BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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WASHINGTON UTILITIES AND         )
TRANSPORTATION COMMISSION,       )   DOCKET NO. UG-940034
                                 )
               Complainant,      )
     vs.                         )   DOCKET NO. UG-940814
                                 )
WASHINGTON NATURAL GAS           )       VOLUME 3
COMPANY,                         )
              Respondent.        )      PAGES 230 - 357
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A hearing in the above matter was held on October 6, 1994, at 9:00 a.m. at 1300 South Evergreen Park Drive Southwest before 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. We are convened in consolidated dockets UG-940034 and 940814 to continue with the direct and cross-examination of the company's witnesses. Mr. Johnson.

MR. JOHNSON: I would like to call Ronald Amen, please.

Whereupon,

RONALD AMEN,

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

JUDGE ANDERL: Mr. Amen's prefiled direct testimony was previously marked in this matter as T-11. His prefiled exhibits RJA-1 through 8 were marked as Exhibits 12 through 19. In addition there was some prefiled testimony on the compressed natural gas matter that was filed after the pre-hearing conference in this. That is a three-page document. It's marked for identification now as Exhibit T-37. Go ahead, Mr. Johnson.

(Marked Exhibit T-37.)

DIRECT EXAMINATION

BY MR. JOHNSON:

Q. Morning, Mr. Amen.
A. Morning.
Q. Please state your full name and spell your last name for the record.
A. My name is Ronald J. Amen, A M E N.
Q. What is your occupation?
A. I'm director of rates and special studies for Washington Natural Gas Company.
Q. Do you have before you what has been marked as Exhibit T-11 for identification?
A. Yes.
Q. Is that exhibit your prefiled direct testimony in docket 940814?
A. Yes, it is.
Q. Was that exhibit prepared by you or under your supervision or direction?
A. Yes.
Q. Do you have any changes or corrections that you wish to make to that testimony?
A. No.
Q. You also have before you what has been marked for identification as Exhibit T-37?
A. Yes, I do.
Q. Was that exhibit prepared by you or under your supervision or direction?

A. Yes.
Q. And does that testimony represent your supplemental testimony in these proceedings?
A. Yes, it does.
Q. And lastly, Mr. Amen, you have before you what has been marked for identification as Exhibits 12 through 19?
A. Yes.
Q. Do those exhibits represent exhibits to your prefiled testimony?
A. Yes, they do.
Q. Do you have changes or corrections that you wish to make to those exhibits?
A. Yes, I do.
MR. JOHNSON: As we indicated, Your Honor, we distributed substitute pages for certain of those pages in Mr. Amen's exhibit, and what I would like to do is just ask him a few questions to go through those changes.
JUDGE ANDERL: Go ahead.
Q. Mr. Amen, do you have before you the substitute pages for certain parts of your exhibits?
A. Yes.
Q. And do those substitute pages incorporate the changes that you referenced?

A. Yes, they do.

Q. Could you briefly run through those and explain why those changes were made.

A. Yes, I will. I would like to start with Exhibit No. 15, page 2 of 4.

JUDGE ANDERL: That's RJA-4?

THE WITNESS: That's correct.

A. I had indicated two changes on this particular page of my exhibit. The first one I would like to draw your attention to is under rate 51, the proposed rate column, it shows a per bill customer charge of $5 with a corresponding per therm unit rate of .50822. The original filing inadvertently listed the customer charge at $10 and this was simply a result of the fact that since this schedule is considered a commercial rate schedule, and the focus of our filing was really to deal with transportation, it was inadvertent that the customer charge was listed at $10. It's more appropriate for the charge to be listed at $5 because what this rate entails are multiple dwelling unit master-metered accounts, so where we have at -- currently I think we have only five customers on this rate, they have multiple dwelling units. Many of them are multifamily, multidwelling, apartment complexes, some with different types of housing included in perhaps a campus atmosphere, so we felt the $5 obviously is more appropriate. It's in line with the previous customer charge of $4. This particular change was brought to my attention through a public counsel data request.

Q. Please continue with the remaining changes to that exhibit, Mr. Amen.

A. Yes. Also, on this schedule, rate 41 has been changed in the proposed -- again, the proposed rate column, it was necessary to restate the heat conservation factor charge to 53 cents, which is approximately in line with the previous heat conservation factor charge. In the original filing, again, we inadvertently just let this conservation factor float with the change in the revenue requirement. However, this is a high load factor rate schedule. It perhaps contains the highest load factor in fact of any of our rate schedules. In order to prevent wholesale migration from other rate schedules, particularly rate 31, which contains commercial customers as well but experiences a very low load factor, we need to keep the conservation factor at a point in excess of the rate 31 rate. So, as to avoid low load factor customers from migrating to this rate schedule, we would like to preserve the integrity of rate 41, thus the change.

Q. What other changes do you have?

A. The next change is to Exhibit No. 19, page 1 of 10, which is RJA-8. When this exhibit was prepared -- I would like to draw your attention to the revenue proposed rates column. The customer charge that was embedded in the formulas that calculated the revenues in that column mistakenly were set at the old customer charge as opposed to the proposed customer charge of $5, so I am making a correction to restate those revenues with a new proposed customer charge.

Q. Please continue.

A. The next change is to Exhibit 13, RJA-2, page 2 of 2. Like to draw your attention to columns L and M. First of all, column L. In column L we were showing percentage increases for increases to the various rate classes, and in so doing in the original filing we were calculating some based on the margin increases and others based on revenue. Again, through a public counsel data request it was brought to my attention that these were somewhat inconsistent, so what we've done here is to restate the percentages and then the references in column M to be on a revenue basis in all cases.

Q. Lastly, Mr. Amen, do you have any changes, then, to your proposed tariff in this proceeding?

A. Yes. RJA-1, Exhibit 12, pages 9 and 11. Again, this is the exhibit that shows what the proposed rate schedules would look like. I have merely corrected the rates on these schedules to conform with the rates that are contained in the revised exhibits for rates 41 and rate 51.

Q. With the revisions that you discussed, Mr. Amen, are the exhibits to your testimony true and correct to the best of your knowledge?

A. Yes.

Q. And there are no other corrections that you wish to make?

A. No.

MR. JOHNSON: Your Honor, I move for admission of Mr. Amen's testimony, Exhibits T-11, T-37, as well as his Exhibits 12 through 19 into the record, please.

JUDGE ANDERL: Any objection to those exhibits from staff?

MS. EGELER: No objection.

JUDGE ANDERL: Public counsel.

MR. TROTTER: Your Honor, I guess my concern is that the public has been notified of a certain -- of certain information regarding their rates and typical bills, and at least for the residential customers that appears to have increased, and I am concerned about that with respect to --

JUDGE ANDERL: I don't understand your objection.

MR. TROTTER: The bill stuffer to customers indicated one level of rate increase dollar-wise, and it appears that it's now a bigger number for a typical residential bill and maybe Mr. Amen can address that, but there could be a concern about notice and whether we should keep the old one in the record.

THE WITNESS: Actually, there would be no effect. There was no effect on the notice because in the notice we were using a class revenue impact and when referring to typical bills we usually refer to rate 24 in any event, so the change on rate 23 was never referenced in any of the notification to customers.

MR. TROTTER: Thank you.

JUDGE ANDERL: Any other objection or comment on the testimony and exhibits that were offered?

Hearing none, then, Exhibits T-11 and 37 will be admitted as well as Exhibits 12 through 19.

MR. JOHNSON: Mr. Amen is available for

cross-examination.

(Admitted Exhibits T-11, 12 though 19 and T-37.)

JUDGE ANDERL: Ms. Egeler.

CROSS-EXAMINATION

BY MS. EGELER:

Q. Morning, Mr. Amen.

A. Morning.

Q. In accordance with the Commission's sixth supplemental order in docket UG-920840, the company has filed an amendment to rate schedule 50, the rate for compressed natural gas, hasn't it?

A. Yes, it has.

Q. And in its order the company -- the Commission directed the company to file a rate which would be compensatory; is that correct?

A. That's correct.

Q. Would you please turn to Exhibit 13, page 2 about halfway down the page is the entry for rate 50. If you would move down to the second to the last column, that shows that the proposed rate of return for CNG is a negative .01; is that correct?

A. That's correct.

Q. Does this mean that the company is

proposing to provide CNG at a loss?

A. No.

Q. Could you explain why not?

A. Certainly. What we have proposed is a rate schedule 50 rate, that recovers all of the direct costs of providing CNG service; that is, all of the facilities costs and additional related maintenance expenses, et cetera, related to the provision of CNG has been directly assigned to this rate schedule and recovered through the rate. In addition, this rate provides a contribution to system cost. However, as this particular schedule shows, it will not provide at the proposed rate a return equal to the system average. In fact, it's much less than that.

The dilemma we face apparently with rate schedule 50 is that because of the relatively low volumes that we currently deliver under rate 50, it's difficult to achieve a return that's equal to the system average, even one that approaches the system average. However, we also face the dilemma that if you raise the rate now to fully reflect a system average return, you will create a rate that is in excess of the equivalent price of gasoline notwithstanding the fact that customers who convert their vehicles to CNG have to make an investment in the average of, say, $3,000 per vehicle to convert their vehicles.

Thus, not only do they have to save enough on the purchase of CNG to offset or be equivalent to the price of gasoline, but they have to be able to recover their investment also in the conversion equipment in order to -- for it to make sense. Thus we're faced with the dilemma of pricing the rate at this point too high so as to prevent that from happening. I believe that with the CNG rate 50 at its present level, it will provide an opportunity for the volumes under the schedule to increase to a point where it will be fully compensatory in the near future, and it would be certainly something we would want to revisit in subsequent cost studies.

Q. It sounds as though you've done a comparison of the cost of compressed natural gas to the cost of gasoline. Can you run me through that comparison and tell me how much it would cost to run the average petroleum-based gas vehicle as opposed to a compressed natural gas vehicle? If you don't have that with you, we can make that a record requisition.

A. No. I do have some of that material with me. As a matter of fact, I included that material in the filing work papers and documentation that was made in January when we first proposed this rate and we reviewed it with staff at that time. In addition, this subject was part of an agenda of one of our collaborative meetings, and we spent considerable time discussing the company's proposal with CNG and our intentions for its application in the marketplace. At one of the collaborative meetings we presented some material that I have with me that shows the various sort of break-even point, if you will, for customers depending on their driving habits and so forth. We could review that now if you like on the stand or I could provide it in the form of a record requisition, either way.

Q. Why don't you provide it in the form of a record requisition.

JUDGE ANDERL: That's No. 8 for the record.

(Record requisition 8.)

Q. And as part of that record requisition, would you please provide, in addition to what you provided at the collaborative, all of the company studies on this issue?

A. Certainly.

Q. How long has the company been providing compressed natural gas?

A. I can't speak exactly to that point. I know that we've been in the business of trying to develop CNG for vehicular use for some 12 years now. It's been much more recent that CNG has been provided, however, to customers, and in fact we have only since October 9 of last year actually had a tariff specifically for that purpose.

Q. At what point did the company begin investing in equipment and facilities for the provision of CNG?

A. Again, I think that dates back some 12 years ago.

Q. Is the equipment located on the company's property or on its customer's property?

A. There are currently about 22 compression facility sites in our service area. There are about 11 of those that are company-owned. The rest are owned by customers and are located on their sites. Three of the compressor stations that are actually owned by the company are located on customer sites.

Q. As the next record requisition, I believe it's No. 9, would you please provide a list of all of the plant and equipment used to provide compressed natural gas and the depreciation schedules for that equipment. And in so doing, would you please state where that equipment is located.

MR. JOHNSON: Point of clarification. Is counsel asking for the equipment that WNG owns or the equipment that customers own as well?

MS. EGELER: I'm asking for the equipment that the company owns, but it's my understanding from Mr. Amen's answers that some of that equipment is located on customers' facilities and I would like the information related to equipment the company owns that's located on customers' premises.

A. Perhaps in the record requisition I could point you to the cost of service study information that does in fact contain all of that information. I would be willing to do that and provide any additional information related to that that might be pertinent, but I think all of the pertinent information has been included in both the filing we made in January and subsequent data requests of the staff as well as the filing that's here before us.

Q. Well, then, please indicate where that's located and provide any additional information that you have in your possession that we do not have.

A. Certainly.

(Record requisition 9.)

MS. EGELER: No further questions.

JUDGE ANDERL: Thank you, Ms. Egeler. Ms.

Pyron.

CROSS-EXAMINATION

BY MS. PYRON:

Q. Good morning, Mr. Amen.

A. Good morning.

Q. Looking at your testimony, the first piece, Exhibit T-11, on page 4, beginning at line 18, was one of the goals of the company in making this filing to move toward more cost-based rates?

A. Yes. In fact, that was the primary purpose of the filing.

Q. And if I go to Exhibit 13, sheet 2 of 2, the stubstitute page that you made this morning, and I go to columns labeled N and O, can you explain to me what N is and what O is.

A. Okay. Column N would show the rate of return at current rates as determined in the cost of service study sponsored by witness Feingold, and then column O would show the resulting rate of return following our -- the shift of revenue between the classes from our proposed rates.

Q. And that's basing it from the current rates to the shift that you're proposing with the exhibits you're sponsoring now?

A. That's correct.

Q. Did the company have significant changes in its base rates also in the last year in addition to those changes in June of 1994?

A. Yes, we did.

Q. And would that be docket No. UG-920840?

A. Yes, it would.

Q. And when were those changes effective?

A. Those were effective October 9 of 1993.

Q. Was one of the concerns with your filing, I believe, a concern with not creating rate shock for any one class of customer?

A. Yes, that's correct. In fact, I think the page you referenced in my testimony mentions that on -- past line 18, line 22, for example, I discuss that very item.

Q. Would it also be reasonable in concerns of rate shock to consider the changes that happened in base rates from docket UG-920840 as well as the changes that were made in June of 1994?

A. Perhaps. I think that my focus in this proceeding, however, was to, in terms of rate shock, was to look at the changes we were proposing in this proceeding.

MS. PYRON: I have an exhibit I would like to pass out.

JUDGE ANDERL: I've been handed a single-page document which indicates that it's public counsel data request No. 50 and the response by Mr. Amen for identification. That's Exhibit No. 38.

MS. PYRON: I'm sorry, Your Honor, that was Exhibit 38.

JUDGE ANDERL: Yes.

(Marked Exhibit 38.)

Q. Mr. Amen, I've handed you what's been identified for the record as Exhibit 38, and could you please review that?

A. Yes, I have.

Q. And do you recognize the exhibit as being one that you prepared?

A. Yes.

Q. And does this exhibit show us the cumulative change in the residential class rate going back to UG-920840?

A. Yes, it does, or, excuse me, for residential customers.

Q. For residential customers. And what happened with UG-920840 for the residence class?

A. Well, as indicated in this exhibit, public counsel data request No. 50, in 920840, the rates to

residential customers decreased by 5.34 percent.
Q. Now, did all the classes of customers get a rate decrease in docket 920840?
A. No.
Q. And do you recall the classes that did not?
A. Yes. I believe our sales rate 87 and our transportation rate 57 received no rate decrease.
Q. So if you were to run the cumulative figures for all classes of customers for the customers that got no decrease in UG-920840, the cumulative decrease, if they're receiving one now, would not be as large a decrease, percentage-wise?
A. Well, it would be equal to the decrease they're receiving in this proceeding if they had no change in their rates as a result of --
Q. And if they had an increase as well with 931405?
A. That's correct.
Q. Do you have that data available or could you provide that as a record requisition?
A. Yes, we could.
Q. What I would like for that record requisition to be would be the equivalent of column L on your Exhibit 13 except on a cumulative basis like Exhibit 38 for all rate schedules.

JUDGE ANDERL: That would be record requisition No. 10.

(Record requisition 10.)

Q. Is that clear for you?

A. Yes.

Q. Going back to your testimony in T-11 on page 9, was another concern in your rate design to eliminate other official incentives in rates between transport and sales?

A. Generally, yes. As I think I've indicated in my testimony, we wanted to provide through the rate design relatively equivalent margins for transportation and corresponding sales rate schedules.

Q. So you would agree that current rates for transporters are artificially high relative to the sales rates?

A. Yes.

Q. And that's why you resulted with the rate blocks you've designed which are shown on page 9 at lines 18 and 24?

A. Yes.

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

JUDGE ANDERL: Ms. Pyron, it looks like you've got quite a stack of them there. Would it speed us through it if you predistributed everything?

MS. PYRON: Some of them I may or may not use.

JUDGE ANDERL: Then we'll just take the very next one which is going to be Exhibit 39.

(Marked Exhibit 39.)

JUDGE ANDERL: For the record that is a single page document which indicates that it is Northwest Industrial Gas Users' data request No. 12 and the response by Mr. Amen.

Q. Mr. Amen, could you please review what's been marked as Exhibit 39. And do you recognize that response to NWIGU data request No. 12 as being one that you prepared?

A. Yes.

Q. Could you explain to me how you did these comparisons and what this chart shows?

A. Well, the chart is a representation of how in designing the rates we sought to provide relatively equivalent margins between the sales rate schedule margins and those contained in the transportation rate proposal by block, and of course it's not easy to make them identical because of differences in block breaks between the two and the fact that you have billing data that distribute the volumes by block in different fashions between rate schedules, but nevertheless this is a representation of how on the average they compare.

Q. And then the column that's labeled Corresponding Sales Schedule and Block is the sales schedule that you compared to in making the design for schedule 57?

A. Yes. As you can see, we've included rate schedule 85 and 87 in that part of the exhibit here.

Q. Is that because you went to a single declining block transportation tariff?

A. That's correct. By eliminating rate 58, which would have been the corresponding transportation rate to 85 under existing rates, we've structured a single declining block rate that spans both sales schedules.

MS. PYRON: I would move for the admission of 38 and 39.

JUDGE ANDERL: Any objection, Mr. Johnson?

MR. JOHNSON: No objection.

MR. TROTTER: Could I just have one voir dire on the exhibit?.

JUDGE ANDERL: Yes. Which exhibit?

MR. TROTTER: 38. No objection to 39.

Mr. Amen, the data request 50 asked you to include tracking and general rate increases; is that right?

THE WITNESS: Yes, I believe it did.

MR. TROTTER: And was there a tracking increase on or about the time the effective dates of the rates in 920840?

THE WITNESS: No. The most recent tracking change occurred July 1 of 1993, as I recall.

MR. TROTTER: Thank you. No objection.

JUDGE ANDERL: Anyone else?

Exhibits 38 and 39 will be admitted as identified.

(Admitted Exhibits 38 and 39.)

Q. Going back to the currently existing rates that you're proposing to change and the relative differences between the blocks of the sales of transportation rates, do those differences and that skewing between the two, did that cause migration problems for the company?

A. Yes, it certainly did.

Q. And when were those migration problems?

A. Those migrations occurred subsequent to our implementation of the rates in 920840 in October, November, last year, primarily.

Q. And at that point in time, you gave your customers an election period for service to choose?

A. Yes, we did. As we were implementing the rates in 920840, since we were changing the transportation rate proposal somewhat from what it had initially been proposed, we needed to give the customers a period of time to determine what rate schedule was in their best interests.

Q. And at that point in time in October of 1993, the implementation of UG-920840, did you start with a one-year term of service for transportation service?

A. Yes.

Q. And those terms would then expire all at once? Was that the way it was set up or was it staggered?

A. No. It was set up to core -- to terminate simultaneously at the same time.

Q. And are you up to yet that one year in operation under that one year term of service yet?

A. If we're not there I think we're pretty close. I think the contract terms started on or about November 1 of last year, as I recall.

Q. So you haven't had quite one year yet. Almost, though?

A. Uh-huh.

Q. If we could turn to a different topic in your testimony, beginning on about page 10, that's where you start to discuss the balancing proposal that you're making in this filing, correct?

A. Yes.

Q. And as I understand the proposal, if you could correct me, you have an overrun provision, and could you explain how that works on a monthly basis?

A. On a monthly basis, if the daily delivered volumes accumulated over the month exceed the confirmed nominations, you have a monthly overrun, and it would be then compared with the various overrun levels that we've identified in the tariff. For example, we have a zero to 5 percent overrun block, 5 to 10 percent and in excess of 10 percent.

Q. And what's the penalty when -- and how do those penalty provisions work on an overrun?

A. If a customer's accumulated overrun for the month does not exceed the confirmed nomination totals by more than 5 percent, there is no charge to the customer. If, however, the overrun exceeds 5 percent but is less than 10 percent of the confirmed nominations, the customer is given one month to clear that imbalance back to 5 percent. Anything in excess of 10 percent is billed at a charge of $2 per therm.

Q. With no make-up opportunity?
A. That's correct.
Q. Is the $1 charge cost-based in any way for the 5 to 10 percent?
A. Now, the $1 charge would only apply if the customer failed to clear their volumes within 30 days, so that volume that remained in excess of 5 percent after 30 days would be billed at the $1 charge, and no, it's not particularly cost-based. It's a charge that's designed to control behavior.
Q. And is there any cost basis to the $2 per therm charge?
A. No, there's not.
Q. Why did you select $1 and $2?
A. Because we thought it would be incentive to the customer to stay within the balance levels that we had identified.
Q. In your experience, is $2 a therm also a penalty that typically applies to overtakes on an entitlement day when you have restrictions in place?
A. Yes, I believe it is.
Q. And so that's intended on an entitlement day to alter behavior?
A. That's correct.
Q. So is it your testimony that the same

penalty is appropriate for an entitlement day when the system is restricted and is appropriate for volumes at the end of 30 days that they hit 11 percent?

A. Yes, I think it is. Much like the situation on an entitlement day helps to control behavior.

Q. Well, it certainly is an incentive.

A. That, by the way, is not a new proposal on the company's behalf. That was contained in our existing tariff, I believe.

Q. Now, you have eliminated, though, some things that are in your current tariff?

A. That's correct.

Q. Have you eliminated the requirement to pass through zero?

A. Yes, we have.

Q. And why did you do that?

A. Many of the items that we are discussing here, including the month-end balancing provisions, were the subject of much discussion throughout the collaborative process, and one of the things that the customers were asking the company for some flexibility on was the ability, for example, to clear a portion of the imbalance that they had at the end of the month; thus our proposal to provide the customer with 30 days to clear those imbalances between 5 and 10 percent.

One of the other things that customers seem to be in favor of was, if the company could administer it, not to be forced to pass through zero on the following month, and we felt that it was administratively easier for us to allow the customer to merely clear back 5 percent since we were willing to, in a sense, cover the customer for 5 percent of their imbalance.

Q. Was the spiking back through zero creating an operational problem for the company?

A. I don't know that it was actually creating any operational problems for us, but it did seem to cause the customers to make perhaps some unnecessary adjustment to their nominations that we could see happening throughout the --

Q. Was the company losing money as a result of that possibly in terms of customers altering their purchasing patterns?

A. Well, certainly if a customer, if faced with having to get back to zero imbalance, was forced to actually curtail his transportation activity and, say, use an alternative fuel in order to balance, that would reduce the margin that the company would receive.

Q. And were you getting reports of behavior like that from your transportation department?

A. Well, certainly the customers were telling us in some cases that this is what they were being forced to do in order to achieve that.

Q. In going back to the proposal that you're now making, you also have drawn a distinction between an underrun penalty, and can you tell me how that penalty is proposed to work on a monthly basis?

A. Yes. The underrun penalty works much as the overrun provisions do only sort of in reverse; that is, the underrun volume consists of a deficiency between the daily delivered volumes for the billing period and the sum of the daily nominations. The percentages work much the same as they do for overrun. Any underrun percentage between zero and 5 percent involves no charge or cost to the customer, no transfer of title, if you will, as indicated in the tariff. The customers are again given subsequent billing period, roughly 30 days, to balance their underrun volume that exists between 5 and 10 percent, and then in the event that the underrun exceeds 10 percent, the volumes associated with that automatically transfer to the company at no cost.

Q. Basically you take the gas?

A. That's correct.

Q. And then you take the gas if someone doesn't clear a 5 to 10 percent underrun at the end of their second month?

A. That's also correct, yes.

Q. Are these penalties, this confiscation, cost-based in any way?

A. Well, again, I think the provisions here are designed to provide an incentive to the customers to control their imbalances on our system, and the provision here that allows the company to take the gas at no cost is an incentive, we believe, that will help control the customers' behavior.

Q. Would it have been appropriate to consider percentages of WACOG or some outside gas index, commodity index, here?

A. Yes, we can consider those. They would be somewhat difficult to administer in that you would constantly have to have some standard by which you were arriving at some predetermined cost of these volumes which may in fact not be equivalent to what the company could purchase the volumes for. So this, on the other hand, provides more of an incentive to the customer and is administratively easier for the company to control. We can point to a provision in the tariff and don't have to supply any other sort of debatable documentation as to what price we would pay for that volume.

Q. You just take it?

A. We just take it. We've given the customer additional flexibility here that was not in existence before, something the customers have asked for and we felt we've been able to provide, but in turn we feel that there must be some responsibility on their part as well.

Q. Where did you derive the percentages and this monthly balancing proposal?

A. Well, the balancing levels are similar to those that we had in place in the existing tariff. They're also not unlike those of the pipeline.

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

JUDGE ANDERL: For identification the next exhibit is No. 40. It indicates that it is the response to NWIGU data request No. 13.

(Marked Exhibit 40.)

Q. Mr. Amen, could you take a chance to review what has been marked as Exhibit 40 as the response to NWIGU data request No. 13?

A. I see that these are tariff sheets of

Northwest Pipeline Corporation.

Q. And did you prepare this response?

A. Yes, it was prepared under my direction.

Q. And when you were asked in this data request to provide the document supporting your selection of the percentages, your response was these tariff sheets; is that correct?

A. Essentially, yes. As I mentioned it before, the percentage levels contained in the pipeline's balancing provisions are not unlike our own.

Q. And if you could turn to sheet 2 of what's been marked as Exhibit 40 and paragraph 15.3. And does that paragraph set forth the pipeline's monthly balancing requirements?

A. Yes, it seems to.

Q. It's your understanding that it does with these tariff sheets?

A. Yes. They haven't changed since November 1 of 1993.

Q. So if you could take the time, please, to just review the 15.3. And is it correct that on the pipeline if a monthly imbalance is more than 5 percent or above that the shipper has basically 45 nonentitlement days to come back within 5 percent

before any penalty is imposed at all by the pipeline?
A. Yes.
Q. So your proposal with the 5 and 10 -- zero, 5, 5 and 10 and then the 10 percent confiscation or $2 per therm penalties doesn't really mirror the pipeline's tariffs, does it?
A. No, that was not our intention.
Q. And it doesn't function as a pass-through of the provisions of the pipeline?
A. Certainly not.
Q. So to say that this was a document that you relied on in deriving the percentages, it's not the only thing that you got the percentages from, is it?
A. No, it's not.
Q. Are there any other documents that you relied on in getting the zero, 5, 5 and 10?
A. No, other than our current tariff.
Q. Why is the company proposing penalties on monthly balancing that are more stringent than the pipeline's for monthly balancing?
A. Well, I can't speak to the pipeline's rationale for the penalties or the balancing levels, of course, that they had imposed, but it's in the company's judgment that these balancing levels and the corresponding charges were appropriate for the company

to manage transportation on its system so as not to adversely impact our distribution system.

Q. If you could turn with me, please, to your Exhibit 12, page 16, which defines -- does D define the constraint periods on page 16?

A. That's correct.

Q. And can you tell me what distinguished between constraint periods and general monthly operations, what the difference is? Could you explain that to me?

A. Well, a constraint period, as shown here, can involve the need to either entitle the customers' volumes or actually curtail interruptible customers' volumes based on the operational needs of the utility.

Q. And that could be from operational needs coming from the pipeline's entitlement and can also be from operational concerns on your distribution system for your utility?

A. There is some consideration to the pipeline entitlement conditions simply because there are times when the pipeline entitlements are called during periods when we are suffering constraints on our own system due to cold weather, but they tend to operate somewhat independently of the pipeline's entitlements. In fact, the pipeline calls entitlement days much more frequently than the company. I believe they called one this last week, and of course we did not --

Q. And on page 16, that's D1, a distribution system curtailment or an entitlement under 2 or 3, your interpretation of these tariffs that you're proposing is to give Washington Natural Gas the ability to declare a constraint period when you need to on your system; is that correct?

A. Yes.

Q. Doesn't that provide Washington Natural Gas with sufficient operational control over its system?

A. It does provide us with the operational control we need on a daily basis.

Q. So why do you need more restrictive penalties for monthly balancing than what the pipeline has when you have the ability to control your system?

A. Well, part of the controlling of the system is controlling the amount of gas that is left on the system at the end of the month; and, again, I can't speak to why the pipeline does or doesn't have more restrictive conditions in their own tariff, although there's been some discussion with the pipeline recently that indicate to us that they plan on tightening up their own balancing conditions due to the operational needs of both their pipeline and those related to resource management for purposes of hub operations and that sort of thing.

Q. But the proposals we just looked at in your tariffs on page 16 are a refinement and strengthening for the company over the current tariffs for controlling constraint periods on your system?

A. I think they're more a better definition of the -- of how the company needs to create control daily. In fact, No. 3 is the result of problems we've experienced in the past in summertime -- I'll call it the 4th of July weekend syndrome -- where customers who are transporting have overnominated because it's less costly, for example, for a customer to nominate a levelized volume daily throughout the month and in an extreme warm period where plants shut down and their consumption is reduced and yet nominations aren't reduced, an enormous amount of gas can get left on the system and in fact cause the company to have to displace major portions of its own supply, inject into storage and so forth.

Q. So is that why you've gone to the communication of the specific kind of entitlement, the definition of overrun and underrun as to what the system status is?

A. Yeah. I think we were interested here in making it clear, more well-defined.

Q. And better communication with your customers?

A. Exactly.

Q. Turning to another subject on your testimony at page 12 at the beginning with line 21 -- I guess 12, I'm sorry.

JUDGE ANDERL: What page?

MS. PYRON: Page 12 of T-11.

MR JOHNSON: Your Honor, could I just make a general note, seems like some of the questions that Mr. Amen is being asked is being cut off a little abruptly. I would like to give, maybe, the witness a little more time to answer the question if Ms. Pyron can do that. Seems like there's an overlap in the questions and answers.

JUDGE ANDERL: It did seem like that to me, too.

Q. Turning to page 12, Mr. Amen, on the questions related to the two-year term of service that the company is proposing, on line 19. Are you with me where I'm at on page 12?

A. Yes.

Q. You make a statement, I quote, for the two year term is for conversion from -- and the notice is

180 days for conversion from transportation to a gas sales service. By that gas sales service, do you mean only firm gas sales service?

A. No.

Q. So you mean firm or interruptible gas sales service?

A. Yes.

Q. Just so I understand your current proposal, the notice that you're proposing on line 18 that a customer needs to give at the end of his term of service as a transporter is six months; is that correct?

A. That's correct.

Q. So it's six months in advance of the termination of the agreement the transporter says whether or not they're going to stay with transportation or move to a sales service?

A. Yes.

Q. So would a 12-month term work equally as well for the company with the same six months notice?

A. No, it would not. As I believe Mr. Davis yesterday explained at some length, the company needs a term, at least in excess, or at least two years or more. One year would simply not be enough.

Q. Even though you only propose to know six months in advance of what a customer was going to do?

A. Well, what that means in this case is that the planning horizon for the company is shortened to about 18 months. Of course if you had a one-year term with six months notice, we would have about six months of window at a time which wouldn't even begin to allow us enough flexibility to work that into our planning horizons.

Q. Would it help you to stagger the deadlines of the term for different customers coming up at different points in time during the year instead of all coming up in November?

A. Not necessarily, no. In fact, this was another item that was discussed at some length in the collaborative, and it was -- the staggered term idea was actually something the customers suggested to the company would provide them with more flexibility in their own contracting practices. In discussing it with our transportation department, staff, our gas supply planning staff, I found that they were not in favor necessarily of staggered terms because that would just provide more points along the line where they may have to adjust their planning criteria. It would be simpler for them to have knowledge of changes in requirements from customers at, say, one time in any one year, but we felt that this was some flexibility that we were willing to provide the customer.

Q. When you're talking about a customer who is going to be -- if a customer switches from transportation to interruptible sales service, Washington Natural Gas doesn't buy gas for that interruptible sales customer in his long-term planning; is that correct?

A. That's correct.

Q. So is the 18-month window that you're talking about, is that planning for use of your system and your existing supplies and you need 18 months to do that? Is that your testimony?

A. Well, it's really much more than just supply, because the company has to plan for the utilization of all its upstream resources, if you will, not just the gas supply itself, but it involves the utilization of our capacity, our storage capacity; and, as you well know, under the current post 636 environment, there's a tremendous opportunity in the marketplace to release capacity. Some of that capacity is released for longer terms with recall rights, as well as utilization of storage capacity through releases or participation as a market participant through pipeline hubs. All of this has to work into our client criteria, and those are things that are impacted by customers who want to come back to the system for sales service because we have to have capacity for that service including storage.

Q. Do you know when capacity release started on the Northwest Pipeline system?

A. Well, I know that it was an outgrowth of 636.

Q. Would you accept November 1993 subject to check?

A. Sure.

Q. Going to your testimony on page 15 at line 17. You state that the company wants a sufficient notice period to be established after the decision is made by the Commission in this case in order to give customers and the company the opportunity to determine who is on what service; is that correct?

A. That's correct.

Q. What period of time and how -- what are you asking for there? Anything more specifically?

A. Well, we discussed this, again, at some length in the collaborative. We feel that we would like to do two things, actually. We would like to throughout the course of this proceeding at some point meet with customers, both in groups or individually, to determine their initial response, if you will, to the service that we're offering so that we can get a gauge for the amount of subscription level we may have. We could then reflect those adjustments in any compliance filing that would come out of the proceeding. In addition if there are, say, particularly significant changes in any one aspect of our proposal that comes out of the Commission's order, we would also ask for certain amount of time to allow customers to modify their initial elections to reflect any impact that those changes might have on them.

Q. You wouldn't expect a transportation customer to be able to make a decision on a two-year contract not knowing what it's going to cost, would you?

A. Well --

MR. JOHNSON: Objection to the extent it calls for speculation.

JUDGE ANDERL: Overruled. I think he can answer that.

A. I would expect the customer to make an election given all of the information that we have at the time at the conclusion of this proceeding about what the service is going to look like.

Q. But you wouldn't expect the elections to take place until after we know what the rates are?

A. No.

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

MS. PYRON: I have about five minutes.

Q. In your Exhibit No. 12, Mr. Amen, I don't see a schedule 112; is that correct?

A. That's correct.

Q. And can you explain what is currently embedded in schedule 112 in the current tariffs of the company?

A. Well, I don't have my tariff book here with me. Schedule 112 is a surcharge schedule that applies to transportation customer volumes.

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

JUDGE ANDERL: I'm being handed a single-page document which indicates that it is a response to record requisition No. 11 in docket 931405. I will mark that for identification as Exhibit No. 41.

(Marked Exhibit 41.)

Q. Mr. Amen, if you could please review the record requisition No. 11 from March 11, 1994 that's been marked as Exhibit 41. Do you recognize the response?

A. Yes. This is a record requisition from docket UG-931405 dated February 25th and apparently the response was on or about March 11 of 1994.

Q. And at that point in time for schedule 57 in March 11 of 1994, the remaining balance for schedule 57 on this surcharge to be recovered by the company was how much?

A. $46,307.

Q. And do you know what the status, approximately, is today of that collection of that balance?

A. I don't have the exact number with me. It may, though, be the case that we have over-recovered this particular balance currently.

Q. Can I make a record requisition, then, if you will, for the current status of these accounts.

MS. PYRON: What number would that be?

JUDGE ANDERL: Coincidentally it will be 11.

(Record requisition 11.)

Q. And I would like to get the information on both schedule 57 and 58 for the record requisition.

A. Would you like me to include in that the entire balance related to these deferrals? What you have here, of course, is the remaining balance for the recovery of the surcharge that was in place. However, the amount that determined that surcharge ended in September 30, 1992, so we've been deferring amounts since that time that impact the entire deferral balance related to these accounts, so would you like me to include the entire --

Q. Would those be the things that you're intending to file at some point in time for a -- and at what point in time would you be intending to file them?

A. Well, our intention is currently to file an update of the surcharge soon. Certainly within the next 60 days. What has prevented us from essentially filing one sooner is the fact that in the summer months here we've been receiving some direct bills from pipeline -- from the pipeline related to prior periods and the recovery of amounts associated with prior periods, and it's required us to go back and determine class responsibility for those direct bills, and in some cases it may even require customer-by-customer analysis depending on the nature of those. So it's sort of complicated the process of easily tracking this information, but we think we're near to the point of making such a filing.

Q. If I could get the response specifically on this surcharge for the record requisition, which only gives you 10 days to do that, and then the other information, I would like to have it within the scope of it, but I don't know, can you provide it within 10 days?

A. Certainly I can provide some information that goes to the heart of this matter. I don't know how comprehensive it may be.

Q. I can work with you that we'll supplement it as the information becomes available.

MS. PYRON: I would like to move for the admission of Exhibits 41 and 40 if I didn't already do so.

JUDGE ANDERL: 40 and 41, any objection?

MR. JOHNSON: No objection.

JUDGE ANDERL: Hearing no objection Exhibits 40 and 41 will be admitted as identified. Anything further for this witness, Ms. Pyron?

(Admitted Exhibits 40 and 41.)

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

JUDGE ANDERL: Ms. Arnold, I had a 30 minutes estimate from you. Do you think that's still about accurate?

MS. ARNOLD: No. I've been crossing questions off. So I would say 20 minutes is more accurate.

CROSS-EXAMINATION

BY MS. ARNOLD:

Q. Looking at page 9 of your testimony, Mr. Amen, lines 11 and 12 you describe the proposal as transportation service that is nonexclusive and open to all customers willing to comply with the terms and conditions. Would you explain the company's reasoning in offering a tariff that was open to all customers without minimum volumes and other such limits?

A. Certainly. As I think witness Davis discussed yesterday, and whether or not he mentioned -- I don't recall exactly the collaborative, but again, these were topics that were discussed in the collaborative, the concept of the minimum bill or minimum volume requirement as well as being a directive, I believe, of the Commission in the 920840 order to identify cost basis for such charges. And as we explored these issues, we felt that many of them had no real foundation in cost, but were more, I would characterize, as an evolutionary technique related to transportation service. That is, as transportation service began some 10 years ago, concepts like minimum volume requirements and others were included in tariffs to, again, sort of control access to them.

Many utilities sort of took a benevolent posture with regard to their customers making judgments as to who should be qualifying, what level of annual throughput really made sense, economic sense, for a customer to transport and so forth. As we've progessed, however, and as the marketplace has developed, I think many of these limitations don't really have any foundation in cost and thus we felt no need to include them.

Q. At page 15, I would like to follow up on some of your comments with Ms. Pyron. Line 16 through 19, or 17 through 19, you state that the company requests a sufficient notice period to be established such that subscription levels to transportation service could be determined by the company prior to determination of the filing final billing determinants and implementation of the rates. Would you explain what you meant by prior to the determination of the final billing determinants -- prior to the determination of the final billing determinants?

A. Okay. For example, a billing determinant would be the level of firm demand that would be requested by the customer either for transportation service or sales service, so knowledge of those nominations, if you will, or amounts of firm demand would be necessary in order to compute the revenues recovered from the demand charge so that you could then determine how much additional revenue for the class needed to be recovered from other components of the schedule. That's generally what I was speaking to there.

Q. Isn't it correct that billing determinants determine the calculation of the unit price?

A. Yes. They do have an impact on the calculation of the unit rates. What we have here is a proposal for transportation service that is enough different than, let's say, the current service that it's difficult to anticipate the amount of migration that may occur either to transportation or away from it. My initial reaction is that there will be migration to transportation. We've already seen some indication of that, that perhaps due to the anticipated results of this case we've seen an increase in the number of customers asking for transportation service for the next fiscal year.

So we were hoping, as we discussed in the collaborative, to be able to explore these issues with customers and get some sense of what the subscription levels would be and incorporate that into the final rate determination. However, any election, obviously by a customer would be dependent upon the rates or prices as contained in the final proposal.

Q. Is it correct that you're proposing that the initial contract term for a customer would be 18 months? I'm looking at page 14, line 28.

A. We indicated, as I have in the testimony here, and again as a result of discussion of contract term in the collaborative, that it be no less than 18 months. This would allow for staggering of terms as the customers have requested and still give us the opportunity of at least an average initial subscription period in the neighborhood of two years, which is what we're looking for as a minimum contract term, but again, to provide some flexibility here on the initial term as the result of the case we indicated we accept 18 months.

Q. So would it be correct to say that in the implementation period you anticipate first of all a short -- I assume, two, three-week -- period of evaluation of the number of subscribers and then you anticipate some 18-month contracts out of that initial subscription?

A. Certainly. That's what we're proposing here, that we could handle 18-month contracts. We are hoping of course that we have some that far exceed 18 months so that we could balance them but that's the nature of our proposal.

Q. Turn, please, to Exhibit 17, which is RJA-6, 1 of 1.

JUDGE ANDERL: 1 of 2.

MS. ARNOLD: I mean 1 of 2. Sorry.

MR. TROTTER: Exhibit 17.

MS. ARNOLD: I believe it's Exhibit 17. It's RJA-6, page 1 of 2.

Q. Now, am I correct that this sheet shows your calculation of the incremental costs associated with transportation that are above and beyond costs that the company would have for serving sales customers?

A. Yes. Page 1 of 2 details those administrative costs for the provision of transportation service. Then on page 2, there are also listed there with the other customer-related costs for the class.

Q. Yesterday, when we went over these incremental costs with Mr. Feingold, Mr. Feingold indicated that he did not include a cost for executive

and regulatory which is your line 1. Could you explain what that cost represents?
A. Yes. I believe in fact this was the subject of staff data request No. 17 and it is an allocation of a portion of the executive salary and budget costs that are attributable to the executive with responsibility for this function.
Q. Who would that be?
A. That would be Mr. John Stefanie, vice-president of gas supply.
Q. And what would Mr. Stefanie's responsibilities for transportation be?
A. Well, he has gas supply and gas dispatch and also transportation all under his area of responsibility. Thus he has executive management oversight of all of these areas.
Q. How was it determined that 10.51 percent of his time would be devoted to transportation?
A. Well, as I indicated a minute ago, that calculation is detailed in staff data request No. 17. I have that with me if you will give me a moment. I think it also may have been the subject of Northwest Industrial Gas User data request No. 3. However, the calculation of that 10.51 percent includes -- is sort of the ratio of the transportation salaries identified

related to the transportation coordination as a -- as divided by or a ratio of that to the total fiscal year budget for this executive's area. That is, the gas control, industrial marketing, gas supply functions, that are all underneath his realm of responsibility for the fiscal year total sum $1,745,000. The transportation administrative salaries are $183,400. Thus, if you divide the first number into the second you get 10.51 percent. It's a method of allocating a portion of his specific salary and budgetary items to this function.

Q. It doesn't mean that one out of every 10 days Mr. Stefanie will devote to transportation activity?

A. Certainly not. It was an allocation as I described. It's difficult to determine specifically how many hours in the day or days in the week Mr. Stefanie may spend on these matters.

Q. On your line No. 3, how many transportation coordination personnel does that $72,000 represent? How many individual's salaries?

A. I believe it's three but let me check. Again, I think if I can turn to Northwest Industrial Gas User data request No. 3 that may give me some information here.

Actually, I think that particular line item covers two transportation coordinators. When I included three I believe I was including the supervisor of that group and her salary would be included in the supervisory line No. 2.

Q. Did you also include it under No. 3? Is it included twice?

A. No, it's not.

Q. Are those full-time transportation coordinators who do nothing but deal with transportation matters?

A. Yes.

Q. It takes two full-time people?

A. Certainly does.

Q. Plus all of these measurement support and automatic meter reading support and customer assistance people?

A. Yes. As I recall, we had quite a discussion in the collaborative about the nature of the administration of transportation, and the supervisor of this group, Elaine Casper, presented material and handouts and whatnot to the collaborative members concerning this particular item, and we discussed it in some length.

Q. In the company downsizing that's taken place since September of 1993, have any of these people in the transportation coordinator department, if that's what it is, been assigned other responsibilities or laid off?

A. No.

Q. Now, you mentioned a minute ago about billing determinants and the relationship between billing determinants and unit cost. The unit cost, administrative cost, of 629 customers is based -- of $629 is based on 38 customers, is it not?

A. That's actually 36 customers. Yes, it is.

Q. If there were, say, 70 customers, would you -- if there were 70 customers and you weren't required to hire any new people or re-assign any new people to handle transportation, would I be correct that the unit administrative cost per customer would be in the neighborhood of $300 per month?

A. Yes. Certainly it would be affected by changing the denominator, and because of that fact, what we're proposing here for a transportation customer charge is a total of $650, but as I indicated on page 2 of my exhibit, not only are these administrative costs, these incremental administrative costs included in that customer charge, but other customer-related costs. And as you see in the columns shown, for example in the total column, they average some $900 per customer.

So there's quite a bit of flexibility there to alter the calculation. That is, we could increase the number of customers significantly and the average cost would still, I would say, be approximately equivalent to the $650 charge that we're proposing.

Q. That was my -- I think you just answered my next question is, why, if the administrative cost is $629 for each of those 36 customers, are you proposing a $650 monthly customer charge and is the answer that that takes into account other customer-related costs?

A. Certainly does.

MS. ARNOLD: I have just one other short line of questioning.

JUDGE ANDERL: Go ahead.

Q. This is the change of subject, but I would like to follow up on your answers to Ms. Pyron's question on the rate spread. If you turn to page 4 of your testimony, at lines 19 and 20 you said one of the company's primary considerations was to narrow the difference between the relative rates of return by class with a goal of approaching a levelized return for the system. Would you explain your reasoning for that goal?

A. Well, in so doing we would have rates that would be more in line with the cost of providing that service.

Q. Would you turn to Exhibit 13, which is your substituted exhibit at page 2 of 2, and refer to the column labeled Settlement Rate of Return, 6494 settlement rate of return?

A. Okay.

Q. Am I correct that the -- at the current levels, the current rate design, the company's return on schedule 85 and 58 is about 139 percent?

A. That's correct.

Q. Does that indicate that this customer class schedule 85 is paying more than the cost of serving that class?

A. Yes, generally so.

Q. Would you agree that that's substantially more than the cost of serving that class?

A. Very definitely.

Q. Under the proposed rate design, schedule 85 would be earning about a 56 percent rate of return. Is that correct?

A. That's correct.

Q. Would you agree that schedule 85 would still be paying substantially more than the cost of serving that customer class?

A. Yes. I would agree that they would still be providing a return, obviously well in excess of the system average. However, it's also less than half of what it would be under the current rates.

Q. Would you agree that schedule 86 also under the proposal would be paying more than the cost of serving a customer class?

A. Yes. The return, I believe, shown there under the proposal would be 29.14 percent.

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

JUDGE ANDERL: Thank you, Ms. Arnold. Let me check time estimates before the break. Mr. Frederickson, still 15 minutes?

MR. FREDERICKSON: I think we may not have any, but I will let you know after the break.

JUDGE ANDERL: Mr. Trotter, still about an hour and a half?

MR. TROTTER: Yes.

JUDGE ANDERL: Let's take our morning recess.

(Recess.)

JUDGE ANDERL: Let's be on the record after our morning recess. Mr. Frederickson, pursuant to our discussion off the record, in lieu of your cross, what request is it that you want to make?

MR. FREDERICKSON: I would request, Your Honor, that Ms. Pyron be allowed to supplement a prior record requisition request. I believe it's No. 10.

JUDGE ANDERL: And that was the calculation for the equivalent of column L of Exhibit 38 for all the rate schedules.

MS. PYRON: Right. In going back to Exhibit 38, Mr. Amen, if you could please take a sample bill for a residential bill of $100 and referring to Exhibit 38 walk us through the -- with the information applying the rate changes on a cumulative basis, what the percentage changes would be for that residential customer based on an assumed $100 bill on prior to 10-9-93. Am I clear?

THE WITNESS: By way of clarification, Ms. Pyron, do you mean $100 or 100 therms? Do you want me to price out 100 therms or show how $100 bill would change? I'm not sure.

MS. PYRON: I think $100 bill, but assume that's what cost that customer prior to any changes taking place prior to 10-9-93, $100 for a residential customer.

THE WITNESS: Okay.

MS. PYRON: And then for each one of the rate things that are reflected on Exhibit 38 what happened to that bill.

THE WITNESS: Sure.

JUDGE ANDERL: That would be included as a part of response to record requisition No. 10. Mr. Frederickson, that is everything you need?

MR. FREDERICKSON: Yes, it is, Your Honor. Thank you.

JUDGE ANDERL: Mr. Trotter.

CROSS-EXAMINATION

BY MR. TROTTER:

Q. We'll start by asking for record requisition No. 12. And that would be to show everything you're going to show in record requisition 10 but include all rate changes from 1993 on. We'll say 12-31-92. We want to pick up that 1-1-93 tracker. Do you understand?

A. Yes, I do.

(Record requisition 12.)

Q. Turn to Exhibit 13. Page 1 under column F, last line, you show the total marginal revenues of some 166.9 million. Do you see that?

A. Yes.

Q. On the next page of the exhibit in the proposed marginal revenues column J, last line, you show $167.7 million, is that correct, difference of approximately about $800,000; is that right?

A. Yes.

Q. Does this imply that the company is intending to increase its marginal revenues over those from the last settled rate case?

A. What this indicates is that a portion of the revenues which were previously treated as gas costs attributable to a PGA mechanism are now being extracted, if you will, and recovered in a different fashion as sort of a base rate charge, and that is the 20 percent, roughly, the 20 percent of JP, for example, that's being recovered through the balancing charge under transportation. So the total revenues, by the way, are not changing at all, but it merely reflects sort of a shift of what was previously PGA recoverable gas cost, because we allocated no or assigned no cost to these resources to transportation, but now we intend to, as we've indicated, do so.

Q. So it's your testimony that the net marginal revenues to the company are unchanged?

A. No, that's not my testimony. The net total revenues to the company are unchanged.

Q. Mr. Amen, would you agree that generally gas is cheaper in the summer and more expensive in winter?

A. I think there are historical periods we can point to where that's the case. However, I think some of the material that we presented to the collaborative that tracked recent price changes in the marketplace indicate that there's much more volatility and less predictability today in the marketplace than there has been.

Q. That's why I phrased my question generally.

A. Well, I think if I was to look at it today generally, I would say no. A year ago or two years ago my answer might have been different.

Q. Turn to your Exhibit 18, and this deals with the Jackson Prairie revenue, facility revenue requirement; is that right?

A. Correct.

Q. And does this analysis include the cost of moving gas to or from Jackson Prairie, that is, the SGS-2 rate you pay Northwest Pipeline?

A. I'm not certain I can answer that. I would have to consult with witness Feingold to determine if that's included. I don't believe it is.

Q. Should it be included?

A. Well, again, I don't want to give an inaccurate answer. Whether or not it should be, I think if it were linked with the storage facility it may be appropriate that it will be included or should be included. However, the nature of balancing our deliveries into our system I think the SGS-2 rate is roughly -- although it's identified separately is equivalent to the other Northwest Pipeline transportation rate, and so in either case we would be paying that rate to move gas to our system. The fact that we dropped some off at Jackson Prairie and so forth reflects the utilization of that facility. I think the actual delivery of the gas, however, is another matter.

Q. Let me just ask it this way or ask it again. Should the Jackson Prairie analysis here include that SGS-2 rate you paid? Can you answer that yes or no?

A. I can't really answer that specifically yes or no. I think I would like to consult with witness Feingold. He delved into the actual utilization, I think, of the SGS-2 transportation a little more in depth than I did.

JUDGE ANDERL: Mr. Trotter, can I get you to pull the microphone a little closer?

A. If I were able to spend a little time looking through the exhibits, I might be able to find it, but perhaps we could answer that question through a record requisition. It may in fact be included.

Q. Well, I have this odd situation where I'm asking you as a matter of theory whether it should be included and it seems to be directly related to whether you did it or not.

A. Generally speaking, I would say it's directly linked with the storage facility, yes, it should be included, but I know there's been a lot of discussion about what SGS-2 actually represents; but yes, I think in answer to your question, if, generally speaking, it was linked with that particular storage service it should be included.

Q. If a transportation customer owned part of Jackson Prairie and wanted to balance without using Washington Natural, would they have to pay the pipeline that SGS-2 rate?

A. Well, I'm a little unfamiliar with the exact terms of the pipeline's tariff in this regard, but again, if that was directly linked to Jackson Prairie they probably would have to pay it.

Q. I would ask as response to record requisition 13 if you could indicate whether the cost of moving gas to or from Jackson Prairie is included in the Exhibit 18 and provide your underlying work papers and also provide the SGS-2 rate.

(Record Requisition 13.)

A. Certainly.

Q. Turn to page 4 of your testimony. And you were asked a question from PERCC regarding your goal of approaching the levelized rate of return for the system. Do you recall that?

A. Yes, I do.

Q. And you proposed to narrow the difference in this proceeding; is that right?

A. That's correct.

Q. You did not perform any study which sought to determine the relative risks associated with serving the company's various classes of ratepayers?

A. No, I did not.

Q. And did you rely on or review any study which addressed that issue?

A. No, I did not.

Q. This is the second case you've testified before this Commission; is that right?

A. Yes, that's correct.

Q. And there was no cost of service in the prior proceeding in which you testified because the company proposed -- or the settlement proposal was a uniform percentage of margin; is that right?

A. Yes. As you may recall that the company's intention was to bifurcate that proceeding, if you will, and include cost of service in this proceeding.

Q. Is this the first time you have testified on cost of service in any jurisdiction?

A. Well, I'm not testifying to cost of service in this proceeding.

Q. What about in the application of cost of service to implement cost of service through rate schedules?

A. No, it's not the first time I've testified.

Q. Have you ever yourself prepared and presented a complete cost of service study before any Commission?

A. No, I have not sponsored a cost of service study.

Q. Did you supervise the work of Mr. Feingold in this proceeding?

A. I don't know that I would characterize it as supervising. I utilized Mr. Feingold as a consultant.

Q. On page 3 of your testimony, you state that you're using a revenue requirement of $390.7 million.

Do you see that?

A. Yes.

Q. And that's based on the stipulation in the last proceeding 931405?

A. That's correct.

Q. And there was no -- because that was settled there was no Commission approved pro forma and restated results of operations on the account-by-account basis?

A. No, there was not.

Q. And among the adjustments in that case that were proposed by other parties included bimonthly meter reading, billing, royalties on merchandise sales by affiliates and disallowances proposed, disallowances in certain rate case expenses, and those were not resolved by the stipulation?

A. That's correct.

Q. Did you give any guidance to Mr. Feingold regarding whether to exclude or include adjustments of any sort in his cost of service study?

A. No, I did not.

Q. The company in that stipulation agreed to book royalties from Washington Energy Service Company to the regulated utility, correct?

A. Yes.

Q. And the company's cost of service study does not take those royalties into account, does it?
A. No, it does not. The test period would not have included those.
Q. Turning back to page 4, you refer to rate shock on lines 21 through 24. Would you please define for us what you mean by rate shock?
A. Generally speaking, I define it as double-digit rate increases.
Q. And just to follow up on a question that Ms. Pyron asked you, you just focused on the increases in this docket; is that right?
A. That's correct.
Q. So if there was an increase in this docket of 5 percent and a tracking increase of 5 percent during pendency of the docket, if you combined those two that would be double digit, would it not?
A. If they occurred either simultaneously or relatively close together, I would agree with that.
Q. Would you call that rate shock?
A. If in fact it resulted in double-digit rate increases to a particular class, that would generally fall within my definition.
Q. And could you define what you mean by fairly close together, whatever the word is you used?

A. Well, I guess I would have to consider the particular instance when it happened.

Q. So you can't give us a rule of thumb like within three months or six months?

A. I really don't have one in mind.

Q. And you didn't have one in mind when you did your testimony here on rate shock?

A. No. As I indicated, I was basing it on the impact of the proposed rates in this case.

Q. Turn to your Exhibit 13, page 2. And then in column L you show your proposed increases by rate schedule, correct?

A. Yes. Those would be the revenue percentage increases.

Q. Would you agree that because purchased gas costs are subject to the gas tracking mechanism that margin is really the only thing that matters to the company's bottom line and the only thing the Commission adjusts in a general rate case barring any imprudent gas purchases?

A. Generally, yes.

Q. Would you also agree that sales customers have seen some rather sizable tracking increases in the last year and may be exposed to additional such increases in the future?

A. I don't believe they've experienced any tracking increases in the last year.

Q. On July 1st of 1993 there was a tracking increase granted not within the last year?

A. That's correct.

Q. And on January 1, 1993 there was also a tracking increase, was there not?

A. Yes.

Q. Is there a tracking increase planned in the near future?

A. Again, as I think I mentioned in talking with Ms. Pyron, we're planning to file what I would characterize as a reconciliation of our account 191 for prior periods. However, in terms of a PGA or change in our projected cost of gas, I don't really have any idea when one of those may be on the horizon, and I don't know what the impact will be yet from the file we would make on this reconciliation.

Q. Staying with the exhibit, in column P, you show the proposed average margin per therm that you advocate in this case?

A. Yes.

Q. And on Exhibit 14 you show the -- your proposed gas cost per therm by schedule, correct?

A. That's correct, yes.

Q. Now, if we compare the margin per therm in column P of Exhibit 13 to the gas cost per therm in Exhibit 14 for sales schedules such as 23, 24, 31 and 36, would you agree that the margin is about equal in magnitude to the gas costs, that is, they're both in the range of 20 to 30 cents a therm?

A. I would agree, yes, they are in the range of 20 to 30 cents per therm.

Q. Let's take a look at schedule 24. And on Exhibit 13 you show that schedule in column L receiving a 5.9 percent increase to a margin rate of about 25 cents a therm?

A. Yes.

Q. And dividing the current margin of 61 million in column D from the first page of this exhibit by the volume of 293 million therms in column A we get a current margin of about 21 cents a therm; is that correct?

A. I will accept your calculation subject to check.

Q. So that would be approximately a four-cent-per-therm increase in margin; is that right?

A. Yes.

Q. And that's 19 percent increase in margin, is it not?

A. Again, I would accept your calculation subject to check.

Q. What was the increase in margin for schedule 24 that resulted from the settlement in 931405?

A. I don't recall.

Q. Would you agree that it was more than 10 percent?

A. I really can't say.

Q. Would you accept subject to your check?

A. Yes.

Q. And if we compound those two increases in margin we would get an increase in margin that well exceeded 30 percent; would you agree?

A. Yes. Likewise, if you included the margin decrease from October 9 of 1993 some six months earlier, you have an offsetting impact.

Q. And would that offsetting impact itself be offset by the tracking increases on 1-1-93 and July 1993?

A. Well, we're dealing with different things. You're talking about margin and so I was addressing that.

Q. So with respect to increases in margin you do not believe that residential customers have experienced rate shock because you would take into account decreases from the prior contested rate case?

A. Yes, I would.

Q. So in terms of determining rate shock on a margin basis you would go back at least 12 months; is that correct?

A. Well, I don't know that you can associate rate shock with margin. Rate shock relates to the price that a customer pays, so I would characterize rate shock in those terms.

Q. And you would also not go back 12 months when you look at rate shock, is that right, n those terms?

A. Well, that depends on what's occurred during those 12 months.

Q. You didn't consider that in your analysis, did you?

A. I think I did. I mean, I think I considered --

Q. I asked you earlier what you considered and you said you considered the impact of the rates in this case.

A. I did consider what the rates in this case -- whether or not they would constitute rate shock, but I think that I was well aware of rate changes in the last 12 months as I was going through that process.

Q. Okay. Would you please itemize everything you considered in determining whether or not your proposal in this case constituted rate shock, other than the proposed rates and rate changes in the last 12 months.

A. Well, I think I've listed them.

Q. What were the others? Was there anything else?

A. Well, as I indicated, I have considered the impact of these rates as proposed when in fact that may occur. Obviously they have not yet been implemented, but I had an awareness and knowledge of the result of the effect of the 920840 case on rates to residential customers, for example.

Q. Now, turning back to -- are you done, by the way, with your listing?

A. Yeah.

Q. Turn to Exhibit 13, page 2. Looking at schedules 11, 16 and 61, you're proposing 50 percent increases in those schedules, correct?

A. That's correct.

Q. And would you accept that the current margin for schedule 11 is around 35 cents a therm?

A. Yes, I would accept that subject to check.

Q. And that will more than double under your proposal to 80 cents a therm?

A. Yes.

Q. Now let's take a look at schedule 41. You're proposing a decrease of 15 percent in that schedule, is that right, as shown in column L?

A. Yes, that's correct.

Q. Would you accept that that's -- that equates to about a 40 percent reduction in margin for that class?

A. I would accept that subject to check.

Q. And for the large volume sales and transportation customers you're proposing 24 and a half percent decreases and 55 percent decreases in revenue with about 95 percent and 55 percent margin decreases respectively; is that right?

A. Yeah. I think I followed that, yes.

Q. And the margin decreases for schedule 87, 57 and 99 are in the 55 to 64 percent range?

A. Yes.

Q. Let's go to Exhibit 15, page 4. And here you show the current rates are generating for schedule 57 10.6 million, 10.67 million; is that right?

A. Uh-huh.

Q. And your proposal is to reduce that to 4.8 million?

A. Yes.

Q. That's a reduction of about 55 percent, correct?

A. Yes.

Q. And turning to Exhibit 19, page 10, do you see that for the larger customers on this schedule, the ones taking the larger volumes, there's actually a 65 to 67 percent reduction, correct?

A. Yes.

Q. Like you to assume that the company kept its transportation schedule at current levels. Do you have that assumption in mind?

A. I'm sorry, say that again, please.

Q. Assume the company kept its transportation rates at current levels, no changes were made.

A. Okay.

Q. Second assumption, that one half of your current transportation load on schedule 67 -- 57 -- migrated to other fuels or bypassed or otherwise ceased to become customers. Do you have that assumption in mind?

A. Yes.

Q. That would reduce transportation margins by about half; is that correct?

A. Well, depending on who those customers were and their relative consumption patterns and whatnot, it may, yes.

Q. Given what you know about your system and the locations of transportation or other customers, how likely do you think it is that more than half of the company's transportation load would leave the system currently if rates were continued?

A. I don't have any sense that that would would be the case at all.

Q. You don't think that would happen?

A. I don't think so.

MR. TROTTER: Two exhibits to mark for identification. First is company's response to our data request No. 9.

JUDGE ANDERL: That multi-page document will be Exhibit No. 42 for identification.

(Marked Exhibit 42.)

JUDGE ANDERL: And the next exhibit which is being distributed is the response to public counsel data request No. 20. That's Exhibit No. 43 for identification.

(Marked Exhibit 43.)

Q. Do you recognize Exhibits 42 and 43 as your responses to our data requests regarding distribution main and service extension policy?

A. Yes, I do.

Q. Referring to Exhibit 42, these are your current tariff rules on the subject, correct?

A. Exhibit 42, I'm sorry, is the first document you handed me which says request No. 9?

Q. Correct.

A. Seems to be a little more than just that, but, yeah, that's part of it.

Q. As well as prior?

A. Yeah.

Q. But it does include the current tariff?

A. Yeah, I believe it does.

Q. And your current tariff sets forth the formula by which the company determines if it will extend service to a new customer and the method by which the company determines the amount the customer must pay upfront for extension of service?

A. Yes.

Q. Turn to page 2 of the exhibit. And looking down the -- it's covered by the free service paragraph that we also note one summarizes it. Am I correct that the methodology provides that a customer located adjacent to a gas main and expected to use at least

350 therms a year gets a free service connection up to 60 feet?

A. Yes. Under terms of the current tariff, that's true.

Q. And if the customer has gas and water heat, it's 85 -- gas and water heat plus a gas appliance it gets 110 feet?

A. Yes.

Q. And is the customer with more appliances allowed a longer free extension because they're expected to use more gas and provide higher revenues to the company?

A. Generally speaking, I think that was probably the logic behind it at the time, although I wasn't involved in the process.

Q. Turn to page 4 of the exhibit where you show rule No. 7 for main extensions. And this rule provides for free extensions up to five times annual margin; is that right?

A. Yes.

Q. And the more gas a customer is expected to use, the greater the margins expected and therefore the more the company is willing to invest to connect a customer; is that right?

A. Yes.

Q. Let's take two examples. The first is a residential customer expecting to use 500 therms a year for gas, space and water heat, and the second example is an industrial customer expected to use 500,000 therms per year during the harvest season for processing. Am I correct that the way the policy is enforced today and the way it has been for at least 19 -- since at least 1980, the industrial customer would be entitled to a much larger free main and service extension than the residential customer in that example.

A. It certainly would produce more therms at a lower margin; that would be compared against the cost of whatever that facility's extension happened to be.

Q. So is your answer yes?

A. Well, depending on the diameter and length and size and so forth.

Q. But based on your understanding of the nature of customers on your system, would you find that that larger customer would get a larger extension -- get more of an allowance?

A. Yes.

Q. And typically large customers are further apart from one another than residential customers in areas served by gas and it would be more expensive to extend service a greater distance to a large customer than 100 feet or so than a residential customer would need. Would that be fair?

A. Yes.

Q. And the current policy is well adapted to that situation since it provides for greater investment to serve a larger customer than a smaller customer; is that right?

A. Yes.

Q. Now, there's nothing in your tariff which refers to or sets anticipated demand on a peak day or a design peak day as a criteria for determining if the company will extend service to a customer or how much the company will contribute to a main or service extension or how much the customer must contribute in in the form of an advance to secure service; is that right?

A. Yeah.

Q. Let's move to Exhibit 43 for identification where you were asked to provide 10 examples of residential main extension capital investment analyses. Do you see that?

A. Yes.

Q. Do you recognize the exhibit as your response?

A. Yes, I do.

Q. Now, so we understand the coding, if you could just turn to the second page of the exhibit, and we know this is a residential customer because the line 1 rate schedule is 24.

A. I'm sorry, I was trying to review the document.

Q. We know this first example on sheet 2 is a residential customer because it's schedule 24 as shown on line 1?

A. That's correct.

Q. And the total annual therms expected for this customer shown on line 6 is 1330?

A. Yes.

Q. With an installation cost or total capital investment at the end of the line 5 of $2899; is that right?

A. That's correct.

Q. And that cost covered the main, the service and the meter?

A. Yes.

Q. And your model computes the total revenue per year of $652 as shown on the second entry on line 7, right?

A. Yes.

Q. And the total gas cost is $319 resulting from line 8?

A. Correct.

Q. And then you have an annual cost per customer on line 9 of $75?

A. Yes.

Q. And the conclusion of this exhibit is the bottom line of the exhibit in which your analysis shows that in order to get to a rate of return of 9.15 percent the customer would have to make an advance of $959?

A. Yes. The capital investment analysis model computes that.

Q. And a portion of that would be returned in accordance with rule 7 if additional customers were connected along that main; is that right?

A. Yes.

Q. And what is the annual cost per customer -- what does that represent?

A. I do not know the exact components of that. It's to represent the annual customer-related incremental costs of providing service.

Q. Would that include such things as the incremental meter reading billing, and maintenance and so on?

A. Yes. However, you must understand that I think this particular number was derived at prior to, for example, this cost of service study that we're filing here, so that it may in fact be different today than is represented by that number.

Q. But this is what you're using under your current analysis?

A. Under the current tariff, that's correct.

Q. Let's go to the third page of the exhibit, and this is again a residential customer using 1330 therms a year but the construction cost is lower than the prior customer, is that right, 2524 versus 2899?

A. Yes.

Q. And so therefore, the bottom line for this customer is a lower extension fee?

A. Yes. The contribution in aid of construction from this example would be $499.

Q. The next sheet, sheet 4 of the exhibit, we also see schedule 24 customer but the -- but there's 68 customers involved as shown on line 3?

A. Yes, that's correct.

Q. So this would be a subdivision or development of some sort?

A. Yes. This appears to be phase 3 of the Abbey Road subdivision.

Q. And each customer is expected to take 1100 therms a year as shown on line 6?
A. That's in the assumptions, yes.
Q. And in this case the expected revenues are sufficient to produce a return of 11.67 percent as shown at the top which is greater than your required return for the analysis, so you would provide service to this group of customers, or to this developer, at no direct upfront cost in accordance with your -- is that right?
A. That's correct.
Q. And there's no element of these calculations that we've been discussing that deals with peak day demand or design peak day demand of any of these customers in determining whether the company will provide service or at what level of customer contribution is required?
A. No.
Q. Like you to assume another hypothetical line extension analysis. Assume that we're developing an apartment complex which is all electric in the units but we will have a swimming pool which will be heated with gas. The pool will be heated during the months of May through October and shut down all winter, and we expect to use 20,000 therms per year

for heating. Based on your line extension and main extension policy, how would the company compute the investment allowance for that customer?

A. Much in the same fashion.

Q. Just change the assumption slightly that we will make that pool an indoor pool heated year round and assume the amount of gas needed is still 20,000 therms per year. Would there be any change to the calculation under your current policy?

A. Well, I think under the current policy the expected therm usage is what's pertinent to the calculation, so if you're indicating a pool heater that's operating year round and that's documentable, if you will, versus visionary, it may be considered differently.

Q. I think the assumption was the number of therms were the same.

A. Are you talking about a different -- I guess I'm confused.

Q. You started out with a pool that was only open part of the year during good weather and we change it where the consumption was the same but the pool was going to be moved indoors and used year round, a smaller pool perhaps. Is it your testimony that the calculation under your tariff for line extension and main extension would be the same in both of those hypothetical situations because the number of therms is the same?

A. Well, I think in looking at pool loads we're trying to look at the expected consumption. If the total consumption were the same, I would assume then that the heating load is much higher to offset in one case the lower pool consumption, but generally speaking I guess you're --

Q. We're assuming an all electric --

A. I'm sorry, I'm losing your hypothetical here.

Q. Single customer here with an all-electric apartment complex. Got two options, a big pool open in the summer or a small pool indoors open year round. All electric for everything but the pool, 20,000 therms per year in each application, your line extension allowance per your formula in your tariff is the same for both applications; is that correct?

A. Well, the tariff is the same in either case. I think the assessment -- if the assessment of that pool load resulted in an equivalent level of therms it would be handled the same.

Q. Would you agree that a summer-only swimming pool would have a design peak day demand of zero?

A. I'm sorry.

Q. Would you agree that a summer-only swimming pool would have a design peak day demand of zero?

A. Yes.

Q. Would you agree that a pool heated year round on a firm rate schedule would have a design peak day of something greater than zero?

A. Yes.

Q. Now, the company has filed revisions to its main and service extension policy which would replace the terms and conditions shown in Exhibit 42; is that right?

A. Yes, we have filed a revised line extension policy.

Q. Am I correct that the proposed revisions are based on economic tests of margin compared to the required investment, as a general proposition?

A. Yes.

Q. And am I correct that there's no reference to peak day load or design peak day load in the proposed tariff revisions?

A. I don't recall that there are.

MR. TROTTER: Your Honor, I would move for admission of Exhibits 42 and 43.

JUDGE ANDERL: Mr. Johnson, any objection?

MR. JOHNSON: No objection.

JUDGE ANDERL: Those exhibits will be admitted as identified.

(Admitted Exhibits 42 and 43.)

Q. Let's go back to Exhibit 13, page 2. And focusing on schedule 11, you're proposing a 50 percent increase in that schedule and you are classifying it as commercial and industrial, but am I correct that this is a rate for people who only use gas for cooking?

A. That commercial/industrial is a broad category there, and generally, as I indicate in my testimony, rate schedule 11 applies to such loads as cooking where you have, say, apartment complexes with large master-metered heating and water heating facilities or perhaps facilities that use another fuel. They also cover such things as annual cooking events. I'm reminded of the Bite of Seattle, for example.

Q. So in the situation where one customer might be in an apartment building where it was just gas master-metered for heat, but they are provided gas for cooking, a large increase to schedule 11 might cause some of those customers to migrate off the schedule to another schedule; is that correct?

A. I doubt that it would.

Q. Or to another fuel?

A. I doubt that it would.

Q. Have you done any analysis of that?

A. I haven't done any specific sensitivity analysis of that. That rate schedule is providing such abysmal return and the typical bills under that kind of a rate schedule are so small that even a 50 percent increase in the rate is, I would say, not a significant impact on the customer.

Q. Would you agree subject to your check that a customer using over 11 therms of gas per month would pay less on schedule 24 than schedule 11 at proposed rates?

A. He may. If he had heating and water heating he would -- it would have to be heating and water heating customer to qualify for rate 24.

Q. Did you consider modifying the form of schedule 11, could be more like schedule 24 with a customer charge and commodity charge rather than the two therm disappearing minimum bill?

A. No, I really didn't. Of course, first of all, this is a frozen rate schedule right now and it was not the focus of my analysis in this proceeding. I was charged with providing a transportation service proposal and did not do a lot of additional rate design work on the other schedules.

Q. So if a new customer comes to you and wants to acquire gas service for cooking only, they don't get service?

A. They would not get service under rate 11 currently as it stands.

Q. And they don't get it under schedule 4 because you say they don't qualify, so just tell us what schedule -- schedule 24, excuse me.

A. I think I would have to consult the tariff actually to answer that.

Q. Would it be schedule 23 which states it's available throughout the territory served to any residential customer?

A. Yes.

Q. And that rate schedule contains the same rates as schedule 24?

A. Currently, yes, it does.

Q. Turn to Exhibit 16 where you show your customer cost monthly revenue requirement and in this exhibit you have summed up the costs of services, meters, other distribution plant, general plant, depreciation and other rate base to get a total rate base; is that right?

A. Actually what this shows is a revenue requirement on that rate base, but generally, yes. Are you talking about the first column?
Q. I'm talking about the first column.
A. Okay.
Q. You show the actual rate base amounts?
A. Yes.
Q. And then on the compensation side you show the various categories of what you consider to be customer-related expenses, including services, meters, other O and M, et cetera, correct?
A. Yes.
Q. And you have included 100 percent of the costs for the meters and services; is that correct?
A. Of the customer-classified costs for those items, yes.
Q. And those costs are all classified 100 percent customer-related?
A. I believe they are.
Q. And in the Commission's order in U-86-100 the Commission determined that only 50 percent of meters and services were to be classified as customer-related with the balance determined to be demand and commodity-related, correct?
A. That may be. I would accept that subject

to check.

Q. Is it your understanding also that in the past the Commission has determined that only meters services, meter reading and billing costs are customer-related?

A. Yes, I believe that's true.

Q. You were including more items than that in your analysis, correct?

A. Yes. This is a complete analysis of the customer-related costs from the cost of service study.

Q. If a customer has paid upfront for a service in the form of a customer advance and customer contribution in aid of construction, do you agree that those advances should not be allocated a second time in the cost of service study?

A. I think so, yes.

Q. Can you show where in your calculations you have netted out those customer advances and contributions against your customer cost development?

A. I would have to rely on Mr. Feingold for the answer to that.

Q. Looking at the expense for residential, schedule 23 and 24 column, under expense-related amounts for customer accounts you show revenue requirement for a bill of $2.14; is that right?

A. Yes, that's correct.

Q. And this is the meter reading, billing and bill processing, correct?

A. Yes.

Q. Uncollectibles are also included in this category. Is that true or not?

A. I don't know.

Q. As a response to record requisition 14, could you indicate whether uncollectibles are included in the $2.14 customer account figure and if not where they are included. Now, the $2.14 is based on monthly meter reading and billing, correct?

(Record requisition 14.)

A. That's correct.

Q. It does not reflect economics from joint meter reading activities the company is currently pursuing?

A. No, it does not.

Q. You also show under A and G $1.58 for the schedule 23/24 customers?

A. Yes.

Q. Can you identify what costs are included there?

A. They are customer-classified costs from the A and G total in the cost of service study. I can't specifically point to any one particular item.

Q. Do you know whether the Commission's regulatory fees were classified as customer-related?

A. I do not know.

Q. In the last contested rate proceeding -- well, just docket 920840, however you want to characterize it, the company proposed an increase in the customer charge from the then $4.51 per month charge, correct?

A. I believe they did.

Q. And the Commission in fact ordered a decrease to $4 a month, correct?

A. That's correct.

Q. And would you accept that in its order in that docket the Commission stated that the reduction should be $4.51 to $4 per month, quote, on the basis of public counsel's cost analysis?

A. Yes. I think I would agree to that.

Q. And did you review the testimony of public counsel's witness in that case, Mr. Lazar, in developing your calculation?

A. Yes. I believe I have reviewed Mr. Lazar's testimony at some point.

Q. And his analysis developed a charge of $3.90 a month; is that right?

A. I don't recall.

Q. Would you accept that subject to your check?

A. Yes, I would.

Q. Page 7 of your testimony, bottom paragraph, in referring to customer costs, you indicate that many of the costs you have categorized as customer costs are costs which occur whether gas is used or not. Do you see that?

A. Yes. Well, specifically I see costs incurred solely because the existence of customers connected to the system. Is that what you're referring to?

Q. The next sentence, "these costs occur whether gas is used or not and are not related to demands placed on the system"?

A. Yes.

Q. Do you agree that the company's current and proposed line extension policies provide some assurance that customers who will not use gas must pay for the costs of the connection to the system, meter services and so forth?

A. Yes, they will make a contribution if the analysis indicates that.

Q. Are you aware of the fact that some

utilities, particularly garbage industry or water industry, have relatively small monthly charges and issue bills less frequently than every month?

A. No. I'm not generally aware of those.

Q. Based on your understanding of the formula that Mr. Lazar sponsored in the prior case, would you agree that your analysis used monthly billing while his reflected bimonthly?

A. Yes, it did.

Q. And meter reading?

A. Yes, it did.

Q. And your analysis uses 100 percent of meters and services and his used 50 percent?

A. I would also agree.

Q. And yours includes customer service and sales expenses; his did not?

A. Yes. This analysis of customer-related costs. Now, whether his analysis of an actual customer charge -- may be distinguishable here. I haven't proposed a customer charge equal to $14, but the customer-related costs that I've identified, yes.

Q. And you included 6.7 million of A and G; he included a half a million?

A. I will accept that.

Q. And you included 8.7 million of

depreciation and he included 3.7?

A. I will accept that subject to check as well.

JUDGE ANDERL: Excuse me, Mr. Trotter, I'm not suggesting you've used your estimated time, but I would like an update as to how much you think you have left.

MR. TROTTER: Half an hour, 45 minutes.

JUDGE ANDERL: Let's be off the record for just a minute.

(Discussion off the record.)

JUDGE ANDERL: Then I think this is as good a time as any, then, to recess for lunch and we'll be back at 1:30.

(Lunch recess.)

AFTERNOON SESSION

1:30 p.m.

JUDGE ANDERL: Let's be back on the record after our lunch recess. Mr. Trotter, do you want to continue with your cross of Mr. Amen.

MR. TROTTER: Thank you.

Q. Like you to have Exhibit 14 in front of you, please. And we'll also be using Exhibit 13, page 1. And Exhibit 14 is your proposed class responsibility for gas costs, correct?

A. That's correct.

Q. And for the schedules 85, 86 and 87 you're showing a gas cost of a little over 20 cents a therm, is that right, in the total column at the bottom?

A. 20.796.

Q. And the residential is 31.544 cents?

A. That's correct.

Q. Now let's go to Exhibit, page 1. And looking at column C, there's a box containing data above that column. Do you see that?

A. Yes.

Q. And this is your current gas cost, right?

A. Yes, that's correct.

Q. And am I correct that for nonschedule 87 customers we add the commodity cost shown there and the demand non87 figure?

A. Yes.

Q. And that gives us approximately 29.7 cents or 29.8 cents?

A. Looks like, yeah. 29.778 or something like that.

Q. And for schedule 87, the current rate would be the point 11 -- excuse me -- the .18398 figure plus the .04692 figure; is that right?

A. Yes.

Q. Would you agree that's about 23 cents?

A. Yes.

Q. So going back to Exhibit 14, am I correct that the spread between the schedule 87 gas cost, residential gas cost, is widened?

A. I'm sorry is what?

Q. The difference between the residential gas cost figure currently and the schedule 87 gas cost figure currently is being widened on a proposed basis, the spread between those two is greater?

A. Yes.

Q. Now, those changes in proposed gas cost allocation are over and above any shifts in margin which result from applying different allocation methodologies to transmission distribution or A and G

cost; is that correct?
A. That's correct. Although, you mention A and G in association with gas costs? I don't think there's any A and G included in gas costs.
Q. I don't think that was my question.
A. Oh, okay.
Q. And you achieve this increase in the spread by assigning the demand charges associated with gas supply on the basis of the company's estimated class demands; is that right?
A. Yes. That's how the unit components are derived.
Q. And in doing your analysis you assumed that 100 percent of what you're calling the class demand charges that you pay to secure access to gas supplies are contained in the column Class Demand Charges on Exhibit 14; is that right?
A. Yes. As they are brought over from the gas cost sub report contained in witness Feingold's exhibits.
Q. And if we -- would you agree if we add up the dollars for the class demand charges for the various schedules it approximates $77 million a year?
A. That sounds about right.
Q. And that would be about a third of the

total gas supply costs the company incurs; is that right?

A. Yes.

Q. And when computing the class demand charges you have relied on an estimate of class demand, correct?

A. Well, we relied on the test period volumes, I believe.

Q. Well, this is where we get into Mr. Feingold's regression analysis, do we not?

A. No.

Q. I'm talking about the assignment of the class demand charges in that column on Exhibit 14. Aren't those derived from Mr. Feingold's regressions?

A. Those are merely the sum of the allocated gas costs from the gas cost sub report.

Q. And in allocating the gas costs, the company used the design day criteria that we've been discussing in this case?

A. Well, there are a number of allocators included and that are listed in the gas cost sub report. Some of them involve a peak day allocator, and some involve commodity-based allocators. There's a number of them.

Q. To the extent they're using the peak day allocator, that was derived by Mr. Feingold's regression study, correct?

A. If it's using the design day-based peak allocator it would, as I understand it, be the result of Mr. Feingold's determination of that.

Q. Mr. Feingold produced a linear regression when he did his peak day study, didn't he?

A. Yes, I believe he did.

Q. Do you know of any evidence in this case or otherwise that under peak day conditions demand for gas responds in a linear fashion to changes in temperature?

A. I'm sorry. You're suggesting evidence in this case?

Q. Let me -- does, under peak day conditions, demand for gas respond in a linear fashion to temperature?

A. On a peak day basis did you say?

Q. Yes, under peak day conditions.

A. Yes. Generally, it does, although it depends on the peak. For example, we experience in the Midwest, from my background, phenomenon called bendover where in fact at some point the load does not respond in a direct linear fashion, but generally speaking, I would say it does.

Q. What specific evidence are you relying on that applies to Washington Natural?

A. I'm not suggesting that it does.

Q. That linear -- that the linear relationship applies to Washington Natural?

A. Well, I'm basing that on the results of the study in this case as well as studies we've performed on the relationship between consumption and temperature in other cases.

Q. Do you have in your possession or does the company have any information on this bendover effect that you discussed?

A. I don't have any information in my possession and I'm not sure whether the company does or not.

Q. Well, let's just make sure. As a response to record requisition 15, provide any data or analyses or information in the company's possession --

A. For clarification, would that relate to --

Q. Relating to bendover effect.

A. As it would apply to Washington Natural Gas and its service area and the weather patterns in its service areas.

Q. Yes, and elsewhere. Any information on the subject that's within Washington Natural's possession or control.

(Record Requisition 15.)

Q. Would you agree that factors other than temperature affect how people use gas? For example, if a customer's furnace is not big enough to heat a house on the coldest day of the year their use of gas might be constrained, schools may need to close, factories curtailed, et cetera?

A. Well, certainly if the customer's heating equipment is under size for his particular dwelling, it could max out and at some point an increase in temperature would not perhaps cause the consumption to go up.

JUDGE ANDERL: A decrease in temperature?

THE WITNESS: I thought I said an increase.

JUDGE ANDERL: Oh, you did say an increase.

Q. Specifically what did you mean by under-sized in your answer when you referred to customer's furnace?

A. I think I qualified it by saying it was not adequate to serve the heating requirements of his dwelling unit.

Q. Under design day conditions?

A. Under whatever the conditions are that that customer experiences.

Q. Are you familiar with code requirements with respect to sizing of furnace and whether they are related to design day conditions?

A. No, I'm not.

Q. Turn to your testimony at page 8. You begin a summary of your transportation service proposal and that continues for a few pages. Would you agree that your proposal contains four primary rate elements: the customer charge of $650 a month, a firm contract demand charge of a dollar per therm of daily contract demand, and a commodity charge which is a six-step declining block rate, plus the optional daily balancing charge?

A. Generally I would agree with that. In fact, I have a chart that sort of details the various elements of the transportation service and compares it to the current transportation service.

Q. Now, the firm contract demand charge is optional, isn't it? There's nothing in the rate that would require a customer to pay for firm service, correct?

A. No.

Q. I'm correct? I said correct and you said no.

A. Well, I'm sorry. I answered too quickly.

No, there's nothing that would require them to have firm service.

Q. Thank you. Now, the Boeing Company's Frederickson plant is current served on schedule 99; is that correct?

A. Yes.

Q. And that tariff is a much lower cost tariff than schedule 57; is that correct?

A. That's set up under a special contract.

Q. And the rate is lower than the tariff rate for 57?

A. I'm not sure if it's set up in a specific rate. I'm not generally real familiar with the terms and conditions of that contract. It was entered into prior to my coming with the company.

Q. Take a look at Exhibit 13, page 2. You show rate 99 and that is shown with a margin per therm of .019 dollars, correct?

A. Yes. That's an average --

Q. And that's lower than the average margin for schedule 57?

A. Yes, it is.

Q. About how far is it from the pipeline to the Boeing Frederickson operation?

A. I'm not familiar with the plant facilities.

Q. Do you know whether that customer is a likely candidate for bypass?
A. I have nothing to suggest that they're considering bypass.
Q. Do you know how far from the pipeline, approximately, customers Seattle Steam and University of Washington are located?
A. No, I don't.
Q. Is it your view that just in your general understanding of their distance from the pipeline that they are likely bypass candidates or not likely bypass candidates?
A. I don't have anything to suggest either way.
Q. There is no distance component in the proposed transportation rate, is there, in terms of the distance of the customer from a pipeline?
A. No, it's not mileage-based.
Q. Would you agree there is a correlation between the distance a customer is from a pipeline and the cost of constructing a bypass facility to that customer?
A. I'm sorry.
Q. Would you agree there is a correlation between the distance a customer is from a pipeline and

the cost to build a bypass facility to the customer?

A. (No response.)

Q. Would you agree that a bypass facility that is ten miles long is more expensive than a bypass facility that is two miles long, all else being equal?

A. I would accept that.

Q. Would you agree that from a market perspective distance-based rates would be market driven in this context?

A. Not necessarily.

Q. Why not?

A. I don't have any basis for determining that they would be market based. They may be cost-based.

Q. Is there any reason why a transportation rate with a distance component could not be designed so that it would produce the same revenue as your proposed rate?

A. It would be pretty difficult in context of an integrated service area like we have where we're so -- it's couble I think from a long line of transmission line, for example, where you have a single set of pipeline facilities but where we're fully integrated in a distribution system such as ours, I think it would be very difficult to try and calculate such a distance-based rate since we're not sure what distance you would use since there's a number of inter-connections along the way that supply the system.

Q. Wouldn't the company be able to compete more effectively with a transportation rate that was based on the incentive of a particular customer to bypass?

A. I'm not sure.

Q. Did the collaborative discuss distance-based transportation rates?

A. Yes. The topic was discussed, and I think what this generally represents is sort of what I would call the marginal cost of providing service versus average cost, and you mentioned distance from the pipeline as being a consideration. The company has in fact had some occasions here in the last six months or so to do some marginal cost studies based on proposed new loads on its system, and we've employed a marginal cost approach to determining what a rate might be. In fact, I used that marginal cost as a guide in designing the transportation rate that I've proposed.

Q. As a response to record requisition 16, would you supply the marginal cost studies that you just referred to?

A. Certainly. I will mention, however, that they are highly confidential. They are prospective studies we've done and would be necessary to preserve the confidentiality of those documents.

MR. JOHNSON: That's how they will be submitted, confidential.

MR. TROTTER: Do we have a protective order in this docket?

MR. JOHNSON: We do.

Q. Turn to your tariff, Exhibit 12, page 13, and in your testimony you refer to your transportation tariff as being -- as providing transportation on an interruptible basis with an option for firm service; is that correct?

A. That's correct.

Q. And you see on this sheet of your proposed tariff under item 2, the dollar per therm of daily contract demand per billing period and that's the charge if you want firm transportation?

A. That's correct.

Q. And if you want interruptible you pay all the other charges on this sheet and then any other applicable sheets but you don't pay the dollar?

A. Yes.

Q. And this service will be available to all customers willing to pay that charge regardless of

where they are located, right, vis-a-vis the pipeline?
A. Yes.
Q. Are there customers on your system that -- transportation customers or -- are there customers on your system that are likely never to be interrupted because of constraints -- due to constraints on the company's distribution system?
A. I don't know.
Q. Are there customers on your system that are interrupted more often than others due to constraints on your distribution system?
A. I believe there are.
Q. A customer who is likely not to be interrupted due to constraints on the company's distribution system, if they elected interruptible transportation service they would probably not face interruption, correct?
A. I don't understand the question. If they're electing an interruptible service, they should expect to be interrupted.
Q. But they're located very near one of your main facilities that has no distribution constraint; the likelihood of that customer getting interrupted is reduced, is it not?
A. Well, I'm having a little trouble with your

example that -- generally speaking, if they were right next to the pipeline and there was not a distribution constraint between the pipeline and their facility, they wouldn't be interrupted for that reason, unless it affected the service to customers downstream of that point. You have to understand that just because this particular customer is next to the pipeline doesn't mean that his demand on the system wouldn't impact others downstream of him if he's between a firm customer and the pipeline.

Q.   So a customer who is likely to be interrupted due to distribution constraints and who elects firm transportation under your tariff versus a customer who would be interrupted on your system due to capacity constraints, they're going to pay the same rate, a dollar per therm, is that right, for the firm service?

A.   For firm service the customer will pay a dollar per therm of firm demand.

Q.   In what order does the company intend to curtail interruptible transportation customers?

A.   Are you talking in terms of our curtailment priorities, how our transportation customers fall within that? They're listed in our tariff.

Q.   Do you state a priority between

transportation customers?

A. Well, there would be certainly one between firm and interruptible.

Q. And if you have 10 interruptible transportation customers, in what order would they be curtailed?

A. It would depend on the circumstance.

Q. And where in your tariff are those circumstances set forth?

A. I don't have the tariff with me and I don't know if there's anything in there that indicates specific criteria how one customer in the same class would be interrupted versus another.

Q. Did the collaborative discuss having a single rate for all transportation service with a tariff credit for each time customers are interrupted so that the discount for taking interruptible service was tied to the frequency of actual interruption?

A. Yes, we did.

Q. You did not incorporate that in your proposal?

A. No, I did not.

Q. Will you give your reasons for not doing so.

A. Well, generally -- and we outlined these to

the collaborative as we unveiled our proposal in that it would certainly be administratively easier for us to administer as it's proposed, where a customer has a demand level that he elects -- he or she -- and pays a demand charge on that basis as opposed to trying to calculate a credit that would apply and determine, for example, the number of potential interruptions and so forth. We saw this being administered -- administratively difficult to administer, rather complicated, and we felt we had a complicated enough transportation tariff that that added a layer of complexity and administrative difficulty that was not warranted, and I think the group generally accepted that.
Q. You're not including public counsel in the group that accepted that, are you?
MR. TROTTER: I'll withdraw the question.
A. You're free to suggest otherwise.
Q. Are you suggesting that such a proposal would be difficult to administer or difficult to set rates for?
A. Well, I think that's part of it.
Q. Let me ask it a different way. What's difficult of administration if a customer's interrupted they get the credit, if they're not they

don't?

A. The frequency of interruption and the duration of each interruption would enter into it, and trying to calculate what an appropriate credit under those various circumstances might be just seemed to add a layer of complexity that was unnecessary.

Q. Did the company engage in any efforts to develop a specific proposal along this line?

A. No.

MR. TROTTER: Nothing further. Thank you. I would move for the admission of any exhibits that I've offered or that I've had marked that I haven't offered.

JUDGE ANDERL: I think you're covered there. I've got them all admitted through 43. Commissioner Hemstad, do you have any questions for this witness?

COMMISSIONER HEMSTAD: I don't have any.

JUDGE ANDERL: Mr. Amen, I just have one question for you. If you would refer to your Exhibit No. 13, page 2, and towards the middle of the page. Rate schedules, 31, 36 and 51, under column N show a settlement rate of return of 11.12 percent, and this is over the company average; is that correct?

THE WITNESS: That's correct.

JUDGE ANDERL: And under the proposed rate of return those classes would provide a 13.42 percent return; is that correct?

THE WITNESS: Yes, that's correct.

JUDGE ANDERL: Why would there be an increase in those rate schedules when they're already providing more than the company average rate of return?

THE WITNESS: Well, in this case in doing the redistribution of revenue requirement, in trying to avoid any further increases to the residential, I found it necessary to increase the revenue requirement to this group, recognizing that it was in excess of the system average. However, it would be still much less than any of the other commercial/industrial classes.

JUDGE ANDERL: Thank you. Mr. Johnson, redirect?

REDIRECT EXAMINATION

BY MR. JOHNSON:

Q. Mr. Amen, I would like to refer you to Exhibit 43, please, introduced by Mr. Trotter.

A. I'm sorry, I didn't write the number of these on the documents.

Q. It's actually your data request response to public counsel data request No. 20 concerning main extensions, CIA analysis?
A. Okay.
Q. Do you have that in front of you?
A. Yes, I do.
Q. Mr. Amen, you're generally familiar, would it be fair to say, with the manner in which the company performs its capital investment analysis or CIA?
A. Yes.
Q. And that's done under -- for main extensions it's done currently under rule 7 of the company's tariff, correct?
A. Yes, that's correct.
Q. Now, does the CIA, capital investment analysis, take into account for a particular customer the cost to serve that customer?
A. Yes, it does.
Q. Can you just explain briefly how that occurs?
A. Well, of course the development of the construction cost estimates for input into the CIA are based on the capacity requirements of the customer. The peak day requirement, for example, for a firm

customer, a residential customer, are embodied in that construction cost estimate for the type and size of facilities to serve them.

Q. You referred to the peak day requirement of the customer. So is it your testimony, then, that the development of the cost in the context of a particular CIA is a function of a customer's peak day demand requirements?

A. Yes.

Q. Shifting to another topic, Mr. Amen, I believe there were questions earlier regarding docket UG-920840 and the performance of cost of service studies in the context of that docket. Do you recall questions in that area?

A. Yes, I do.

Q. Is it your understanding, Mr. Amen, that the Commission or do you know whether the Commission approved any of the cost of service studies that were presented in docket No. UG-920840?

A. Yes.

Q. There were cost of service studies presented in that docket, correct?

A. That's correct.

Q. Were any cost of service studies specifically approved by the Commission, to your understanding?

A. No, there were not.

Q. And the customer costs that you have referred to in your testimony and exhibits, those customer costs are based on the full cost of service study that has been presented by Mr. Feingold, correct?

A. Yes. This really presents an opportunity for the company to, in the context of its cost of service study it's presenting in this case, to explore customer service cost. I don't think that was adequately done. Certainly the company in 920840 did not put on a credible cost of service study because it wasn't accepted by the Commission, nor was any other.

Q. And you think the company has presented a credible cost of service study in this filing?

A. Very definitely.

MR. JOHNSON: I would like to have the next exhibit marked, please.

JUDGE ANDERL: Next exhibit in line will be 44.

(Marked Exhibit 44.)

Q. Mr. Amen, I've handed you what's been marked as Exhibit No. 44. Was that exhibit prepared by you or under your supervision?

A. Yes, it was.

Q. Can you briefly explain what this exhibit represents.

A. Well, as I've alluded to earlier, this simply sets out some of the major components of the transportation service proposal and contrasts it with the current transportation service under rate schedule 57 and 58.

Q. And this exhibit refers to many of the issues that have been addressed today in your testimony and also in the context of the company's filing, correct?

A. That's correct.

MR. JOHNSON: Your Honor, I move for admission of Exhibit 44.

JUDGE ANDERL: Any objection?

Hearing none, Exhibit 44 will be admitted as identified.

(Admitted Exhibit 44.)

MR. JOHNSON: Nothing further, Your Honor.

JUDGE ANDERL: Was there any further cross from this witness from staff?

MS. EGELER: Yes, we had just a few questions.

RECROSS-EXAMINATION

BY MS. EGELER:

Q. Mr. Amen, I believe you stated earlier that your overall revenues will remain the same in this case but your margin will increase. That implies that your net operating income will increase, doesn't it?

A. The increase in margin, as I indicated before, was the result of shifting some costs away from gas costs and into nongas cost component, in other words, margin costs that were formerly recovered through the PGA mechanism, and how they become a base rate cost as other component of margin and would be recovered on that basis. I think it's particularly appropriate in this case where we've isolated some formerly gas supply-related costs and attributed them to this transportation service, i.e. balancing of that service, to include them in that fashion.

Q. So is it the company's intention to increase its net operating income as a result of this case?

A. No.

MS. EGELER: I have no further questions.

JUDGE ANDERL: Ms. Pyron.

MS. PYRON: Just one question. Mr. Amen, if you were to assume that all of your current schedule 57 transportation customers -- is that number 36?

THE WITNESS: Yes, although we have more customers that have requested transportation service beginning in November, but yes, right now.

MS. PYRON: If those current 36 were to all request firm transportation service, can Washington Natural Gas supply that?

THE WITNESS: I doubt that we can very much, not without incremental additions to our facilities.

MS. PYRON: The system will not handle that?

THE WITNESS: No, hasn't been designed for their loads.

MS. PYRON: Thank you. No further questions.

JUDGE ANDERL: Mr. Frederickson.

MR. FREDERICKSON: Just one question. You responded to some questions from Mr. Trotter regarding a bypass. Could you give me just a 30-second definition of bypass?

THE WITNESS: Well, that would be where an end user, say an industrial facility, would directly connect to an interstate pipeline to serve their facilities and not utilize the distribution utility.

MR. FREDERICKSON: Would use of an alternative fuel source be a form of bypass or at least analogous to a bypass?

THE WITNESS: It could be analogous, although I characterize them differently, I think, because what you have with an alternative fuel I think generally is a competitive market. That is, once you can declare a market competitive by identifying alternate fuel sensitivity -- I should probably address that in a different fashion, so I think they're different characteristics, but in either case the company loses the contribution of that customer to its recovery at its costs.

MR. FREDERICKSON: Thank you, I have nothing further.

JUDGE ANDERL: Mr. Trotter.

RECROSS-EXAMINATION

BY MR. TROTTER:

Q. You were asked a question on redirect regarding cost studies in 920840 and in the context of your customer cost development. Do you recall that?

A. Yes.

Q. And I asked you under cross-examination whether you -- and I quoted from the Commission order where the Commission accepted as the customer charge for residential customers the calculation proposed by public counsel's cost analysis. Do you remember that question?

A. Yes. I remember that question and I believe you were speaking to, in that case, a special study that Mr. Lazar did to focus on customer-related costs as they are applied to a customer charge. I'm distinguishing that from a fully allocated cost of service study.

Q. That's fine. Is it your testimony that the Commission adopted Mr. Lazar's study only because it rejected the broader cost of service studies by other parties or that they adopted it because it was meritorious in its own right?

A. I would have to rely on the order for that.

Q. And you weren't intending to opine on that issue in answers to prior questions were you?

A. Oh, definitely not. I was not.

MR. TROTTER: Nothing further. Thanks.

JUDGE ANDERL: Anything further for this witness?

Thank you, Mr. Amen for your testimony. You may step down.

Anything further to come before us today?

MR. JOHNSON: Your Honor, I don't know whether you were going to introduce that bench request which would seem just a timing issue on that training. I don't know whether that adds anything to the record.

JUDGE ANDERL: I think the official file reflects that you responded to the bench request in this particular case; because of the nature of it I don't think it needs to be an exhibit. We'll stand adjourned.

(Hearing adjourned at 2:15 p.m.)