

**Exhibit No. \_\_\_\_ (AEG-1T)  
Docket No. U-072375  
Witness: Ann E. Gravatt**

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Joint Application of  
PUGET HOLDINGS LLC  
and  
PUGET SOUND ENERGY, INC.  
For an Order Authorizing Proposed Transaction**

**Docket No. U-072375**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
ANN E. GRAVATT  
ON BEHALF OF NW ENERGY COALITION**

**June 18, 2008**

**DIRECT TESTIMONY OF ANN E. GRAVATT (AEG-1T)**

**DOCKET NO. U-072375**

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1 **I. INTRODUCTION**

2 **Q. Please state your name, position, and business address.**

3 **A.** My name is Ann English Gravatt. I am the Policy Director of the Renewable  
4 Northwest Project (RNP). My business address is 917 S.W. Oak Street, Suite  
5 303, Portland, OR 97205.

6 **Q. Please describe the Renewable Northwest Project and your responsibilities as**  
7 **Policy Director.**

8 **A.** The Renewable Northwest Project is a regional non-profit organization that  
9 promotes solar, wind and geothermal resources in the four Northwest states. Our  
10 members are a unique combination of environmental and consumer organizations,  
11 as well as energy companies and related businesses that develop and manufacture  
12 renewable energy equipment and projects.

13 As Policy Director for RNP, I promote policy initiatives for renewable  
14 energy before state legislatures and regulatory commissions in Oregon, Montana  
15 and Washington. I work with many utilities in the Northwest on issues related to  
16 renewable energy and participate in utility resource portfolio planning processes.  
17 I also work with other environmental and consumer organizations, industry  
18 groups and government agencies on renewable energy and climate change issues.  
19 The nature of my work requires me to be familiar with utility practices and  
20 procurement efforts.

21 I have worked for RNP since 2002. Prior to RNP, I practiced energy,  
22 natural resources and environmental law in Portland, Oregon and Washington,  
23 D.C.

1 **Q. Have you prepared a summary of your qualifications and experience?**

2 **A.** Yes. My resume is attached. (Exhibit No. \_\_\_\_ (AEG-2)).

3 **Q. Are you sponsoring other exhibits in this proceeding?**

4 **A.** Yes. They are attached and listed in the Table of Contents.

5 **Q. Please summarize the purpose of your testimony.**

6 **A.** The purpose of my testimony is to describe my experience with three recent  
7 utility acquisition proceedings in the Northwest. RNP's focus in those  
8 proceedings is consistent with our primary mission, to promote the development  
9 of wind, solar and geothermal resources in the Pacific Northwest. My purpose  
10 here is to provide a summary of the kinds of commitments related to renewable  
11 energy that were made by three different applicants for Northwest utilities, and to  
12 share my opinion about the significance of those commitments. Obviously, utility  
13 acquisitions are extremely complicated and intricate transactions and the ultimate  
14 outcome is based on many factors. I do not attempt to provide any insight or  
15 explanation for the final outcome of those transactions.

16 **II. EXPERIENCE WITH UTILITY MERGERS AND ACQUISITIONS**

17 **Q. Do you have specific experience with utility mergers and acquisitions in the**  
18 **Pacific Northwest?**

19 **A.** Yes. I have been involved in two recent utility acquisition proceedings in Oregon  
20 and one in Montana. In 2004, RNP intervened in the application by the Oregon  
21 Electric Company, LLC (the Texas Pacific Group or TPG) to acquire Portland  
22 General Electric (PGE). In 2006, RNP was an intervenor in MidAmerican Energy  
23 Company's (MEHC) successful acquisition of PacifiCorp from Scottish Power.

1 In 2007, RNP intervened in the Montana Public Service Commission (PSC)  
2 proceeding considering the application by Babcock & Brown (BBI) to acquire  
3 NorthWestern Energy (NWE). RNP staff was also involved in earlier acquisition  
4 proceedings including the 1999 acquisition of PacifiCorp by Scottish Power and  
5 the 1997 acquisition of PGE by Enron.

6 **Q. What is RNP's interest in these types of proceedings?**

7 **A.** RNP is active in a wide variety of forums in all four Northwest states in order to  
8 advance renewable resources in the region, including legislative activities,  
9 Bonneville Power Administration proceedings, Commission dockets, and  
10 individual utility resource planning processes. Obviously, these activities require  
11 working closely with many of the region's utilities. The nature and quality of the  
12 ownership of the region's utilities is a matter of vital interest to us for the obvious  
13 reason that whoever owns the utility will establish its direction and policies. In  
14 short, who owns these companies matters.

15 **Q. Please summarize your involvement with each proceeding.**

16 **A.** RNP focused in each proceeding on any statements about the applicant's  
17 experience with renewable resources or actual commitments related to renewable  
18 resource acquisition. We were also interested in any statements or positions  
19 related to regulation of greenhouse gas emissions specifically or concern about  
20 global warming generally. I describe my participation in each these cases in more  
21 detail below.

22

1 Texas Pacific Group – Portland General Electric

2 **Q. What was RNP’s interest in this proceeding?**

3 A. PGE was among the first utilities in the region to acquire wind energy -- the  
4 Vansycle project in 1998. But the utility had lagged since then. We had  
5 encouraged PGE to acquire more renewables as part of its Integrated Resource  
6 Plan (IRP). We were, therefore, very interested to determine TPG’s willingness  
7 to ensure PGE met its IRP goals as well as the possibility of exceeding those  
8 targets.

9 **Q. Did TPG make statements about renewable energy as part of its application  
10 to acquire PGE? If so, what was the nature of those statements?**

11 A. Yes. In its initial application, TPG included language about its plans to  
12 “enhance” PGE’s performance in the area of renewable resources, energy  
13 efficiency and environmental protection. (Exhibit No. \_\_\_ (AEG-3)). There were  
14 no specific commitments in the application, beyond those general statements.

15 **Q. What was RNP’s opinion of those statements?**

16 A. They weren’t sufficient to create any opinion about what TPG might or might not  
17 do in terms of renewable energy acquisition.

18 **Q. Did RNP convey that view to the applicant?**

19 A. Yes. RNP Executive Director Rachel Shimshak met with several TPG  
20 representatives after they filed the application with the Commission. During that  
21 meeting, she conveyed the kinds of actions that might actually *enhance* PGE’s  
22 performance with renewable energy development. Some of her suggestions were  
23 incorporated in the applicant’s next round of testimony.

1 Q. **What specifically did the applicant then say about its plans for renewables?**

2 A. TPG later provided a variety of more specific commitments about renewable  
3 energy. These included appointing a “manager with appropriate authority and  
4 responsibility” to work with environmental advocacy groups, as well as providing  
5 “periodic access to the PGE Board” for these groups. (Exhibit No. \_\_\_\_ (AEG-4)).  
6 TPG also stated that, “PGE will work with stakeholders toward resolving the  
7 transmission, system integration, and other issues posed by wind and other  
8 renewable generation.” Id. Finally, and most importantly, TPG included a  
9 specific renewable energy acquisition target. “Oregon Electric is willing to  
10 commit to have PGE vigorously pursue a target of 10% of 1:2 peak capacity for  
11 load, whether contracted for or owned, from renewable resources by 2012,  
12 provided it can be accomplished economically.” Id.

13 Q. **What was RNP’s response to these commitments?**

14 A. In my opening testimony, I responded that these commitments were a positive  
15 step but still too vague. In particular, the acquisition target was unclear and too  
16 hedged to have any significance. We interpreted the odd term of art -- 1:2 peak  
17 capacity for load -- to mean they would acquire 450 MW over 8 years. This  
18 amounted to 230 MWs beyond what PGE had already planned for in its then-  
19 current IRP. We, instead, sought a stronger commitment to renewables. PGE  
20 should acquire renewables to supply 10% of its total energy load within 10 years.  
21 At the time, this represented 290 aMW or 870 MW capacity of wind.

22

1 Q. **Did RNP continue to have discussions with TPG about its renewable**  
2 **commitments?**

3 A. Yes. I participated in settlement discussions where the renewable commitments  
4 were discussed. Ms. Shimshak and I both also continued to talk with TPG and  
5 PGE staff about our interest in a stronger commitment.

6 Q. **What was the final resolution of the renewables commitment?**

7 A. TPG never made any stronger public commitment to renewables. In subsequent  
8 testimony, TPG stated “Oregon Electric would cause PGE to have 400 MWs of  
9 capacity from renewable resources by 2012 if economical.” (Exhibit No. \_\_\_\_  
10 (AEG-5)).

11 Q. **What was RNP’s reaction?**

12 A. In our final briefs in the case, RNP did not support the renewable energy  
13 commitments made in the proceeding. They were simply too modest and too  
14 hedged in our view, and did not bring added value or much additional benefit  
15 beyond business as usual for PGE. We recommended that the Commission not  
16 approve the application as is, without conditioning the approval with a stronger  
17 commitment to renewable resource acquisition.

18 Q. **What was the resolution of the case?**

19 A. The Commission rejected Oregon Electric’s application to acquire PGE in March  
20 2005.

21



1 MidAmerican-PacifiCorp

2 **Q. What was RNP's interest in this proceeding?**

3 A. RNP has worked closely with PacifiCorp for many years, since the Company first  
4 acquired the Foote Creek, Wyoming wind project in 1998. More recently, RNP  
5 was a strong supporter of PacifiCorp's 2003 IRP, which included an action plan to  
6 acquire 1400 MW of new renewable energy over ten years. Despite that action  
7 plan, the Company did not take steps to implement it, while plans for new fossil  
8 plants were not similarly languishing. We wanted to ensure that PacifiCorp's  
9 renewable plans became a reality, and intervened in the MidAmerican case with  
10 that goal in mind.

11 **Q. Did MidAmerican make specific statements about renewable energy as part  
12 of its application to acquire PacifiCorp?**

13 A. Yes. MidAmerican affirmed PacifiCorp's existing goal to acquire 1400 MW of  
14 new renewables. It agreed to acquire 100 MW of new wind energy within one  
15 year of the close of the transaction and up to 400 MW of new wind energy after  
16 certain new transmission line projects were completed. It also included plans for  
17 three transmission investments, one of which (investment in a new link between  
18 Walla Walla and Yakima or Vantage) was designed to facilitate wind  
19 development. (Exhibit No. \_\_\_ (AEG-6)).

20 **Q. What was RNP's view of this commitment?**

21 A. We appreciated its inclusion in MidAmerican's initial filing. However, in RNP's  
22 opening testimony (filed jointly with the Natural Resources Defense Council), we  
23 sought a more robust commitment, including:

- 1 1. A commitment to supply 10% of PacifiCorp's load with new renewables in 10  
2 years and 20% in 20 years;
- 3 2. Agreement to develop a stable rate product for PacifiCorp's Blue Sky green  
4 power program;
- 5 3. Clarity on the connection between planned transmission investments and  
6 renewable resource acquisitions. The transmission commitments, while  
7 substantial, were modified by language that indicated that they might not be  
8 implemented upon further study;
- 9 4. Commitment to implement a pilot program for a conditional-firm transmission  
10 product within one year;
- 11 5. Continued support for Grid West or other regional transmission planning and  
12 coordination efforts; and
- 13 6. Provision of a plan for ensuring real reductions in carbon dioxide emissions at  
14 PacifiCorp and indicating support for mandatory national limits on global warming  
15 pollution.

16 **Q. Did MidAmerican agree to any of these commitments?**

17 A. This case ultimately proceeded to settlement among the majority of the parties.  
18 The final stipulation included significant commitments by MidAmerican in the  
19 area of renewable energy development. In some cases, those commitments  
20 reflected RNP's proposals; in other cases, consistent with the stipulation being a  
21 settlement, the commitments were somewhat different, but did address the areas  
22 of concern we raised.

1 Q. **What differences existed between the commitments originally proposed by**  
2 **MidAmerican and those agreed to in the Stipulation?**

3 A. Many of the commitments in the initial application were reiterated in the final  
4 settlement. These included the transmission infrastructure improvements, the  
5 affirmation of the target to acquire 1400 MW of new renewables, the pledge to  
6 work to bring 100 MW of new renewables on-line within one year of the close of  
7 the transaction, and the expectation that two of the transmission line projects  
8 would facilitate up to 400 MW of new renewable projects. (Exhibit No. \_\_\_\_  
9 (AEG-7), p. 6-8).

10 Many of the commitments in the stipulation, however, were new  
11 commitments resulting from settlement negotiations. These included:

- 12 • A commitment to initiate a process within three months to design a conditional-  
13 firm or other similar short-term transmission product, with input from  
14 stakeholders. PacifiCorp is to make every effort to complete a product by the end  
15 of 2008. (Exhibit No. \_\_\_\_ (AEG-7), p. 7).
- 16 • A commitment to establish a global warming working group within six months  
17 after close of the transaction. That group will comprise representatives of the  
18 regulatory, consumer, educational and environmental communities in the six  
19 states that PacifiCorp serves, as well as representatives of the utility. PacifiCorp  
20 will work with the global warming working group to identify cost-effective  
21 measures to reduce PacifiCorp's greenhouse gas emissions. PacifiCorp will  
22 develop and file with the Oregon Public Utility Commission its strategy for  
23 reducing its greenhouse gas emissions. Id. at 9.

1 • A commitment to evaluate increasing the generation capacity of PacifiCorp’s  
2 Blundell geothermal facility. This could range anywhere from 11 MW to 100  
3 MW. Id. at 11.

4 In addition, the Stipulation included a series of Oregon-specific  
5 commitments, negotiated specifically among the Oregon parties. These included:

6 • A commitment for early acquisition of new renewables. Specifically, they  
7 agreed:

8 “To the extent available, MEHC and PacifiCorp commit to have 400 MW  
9 of cost effective new renewable resources in PacifiCorp’s portfolio by  
10 December 31, 2007. The 400 MW will include Wolverine Creek (64.5  
11 MW) and Cove Fort (42 MW). MEHC and PacifiCorp will analyze the  
12 projects consistent with applicable regulatory rules and orders in effect at  
13 the time and as informed by the IRP. Resource identification shall be  
14 performed using an RFP [Request for Proposals] procedure. If PacifiCorp  
15 fails to meet the 400 MW target it will disclose to signatories (excluding  
16 any bidders and affiliates of bidders) the cost-effectiveness analysis it used  
17 when rejecting the lowest cost projects. PacifiCorp shall file a report, on  
18 the status of meeting this target, with the Commission no later than six  
19 months after close of the transaction. In evaluating acquisition of  
20 renewable energy, all other things being equal, MEHC and PacifiCorp will  
21 not prefer ownership of facilities.” Id. at 20.

22  
23 • An agreement to file a plan with the next IRP detailing how the 1400 MW of  
24 new renewable resources would be met and by when; Id. at 20. and,

25 • A commitment to support the renewal of Oregon’s 3% public purpose charge  
26 (ORS 757.612 et seq). Id. at 19.

27 **Q. In your view, were these commitments sufficiently specific?**

28 A. Yes, particularly considering they were part of a broad settlement with many  
29 different parties. Of course, I believe some of the language was too hedged – e.g.,  
30 “to the extent available” in the renewables target. But, in general, they all  
31 included specific actions with clear timeframes.

1 **Q. What is the significance of these commitments?**

2 A. Both of the Oregon acquisition cases occurred before the state passed a strong  
3 Renewable Energy Standard (RES). At that time, IRP analyses that demonstrated  
4 that wind was a low cost and low risk resource choice for many utilities were the  
5 primary drivers of renewable energy development in the region. The challenge  
6 was ensuring utilities followed through on those plans. The MidAmerican  
7 commitment to acquire 400 MW before the end of 2007 set PacifiCorp on a path  
8 of aggressive and consistent acquisition of renewable resources. Oregon has since  
9 passed an RES requiring PacifiCorp and other Oregon utilities to meet 25% of its  
10 load with new renewable energy by 2025. The Company has made significant  
11 progress towards meeting the near-term targets of this law, largely because of its  
12 wind acquisitions following MidAmerican's ownership.

13 **Q. Were there any provisions to ensure accountability for these commitments?**

14 A. Yes. First, MidAmerican and PacifiCorp committed to providing annual reports  
15 until 2011 regarding the implementation of the merger commitments.

16 Specifically,

17 "By June 1, 2007 and each June 1 thereafter through June 1, 2011,  
18 PacifiCorp will file a report with the Commission regarding the  
19 implementation of the Commitments. The report will, at a minimum,  
20 provide a description of the performance of each of the commitments that  
21 have quantifiable results. If any of the commitments is not being met,  
22 relative to the specific terms of the commitment, the report shall provide  
23 proposed corrective measures and target dates for completion of such  
24 measures. PacifiCorp will make publicly available at the Commission non-  
25 confidential portions of the report." (Exhibit No. \_\_\_ (AEG-7), p. 11).

26  
27 In addition, the Oregon-specific commitments include a process for enforcement.

28 If the Commission believes any of the commitments are not being met, they will

1 notify MidAmerican and PacifiCorp, providing the Company with an opportunity  
2 to remedy the failure. If the failure is not remedied within a narrow timeframe,  
3 the Commission can open an investigation. At the end of the investigation, the  
4 Commission has the ability to seek a penalty. Id. at 12.

5 **Q. Have any commitments been ignored?**

6 A. No. PacifiCorp has recently notified the Oregon Commission of a change in one  
7 of its transmission projects. We are concerned about this change because it is an  
8 important area for wind development. But we don't have enough information yet  
9 to determine if it's a violation of a commitment or simply an appropriate change  
10 under the language of the stipulation.

11 Babcock & Brown – NorthWestern Energy

12 **Q. What was RNP's interest in this proceeding?**

13 A. The BBI application arrived at a critical time, in my view. After many fits and  
14 starts, NWE had finally acquired a large-scale wind project (Judith Gap). But  
15 Montana's potential for wind development is not close to being realized. Any  
16 new owner must expand the development of renewable energy in the state and  
17 confront and address issues impeding that development. In addition, the Montana  
18 legislature was poised to give NWE the authority to own energy generation again,  
19 after a ten-year experiment with deregulation. A new utility owner would be  
20 making critical and long-term decisions about its mix of energy resources and any  
21 associated environmental impacts.

22

1 Q. **Did BBI make specific commitments to renewables as part of the application**  
2 **to acquire NWE?**

3 A. No. BBI's initial application did not include any specific commitments related to  
4 renewable energy. BBI did note its significant experience in terms of wind  
5 development and ownership of wind projects, both in the application and in cross-  
6 examination before the PSC. But there was nothing concrete about BBI's plans  
7 for acquiring renewable resources for NWE.

8 Q. **What was RNP's opinion of the transaction?**

9 A. RNP did not take an initial position on whether the transaction should be  
10 approved. Instead, we provided the PSC with a summary of the issues we thought  
11 should be considered in its assessment of the application. First, we noted that  
12 BBI's long-term investment plans for NWE were appealing, as was their  
13 experience with developing and operating wind projects. NWE experienced some  
14 start-up troubles with its Judith Gap wind project, and had ongoing concerns  
15 about wind integration. We believed BBI's experience with wind could be  
16 valuable to NWE, given its need to acquire additional renewable energy resources  
17 to meet Montana's Renewable Energy Standard. We noted that BBI could  
18 provide guidance on needed analysis at NWE related to how to integrate  
19 additional wind in particular. We also stated our expectation that BBI needed to  
20 provide a corporate position on the need to reduce global warming emissions.

21 Q. **What was the result of this proceeding?**

22 A. In May 2007, during a PSC work session, each of the five Commissioners  
23 indicated their intention to vote against the BBI application. Following that

1 session, BBI and NWE filed an Application for Rehearing. That application  
2 included a substantially revised Restructured Proposal for BBI's plans for NWE.

3 **Q. Was RNP aware of this new proposal?**

4 A. Yes. RNP and other public interest allies in Montana had a conference call with  
5 BBI to discuss its new plan. BBI indicated in that call a willingness to include  
6 specific commitments related to renewable energy and energy efficiency.

7 **Q. Did RNP support the request for rehearing?**

8 A. Yes.

9 **Q. What commitments were included in BBI's Restructured Proposal?**

10 A. The restructured proposal included substantial additional commitments, chief  
11 among them an agreement to create a stand-alone Montana entity, which was of  
12 primary interest for most of the intervenors.

13 On renewables, BBI agreed to "meet the 15% renewable resource  
14 portfolio standard by 2012, three years earlier than required under current law."

15 (Exhibit No. \_\_\_ (AEG-8), p. 4). On energy efficiency, BBI agreed to

16 "conduct an updated study of the amount of energy efficiency that  
17 currently exists on the NWE system and to evaluate the steps and  
18 strategies necessary to increase/accelerate its annual electric energy  
19 efficiency programs commitment in Montana (which is currently 5  
20 average MWs per year over 16 years). NWE will present the results of the  
21 study to its Electric Technical Advisory Committee for its consideration  
22 within 6 months of the Acquisition, or as soon as practicable thereafter,  
23 along with its recommendations for implementation." Id.

24  
25 **Q. What was RNP's view of these commitments?**

26 A. We believed the renewable energy commitment was very valuable. NWE had  
27 appeared reluctant to acquire another wind project very soon, citing its concerns  
28 about integration. We believed BBI's specific commitment would result in



1 accelerated wind development in the state, significant given that Montana has by  
2 far the best wind resource in the region.

3 **Q. What was the result of the proceeding?**

4 A. The Commission voted 5-0 to deny the request for rehearing and rejected the  
5 application of BBI to acquire NWE.

6 **III. THIS TRANSACTION**

7 **Q. Have you reviewed the commitments in this proceeding related to renewable  
8 energy?**

9 A. Yes.

10 **Q. Do they contain the level of specificity you believe is critical in order for a  
11 commitment to be meaningful?**

12 A. No. As discussed in the testimony of NW Energy Coalition witness Nancy E.  
13 Hirsh (Exhibit No. \_\_\_ (NEH-1T)), the renewable energy commitments proposed  
14 by the Joint Applicants lack specificity, measurability, and timelines. They are  
15 similar in nature to the types of commitments initially proposed by TPG in its  
16 efforts to acquire PGE, which we found sorely lacking. They also do not appear to  
17 be associated with any provisions to ensure accountability, unlike the final  
18 commitments in the MEHC acquisition of PacifiCorp.

19 **Q. Are they meaningful, in your opinion?**

20 A. No. While I appreciate the inclusion of language offering support for renewable  
21 energy acquisition, commitments must be specific, measurable and time-oriented  
22 in order to be truly meaningful. Ultimately, the Company must also be  
23 accountable for ensuring the commitments are met.

1 **IV. CONCLUSION**

2 **Q. What have you and RNP learned by participation in these acquisition**  
3 **proceedings?**

4 A. Any utility merger and acquisition case raises uncertainties and potential risks for  
5 customers and other stakeholders. These risks and concerns are best addressed by  
6 applicants who provide clear information about their plans for ownership of the  
7 utility, and include responsive, meaningful commitments. To be meaningful,  
8 commitments must be specific, measurable, and hold the applicant accountable  
9 for follow-through. The applicant must demonstrate value added over the status  
10 quo; otherwise change in the form of new ownership is simply not necessary in  
11 the eyes of many parties. I also believe that substantial settlement discussions are  
12 important in these proceedings, for the applicant to really understand and address  
13 the concerns of parties. In my view, conversations among the parties are more  
14 productive than an on-going exchange of paper.

15 **Q. Does this conclude your testimony?**

16 A. Yes.

17

18

19

20

21