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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

2 -----)
3 WASHINGTON UTILITIES AND)
4 TRANSPORTATION COMMISSION,) DOCKET NO. UG-950278
5)
6 vs. Complainant,)
7)
8)
9 WASHINGTON NATURAL GAS) VOLUME 3
10 COMPANY,)
11 Respondent.) PAGES 67 - 127
12 -----)

13 A hearing in the above matter was held on
14 May 2, 1995, at 9:30 a.m. at 670 Woodland Drive
15 Southeast, Building D, Lacey, Washington before
16 Chairman SHARON NELSON, Commissioners RICHARD HEMSTAD,
17 WILLIAM GILLIS and Administrative Law Judge ALICE
18 HAENLE.

19 The parties were present as follows:

20 WASHINGTON NATURAL GAS COMPANY, by DAVID
21 S. JOHNSON, Attorney at Law, 815 Mercer Street,
22 Seattle, Washington 98109 and MATTHEW HARRIS, Attorney
23 at Law, 701 Fifth Avenue, Suite 6100, Seattle,
24 Washington 98104.

25 WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION STAFF, by ANNE EGELER, Assistant Attorney
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

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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.

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I N D E X

2	WITNESSES:	D	C	RD	RC	EXAM
	AMEN	82	87, 99	103	103	93
3	CARTER		106			
	SCHOENBECK	118				
4	DAVIS	120				121

5	EXHIBITS:	MARKED	ADMITTED
	8		77
6	15		77
	16		78
7	17		78
	T-18	70	79
8	through 79		
	T-80	70	80
9	81	70	80
	T-82	70	100
10	83	70	100
	84	70	100
11	T-85	70	100
	86	113	118

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

2 (Marked Exhibits T-18 through 79, T-80, 81,
3 T-82, 83, 84 and T-85.)

4 JUDGE HAENLE: The hearing will come to
5 order. This is a third day of hearing in docket No.
6 UG-950278 which is the rate increase request of the
7 Washington Natural Gas Company. The hearing is taking
8 place on May 2, 1995 in Lacey, Washington before the
9 commissioners. I would like to take appearances.
10 Just gave your name and your client's name if you have
11 already entered an appearance beginning with Mr.
12 Johnson.

13 MR. JOHNSON: Thank you, Your Honor. David
14 S. Johnson representing Washington Natural Gas
15 Company.

16 JUDGE HAENLE: Ms. Egeler.

17 MS. EGELER: Anne Egeler, assistant
18 attorney general representing the Commission.

19 JUDGE HAENLE: Mr. Trotter.

20 MR. TROTTER: Donald T. Trotter, assistant
21 attorney general for the public counsel section of the
22 attorney general's office.

23 MR. FREDERICKSON: Frederick O.
24 Frederickson, representing Seattle Steam Company.

25 MS. ARNOLD: Carol S. Arnold representing

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1 Partnership for Equitable Rates for Commercial
2 Customers.

3 MS. PYRON: Paula Pyron representing the
4 Northwest Industrial Gas Users.

5 JUDGE HAENLE: Anyone else that needs to
6 enter an appearance? We don't have microphones. It's
7 a relatively small room but you're going to need to
8 remember to keep your voice up so that Cheryl can get
9 it all. And, Cheryl, if you don't hear them you need
10 to speak up very loudly so we can get it all in the
11 record.

12 In the way of preliminary matters the
13 hearing today was originally scheduled for purposes of
14 taking the company's -- taking testimony on the
15 company's interim filing. But since the time that
16 hearing was set up, a stipulation and proposal for
17 settlement has been sent to the Commission signed by a
18 number of the parties. What we wanted to do today,
19 because the stipulation covers both the interim case
20 and the general case, is be sure that people
21 understood that we were going to cover both of those
22 elements today and would waive any potential defect in
23 the notice of the hearing for today. I think you all
24 understood we were going to cover both the general
25 case and the interim case today, but just for purposes

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1 of the record if you would indicate that you would
2 waive any potential defect in the notice, that would
3 make a complete record. Mr. Johnson?

4 MR. JOHNSON: We would waive any objection
5 to any defects.

6 MS. EGELER: We would waive any objection.

7 MR. TROTTER: The same.

8 MR. FREDERICKSON: We waive any
9 objection to any defects.

10 MS. ARNOLD: We would waive any objection
11 to any defects.

12 MS. PYRON: We would waive any objection.

13 JUDGE HAENLE: That would make sure we
14 don't have any loose ends. Now, I believe that
15 everyone has signed the stipulation other than PERCC,
16 and PERCC did file an objection to the stipulation. I
17 trust you all brought it with you. What action is
18 PERCC asking the Commission be taken on your
19 objection? How is it asking that be treated?

20 MS. ARNOLD: PERCC is asking the Commission
21 to modify the stipulation to reflect the rate design
22 for schedule 57 and the two proposed -- excuse me --
23 the two related sales schedules 85 and 87 to reflect
24 the rate design put forth in the testimony of Mr.
25 George Carter. It is our understanding that the

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1 stipulation provides that in the event the Commission
2 modifies the stipulation the parties have the
3 opportunity to agree or to ask that the record be
4 reopened. PERCC agrees with the stipulation except
5 for this very narrow issue of the rate design of
6 schedule 57. PERCC supports the revenue requirement,
7 the rate spread, the rate design except for this one
8 narrow issue.

9 JUDGE HAENLE: And that's the rate design
10 for schedule 57, 85 and 87?

11 MS. ARNOLD: Yes. And actually it's the
12 rate design for the first three blocks of schedule 57
13 that we take issue with, and the related effects on
14 schedules 85 and 87 that are necessary to comply with
15 the Commission's fifth supplemental order in docket
16 No. 940814 which required that the company make the
17 structure of the transportation blocks parallel to the
18 structure of the interruptible sales blocks. So that
19 is what we're requesting that the Commission do,
20 modify the stipulation to that very limited respect.

21 JUDGE HAENLE: The stipulation provides
22 that, as you indicated, if there is a change requested
23 that the parties have the chance to approve that or
24 disapprove it or ask the record be reopened. Is the
25 change requested, would that be -- are the parties

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1 prepared to say whether or not that would be enough to
2 sink the stipulation?

3 MR. JOHNSON: I'm not at this point, Your
4 Honor. I'm not prepared to say one way or the other.

5 MS. EGELER: I would join that. It would
6 be a possibility that the staff would want to reopen.

7 JUDGE HAENLE: Anyone else?

8 MS. PYRON: Your Honor, that would also be
9 possible --

10 JUDGE HAENLE: Keep your voice up.

11 MS. PYRON: That would also be a
12 possibility for the Northwest Industrial Gas Users of
13 reopening.

14 JUDGE HAENLE: Well, procedurally today,
15 Ms. Arnold has presented the prefiled witness -- I'm
16 sorry -- testimony of a witness. The company has also
17 provided testimony prefiled -- was that yesterday, Mr.
18 Johnson?

19 MR. JOHNSON: Yes.

20 JUDGE HAENLE: And that testimony of Mr.
21 Amen responds to Mr. Carter's testimony; is that
22 right?

23 MR. JOHNSON: It both responds to Mr.
24 Carter's testimony and independently supports the rate
25 design that we have proposed in schedule 57, 85 and

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1 87.

2 JUDGE HAENLE: In the stipulation?

3 MR. JOHNSON: Correct.

4 JUDGE HAENLE: And there was also prefiled
5 testimony on behalf of the Northwest Industrial Gas
6 Users with Mr. Schoenbeck. Does that also respond to
7 Mr. Carter's testimony?

8 MS. PYRON: Yes, Your Honor.

9 JUDGE HAENLE: Well, my suggestion is that
10 we take that testimony and cross-examination of that
11 testimony today and at the end of that if the parties
12 are prepared to say what effect Ms. Arnold's proposed
13 change would have on the stipulation, I guess we can
14 ask that again at the end of the day. I don't know if
15 you will know then.

16 Anyway, before we went on the record we
17 looked at the prefiled material. The stipulation was
18 filed last week and the stipulation in several
19 paragraphs addresses what the record will be in this
20 case according to those of you who signed the
21 stipulation. In paragraph 6 it indicates that the
22 record would be the record through and including the
23 hearing schedule today. It stipulates admission of
24 the company's prefiled direct testimony and exhibits
25 submitted in the general case. It provides that the

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1 company has withdrawn the premarked documents from the
2 interim case other than Exhibit 8 for identification,
3 and it asks that the exhibits that are attached to the
4 stipulation be entered into the record. That doesn't
5 anticipate that the stipulation be marked separately
6 with an exhibit number but just that it be treated as
7 a pleading. I assume that's everyone's preference.
8 Hearing nothing else we'll do it that way.

9 I assume that the record if we did have --
10 there's been some preliminary talk about an additional
11 public hearing. If there were an additional public
12 hearing, I assume those of you who signed the
13 stipulation anticipated that the record would continue
14 through that hearing as well, not just through the
15 hearing today.

16 MR. JOHNSON: Yes, Your Honor.

17 JUDGE HAENLE: I'm going to ask just Ms.
18 Pyron these questions then since she's the only one
19 who didn't sign the stipulation. I'm sorry, Ms.
20 Arnold. Those of you who did sign the stipulation,
21 I'm assuming you're agreeing with what's in the
22 stipulation in terms of entry of the documents that I
23 will be asking about and treatment of the other
24 documents. Any objection, then, to the company's
25 withdrawal of the documents marked for identification

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1 at the pre-hearing conference other than Exhibit 8.

2 Ms. Arnold?

3 MS. ARNOLD: No, we have no objection.

4 JUDGE HAENLE: We'll do it in that manner,
5 then. And Exhibit 8 has been agreed to by the
6 signatories. Do you have any objection to its entry?

7 MS. ARNOLD: No objection.

8 JUDGE HAENLE: Exhibit 8 will be entered.
9 Exhibit 14 is the public letters and we still need to
10 get some additional documents there. Let's leave that
11 open for the minute.

12 (Admitted Exhibit 8.)

13 JUDGE HAENLE: Exhibit 15 is mentioned in
14 paragraph 4 of the stipulation. It provides rate
15 spread and gas volumes agreed to by the signatories.
16 Do you have any objection to its entry, Ms. Arnold?

17 MS. ARNOLD: No objection.

18 JUDGE HAENLE: 15 will be entered.

19 (Admitted Exhibit 15.)

20 JUDGE HAENLE: Paragraph 5, Exhibit 16 is
21 referenced. It's called a Rate Design Agreed To By
22 The Signatories. Any objection to its entry, Ms.
23 Arnold?

24 MS. ARNOLD: We have some objection to its
25 content but no objection to its entry into the record.

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1 JUDGE HAENLE: And your witness will be
2 addressing what your disagreements are with the
3 content?

4 MS. ARNOLD: Yes.

5 JUDGE HAENLE: I will enter 16 into the
6 record then.

7 (Admitted Exhibit 16.)

8 JUDGE HAENLE: Paragraph 6 of the
9 stipulation, Exhibit 17 is a Summary of Operations
10 for Cost of Service Purpose Agreed To By The
11 Signatories. Have you any objection, Ms. Arnold, to
12 the entry of that document into the record?

13 MS. ARNOLD: No objection.

14 JUDGE HAENLE: 17 then will be entered into
15 the record.

16 (Admitted Exhibit 17.)

17 JUDGE HAENLE: The company's prefiled
18 testimony and exhibits for the general case we marked
19 before we went on the record then as Exhibit T-18
20 through 79. Signatories have agreed to their entry in
21 the stipulation. Do you have any objection to the
22 entry of those documents, Ms. Arnold?

23 MS. ARNOLD: No objection.

24 JUDGE HAENLE: T-18 through 79 will be
25 entered into the record.

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1 (Admitted Exhibits T-18 through 79.)

2 JUDGE HAENLE: Also, during the time we
3 were off the record we marked the additional testimony
4 that was prefiled yesterday and this morning as
5 follows: Mr. Amen's rebuttal testimony marked as T-80
6 for identification. The exhibit attached thereto
7 marked as Exhibit 81 for identification. Mr.
8 Carter's prefiled testimony marked as T-82 for
9 identification. The two documents attached to that
10 marked as 83 and 84 for identification, and Mr.
11 Schoenbeck's testimony marked as T-85 for
12 identification. I suggest we deal with the
13 admissibility of those documents as well except for
14 Mr. Amen. I'm assuming that the signatories would
15 agree to Mr. Amen's rebuttal testimony also being
16 included in the record and if anyone doesn't would you
17 speak up?

18 MS. ARNOLD: Your Honor, is this the
19 testimony that's designated Supplemental Testimony?

20 JUDGE HAENLE: Yes, ma'am. And I assume
21 you want to wait then for cross-examination before you
22 indicate whether you have an objection.

23 MS. ARNOLD: I have no objection.

24 JUDGE HAENLE: All right. T-80 and 81 will
25 be entered into the record.

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1 (Admitted Exhibits T-80 and 81.)

2 JUDGE HAENLE: Why don't we do Mr. Carter
3 and Mr. Schoenbeck then. Are there going to be any
4 objections to their testimony being entered and
5 exhibits?

6 MR. JOHNSON: No, Your Honor.

7 JUDGE HAENLE: Anyone, Ms. Arnold?

8 MS. ARNOLD: No objection.

9 JUDGE HAENLE: Let's enter T-82 through 85
10 as well. So all of the documents then have been
11 entered into the record with the exception of those
12 which were withdrawn. We have Mr. Amen now in the
13 witness stand.

14 (Admitted Exhibits T-82, 83, 84 and T-85.)

15 Whereupon,

16 RONALD AMEN,

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

19 JUDGE HAENLE: I'm assuming that you would
20 -- did you have separate questions of the witness
21 before the commissioners and if Ms. Arnold has
22 questions before those questions are asked?

23 MR. JOHNSON: Your Honor, I have no
24 questions of Mr. Amen other than just to verify that

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DIRECT EXAMINATION

3 BY MR. JOHNSON:

4 Q. Mr. Amen, do you have a copy of your
5 prefiled supplemental testimony and your exhibit in
6 front of you?

7 A. Yes, I do.

8 MR. JOHNSON: He's available for
9 cross-examination, Your Honor. We've already
10 introduced those two exhibits so there's no need for
11 further foundation on that.

12 THE WITNESS: I would like to make one
13 correction to my testimony if I could, please.

14 JUDGE HAENLE: All right. In your new
15 testimony, your supplemental testimony or your old
16 testimony?

17 THE WITNESS: My new testimony.

18 JUDGE HAENLE: Go ahead, sir.

19 THE WITNESS: On page 2, line 13, in the
20 middle of the sentence the word "from" where it says
21 "inequitable from larger transportation customers."
22 "From" should be "to."

23 JUDGE HAENLE: With that correction is your
24 testimony true and correct?

25 THE WITNESS: Yes.

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1 JUDGE HAENLE: Commissioners, do you want
2 Ms. Arnold to ask her questions first?

3 CHAIRMAN NELSON: Sure.

4 JUDGE HAENLE: Ms. Arnold, do you have
5 questions of the witness?

6 MS. ARNOLD: Thank you, yes.

7

8 CROSS-EXAMINATION

9 BY MS. ARNOLD:

10 Q. Mr. Amen, you would agree, would you not,
11 that the decision by a customer to take either sales
12 or transportation should be based upon the market
13 price of the gas commodity, would you not?

14 A. Yes.

15 Q. The decision to go with transportation or
16 sales shouldn't be based upon artificial differences
17 in the margin price, would you agree?

18 A. Yes. I would agree that any artificial
19 differences in the relative margins should not cause
20 customers to choose one versus the other.

21 Q. You're not saying in your testimony that
22 PERCC is advocating that any customer should not pay
23 the \$650 per month customer charge, are you?

24 A. No. What I am saying on the other hand is
25 that by virtue of PERCC's rate design they have

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1 essentially rendered the customer charge to be
2 nonexistent for the small transporter by effectively
3 shifting those costs to be recovered by either larger
4 transportation customers or perhaps not at all.

5 Q. But you're not misinterpreting PERCC to say
6 that we're saying that they shouldn't pay the \$650,
7 are you?

8 A. No.

9 Q. Would you agree that the difference of
10 opinion between PERCC and the company at this point
11 with respect to schedule 57 is the rate design for the
12 first three blocks only?

13 A. Yes.

14 Q. And would you agree that PERCC and the
15 company agree on the rate design for the last three
16 blocks, on the rate for the last three blocks?

17 A. Yes, I would.

18 Q. Have you had the opportunity to review Mr.
19 Carter's testimony?

20 A. Yes, I have.

21 Q. Would you agree that Mr. Carter's rate
22 design collects the same marginal revenues for
23 schedule 57 as the company's does, total marginal
24 revenues?

25 A. The calculations that Mr. Carter has

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1 performed would suggest that it would do that.

2 Q. Would you agree that Mr. Carter's rate
3 design would recover the same marginal revenues for
4 85 as the company's rate design, total marginal
5 revenues?

6 A. If those customers were to remain on rate
7 85.

8 Q. And would you agree that Mr. Carter's
9 proposed rate design would recover the same marginal
10 revenues for schedule 87 as the company's design?

11 A. Again, if those customers remained on that
12 schedule and their volumes were as projected. There's
13 one small difference that would have an impact albeit,
14 I will admit, small, and that is the rate design
15 calculations of Mr. Carter involve actually more
16 decimal places than the company's billing system can
17 handle, so the rounding effects would have some
18 impact.

19 Q. Would you refer to your Exhibit T-81,
20 please. I'm sorry, Exhibit 81, plain 81. Mr. Amen,
21 would you agree that the company's proposed rate
22 design, the last three blocks of schedule 57, the rate
23 is identical to the rate for the last three blocks of
24 schedule 87?

25 A. That's correct.

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1 Q. Would you agree that on PERCC's proposed
2 rate design the rate for the last three blocks of
3 schedule 57 is identical to the rates for schedule 87?

4 A. Yes.

5 MS. ARNOLD: That's all my questions.

6 JUDGE HAENLE: Commissioners, do you have
7 questions of the witness? These would be questions in
8 connection with the entire settlement not just the
9 supplemental testimony. Will this be the primary
10 witness to address and field questions about the
11 settlement?

12 MR. JOHNSON: Not necessarily. He's
13 certainly the primary witnesses on rate design issues
14 and rate design is a separate exhibit, but there's a
15 lot to the settlement besides rate design so he's not
16 the primary witness on those aspects.

17 JUDGE HAENLE: What's your proposal with
18 regard to the commissioners asking questions?

19 MR. JOHNSON: Well, certainly since PERCC
20 has teed up some issues with respect to rate 57, those
21 questions are appropriate and if the commissioners
22 have any other questions on rate design matters, Mr.
23 Amen is certainly available to answer those.

24 JUDGE HAENLE: And for other questions?

25 MR. JOHNSON: For other questions we have

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1 -- perhaps it would be appropriate to tell you who we
2 have here, and we have Mr. Davis here who can address
3 the policy ramifications to the company of the
4 settlement agreement; Mr. Karzmar, who sponsors
5 Exhibit 8 supporting the revenue requirement, if the
6 commissioners have any question for him he is
7 available. We also have Ms. Murray who is a witness
8 that we've stipulated her testimony and exhibits into
9 the record, if there are any questions on anything
10 related to her testimony. And we have other people
11 from our rates department if there are any more
12 detailed questions on the mathematics, for example,
13 that the other witnesses, the other people cannot
14 answer, but that should give you, I think, a fair
15 flavor of who we've got here.

16 JUDGE HAENLE: And Ms. Murray's specific
17 area was what, please.

18 MR. JOHNSON: She had miscellaneous
19 adjustments to results of operations. I don't know
20 whether you would say there's a specific area. Mr.
21 Karzmar is the witness primarily responsible for
22 developing Exhibit 8 which supports the 17.7
23 stipulated increase.

24 JUDGE HAENLE: Thank you. Commissioners,
25 do you have questions of this witness?

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1 MS. PYRON: Your Honor, will other parties
2 have an opportunity to respond to Ms. Arnold's
3 questions of this witness?

4 JUDGE HAENLE: I suppose -- I was trying to
5 think in what order we would take that logically. We
6 could take preliminary commissioners' questions and
7 then follow up by the parties or do you want the other
8 parties to finish before?

9 CHAIRMAN NELSON: Let's hear from the other
10 parties.

11 JUDGE HAENLE: Fine. Other people have
12 questions? Mr. Trotter.

13

14 CROSS-EXAMINATION

15 BY MR. TROTTER:

16 Q. Referring still to Exhibit 81, you were
17 asked some questions about rates in schedule 87 and
18 the last three blocks but what's shown on this page is
19 margin, not rates; is that right?

20 A. That's true.

21 Q. Just taking a look at schedule 57, on the
22 top half of this page this is the company's and the
23 settling parties' proposal?

24 A. That's correct.

25 Q. Comparing the first three blocks of

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1 schedule 57 with the first three blocks of schedule
2 85, schedule 85 as to margin, are those rates and
3 margins comparison -- would you consider that parallel
4 or not parallel?

5 A. I would consider them parallel. They are
6 with very little differences equivalent to the
7 corresponding margins of the sales schedule 85.

8 JUDGE HAENLE: I'm having some trouble
9 hearing. Could you keep your voices up, please. I
10 didn't hear any of that response at all.

11 THE WITNESS: What I was saying was that
12 the differences between the rates of the first three
13 blocks in rate 57 and those margins contained in the
14 rates of rate 85 have been minimized so that they are
15 essentially equivalent.

16 Q. You also indicated that the -- that Mr.
17 Carter's calculations of marginal revenue was the same
18 in PERCC's proposal versus the company and settlement
19 parties' proposal. And then with respect to other
20 schedules you said if the customers remain on those
21 schedules, the result was the same. Do you have any
22 concerns about whether or not customers will remain on
23 the various schedules under either proposal?

24 A. Yes, I do. I have very grave concerns
25 about the structure of the rate design proposed by

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1 PERCC actually creating an incentive for migration
2 from rate 85 to rate 57. As you can see there in the
3 first block of PERCC's proposed rate 57, there's
4 nearly a two cent difference than what we see in the
5 margins of rate 85 in the first block. Then there's
6 -- to a lesser degree there's also a reduced amount of
7 margin in the second block of rate 57 as it compares
8 with the corresponding block of rate 85, and what this
9 does is essentially send the signal to those sales
10 customers that it is less costly to transport, and
11 wholesale migrations of the kind that could result
12 from this could not only jeopardize the company's
13 ability to earn its total revenue requirement but have
14 detrimental effects as well, as I state in my
15 testimony, on the core market sales customers that
16 remain in terms of the impact on their gas supply
17 costs.

18 JUDGE HAENLE: I'm sorry, the gas?

19 THE WITNESS: Supply costs.

20 JUDGE HAENLE: Thank you.

21 MR. TROTTER: That's all I have.

22 JUDGE HAENLE: Ms. Egeler, did you have
23 questions?

24 MS. EGELER: No.

25 JUDGE HAENLE: Other parties have

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1 questions?

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CROSS-EXAMINATION

4 BY MS. PYRON:

5 Q. Mr. Amen, I believe that in Ms. Arnold's
6 cross-examination she asked you some questions about
7 the \$650 customer charge. And I believe your
8 testimony, was it not, was that the result of PERCC's
9 proposed rate design at the bottom of Exhibit 81
10 results in a shift rendering that customer charge
11 nonexistent. Is that an accurate characterization?

12 A. Yes, it is. Essentially what I believe Mr.
13 Carter has done is to use the rates to equalize the
14 bills between the two, and it effectively eliminates
15 the price signal that's to be sent by virtue of the
16 customer charge on transportation. The proceeding
17 that we recently concluded in 940814 spent
18 considerable time and evidence being presented on the
19 subject of two critical elements of transportation.
20 One is the delivery service component to transport gas
21 from the city gates to the burner tip, and we tried to
22 identify in that proceeding the cost of delivering gas
23 from the city gate to the burner tip for all classes
24 of customers. An attempt was made for like size
25 customers to have a rate design that reflected that

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1 relative equivalence of that delivery service.

2 A second critical element, though, of that
3 case was to identify the incremental costs of
4 providing transportation service. Those were designed
5 to be recovered through the use of the customer charge
6 on transportation, the \$650. In treating the rate
7 blocks as PERCC has proposed, that that incremental
8 cost of transportation that relates to the number of
9 customers transporting and the administrative cost of
10 providing transportation to those services, it is
11 masked over and essentially rolled into the block
12 rates by reducing them on the early blocks.

13 Q. Do you consider PERCC's proposed rate
14 design to be consistent with the terms of the
15 Commission's fifth supplemental order in UG-940814?

16 A. No, I do not.

17 Q. Mr. Amen, have you had the opportunity to
18 review Mr. Schoenbeck's testimony?

19 A. No, I'm sorry, I have not.

20 MS. PYRON: No further questions.

21 JUDGE HAENLE: Anyone else?

22 MS. ARNOLD: May I ask a follow-up question
23 to Ms. Pyron and Mr. Trotter's?

24 JUDGE HAENLE: Yes.

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1 CROSS-EXAMINATION

2 BY MS. ARNOLD:

3 Q. Referring again to Exhibit 81, Mr. Amen,
4 would you agree that, based on the stipulated rate
5 design, that the marginal rate for schedule 87 and the
6 transportation rate for 57 for a customer using over
7 500 therms a month that for that block, over 500
8 therms a month, the marginal rate is equal?

9 A. The marginal component of the block rate is
10 relatively equal, I would say. As close as we could
11 get it.

12 Q. Would you agree that for those therms in
13 that tailblock that the \$650 customer charge is a
14 relatively small part of that customer's total bill?

15 A. Certainly for a larger customer, the impact
16 --

17 Q. Excuse me. I'm talking about the customer
18 in that tailblock that reaches the over 500,000 therm
19 level so we're talking about the large customer.

20 A. I think that's what I said. The larger
21 customer, the impact on his bill or the relative
22 percentage of his total bill occupied by the \$650 is
23 much smaller than for a smaller transporter.

24 Q. So the \$650 isn't much of a disincentive
25 for that very large customer to switch from sales to

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1 transportation, is it?

2 A. I don't imagine it would be.

3 MS. ARNOLD: Thank you. That's all.

4 JUDGE HAENLE: Anyone else before the
5 commissioners ask their questions?

6 MR. TROTTER: Your Honor, Ms. Arnold, when
7 she started that last line of questioning referred to
8 over 500 therms and I believe it meant 500,000 as was
9 clarified later.

10 MS. ARNOLD: Thank you.

11 JUDGE HAENLE: Commissioners.

12

13 EXAMINATION

14 BY CHAIRMAN NELSON:

15 Q. Mr. Amen, can you refresh my memory from
16 the rate design case where the evidence was of the
17 impact on the core customers from a quote-unquote
18 wholesale migration of small sales commercial sales
19 customers to transportation schedules?

20 A. Well, in my testimony and exhibits I showed
21 through some of our gas contracting practices and --

22 MS. ARNOLD: Objection, Your Honor. The
23 witness is not answering the chairman's question.
24 Chairman asked about the order.

25 THE WITNESS: Oh, in the order?.

00094

1 CHAIRMAN NELSON: No. I asked -- I wanted
2 to point to the evidence presented in that case so
3 that's fine. Referral to his exhibits is fine.

4 A. Both in my direct testimony and then again
5 in my rebuttal I discuss the company's gas supply
6 contracting practices. I outline the length of those
7 contracts. I have some exhibits that detail time
8 lines involved in the gas contracting, the levels of
9 firm capacity and gas supply firm costs, and the
10 duration of those contracts, and through that
11 discussion I believe I indicate the impact of
12 migrations from sales to transportation that could
13 affect the core market.

14 Q. And that was essentially an aggregate
15 number, an estimate of a certain number of these
16 customers migrating and the resulting need to recover
17 the costs from the core market. Is that the theory?

18 A. Yes. And I can't recall any specific
19 number based on a hypothetical scenario or anything of
20 that sort, but generally what I was trying to indicate
21 was the level of these contracts and the reason that
22 we were seeking some ability to obtain some control
23 over the provision of transportation service so that
24 we could minimize those adverse impacts.

25 CHAIRMAN NELSON: That's all I have at this

00095

1 point.

2

3

EXAMINATION

4 BY COMMISSIONER HEMSTAD:

5 Q. This is really a follow-up to the question,
6 the last question that Ms. Pyron asked you, which I am
7 paraphrasing. I believe it was to the point that
8 whether Mr. Carter's proposal is inconsistent with the
9 Commission's fifth supplemental order. And you
10 answered that it is inconsistent. Would you expand on
11 that and describe to me why you consider it to be
12 inconsistent?

13 A. I believe it to be inconsistent because I
14 believe what the Commission was directing the company
15 to do, in accordance with what actually we proposed to
16 do, was to reflect within the relative margins, block
17 margins within the sales and transportation schedules,
18 that they be roughly equivalent so that a like-sized
19 customer would see essentially the same relative
20 delivery cost of providing service -- delivery service
21 from the city gate to the burner tip so that gas costs
22 would be then that which that customer could use to
23 make a decision as to whether or not he should
24 transport or buy gas from the company.

25 In addition, however, the Commission

00096

1 authorized in that order the company to charge a
2 customer charge for transportation to collect those
3 incremental costs of providing the service, and in
4 fact approve the company's proposed level of \$650. So
5 for PERCC's rate design to circumvent the operation of
6 that customer charge for purposes of collecting those
7 incremental costs by reducing the block margin so that
8 it is rendered ineffectual I think is contrary to the
9 intent of the Commission's order.

10 COMMISSIONER HEMSTAD: That's all I have.

11

12 EXAMINATION

13 BY COMMISSIONER GILLIS:

14 Q. I don't have this information in front of
15 me, I'm sorry, but focusing on the smallest classes
16 and the proposed settlement rate design that we're
17 looking at now, what is the change with respect to
18 past rate designs? I'm thinking in particular the
19 difference between the charge faced by interruptible
20 sales customer in that smallest class and their
21 transportation charge. Has it increased or decreased
22 or stayed about the same?

23 A. They decreased both for -- significantly
24 both for those smaller interruptible customers and the
25 corresponding transporters of like size as much as 30

00097

1 percent.

2 Q. So that means under the proposed settlement
3 rate design that there is more incentive to use
4 transportation at least compared to the past rate
5 design. Is that true or am I interpreting that right?

6 A. There is in that what we found in our prior
7 rate designs, because we had not used cost of service
8 over a period of time to guide their development, we
9 found that there were artificial differences between
10 the sales and transportation rates, and in the case of
11 the most recent set of rates that the company had in
12 place at the end of the 920840 rate proceeding there
13 was actually an incentive to migrate to sales because
14 the margins were relatively less on sales than they
15 were transportation.

16 Our attempt, of course, in the cost of
17 service and rate design proceeding was to equalize
18 those. Where we could identify the delivery costs of
19 providing the transportation of the gas from the city
20 gate to the burner tip, we felt that those -- that
21 that relative equity should be reflected in the rate
22 design absent the identification of any other
23 incremental costs of providing one or the other type
24 of service.

25 Q. What I'm trying to get ahold of is part of

00098

1 the issue that has been raised, and you raised it in
2 your testimony as well, is that the rate design
3 proposal by Mr. Carter, you indicated that that
4 proposal traded too much of a margin between the
5 charge that the small customer would face for an
6 interruptible sales versus the transportation, and I'm
7 trying to benchmark that a little bit back in my mind
8 to the prior rate design. Is Mr. Carter's proposal
9 going even more backwards, in your opinion, I mean
10 compared to the other -- I don't mean to use that
11 term. What direction are we moving? Is it somewhere
12 in between what's proposed in the settlement and what
13 was before or is it swinging even farther?

14 A. I think it's swinging even farther. I
15 think essentially what it's doing is trying to
16 relitigate the customer charge issue from the last
17 case, which PERCC supported a lower customer charge
18 than the company proposed and presented evidence on
19 that issue. They, however, did not take issue with my
20 block design in that proceeding which was essentially
21 what you see before you today in this proceeding. We
22 have maintained the design that we proposed and was
23 approved in that case in this case, and what I believe
24 they're trying to do is to -- because they were
25 unhappy with the result of the ruling on the customer

00099

1 charge in that case they're trying to, through rate
2 design, make it go away.

3 COMMISSIONER GILLIS: Thank you.

4 JUDGE HAENLE: Any other questions for this
5 witness?

6 MS. ARNOLD: May I ask a follow-up to Mr.
7 Gillis's.

8 JUDGE HAENLE: Go ahead, Ms. Arnold.

9

10 CROSS-EXAMINATION

11 BY MS. ARNOLD:

12 Q. A follow-up to Mr. Gillis's question, Mr.
13 Amen. I would like you to think, if you will,
14 regarding the compliance rates that the company filed
15 to reflect the rate design ordered by the Commission
16 in the fifth supplemental order, compare those with
17 the rates for the last three blocks proposed today.
18 Would you agree that the compliance rate for the
19 fourth block was three and a half cents per therm?

20 A. I would accept that subject to check.
21 Unfortunately, I don't have those rates with me today.
22 I'm sorry.

23 Q. Would you agree that, assuming it was three
24 and a half cents per therm, that the proposed rate for
25 the fourth block, that is, the first 100,000 therms

00100

1 block, is now 3.3 cents per therm and that that is a
2 reduction over the compliance filing?

3 A. Yes.

4 Q. The next 100,000 block I will tell you
5 subject to check was -- the compliance filing -- was
6 three cents per therm, all right?

7 A. Is this referring to the -- for therms in
8 excess of 100,000 therms and less than 500,000 or --

9 Q. Less than 300.

10 A. Less than 300?

11 Q. Yeah, the fifth block.

12 A. Yes. In that compliance filing for volumes
13 in excess of 100,000 therms but no more than 300,000
14 therms it was three cents.

15 Q. And would you agree that for that same
16 block the next 300 will now pay two and a half cents
17 per therm?

18 A. Well, actually now that block is expanded
19 to go from 100,000 therms to 500,000 therms and it is
20 two and a half cents.

21 Q. Would you agree that the new revenue
22 resulting from the stipulation for schedule 57 is
23 about a half a million dollars, the increased revenue?

24 A. For what schedule?

25 Q. For schedule 57. It's about --

00101

1 A. I believe it's \$455,618.

2 Q. Would you agree that most of that increase
3 has been spread to the first three blocks of schedule
4 57?

5 A. If you're comparing the compliance rates in
6 940814 with the settlement rates, yes, I would.

7 Q. And that number of that increase has been
8 spread to the customers using over 500,000 therms a
9 month; is that correct?

10 A. That's correct.

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

13 JUDGE HAENLE: Anything more of the
14 witness?

15 MR. JOHNSON: I don't believe so, Your
16 Honor.

17 MS. EGELER: Yes, I do have some questions.

18

19 CROSS-EXAMINATION

20 BY MS. EGELER:

21 Q. In reaching the settlement, was the
22 increased revenue requirement spread on a strict
23 uniform percentage of margin basis?

24 A. No, it wasn't. As the settlement documents
25 indicate, there was mitigation provided to certain

00102

1 groups of customers, and in particular rate 85 sales
2 customers received only 50 percent of the system
3 average increase, so they received the largest amount
4 of rate mitigation on the settlement.

5 Q. Could you describe any other mitigation
6 that occurred?

7 A. I believe that the transportation class and
8 the rate 87 sales customers received 75 percent of the
9 system average percentage increase.

10 Q. Since you didn't spread it on a uniform
11 percentage of margin and there were those price breaks
12 given to some groups, which customer groups picked up
13 that additional revenue requirement?

14 A. Well, the customers that did not receive
15 the mitigation that I just described would have picked
16 that up.

17 Q. Could you describe which customers those
18 would be?

19 A. That would be the residential customers,
20 the small commercial/industrial firm customers, other
21 certain general service classes, CNG service, and one
22 class of interruptible sales customer, rate 86.

23 MS. EGELER: I have nothing further.

24 JUDGE HAENLE: All right. Anyone else?

25 MR. JOHNSON: Your Honor, I didn't have

00103

1 questions before but I would like to ask one brief
2 question if I may.

3

4 REDIRECT EXAMINATION

5 BY MR. JOHNSON:

6 Q. Mr. Amen, Ms. Arnold asked you questions
7 about the comparison in compliance rates. Do you
8 recall those questions?

9 A. Yes, I do.

10 Q. What test period was considered for
11 purposes of the compliance rates? What period are we
12 talking about?

13 A. Well, the test period in that proceeding
14 was the fiscal year ended September 30, 1993.

15 Q. And the test period for this settlement is
16 what?

17 A. The calendar year of 1994.

18 MR. JOHNSON: No further questions.

19 JUDGE HAENLE: Anyone else?

20 MS. PYRON: Just one.

21 JUDGE HAENLE: Ms. Pyron. Let's try to
22 make this the last round.

23

24 RECROSS-EXAMINATION

25 BY MS. PYRON:

00104

1 Q. Mr. Amen, just one follow-up with regard to
2 the compliance rates. Do you recall your initial
3 compliance filing April 17 of 1995?

4 A. Yes, I do.

5 Q. And did that have a tailblock level of
6 300,000 therms at two cents?

7 A. Yes. I believe, as I mentioned earlier, in
8 responding to Ms. Pyron, the tailblock on rate 57 was
9 300,000 therms. That is the block we were speaking of
10 in her question dealt with consumption between 100,000
11 and 300,000 that being the end step for rate 57.

12 Q. So if you were to assume as a starting
13 point the April 17, 1995 compliance filing with a
14 tailblock at 300,000 therms at two cents, and then
15 compare it to the proposed settlement, there has been
16 -- has there been a substantial increase at 300,000
17 therms?

18 A. Well, there has been an increase, yes,
19 because now you don't receive the two cent tailblock
20 margin until you exceed 500,000 therms.

21 MS. PYRON: No further questions.

22 JUDGE HAENLE: Anyone else? Thank you,
23 sir, you may step down.

24 Were you proposing to, Mr. Johnson, putting
25 the other company witnesses on in a group or --

00105

1 MR. JOHNSON: It would be at the
2 Commission's pleasure, Your Honor.

3 JUDGE HAENLE: Let's go off the record to
4 determine how we want to do that.

5 (Recess.)

6 JUDGE HAENLE: Let's be back on the record.
7 During the time we were off the record we discussed
8 the order in which we would take the witnesses and the
9 issues. The suggestion was made and the Commission
10 decided it would prefer to finish with this issue
11 before it went on to the other issues of the
12 settlement, and so we will take Mr. Carter and Mr.
13 Schoenbeck before we go back to other witnesses.
14 Whereupon,

15 GEORGE CARTER,
16 having been first duly sworn, was called as a witness
17 herein and was examined and testified as follows:

18 JUDGE HAENLE: The testimony and exhibits
19 have been entered, Ms. Arnold. Did you have other
20 questions of the witness?

21 MS. ARNOLD: I guess it's already been
22 admitted so I don't need to lay the foundation for it.
23 No, I have no questions. Mr. Carter is available for
24 cross-examination.

25 JUDGE HAENLE: Did you have questions, Ms.

00106

1 Egeler?

2 MS. EGELER: No.

3 JUDGE HAENLE: Mr. Trotter?

4 MR. TROTTER: No.

5 JUDGE HAENLE: Questions from the other
6 intervenors and the company?

7 MR. JOHNSON: Your Honor, I do have a few
8 questions.

9 JUDGE HAENLE: Mr. Johnson. I should have
10 given you first opportunity.

11

12 CROSS-EXAMINATION

13 BY MR. JOHNSON:

14 Q. Good morning.

15 A. Morning.

16 Q. Do you have a copy of Mr. Amen's testimony
17 and exhibit which are T-80 and 81 for identification?
18 Do you have those in front of you?

19 A. Yes, I do.

20 Q. I would like you to turn to Exhibit 81,
21 please. I would just like to verify first that what
22 he labels as PERCC proposed rate design on the bottom
23 of Exhibit 81, that is in fact the rate design that
24 you are proposing on behalf of PERCC; is that correct?

25 A. Yes, it is.

00107

1 Q. And what he has labeled as proposed
2 settlement rate design on the top of Exhibit 81,
3 that's your understanding of what the company is
4 proposing for its rate design, correct?

5 A. Yes.

6 Q. So we can look at this exhibit and compare
7 and contrast the respective blocks and proposals,
8 right?

9 A. That's true.

10 Q. Let's look at the blocks if we could. Ms.
11 Arnold asked some questions of Mr. Amen, but I would
12 like to ask the same questions of you so we're all on
13 the same page. Under schedule 57 your rates on the
14 latter three blocks are the same as the company's; is
15 that right?

16 A. That's correct.

17 Q. And so the only differences, the
18 differences that we have, are reflected in the first
19 three blocks of the respective schedules, respective
20 proposals?

21 A. That's true.

22 Q. Looking at your rate design or the PERCC
23 proposed rate design, am I correct that you show the
24 rate for 57 transportation service in the first block
25 to be about 1.8 cents less than the comparable block

00108

1 for 85 sales service using a margin per therm? Is
2 that number about right?

3 A. About a cent and a half.

4 Q. Fair enough. And the rate for the second
5 block under 57, which is the next 25,000 therms, is
6 almost .7 cents less than the margin for the
7 comparable 85 block. Is that also correct?

8 A. Oh, excuse me. I misunderstood your
9 previous question. We're comparing 57 with 85?

10 Q. What we're doing is comparing the first
11 block under your proposed rate design for schedule 57
12 to the first block for 85, also your proposal.

13 A. Okay, excuse me. Then I misspoke.

14 Q. My question was, is that differential
15 approximately 1.8 cents per therm?

16 A. That's correct.

17 Q. Looking now at the second block which is
18 the next 25,000 therms, the rate for that second 57
19 block is slightly under .7 cents, the differential is
20 slightly less than .7 cents?

21 A. I will accept that.

22 Q. Like now to refer to page 1 of your
23 testimony, please. You testified before the
24 Commission before, as I understand it, correct?

25 A. Yes, I have.

00109

1 Q. How recently did any of your testimony
2 involve a gas utility, Mr. Carter, before this
3 Commission?

4 A. I don't think I've testified before this
5 Commission in a gas matter.

6 Q. So you haven't testified in a proceeding
7 involving Washington Natural Gas Company?

8 A. No, I haven't.

9 Q. Are you familiar with the proceedings that
10 just concluded in docket 940814?

11 A. Somewhat.

12 Q. That case involved the company, correct?

13 A. Yes.

14 Q. You say that you're somewhat familiar. Did
15 you acquire your familiarity by reading the fifth
16 supplemental order, reading the testimony?

17 A. I read some of the testimony and I have
18 read the fifth supplemental order.

19 Q. But you didn't testify in that case, did
20 you?

21 A. No, I didn't.

22 Q. This may go without saying, but maybe you
23 can just address this. Since you haven't testified in
24 a gas proceeding, I take it then that you have not
25 testified in a gas proceeding involving transportation

00110

1 services as a separate class of service; is that
2 correct?

3 A. Not before this Commission, no.

4 Q. Have you testified in an electric
5 proceeding or any other proceeding involving
6 transportation service as a separate class of service
7 before this Commission?

8 A. Involving transportation as a separate
9 class of service, no, I haven't.

10 Q. Now, Mr. Carter, you stated that you're
11 generally somewhat familiar with the proceedings in
12 940814. One of the issues that the Commission
13 resolved in that docket was the monthly customer
14 charge for transportation service, correct?

15 A. That's correct.

16 Q. And that charge has been set at \$650; is
17 that right?

18 A. Yes.

19 Q. And that was the company's proposal, to
20 your knowledge?

21 A. Yes, it was.

22 Q. And isn't it the case that the Commission
23 rejected PERCC's proposal for a lower customer charge
24 in that docket?

25 A. That's correct.

00111

1 MR. JOHNSON: I have nothing further.

2 JUDGE HAENLE: All right. Thank you.

3 Questions from the intervenors?

4 MS. PYRON: I have some questions.

5 JUDGE HAENLE: Go ahead.

6

7 CROSS-EXAMINATION

8 BY MS. PYRON:

9 Q. Good morning, Mr. Carter.

10 A. Morning.

11 Q. In your testimony, Mr. Carter, on page 2
12 beginning about line 14 you describe how you developed
13 your proposed rate design on behalf of PERCC; is that
14 correct?

15 A. Yes.

16 Q. Have you considered in your development of
17 the PERCC proposal the individual customer usage
18 patterns underlying schedules 85, 87 and 57 customers?

19 A. Yes, I have.

20 Q. Well, in looking at your rate design GCC-1,
21 which is Exhibit 83, without considering the customer
22 charge and looking at that first 25,000 block between
23 schedule 57 and schedule 85, I believe you identified
24 with Mr. Johnson there's about a little better than a
25 penny and a half difference between the two schedules?

00112

1 A. Yes.

2 Q. Would you agree that without considering
3 the customer charge there would be an economic
4 incentive for schedule 85 customer to be on
5 transportation service?

6 A. I think I would agree to that if you would
7 say that there were no customer charge on schedule 57.

8 Q. That was the --

9 A. But there is a customer charge on 57, and
10 the customer when he's deciding whether to transport
11 or to purchase gas is going to consider that as part
12 of the revenue he has to pay in part of his cost be
13 he purchasing gas or purchasing gas from the company
14 or buying his own gas and transporting gas.

15 Q. Mr. Carter, are you familiar with
16 Washington Natural Gas's current tariffs for
17 interruptible sales schedules 87 and 85?

18 A. Yes. I think I looked at those.

19 Q. Are you aware that schedule 87 has a
20 minimum volume requirement?

21 A. Yes.

22 Q. And do you recall what that requirement is?

23 A. I can't recall what it is right now.

24 JUDGE HAENLE: You have handed me a
25 multi-page document. The caption on the first page is

00113

1 Schedule No. 88. I will mark this as 86 for
2 identification which is the next exhibit in line.

3 (Marked Exhibit 86.)

4 Q. Mr. Carter, do you have in front of you
5 what's been marked as Exhibit 86?

6 A. Yes, I do.

7 Q. Have you had the opportunity to review that
8 document?

9 A. Yes.

10 Q. Do you recognize it as the company's
11 schedule 87 sales service?

12 A. Yes, I do.

13 Q. If you could turn, please, to page 2 of
14 that exhibit, Mr. Carter. And does this refresh your
15 memory as to the annual contract volume charge on this
16 schedule?

17 A. Yes.

18 Q. And what does this schedule -- is the
19 annual contract volume of interruptible gas no less
20 than 750,000 therms per year?

21 A. Yes.

22 Q. Does the PERCC proposal that you have set
23 forth in your testimony address this minimum volume
24 requirement on schedule 87?

25 A. The assumption is that basically the other

00114

1 parts of the tariff would be identical to the company;
2 the only difference between PERCC's proposal and
3 the company's are the actual margins in each of the
4 blocks.

5 Q. And turning to your testimony on Exhibit
6 T-82 on page 1 at lines 19 through 21 on page 1.

7 A. Yes.

8 Q. You have a percentage representations of
9 comparisons between -- at 25,000 therms between
10 schedule 57 and schedule 85?

11 A. Yes.

12 Q. And the percentage that you derived was 27
13 percent higher on schedule 85; is that correct?

14 A. Yes. A customer purchasing -- a customer
15 transporting 25,000 therms a month would pay 27
16 percent more in revenue to the company than the margin
17 he would pay to the company if he purchased 25,000
18 therms on schedule 85.

19 Q. And then you also have comparisons at
20 50,000 and 75,000 therms on that same basis; is that
21 correct?

22 A. That's correct.

23 Q. In deriving your percentage comparisons in
24 your testimony, sir, between 87 and 85, did you
25 include the \$650 customer charge on schedule 57 in

00115

1 deriving these percentages?

2 A. Yes, I did. Because a customer who is
3 deciding if he uses 50,000 therms a month, he's going
4 to consider the total amount he would have to pay to
5 the company under the alternative of either purchasing
6 gas from the company or transporting gas to the
7 company. He's not going to ignore it because it's a
8 real cost to him.

9 Q. Mr. Carter, do you know -- if you could
10 turn to Mr. Amen's, the Exhibit 81 at the top of the
11 page being the proposed settlement rate design and the
12 bottom being the PERCC proposed rate design. Do you
13 know what the per dollar cost difference is monthly
14 between PERCC's proposal and the settlement
15 stipulation, just that dollar figure?

16 MS. ARNOLD: I would object to the
17 question, Your Honor. Maybe the witness understands
18 it but I don't.

19 JUDGE HAENLE: Did you understand the
20 question, sir?

21 THE WITNESS: Not exactly.

22 A. The revenues that my proposal is designed
23 to collect including block rates and customer charges
24 collect -- are designed to collect the same amount of
25 revenues on each schedule that the company's rates are

00116

1 designed to collect so if the question is --

2 Q. Let me rephrase the question. If we were
3 to assume a customer, a single customer, moves through
4 the proposed settlement rate design at the top of the
5 chart and then we were to assume that that same
6 customer moves through the blocks on the PERCC
7 proposed rate design, moves entirely through beginning
8 with the throughput from the same level of throughput,
9 500,000 therms, going through PERCC's proposal and
10 going through the proposed settlement proposal, are
11 you aware of the dollar cost difference between the
12 two? Does my question make sense to you, sir? Do you
13 understand the question?

14 A. No, it doesn't. I guess my response would
15 have to be that the average cost of gas or the average
16 margin or average transportation rate would be the
17 same under my proposal as the company's because my
18 rates are designed to collect the same amount of
19 revenues.

20 Q. For a single customer moving 500,000 therms
21 of gas, how much would the charges be, compared
22 between the settlement proposal and PERCC's proposal?

23 A. For a customer -- this is under schedule 80
24 --

25 Q. 57.

00117

1 A. Under the company's proposal a customer
2 transporting 500,000 therms of gas would have a bill
3 of approximately \$18,600 under the company's proposal.
4 Under my proposal a customer transporting 500,000
5 therms of gas would have a bill of approximately
6 \$19,250. So there's a difference between my proposal
7 and the company's of approximately \$650, and I don't
8 know what that works out to on a per therm basis.
9 It's not very much.

10 MS. PYRON: No further questions.

11 JUDGE HAENLE: Other questions of the
12 witness? Commissioners, questions?

13 CHAIRMAN NELSON: No.

14 COMMISSIONER HEMSTAD: I don't have any
15 questions.

16 COMMISSIONER GILLIS: No questions.

17 JUDGE HAENLE: Any redirect?

18 MS. ARNOLD: No.

19 JUDGE HAENLE: Anything more of the witness
20 at all? Thank you, sir. You may step down.

21 Mr. Schoenbeck, if you would like to sit up
22 at the table. Did you wish to move the entry of 86
23 for identification?.

24 MS. PYRON: Yes, I did.

25 JUDGE HAENLE: I should have asked you

00118

1 before your cross-examination was over. Any objection
2 to the entry of Exhibit 86 for identification?

3 All right. 86 will be entered into the
4 record.

5 (Admitted Exhibit 86.)

6 Whereupon,

7 DONALD SCHOENBECK,

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

10 JUDGE HAENLE: Mr. Schoenbeck's testimony
11 has already been entered. There was only the
12 testimony and no attachment, if I understood
13 correctly. Did you have questions of the witness?

14 MS. PYRON: Just one.

15

16 DIRECT EXAMINATION

17 BY MS. PYRON:

18 Q. Mr. Schoenbeck, do you have in front of you
19 Exhibit T-85?

20 A. Yes, I do.

21 Q. Since we've already admitted it, but do you
22 have any corrections to that testimony, sir?

23 A. Yes, I do.

24 Q. Could you please detail that correction.

25 A. Page 2, line 25. At the end of that line

00119

1 after the word "charge" insert the phrase "for the
2 indicated volumes." So that entire line would read,
3 "to \$760 per month including the \$650 customer charge
4 for the indicated volumes."

5 The second change is on page 4, line 8.
6 After the last word on that line "eliminate" insert
7 the two words "and shift." So that line would read,
8 "the practical result of the PERCC proposal is to
9 eliminate and shift." Those are the only corrections
10 to the testimony.

11 MS. PYRON: Thank you, Mr. Schoenbeck. Mr.
12 Schoenbeck is available for cross-examination.

13 JUDGE HAENLE: Questions of the witness? I
14 assumed that she would be the one that would be the
15 opposition, but go ahead.

16 MR. JOHNSON: I have no questions, Your
17 Honor.

18 JUDGE HAENLE: Ms. Egeler?

19 MS. EGELER: No questions.

20 JUDGE HAENLE: Mr. Trotter?

21 MR. TROTTER: No.

22 JUDGE HAENLE: Questions?

23 MS. ARNOLD: No questions.

24 JUDGE HAENLE: Questions?

25 Commissioners, have you questions?.

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1 COMMISSIONER HEMSTAD: No.

2 COMMISSIONER GILLIS: No.

3 CHAIRMAN NELSON: No.

4 JUDGE HAENLE: Well, that was easy. I
5 assume there's no redirect. Thank you, sir. You may
6 step down. Let's go off the record for a minute to
7 talk about witness order then.

8 (Discussion off the record.)

9 JUDGE HAENLE: Let's be back on the record.
10 During the time we were off the record we have now
11 returned to the company witnesses. Mr. Davis is on
12 the stand.

13 Whereupon,

14 RONALD DAVIS,
15 having been first duly sworn, was called as a witness
16 herein and was examined and testified as follows:

17 JUDGE HAENLE: In the way of preliminary
18 matters his testimony has been entered, so did you
19 have any questions?

20 MR. JOHNSON: Your Honor, Mr. Davis doesn't
21 have any prefiled testimony.

22 JUDGE HAENLE: I thought he was --

23 MR. JOHNSON: He's simply here to address
24 policy questions that the Commission may have
25 concerning the settlement.

00121

1 JUDGE HAENLE: Thank you. Commissioners?

2 CHAIRMAN NELSON: Thanks.

3

4 EXAMINATION

5 BY CHAIRMAN NELSON:

6 Q. Mr. Davis, page 2 paragraph 3 of the
7 stipulation. Do you have that on the return on equity
8 question?

9 A. Yes, I do.

10 Q. This so-called incentive to pursue cost
11 control is really nothing more than some plain old
12 garden variety regulatory lag, isn't it?

13 A. Yes, it is. I would characterize it as
14 nothing new to this Commission, but not necessarily
15 granted by all commissions. Many commissions have
16 caps on rates of return. This Commission has not
17 strictly adhered to those and to that extent has
18 always granted incentives to those it regulates.

19 Q. I just wondered if anything more was
20 contemplated. Thank you. And page 4 of the
21 stipulation, paragraph 11, with respect to the promise
22 not to file rate case until May 1997, can you just
23 elaborate a little bit more about what the company
24 thinks financial conditions are going to be over the
25 next two years and why you're comfortable promising

00122

1 this. I guess, maybe put that in context. The last
2 case -- I guess wasn't there -- there was a promise
3 not to file a rate case but then we had this interim
4 request. You foresee conditions being fairly stable,
5 this agreed to return on equity being reasonable?

6 A. There was a promise with the last case and
7 the company filed on the very day at the end of that
8 period and so your recollection is correct. A couple
9 of big differences have happened. The company has
10 done considerable restructuring and cost control, one.
11 Two, the Commission, and this is critical, has taken
12 two big steps. One, to redesign our rates and to
13 grant a new line extension policy to make growth more
14 economic than it has been on the company system. The
15 combined effects of the rate redesign, in particular
16 the cost responsibility movement towards the customer
17 group that is causing most of the load growth,
18 residential, makes a big difference in the ability of
19 the company not to suffer attrition due to growth.
20 Major issue. Those have been largely addressed by the
21 Commission in the last two proceedings if they're to
22 be approved. That gives the company a great ability
23 to make a commitment that it can live within the rates
24 if approved by the Commission contained in this
25 settlement.

00123

1 Q. Can you tell me anything about what your
2 seers see with respect to the cost of the debt over
3 the next two years?

4 A. We don't see the cost of debt entirely
5 moving an awful lot from where it is. We see it will
6 go down and up, people trying to keep the economy
7 stable and they will be guessing trying to lead it,
8 but we don't see it moving a lot.

9 CHAIRMAN NELSON: That's all I have. Thank
10 you.

11

12 EXAMINATION

13 BY COMMISSIONER HEMSTAD:

14 Q. Would you elaborate a bit more paragraph 12
15 of the settlement. What are the dollar amounts
16 involved in -- walk through the mechanics of how this
17 will operate.

18 A. Paragraph 12 dealing with the amortization
19 of DSM costs. I do not know or have with me the exact
20 dollars.

21 Q. Can you approximate?

22 A. I don't even know I can do a good job of
23 approximating. They're not large. They're in the
24 neighborhood of \$100,000. Mr. Russell and Mr.
25 Karzmar, I believe, worked this up and they could

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1 answer more directly. They're both available today.
2 And I believe between the two of them could give you a
3 direct answer.

4 Q. From what your response is, the amount is
5 not large?

6 A. The amount is not large and the agreement
7 was that the company would specifically deal with this
8 line item in its revenue requirement. As the parties
9 contemplated when the original accounting was set up
10 for the conservation costs, we agreed that in the next
11 general the clock would start over on a new bucket of
12 demand side management costs, and what staff wanted, I
13 believe, to accomplish by us including this paragraph
14 was that a company would in fact live with that
15 accounting treatment, that it would stop the accrual
16 of use on the old bucket and start amortizing those
17 costs and start accruing a new bucket of demand side
18 management costs from this day forward. I believe
19 that's the intent of the paragraph 12.

20 COMMISSIONER HEMSTAD: That's all I have.

21

22 EXAMINATION

23 BY COMMISSIONER GILLIS:

24 Q. On paragraph 13 you discuss that the
25 company agrees to study public counsel's proposal

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1 concerning the credit issue in the company's next
2 tariff filing for a general rate increase. What does
3 that mean? What will that involve? How will you go
4 about that?

5 A. That involves a study, the scope of which
6 has to be accomplished by meetings with public
7 counsel, to better understand what would accomplish a
8 complete curtailment study for gas, because I can't
9 tell you that we clearly have that in mind, but I
10 think that public counsel's witness, Mr. Lazar, did in
11 fact have something specific in mind. The data were
12 not available for the Commission in the 940814 case
13 and yet there was considerable controversy about it.
14 What we agreed to do was meet with public counsel,
15 specifically perhaps Mr. Lazar, define the scope of
16 such a study and try and acquire the data.

17 Q. So you would be working directly with
18 public counsel on that issue?

19 A. On the scope of the study so we can look
20 over the data.

21 COMMISSIONER GILLIS: That's all I have.

22 JUDGE HAENLE: Commissioners, other
23 questions? Did that lead to anything else, Mr. Johnson?

24 MR. JOHNSON: No. I think there was a
25 little bit of a discussion between Mr. Karzmar and Mr.

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1 Russell on the amount of the DSM issue, but we can take
2 that up with Mr. Karzmar if the commissioner would like
3 to hear more.

4 COMMISSIONER HEMSTAD: I'm satisfied with
5 his response.

6 JUDGE HAENLE: Thank you, sir. You may
7 step down. Let's go off the record for a minute to
8 discuss procedure.

9 (Recess.)

10 JUDGE HAENLE: Let's go back on the record
11 after a brief recess. We had talked, I think before
12 we went on the record, about scheduling a public
13 hearing on the general case and on the settlement in
14 particular. We had tried to figure out a date and
15 because of the request in the stipulation that rates
16 be effective on the 15th of May, we really don't have
17 much time. We tried to figure it out -- figure out
18 the very latest we could have a public hearing to give
19 as much notice as possible and it looked like the 10th
20 was the best date because otherwise there wouldn't
21 be time to get an order out in time to get rates filed
22 in time to get them effective on the 15th.

23 Mr. Trotter, if we schedule a public
24 hearing for maybe the afternoon of the 10th in
25 Olympia --

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1 MR. TROTTER: That would be acceptable on
2 the condition that a formal notice be issued and that
3 the Commission also accompany that with some sort of
4 press release or press information and then we'll send
5 our letter to everyone who has written to us, and
6 quite frankly, I don't think the newsprint advertising
7 was that effective, so I think it would be an
8 acceptable way of dealing with this, under these
9 unique circumstances.

10 JUDGE HAENLE: The Commission is having the
11 remodeling done. I'm not sure where we would be able
12 to hold that. We'll have to talk with you and let you
13 know immediately as soon as we can find a location.

14 Room 250 unless you hear differently then,
15 I guess. Let's set it for 1:30 then on May 10, and
16 we'll -- the Commission will send out the press
17 releases and the formal notice and you will be sending
18 a letter then, Don?

19 MR. TROTTER: Yeah.

20 JUDGE HAENLE: Do we have other items that
21 we need to discuss today? Any other items? I will
22 recess the hearing then until 1:30 on May 10 in the
23 Commission's hearing room, room 250, unless we give
24 you a different location. Thank you.

25 (Hearing adjourned at 11:05 a.m.)