Direct Testimony of David J. Faddis

Introduction

Q. Please state your name, title, and business address.

A. My name is David J. Faddis. I am Mill Manager of Kimberly-Clark's Everett Facility.

Q. Describe your experience in management of industrial operations.

A. I have been employed with Kimberly-Clark for the past 10 years. During this time, I have served in four different Kimberly-Clark facilities (Fullerton, CA; Memphis, TN; New Milford, CT; and Everett, WA) at all levels of mill management, as well as an assignment at our sector headquarters in Neenah, Wisconsin. In my current capacity, I am the Mill Manager of the Everett Facility. My responsibilities include site leadership for all aspects of the mill operation which includes: a workforce of 950 personnel; an annual operating budget in excess of $250 million; an asset base valued at $884 million; an annual payroll of $72 million and generated net sales in excess of $325 million. My primary accountabilities involve delivering business objectives in the areas of: safety, quality, productivity/cost of manufacture, customer service, environmental compliance, and community and employee relations. The hourly work force is unionized and represented by two locals of the AWPPW.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present Kimberly-Clark's objection to the penalty assessed against the Everett mill by Puget Sound Energy ("Puget") from December 24, 1998, to December 28, 1998.

<u>Kimberly-Clark's Objection To Puget Penalty</u>

Q. Why does Kimberly-Clark object to the penalty assessed for the period from December 24 to December 28, 1998?

A. Kimberly-Clark objects to paying a substantial penalty for Puget's mismanagement of the natural gas curtailment of service to interruptible customers.

We understand that a curtailment of interruptible customers may be necessary during periods of extreme cold weather, and the weather was cold from December 19 to December 23, 1998. However, the cold spell ended on December 24, 1998. The weather had warmed up by December 24, and it was raining. Even though the weather remained warm through the Christmas holiday, Puget failed to lift the curtailment until after the long holiday weekend on December 28, 1998. Puget has not offered any satisfactory explanation for the continuation of the curtailment from December 24 to December 28, 1998.

Q. Did Puget offer any explanation for its failure to lift the curtailment from December 24 to December 28, 1998?

A. We were told that Puget failed to lift the curtailment on December 24, 1998, because of small distribution system problems, uncertain weather forecasts, and the logistics involved in reading Rate Schedule 86 meters over the Christmas weekend. The email explanation which Kimberly-Clark received is attached to my testimony as Exhibit ___ (DJF-1).

During the course of this litigation, Puget has also provided documentation to our lawyers that shows Puget decided not to send out meter readers over the

Christmas weekend because the company was being "sensitive to employees' holiday plans." *See* Exhibit ____ (DJF-2). It was a management decision not to call in meter readers over the Christmas weekend and "take them away from their families." *See* Exhibit ____ (DJF-3).

Q. Based on your experience, is Puget's explanation reasonable?

A. No. Based on my experience, a logistical problem over a holiday weekend is no excuse for failing to provide a vital customer service. Kimberly-Clark and other Puget customers should not be penalized for Puget's management decision not to call in the meter readers over the holidays.

Q. Do you believe that Puget has met its obligation to serve Kimberly-Clark?

A. No. Puget's contract with Kimberly-Clark permits curtailment as "necessary in order to manage its gas distribution system." The absence of personnel to do the meter reading was an elective decision on Puget's part. Consequently, their decision to appropriately crew their operation does not alleviate them of the responsibility to manage their gas distribution system in a fair and professional manner, as required by their contract. "Elective" and "necessary" are not synonymous terms. The length of the curtailment was excessive and unnecessary. Exacting a penalty for an unnecessary extension of the curtailment is not supported by the contract.

<u>Kimberly-Clark's Everett Operations</u>

Q. Please briefly describe the production process at Kimberly-Clark's Everett mill.

A. This Everett plant is an integrated tissue manufacturing facility. The plant includes five tissue manufacturing machines, a pulp mill, and cogeneration equipment.

Q. What type of fuel is used at the Everett plant?

A. The plant uses spent sulfite liquor, wood waste, natural gas, and No. 2 diesel fuel.

Q. What were Kimberly-Clark's arrangements for natural gas in December 1998?

A. Kimberly-Clark purchased natural gas under a contract with Duke Energy. Puget contracted to provide 14,000 therms of firm transportation and 225,000 therms of interruptible transportation service per day under Rate Schedule 57.

Q. Does Kimberly-Clark have back-up fuel for natural gas?

A. Yes. The plant includes a tank farm for storage of No. 2 diesel. In addition, there is a day tank that stores sufficient No. 2 diesel to fuel operations for about one day.

<u>Kimberly-Clark's Conduct During December 1998 Natural Gas Curtailment</u>

Q. Did Kimberly-Clark discontinue its interruptible gas transportation during the curtailment?

A. Yes. Kimberly-Clark discontinued interruptible service from December 19, 1998 to December 24, 1998. When the curtailment was first called on the December 19, 1998, the plant took immediate steps to switch to alternate fuel. First, our personnel attempted to access the No. 2 diesel stored in the tanks. The fuel tanks had been accidentally contaminated with caustic in September 1998, but the clean-up had been completed. Our personnel believed diesel was available. Unfortunately, it was discovered around December 18 that the fuel lines were still contaminated with caustic, and the diesel could not be piped from the tank. Arrangements were immediately made with Pacific Northern Fuel Corporation to deliver diesel No. 2 to the day tank by truck during the curtailment. As a result, the plant used diesel No. 2

and limited its natural gas usage to Kimberly-Clark's firm contract amount from December 19 to December 24.

Q. Did Kimberly-Clark use natural gas in excess of its firm contract amount at any time during the curtailment?

A. Yes. On December 24, 1998, Pacific Northern informed Kimberly-Clark that they were discontinuing deliveries of No. 2 diesel due to circumstances beyond their control. Specifically, we were told that all of their drivers had worked the maximum allowed hours during the cold spell, and no drivers were available. At that point, natural gas was used to keep the mill in operation from December 24 to December 28, 1998, when the curtailment was lifted.

Q. Why didn't Kimberly-Clark shut down the plant from December 24 to December 28, 1998?

A. Kimberly-Clark operates the Everett plant 24 hours a days, 365 days a year. The only time the plant is shut down is for annual scheduled maintenance or for emergencies, and the plant cannot be safely shut down on less than 12 to 24 hours notice. For these reasons, as well as financial considerations, the mill continued operations from December 24 to December 28, 1998.

Penalty

Q. What is the amount of the penalty assessed by Puget?

A. Puget first advised Kimberly-Clark on January 7, 1999, that the penalty was $365,683.30 for the period from December 25 to December 29, 1998. The fax containing this information is attached as Exhibit ___ (DJF-4).

On January 13, 1999, Puget sent a bill that included $58,194.3952 for "unauthorized usage" of gas at a sales tariff rate. In addition, the January 13 bill included a "penalty charge" of $346,447.20. A copy of the January 13, 1999 bill is attached as Exhibit ___ (DJF-5).

Q. Has Kimberly-Clark paid the January 13, 1999 bill?

A. Kimberly-Clark paid the entire bill except for the "penalty charge." Kimberly-Clark objects to $346,217.50 of that charge, which represents the penalty for the period from December 24 to December 28, 1998.

Q. Does that complete your testimony?

A. Yes.