me ask again. You reviewed the orders in those cases and you reviewed the testimony and exhibits in those cases?
A. Correct.
Q. And you attended the collaborative that was

held this spring?

A. That's correct.

Q. Anything else upon which you base your perspective of the Washington Commission?

A. Not that I can recall.

Q. On page 5 of your testimony, you were asked the source of your cost data and on line 27 you indicate it was extracted from the company's total cost of service contained in the recently settled rate proceeding; is that right?

A. That's correct.

Q. And I believe we've established the Commission did not do an account-by-account adjustment-by-adjustment order in that docket as it did in the prior contested proceeding; isn't that correct?

A. That's my understanding.

Q. So as a result there is no Commission-approved account-by-account cost of service from that settled rate case?

A. Not in the strict sense of the term. And the settlement, my understanding, was approved.

Q. At the bottom of page 5 and over to page 6 of your testimony you indicate that you used the company's books and records where more detailed information was needed; is that right?

A. That's correct.

Q. Turn to your Exhibit 7, page 18, from your cost of service study and about two thirds of the way down the page we see Roman numeral 2 Customer Accounts Expense. Did you rely on the company's books and records in determining the meter reading and customer records and collection expenses accounts, basically the accounts 901 through 905 shown there?

A. Those costs certainly came out of the account-by-account breakdown. There was no specific analysis done of those accounts which required books and records beyond the information that provided the total cost of service.

Q. Isn't it true that some of the contested issues in the settled case involved meter reading and billing expenses and main extensions for residential subdivisions?

A. I don't know.

Q. Did you review the filed testimony in the last docket, 931405?

A. I don't recall reviewing it, no.

Q. Did the company discuss with you any of the contested accounting issues in that case?

A. They may have in general discussions among a whole host of issues, but they were not mentioned from the standpoint of whether or not it would influence my use of a test year for the 12 months ending September 30, 1993 and the costs by account contained therein.

Q. How many different gas supply pipelines pass through Washington Natural Gas's service territory?

A. You have Northwest Pipeline Corporation, you have Pacific Gas Transmission Company which goes through the state of Washington.

Q. The PGT pipeline is all in Eastern Washington, isn't it?

A. That's correct.

Q. And Washington Natural doesn't have any prescribed territory, does it?

A. I'm sorry. I thought you said the state of Washington. If it's just confined to Washington Natural service area it would be Northwest Pipeline Corporation.

Q. In other areas of the country where you have worked, is it typical for a company of Washington Natural's size to be -- to have access to more than one pipeline?

A. The size part throws me. It simply is a matter of geography. If you go to the Midwest, for example, where there are a number of pipelines crossing, there's a greater likelihood that an LDC would have multiple pipeline connections, but if you go to an area where there is not that much pipeline activity -- one of my clients in Vermont, for example, is served by one pipeline, TransCanada. So it doesn't necessarily have a size connotation. I think it's more geographic issue. You can have a small LDC that has multiple pipeline connections.

Q. When did natural gas first come to the Pacific Northwest?

A. I haven't studied the history of that.

Q. Would you accept subject to your check it was 1957?

A. I would accept that subject to check.

Q. And based on your experience is that date later than when it first came to other parts of the country?

A. Somewhat later. There was a lot of pipeline activity after World War II in pipelines moving to the east to bring natural gas as opposed to manufactured gas into service areas.

Q. In your experience from other parts of the country, is it common to find gas space and water

heating in multifamily housing units?
A. It depends on the part of the country.
Q. Some places yes, some places no?
A. There are some areas of the United States where there's a very high saturation, client saturation, in those markets and other places of the country where it's not as high because of a number of factors.
Q. Is it common to find gas space and water heat in multifamily housing units in Washington Natural's territory?
A. I haven't reviewed any appliance saturation information for the company.
Q. As a general matter, do you agree that there are specific circumstances in the Pacific Northwest which justify examination of gas utility economics on a case specific basis rather than simply relying on assumptions, methods and decisions applicable to other parts of the country?
A. I don't understand the question.
Q. Turn to page 11 of your testimony. And on this page you have a discussion of what you call your guiding principles, is that right, for cost allocation?
A. That's correct.

Q. And at the bottom, starting at line 26, you refer to the principles relating to customer costs, and at the bottom line you say they may include capital costs associated with minimum-sized distribution mains and so on?

A. That's correct.

Q. I would like to read you an excerpt from a Commission order from this jurisdiction on the use of that methodology and ask if you agree or disagree. "The Commission rejects the company's use of the zero intercept method; the minimum system method of which the zero intercept method is a variant is also rejected. Both methods are likely to lead to the double allocation of costs to residential customers and over allocation of costs to low use customers."

A. No, I don't agree with that.

MR. JOHNSON: Could we have a reference to that order?

MR. TROTTER: Fifth supplemental order in U-83-26, page 33.

MR. JOHNSON: Thank you.

Q. Now, you have used the minimum system and zero intercept methods as recently as earlier this year in the Atlanta Gas Light proceeding?

A. That's correct.

Q. And in your testimony before the Georgia Commission in that case, you defended the use of the minimum system or zero intercept method; is that right?

A. That's correct.

Q. You do not use that method in this proceeding; is that right?

A. That's correct.

Q. You have used a demand and commodity-based allocation methodology for allocating distribution mains rather than the customer and demand method used in Georgia?

A. That's correct, to the extent that we were not able to directly assign distribution mains.

Q. In classifying the company's joint use transmission and distribution system, in this proceeding you used the peak and average methodology in which a proportion of costs equal to the system load factor is classified as commodity-related and the remainder as demand-related; is that right?

A. Well, we did not use a peak and average. We used a load factor adjusted peak and average basis or what I call the modified peak and average basis. The Cascade is more traditional to the peak and average, which is a 50/50.

Q. The method you used is similar to an approach known as the average and excess demand method with respect to the classification of a portion of the investment equal to the system load factor as commodity-related; is that correct?

A. It is related to average and excess from that respect only, yes.

Q. And in the Georgia case you testified in earlier this year you specifically opposed the average and excess method, did you not?

A. That's right, because in the case of average and excess for a gas utility, because there is such a high degree of coincidence between the loads of the classes it collapses to a strict peak responsibility method.

Q. And you did not advocate the peak and average method modified or otherwise in Georgia; is that right?

A. No, I did not, but we did, as here, provide a number of different cases for purposes of providing a range of results.

Q. And my question referred to the one which you advocated and you responded appropriately.

A. Was that a question?

Q. Yes. In other words, when you proposed several methods are you advocating them all equally? You're not advocating them all equally, are you?

A. No, just as I am not advocating them all equally here.

Q. Turn to page 39 of your testimony. And beginning at line 12 you devote a single paragraph of testimony to describing the method you used to allocate purchased gas costs; is that right?

A. That's correct.

Q. And these costs amounted to approximately $180 million in 1993 or nearly half of the company's total utility expenses; is that correct?

A. That's correct.

Q. Turn to your cost study Exhibit 7, page 1. And this is the summary of your proposed method; is that right?

A. Are we on Exhibit 7, Mr. Trotter?

Q. Yes.

A. Yes, that's correct.

Q. And purchased gas costs are not reflected on this page, are they?

A. No, and that's because they were referred to in a previous page.

Q. You mean a previous exhibit?

A. Previous page of a previous exhibit.

Q. And that's Exhibit 4? Let's turn to Exhibit 4, page 1. And this is similar in format to Exhibit 7, page 1, except it does include purchased gas costs; is that right?

A. That's correct.

Q. So I'm clear in understanding this, you actually did the cost of service study without gas costs, then added them back in as shown in Exhibit 4, or did you do the study with gas costs included and subtract them out for Exhibit 7?

A. I believe the sequence was that the gas costs were first included and allocated in the gas costs sub report which appears on page 4 of Exhibit No. 4, and then the gas costs were excluded and a margin-based or non gas cost of service study was run as appears in Exhibit 7.

Q. So Exhibit 7 shows only the costs of the utility system without gas supply while the rates that Mr. Amen sponsors for the sales schedule include cost of gas; is that right?

A. That's correct, and that's why Mr. Amen had to rely on the gas costs sub report that I just referred to.

Q. Would you agree that there are any number of ways to structure a gas supply contract in terms of the reservation or demand charge, reimbursement for transmission costs on other pipelines, seasonal commodity rates and so on?

A. I suppose there are many ways but there are particular ways that suppliers gravitate towards as the market develops and matures.

Q. So, for example, one supplier might offer gas with a $2 per month per therm reservation fee at a 12 cent-per-therm commodity charge while another might offer gas with a dollar per month per therm reservation fee and a 15-cent-per-therm commodity charge?

A. It's possible, but I would think that those two particular contracts deal with two particular type of supply sources such that there would be some rationale for having that different type of structure.

Q. And depending on the utility's load factor, access storage and other factors, either type of price might be more attractive than the other depending on the circumstances?

A. Well, I'm not sure it's an either/or proposition depending on what particular type of supply an LDC is looking at at any particular point in time. Certainly load factor has a bearing on the nature of pricing within a supply contract, but I guess I can't comment beyond that in terms of what the decision-making process would be in the case of a particular LDC evaluating one versus the other.

Q. But it would be possible for an LDC in one set of circumstances to favor the first contract type I mentioned; another LDC might favor another type of contract just depending on their unique circumstances at the time?

A. They might favor it but they might not have that type of contract pricing available to them where they are located.

Q. I'm just asking you to assume that they were. It's a very general question.

A. It's possible.

Q. Take another example. A utility without any storage and attempting to meet a relatively low load factor load might sensibly choose a contract with the lower reservation fee and the higher commodity charge while a utility with only high load factor, industrial loads, or with ample storage, might sensibly charge the higher reservation fee and the lower commodity; is that right?

A. Again, I would have to look at the particular portfolio of the LDC and figure out which type of supply and when in the year the supply is being acquired to be able to answer that with a certain precision.

Q. Let's assume all else is equal but the factors that I mentioned. Can you answer the question?

A. And were the factors -- beyond storage what were the other factors?

Q. Low load factor versus high load factor.

A. And the two contract types in the order that you presented were which now?

Q. One had a higher reservation fee and a lower per therm commodity charge and the other had a lower reservation fee and a higher commodity charge.

A. And the question is which LDC would pick which?

Q. Try it again. A utility without any storage and meeting a relatively low load factor load might sensibly choose the contract with the lower reservation fee and the higher commodity charge; is that right?

A. Lower reservation fee higher commodity charge for the low load factor LDC.

Q. Yes.

A. It's possible there would be a preference for that contract on the part of that LDC. Again, I have a difficult time looking at that in isolation.

Q. Let's try a different example. Liquefied natural gas typically has a much lower fixed cost component than securing a base load gas contract and pipeline capacity to serve that contract, but a much higher commodity charge per therm; is that correct?

A. Is this an LNG service that's purchased from a third party or an LNG service that's owned by the LDC?

Q. Either.

A. Could I have the question reread.

Q. Yes. The assumption I'm asking you to accept is that liquefied natural gas typically has a much lower fixed cost component compared to securing a base load gas contract and pipeline capacity to service a contract but a much higher commodity charge per therm?

A. I would agree with that other than I'm not sure the much higher. I think in relative terms I would agree with what you're saying.

Q. The utility with storage capacity can buy spot gas in the summer with no fixed charges in the purchased gas contract at all and use it to serve peak demands in the winter, sort of the other extreme?

A. Mr. Trotter, could you repeat that again, I'm sorry.

Q. A utility with storage capacity can buy spot gas in the summer with no fixed charges at all and use it to serve peak demands in the winter.

MR. JOHNSON: Your Honor, can I interpose a standing objection to this line of questioning? We're being asked a series of hypotheticals upon what a utility might or might not do, clearly calls for speculation as well as I think much of these series of questions have already been asked and answered at length. Mr. Feingold clearly can't put himself into the position of a utility, the hypothetical utility that Mr. Trotter is referring to, so I would interpose a standing objection and see if we can cut this line of questioning down.

MR. TROTTER: I will agree the questions have been asked. This witness has devoted one paragraph of testimony to purchased gas costs of $180 million and we think it deserves some inquiry, and these are general questions getting at the nature of natural gas business, and we thought these were extremely straightforward questions, quite frankly, and we're not asking for a host of assumptions. I think they're highly relevant and have not been asked and answered, but they have been asked.

JUDGE ANDERL: I tend to agree with you, Mr. Trotter. I think I will allow the questions. I do, though, even though there aren't a lot of assumptions, find myself getting lost in the hypothetical, so if there's anything you can do to simplify it, anything you can do to make it easier for the witness to answer it. One thing I'm thinking of is instead of asking wouldn't it be sensible for a utility could you pin it down and say would it make economic sense? Would it be less costly? What exactly are you looking for from the witness? So kind of overruled, kind of sustained.

Q. Let me try it this way. Liquefied natural gas typically has a much lower fixed cost component than securing base load gas contract and pipeline capacity to service that contract?

A. I would agree with that and that's why utilities rely upon LNG and propane air for peak shaving.

Q. Would you agree that a utility which has a need only for additional peak day gas and has plenty of gas supply for the other 364 days of the year should probably look at a peaking resource rather than a year round firm gas contract and year round firm transportation capacity?

A. And I guess the problem I have is because some of the LDCs that I work with are very active in the capacity release market, and it's not as simple a matter any more of only looking at the capacity and supply within the context of the LDC's traditional service area and -- I mean, I can agree with you with regard to the issue on the LNG on the lower fixed cost, and I can probably answer in general terms that it would make sense for the LDC to pursue that, but I want you to understand that there are other aspects that when you're looking at the economics of supply planning come into play beyond just looking at individual contracts.

Q. And how much capacity release revenue have you included in your cost of service study?

A. I don't believe there's any in there. I believe we were talking about generally in the industry based on the questions you've been asking.

Q. So let's refer my question then to apply to Washington Natural Gas. In the situation where they only need an additional peak day gas for one day, and they're not active in capacity release, would you agree that a preferred option was a peaking resource rather than a year round firm gas contract and year round firm transportation capacity?

A. Supplied over a shorter period of time would make sense for an LDC in that type of a circumstance.

Q. Would you agree that the process gas utilities use in selecting resources to meet their specific needs is little different from the electric utility deciding not to build a nuclear coal plant to meet needle peaks but instead meeting those peaks with resources with lower fixed costs such as gas turbines or purchased capacity?

A. What do you mean by "the process," Mr. Trotter?

Q. Activities by which gas utilities attempt to lower their total costs of doing business.

A. I'm not as familiar on the electric side activities as I am on the gas side. I can certainly speak to some of the activities more recently with regard to LDCs on those types of resources. I'm somewhat reluctant to carry that across to the electric side.

Q. So are you familiar with this Commission's use of the peak credit methodology in the classification of fixed electric production cost between capacity and energy?

A. No, I'm not.

JUDGE ANDERL: Mr. Trotter, if I may interrupt for just a moment, I think this would be a good time for our afternoon recess. Be back at 5 after 3, please, on the wall clock.

(Recess.)

JUDGE ANDERL: Let's be back on the record after our afternoon recess. Before we go back to the questions for Mr. Feingold, I will announce the Commission's consideration and ruling on the staff motion for rehearing and consolidation. That motion is denied to the extent that it requests rehearing of docket 840 and consolidation with this matter. However, to the extent that the issues raised by that motion are already presented in docket 940034, to the extent that they relate to the sale of compressed natural gas, staff is not at all foreclosed from bringing that up in its direct case to be prefiled, I believe, in November.

MS. EGELER: That frankly, Your Honor, leaves me with a lot of confusion. It wasn't clear to me what the company was saying when it said that it didn't object to the staff making evidentiary arguments. That said, I don't know what that means. Can the staff -- or is the staff limited to directing its testimony to whether or not the rate is compensatory or can it expand its treatment of the issue to consider whether or not a market is developing and whether or not others are able to compete with Washington Natural?

JUDGE ANDERL: Staff may present testimony on both issues.

MS. EGELER: Thank you.

MR. JOHNSON: Point of clarification. Commissioner Hemstad raised the issue concerning burden of proof. Is there a resolution or decision on that point?

JUDGE ANDERL: Staff indicated it was willing to accept the burden of proof. I don't think that this ruling changes that at all.

MR. JOHNSON: And so I'm clear on what burden of proof to show what is still a little unclear to me. Is their burden of proof to show that not that we have done or not done something in the marketplace but that there is in fact some anticompetitive effect by virtue of us being in the marketplace? It is unclear to me what that burden of proof is.

JUDGE ANDERL: Well, maybe we're going to have to argue about that when we come back, because I don't exactly know what their position is going to be yet. To the extent that the tariff filing in 940034 is a company tariff filing, I think the burden of proof remains with the company to establish that the rates in that docket would be fair, just and reasonable if the Commission allowed them to go into effect. Beyond that I think staff's burden would be establishing the contention that they've raised that no developments towards competition have taken place in the marketplace. Now --

MR. JOHNSON: No impediments to competition?

JUDGE ANDERL: That we're not further down the road towards developing a competitive market than we were a year and a half ago.

MR. JOHNSON: Well, it might be an issue where not so much the burden of proof but whether they've met the burden of proof by their presentation.

JUDGE ANDERL: That's what I mean. I don't know what their contention is and I don't know what their cases look like, so I guess if you need anything more specific from me on burden of proof, I can't give it to you right now.

Any further clarification needed?

MS. EGELER: One more. You said that we may address competition or lack thereof. Can I assume then that you also mean that we can address the need or lack of need for a tariff on sale of uncompressed gas for resale?

JUDGE ANDERL: Yes. Anything else on that issue?

Mr. Trotter, back to you for cross of Mr. Feingold.

MR. TROTTER: Thank you.

Q. Refer back to Exhibit 4, page 4, your purchased gas cost sub report, and under the account Total column, the very first number, the 20.3 million demand costs annual firm, is this the demand for reservation fee for all of the company's gas supply contracts which supply gas year round?

A. I believe that it is, yes.

Q. And the demand costs included in this line are included on an as-billed basis without any analysis of whether some tradeoffs have been made for higher or lower demand costs in exchange for higher or lower commodity rates; is that correct?

A. That's correct.

Q. And that 20 million -- 20.3 million plus -- the $42.3 million about seven lines down for pipeline supply, do you see that?

A. Yes, I do.

Q. Those are all allocated among the classes using the modified peak and average demand method; is that right?

A. That's correct.

Q. And that means that roughly two thirds of these costs are allocated among the classes based on the peak design day hypothetical demand; is that right?

A. Peak design day. I would not characterize it as hypothetical.

Q. We'll talk about that in a minute. In your testimony you state that the commodity costs as used in your purchased gas sub report are the contract commodity and spot market gas costs. If you need to refer to your testimony it's on page 39, but my question to you is, those are the costs that are shown on page 4 of Exhibit 4, the third line from the bottom in the total column, the $135.8 million; is that right?

A. That's correct, 135.9.

Q. So these are as-billed commodity costs, correct?

A. That's my understanding.

Q. Do you have with you the amount of therms of peak day deliverability that are associated with each category of demand costs you have identified in your sub report? Let's do it by record requisition.

A. I'm just trying to recall whether it was a request that was made in a data request. I can't recall offhand. Could you repeat the question again, Mr. Trotter.

Q. Yes. Referring to Exhibit 4, page 4, for the annual firm, winter firm, Clay Basin categories and under transportation, the pipeline supply, storage demand, Jackson Prairie redelivery, storage capacity and peaking supply categories, provide the peak day deliverability and annual quantity for each of those line items.

JUDGE ANDERL: That's record requisition No. 5.

(Record requisition 5.)

A. I was just referring to see whether it was in one of the work papers but we will compile that and provide it.

Q. Turn to page 35 of your testimony. And you're referring to your modified peak and average method beginning on line 8, and on line 13 you indicate that you have used each class's contribution to the coincident design day demand as the basis for your allocation of those costs which have been classified as demand-related production, transmission and distribution; is that correct?

A. That's correct.

Q. And the reasons supporting that are shown in your answer beginning on line 20 through 27?

A. That's correct.

Q. Would you agree that there are many other methods which could be used for allocating those demand-related costs?

A. Yes, and I think I state such in my testimony.

Q. And one would be the actual peak day demand by class during the actual test year, would that be one?

A. That's one measure of peak day.

Q. And would another be the hypothetical peak day demand by class during a year with average weather?

A. In a year with average weather, I could determine what the peak day was. It wouldn't have to be hypothetical. It would be actual.

Q. Another would be the actual peak month demand by class during the test year?

A. If you didn't have any peak day information, that could be a proxy for peak day.

Q. And is that the approach you used in your testimony before the Ohio Commission for Columbia Gas?

A. That's correct, because peak day information was not available, as I stated in the testimony.

Q. And another method would be the sum of the 12 monthly peaks method which is used by FERC for electric utilities; is that correct?

A. To use that for a gas utility?

Q. Yes.

A. I don't think I would say that that's appropriate.

Q. And would another method be a commodity-based approach?

A. No, not for peak day.

Q. Are you saying it can never be used or it's your opinion it shouldn't be used?

A. I think this question or this discussion started out with a question dealing with other peak day determinants, and we talked about peak day in a normal weather year, we talked about peak month, and now you're saying can annual consumption be used for peak day, and I say no.

Q. I was talking about methods for allocating demand-related costs.

A. That's different. You can use annual

consumption. I have not seen it used for an LDC.

Q. The Commission used that method in the Cascade case you referred to in your testimony?

A. No, they did not.

Q. What did they do, in your opinion?

A. They used the peak and average where 50 percent of the costs were allocated on volume and 50 percent on demand peak day.

Q. Now, of the methods we've just discussed, would you agree that the design day method is the least favorable to low load factor classes such as residential and most favorable to high load factor and interruptible classes?

A. If we define favorable in terms of attributing costs where they should be attributed, I would say yes.

Q. And you used the design day data to do the following: First, or item one, you allocate about two thirds of annual firm gas demand charges and about two thirds of Northwest Pipeline demand charges among the sales customer classes?

A. That's correct.

Q. Number two, you allocate about two thirds of the costs of transmission mains and of distribution mains over four inches in diameter among all customer classes?

A. Correct.

Q. And you also use it to allocate about two thirds of the costs of distribution mains under four inches in diameter among all customer classes except schedule 57 and 87?

A. Except it should be schedule 85 and 87, yes, I would agree with that.

Q. Did you use it in any other context in this docket?

A. I have to look at each line item to verify that which can be done based on the allocator. I think those are the broad categories.

Q. Okay. The design day that you used is based on a day with 55 heating degree days; is that correct?

A. That's correct.

Q. Do you know when the last time that such a day occurred on Washington Natural's system?

A. No, I don't.

Q. Do you know if it ever was, whether such a cold day was ever experienced during Washington Natural's life as a gas utility?

A. I have not investigated whether that 55 degree day has occurred.

Q. Would you accept subject to your check that the 55 heating degree day occurred in 1951?

A. I would accept that subject to check.

Q. And would you agree that since gas was not available in the Puget Sound area until 1957 that such a day -- natural gas was not available -- that such a day has not occurred since Washington Natural has been doing business?

A. I would accept that subject to check.

Q. Do you know how often a day with 55 heating degree days is projected to occur in the Puget Sound area?

A. I have not looked at any weather data projections to make that determination.

Q. If you were to compute the system load factor or the load factor for any of the firm sale customer classes on the basis of test year peak day demand rather than design day peak demand, the load factor would be higher?

A. Yes.

Q. And it would follow that under -- it would follow from that under your modified methodology the percentage of the company's transmission and distribution costs allocated on a commodity basis would increase and therefore the amount allocated to the interruptible and transportation classes would increase?

A. Mathematically that would occur, yes.

Q. And if you computed the system load factor and class load factors based on the peak month demand rather than peak day or design day peak demand, even fewer costs would be allocated to residential and other firm sales customers. Would that follow?

A. I haven't looked at the data to confirm that.

Q. Is that something you can accept subject to your check?

A. Yes.

Q. Would you do so?

A. Yes.

MR. TROTTER: I would like to have two exhibits marked for identification. The first is company's response to public counsel data request No. 3.

JUDGE ANDERL: That's a single page document that I will mark for identification as Exhibit No. 27.

(Marked Exhibit 27.)

MR. TROTTER: Next is the company's response to public counsel data request No. 4.

JUDGE ANDERL: For identification that's Exhibit No. 28.

(Marked Exhibit 28.)

JUDGE ANDERL: Mr. Trotter, I think we're short a copy up here.

Q. Mr. Feingold, do you recognize both Exhibit 27 and 28 for identification as your responses to two of our data requests?

A. Yes.

Q. And our request No. 3, Exhibit 27, asked for the -- a description of your load research studies on the basis upon which your demand allocation factors were based, and you indicated that there were no such studies and referred us to the next exhibit, Exhibit 28; is that right?

A. Correct.

Q. So the design day load is a hypothetical calculation not based on an actual day on the system?

A. I wouldn't characterize it that way at all. It's a very real calculation based on actual consumption information for base load and heat factors of the company.

Q. Let's go to Exhibit 28, third page, where you show design day -- design peak day distribution by regression. Do you see that? It's the third page.

A. Including the cover sheet?

Q. Yes.

A. I have it.

Q. And you show a design peak day at the very bottom line, 55 heating degree days per least cost plan and you show 6.8 million therms.

A. Yes.

Q. And on what day did that occur?

A. It occurred on a day that has 55 degree days.

Q. And can you give me the date and year?

A. No. It's a design day which is not meant to replicate a particular day on the system.

Q. Well, my question was -- okay, so this design day load is not based on an actual day on the system; is that right?

A. It's based on a number of actual days on the system. That's the premise upon which the base load and heat factors are developed.

Q. But the 55 heating degree days was not an actual day on the system during the test period?

A. Not during the test period but I think we agreed it occurred in '51.

Q. And that wasn't the day on Washington Natural's system?

A. No, but it was definitely a day when 55 degree days were reached.

Q. The purpose of this exhibit, and particularly this page of the exhibit, is to show what would happen if a 55 degree day occurred on Washington Natural's system currently?

A. That's correct.

Q. And it's not based on actual customer behavior during an actual 55 degree day that actually occurred on Washington Natural's system?

A. No. It's based on actual information from customers that include peak days that have occurred.

Q. And in doing your -- Exhibit 28 is your work papers and that third page is your regression data, and your analysis was a linear regression of the monthly class load based upon changes in temperature; is that right?

A. To be able to develop a heat factor for purposes of calculating the heat sensitive portion of a load.

Q. But the company, as indicated in your response to our requisition 3, Exhibit 27, the company does not have any actual load research data on individual customer classes to verify the accuracy of this methodology, does it?

A. I don't think that was my response.

Q. So when you said that the demand allocation factors were not based upon load research studies, you did use load research studies for your analysis?

A. No. I didn't use load research studies as a commonly used term in the industry, and that means daily or hourly metered information, but I certainly did use load information for purposes of developing the design day numbers. There is a distinction. The load research more from the industry-wide view of what that is defined to be.

Q. The design day is a very extreme weather condition and is intended to be so, is it not?

A. It's intended to be so to be able to insure that the firm customers are served in a worst case situation.

Q. So your answer is yes?

A. Yes, it is.

Q. And would you agree that many unusual things can happen when it gets extremely cold such as schools and factories shutting down due to the weather?

A. That's right. We've seen many cases of that on the east this past January.

Q. Water pipes burst, families move into temporary quarters; is that true? You have to say something.

A.   Yes, but that's not all that happens in those extreme circumstances.

Q.   And could you explain how those types of events are accounted for in Exhibit 27, your Exhibit 27 analysis.

A.   They're not specifically accounted for because in some cases LDCs do not experience those circumstances you address, and there are pluses and minuses that go on with regard to the circumstances that you talk about, plus others, and we've seen a lot of very different circumstances during the January period on LDCs that are located back east which have caused both pluses and minuses to design day numbers, but I think the one thing that the LDCs have seen in the east is that their design day numbers were right on for the temperature that they pegged the design day to be developed upon.

Q.   Staying with page 3, the third page of Exhibit 28, the 6.78 million therms we were talking about reflects firm use under design conditions during the test year ended September 30, 1993; is that right?

A.   Correct.

Q.   And you are assuming under that condition that the interruptible customers will be taking zero gas and therefore are allocated zero design day demand; is that right?

A. Allocated zero for the portion of demand costs that are allocated on a peak day basis, yes. Other than for directly assigned plan in the case of distribution mains.

MR. TROTTER: Next I have a two-page exhibit, the company's response to our data request No. 10.

JUDGE ANDERL: That's Exhibit No. 29 for for identification.

(Marked Exhibit 29.)

Q. Mr. Feingold, do you recognize Exhibit 29 for identification as your response to our data request No. 10?

A. Yes, I do.

Q. And this asked for some actual peak demand data by rate schedule for each month since January 1990?

A. Yes.

Q. And turning to the second page of the exhibit, and looking at January 1993 in the firm sales column, am I correct that the January 1993 was the same month used in preparing the class loads in

Exhibit 28?

A. The reason I'm hesitating, Mr. Trotter, is it was my understanding subject to further confirmation of this that the regression analyses that were used to develop the heat load portion of the design day was based on other than one month's worth of data.

Q. Just looking at Exhibit 28, in the upper left-hand column it says sheet 4 of 9. Do you have that page?

A. Yes, I do.

Q. It refers to January customers, does it not?

A. Customers, yes, but not January consumption.

Q. Referring you to Exhibit 29 for identification, was January 5 the peak day for 1993 -- excuse me, for the test year upon which your study is based which was year ended September?

A. I believe it was.

Q. And that shows in the firm sales column 4.436 million therms?

A. Yes.

Q. And the interruptible customers used 1.191 million therms on that date, did they not?

A. That's correct.

Q. Now, if you had used the actual peak demand by class in the test period as generally reflected on Exhibit 29 instead of the calculation in Exhibit 28 you would have allocated more of the demand lost to interruptible and less to residential; is that right?

A. The mathematics would indicate that, yes.

Q. Go to the third sheet on page -- third sheet on Exhibit 28, and that shows that under your design day regression you assigned 4,629,000 therms to the residential class; is that right?

A. That's correct.

Q. And that was more than they took on the peak day in the test year; is that right?

A. Well, that's right, and understandably so.

Q. And that was more than the total firm demand on the peak day in the test year as well?

A. That's what the numbers show.

MR. TROTTER: Your Honor, move for the admission of Exhibits 27 through 29.

JUDGE ANDERL: Any objection, Mr. Johnson?

MR. JOHNSON: No objection.

JUDGE ANDERL: Those exhibits will be admitted as identified.

(Admitted Exhibits 27, 28 and 29.)

Q. Now, on page 23 of your testimony -- excuse me, page 26, line 23. In discussing your approach to allocating demand-related costs you cite Professor Bonbright's treatise. Do you see that?

A. Yes, I do.

Q. Do you agree that Professor Bonbright is recognized as one of the leading scholars in the field of utility cost allocation?

A. Yes.

Q. Changing subjects. Would you agree that weather conditions cause a significant variation in a throughput -- in throughput on a system like Washington Natural's which serves large numbers of space heat customers?

A. Yes, I would agree with that.

Q. Would you also agree that prices for alternative fuels for industrial customers may also have a significant effect on throughput?

A. Prices to industrial customers for natural gas?

Q. Fuel oil, for example.

A. Mr. Trotter, would you restate the question? I guess I'm confused on which pricing point you're talking about.

Q. Point was a simple one. If the cost of residual fuel oil goes down, customers taking natural gas might switch to that fuel. Is that a possibility?

A. That is a possibility.

Q. And that would impact throughput on the company's system, would it not?

A. It could all other things being equal.

Q. You were asked some questions earlier about your regression analysis which you address beginning on page 24 of your testimony and you did those regressions to examine the mathematical relationship between feet of distribution main installed and sales, peak demand and customer count; is that right?

A. That's correct.

Q. And I believe Exhibit 22, which has been admitted earlier, indicated that none of those analyses compared weather-adjusted sales to distribution, feet of distribution plant; is that correct?

A. That's correct.

Q. Would you agree that the swings in usage due to weather could significantly affect the results of an analysis that looks only at usage and feet of mains compared with one that excluded consideration --

A. I didn't hear the last part.

Q. Compared with one that excluded

consideration of weather?

THE WITNESS: Could I have that read back.

(Record read as requested.)

A. I don't know. I don't think it's relevant for purposes of my analysis either, as I indicated in the data response.

MR. TROTTER: Your Honor, like to have marked for identification a one-page exhibit, company's response to our request 25.

JUDGE ANDERL: That will be Exhibit No. 30.

(Marked Exhibit 30.)

Q. Mr. Feingold, do you recognize Exhibit 30 as your response to our request to support your statement that cost allocation factors based on design day demands and number of customers provide more stable and consistent results over time than ones based on throughput?

A. Yes.

Q. And again, the data you show here are not weather-adjusted, correct?

A. That's correct.

Q. And they're not adjusted in any way to reflect the impact of alternative fuel price on throughput; is that correct?

A. They've already captured that.

Q. But it wasn't normalized out is what I mean. That effect was not normalized out. These are just actual raw data?

A. Correct.

Q. Now, the design day peak demand by definition does not vary from year to year with weather conditions or the price of alternative fuels, correct?

A. No, that's not true.

Q. Are you saying that your 55 degree day assumption --

A. I believe you said design day demand. The demand changes, the 55 degree day wouldn't unless the company experienced a 60 degree day and then they might reconsider their design day temperature.

Q. Customer count does not vary significantly with weather or price of alternative fuels, does it?

A. I don't believe so.

Q. And feet of distribution main does not vary from year to year with weather or the price of alternative fuels, does it?

A. I hope not.

Q. So did it come as any surprise to you that your regression analysis of one factor, feet of distribution mains, which does not vary with weather conditions, is more closely correlated with independent variables such as customer count or design day peak demand which do not vary with weather?

A. It was no surprise to me but not for those reasons. It was simply because customers drive installation of footage of majors on a distribution system.

Q. Would you agree that there are economies of scale in gas distribution mains?

A. Yes.

Q. And so, for example, a main that is big enough to deliver 10,000 therms a day does not cost ten times as much as one size to deliver a thousand therms a day?

A. I would agree with that.

Q. And one reason is that the capacity of a main increases rapidly with diameter of the main, but the materials and installation costs do not go up as fast as that capacity changes?

A. I generally agree with that.

MR. TROTTER: Two exhibits, Your Honor. First is the company's response to our data request No. 13.

JUDGE ANDERL: That will be Exhibit No. 31 for identification.

(Marked Exhibit 31.)

Q. Do you recognize Exhibit 31?

A. Yes, I do.

Q. That was your response to our requests for data on material cost per feet of typical mains and installation costs per foot as well as carrying capacity.

A. Yes.

Q. And so if we just look at your response to item A we see a six-inch steel pipe material cost being in the neighborhood of three times a two-inch pipe. Is that a general conclusion?

A. Yes, it is.

Q. And on part B, the installation costs of a six-inch steel pipe is around twice the installation cost of a two-inch steel pipe?

A. Yes. That's generally the case.

Q. And in response to item C where we asked for the pipe capacity by size, you referred us to your response to data request 14; is that right?

A. That's correct.

MR. TROTTER: I would like to have that marked for identification.

JUDGE ANDERL: That would be Exhibit No. 32 then.

(Marked Exhibit 32.)

JUDGE ANDERL: And that's the response to 15?

MR. TROTTER: Our request No. 14.

Q. Is Exhibit 32 the response as described, Mr. Feingold?

A. Yes, it is.

Q. So Exhibit 31 you said that a pipeline, particular gauge of pipeline, its capacity changes over various parameters; and Exhibit 32, looking at the third page, which is from your tariff, company's tariff, shows the formula that accounts for all of those parameters; is that right?

A. One of the formulas.

Q. And just looking at that formula without taking a math lesson, the D being diameter, is fairly heavily weighted in that formula which corresponds to your prior testimony that as the diameter grows the capacity increases exponentially or it's nonlinear?

A. In this particular equation it increases exponentially. I don't think I discussed that earlier.

Q. Now, we asked you in Exhibit 31 to provide the capacity of varying diameter of height and you then referred us to Exhibit 32. Is it possible for you simply to do calculations based on Exhibit 32 and give us representative capacities for the various types using consistent assumptions?

A. I would have to confer with company personnel who regularly use these formula to be able to make that determination.

Q. I would ask for record requisition 6 to respond to part C on Exhibit 31 using Exhibit 32 with consistent assumptions between the various sizes of pipe to give us representative data on the pipeline capacity as a function of diameter. Do you understand the data request?

A. Yes, I do. And I guess I would just like to reserve the opportunity for the company to confer with public counsel because there are some fairly wide ranging assumptions that are inherent in the equations, as indicated in the response in Exhibit No. 32.

Q. Okay.

(Record requisition 6.)

Q. If you were building a gas distribution system to serve a group of customers expected to use 10,000 therms of gas on a peak day and 1 million therms a year, which is a 27 percent load factor, would it cost twice as much to build a system to serve

-- would it cost twice as much to build a system to serve exactly the same customers in exactly the same locations who were expected to use 5,000 therms of gas on a peak day and 1 million therms per year, a 54 percent load factor?

A. Was the question would it cost half as much?

Q. Would it cost twice as much to serve the 10,000 load versus the 5,000?

A. We're talking just about distribution main installation?

Q. Yes.

A. I don't believe so.

Q. In fact it would only cost a small amount extra, would it not?

A. I would have to accept it subject to check.

Q. When you have used the zero intercept method to determine what part of a gas main should be considered demand related, the goal of that analysis is to separate basic costs of installing the line, regardless of capacity, from the cost of over building the line to the level of capacity which is actually required; is that right?

A. I didn't use the zero intercept approach in this cost of service study.

Q. That's why I asked when you have used it.
A. Could I have that reread, please.
Q. Yes. When you have used it, the goal is to separate the basic cost of installing the line regardless of capacity from the cost of overbuilding the line to the level of capacity which is actually required?
A. I have trouble with the term "over-building." I don't believe it is an overbuilt situation. I prefer to characterize it as trying to capture the costs of the trenching and the installation as opposed to the costs that's more attributable to changes in capacity.
Q. If we replace the phrase "additional cost of building" instead of overbuilding.
A. That would give me less trouble.
Q. Okay. And you have been a defender of the zero intercept method, correct?
A. Yes, I have.
Q. And what percentages would it be typical from a zero intercept study to be -- costs to be demand-related?
A. It's very hard to generalize. I can try to draw upon my experience with LDCs in particular and I would say that the portion that would be classified as

demand related would vary anywhere from 75 percent down to perhaps as much as 50 percent, as little as 50 percent.

Q. That's demand related?

A. Correct, depending on the configuration of pipe in the LDC service area and depending on the installation costs over the life of the system.

Q. Turn to page 45 of your testimony. And beginning on line 19, you address the issue of whether the unit costs from your cost of service analysis can be used for rate design and you answer yes. By that do you mean that the customer cost shown in your Exhibit 4 could be used to set a customer charge for each rate schedule?

A. Yes.

Q. Let's go to page 5 of Exhibit 4, and in the residential heating column, about two thirds of the way down you show a monthly customer cost of $14.29. Do you see that?

A. Yes, I do.

Q. Is that higher or lower than your cost of service studies in other cases typically show for residential heat heating customers?

A. I would say it's within the range of results that I've seen on other LDCs.

Q. Could you just give us an estimate of how many gas utilities you've worked with in your career for cost of service?

A. Cost of service or cost of service and rate design?

Q. Either/or.

A. A hundred.

Q. Do you know approximately how many of them have customer charges to residential users of $14.29 a month or in that range?

A. I thought we were talking about customer costs here.

Q. Yes. I'm now talking about the rates they actually charge for that, for the customer charge,

A. The LDCs that have unit costs for customer charges in this range do not have customer charges as high but some of them have them as high as $10 per month.

Q. And some of them have them lower than $10 a month?

A. Yes, they do.

MR. TROTTER: Like to mark for identification a one-page document, the company's response to public counsel data request No. 42.

JUDGE ANDERL: That's Exhibit 33 for

identification.

(Marked Exhibit 33.)

Q. Exhibit 32 was our request for you to show what elements --

JUDGE ANDERL: 33. I'm sorry.

MR. TROTTER: Did I miss something?

JUDGE ANDERL: I don't know whether you meant to say Exhibit 32 or 33.

MR. TROTTER: I know I said 32. What did I mean to say?

JUDGE ANDERL: The new exhibit is 33.

MR. TROTTER: Thank you. That's what I meant to say.

Q. Referring to Exhibit 33, we asked you to indicate what other elements other than A through D were included in the monthly customer costs, and you referred us to Mr. Amen's exhibit; is that right?

A. That's correct. Exhibit 16.

Q. Are you familiar with decisions of this Commission stating that only the costs of meters, services, meter reading and billing are to be assigned to the customer cost category?

A. Assigned to the customer cost or recovered through customer charges?

Q. The former.

A. I seem to recall language to that effect. I can't precisely determine which order it was in.

Q. Your study includes sales expense, customer service expense and administrative and general expense as customer related, does it not?

A. Yes, it does, a component of each of those.

Q. In deciding how much meter reading and billing expense to categorize as customer related, do you assume monthly or bimonthly meter reading billing?

A. I did not make an assumption with regard to how often the meter was read. All I was interested in was taking the costs associated with the 900 account for meter reading and allocating it to the classes.

Q. So you used the books?

A. That's correct.

Q. And would you accept that the books are based on monthly meter reading?

A. When you say the books are based, you mean the costs that are captured in that account?

Q. Yes.

A. I will accept that subject to check.

Q. Suppose that every residential customer used only five therms of gas per month. If that were the situation, would it make sense to read meters every month and to mail out bills every month or would it make more sense to read meters and issue bills less frequently?

A. It depends on what the cost is of meter reading.

Q. At your cost of meter reading.

A. At my cost.

Q. As was developed under your study.

A. I didn't develop any cost of meter reading. The company provided that information to me.

Q. Based on the information provided.

A. I don't understand the question.

Q. Are you familiar with the fact that Washington Natural is experimenting with joint meter reading programs with other utilities?

A. No, I'm not.

Q. So you made no adjustment for that fact in your analysis of booked meter reading expenses?

A. No, I have not.

Q. Are you aware that this issue of frequency of meter reading and billing was a contested issue in the last proceeding?

A. No.

Q. You included 100 percent of the costs of meters and services as part of customer-related costs;

is that correct?

A. Yes.

Q. And according to the orders that you reviewed involving Cascade and Water Power, the Commission included only 50 percent of those costs; is that correct?

A. I don't recall. If we're talking about costs classification versus cost recovery, I want to be sure that we're talking about one versus the other because one is a costing issue, one is a rate design issue.

Q. We're talking about classification.

A. In that case I believe that in Cascade there was a three factor approach used which relied upon noncoincident peak, annual volumes and numbers of customers, and that was not accepted in the last company proceeding. Cascade was not accepted in the last company proceeding where a cost study was present. None of the cost studies were accepted.

Q. I would like to discuss some items that could be credits against these customer costs but we're not sure whether you did so or not. First, when the company does an analysis to see if a customer is entitled to a free line extension and the customer does not qualify but does get gas service, is it your understanding that the company charges either a refundable advance or a nonrefundable contribution in aid of construction to get the main and service to the home or business?

A. I believe that's the case, but I have not reviewed their policy recently.

Q. Would you agree that if that is the case that this ratepayer-supplied capital should be credited against the allocation of distribution costs to the class which has paid the advance for contribution upfront rather than being credited generally to all customer classes?

A. If you have the information to do that, that might be a preferable way to track the costs.

Q. And should those credits be applied directly against the allocation for mains and services in computing the different elements of costs that you have done on page 5 of your Exhibit 4?

A. I think just generally speaking if a customer makes a contribution in aid of construction in the interest of trying to track costs causation, you should try to attribute that contribution to the customer that made that contribution if that information is available.

Q. Turn to page 72 of your Exhibit 7. And looking at the left-hand description column under D, about the fifth category down we see contributions and advances. Do you see that?

A. Yes, I do.

Q. And this is where the customer payments upfront for services of mains are credited back in the form of a rate base reduction. Is that true?

A. That's correct.

Q. What methodology did you use to apportion these costs among the customer classes?

A. Because these contributions and advances were primarily, if not exclusively, related to distribution mains, they were allocated back on the basis of the load-factor-based peak and average approach.

Q. And where is that assumption or allocation factor shown in your exhibit?

A. It's shown at page 33 of 121 of the same exhibit we were referring to.

Q. Did you examine these items to determine if any customer advances or contributions were received from any of the large use customers?

A. No, I did not other than through the direct assignment process in capturing the cost that was booked to the company for those facilities.

Q. Could you provide as record requisition -- response to record requisition 7 the actual class-by-class customer advances and contributions as booked in test year.

JUDGE ANDERL: That will be No. 7.

(Record requisition 7.)

A. The ones just booked in the test year as opposed to the balance.

Q. The ones that add up to your total on page 72 of Exhibit 7.

JUDGE ANDERL: Do you have that?

THE WITNESS: I don't have it available.

JUDGE ANDERL: Do you have in mind the record requisition?

THE WITNESS: Yes, I do.

Q. You don't actually show a total there but the number there are showing?

A. Correct.

Q. Changing subjects. Were you familiar with the part of the stipulation in the settled case regarding booking of royalties by the company?

A. No, I'm not familiar with the booking aspects of it. I'm just familiar with the nature of royalties.

Q. In any event, no adjustment for that has been made in your cost of service study; is that right?

A. Trying to recall if there was a line item for royalties in there. I would have to go through the pages and verify that.

Q. If you could just accept subject to check.

A. I will accept that subject to check.

Q. Turn to page 39 of your testimony for administrative and general expenses. And at the bottom of the page and continuing over to the top you indicate you were able to relate each of the company's A and G accounts for one of the above stated categories, that's labor, plant and combined; is that correct?

A. That's correct.

Q. Am I correct you allocated labor-related A and G on the same basis that other non A and G labor expenses were allocated; is that correct?

A. We had a labor sub report in the cost of service study which was used as a basis to allocate the A and G. The only reason I'm hesitating to agree with you is the labor dollars were used to develop the allocator as opposed to the O and M itself.

Q. My question was whether the labor-related A and G was allocated on the same basis that other non A and G labor expenses were allocated.

A. No.

Q. Could you then explain the relationship between your allocation factor for labor-related A and G and non labor-related A and G?

A. The allocation factor for labor-related A and G is based on previously allocated labor expenses and the nonlabor A and G is based upon plant as previously allocated.

Q. Now, a portion of labor that goes into providing the company's gas supply is incurred by gas producers and included in purchased gas expense rather than in labor expenses paid by the company; is that right?

A. I don't know what you mean by incurred by gas producers.

Q. When the company purchases gas, included in the price it pays is presumably compensation to cover labor costs of the supplier?

A. I haven't evaluated the costs structure for purposes of prices from the producers.

Q. Do the gas producers break out labor in their bills to the company?

A. I don't believe so.

Q. Like to refer to specific accounts of A and

G, one, A and G salaries and the other outside services employed?

A. Are you referring to a particular exhibit, Mr. Trotter?

Q. Not yet. Well, let's go to Exhibit 7, page 19. And under the A and G Roman numeral 4 you show labor-related A and G salaries, do you see that, account 920?

A. Yes, I do.

Q. And that consists primarily of the company's officers and board of directors, correct, as well as the chairman, the president the chief legal officer and so on?

A. Yes, I believe so.

Q. And the outside services employed, account 923, would include consultants such as you and outside attorneys and so on?

A. Yes.

Q. Were there any adjustments made to the per books amounts for these items?

A. I would have to go back to the document that developed the total costs of service from the settlement numbers in the company's last proceeding to answer that.

Q. Do you understand that in that last settled proceeding there was an issue regarding an adjustment related to Mr. Golliver?

A. No.

Q. Did you make an adjustment for Mr. Golliver's salary in your analysis specifically?

A. I did not make any adjustments to the total cost of service. That was provided to me by the company.

Q. Looking at this part 5A on page 19, you include accounts 920 through 926, and as shown in the factor column, you allocate those based on PSTDL?

A. That's a functionalization factor, yes, and that's an abbreviation for plant stored transmission distribution labor.

Q. Would that be production storage?

A. What did I say?

Q. Just repeat what it stands for.

A. I believe it was production.

Q. And does that mean you added up all the direct labor expenses for production included in account 710 through 807 and the direct labor expenses for storage included in accounts 814 through 837 and so forth and then looked at how those costs have been allocated to the classes and then allocated the A and G salaries on the same basis?

A. Yes.

Q. Turn to page 117, and this is your labor sub report?

A. That's correct.

Q. And under the labor column for production, we see $19,277; for storage $181,000; and transmission $12,684; is that right?

A. That's right.

Q. And these expenses are allocated to customer classes on the basis of measures of usage, demand and commodity?

A. When you say measures of usage, demand and commodity, does that include seasonal consumption as well?

Q. Yes, everything but customer.

A. Yes.

Q. So the PTD and L expense, which feeds into your allocation of accounts 920 through 926, is about $212,000, the sum of those three numbers?

A. Did you say PTD --

Q. I meant -- or did you mean PTS?

A. I meant PTS. And what was the sum?

Q. Around $212,000, just the total of those three figures.

A. I would agree with that.

Q. Now, if we look down at the bottom under distribution, we see there is a total of 4.6 million in distribution labor expenses; is that right?

A. Yes.

Q. And that's about 20 times the figure we just talked about, $212,000 for production, storage and transmission combined?

A. That's what the amount shows, yes.

Q. And a majority of these distribution costs relate to mains and compressors and so forth which are allocated among the classes based mainly on design peak day demand with a smaller amount on a commodity basis; is that right?

A. 64 percent, 36 to be precise, excluding direct assignments.

Q. And in the case of meter and service expenses that are allocated on the basis of the weighted customer count for each class?

A. Correct.

Q. Go to the next page of your exhibit, 118, and here you show your classification of labor, and just looking at the total columns you show total labor of 4.6 million with customer about 2.1 million, commodity 867,000 and demand 1.47 million?

A. Yes.

Q. Would you accept subject to check that that is approximately 47 percent customer, 19 percent commodity and 34 percent demand?

A. Yes.

Q. Am I correct that the only reason that even 19 percent is commodity related is basically because you classified about one third of distribution and transmission mains on the basis of commodity?

THE WITNESS: Could you read that back.

Q. Is the only reason that even 19 percent is commodity related basically because you classified about one third of distribution and transmission mains on the basis of commodity?

A. What do you mean by even, "even 19 percent"?

Q. That if you -- well, compared to your case 2 in which you use the peak day alternative, less than 19 percent of A and G costs would be allocated on the basis of commodity; is that right?

A. I would have to take a look at that. I believe that was in response to a data request?

Q. Yes, our request No. 1. Could you accept it subject to check?

A. Yes.

Q. Let's go to page 95 of your Exhibit 7. You don't include totals for these line items so I will just ask you to accept that for labor-related A and G -- does your allocation method effectively mean that 47 percent of the A and G salaries and 47 percent of outside services employed are classified as customer related on the basis of your labor study and are allocated on the basis of weight of customers?

A. Yes.

Q. Would you agree, subject to check, based on page 95 of your Exhibit 7, that about 98.8 percent of these are allocated to firm sales customers and only about 1.2 percent to interruptible and transportation?

A. I will accept that subject to check.

Q. And the 34 percent of the A and G salaries and outside services employed are classified as demand related on the basis of your study and are allocated basically on the basis of design peak day; is that right?

A. That's correct.

Q. And looking at Exhibit 7, page 95, third line down for demand, would you accept that those costs are allocated 97.6 percent to the firm sales classes?

A. I would accept that subject to check.

Q. And is the reason because interruptible and transportation customers are assumed to be interrupted under design day conditions?

A. That's correct.

Q. And lastly the commodity costs, the second line of figures, which is about 19 percent of the total, those are allocated on the basis of throughput, correct?

A. Yes.

Q. And so it's based on gas usage and if we look at the arithmetic, about 81 percent of these are allocated to firm sales classes. Would you agree with that subject to check?

A. I would agree with that subject to check.

Q. Now, turning to page 111 of Exhibit 7. The top allocator, the all throughput allocator is shown; is that right?

A. That's right.

Q. And if we look over under the interruptible schedules 85, 58, 86 and 87 and 57, we see that -- well, for 87 and 57, 27 percent is the throughput allocator for that schedule; is that right?

A. That's correct.

Q. And 4.4 percent for 86 and 4.9 percent for 85 and 58?

A. Correct.

Q. And if we combine those that's approximately 36 percent?

A. That's correct.

Q. And the next factor for sales, excluding transport volume, about 81 percent are sales and about 12 percent -- excuse me, about 19 percent are allocated to transportation; is that right? Transportation and interruptible?

A. I get about 22 percent.

Q. Okay. And under the allocator column, you show a COM1XT for allocating sales excluding transportation volume; is that right?

A. That's correct.

MR. TROTTER: Your Honor, if we could take five minutes, I need to regroup for a couple of minutes. I'm getting very close. Probably have another five to ten minutes.

JUDGE ANDERL: Well, if five minutes will speed things up in the long run, let's do that. We're off the record.

(Recess.)

JUDGE ANDERL: Let be back on the record. While we were off the record Mr. Trotter distributed and we identified two additional exhibits. Public counsel data request No. 38 and the response thereto is Exhibit No. 34. Public counsel data request and the response No. 36 is identified for the record now as Exhibit No. 35. Go ahead, Mr. Trotter, whenever you're ready.

(Marked Exhibits 34 and 35.)

Q. Mr. Feingold, when we left the record we were sometime immediate, and I think we -- I believe you can help us. Referring to page 118 of Exhibit 7, you accepted that with the commodity column that the total amount was $867,000 was about 19 percent, up to 4 million-six labor total. Remember that?

A. Yes, I do.

Q. Then we were looking at your commodity cost allocators on page 111, and we noted that the interruptible transportation class throughput or we thought commodity allocator was 36 percent, and then we went forward to page 95 of Exhibit 7 and were confused that the commodity allocation of labor-related A and G was not 36 percent, and I believe you can help us through this. Would you please do so.

A. Yes. If you refer to page 118 of Exhibit No. 7, the labor sub report classification phase. Although there is approximately 19 percent of that cost classified as commodity related, it does not mean that all 19 percent of that cost is allocated on an annual volume basis. There are some cost components, for example, storage, that are allocated on a seasonal volume basis or winter volume basis, which would account for the discrepancy between the allocator for those classes and the percentage of costs allocated on this page.

Q. Now, shifting gears, we did establish, did we not, that the interruptible transportation classes have a total throughput allocator of about 36 percent; is that right?

A. Yes.

Q. And so the firm schedules have a throughput allocator of about 64 percent?

A. Correct.

Q. Now, if we go back to page 95 of the exhibit for labor-related A and G and look at the total for each class, you did not show a grand total. Would you accept that what you characterize as labor-related A and G in the aggregate, the expenses are allocated 94 percent to firm sales classes and 6 percent to the interruptible transportation customers?

A. I would accept that subject to check.

Q. And likewise, on the next page of the exhibit where you show the A and G, total A and G expense -- and again you don't show totals, you just show items, but if you look at the sixth line of figures beginning with 12.9 million for residential, would you accept that out of the 17 million -- 17 and a half million total of that line, 16 and a half million is allocated to firm sales classes?

A. I would accept that subject to check.

Q. Now, in the Cascade methodology, which was used by the Commission in the Water Power proceeding as well, a much larger share of A and G costs was allocated to the large volume customers, correct?

A. I believe it was larger. I don't recall the specific numbers in the Cascade case.

Q. Do you remember that in that case all A and G costs were allocated on the basis of total O and M including gas supply expense for all customer classes?

A. Yes, I recall that.

Q. And in the Water Power case UG-901459 50 percent of A and G costs were allocated among the classes on the basis of O and M minus purchased gas costs, which is essentially what you have done; is that right?

A. Well, I think I have gone one step further to focus on labor rather than using O and M as a surrogate for labor.

Q. And the other 50 percent was allocated on throughput?

A. In the Water Power proceeding?

Q. Yes.

A. Yes, I believe that's correct.

Q. The effect of your methodology compared to either of the methodologies of Cascade or Water Power cases listed is to shift several million dollars of cost responsible from large volume users to capital firm sales customers; isn't that correct?

A. If you compare those two methodologies, that shift is as you state.

Q. If you can refer to Exhibit 35 for identification, which is your response to our data request No. 36, and we asked you to compare your method with the methods in the Cascade and Water Power proceedings. Do you see that?

A. Yes, I do.

Q. Turn to page 2 of the exhibit and this shows in the case 1 column, the methodology you advocate to this Commission and the case 3 column is the Water Power -- the method used by the Commission in the Water Power case?

A. It's the method used by the Commission, did you say, in the Water Power case? Yes, that's correct.

Q. And just looking at line 1, there is a shift of over 4 million dollars from the -- an increase of over 4 million dollars -- start over.

Do you agree that comparing the Water Power case to your proposal there is a shift of 4.2 million dollars for residential customers between the two methods?

A. That's what the exhibit shows.

Q. Turn to Exhibit 34 for identification, your response to our data request 38. And also you could have reference to page 41 of your testimony. And referring to your testimony for a moment, you show where you directly allocated $183,400 in additional costs associated with specific incremental administrative costs associated with transportation service. Correct?

A. That's correct.

Q. However, you did not directly allocate the associated payroll taxes or other overheads; is that correct?

A. That is correct.

Q. And your Exhibit 34 response indicates that to do so would not materially impact your cost of service, correct?

A. That's correct.

Q. And that's because of the dollar amount involved?

A. That's correct.

Q. But you're not disputing the theory that those overheads should follow the directly allocated expenditures?

A. No, I'm not.

MR. TROTTER: I would move the admission of Exhibits 34 and 35.

JUDGE ANDERL: I actually have 30 through 35 not admitted.

MR. TROTTER: Then I will also so move.

JUDGE ANDERL: Mr. Johnson, any objection to those six exhibits?

MR. JOHNSON: No objection.

JUDGE ANDERL: They will be admitted as identified. That's 30 through 35 inclusive.

(Admitted Exhibits 30, 31, 32, 33, 34 and 35.)

MR. TROTTER: Your Honor, I have one additional exhibit. I think it may have related to a prior topic, but I would just like to have it marked and offer it.

JUDGE ANDERL: Next exhibit in line is 36.

(Marked Exhibit 36.)

MR. TROTTER: It is the company's response to our data request No. 26.

JUDGE ANDERL: Thank you.

Q. Mr. Feingold, do you recognize Exhibit 36 as your response to our data requests as noted?

A. Yes, I do.

Q. And that asked you for studies on WNG's system demonstrating correlation between design day, class peak, peak loads and actual measured class peak loads?

A. That's correct.

Q. And your response is as indicated?

A. Yes.

MR. TROTTER: Move the admission of Exhibit 36.

JUDGE ANDERL: Mr. Johnson, any objection?

MR. JOHNSON: No objection.

JUDGE ANDERL: That exhibit is also admitted as identified.

(Admitted Exhibit 36.)

MR. TROTTER: We'll stop there, thank you.

JUDGE ANDERL: Mr. Hemstad, do you have any questions for this witness?

COMMISSIONER HEMSTAD: On reflection,

I don't have any.
JUDGE ANDERL: How about you, Mr. Johnson, on redirect.
MR. JOHNSON: Just a few.

REDIRECT EXAMINATION

BY MR. JOHNSON:
Q. Mr. Feingold, you were asked earlier about the receipt by the company of capacity release revenues. Do you recall that?
A. Yes, I recall that.
Q. Do you know, Mr. Feingold, when the company first began to receive revenues from capacity releases?
A. My understanding was it was after the close of the test year used in the cost of service study which was after September 30, 1993.
Q. So capacity release revenues would not have been an issue for purposes of your cost of service study; is that correct?
A. That's correct.
Q. Mr. Trotter also asked you questions about the design day, and I take it from the testimony that you gave that within the context of your cost of service study you used a 55 degree design day; is that

right?

A. That is correct.

Q. So I'm clear and so the record is clear, why did you use that choice of design day?

A. Design day was used in the cost of service study because that is the measure of how the company acquires capacity both upstream and downstream for purposes of its firm customers and it measures how the company incurs costs related to that capacity, so that was the reason for the choice of design day.

Q. Was the choice of design day based at all upon either the frequency or the probability of occurrence of that day?

A. No, it was not. It was based upon a Commission-approved design day that was incorporated in the company's last least cost plan.

Q. Lastly, Mr. Feingold, Mr. Trotter alluded to one half page of narrative in your testimony concerning the allocation of purchased gas expense. Do you recall that?

A. Yes, I do.

Q. And there is in fact one half page approximately of narrative where you do discuss that issue, correct?

A. That's right.

Q. But you also include as one of your exhibits, I believe as part of Exhibit 4, a purchased gas report, correct?

A. That is correct. And the point of that is that although testimony discusses certain issues related to the cost of service study, it is not meant to be all-inclusive, and that's why there is as much detail as there is in the exhibit related to the cost of service study to show how each and every line item was allocated and the basis for the development of those allocation factors.

Q. So in the context of that particular issue, would you consider it appropriate to consider both your narrative and the report when analyzing that issue?

A. Yes, I would.

MR. JOHNSON: No further questions.

JUDGE ANDERL: Anything on recross, Mr. Cedarbaum?

MR. CEDARBAUM: Just a couple of questions.

RECROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Mr. Feingold, on the purchased gas sub report that you were just discussing with Mr. Johnson, in generating that report, did you examine each of the company's gas supply contracts themselves?

A. No, I did not.

MR. CEDARBAUM: Thank you. That was my only question.

JUDGE ANDERL: Anything from the intervenors?

MR. TROTTER: One question.

RECROSS-EXAMINATION

BY MR. TROTTER:

Q. Is it your position that this Commission approves least cost plans?

A. I believe I saw a document from this Commission which addressed the company's 1993 least cost plan, and I believe the Commission accepted that plan.

Q. And that's the context in which you're testifying?

A. Yes.

MR. TROTTER: Nothing further.

JUDGE ANDERL: Anything else for this witness? Thank you, Mr. Feingold, for your testimony, you may step down. I think this would be a good time to end our session today. We will pick back up 9:00

tomorrow morning with Mr. Amen's testimony.

(Hearing adjourned at 4:55 p.m.)