

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

2

3 PETITION OF PUGET SOUND POWER) GENERAL RATE CASE
 & LIGHT COMPANY FOR AN ORDER)
 4 REGARDING THE ACCOUNTING) DOCKET NO. UE-920433
 TREATMENT OF RESIDENTIAL)
 5 EXCHANGE BENEFITS)

-----)
 6 WASHINGTON UTILITIES AND)
 TRANSPORTATION COMMISSION,)
 7)
 Complainant,)

8 vs.) DOCKET NO. UE-920499

9)
 PUGET SOUND POWER & LIGHT)
 10 COMPANY,)
)
 11 Respondent.)

-----)
 12 WASHINGTON UTILITIES AND)
 TRANSPORTATION COMMISSION,)
 13)
 Complainant,)

14 vs.) DOCKET NO. UE-921262

15)
 PUGET SOUND POWER & LIGHT) VOLUME XV
 16 COMPANY,) PAGES 2353 - 2628
)
 17 Respondent.)

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 18

19 A hearing in the above matter was held on
 20 June 3, 1993 at 9:00 a.m., at 1300 South Evergreen
 21 Park Drive Southwest, Olympia, Washington, before
 22 Chairman SHARON NELSON and Commissioners RICHARD CASAD
 23 and RICHARD HEMSTAD, and Administrative Law Judge
 24 ALICE HAENLE.
 25 Cheryl Macdonald, RPR, CSR, Court Reporter

1 The parties were present as follows:

2 WASHINGTON UTILITIES AND TRANSPORTATION
3 COMMISSION STAFF, by DONALD T. TROTTER and SALLY G.
4 BROWN, Assistant Attorneys General, 1300 South
Evergreen Park Drive Southwest, Olympia, Washington
98504.

5 FEDERAL EXECUTIVE AGENCIES, by NORMAN
6 FURUTA, Associate Counselor, 900 Commodore Drive,
7 Bldg. 107, (Code 09C), San Bruno, California
94066-2402.

8 NORTHWEST CONSERVATION ACT COALITION, by
9 JON WELLINGHOFF, Attorney at Law, 710 South Fourth
Street, Las Vegas, Nevada 89101-6750.

10 PUGET SOUND POWER & LIGHT, by JAMES VAN
11 NOSTRAND and STEVEN C. MARSHALL, Attorneys at Law,
411 - 108th Avenue NE, Bellevue, Washington 98004.

12 WASHINGTON INDUSTRIAL COMMITTEE FOR FAIR
13 UTILITY RATES, by MARK P. TRINCHERO, 2300 First
Interstate Tower, 1300 Southwest Fifth Avenue,
14 Portland, Oregon 97201, and PETER RICHARDSON,
Attorney at Law, 702 West Idaho, Boise, Idaho 83702.

15 BONNEVILLE POWER ADMINISTRATION, by BARRY
16 BENNETT, P.O. Box 3621, 905 Northeast 11th, Portland,
Oregon 97208-3621.

17 PUBLIC INTEREST, by CHARLES F. ADAMS,
18 Assistant Attorney General, Suite 2000, 900 Fourth
Avenue, Seattle, Washington 98164.

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1	I N D E X					
2	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS	EXAM
3	R. RAYNOR	2358	2360	2377	2380	2382
4						
5	A. KELLY	2387	2389	2448	2456	2446
6						
7	D. SORRELLS	2458	2460	2480	2485	2478
8						
9	K. ELGIN	2485	2523	2514	2523	2495
10						
11	T. SCHOOLEY	2537	2538	2622	2624	
12	EXHIBIT	MARKED	ADMITTED			
13	T-704	2358	2360			
14	705-711	2358	2360			
15	T-712	2358	2360			
16	T-713	2358	2389			
17	714-721	2358	2389			
18	688		2387			
19	T-722	2458	2460			
20	723-724	2458	2460			
21	725-726	2521	2523			
22	727	2526				
23	T-728	2536	2538			
24	729-736	2536	2538			

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

2 JUDGE HAENLE: Let's be on the record. The
3 hearing will come to order. This is a 15th day of
4 hearing in the consolidated Puget cases. Today is
5 June 3, 1993. Today is taking place before the
6 Commissioners. The purpose of the hearing today is to
7 continue with cross of staff, intervenor and public
8 counsel experts for the general phase of the case.
9 Appearances are the same today as they were yesterday
10 except that we have Mr. Bennett with us again today.

11 In the way of preliminary matters, I wanted
12 to take up the company's motions. They sent in a
13 letter dated April 12, 1993 and a letter dated April
14 14, 1993 proposing a number of corrections to the
15 transcript. The April 12 letter also takes up some
16 subject to check items and provides a revised document
17 which it says will be dealt with on rebuttal. So we
18 will take up the first two issues. We will not take
19 up the rebuttal issue. Does anyone not have a copy of
20 those letters with the transcript corrections and the
21 subject to check items?

22 All right. Is there any objection to the
23 corrections made as proposed by the company and the
24 update of the subject to check items, Ms. Brown.

25 MS. BROWN: No objection.

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1 MR. ADAMS: No objection.

2 MR. FURUTA: No objection.

3 MR. TRINCHERO: No objection.

4 MR. BENNETT: No objection.

5 JUDGE HAENLE: I will grant the company's
6 motion. The transcript will be corrected as indicated
7 on the letters of April 12 and April 14 and the
8 subject to check will become part of the record.

9 Anything else we need to deal with in terms
10 of procedures before we go on to Mr. Raynor.

11 All right. Mr. Raynor, if you want to
12 assume the stand. Before we went on the record I
13 marked a number of documents for identification as
14 follows: Marked as Exhibit T-704 for identification
15 is prefiled testimony in 21 pages. In the upper
16 right-hand corner it says RAR-1.

17 705 for identification, qualifications in
18 one page, RAR-2.

19 706 for identification in the upper
20 right-hand corner says RAR-3.

21 707 for identification is a letter in the
22 upper right-hand corner says RAR-4.

23 708 for identification in one page, RAR-5.

24 709 for identification RAR-6.

25 710 for identification, RAR-7.

2358

1 711 for identification, RAR-8.

2 And T-712 for identification RAR-9 and
3 that's the prefiled rebuttal testimony. I note that
4 Mr. Raynor has provided an index of these exhibits
5 attached to his testimony.

6 (Marked Exhibits T-704, 705 through 711,
7 T-712.)

8 Whereupon,

9 RICHARD RAYNOR,

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

12

13 DIRECT EXAMINATION

14 BY MR. BENNETT:

15 Q. Could you state your full name, spell your
16 last name, and state your business address for the
17 record, please.

18 A. Name is Richard Raynor, R A Y N O R, chief
19 of the Residential Exchange Branch, Bonneville Power
20 Administration, 911 Northeast 11th Street, Portland,
21 Oregon 97208.

22 Q. Do you have in front of you what has been
23 marked for identification Exhibits T-704, 705 through
24 711 and T-712?

25 A. I do.

(RAYNOR - DIRECT BY BENNETT)

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1 Q. And are these the prefilled testimony
2 exhibits that you are sponsoring in this proceeding?

3 A. Yes, they are.

4 Q. And was this testimony and exhibits
5 prepared by you or under your direct supervision and
6 control?

7 A. They were.

8 Q. Do you have any corrections or changes you
9 wish to make to them at this time?

10 A. No, I don't.

11 Q. And are the materials and statements
12 contained in testimony, exhibits true and correct to
13 the best of your knowledge and belief?

14 A. Yes, they are.

15 MR. BENNETT: I offer into evidence
16 Exhibits T-704, 705 through 711 and T-712.

17 JUDGE HAENLE: Any objection, Mr. Marshall?

18 MR. VAN NOSTRAND: No, your Honor.

19 MR. MARSHALL: Mr. Van Nostrand will be
20 handling this witness.

21 MS. BROWN: No objection.

22 MR. ADAMS: No objection.

23 MR. TRINCHERO: No objection.

24 MR. FURUTA: No objection.

25 JUDGE HAENLE: Exhibits T-704, T-712 and

(RAYNOR - DIRECT BY BENNETT)

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1 Exhibits 705 through 711 will be entered into the
2 record.

3 MR. BENNETT: Mr. Raynor is available for
4 cross-examination.

5 JUDGE HAENLE: Thank you. Mr. Van
6 Nostrand.

7 MR. VAN NOSTRAND: Thank you, your Honor.

8 (Admitted Exhibits T-704, 705 through 711,
9 T-712.)

10

11 CROSS-EXAMINATION

12 BY MR. VAN NOSTRAND:

13 Q. Good morning, Mr. Raynor.

14 A. Morning.

15 Q. I'm James Van Nostrand representing the
16 company this morning. You're responsible for managing
17 the residential exchange program at BPA; is that
18 right?

19 A. That is correct.

20 Q. And your testimony today concerns Puget's
21 participation in that program and more specifically
22 how Puget accounts for residential exchange benefits?

23 A. That's true.

24 Q. The second section of your testimony has to

25 do with -- pages 6 to 11 has to do with BPA's concern

(RAYNOR - CROSS BY VAN NOSTRAND)

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1 with decoupling. Is it fair to say that BPA and Puget
2 have more or less resolved the concerns that BPA had
3 earlier expressed about decoupling?

4 A. Yes, to a very positive. There were some
5 concerns, there were some difficulties and then
6 they've all been worked out. We have a letter of
7 understanding and we also have established procedures
8 to work with Puget on all levels. Our section chief
9 works with Christy Omohundro. I've been working with
10 Dave Hoff, and my supervisor Shirley Melton has been
11 working with Corey Knutsen.

12 Q. Following this memorandum of understanding
13 and these agreed upon procedures BPA has successfully
14 completed two ASC procedures under the decoupling PRAM
15 mechanism?

16 A. Correct.

17 Q. And the most recent have been within the
18 last couple of weeks?

19 A. Correct.

20 Q. Testimony discusses Puget's proposal to
21 discuss accounting for residential exchange benefits?

22 A. That is correct.

23 Q. And if you could familiarize everyone a
24 little bit with how this issue arose. It came up from

25 BPA's 1992 compliance review of Puget's residential

(RAYNOR - CROSS BY VAN NOSTRAND)

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1 exchange accounting procedures; is that right?

2 A. Well, actually the review started in 1991,
3 I believe, and completed in 1992.

4 Q. And the findings of that compliance review
5 are what you have attached as Exhibit RAR-4 which I
6 guess is now Exhibit 707?

7 A. That is correct.

8 Q. That's the January 1992 findings letter?

9 A. That is correct.

10 Q. And as part of that review, BPA took the
11 position that in order to be in full compliance with
12 the Northwest Power Act and the residential purchase
13 and sales agreement that Puget had to change the
14 method it accounted for residential exchange benefits;
15 is that right?

16 A. That is correct.

17 Q. And the problem stated simply is that the
18 reduction to working capital approach that Puget
19 previously followed resulted in benefits being
20 extended to nonqualifying customers. Is that a fair
21 statement?

22 A. Yes.

23 Q. And BPA has reviewed Puget's proposal in
24 this proceeding?

25 A. Yes, we have, and we support it.

(RAYNOR - CROSS BY VAN NOSTRAND)

2363

1 Q. And briefly this approach consists of
2 removing the residential exchange benefits from the
3 working capital calculation and instead paying
4 interest directly on balances in the residential
5 exchange account; is that correct?

6 A. That is correct.

7 Q. And it's your conclusion that the company's
8 approach is an acceptable way of handling residential
9 exchange benefits?

10 A. Yes, it's very similar to all our other
11 utilities, presently are extending benefits to 20 plus
12 utilities and they all use direct accrual method. So
13 this will put Puget in full compliance.

14 Q. Your supplemental testimony reviews the
15 proposal of staff witness Martin for handling
16 residential exchange benefits; is that correct?

17 A. That is correct.

18 Q. Your supplemental testimony includes,
19 doesn't it, that under Mr. Martin's approach
20 nonqualifying customers would continue to receive
21 residential exchange benefits?

22 A. As I understand his testimony and
23 proposals, yes.

24 Q. And so Mr. Martin's approach would not

25 solve the problem as far as BPA is concerned, would

(RAYNOR - CROSS BY VAN NOSTRAND)

2364

1 it?

2 A. No, it wouldn't.

3 Q. Your supplemental testimony also reviews
4 Mr. Martin's two alternative proposals; is that
5 correct?

6 A. That is correct.

7 Q. And it includes that these approaches would
8 also fail to address BPA's concerns; is that right?

9 A. That is correct.

10 MR. VAN NOSTRAND: No further questions.

11 JUDGE HAENLE: Questions, Ms. Brown?

12

13 CROSS-EXAMINATION

14 BY MS. BROWN:

15 Q. I would like to begin by directing your
16 attention to Exhibit T-704, page 11 beginning at line
17 5. There you are asked to state BPA's position
18 regarding the treatment of interest earned on the
19 balance of undistributed residential exchange
20 benefits. It's true, isn't it, that the issue of
21 interest being earned on the undistributed balance is
22 still a subject of dispute between BPA and Puget?

23 A. No, I don't believe it is. By their
24 submission in this case.

25 Q. Are you familiar with the accounting

(RAYNOR - CROSS BY BROWN)

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1 petition filed in docket UE-920433?

2 A. Yes.

3 Q. Isn't it a fact that in that accounting
4 petition on page 4 of the dispute between Puget and
5 BPA regarding the earned interest on the undistributed
6 balance is described?

7 A. Yes. And the request for the accounting
8 order was to resolve this issue but it wasn't reviewed
9 by the Commission or it wasn't acted upon by the
10 Commission.

11 Q. Right. And has not yet been resolved?

12 A. No. Taken the position all along that the
13 proper way to settle this finally would be in a
14 general rate case.

15 Q. When asked to describe BPA's position on
16 page 11 of Exhibit T-704, you state that the exchange
17 benefits should pass through directly to the company's
18 qualifying residential small farm ratepayers only; is
19 that right?

20 A. That is correct.

21 Q. And by benefits in this context you are
22 referring to the exchange credit being passed through
23 Schedule 94; is that right?

24 A. That is correct.

25 Q. Schedule 94 is applicable to qualifying

(RAYNOR - CROSS BY BROWN)

2366

1 loads under the exchange agreement, is it not?

2 A. Correct.

3 Q. It's also true, isn't it, that the
4 tariffing of the credit is about as close to a direct
5 pass-through as one could get in accomplishing this
6 goal of directly passing through the benefits to
7 appropriate recipients, wouldn't you agree?

8 A. It's one method of passing through the
9 benefits, yes.

10 Q. In fact, BPA's concern is actually the pass
11 through of interest earnings; is that right?

12 A. That is correct, and the whole process by
13 the use of cash working capital it brings it into the
14 rate making procedure, we believe that the better way
15 to do it is by the direct accrual method which takes
16 it out of the rate making process and eliminates the
17 estimates and the follow-ons therein.

18 Q. Is it BPA's position that the undistributed
19 exchange credit balance should earn interest as a
20 matter of a contractual obligations owed by Puget to
21 BPA?

22 A. No, not to BPA, to the customers, this is a
23 program for passing through benefits of public power
24 under the act to customers. We use the company as a

25 conduit, as a matter of expedience and efficiency.

(RAYNOR - CROSS BY BROWN)

2367

1 Q. And to your knowledge, is Puget in
2 agreement that the issue of interest is a matter of a
3 contractual obligations?

4 A. Again, by their submission in this case.

5 Q. Directing your attention to page 10 of your
6 testimony?

7 A. What page?

8 Q. Ten. Beginning at line 12. You state
9 there that interest earned should be passed through to
10 qualified customers only. Do you see that?

11 A. On page 10?

12 Q. Beginning at line 12.

13 MR. BENNETT: I think that's an incorrect
14 reference.

15 Q. Page 11, line 12. Do you see that?

16 A. Yes.

17 Q. But you would agree, would you not, that if
18 there is in fact no interest earned there can be
19 nothing to pass through?

20 A. Yeah. That's logical.

21 Q. In this proceeding BPA and Puget are
22 proposing to accrue interest on the balance of
23 undistributed exchange credits; is that right?

24 A. That is correct.

25 Q. And the accrued interest plus the

(RAYNOR - CROSS BY BROWN)

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1 undistributed balance will pass through to qualify
2 customers through schedule 94. That's also true,
3 isn't it?

4 A. Yes.

5 Q. If that pass through were to occur -- by
6 that I mean that the exchange benefits plus interest
7 were directly passed through -- then that would
8 resolve or otherwise satisfy BPA's concerns, wouldn't
9 it?

10 A. Well, the problem is with dealing with
11 actuals and estimates what's being passed through on
12 schedule 94 is what was estimated, not essentially
13 what's being accrued in the actualing. That's the
14 problem, is the difference.

15 Q. And it's your understanding that staff's
16 proposal in this case regarding the exchange benefits
17 and interest on those benefits will not be passed
18 through directly in the same manner that we just
19 discussed?

20 A. Again, the proposal passes benefits to
21 nonqualifying customers. That's key.

22 Q. Are you aware that staff's proposal in this
23 case includes calculation of interest on the average
24 actual exchange credit balance and recognizes this

25 interest as operating expense?

(RAYNOR - CROSS BY BROWN)

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1 A. That again, it brings it back into the rate
2 making process which we don't believe is the proper
3 way to do it. Proper way is in the direct accrual
4 method. Again it's also giving benefits to other
5 customers.

6 Q. So was that a yes?

7 A. There's been a number of proposals by
8 Mr. Martin. I'm not so sure exactly which one you're
9 talking about, but effectively my response would be
10 the same in all cases that effectively all his
11 proposals have to do with bringing it into the revenue
12 requirement which we don't think is proper. And it
13 brings benefits to other customers.

14 Q. If I could direct your attention to page
15 11, line 14 of your testimony. You state there that
16 the goal of passing through the benefits of the
17 exchange credit and interest is not accomplished
18 because nonqualifying customers are improperly
19 benefiting from Puget's use of exchange benefits.
20 That is your testimony; is that right?

21 A. Because of the cash working capital method.

22 Q. Is it your position that when Puget bills
23 BPA for the exchange credit and receives the money
24 Puget should use that money exclusively for qualifying

25 residential customers even though that money has yet

(RAYNOR - CROSS BY BROWN)

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1 to be distributed?

2 A. They have an option to pass, review timely
3 pass through in 90 days as long as they can -- they
4 can use it for other purposes as long as they
5 compensate the residential customers. That's why
6 we're asking for interest.

7 Q. So the answer to that question would be, yes,
8 that Puget should use that money even if for other
9 purposes this should be used exclusively for qualified
10 residential customers?

11 A. No, I didn't say that. I said that they
12 have the ability to use it for short term working
13 capital if they choose but they have to compensate the
14 customers. But again, it's a question of how you view
15 this. Again, we view this as a below the line
16 activity, not above the line. It's a credit to the
17 customers' bills.

18 Q. Are you at all concerned that the exchange
19 benefit funds received while waiting to be passed
20 through not be used for aspects of the company's
21 operations other than those pertaining to residential
22 customers?

23 A. I am not concerned once they account for
24 the funds.

25 Q. And how would you envision the company

(RAYNOR - CROSS BY BROWN)

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1 accounting for the funds? How will Puget ascertain
2 that every dollar from the undistributed exchange
3 credit funds is used for the service of residential
4 customers only?

5 A. By providing that information to us.

6 Q. You state in your testimony at page 11,
7 line 16 that the goal of pass through is not
8 accomplished because Puget's qualifying customers have
9 not received the full amount of interest on
10 undistributed exchange benefits; is that correct?

11 A. That is correct. Because at present using
12 the cash working capital method which is in use is an
13 estimate not the actual.

14 Q. It's true, isn't it, that to date Puget has
15 not accrued any interest on the undistributed balance?

16 A. That is correct. That's why we requested
17 the accounting.

18 Q. In your testimony to the effect that
19 Puget's qualified customers have not received the full
20 amount of interest, did you intend to imply that a
21 partial amount of interest has been received?

22 A. No.

23 Q. Direct your attention to your rebuttal
24 testimony, T-712, page 2, line 1. There you testify,

25 as you have several times today, that staff's

(RAYNOR - CROSS BY BROWN)

2372

1 recommended method does not address BPA's concerns
2 regarding Puget's current cash working capital method?

3 A. That is correct.

4 Q. Is it your understanding that staff's
5 proposal in this docket uses exchange credit balance
6 estimates in its working capital calculation?

7 A. Yes.

8 Q. Are you aware that staff's proposal uses
9 the actual test year average of monthly average
10 balance of the residential exchange account?

11 A. That isn't the way I understood it.

12 Q. Would you agree that the company should not
13 be collecting from its customers more than its actual
14 costs, specifically, if it incurs interest costs at
15 say 4 percent on a given amount, that it is not fair,
16 would not be fair for the company to collect 10
17 percent from customers?

18 A. In our proposal what we're suggesting is
19 that the proper interest rate is how the company uses
20 the funds and that's authority term debt rate.

21 Q. Do you think that it would be appropriate
22 for the company to collect from its customers more
23 than its actual costs?

24 A. That's not for me to judge.

25 Q. And did you receive and review staff's

(RAYNOR - CROSS BY BROWN)

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1 responses to data requests 1905 through 14 issued by
2 BPA to staff?

3 A. I reviewed them rather superficially.

4 MS. BROWN: I have nothing further.

5 JUDGE HAENLE: Questions, Mr. Trincherero?

6 MR. TRINCHERO: No.

7 MR. FURUTA: No questions.

8 MR. ADAMS: Just a couple of questions.

9

10 CROSS-EXAMINATION

11 BY MR. ADAMS:

12 Q. If you would turn to page 16 and 17 of your
13 testimony. This is really a question of clarification
14 on what you mean. At line 14 of page 16 you state
15 Puget proposes to treat the residential exchange
16 balances as short term debt and add it to utility's
17 capital structure. Do you see that statement?

18 A. Yes.

19 Q. And then on page 17 the sentence
20 looking around line 11 where you say, "The
21 undistributed balances and related interest earned
22 will have no effect on the calculation of revenue
23 requirement in the Commission's rate making process."
24 Do you see that?

25 A. Yes.

(RAYNOR - CROSS BY ADAMS)

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1 Q. I guess what I'm a little confused on is if
2 this short term debt, if this is to be treated as
3 short term debt and to be applied as part of the
4 company's capital structure how will it not have some
5 effect in the Commission's rate making process?

6 A. It would be strictly a tradeoff. It would
7 assume the company had a need for short term funds and
8 was using the balances that we're discussing for that.
9 If they didn't have those available they would have to
10 go to other sources.

11 Q. But would this add to the company's short
12 term debt requirements as it's reflected in the
13 capital structure?

14 A. Not as I understand it. It would just be
15 a tradeoff. It would be funds available. In the
16 daily operations they have a need for short term
17 funds.

18 Q. So if there were no exchange at all are you
19 saying the same amount of short term debt requirement
20 would exist?

21 A. I assume that, yes.

22 Q. Then if you turn to approximately page 18
23 of your testimony where you basically talk in terms of
24 what the benefits to residential customers would have

25 been had there been interest, line 9 you refer to

(RAYNOR - CROSS BY ADAMS)

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1 approximately a 322,000 benefit?

2 A. Yes.

3 Q. Then you go on in your testimony, as I
4 understand it, to discuss under Puget's treatment to
5 date in fact the piece of that benefit has been given
6 to other customers; is that correct?

7 A. That is correct.

8 Q. And as I understand it, also --

9 A. Because of the method being used. It's
10 part of the process.

11 Q. If I also understand your testimony,
12 because of the fact Puget has used, if you will, sort
13 of an estimate which didn't reflect the actual amounts
14 in the accounts even had you done an interest
15 calculation using Puget's approach you would not have
16 given residential customers the full amount of that
17 interest benefit; is that correct?

18 A. Yes.

19 Q. If I add up the total of the benefits that
20 would have occurred had there been interest using
21 Puget's approach it doesn't total this 322,000, and as
22 I understand it because in the PRAM 1 period there was
23 actually a higher outstanding balance than Puget's
24 process or procedure --

25 A. Correct.

(RAYNOR - CROSS BY ADAMS)

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1 Q. -- took into account?

2 Are you -- is Bonneville under its
3 treatment or proposed treatment that you're suggesting
4 in your testimony indicating that Puget should make
5 any refund?

6 A. No. That would be retroactive rate making.

7 Q. So all of your -- the figures you're
8 showing are just strictly to demonstrate what the
9 different methodology --

10 A. Demonstrate the problem.

11 JUDGE HAENLE: Please wait until counsel
12 has finished his question to begin your response to be
13 sure that the court reporter can get both the question
14 and the response properly. Would you ask that again?

15 Q. The numbers that you reflect in your
16 testimony are simply to show what happens under the
17 approach that Puget has used versus the one that
18 you're proposing, and I guess Puget is proposing in
19 this case; is that correct?

20 A. That is correct.

21 Q. And any effect of that new methodology is
22 prospective in nature only?

23 A. Correct.

24 Q. And prospective from when, from the rate

25 order in this case or as of the time the petition was

(RAYNOR - CROSS BY ADAMS)

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1 filed or some other time?

2 A. At this point I would -- the rate order in
3 this case.

4 MR. ADAMS: Thank you, that's all.

5 JUDGE HAENLE: Commissioners, have you
6 questions?

7 COMMISSIONER CASAD: No.

8 COMMISSIONER HEMSTAD: I have no questions.

9 JUDGE HAENLE: Any redirect?

10 MR. BENNETT: Briefly.

11

12 REDIRECT EXAMINATION

13 BY MR. BENNETT:

14 Q. Mr. Raynor, you recall Ms. Brown asked
15 questions regarding whether it was fair for the
16 company to collect more from its ratepayers than its
17 cost. Do you recall that series of questions?

18 A. Yes.

19 Q. Under Bonneville's proposal for the
20 treatment of undistributed exchange balances, will the
21 company be collecting more from its ratepayers than
22 its cost?

23 A. No. That's what we're looking for is to
24 come up with a method to flow through the actual

25 benefits.

(RAYNOR - REDIRECT BY BENNETT)

2378

1 Q. You recall also Ms. Brown asked several
2 questions regarding whether the staff -- whether you
3 understood the staff proposal to be based on the
4 average actual exchange credit balance from the test
5 period. Do you recall that series of questions?

6 A. Yes.

7 Q. Is it your understanding of the staff
8 proposal that the staff will take an average from the
9 test period and use that average as the balance for
10 the entire rate period?

11 A. Yes, and that's the problem, it flows
12 through the whole period.

13 Q. And under the BPA proposal will interest be
14 based on month by month actuals during the rate
15 period?

16 A. Yes.

17 Q. Do you recall Ms. Brown also asked one or
18 two questions regarding whether Puget's current method
19 passes through any interest to residential ratepayers?

20 A. Yes.

21 Q. Under Puget's cash working capital method,
22 have the residential ratepayers received a certain
23 amount of benefits through reduction in revenue
24 requirement?

25 A. Yes, but so have other classes of

(RAYNOR - REDIRECT BY BENNETT)

2379

1 Q. Couple of more questions. A number of
2 people have asked questions, we talked about
3 qualifying customers. Just so the record is quite
4 clear on this, can you tell us who qualifying
5 customers and who nonqualifying customers are, what we
6 mean by that?

7 A. We're talking about residential and small
8 farm customers as defined in the 1980 Act in the 1984
9 methodology.

10 Q. Those are the qualifying customers?

11 A. Yes.

12 Q. And other customers would be nonqualifying?

13 A. That is correct.

14 Q. So I take it from your testimony that who
15 is a qualifying customer is determined by the
16 Northwest Power Act and not simply by Bonneville
17 deciding this?

18 A. Yes, it's part of federal law, the 1980
19 act.

20 Q. Is it your understanding that under staff's
21 proposal the benefits -- the interest, excuse me --
22 would continue to be passed through as a reduction to
23 revenue requirement?

24 A. As I understand all their proposals it

25 still involves the revenue requirement while the

(RAYNOR - REDIRECT BY BENNETT)

2380

1 direct or accrual method does not.

2 Q. And it's your understanding therefore that
3 some of the interest benefits would go to
4 nonqualifying customers?

5 A. That is correct.

6 MR. BENNETT: No further questions.

7 JUDGE HAENLE: Anything more of the
8 witness?

9 MR. VAN NOSTRAND: No.

10 JUDGE HAENLE: Ms. Brown?

11 MS. BROWN: One question.

12

13 RE CROSS-EXAMINATION

14 BY MS. BROWN:

15 Q. Isn't it true that in response to a data
16 request issued by BPA staff was asked to explain
17 whether average account balance referred to a fixed
18 estimate to be used until the next general rate case
19 or to actual month by month balances?

20 MR. BENNETT: Could counsel refer to the
21 number of that data request?

22 MS. BROWN: 1912.

23 MR. BENNETT: Can I give a copy of that to
24 the witness since she's asking about it.

25 JUDGE HAENLE: If he doesn't have it

(RAYNOR - RE CROSS BY BROWN)

2381

1 already.

2 THE WITNESS: I'm looking. I have it.

3 Q. Do you recall that data request, do you
4 have that before you now?

5 A. Yes.

6 Q. And in response to the question for an
7 explanation regarding the average account balance,
8 staff responded that the average account balance
9 refers to actual month by month balance or annual
10 average of the monthly averages balance. Under the
11 staff proposal the interest included is an operating
12 experience for the test year, was calculated based on
13 the actual test year average balance of the
14 residential exchange account?

15 A. What's the question now?

16 Q. Is that the staff's response to that?

17 A. That's the response but there again is what
18 the objection is: The objection is it's put in as an
19 operating expense making it part of revenue
20 requirements which again gets it above the line and we
21 feel that this is a federal program. It's outside the
22 state rate making process. We use the state rate
23 making process as the beginning of the ASC
24 determination.

25 Q. In your understanding who will pay for the

(RAYNOR - RE CROSS BY BROWN)

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1 interest expense?

2 A. Pardon me?

3 Q. Who will pay for the interest expense?

4 A. Who will pay for the interest expense.

5 JUDGE HAENLE: Under what proposal?

6 Q. Is it your understanding that the general

7 body of ratepayers would be required to pay the

8 interest expense of the undistributed balance?

9 A. Under that proposal it would depend on how
10 this Commission allocates the cost.

11 Q. And if the Commission were to order that
12 the general body of ratepayers were to pay this
13 interest expense, how would Puget collect that?

14 A. As the question was asked before, it would
15 come through the revenue requirement because it would
16 be a trade-off in the interest expense of short term
17 working capital. Short term debt.

18 Q. Thank you.

19 JUDGE HAENLE: Anything more?

20 COMMISSIONER CASAD: Yes.

21

22 E X A M I N A T I O N

23 BY COMMISSIONER CASAD:

24 Q. Mr. Raynor, you indicated that you felt the

25 exchange was a federal program essentially beyond the

(RAYNOR - EXAM BY COMMISSIONER CASAD)

2383

1 reach or insulated from state rate making process. Is
2 that a correct interpretation of what you said?

3 A. No, I don't believe I said beyond the
4 reach. I said we prefer to keep it out of this
5 process.

6 Q. So there's no statutory support for a
7 position that state rate making processes are separate
8 from or have no influence on the average system cost
9 methodology?

10 A. No, only to the effect that that's how --
11 what we are proposing is how other commissions are
12 handling it, like Oregon. But I know of no specific
13 section of the law that would have the whole issue of
14 supremacy as beyond any of our companies.

15 Q. Quite frankly, the law provides that the
16 average system cost will use as a starting point and
17 order issued by a state commission, is that not
18 correct?

19 A. Yes. What's what I was saying before,
20 that's the beginning point for us, to establish what
21 the correct benefit was, and problem in a perfect
22 world we would then send the benefit ourselves to the
23 residential customers but this is not expedient or
24 efficient. It's to provide the benefit of public

25 power, if you will, to the residential customers on

(RAYNOR - EXAM BY COMMISSIONER CASAD)

2384

1 these systems.

2 Q. That's all. Thank you.

3 JUDGE HAENLE: Anything else of the
4 witness?

5 MR. TRINCHERO: One follow-up question.
6 You mentioned that the state of Oregon uses this
7 accrual methodology. Are you familiar with the manner
8 in which they allocate the cost on the interest to
9 their customers?

10 THE WITNESS: No, I'm not.

11 MR. TRINCHERO: Thank you.

12 JUDGE HAENLE: Anything more of the
13 witness? Thank you, sir. You may step down. Let's
14 go off the record to change witnesses.

15 (Recess.)

16 JUDGE HAENLE: Let's be back on the record.
17 During the time we were off the record a new witness
18 has assumed the stand for the Commission staff.
19 Whereupon,

20 ANDREA L. KELLY,
21 having been first duly sworn, was called as a
22 witness herein and was examined and testified as follows:

23 JUDGE HAENLE: Also during the time we were
24 off the record I marked for identification a number of

25 documents as follows: Marked as Exhibit T-713 for

(RAYNOR - EXAM BY COMMISSIONER CASAD)

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1 identification is a multi-page document. In the upper
2 right-hand corner it has ALK-testimony.

3 714 for identification has ALK-1.

4 715 for identification in one page, ALK-2.

5 716 for identification, ALK-3 in one page.

6 717 for identification, ALK-4 in one page.

7 718 for identification, ALK-5.

8 719 for identification ALK-6 in one page.

9 720 for identification ALK-7 in one page.

10 And 721 for identification ALK-8 in one
11 page. This witness will also be referring to the
12 Towers Perrin study which has now been distributed to
13 everyone. We marked it yesterday as Exhibit 688 for
14 identification as the response to bench request 506.
15 Mr. Trotter has already distributed -- I don't think
16 from him or from the company but a group of changes
17 which should be part of them should be added as
18 additional pages and part of them should be
19 substituted. And Mr. Trotter will tell us what to do
20 with each of the pages. Your witness has been sworn.

21 (Markd Exhibits T-713, 714 through 721.)

22 MR. TROTTER: Thank you. With respect to
23 Exhibit 688 we handed out yesterday, the half-inch
24 thick document dated April 16, 1993 and that is the

25 more or less final Towers Perrin report as we

(RAYNOR - EXAM BY COMMISSIONER CASAD)

2386

1 understand it. But there are some additions and that
2 was also handed out this morning. The handout that
3 was given this morning, the first four pages are
4 denominated attachment A and they should be added to
5 the back of the report that was handed out yesterday.

6 The additional information, which is
7 denominated attachment B, the first page of that
8 identifies various pages of the report that have been
9 changed in relatively minor ways. And then the
10 following pages are the changed pages. So, they
11 should be substituted into the report whereas the
12 first four pages of the supplement should be added to
13 the back of the report.

14 JUDGE HAENLE: I would like to have that
15 attachment B added also to the back of the report, Mr.
16 Trotter, only to indicate what has been changed, if
17 that would be all right.

18 MR. TROTTER: One page.

19 MR. ADAMS: Could I ask for a
20 clarification, each case these pages are a total
21 replacement for the existing page of the same number?

22 MR. TROTTER: Yeah. The pages after
23 attachment B are substitute pages.

24 JUDGE HAENLE: With those exchanges, then,

25 is it all right with you, Counsel, if we include

(RAYNOR - EXAM BY COMMISSIONER CASAD)

2387

1 Exhibit 688, which is that study as corrected into the
2 record as the response to bench request which would be
3 Exhibit 688. Mr. Marshall?

4 MR. MARSHALL: That would be fine.

5 JUDGE HAENLE: Mr. Trotter?

6 MR. TROTTER: No objection.

7 MR. ADAMS: No objection.

8 JUDGE HAENLE: Mr. Furuta?

9 MR. FURUTA: No objection.

10 JUDGE HAENLE: Mr. Trincherero?

11 MR. TRINCHERO: No objection.

12 MR. BENNETT: No objection.

13 JUDGE HAENLE: 688 will be entered into the
14 record.

15 (Admitted Exhibit 688.)

16

17 DIRECT EXAMINATION

18 BY MR. TROTTER:

19 Q. Will you please state your name and
20 business address?

21 A. My name is Andrea L. Kelly and my business
22 address is 1300 South Evergreen Park Drive Southwest,
23 Olympia, Washington 98504.

24 Q. The spelling of your last name is

25 K E L L Y?

(KELLY - DIRECT BY TROTTER)

2388

1 A. That is correct.

2 Q. You're employed by the Washington Utilities
3 and Transportation Commission as a utility rate
4 research specialist?

5 A. Yes, that's correct.

6 Q. And in the course of your duties as a
7 utility rate research specialist, did you have cause
8 to be prepared testimony and exhibits in this
9 proceeding?

10 A. I did.

11 Q. Exhibit T-713 was marked as your prefiled
12 testimony?

13 A. Yes.

14 Q. If I asked you the questions that appear in
15 that exhibit, would you give the answers that appear
16 there?

17 A. Yes, I would.

18 Q. In the course of that testimony you refer
19 to several Exhibits 714 through 721; is that correct?

20 A. That is correct.

21 Q. And to the extent that those exhibits were
22 prepared by you, are they true and correct to the best
23 of your knowledge?

24 A. Yes.

25 Q. To the extent that they are documents

(KELLY - DIRECT BY TROTTER)

2389

1 supplied by the company, is it your position that they
2 purport to show what they appear to show?

3 A. Yes.

4 MR. TROTTER: Move for the admission of
5 Exhibit T-713 and Exhibits 714 through 721.

6 JUDGE HAENLE: Any objection, Mr. Marshall?

7 MR. MARSHALL: No objection.

8 MR. ADAMS: No objection.

9 MR. TRINCHERO: No objection.

10 JUDGE HAENLE: Exhibit T-713 and 714
11 through 721 will be admitted into the record.

12 (Admitted Exhibits T-713 and 714 through
13 721.)

14

15 CROSS-EXAMINATION

16 BY MR. MARSHALL:

17 Q. Morning.

18 A. Morning.

19 Q. As I understand your testimony you're
20 speaking generally about the company's efforts at
21 controlling costs, cost control measures. Is that
22 your general testimony?

23 A. Yes. The company's cost control efforts on
24 operations and administration functions.

25 Q. Just a little bit about your background.

(KELLY - CROSS BY MARSHALL)

2390

1 You indicated that you had graduated in June of 1992
2 from the University of Washington with what degree was
3 that?

4 A. That was with a Master's of business
5 administration.

6 Q. And concentration in environmental and
7 natural resource management?

8 A. That is correct.

9 Q. And then you were hired by the Commission
10 in January of this year; is that correct?

11 A. That is correct.

12 Q. So this is the first time you've had
13 occasion to testify in a general rate case proceeding?

14 A. Yes, that's correct.

15 Q. Since you began working earlier this year,
16 were you working just on these issues or were you
17 working on some other issues as well?

18 A. I've been working on some other issues that
19 were included as a response to a data request, company
20 data request.

21 Q. In general when did you begin working on
22 the testimony that became your prefiled testimony
23 here?

24 A. In general I began working on it

25 approximately a month after I began working. So

(KELLY - CROSS BY MARSHALL)

2391

1 February. Approximately.

2 Q. In Exhibit 1 to your testimony you
3 indicated that you had worked for several years in the
4 pension plan industry?

5 A. Yes.

6 Q. And in that time you were an advisor in
7 establishing new pension plans and terminating old
8 pension plans and complying with various IRS filings
9 and documents?

10 A. Yes.

11 Q. And then next you also indicated that you
12 had a two year job where you were working in Boston
13 with a retirement services division of Fidelity
14 Investments?

15 A. Yes.

16 Q. And so it is fair to say that you have some
17 experience and background in the pension plan, pension
18 cost area?

19 A. Yes.

20 Q. Now, let's turn to that. Apparently at
21 page 15 you begin to address in your testimony the
22 salaries and benefits of the company?

23 A. Yes.

24 Q. And you examined the company's testimony on

25 the cost control and administration of operations

(KELLY - CROSS BY MARSHALL)

2392

1 involved in salary benefits; is that correct?

2 A. I examined the statistics that were
3 presented by Mr. Knutsen, yes.

4 Q. And you examined several exhibits from
5 Mr. Knutsen that perhaps others had indicated that on
6 an inflation-adjusted basis employees salaries and
7 benefits are lower per employee than they were in
8 1981; is that correct? Do you see on page 15, lines
9 17 to 19 of your testimony?

10 A. Oh, yes, I do.

11 Q. So you determined that with regard to the
12 benefits per employee that there is "compelling
13 evidence that the company has been successful in its
14 recent cost control efforts"? Is that what you
15 included at page 16 of your testimony?

16 A. That's what I indicate on page 16, yes.

17 Q. And from the materials you reviewed you
18 concluded that this evidence indicates quote, "the
19 company's efforts at controlling its costs and
20 benefits have been successful." Is that fair to say
21 on page 17 of your testimony?

22 A. Yes, that's fair to say.

23 Q. And then you indicated that both salaries
24 and benefits are lower per employee than they were in

25 1981, again on an inflation-adjusted basis and you

(KELLY - CROSS BY MARSHALL)

2393

1 concluded that this represents maintenance of a quote,
2 "fairly stable average employee pay when adjusted for
3 inflation." Do you see that at page 17 of your
4 testimony?

5 A. What line?

6 Q. Page 15 and I believe it's lines 24 to page
7 16, line 1.

8 A. Yes, the average employee paid.

9 Q. Is it true in just a general sense that
10 most employers and employees tend to look at wages and
11 benefits, salary and benefits, as a package?

12 A. In some cases, yes.

13 Q. They look at their total compensation and
14 try to figure out whether the total compensation is
15 comparable to some other company or if they're an
16 employee and an employer looks at it to find out what
17 kinds of things competitors are providing in the same
18 area. Is that generally what you understand to be the
19 case?

20 A. It's hard to say what a company would
21 consider.

22 Q. Do you have some experience or background
23 as a compensation consultant or advisor?

24 A. No.

25 Q. You haven't got into the area of trying to

(KELLY - CROSS BY MARSHALL)

2394

1 put together a compensation package of wages and
2 benefits?

3 A. When I was with Fidelity I was responsible
4 for hiring individuals and deciding on the salary
5 ranges that they would receive.

6 Q. Were the salaries linked to the benefits?
7 Were they discussed at the same time, when people were
8 hired on you would discuss what the salaries were and
9 then what the various benefits might be including
10 pension and health and sick leave and that kind of
11 thing?

12 A. No, not necessarily.

13 Q. Have you attempted in any of your
14 comparisons here to take the company's salaries and
15 benefits as a package to compare them to other
16 utilities around the country?

17 A. No. The company presented the data
18 separately.

19 Q. You have attached as Exhibit 5 to your
20 testimony an excerpt from a report comparing Puget to
21 other utilities concerning certain operating
22 statistics.

23 JUDGE HAENLE: Would you refer to that by
24 the number?

25 MR. MARSHALL: As Exhibit 718, I believe.

(KELLY - CROSS BY MARSHALL)

2395

1 Q. Do you see that?

2 A. Yes.

3 Q. And you indicated from that that you found
4 that Puget is well below what most other utilities
5 nationwide are on benefits. It was only slightly
6 above the national median on wages per employee. Is
7 that generally right?

8 A. I don't believe I characterized it as well
9 below and slightly above.

10 Q. This page 2 of Exhibit 718 has the graph
11 that you relied on to come to the conclusions in your
12 testimony; is that correct?

13 A. Yes.

14 Q. And on the benefits per employees, is that
15 dotted line the Puget line?

16 A. Yes, it is.

17 Q. And for -- is it below the median in the
18 case of all and also in the case of the index?

19 A. Yes, it is.

20 Q. And on the annual wages per employee, is
21 Puget -- I don't know if you want to call it slightly
22 above, looks like a thousand or two above what the
23 median might be for all and on the index as well?

24 A. I would say that it's similarly above as it

25 is below on benefits. Approximately the same amount.

(KELLY - CROSS BY MARSHALL)

2396

1 Q. Now, I take it you're not concluding from
2 any of this that if a utility is above the median that
3 its costs are in in any way imprudent?

4 A. No, I am not making that conclusion.

5 Q. By definition there would be half the
6 utilities above the median and half below the median?

7 A. Yes, by definition.

8 Q. Do you have any evidence of any utility
9 Commission that has disallowed as imprudent any of the
10 wage expenses of the utilities that you have listed
11 here on this survey?

12 A. I have not listed these utilities in this
13 survey. This was prepared by the company.

14 Q. This was prepared by Edison Electric
15 Institute on a database; is that correct?

16 A. No. It was prepared by an employee of
17 Puget Power based on the Edison Electric Institute
18 database.

19 Q. My question was, from the database here
20 that's represented and the statistics, do you have any
21 information that any Commission has disallowed any of
22 the wages indicated on any of these two graphs?

23 A. No, I don't have any information about
24 that.

25 Q. Do you have a definition for imprudence

(KELLY - CROSS BY MARSHALL)

2397

1 regarding compensation packages?

2 A. No, I don't.

3 Q. Have you found any instance where the
4 company has been imprudent in setting the wages and
5 benefits of any of its employees over the time that
6 you've examined?

7 A. No. The evidence presented has not
8 provided sufficient backup for a decision either, as I
9 state in my testimony.

10 Q. There's no indication that Puget is out of
11 line in any respect from what you've examined; is that
12 correct?

13 MR. TROTTER: Your Honor, I will object.
14 That was asked and answered. The witness has
15 testified that there was insufficient information to
16 make a judgment either way.

17 JUDGE HAENLE: I agree. It sounded like
18 exactly the same question to me. Sustain the
19 objection.

20 Q. Did you ask for any further backup
21 information for the databases as they were presented
22 to you on what other utilities do?

23 A. No, I did not.

24 Q. You took this as truthful information on

25 the database?

(KELLY - CROSS BY MARSHALL)

2398

1 A. Yes, since it was provided by the company
2 and the company had based their report on it.

3 Q. You had no reason to disbelieve any of the
4 data of that database, I take it; is that correct?

5 A. No, I do not.

6 Q. From your review of that database is there
7 any indication to you from looking at that data in the
8 comparison of Puget that Puget is in any way out of
9 line?

10 A. I have not reviewed that database.

11 Q. You indicated that when you were with the
12 retirement services division of Fidelity Investments
13 that you developed employee productivity and employee
14 training programs?

15 A. Yes, that's correct.

16 Q. And you also monitored for the quality of
17 work within that division?

18 A. Yes, that's correct.

19 Q. And in that regard did you find that it was
20 important to create incentives for employees to
21 continue to improve the productivity and improve
22 quality of work?

23 A. I guess I don't know what you mean by
24 important.

25 Q. Well, is compensation one tool of

(KELLY - CROSS BY MARSHALL)

2399

1 management to try to improve employee productivity and
2 efficiency?

3 A. It's possible it can be used that way, yes.

4 Q. Are you familiar with the wage and benefit
5 surveys done by the state of Washington?

6 A. No, I'm not.

7 Q. Are you aware that the state of Washington
8 looks at any data on wages and salaries, benefits in
9 general, for employees within the state?

10 A. No, I am not.

11 Q. Are you familiar with national statistics
12 on wages and salaries that compare the cost of living
13 in Washington state and the wage level in Washington
14 state with that of other states?

15 A. No, I am not.

16 Q. In general terms, are you aware that
17 Washington state has higher wages and benefit levels
18 than other states above the median?

19 A. No.

20 Q. Are you generally familiar with Bureau of
21 Labor Statistics data from the United States
22 government on wages and benefits and other such
23 statistics?

24 A. I am aware that it exists.

25 Q. Did you have occasion to review that before
(KELLY - CROSS BY MARSHALL) 2400

1 this testimony?

2 A. No, I did not. I based my testimony on
3 what was provided by the company.

4 Q. Have wages and benefits together on an
5 employee per employee basis increased or decreased
6 since 1981 on an inflation-adjusted basis?

7 A. As I stated before, the company chose to
8 provide these statistics separately.

9 Q. Did you find any method by combining these?

10 A. No. The company did not combine them.

11 Q. Are you aware of any books or treatises
12 on the subject of employee compensation programs?

13 A. Specific books?

14 Q. Yes. Did you review any books on employee
15 compensation in connection with this testimony?

16 A. No, I did not.

17 Q. Do you know if the state of Washington has
18 a compensation specialist to examine state employee
19 compensation levels, for example?

20 A. I do not know.

21 Q. Were there any government statistics that
22 you evaluated on compensation in coming to your
23 conclusions?

24 A. I am not sure what you mean by government

25 statistics.

(KELLY - CROSS BY MARSHALL)

2401

1 Q. Were there any government statistics that
2 you looked at in coming to the conclusions in this
3 testimony?

4 A. No. As I stated, I relied on what the
5 company provided for evidence.

6 Q. Are you taking the position in your
7 testimony that there is no evidence of imprudence in
8 overall expenditures for a company's wage and benefit
9 compensation that the company must nevertheless
10 present some further types of statistics or
11 information?

12 A. The company chose to present this
13 information and held it up as evidence of cost
14 control. My testimony is that this evidence does not
15 provide sufficient backup for that type of conclusion.

16 Q. What statistics in your view would be
17 appropriate for the company to provide in addition to
18 what has been provided?

19 A. As I responded to company data request
20 4029, my assignment was to examine the evidence
21 presented by the company, and the company and its
22 employees are in the best position to decide on those
23 statistics. In my opinion, I am not certain that any
24 statistic can provide that type of evidence without

25 sufficient review of the assumptions behind it and the

(KELLY - CROSS BY MARSHALL)

2402

1 data used. I think this is evident by the need for
2 companies like Towers Perrin who would perform a
3 ten-month audit to look into the company rather than
4 just Puget relying on these statistics.

5 Q. Well, aside from retaining a compensation
6 specialist to render an opinion, is there any specific
7 set of statistics or any one statistic that you would
8 find useful that you did not receive that you could
9 point to?

10 A. It's hard to know what statistics the
11 company has available, and as I said before it would
12 require a thorough review of what supported that
13 statistic rather than just the statistic itself.

14 Q. If the company did retain a compensation
15 expert to speak directly on wages and benefits, what
16 kind of things should that expert consultant look
17 into, in your view?

18 A. I think that would vary on a company basis.

19 Q. I take it you do not say in your testimony
20 that Puget is out of control in its costs in any area.
21 Is that fair?

22 A. Based on the information provided I can't
23 make that conclusion either way.

24 Q. You do not present evidence in your

25 testimony that Puget costs are out of control. Is

(KELLY - CROSS BY MARSHALL)

2403

1 that a fair statement?

2 A. That's a fair statement.

3 Q. Let's turn specifically to the Ideas Plus,
4 Energy Plus and Pay at Risk compensation area.

5 JUDGE HAENLE: What page are you on?

6 MR. MARSHALL: I think it begins around
7 page 19. Actually -- yes, page 19.

8 Q. You discuss in general those three areas,
9 Ideas Plus, Energy Plus and Pay At Risk?

10 A. Those are the three that were presented by
11 the company, yes.

12 Q. And those are a part of Puget's overall
13 compensation package, that is, these are additional
14 incentives by way of giving additional compensation
15 for achieving certain goals. Is that a general
16 statement of what all three are intended to do?

17 A. Generally the Ideas Plus is not necessarily
18 goal-oriented in that way.

19 Q. In general terms, these three programs have
20 been designed by company management in order to
21 provide incentives for employees to excel at
22 controlling company costs, in coming up with new ideas
23 about maintaining quality of service, product at this
24 time?

25 A. I think that's fair to say although I don't

(KELLY - CROSS BY MARSHALL)

2404

1 know -- I can't speak for why the company devised
2 them.

3 Q. The total employee wage and compensation
4 package that we discussed earlier already includes
5 Ideas Plus, Energy Plus and Pay At Risk, isn't that
6 true?

7 A. That's my understanding.

8 Q. And thus in these three programs if the
9 company is still at or below the national median of
10 other utilities overall in its overall compensation
11 package, would that be at least some evidence that the
12 company is not out of line?

13 A. The company is above the median in its
14 compensation package, as Exhibit 718 shows.

15 Q. But when you take the pension benefits and
16 salary compensation together you indicated that you
17 don't know whether the company is at or below the
18 median. It's slightly above the median for wages and
19 below the median for benefits, correct?

20 A. As I said, I would not characterize it as
21 slightly.

22 Q. Have you had experience in designing
23 employee incentive pay programs in your prior
24 employment?

25 A. Yes, I have.

(KELLY - CROSS BY MARSHALL)

2405

1 Q. And have you consulted with employee
2 incentive experts in preparing this testimony here?

3 A. No, I have not.

4 Q. In going through the various employee pay
5 incentive programs, how did you decide what to include
6 and what not to include, what to disallow? Did you
7 have any --

8 A. I don't understand your question.

9 Q. Let me take this one at a time. On Ideas
10 Plus you indicated at page 19 that the Ideas Plus
11 program was "very successful."

12 A. From a cost saving perspective, yes.

13 Q. And as part of that you noted that the
14 employee ideas led to \$3.4 million in the first year
15 tangible savings but the payout for that program for
16 the whole period from '85 to '91 has been 230,000
17 which you describe as "clearly a net benefit to the
18 company"; is that correct?

19 A. The latter part of your statement is true.
20 I think you misspoke. You said that in the first year
21 of the program they achieved \$3.4 million in tangible
22 savings and that was achieved from 1985 to 1991.

23 Q. I thought your testimony indicated at line
24 16 and 17 that employee ideas have led to 3.4 million

25 in first year tangible savings; is that correct?

(KELLY - CROSS BY MARSHALL)

2406

1 A. Over the 1985 to 1991 time period, yes.

2 Q. Are some of those ideas still continuing to
3 generate savings today?

4 A. It's unclear. From what I understand the
5 company does not track that.

6 Q. Whether they're continuing to generate
7 savings or whether the \$3.4 million is kind of it for
8 whatever savings that those will generate you
9 nevertheless concluded that was very successful,
10 clearly a net savings?

11 A. It appears that way, yes.

12 Q. So overall at a cost of \$230,000 the
13 company was able to achieve savings of \$3.4 million?

14 MR. TROTTER: I will object as asked and
15 answered. That's the third time that question has
16 been asked in some form.

17 JUDGE HAENLE: Does sound about the same
18 form. You make your point with one question, really.

19 Q. And that was the standard by which you
20 gauge whether that was appropriate to allow, that it
21 had a net savings?

22 A. That was one of the standards, yes.

23 Q. What were the other standards that you
24 looked at for the Ideas Plus?

25 A. As I mentioned at the beginning I think on

(KELLY - CROSS BY MARSHALL)

2407

1 line 20, page 19 was examining how the employees felt
2 about the Ideas Plus program since their participation
3 is a key element to this program.

4 Q. So it was the overall savings and employee
5 response. Were there any other standards that you
6 looked at?

7 A. No.

8 Q. Let's turn to Energy Plus. With regard to
9 the Energy Plus program, I take it that's like Ideas
10 Plus. I mean, part of an incentive program designed
11 to produce, as you indicated, service as well as cost
12 control?

13 A. I would say it's very different than the
14 Ideas Plus program. The Ideas Plus program is an idea
15 type of effort and reward. The Energy Plus program is
16 a company-wide effort and reward.

17 Q. And you indicated that the program goals in
18 the Ideas Plus are, in your view, "more oriented
19 toward service than cost control"; is that correct?

20 A. Mr. Knutsen has indicated that the Energy
21 Plus program is more oriented to a service than to a
22 cost control. Your question asked about the Ideas
23 Plus.

24 Q. And Energy Plus, in your view, is more

25 toward service than cost control?

(KELLY - CROSS BY MARSHALL)

2408

1 A. (No response.)

2 Q. Page 20, lines 13 to 14, you indicated that
3 the program goals on Energy Plus are more oriented
4 toward service than cost control?

5 A. Yes, I indicated that based on Mr.
6 Knutsen's statements.

7 Q. Now, is it true that service is the kind of
8 thing that you would want an employee compensation
9 program to provide incentives to achieve?

10 A. That all depends.

11 Q. You would agree that it would be wise to
12 provide employees for incentives for quality service
13 as well as cost control. Isn't that fair to say just
14 as a general principle?

15 A. As a general principle, yes.

16 Q. And it would be acceptable then to promote
17 overall service as well as having cost control
18 component, that that's a prudent goal, correct?

19 A. Yes.

20 Q. Now, you propose in the Energy Plus to
21 disallow a portion of that for meeting an earnings per
22 share target. Is that a fair statement of one of your
23 proposals on disallowing a portion of Energy Plus?

24 A. Could you repeat your question.

25 Q. Certainly. Are you proposing on the Energy

(KELLY - CROSS BY MARSHALL)

2409

1 Plus program to disallow costs associated with a goal
2 of achieving an earnings per share target?

3 A. I am proposing that it be split, that the
4 payout of the Energy Plus program be shared both by
5 the ratepayers and the shareholders and that's based
6 on not only the earnings per share goal but
7 assessments of the other targets within the program.

8 Q. So earnings per share is one of the ways by
9 which you determined that these costs should be
10 disallowed in the rate case?

11 A. The earnings per share goal is one that
12 staff has ascertained to provide benefit to the
13 shareholders and therefore should be borne by the
14 shareholders.

15 Q. Was that your conclusion or was that a
16 conclusion that was a joint conclusion?

17 A. That was a conclusion that was made by
18 staff but it was as much my conclusion as anyone
19 else's.

20 Q. Who else participated in that conclusion?

21 A. I discussed it with several members of the
22 staff.

23 Q. Who would they have been?

24 A. I don't recall all the people right now.

25 It was discussed with Mr. Elgin. That's all I can

(KELLY - CROSS BY MARSHALL)

2410

1 recall right now.

2 Q. One of the ways in which any investor-owned
3 business such as Puget or other utilities monitor
4 employee productivity and performance is to examine
5 their ability to help achieve earnings per share
6 targets, in addition to other targets, of course. Is
7 that a fair general statement?

8 A. Could you repeat it, please.

9 Q. Sure. One of the ways that companies in
10 general monitor how they're doing, how well they're
11 doing as companies in motivating people to achieve the
12 best performance they can is to look at earnings per
13 share numbers. Isn't that a fair general principle to
14 state?

15 A. I don't know what companies look at.

16 Q. You've heard the term the bottom line,
17 haven't you?

18 A. Yes, I have.

19 Q. Is that related to earnings per share, to
20 profits, as you understand it?

21 A. Yes.

22 Q. And when rates are fixed in a general rate
23 case, one way earnings per share can be improved is by
24 increased efficiency, that is, costs control. Is that

25 fair to state?

(KELLY - CROSS BY MARSHALL)

2411

1 A. That's one way or by increasing revenues.

2 Q. By increasing revenues, by increasing sales
3 of electricity or some other product like cars you
4 can't also increase earnings per share, correct?

5 A. Yes.

6 Q. But in a decoupled environment where Puget
7 no longer can increase earnings by increasing energy
8 sales, that option isn't available to Puget, is it?

9 A. It still is uncertain how the decoupling
10 will end up in this case.

11 Q. But at present under decoupling Puget can
12 improve its earnings per share by increasing sales,
13 can it?

14 A. I don't know.

15 Q. Another way that you could increase
16 earnings per share is to decrease the level of
17 service, to provide bad service, let things
18 deteriorate. Would that be a fair statement?

19 A. No.

20 Q. If you then -- is there any other way of
21 improving earnings per share other than increasing
22 efficiency, increasing cost control for a company in a
23 decoupling environment?

24 A. As I stated, I don't know.

25 Q. So as far as you know, the only way for

(KELLY - CROSS BY MARSHALL)

2412

1 Puget to increase earnings per share between rate
2 cases would be to encourage employee work on earnings
3 per share to drive down the costs to improve
4 efficiency. Is that a fair statement?

5 A. No. They could increase revenues.

6 Q. I thought you agreed that Puget at least
7 currently can't improve its earnings per share by
8 increasing sales?

9 A. I did not agree to that.

10 Q. The only way for Puget to increase its
11 revenues in that period would be to increase
12 efficiency?

13 JUDGE HAENLE: I think we've gone through
14 this a couple of times and the witness has indicated
15 she doesn't know.

16 MR. TROTTER: We're not holding this
17 witness out as a decoupling expert.

18 MR. MARSHALL: You're probably right.

19 JUDGE HAENLE: Let's go on.

20 Q. Did you discuss decoupling with Mr. Elgin
21 when discussing whether earnings per share was an
22 appropriate target for Puget to use to create
23 incentives for employees on cost control areas?

24 A. No, I did not. The direct case of the

25 company was presented without decoupling.

(KELLY - CROSS BY MARSHALL)

2413

1 Q. And that Puget filed a supplemental case?

2 A. That is correct.

3 Q. And that was on file before you were
4 employed by the Commission in January?

5 A. Yes, it was.

6 Q. In effect, if you assume that Puget's given
7 up one way to increase its earnings by increasing
8 sales of electricity, would you agree that the only
9 way for Puget to increase its earnings per share is by
10 increased efficiency?

11 A. No.

12 Q. Now, if Puget incentivizes, if it creates
13 incentives for employees to control costs between rate
14 cases by this earnings per share target I take it that
15 at the next general rate case because those costs
16 would be lower for the company they would be lower
17 than in the historic test year and the ratepayers or
18 customers would benefit from that increased level of
19 efficiency?

20 A. There's no "guarantee" of that.

21 Q. Well, there would be no guarantee to that,
22 isn't it true that if you do reduce costs and those do
23 show up in a test year then the Commission would at
24 least be able to look at that and decide whether it

25 would be prudent to take those increased efficiencies

(KELLY - CROSS BY MARSHALL)

2414

1 into account in setting new rates?

2 A. If it showed up in the test year then it
3 could be reflected. If the savings occurred outside
4 of a test year then they would be enjoyed by the
5 shareholders.

6 Q. If employees have an incentive to increase
7 efficiencies costs in general will go down. Isn't
8 that by definition true?

9 MR. TROTTER: Is that all else being equal?

10 MR. ADAMS: Right.

11 JUDGE HAENLE: And the witness's answer was
12 not necessarily?

13 A. Could you ask the question again.

14 Q. Sure. Generally speaking, if the employees
15 had the incentive to increase efficiency costs will go
16 down?

17 A. If it's an effective incentive, but there's
18 no guarantee that they will rise to that incentive.

19 Q. You do want to create incentives for
20 employees to try to improve on efficiency and
21 decreased costs, correct?

22 A. Yes.

23 Q. Would it be appropriate to use, as one
24 measure of how to control costs, earnings per share,

25 assuming in a decoupled environment you cannot

(KELLY - CROSS BY MARSHALL)

2415

1 increase revenues by increasing sales in kilowatt
2 hours?

3 A. Not necessarily.

4 Q. Do you believe that in general it's wise to
5 create incentives for cost controls for regulated
6 utilities?

7 A. Yes.

8 Q. Have you done any -- have a systematic
9 survey of company incentive programs to determine what
10 ways other companies try to encourage incentives for
11 cost control?

12 A. No, I have not.

13 Q. Are you aware of any investor-owned company
14 in the United States that doesn't have as part of its
15 overall goals an earnings per share target and that
16 does not try to improve on its earnings per share
17 target by controlling costs?

18 MR. TROTTER: Your Honor, I will object.

19 The witness has said she has not done a survey so she
20 would not be able to respond whether or not such a
21 company exists.

22 MR. MARSHALL: This is broad just to ask if
23 she's aware of any utility.

24 JUDGE HAENLE: Considering you asked her if

25 she knows about it and she said no, I would sustain

(KELLY - CROSS BY MARSHALL)

2416

1 the objection.

2 Q. Are you aware of any compensation book or
3 treatise that indicates that earnings per share target
4 is not an appropriate tool for a successful management
5 of costs for a company?

6 A. No.

7 Q. Have you examined the company's ability to
8 control its costs of capital compared to other
9 utilities in the United States?

10 MR. TROTTER: I will object as beyond the
11 scope of this witness' testimony.

12 JUDGE HAENLE: Mr. Marshall?

13 MR. TROTTER: Let me add, her testimony is
14 clearly limited to the company's O and M category.

15 JUDGE HAENLE: Mr. Marshall.

16 MR. MARSHALL: The split that the witness
17 has done is between saying that these have an effect
18 that should be cut between ratepayers and stockholders
19 indicating that there's some sort of tension between
20 the two. All I am trying to do by these questions is
21 to suggest that customers are in fact the ones who are
22 benefited by these kind of programs.

23 JUDGE HAENLE: I understand what you're
24 trying to do. That still doesn't make it within the

25 purview of this witness' testimony. That is the

(KELLY - CROSS BY MARSHALL)

2417

1 objection.

2 MR. MARSHALL: The ability to control costs
3 of capital does benefit directly customers and that's
4 why I would like to examine her in that area.

5 JUDGE HAENLE: That still doesn't bring it
6 again within this witness' testimony.

7 Have you examined the cost of capital at
8 all?

9 THE WITNESS: No, I have not.

10 JUDGE HAENLE: Let's go on.

11 Q. Have you examined Mr. Sonstelie's direct
12 testimony in this case where he shows the various
13 percentage of the company's cost on a pie chart, on
14 that round chart?

15 A. I've seen it.

16 Q. Did you see the various percentages for
17 costs of power, costs of money and taxes?

18 A. I don't recall them. I know that I saw
19 them but I don't recall the percentages.

20 Q. Do you believe that controlling the costs
21 of capital is one of the important ways that a company
22 can control its overall costs for customers?

23 MR. TROTTER: I will object. Your Honor,
24 this witness is clearly addressing the scope of Mr.

25 Knutsen's testimony. She was directed to O and M type

(KELLY - CROSS BY MARSHALL)

2418

1 programs. That's what she addressed and the company
2 may have wanted her to address more but that's too bad
3 and so this question is clearly beyond the scope.

4 JUDGE HAENLE: Mr. Marshall, I just think
5 you've got the witness for what you're trying to do
6 here.

7 MR. MARSHALL: Again, it was the witness
8 who proposed the split on these programs. I think I
9 am entitled to inquire on the basis for the split. If
10 it's -- if it's another witness who proposed that
11 split then we can examine that witness.

12 MR. TROTTER: We responded in detail in
13 data responses as to the basis for allocation of O and
14 M incentive targets between shareholder and ratepayer
15 and she provides a great deal of testimony on that as
16 well.

17 JUDGE HAENLE: I will sustain the
18 objection, Mr. Marshall.

19 MR. MARSHALL: This isn't just an O and M
20 category. It may have that effect. Again, I just
21 have to ask you to bear with me for a couple of more
22 questions.

23 JUDGE HAENLE: I have sustained the
24 objection in that regard, Mr. Marshall. I will

25 consider that a request to revise my ruling. If the

(KELLY - CROSS BY MARSHALL)

2419

1 Commission wants to do that they will certainly let
2 you know. Actually it's been about an hour and a
3 half, is this a time that we could take our morning
4 break?

5 MR. MARSHALL: Yes, this would be fine.

6 JUDGE HAENLE: Let's take our morning break
7 and be back at quarter to 11.

8 (Recess.)

9 JUDGE HAENLE: Let's be back on the record
10 after our morning recess.

11 Q. One of the things that you disallowed for
12 in the Energy Plus incentive programs were targets on
13 community service in environmental areas, and you
14 stated that "although I recognize the overall social
15 or societal values these provide, I've been advised by
16 counsel that based on decision of Jewell v. Wutc the
17 shareholders bear the costs associated with the
18 company's charitable endeavors and image building."
19 Do you see that on page 24, lines 16 to 20 of your
20 testimony?

21 A. I see the cite, yes.

22 Q. Do you come to the conclusion you claim
23 that by providing employee incentives for
24 environmental awareness that that's prohibited by the

25 Jewell case as a charitable endeavor or as image

(KELLY - CROSS BY MARSHALL)

2420

1 building?

2 MR. TROTTER: Your Honor, the witness is
3 clear in her testimony that she has not made a
4 conclusion regarding the Jewell case, that that was on
5 the advice of counsel. So I guess the question is
6 asking for a legal conclusion. I will object on that
7 basis.

8 JUDGE HAENLE: Mr. Marshall.

9 MR. MARSHALL: I am trying to find out
10 whether environmental awareness is in her opinion
11 encompassed within counsel's advice or by her own
12 conclusion is a charitable endeavor or image building.

13 MR. TROTTER: That's fine.

14 A. The environmental goal lists volunteer work
15 on any environmental project, maintain a ball yard,
16 wildlife standing water in cooperation with Washington
17 Department of Wildlife. Those are clearly charitable,
18 volunteer work is charitable.

19 Q. All volunteer work is charitable no matter
20 what goal it is attempting to achieve?

21 A. On an environmental project.

22 Q. In view of all the new laws and regulations
23 of penalties of environmental issues, wouldn't you
24 agree that a company should attempt to instill a

25 heightened awareness of environmental stewardship in

(KELLY - CROSS BY MARSHALL)

2421

1 its employees?

2 A. I think that's up to the company.

3 Q. And by avoiding problems, won't increasing
4 environmental awareness lead to long term cost savings
5 for customers?

6 A. Not necessarily.

7 Q. You agree that this company has large
8 investments in projects that might potentially affect
9 the environment, including the Mid Columbia dams?

10 A. Yes, that's likely.

11 Q. Do you then agree it is proper for this
12 company in particular to encourage environmental
13 awareness in its employees?

14 MR. TROTTER: I will object, asked and
15 answered.

16 JUDGE HAENLE: Is that any different than
17 the prior question, Mr. Marshall?

18 MR. MARSHALL: I think it was but perhaps
19 not.

20 JUDGE HAENLE: Do you have anything to add
21 to your previous answer?

22 THE WITNESS: No, I don't.

23 JUDGE HAENLE: Go on.

24 Q. With regard to community service, do you

25 agree that it is important for a utility to have the

(KELLY - CROSS BY MARSHALL)

2422

1 support of a community in which it's located so as to
2 be able to continue to accomplish objectives of
3 providing safe, reliable and efficient service?

4 MR. TROTTER: Your Honor, I think I am
5 going to object at this point. It's very clear that
6 the Jewell case applies here. The activities, as the
7 witness has testified in talking about food drives,
8 blood bank donations, adopt a family, so on, these are
9 virtually identical to what the court in Jewell
10 chastised this Commission for daring to allow in
11 rates. So really this witness' opinion as to whether
12 the company ought to be a good community neighbor has
13 already been resolved, in terms of the rate impacts
14 has already been resolved against the Commission. So
15 I think this is really an area where Jewell applies on
16 all fours.

17 JUDGE HAENLE: Well, I think counsel is
18 entitled to question this witness about the basis for
19 her conclusions other than the legal conclusions that
20 you made it very clear that the legal conclusion was
21 not hers. I will allow him to question in other
22 areas.

23 Q. Do you have that question in mind?

24 A. Could you repeat it, please.

25 Q. Sure. With regard to community service, as
(KELLY - CROSS BY MARSHALL) 2423

1 a general proposition, do you agree that it is
2 important for utilities, any business, for example, to
3 have the support of its community in which it's
4 located in order to continue to accomplish its
5 objectives of providing safe, reliable and efficient
6 service?

7 A. I don't know. I think that depends.

8 Q. And being able to locate new transmission
9 lines, substations and other facilities, do you agree
10 as a general proposition that it is important to have
11 the support and respect of the community in which the
12 company is located?

13 A. I believe that it's helpful.

14 Q. And you would agree that it is helpful and
15 important for company management to encourage close
16 contact with members of the community in order to
17 determine whether they're satisfied, dissatisfied
18 with the level, type and quality of service provided
19 by the company?

20 A. Yes.

21 Q. And if you had that type of contact and
22 support, won't that reduce costs in the long run for
23 customers?

24 A. Not necessarily.

25 Q. You do agree that businesses in general

(KELLY - CROSS BY MARSHALL)

2424

1 exercise a degree of good business judgment to try to
2 make sure company employees become involved at
3 appropriate levels in order to get the support in
4 order to reduce costs?

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

6 Q. Do you agree that without the support
7 of the community you can find a company increasing
8 costs fairly dramatically by running into problems?

9 A. I don't know.

10 Q. Is this the type of good business judgment
11 that is best entrusted to the managers of a company?

12 A. What type of good business judgment are you
13 referring to?

14 Q. The level and amount of community contact
15 in order to make sure that the community doesn't
16 unnecessarily increase costs to the company in its
17 discharge of its public service obligations?

18 A. I guess I am unsure about what you talk --
19 about the public service obligations. Is that its
20 obligations to deliver electricity?

21 Q. Yes. It has a public service obligation to
22 deliver safe, reliable, efficient electric service,
23 correct?

24 A. Yes.

25 Q. And in doing that it tries to do that at a

(KELLY - CROSS BY MARSHALL)

2425

1 good cost, correct?

2 A. All else being equal, yes.

3 Q. And part of the objective of good
4 management is to at least maintain community contact
5 so as not to have communities increase obstacles to
6 the sitings of new facilities and other such things?

7 A. I think that depends on the company.

8 Q. Have you looked at any of those things
9 specifically, inquired into any of those specifically
10 for Puget Power?

11 A. What things are you referring to?

12 Q. Their ability to stay in contact with the
13 community so as to enable them to discharge their
14 duties with the maximum amount of efficiency, siting
15 of facilities, to accomplish its other business
16 objectives?

17 A. I have been involved in preliminary
18 discussions with the proposed schedule 73 which is
19 nonstandard facilities, and I think it speaks to that,
20 but I have not looked into that in any great detail.

21 Q. In connection with schedule 73 you
22 understand that there are many communities that are
23 now increasingly becoming involved in issues about
24 siting substations and lines and other facilities

25 associated with utilities, correct?

(KELLY - CROSS BY MARSHALL)

2426

1 A. That's what the company contends.

2 Q. Have you looked into that to find out
3 whether that's true, becoming true across the state
4 and across the country?

5 A. No, I have not. The company is preparing
6 that type of information and we will be meeting on
7 that again.

8 Q. Let me turn now to the third area, Pay At
9 Risk, of the three areas, Ideas Plus, Energy Plus and
10 Pay At Risk you discuss. As you've indicated in your
11 testimony, the Pay At Risk program covers 50 employees
12 who are department heads and officers of the company?

13 A. This information was provided by
14 Mr. Knutsen, the number, the approximately 50.

15 Q. And that's what you understand to be the
16 case?

17 A. Yes.

18 Q. And this is a program that puts a portion
19 of the salary of those 50 people at risk. Is that
20 your understanding from what's been communicated to
21 you?

22 A. No, that's not my understanding. My
23 understanding is that they have a base salary as it's
24 described in the 1992 overview of the Pay At Risk

25 plan, says -- my understanding is that the audience

(KELLY - CROSS BY MARSHALL)

2427

1 for this are the members who are covered by the plan.

2 It says your target award is a percentage of your base

3 salary determined by your job level. So it's in

4 addition to the base salary.

5 Q. You don't think it's their base salary,

6 that puts a portion of the base salary at risk, is

7 that your understanding?

8 A. My understanding is that the bonus in

9 addition to their base salary is what is at risk in

10 this program.

11 Q. And you don't understand it to be the other

12 way around, that there is a percentage of their base

13 salary that is at risk?

14 A. I don't understand it to be that way, yes.

15 As I just read it, it describes it as a percentage of

16 the base salary is then determined to be the target

17 award.

18 Q. Let's say you had a salary of \$50,000 and

19 the pay at risk put a percentage of that at risk, say

20 10 percent, that would mean that \$5,000 is at risk; is

21 that right?

22 MR. TROTTER: Excuse me, is that 5,000 of

23 the 50,000.

24 MR. MARSHALL: Right.

25 A. No, that's not my understanding. My

(KELLY - CROSS BY MARSHALL)

2428

1 understanding is that they receive a base salary of
2 \$50,000 and then if 10 percent is then -- is their
3 bonus amount then they would receive, if it was 100
4 percent pay-out they would receive an additional
5 5,000.

6 Q. Have you inquired further of any company
7 employees further about that Pay At Risk program?

8 A. Yes, I believe it was part of the
9 deposition of Mr. Knutsen.

10 Q. In the overall compensation of these 50
11 individuals, isn't it true that within a reasonable
12 range of prudences shouldn't it be left to the best
13 business judgment of the board of directors on how to
14 make those salaries payments?

15 A. Could you repeat that question.

16 Q. Do you understand that the Pay At Risk
17 program means that a certain level of the salary of
18 these 50 people is set at risk by the board of
19 directors of the company?

20 A. As I just stated, the salary, it's my
21 understanding that the salary is not at risk, it's the
22 bonus based on the salary that is at risk.

23 Q. Now, do you understand that the board of
24 directors sets up this Pay At Risk program, approves

25 the various ways in which it's measured?

(KELLY - CROSS BY MARSHALL)

2429

1 A. I don't know who it is that sets the
2 program. I believe it says here that the board of
3 directors has final approval of the incentive awards.

4 Q. Now, if you assume that the overall
5 compensation for these 50 individuals is within a
6 reasonable range of prudence, if you start out with
7 that assumption, shouldn't it be left to the best
8 judgment of the board of directors on exactly how to
9 make those salary payments?

10 A. I don't understand how to make those. You
11 mean should it be borne by the ratepayers versus the
12 shareholders?

13 Q. No, in terms of what incentives and signals
14 to provide to management. If the overall level of
15 compensation is within a reasonable range, shouldn't
16 it be left to the best judgment of management on how
17 to create incentives for these individuals, what sorts
18 of pay to put at risk or bonus to give?

19 A. Yes. I think the board of directors does
20 have that discretion over what bonuses they provide to
21 their executive management.

22 Q. Would you acknowledge that Mr. Storey in
23 his testimony has stated "The salaries of employees
24 under this Pay At Risk program are set up lower than

25 market rate"?

(KELLY - CROSS BY MARSHALL)

2430

1 A. I would acknowledge that he said that.
2 However, he's provided no evidence to support that
3 statement.

4 Q. Have you talked to Mr. Storey about that?

5 A. Talked to him in person?

6 Q. Yes. Have you talked to him or Mr. Knutsen
7 or anybody else in the company about that?

8 A. About his statement? I'm unsure what
9 you're asking what I've talked to him about.

10 Q. You acknowledge at page 27 of your
11 testimony that he's made the statement but my question
12 is whether you followed up on that and asked him for
13 any further information?

14 A. No, no further information was provided by
15 the company as part of their case.

16 Q. Have you looked at any of the statistics
17 that are available to determine what executive groups
18 make at various utilities around the country?

19 A. I did examine a survey that the company
20 participated in that looked at the different levels of
21 employee pay versus the levels that were for the
22 company's employees.

23 Q. Was that for all employees or just for the
24 group of the top 50 employees?

25 A. It was broken down into different, three

(KELLY - CROSS BY MARSHALL)

2431

1 different reports, and one focused on executive
2 management, but I don't believe it covered all 50
3 employees. I believe it was approximately 20 to 25
4 employees.

5 Q. Isn't it true that within a broad range the
6 company's board of directors should be able to
7 determine the compensation levels for the top managers
8 of the company within a reasonable range in order to
9 retain individuals with the necessary skill and
10 judgment for the business?

11 A. Within a broad range, I believe that's
12 true. Although the question which is then how much is
13 borne by the ratepayers and how much is borne by the
14 shareholders.

15 Q. Do you have any written guidelines or
16 criteria that you would follow in setting the
17 appropriate compensation levels necessary to attract
18 these types of individuals?

19 A. I believe that's what the company has
20 provided in that survey. However, it was a
21 confidential survey so I do not have copies of that.

22 Q. Have you looked at what other Commissions
23 have done with regard to employee compensation at that
24 level?

25 A. Not specifically, no.

(KELLY - CROSS BY MARSHALL)

2432

1 Q. Have there been any that you're aware of
2 that have disallowed any costs on any basis that
3 you've disallowed them?

4 MR. TROTTER: Object to the question. The
5 witness has indicated she didn't look at that so she
6 couldn't be able to say whether or not.

7 MR. MARSHALL: That was generally. Now I'm
8 asking does she know of any one example where that has
9 been disallowed by this Commission.

10 JUDGE HAENLE: It sounded like the same
11 thing to me. If she hasn't checked it she isn't going
12 to know, I assume. We can ask her do you know?

13 THE WITNESS: No, I do not.

14 JUDGE HAENLE: Go on.

15 Q. The measures by which the board of
16 directors tries to determine whether management is
17 doing an effective job, are those best left in the
18 broad judgment of the board of directors of the
19 company?

20 A. I believe you've already asked this
21 question and I answered yes, I believe it's within the
22 broad responsibilities.

23 Q. Now, you also indicated at page 29 of your
24 testimony that "staff is concerned that payouts under

25 this program are at the whim of the company." Do you

(KELLY - CROSS BY MARSHALL)

2433

1 see that at page 29, lines 13 and 14?

2 A. Yes, I do.

3 Q. And it is true that the board of directors
4 does make the determination of payouts of this Pay At
5 Risk program in the final analysis?

6 A. Right, are you telling me that or asking me
7 that?

8 Q. Have you looked into that? You indicated
9 earlier that the board of directors approved these, is
10 that your understanding?

11 A. That's my understanding that the ultimate
12 payout is approved by the board of directors, yes.

13 Q. You testified that -- assuming that the
14 board of directors made the decision -- that they
15 should not have awarded a certain incentive if a goal
16 is missed by one half of one percent; is that correct?

17 A. No, I did not say that they should not have
18 awarded it. As I say in my testimony on page 30, line
19 7 through 10, although it is certainly within the
20 board's discretion to award bonuses as it sees fit,
21 it does not seem fair, just or reasonable for
22 ratepayers to bear the burden of that generosity.

23 Q. So you did make a conclusion that the board
24 of directors has made a decision about this one half

25 of one percent issue; isn't that correct?

(KELLY - CROSS BY MARSHALL)

2434

1 A. Repeat.

2 Q. Your testimony does indicate that it's your
3 understanding that the board of directors does make
4 that decision, correct?

5 A. Yes. I believe that's discussed in the
6 company's response to record requisition 528.

7 Q. Do you agree that it's proper for the board
8 of directors to be concerned about employee morale in
9 general principle?

10 A. Yes, in general.

11 Q. As a general principle is it wise to
12 eliminate flexibility in dealing with employees who
13 are not?

14 A. That all depends.

15 Q. Would you agree that if you're overly rigid
16 and inflexible that that could be counterproductive
17 and that could hurt customers in the end by making
18 employee morale go down?

19 A. No, I wouldn't agree with that.

20 Q. Is it your opinion that the board of
21 directors of Puget Power acted imprudently, as that
22 term is defined under traditional regulation, in
23 setting executive compensation?

24 A. In setting executive compensation?

25 Q. Correct.

(KELLY - CROSS BY MARSHALL)

2435

1 A. No, it's not my testimony, that as I stated
2 here, it's within the board of directors discretion to
3 award that. The question is whether the ratepayers
4 should bear that.

5 Q. Is that a question of prudence then?

6 A. No, I don't believe so.

7 Q. What would that be a question of then, in
8 your understanding on what basis would you disallow
9 it?

10 A. I don't think I understand your question.
11 Could you rephrase it.

12 Q. Do you have a basis on which you then
13 disallow any of these costs of salaries other than on
14 prudence?

15 A. Yes. The company has not provided any
16 proof as to why this should be brought above the line
17 when it's been below the line since 1985 and that is
18 stated in my testimony.

19 Q. Do you believe that the board of directors
20 should continue with its program that has been
21 effective?

22 A. I don't know that it's been effective. The
23 company has not provided any information that the
24 results that were achieved were a result of the

25 program, so to make our recommendations of whether it

(KELLY - CROSS BY MARSHALL)

2436

1 should be continued or not I believe is up to the
2 board.

3 Q. What criteria would you set to gather
4 that information?

5 A. Gather what information?

6 Q. On effectiveness? What statistics or data
7 do you believe would be appropriate?

8 A. I think that would depend on what the goals
9 were of the program and how it was carried out.

10 Q. Do you have anything in mind that you can
11 point to, any standard or goals that you have referred
12 to in the past?

13 A. No, I don't.

14 Q. Let's turn to the periodic organizational
15 effectiveness evaluation that you discuss at page 31
16 of your testimony briefly. And you indicated there
17 that you do believe that it is valuable for the
18 company to conduct reviews of the organization on an
19 ongoing basis?

20 A. Yes.

21 Q. Do you believe the company would be
22 imprudent if it did not conduct such reviews on an
23 ongoing basis?

24 A. No, not necessarily.

25 Q. Do you know of any other utility regulated

(KELLY - CROSS BY MARSHALL)

2437

1 by the WUTC that has conducted an organizational
2 effectiveness review on an ongoing basis?

3 A. When you say ongoing, do you mean continual
4 or do you mean that -- I don't know what you mean.

5 Q. Well, at page 31, lines 11 to 12, you said
6 that it is valuable for the company to conduct reviews
7 of the organization on an ongoing basis. I was just
8 trying to use your same phrase, ongoing basis. What
9 did you mean by ongoing basis? I guess I should try
10 to clarify it.

11 A. What I meant there is that the type of
12 reviews that the company has conducted -- that they
13 conducted one in 1989. I guess what I meant by
14 ongoing is that as the company sees fit and in a
15 timely manner that responded to the needs of the
16 company.

17 Q. Should it be done under any specific time
18 frame, once every other year or once every three
19 years?

20 A. I think that depends on the company and
21 what the goals are.

22 Q. Do you know of any other utility regulated
23 by the WUTC that is conducting organizational
24 effectiveness evaluation on an ongoing basis?

25 A. I believe, as I indicated in response to

(KELLY - CROSS BY MARSHALL)

2438

1 data request, that Mr. Paul Redmond came in front of
2 the -- at the Wednesday morning meeting, came in front
3 of the Commission September 23, 1992, and did provide
4 some information about cost cutting cuts that they're
5 taking. However, I don't know if that's under your
6 definition of under an ongoing basis. They are
7 looking at monitoring it and are setting goals.

8 MR. TROTTER: Can you say the company that
9 that person --

10 THE WITNESS: Washington Water Power.

11 Q. Apart from that company are there any other
12 companies that are doing anything along that line at
13 all?

14 A. In the United States?

15 Q. Here in Washington state?

16 A. I don't know.

17 Q. Have you ever participated in an
18 organizational effectiveness review yourself?

19 A. At Fidelity, yes.

20 Q. Do you know of any other examples here in
21 Washington state of that type of a program?

22 A. What type of a program?

23 Q. Organizational effectiveness review.

24 MR. TROTTER: She indicated she wasn't

25 aware of any with utilities. Are you talking about

(KELLY - CROSS BY MARSHALL)

2439

1 Boeing or some other company? If it's dealing with
2 utilities I will object on the basis it's been asked
3 and answered.

4 JUDGE HAENLE: Mr. Marshall.

5 MR. MARSHALL: Withdraw the question.

6 Q. What is your definition of organizational
7 effectiveness review?

8 A. I believe the company provided that
9 definition. Mr. Knutsen in his testimony referred to
10 several -- beginning on page 10 of his T-539 he
11 indicates that the company has conducted a number of
12 effectiveness reviews and then lists five of them
13 there. And then mentions the Towers Perrin.

14 Q. Do all of those come within your definition
15 of organizational effectiveness reviews?

16 A. I am relying on the company's definition of
17 an organizational effectiveness review.

18 Q. Do you have anything separate, any
19 definition of your own separate from that?

20 A. No. Once again, my assignment here was to
21 review what the company has presented.

22 Q. Do you have any experience in conducting
23 the kind of review of the sort conducted by Towers
24 Perrin?

25 A. No, I do not.

(KELLY - CROSS BY MARSHALL)

2440

1 Q. Moving on you indicated that it might be
2 beneficial for the company to more closely examine
3 three separate areas, and page 36 you indicated the
4 customer service program, customer outreach programs,
5 the vegetation management program. Do you see that at
6 page 36 to 37?

7 A. Yes, I do.

8 Q. And in that regard you agreed that Puget is
9 strong in customer satisfaction surveys?

10 A. As I stated here, the customer perception
11 surveys conducted by the company indicate that 90
12 percent of the customers have a favorable perception
13 of the company based on the company's definition of
14 favorable. I believe it was based on seven different
15 areas.

16 Q. You appear to take issue with 185,000
17 amount for the annual costs of training for customer
18 contact personnel. Do you in fact -- does the staff
19 in fact disallow 185,000 for that?

20 A. As I mentioned -- no. As I mentioned here,
21 the concern is also that the 1992 budgeted training
22 costs were \$427 and the -- per full-time equivalent,
23 and achieving extraordinary customer service caused
24 this to rise to 1115 per full-time equivalent.

25 Q. Do you have a background in that type of

(KELLY - CROSS BY MARSHALL)

2441

1 training, customer contact personnel training?

2 A. Yes. While I was at Fidelity I devised a
3 program for my employees.

4 Q. Do you agree that that's an important part
5 of what any service business does is train people to
6 stay in contact with customers, have proper contact?

7 A. Yes, I agree that it's important that a
8 company provide quality customer service.

9 Q. Do you know how much was spent by Fidelity
10 on a per employee basis on customer contact training?

11 A. No, I don't.

12 Q. Now, in an era of increased customer
13 expectations and diversity, isn't it even more
14 important for customer contact training to be refined,
15 improved?

16 A. No, not necessarily. As indicated here
17 that Puget's customers have a favorable perception of
18 the company and they have that in 1992 and they've
19 had that every year since the Energy Plus program was
20 established. They have a favorable rating enough to
21 meet the goal. It hasn't been at 90 percent.

22 Q. Do you know about the Puget language bank,
23 what that is?

24 A. Yes, I do.

25 Q. Do you believe that that's important?

(KELLY - CROSS BY MARSHALL)

2442

1 A. I believe that based on information
2 provided by the company that it's a small program at
3 this point. However, I think that the customers that
4 it serves at this point believe that it's very
5 valuable, yes.

6 Q. Do you know what Puget energy fund is, the
7 energy fund program is?

8 A. Yes, but vaguely.

9 Q. Just in general terms what do you know that
10 that is?

11 A. It's my understanding, since it's part of
12 the community service goal, that there are different
13 events. There's energy fund payroll deductions and
14 then there's contributions that could be made by
15 customers with their bill payment to assist the needy
16 customers of Puget to meet their bills. As I
17 understand them.

18 Q. The people, lower income people who cannot
19 pay their bills or are having difficulty paying their
20 bills, the energy fund is designed in part to help
21 those people, is that your understanding?

22 A. That's my understanding.

23 JUDGE HAENLE: How are you doing on your
24 estimate?

25 MR. MARSHALL: Just about finished.

(KELLY - CROSS BY MARSHALL)

2443

1 Another couple of questions.

2 Q. You do not recommend that Puget eliminate
3 the energy fund program, do you?

4 A. No. I recommend that the company begin to
5 track the costs of this program so that they can know
6 exactly how much money is being spent on it and find
7 out the benefits that are provided, justify those
8 type of expenses.

9 MR. MARSHALL: I have no further questions
10 at this time.

11 JUDGE HAENLE: Do you have questions, Mr.
12 Trincherero?

13 MR. TRINCHERO: No, your Honor.

14 JUDGE HAENLE: Questions, Mr. Furuta?

15 MR. FURUTA: No, I do not.

16 MR. ADAMS: I have a few questions.

17

18 CROSS-EXAMINATION

19 BY MR. ADAMS:

20 Q. Ms. Kelly, referring you to page 8 of your
21 testimony, the sentence that begins at lines 7 where
22 you state, "just as an increase in residential bills
23 may not be indicative of a lack of cost controls, a
24 decrease does not prove that effective cost controls

25 are in place." Do you see that?

(KELLY - CROSS BY ADAMS)

2444

1 A. Yes.

2 Q. Is it your understanding that Puget's
3 kilowatt hours use per customer for the residential
4 class has been declining over the past decade? Would
5 you agree with that subject to check?

6 A. Kilowatt use per customer?

7 Q. Yes.

8 A. Yes, I would agree that's been declining.

9 Q. Would you expect the following factors to
10 contribute to that decline in kilowatt hour use per
11 customer, and again, I am specifically referring to
12 the residential class. First, decreasing average
13 number of people per household, second, increasing use
14 of gas space and water heat relative to electric heat;
15 third, higher proportion of multi-family households
16 relative for single family households; and fourth,
17 strengthened energy codes?

18 A. Those all seem reasonable reasons why the
19 use might be declining.

20 Q. Are any of these factors indicative of any
21 sort of management efficiency on the part of the
22 company?

23 A. No, they're not.

24 Q. Turning to page 12, the paragraph that

25 begins at line 5 where you indicate from 1982 through

(KELLY - CROSS BY ADAMS)

2445

1 1990, growth in employees had been to a varying degree
2 less than growth in number of customers. If in the
3 past Puget used its own employees to install new
4 distribution lines or as an example to perform tree
5 trimming responsibilities but now chooses to use
6 contractors to perform these same tasks, would this
7 affect the customer to employee ratio?

8 A. Yes, that's a concern that I discuss on
9 page 13 about contract labor.

10 Q. Without knowing the details of the expenses
11 of the company and how much labor is embodied in
12 nonlabor accounts, can you draw any conclusions about
13 labor productivity?

14 A. No.

15 Q. One last area. You made a response earlier
16 concerning the PRAM and I recognize that you're not a
17 PRAM expert. But would you agree that under the PRAM
18 and decoupling mechanisms that are in place, revenues
19 can increase due to the increase in the number of
20 customers?

21 A. Yes, that would make sense.

22 JUDGE HAENLE: Commissioners, have you
23 questions?

24 COMMISSIONER CASAD: I just have one. By

25 way of clarification.

(KELLY - CROSS BY ADAMS)

2446

1

2

E X A M I N A T I O N

3

BY COMMISSIONER CASAD:

4

Q. Counsel asked you a series of questions

5

which I interpreted to attempt to establish that the

6

board of directors ultimately was responsible for,

7

decisions on bonuses and bonus programs and that kind

8

of thing. In your testimony on page 21 you indicate

9

that an Energy Plus payout, that there was a decision

10

by management that a goal had been achieved which in

11

fact you felt had not been achieved or had not been

12

achieved according to the established criteria, and

13

you indicated that senior management made the decision

14

to award this extra increment. By senior management I

15

interpret that to be senior management of the company,

16

not the board of directors. Is that a correct

17

interpretation?

18

A. That's my understanding based on

19

Mr. Knutsen's deposition testimony, yes. Or cross

20

testimony, actually.

21

Q. Thank you, that's all I have.

22

JUDGE HAENLE: Commissioner, have you

23

questions?

24

25

E X A M I N A T I O N

(KELLY - EXAM BY COMMISSIONER HEMSTAD)

2447

1 BY COMMISSIONER HEMSTAD:

2 Q. Ms. Kelly, with regard to the Pay At Risk
3 program which you characterized, and I probably would
4 agree with it, as a bonus program. I assume you would
5 agree that salary or wages can be comprised of base
6 salary and a bonus, two different components, from the
7 perspective of the employee he or she will look at the
8 potential total take home pay that could be achieved
9 for a given year. Isn't that a reasonable assumption
10 for an employee to make?

11 A. That's reasonable, yes, based on the
12 achievement of the goals to -- if they suppose that
13 they achieve the goals, then they might rely on that.

14 Q. Is it your position that a bonus program
15 for executives is an inappropriate element to be
16 included in a total wage or salary package for
17 purposes of including as a cost above the line as
18 against the bonus aspect being treated below the line?

19 A. It's my testimony that the company has not
20 provided evidence as to why this element should be
21 brought above the line so it seems premature to make
22 any type of assessment as to whether that would be
23 appropriate or inappropriate.

24 Q. So it's your position that it's not

25 inherently inappropriate but that the company simply

(KELLY - EXAM BY COMMISSIONER HEMSTAD)

2448

1 has not adequately justified why it should be above
2 the line?

3 A. Yes. That's my position. That's my
4 understanding.

5 Q. Do you have any view as to whether total
6 executive compensation is excessive?

7 A. For the company?

8 Q. For the company?

9 A. I do not have a view on that, no.

10 Q. No further questions.

11 JUDGE HAENLE: Do you have redirect, Mr.
12 Trotter?

13 MR. TROTTER: Yes, I do.

14

15 REDIRECT EXAMINATION

16 BY MR. TROTTER:

17 Q. Turn to page 16 of your testimony. Here
18 you begin your analysis of the salary and benefits
19 expenses; is that right?

20 A. Yes.

21 Q. In your answer on line 23 you state, "on
22 the surface it appears that the company has maintained
23 a fairly stable average employee pay when adjusted for
24 inflation." Do you see that?

25 A. Yes, I do.

(KELLY - REDIRECT BY TROTTER)

2449

1 Q. Let's scratch the surface. Would you turn
2 to Exhibit 718, page 4. And 4 meaning the number in
3 the lower right-hand corner of that exhibit.

4 A. Yes.

5 Q. Is an element of employee expense overtime
6 wages?

7 A. Yes, I believe it is.

8 Q. And here is a trend in overtime wages for
9 what period of time?

10 A. It begins as the first quarter of 1988 --
11 '88-1 is the first quarter and continues through the
12 third quarter of 1991.

13 Q. Is this Puget data?

14 A. Yes. It was part of an internal Puget
15 report.

16 Q. And the note that talks about that the
17 trend appears to be continuing unabated, was that
18 added by you or was that on the company document?

19 A. No, that's on the company document.

20 Q. Mr. Adams talked to you about outside
21 contractors. Do you recall that question?

22 A. Yes.

23 Q. Would you turn to your Exhibit 717 and this
24 shows contract labor expense trend; is that right?

25 A. Yes, it does.

(KELLY - REDIRECT BY TROTTER)

2450

1 Q. And this is for Puget for the various years
2 indicated?

3 A. Yes. It's based on the company's response
4 to data request 2483. This represents all of the data
5 that the company has, they do not have anything back
6 past 1986.

7 Q. And is reliance on contract labor an
8 element of the company's overall work force?

9 A. Yes.

10 Q. Now, you did reach a conclusion that the
11 company's benefits for employees were being
12 controlled; is that right?

13 A. Yes, I did.

14 Q. Did the Towers Perrin report address
15 employee benefits?

16 A. Yes, it did. It addressed the
17 administration of the benefits and suggested that that
18 was an area for improvement that could be achieved
19 within a short -- what they define as the near term
20 which is an implementation timing within the next six
21 to 18 months, and this is discussed on page 53 of the
22 Towers Perrin report, and it shows that there is a
23 potential for savings of nearly -- approximately
24 \$200,000 a year.

25 Q. And that would be page 53 of Exhibit 688?

(KELLY - REDIRECT BY TROTTER)

2451

1 A. That is correct. And the breakdown for
2 those expenses is included in the attachment A.

3 Q. Now, I believe you mentioned this in
4 response to some questions, but was it your role in
5 this case to review the company-supplied evidence to
6 determine whether it justified the company's
7 conclusion?

8 A. Yes.

9 Q. And in that effort did you engage in
10 issuing data requests and reviewing numerous documents
11 supplied by the company?

12 A. Yes, I did.

13 Q. And you participated in the deposition and
14 cross-examination process?

15 A. Yes.

16 Q. Did you conduct an independent evaluation
17 of Puget's efficiency status?

18 A. No. The company had -- about the same time
19 they were filing the case they hired Towers Perrin to
20 conduct that.

21 Q. Do you recall how much the company
22 indicated it was paying for that Towers Perrin
23 analysis?

24 A. Yes. I believe it was in the area of

25 \$700,000.

(KELLY - REDIRECT BY TROTTER)

2452

1 Q. Did that exceed by substantial margin the
2 cost that this Commission was able to put in place for
3 your services?

4 A. Yes, I would say so.

5 Q. With respect to the Energy Plus program
6 there was some questions on whether that program was
7 service and cost control related. Did you respond
8 that it was both service and cost control related?

9 A. Mr. Knutsen has indicated that it's more
10 service than cost.

11 Q. Did the company use the Energy Plus program
12 as evidence of cost control in its presentation?

13 A. Yes, they included it under that heading.

14 Q. With respect to incentives, is meeting the
15 O and M budget a goal in the Energy Plus program?

16 A. Yes, it is.

17 Q. In your view, do employees need financial
18 incentives to meet a budget?

19 A. Well, that's questionable. It seems that
20 the employees should be able to meet their budget with
21 or without an incentive. The company does address
22 that this year in the Energy Plus program.

23 Q. How did they address it this year?

24 A. They established an additional goal, in

25 addition to now coming in and meeting the budget, if

(KELLY - REDIRECT BY TROTTER)

2453

1 they exceed the budget -- I mean if they come in 10
2 percent below the budget then they will receive an
3 additional bonus. So they receive one bonus for
4 meeting the budget and then another bonus for coming
5 in 10 percent below.

6 Q. Let's take a look at your Exhibit 721,
7 which is excerpt from -- where did you get this? It's
8 titled excerpt from Energy Plus brochure 1993; is that
9 right?

10 A. Yes. The Energy Plus brochure was provided
11 in response to data request No. 2458.

12 Q. Turn to page 3 of the exhibit which is
13 pages 14 and 15 from the brochure?

14 A. Yes.

15 Q. Are these the community service and
16 environmental goals that Mr. Marshall was asking you
17 about, and I guess they continue on to the next page?

18 A. Yes. On page 14 and 15 of the community
19 service and then on page 16 are the environmental.

20 Q. And am I correct that you allocated a
21 portion of the Energy Plus payout to remove the
22 expenses related to this program?

23 A. The incentives, the incentive payout
24 related to these goals, yes.

25 Q. And that was the Jewell case we talked

(KELLY - REDIRECT BY TROTTER)

2454

1 about?

2 A. That is correct.

3 Q. This includes blood bank donations; is that
4 right, and food drives?

5 A. Yes.

6 Q. Is there any requirement, to your
7 knowledge, that these activities occur within Puget's
8 service territory?

9 A. No. And to my knowledge there's no
10 verification that the employees actually do these.

11 Q. Has Puget made any allocation of these
12 points as they're earned between whether they are in
13 Puget's service territory or outside its territory?

14 A. No, I don't believe so.

15 Q. You were asked a number of questions about
16 whether employee compensation should be within the
17 broad discretion of management. Do you believe that
18 this is a legitimate area for the Commission to
19 examine when it comes time for these types of expenses
20 to be included in rates?

21 A. Oh, yes.

22 Q. With respect to the Energy Plus goals that
23 Commissioner Casad asked you about on page 29 of
24 your testimony. What was the -- I take it prior to

25 this year the Energy Plus goal was to meet or be below

(KELLY - REDIRECT BY TROTTER)

2455

1 budget or meet budget?

2 A. It was to meet budget.

3 Q. And was that goal achieved?

4 A. No, it was not. The company came in, I
5 believe, approximately \$400,000 over budget.

6 Q. You were asked about the propriety of
7 customer training programs. Was your concern about
8 the fact of customer training programs or the cost of
9 the customer training programs?

10 A. The cost, not the fact.

11 Q. You also were asked about the language
12 bank. Is that a program where if a person who calls
13 Puget, a customer who does not have English as their
14 native tongue that Puget is in a position to offer
15 someone to be able to converse with them about an
16 issue?

17 A. Yes, in several different languages.

18 Q. Are you opposing that service by suggesting
19 it should not be offered?

20 A. No.

21 Q. What is your concern?

22 A. My concern is that the specific costs
23 associated with this program are not tracked and so
24 the company does not know how much of its resources

25 are being expended for this program, and it seems that

(KELLY - REDIRECT BY TROTTER)

2456

1 if this is to grow larger then it would be very
2 important to keep those costs in control and it should
3 be done now.

4 MR. TROTTER: No further questions.

5 JUDGE HAENLE: Recross.

6 MR. MARSHALL: Yes, just a couple of
7 questions to clarify one issue.

8

9

RECCROSS-EXAMINATION

10 BY MR. MARSHALL:

11 Q. When we were discussing the board of
12 directors' involvement in pay at risk decisions we
13 were talking about just the Pay At Risk program that
14 affects the 50 employees and not the Energy Plus
15 program; is that correct?

16 A. Yes.

17 Q. I just want to make sure that I didn't
18 inadvertently mislead Commissioner Casad. We weren't
19 talking about the board of directors' involvement in
20 making a decision on an Energy Plus payout, we were
21 talking about the Pay At Risk payout by the board of
22 directors; is that correct?

23 A. Yes, that's correct.

24 MR. MARSHALL: No further questions.

25 JUDGE HAENLE: Anything more of the

(KELLY - RE CROSS BY MARSHALL)

2457

1 witness?

2 MR. ADAMS: One clarifying question, since
3 counsel has just referred to Exhibit 721 and at page
4 15 there's a reference -- I guess page 14 of that
5 attachment it says Energy Fund. Is that the fund that
6 is basically a charitable fund that is made available
7 for helping customers with their bills?

8 THE WITNESS: That's my understanding, yes.

9 MR. ADAMS: Thank you.

10 JUDGE HAENLE: Anything more of the

11 witness?

12 All right. Let's go off the record to
13 change witnesses.

14 Whereupon,

15 DIANE SORRELLS,

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

18 (Recess.)

19 JUDGE HAENLE: Let's be back on the record.

20 During the time we were off the record we changed
21 witnesses. Also, during the time we were off the
22 record we marked for identification three documents as
23 follows: Marked as Exhibit T-722 for identification
24 is a 17-page document in the upper right-hand corner.

25 It has DRS-testimony.

(SORRELLS - DIRECT BY TROTTER)

2458

1 723 for identification, two pages DRS-1.

2 And 724 in one page, DRS-2.

3 (Marked Exhibits T-722, 723, 724.)

4

5 DIRECT EXAMINATION

6 BY MR. TROTTER:

7 Q. Would you please state your name and

8 business address.

9 A. My name is Diane Sorrells, S O R R E L L S.

10 My business address is 1300 South Evergreen Park Drive

11 Southwest, Olympia, 98504.

12 Q. And you are employed by the Washington
13 Utilities and Transportation Commission as a utility
14 rate research specialist?

15 A. Yes.

16 Q. In the course of your duties as a utility
17 rate research specialist, did you prepare testimony
18 and exhibits in this case?

19 A. Yes.

20 Q. Referring you to Exhibit T-722, is that
21 your direct testimony?

22 A. It is.

23 Q. If I asked you the questions that appear
24 there, would you give the answers that appear there?

25 A. Yes.

(SORRELLS - DIRECT BY TROTTER)

2459

1 Q. And in the course of that testimony you
2 refer to exhibits prepared by you which are 723 and
3 724 for identification.

4 A. Yes.

5 Q. Are those true and correct to the best of
6 your knowledge?

7 A. Yes, they are. I would like to point out
8 that on 724 there is an update which was included as
9 response to data request 4094. It includes a little
10 more detail than the original.

11 Q. For present purposes is 724 an accurate
12 representation?

13 A. Yes, it is accurate. There's just more
14 detail on data request 4094.

15 Q. You're not proposing that be made an
16 exhibit at this time?

17 A. No. It's up to the parties.

18 MR. TROTTER: Your Honor, I would move for
19 the admission of Exhibit T-722, 723 and 724.

20 JUDGE HAENLE: Any objection?

21 MR. MARSHALL: No objection.

22 MR. ADAMS: Your Honor, I have no
23 objection. But the only question whether the
24 information that the witness just referred to is

25 different from that already contained in 724 or not.

(SORRELLS - DIRECT BY TROTTER)

2460

1 I'm a little confused as to the accuracy of 724.

2 JUDGE HAENLE: I believe the witness
3 indicated that it was accurate. The other one just
4 went into more detail, not that it had changed but
5 that it expanded it to some extent. Am I correct?

6 THE WITNESS: That's correct.

7 MR. ADAMS: No objection.

8 MR. TRINCHERO: No objection.

9 MR. FURUTA: No objection.

10 JUDGE HAENLE: Exhibits T-722, 723 and 724
11 will be entered into the record.

12 (Admitted Exhibits T-722, 723, 724.)

13 MR. TROTTER: Witness is available for
14 cross.

15

16 CROSS-EXAMINATION

17 BY MR. MARSHALL:

18 Q. As I understand your testimony you're
19 testifying about disallowing certain conservation
20 advertising expenses; is that correct?

21 A. Yes.

22 Q. And how much would you disallow? What is
23 the total?

24 A. A reduction in rate base of \$2,507,367 and

25 a reduction to the amortized portion of \$259,896.

(SORRELLS - CROSS BY MARSHALL)

2461

1 Q. Would your recommendations require the
2 company to write off any conservation amounts that it
3 had already booked?

4 A. I think I would prefer you direct that
5 question to a revenue requirements specialist. I am
6 not sure what you mean by write off.

7 Q. Have any conservation advertising expenses
8 been accumulated and deferred to any account that
9 you're aware of?

10 A. They may have been deferred to the
11 conservation account.

12 Q. Do you know whether the consequence of your
13 recommendation would require any write off of any part
14 of that amount, assuming that it's been accumulated
15 and deferred to that type of account?

16 A. I am not specifically aware but the
17 deferred account may not have already -- may not have
18 been addressed in any rate case prior to this.
19 Therefore it would not have had an opportunity to be
20 reviewed.

21 Q. Do you have background in advertising
22 experience in advertising?

23 A. You mean have I worked as -- in an
24 advertising company?

25 Q. Yes, or as media consultant type of a

(SORRELLS - CROSS BY MARSHALL)

2462

1 company?

2 A. No, I am not a media consultant. I worked
3 on the collaborative discussing advertising and in
4 Minnesota on conservation advertising.

5 Q. Have you made any formal studies in the
6 course of that of the effectiveness of certain types
7 of advertising?

8 A. In my general background as a research
9 analyst both here and in Minnesota I've looked into
10 various forms of advertising and how effective they
11 can be.

12 Q. Are you aware that Puget employed an
13 advertising media consultant with respect to its
14 conservation advertising programs?

15 A. Yes, I am.

16 Q. Do you know who that person is?

17 A. I believe it's Maura O'Neill.

18 Q. Have you discussed any of your conclusions
19 with her?

20 A. In this testimony, no, but during the
21 collaborative process both I and other members of
22 staff have discussed with her what we consider were
23 concerns about the advertising campaign.

24 Q. Would you consider her as an expert in

25 advertising?

(SORRELLS - CROSS BY MARSHALL)

2463

1 A. If you mean she is employed in that field,
2 yes.

3 Q. Do you have any doubts as to her expertise
4 in that area?

5 A. I don't know how you expect me to answer
6 that. I mean, I have concerns about some methods
7 used. I do not question her expertise.

8 Q. That's all I was asking, questions about
9 her expertise. Do you recognize conservation
10 advertising as essential to the purpose of achieving
11 conservation?

12 A. It depends how broadly you use the term
13 advertising. Some forms of providing information are
14 necessary to encourage conservation among customers,
15 but beyond that I would have to have a specific
16 example that you have in mind.

17 Q. Have you gone into a review of individual
18 advertising programs to make judgments on specific
19 advertising programs of the company?

20 A. I looked at the specific areas that the
21 company has covered with their conservation
22 advertising programs and their other general
23 advertising programs.

24 Q. I am actually trying to refer more

25 specifically to a certain program of an advertisement

(SORRELLS - CROSS BY MARSHALL)

2464

1 in a newspaper or a TV advertising spot to look at the
2 effectiveness of a particular advertising program?

3 A. I am aware of the results from the survey
4 run by Maura O'Neill on the effectiveness of various
5 kinds of advertising.

6 Q. But have you examined a particular
7 advertising campaign, say, in the newspapers on
8 particular subject to evaluate its specific
9 effectiveness?

10 A. I read what Maura O'Neill did, so as far as
11 she was specific about any particular advertising
12 campaign, yes.

13 Q. Would you consider it appropriate for the
14 company to rely on expertise from outside the company
15 in helping to establish and target its specific
16 conservation advertising programs?

17 A. It would not seem inappropriate to do so.

18 Q. Now, is there any specific advertising or
19 advertisement that you believe is political or
20 promotional?

21 A. The way I refer to it in my testimony is by
22 the categories that the company used to describe the
23 purposes of their advertising.

24 Q. I am trying to refer to a specific

25 advertisement in the newspaper or on TV. Can you

(SORRELLS - CROSS BY MARSHALL)

2465

1 point to a specific advertising -- advertisement that
2 you consider would be political or promotional?

3 A. Well, if you want me to refer to particular
4 ones I can. I know that they were included as
5 examples in Mr. Blackman's testimony for public
6 counsel, but there is the television commercial that
7 includes the exchanges with California and the same as
8 the radio commercials that indicate the same
9 information.

10 Q. Apart from the TV and radio commercials on
11 the exchanges with California, are there any others
12 that you would categorize as political or promotional?

13 A. Yes. Some of the newspaper ones seem to be
14 more image building than actually providing
15 information on conservation available to customers.

16 Q. Can you refer me to the specific ones you
17 have in mind?

18 A. The one that comes to mind first is the one
19 with the high-five and the company members doing the
20 high-fives and the graph behind it, that's the one
21 that's been referred to before in deposition.

22 Q. What is that graph of?

23 JUDGE HAENLE: Well, the document is in the
24 record, is it not?

25 Q. Isn't that a graph on conservation savings?

(SORRELLS - CROSS BY MARSHALL)

2466

1 A. Yes.

2 Q. Is there any other specific newspaper ad
3 that you can point to?

4 A. Not off the top of my head.

5 Q. Any other advertisement of any kind you can
6 point to specifically that you consider to be
7 political or promotional?

8 A. Well, since we've covered three mediums I
9 am not sure that there are many other mediums.

10 Q. I didn't mean to exclude just one example
11 from each. I was hopeful that you could give me the
12 specific programs. We just have three, the TV
13 exchange with California, the radio and then the
14 newspaper ad on the graph with the conservation?

15 A. Again, I would refer you to the information
16 provided by the company on the effectiveness of their
17 programs and the information given in deposition by --
18 I believe it's Mr. Storey on the fact that the
19 advertising covers more than just conservation, that
20 they look at questions of public image and overall
21 service as the issue of locating power lines.

22 Q. I guess just to be specific, apart from the
23 three specific advertisements that you pointed out, do
24 you have in mind any other specific example?

25 A. No. I am referring in general to the tone

(SORRELLS - CROSS BY MARSHALL)

2467

1 of the whole advertising campaign.

2 Q. Now, you take some issue with whether the
3 cost of advertising on conservation has gone up on an
4 average megawatt basis since 1991?

5 A. That is correct.

6 Q. Would you agree that in general that the
7 first savings in conservation programs are often the
8 easiest savings?

9 A. Yes, but it would depend on if the program
10 was conducted service area wide or within one area so
11 there would still be those first savings for those
12 consumers who hadn't already participated in the
13 program in the earlier years.

14 Q. Of course in the earlier years the most
15 obvious things that could be done to conserve energy
16 are those things that are generally the easiest that
17 would result in the biggest savings. Is that a fair
18 statement in general?

19 A. Yes, that's right, but not everyone does
20 them in those earlier years. There are still people
21 who don't have them in place.

22 Q. You also mentioned that bill inserts are
23 the least costly form of advertising. Is that a fair
24 statement of what you believe?

25 A. Yes.

(SORRELLS - CROSS BY MARSHALL)

2468

1 Q. Have you done any effectiveness study on
2 how effective bill inserts are compared to other forms
3 of advertising?

4 A. I relied on the information provided by the
5 survey done for the company by Maura O'Neill.

6 Q. Was she involved in determining how much
7 effort to put into bill inserts versus other types of
8 media?

9 A. I believe so.

10 Q. If advertising were just limited to bill
11 inserts, would you agree that the average megawatt
12 savings would be reduced, conservation would be
13 reduced?

14 A. Well, it would depend on whether the
15 advertising was geared solely at conservation or
16 whether it was on other aspects of company business,
17 too.

18 Q. Are you recommending that the company only
19 do advertising for conservation through bill inserts?

20 A. No.

21 JUDGE HAENLE: I don't know how much you
22 have of the witness but we're getting up toward the
23 noon hour. Can you find a place to break?

24 MR. MARSHALL: That was all the questions I

25 had.

(SORRELLS - CROSS BY MARSHALL)

2469

1 JUDGE HAENLE: Let's break for lunch at
2 this time.

3 (Luncheon recess taken at 12:00 noon.)
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(SORRELLS - CROSS BY MARSHALL)

2470

1

AFTERNOON SESSION

2

1:30 P.M.

3

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10

CROSS-EXAMINATION

11

BY MR. TRINCHERO:

12

Q. Good afternoon, Ms. Sorrells.

13

A. Good afternoon.

14

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JUDGE HAENLE: Let's be back on the record after the lunch recess. Mr. Trincherro, do you have questions?

MR. TRINCHERO: Yes, just a few, your Honor.

Q. At page 14 of your testimony in Exhibit T-722 at line -- starting at line 18 you state that "A lot of DSM has been acquired but at a fairly high cost to ratepayers." Are you familiar with the manner in which the cost of conservation is recovered by the company?

A. Yes.

Q. Is that through the PRAM?

A. Yes.

Q. And how are those costs spread among Puget ratepayers? Are you familiar with that?

25 A. Across all classes.

(SORRELLS - CROSS BY TRINCHERO)

2471

1 Q. And therefore, for example, a residential
2 conservation measure such as low flow shower heads,
3 the costs associated with that would be spread across
4 all customers?

5 A. That is correct.

6 Q. You also mentioned in your testimony
7 Pacific Corp's energy services charge. Are you
8 generally familiar with how that operates?

9 A. Yes.

10 Q. How would that differ from the approach
11 taken under the PRAM as far as recovery of a
12 conservation investment?

13 A. Any costs that weren't covered by the
14 participants themselves would be recovered through a
15 general rate case.

16 Q. But generally the cost of the conservation
17 measure is paid for by the customer that is directly
18 receiving that conservation measure?

19 A. That is correct, except for some
20 administration.

21 MR. TRINCHERO: Thank you, I have no
22 further questions.

23 JUDGE HAENLE: Have you any questions, Mr.
24 Furuta?

25 MR. FURUTA: No, your Honor.

(SORRELLS - CROSS BY TRINCHERO)

2472

1 JUDGE HAENLE: Mr. Adams?

2 CROSS-EXAMINATION

3 BY MR. ADAMS:

4 Q. Ms. Sorrells, I only have a few questions.
5 I want to start off with a reference that you had in
6 response to Puget's counsel the high-five ad that you
7 referred to. Do you recall that?

8 A. Yes.

9 Q. Is that the ad or would you accept subject
10 to check that that is the ad that is contained as an
11 attachment to the deposition to Mr. Swofford which is
12 Exhibit 609?

13 A. Yes.

14 Q. I think the caption is how are we doing so
15 far?

16 A. Yes, that is the caption.

17 Q. Have you reviewed the testimony of Dr.
18 Blackman in this case?

19 A. Yes, I have.

20 Q. I would give you a citation, you needn't go
21 to it, but at page 48 of Dr. Blackman's testimony he
22 addresses his criticism of that ad. Are you familiar
23 with that testimony?

24 A. Yes, I am.

25 Q. Assuming for the moment that we could

(SORRELLS - CROSS BY ADAMS)

2473

1 categorize that ad as dealing with conservation, do
2 you believe that it is factually correct or correctly
3 depicts the energy usage of customers?

4 A. No, I do not. The picture shows the energy
5 use of customers is going down. That may not be true
6 on average.

7 Q. Well, in fact is not average use for the
8 company as a whole going up?

9 A. Yes, it is.

10 Q. It's residential usage that's coming down,
11 is that not correct?

12 A. That is correct.

13 Q. Would you agree that residential usage has
14 not come down anywhere near the way it's shown on that
15 graph in that particular advertisement?

16 A. That's right. The graph is far too steep.

17 Q. I don't know whether you got into this as
18 part of the examination of Puget's filing, but do you
19 know, there were references this morning to Ms.
20 O'Neill in her capacity as being retained by the
21 company for advertising. Is the scope of her
22 responsibilities to Puget broader than simply
23 conservation advertising?

24 A. My understanding is that it's broader than

25 conservation.

(SORRELLS - CROSS BY ADAMS)

2474

1 Q. Now, I want to read you a question and
2 answer from the testimony of Dr. Blackman which has
3 not yet been put into evidence, page 41, beginning at
4 line 3, and this is in reference to the advertising
5 campaign and its review by the technical collaborative
6 group. The question is: Was this advertising
7 campaign reviewed in advance by public counsel and
8 other interested parties?

9 "ANSWER: It is my understanding that the
10 company made a presentation on this campaign in May
11 1991 to the company's technical collaborative group.
12 I further understand that public counsel and other
13 representatives in that collaborative expressed
14 concern and objection at that time as well as at later
15 times about the focus and cost of the planned
16 advertising." Are you familiar with that testimony?

17 A. Yes, I am.

18 Q. Is that statement true to the best of your
19 understanding?

20 A. Yes, it is true.

21 Q. Was staff one of those who raised
22 objections --

23 A. Yes.

24 Q. -- to the advertising?

25 I believe at that time that was Mr. Folsom,

(SORRELLS - CROSS BY ADAMS)

2475

1 was that correct?

2 A. That is correct.

3 Q. Just for the record, Mr. Folsom has since
4 left the Commission; is that correct?

5 A. Yes.

6 Q. You have reviewed, I think you've said, the
7 testimony of Dr. Blackman concerning the conservation
8 advertising, correct?

9 A. Yes.

10 Q. Would you agree that staff's general
11 concerns and public counsel's concerns on this issue
12 are similar?

13 A. Yes, I would.

14 Q. Do you have any quantification of the
15 difference in any proposed adjustment that you are
16 making versus that of public counsel?

17 A. Yes. In round figures I believe Dr.
18 Blackman is recommending a reduction of about 3
19 million in rate base and staff is recommending about 2
20 million, and then he has a further reduction of
21 241,000 which is comparable to our 259,000.

22 Q. So they're close but the public counsel
23 recommendation is a slightly larger disallowance; is
24 that correct?

25 A. Yes, it is for rate base.

(SORRELLS - CROSS BY ADAMS)

2476

1 Q. Now, did you and Dr. Blackman have any
2 discussions concerning your respective adjustments
3 before either or both of you filed your prefiled
4 testimony?

5 A. No. I haven't seen them in six months or
6 so.

7 Q. On page 6 of your testimony, line 4, you
8 make the statement, "Puget is currently implementing
9 schedule 83 in a prudent manner." When you say the
10 word "currently implementing schedule 83," are you
11 referring to the time since the revised schedule 83
12 was approved, I think in January of this year, or what
13 time frame are you referring to?

14 A. Yes. I am referring to the time frame
15 after January this year when it was approved, when the
16 schedule 83 was approved by the Commission.

17 Q. Prior to that time in specifically the fall
18 of 1992, did staff have concerns with specific
19 programs under the then implemented schedule 83?

20 A. Yes, there were concerns raised by staff
21 and the collaborative and some of those issues were
22 raised in the PRAM 2 filing.

23 Q. In particular one of the those was the heat
24 pump program of the company?

25 A. Yes.

(SORRELLS - CROSS BY ADAMS)

2477

1 Q. And the implementation of schedule 83 in
2 January basically implemented sort of a methodology or
3 test called the total resource cost test; is that
4 correct?

5 A. That's right.

6 Q. One last question referring you to your
7 testimony at page 13, line 9 where you refer to
8 Washington Water Power. You're talking about the
9 various programs of different companies in this
10 jurisdiction. And the last part of that sentence says
11 "It requires a payment for KWH saved under its energy
12 exchange program." Do you see that?

13 A. Yes.

14 Q. As a clarification, am I not correct that
15 the payments made by a customer are based on generic
16 savings not customer-specific savings?

17 A. That is correct.

18 Q. And this is the reference to the five-year
19 payment that a customer makes for being given money to
20 fuel switch; is that correct?

21 A. That is correct.

22 MR. ADAMS: That's all I have.

23 JUDGE HAENLE: Commissioners, have you
24 questions?

25

(SORRELLS - EXAM BY COMMISSIONER CASAD)

2478

1 E X A M I N A T I O N

2 BY COMMISSIONER CASAD:

3 Q. The only element or the only exception
4 apparently, Ms. Sorrells, that you're taking to the
5 company's case relates to advertising; is that
6 correct?

7 A. Yes, it is.

8 Q. And you have no disagreement as to the
9 level of conservation that has been achieved under the
10 program, the cost effectiveness of that conservation
11 and the timing in which it's been acquired. There's
12 no problem in that area at all?

13 A. No. Given the approval of the methods that
14 we used at the time I believe they were prudent.

15 Q. And in the advertising area it is not your
16 position that all of Puget's alleged conservation
17 advertising should be disallowed?

18 A. That is correct.

19 Q. There's a portion of it which you feel is
20 supportive of the program and is cost effective?

21 A. That is correct, and that's represented in
22 Exhibit DRS-2.

23 Q. Thank you very much.

24 JUDGE HAENLE: Commissioner?

1 E X A M I N A T I O N

2 BY COMMISSIONER HEMSTAD:

3 Q. I don't have a substantive question. I
4 have a question about your testimony on page 3 and it
5 was to my understanding of what it was saying. Fairly
6 technical, I guess, and beginning at line 18 and
7 through 25 when it says "One year life conservation
8 measures have to cost Puget 80 percent or less of what
9 conservation avoided costs of about 2.3 cents
10 according to Puget's March 1993 work papers for
11 schedule 83." I don't understand the phrase have to
12 cost Puget. What does that mean?

13 A. What I mean is that unless the conservation
14 costs less than their avoided cost of building supply
15 side resources then it would not be in the company's
16 or ratepayers' interest.

17 Q. And they put that at an 80 percent target,
18 unless they save at least 80 percent or they won't
19 proceed, is that the point?

20 A. If the measure costs more than 80 percent
21 of the avoided cost they will not necessarily pursue
22 it and that's to give some leeway into whether the
23 assumptions about the cost effectiveness of the
24 program were correct.

25

JUDGE HAENLE: Redirect.

(SORRELLS - EXAM BY COMMISSIONER CASAD)

2480

1

2

REDIRECT EXAMINATION

3

BY MR. TROTTER:

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7

Q. Ms. Sorrells, you were asked some questions about whether you had conducted any studies regarding the effectiveness of Puget's advertising for conservation. Do you recall that?

8

A. Yes.

9

10

11

Q. I believe you said you hadn't done an independent study. Are you relying on the company's studies that were provided in this case?

12

A. Yes, I am.

13

14

15

Q. With respect to Ms. O'Neill you said you had concerns about methods is what I wrote down. Could you elaborate on your concerns?

16

17

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19

20

A. What I meant by that was that after the survey results came in, the way in which she continued with the advertising campaign would not be what I would have concluded as the best way to continue given the results of the survey.

21

Q. And could you be a little more specific?

22

23

24

A. In particular I was thinking that given the understanding of people's ability to remember the messages from the television commercials and their

25 ability to remember stuff from bill inserts people

(SORRELLS - REDIRECT BY TROTTER)

2481

1 were remembering stuff well from bill inserts and that
2 may have been a better way to pursue carrying out
3 conservation programs.

4 Q. You were also asked some questions about
5 whether the first savings for conservation are the
6 easiest. Have there been any technological changes in
7 the way conservation is delivered?

8 A. Yes, there have been, and because of the
9 technological changes that would mean there would be
10 more easy savings to get now despite starting programs
11 earlier.

12 MR. TROTTER: Nothing further, thank you.

13 JUDGE HAENLE: Anything more?

14 COMMISSIONER CASAD: May I come back in
15 briefly.

16 JUDGE HAENLE: Certainly.

17

18 E X A M I N A T I O N

19 BY COMMISSIONER CASAD:

20 Q. In your testimony it's been indicated that
21 the area which has been exploited for -- the area
22 which has been apparently effectively exploited is in
23 the residential area. That's where or at least that's
24 where usage has decreased, indicating that there has

25 not been an effective exploitation of the available

(SORRELLS - EXAM BY COMMISSIONER CASAD)

2482

1 conservation in the industrial and commercial areas.

2 Would that be your view?

3 A. That there hasn't been enough conservation

4 view in the industrial and commercial areas?

5 Q. Yes.

6 A. This is a difficult one to answer. There

7 are conservation programs in those areas and usually

8 when they are carried out the savings can be

9 significant for any one participant given the size of

10 their energy use. There are still further areas to

11 look into so I do not think I can answer it

12 specifically. I think they are making progress but

13 there's still further things that could be done but

14 there's still further things in the residential market

15 that could be addressed especially in the multi-family

16 residential market.

17 Q. Is it your view that the greatest amount of

18 cost effective conservation that is available is in

19 the industrial and commercial areas?

20 A. In terms of kilowatt hour savings, yes.

21 Q. Thank you.

22 JUDGE HAENLE: Commissioners, anything

23 else?

24 Mr. Marshall and then we'll go to the

25 others.

(SORRELLS - EXAM BY COMMISSIONER CASAD)

2483

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2

RECROSS-EXAMINATION

3

BY MR. MARSHALL:

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Q. You were asked by Commissioner Casad whether there had been certain portions of the conservation advertising disallowed under your testimony. I understand it to be 50 percent; is that correct?

A. Yes.

Q. So the conservation disallowance that you have is exactly half of the conservation advertising actually done?

A. That is about correct. If you look at the DRS-2 exhibits it shows exactly what I did.

Q. Now, not all of the advertising the company has done they categorize as conservation advertising; is that correct?

A. That's correct.

Q. There is advertising that's been done in other areas that the company did not in any way, shape or form categorize as conservation advertising. Do you know how much that is?

A. I don't know the number off the top of my head. I know that the communications plan was the

25 area that's being included as the cost of conservation

(SORRELLS - RECROSS BY MARSHALL)

2484

1 and that a good portion of that does not relate
2 directly to conservation.

3 Q. Now, you referred to an Exhibit 609 that
4 Mr. Adams actually had mentioned to you, Dr.
5 Blackman's specific testimony that had an ad in the
6 background?

7 A. Yes.

8 Q. That was a cartoon, was it not?

9 A. Yes.

10 Q. And the graph didn't purport to have any
11 numbers on it, did it?

12 A. No, but it was symbolic of the supposed
13 reduction in use.

14 Q. So it wasn't a graph that indicated X
15 percent of energy or any particular number on it, it
16 was just a cartoon showing a general direction?

17 A. Yes, and it gave an impression stronger
18 than the actual current conservation savings.

19 Q. The people on the cartoon were out of
20 scale, actually tall, thin people?

21 A. Maybe you have too thin employees, yes.

22 Q. You mentioned a meeting to Mr. Adams where
23 Mr. Folsom was there. Were you there at this meeting?

24 A. No, not at the May 1.

25 MR. MARSHALL: No further questions.

(SORRELLS - RECROSS BY MARSHALL)

2485

1 JUDGE HAENLE: Anything further?

2 MR. TRINCHERO: No, your Honor.

3 MR. FURUTA: Nothing.

4 JUDGE HAENLE: Mr. Adams.

5

6 RECROSS-EXAMINATION

7 BY MR. ADAMS:

8 Q. One clarifying question to the response you
9 gave to Commissioner Hemstad on the 80 percent figure.
10 Would you agree with this statement that basically the
11 company will expend for its conservation programs up
12 to 100 percent of avoided cost for a conservation
13 resource but it will only pay customers up to 80
14 percent of avoided costs which nets out 20 percent in
15 administrative costs?

16 A. That is correct. That's much better
17 stated, yes.

18 JUDGE HAENLE: Anything more of the
19 witness?

20 Thank you, you may step down. Let's go off
21 the record to change witnesses.

22 (Recess.)

23 Whereupon,

24 KENNETH ELGIN,

25 having been previously sworn, was recalled as a

(SORRELLS - RECROSS BY ADAMS)

2486

1 witness herein and was examined and testified as

2 follows:

3

4 JUDGE HAENLE: Let's be back on the record.

5 During the time we were off the record Mr. Elgin

6 resumed the stand. I would remind you you were sworn

7 on Tuesday and remain under oath. Commissioners.

8

9

E X A M I N A T I O N

10 BY CHAIRMAN NELSON:

11 Q. Good afternoon, Mr. Elgin.

12 A. Good afternoon, Madam Chairman.

13 Q. At page 10 of your testimony, line 7 the
14 statement appears "Requiring conservation may not be
15 in the best interests of utility managers," and I know
16 you've been through this many times but is essentially
17 what you're saying is that the notion of corporate
18 responsibility no longer applies, that management has
19 no incentives to please shareholders?

20 A. No, that's not what I'm saying. I think
21 what the article is suggesting is that to provide
22 incentives to shareholders may be misguided, is that
23 the incentives may be more directly focused to the
24 management of the corporation to pursue least cost

25 resources because in some instances it may apply a

(ELGIN - EXAM BY CHAIRMAN NELSON)

2487

1 shrinking of the utility or less KWH sales and that
2 the typical kinds of things that the concept of fuel
3 growth is good may need to be revisited and provide
4 the right types of incentives so managers do pursue
5 least cost resources.

6 The other tenet of the article showed
7 empirically that total shareholder return was a
8 negative correlated to growth and so that the concept
9 that growth is good because it provides profitability
10 and value to shareholders is not borne out by the
11 empirical evidence of total returns to electric
12 industry.

13 Q. But, again, the whole notion of corporate
14 democracies, shareholders control managers who do not
15 reward shareholders. So what you're essentially
16 saying is that there is some sort of cognitive problem
17 going on, that you need more bonus type things for
18 managers to do least cost planning rather than
19 incentives to shareholders?

20 A. Yes. I think that's what this article is
21 suggesting and I think it provides some very
22 compelling evidence to that fact.

23 Q. Let me turn to page 11 of your testimony.
24 I don't think this is worth belaboring much, but don't

25 you think that in many cases customers just simply

(ELGIN - EXAM BY CHAIRMAN NELSON)

2488

1 don't want to understand rate increases? It's not
2 that they don't understand the process, they just
3 don't like the result?

4 A. No. I guess what I am suggesting is that
5 if customers do understand the basis for what they're
6 paying they don't have a problem. If a customer
7 recognizes that to deliver energy services do in fact
8 cost something they're willing to pay that. What they
9 need to feel comfortable about is whether or not what
10 they're being asked to pay for is fair and whether
11 they understand and have some idea about the costs
12 supporting what they're paying.

13 Q. Turn to page 12. The sentence beginning on
14 line 19, "Decoupling and resource recovery mechanisms
15 are separable." Do you have any reaction to Mr. Bell
16 from the Northwest Conservation Act Coalition's
17 proposal to separate in time elements of the PRAM?

18 A. The only reaction I would have is that you
19 would be dealing with multiple rate changes in a year
20 and that's difficult, so you would have a rate change
21 ostensibly in April for the decoupling portion and
22 then you would have a rate change in October. So
23 arguably you would have two rate increases potentially
24 in a year and that's difficult, more difficult and it

25 kind of goes against one of the Bonbright principles

(ELGIN - EXAM BY CHAIRMAN NELSON)

2489

1 of minimizing rate changes and that type of thing.

2 That would be my only concern about that [-].

3 Q. And again an element of customer
4 explanation is to make it simple and intuitive to
5 understand?

6 A. That would be part of it, yes.

7 Q. At page 15 of your testimony, with respect
8 to segregating the revenue for customer or
9 differentiating the revenue per customer calculation.
10 Do you have any reaction to what I understand may
11 be happening in Oregon with the Pacific decoupling
12 proposal or what may be happening in New York with opt
13 out proposals for industrial customers? Do you have
14 any reaction or does the staff have any reaction to
15 those kinds of decoupling concepts.

16 A. No, ma'am. I have not had enough time to
17 really look into those specific proposals. I don't
18 know what they're doing.

19 Q. Very well. We are all experimenting around
20 the country and these things happen in real time so I
21 can understand that.

22 At page 20, I know you've been over this a
23 lot too. Is what the staff is proposing here what's
24 been called benchmark regulation, that is, trying to

25 compare -- would you contemplate comparing, say,

(ELGIN - EXAM BY CHAIRMAN NELSON)

2490

1 portfolios of resource stacks acquired by various
2 western utilities, for example? Is that the notion
3 you're trying to drive to here?

4 A. No, I think what I'm driving at here is
5 that you need some kind of benchmark in terms of
6 evaluating what particular resource strategy you chose
7 and the current least cost planning process or
8 integrated resource planning process of the company
9 only provides, if you will, a broad guideline with
10 some generic type resources and then runs through a
11 scenario process and integrates demand and supply, and
12 then the result of that is an avoided cost of these
13 different options that Puget could take. So what I am
14 suggesting here is that it may very well be of value
15 to look at in demonstrating prudence what might be an
16 alternate resource stack for planning purposes so that
17 you can compare and say, yes, in fact what we did is
18 least cost. So, for example -- and I am not a
19 planner, but as I looked at Puget's Integrated
20 Resource Plan and what their presentation is in this
21 case, I have nothing to gauge what Puget has acquired
22 with respect to some other standard to say, yes, in
23 fact this is least cost.

24 The other thing that I don't have available

25 is to what policy decisions did Puget make with

(ELGIN - EXAM BY CHAIRMAN NELSON)

2491

1 respect to its various resource options with respect
2 to nonquantitative factors. Why did it choose gas?
3 Why did it choose base load gas? Puget is a
4 hydro-based system. Why did it not choose hydro
5 firming? There is nothing that I have that I can say,
6 yes, this is a least cost mix of resources and that I
7 can compare to. So I am not trying to benchmark them.
8 I am just trying to say that it seems to me that we
9 need something with which Puget can come in and say
10 yes, what we are doing is in fact least cost. I can't
11 tell you.

12 Q. So what you're proposing as an amendment to
13 the planning process as opposed to the acquisition
14 process because they take place at different points in
15 time?

16 A. Right, that's correct and that's one of the
17 things I'm suggesting. There is no connection. The
18 planning process goes along, it's very generic. It
19 has a lot of policy statements in it about, well,
20 we're going to do high efficiency cogeneration. We're
21 going to do conservation, we're going to do renewals,
22 but there is no, if you will, standard with which we
23 can compare that specific strategy that they've taken
24 to how it fits into the existing planning process and

25 then what that bodes for rates. No connection.

(ELGIN - EXAM BY CHAIRMAN NELSON)

2492

1 If I can give you an example. Puget brings
2 in one of those contracts and we review it, but we
3 never ask the question, what does this mean for rates?
4 We talk about fuel supply, we talk about avoided
5 costs, we may talk about where it is in the system and
6 what it might do for Puget's high voltage stability or
7 any one of a number of things but we never do say,
8 well, this resource has this kind of impact on rates.
9 We never make that connection. So on the one hand
10 we're doing planning but we never see how that fits to
11 the rate side.

12 It's my understanding that the Eugene Water
13 and Electric Board has something like that where they
14 do as part of their planning process say under this
15 kind of least cost resource scenario we can anticipate
16 5 percent rate increases or 10 percent or whatever it
17 may be. Our process doesn't have that.

18 Q. So you're recommending a quantification of
19 the resource costs in the planning process. Then that
20 becomes a benchmark for what is later acquired, what
21 in reality comes in for subsequent prudence review?
22 Is that the staff proposal?

23 A. What happens, as we then have an idea of
24 what the company is doing so that we no longer are

25 surprised when we get ten plus rate percent increases

(ELGIN - EXAM BY CHAIRMAN NELSON)

2493

1 in PRAMs. We had an idea that this was coming so that
2 -- it's more of nothing specifically to measure it but
3 at least to have a better heads up of what's on the
4 horizon with respect to ratepayers and so ratepayers
5 as they participate in this process, when Puget says
6 we're going to do high efficiency cogeneration and
7 renewables and conservation and we're going to have
8 two years in a row of 10 percent increases and then a
9 couple of years of 5 percent increases, the public is
10 aware of what the planning process bodes for future
11 rate increases. So that they can meaningfully
12 participate and say, well, maybe we ought to think of
13 something else. We might want to do something
14 different.

15 Q. But, again, to be rigorous, we want the
16 quantification in the least cost plan, that's where
17 you're asking for this notion of a comparison, not
18 only qualitative resources but a quantification of the
19 price of it?

20 A. Right.

21 Q. And then that document, that plan I take it
22 would be used by the staff to evaluate how the company
23 did as it moves through time, is that what you're
24 recommending?

25 A. Right.

(ELGIN - EXAM BY CHAIRMAN NELSON)

2494

1 Q. And presumably if they exceed the
2 quantification in the plan, that is the price of a new
3 resource which is in as, say, the thermal plants did,
4 much higher than anyone anticipated that would be the
5 basis then for a prudence recommendation from the
6 Commission staff. Is that your notion of where this
7 would go?

8 A. I am not sure I am making the connection
9 with what I am recommending and where you're going.
10 It provides better information for us to evaluate
11 where the company is going and what they did so that
12 when we look at Tonaska or Encogen we have a better
13 idea and better handle on what specific tradeoffs
14 they took into account and to know why they chose what
15 they chose and what the rate impact of that decision
16 are. We are the rate setting body and it's very
17 uncomfortable from the staff level that we don't have
18 the connection between planning and rate setting as it
19 sets now. They're two independent processes with no
20 connection.

21 Q. Well, I want to know why you want to do
22 that, and it isn't just to have a beautiful plan, to
23 have a more elegant plan, you certainly want that
24 information to be useful to you and then the

25 Commission does, I take it, a prudence review of the

(ELGIN - EXAM BY CHAIRMAN NELSON)

2495

1 actual acquisitions?

2 A. Yes. It does provide additional
3 information in that respect.

4 Q. That will do it for now thank you.

5

6 E X A M I N A T I O N

7 BY COMMISSIONER CASAD:

8 Q. Follow up on the chairman's line of
9 questioning. Now I'm a little confused. Regarding
10 least cost plan you indicated that there is no advance
11 or upfront anticipation of the rate impact of a
12 particular resource acquisition and from that judge
13 that you would choose one resource over another
14 premised on the rate impact that resource might have.
15 Would that be correct?

16 A. No, I don't think you would choose a
17 resource based on rate impact, that when the company
18 chose -- identified an action plan -- if I can get the
19 company's resource plan out and give you maybe an
20 example of what I'm suggesting.

21 Q. Let me draw this to the conclusion. Rate
22 impact, ultimately, i.e., cost is the criteria that we
23 use to determine whether or not it's been an effective
24 resource cost acquisition, i.e., that which is the

25 least cost has the least rate impact, therefore least

(ELGIN - EXAM BY COMMISSIONER CASAD)

2496

1 cost plan should look for least cost?

2 A. But as a matter of fact that isn't the only
3 criteria. If it's truly just only economics that's
4 one criteria, but if you recall when Puget came in as
5 a result of its second bidding process there were
6 resources that were bid that were lower in cost than
7 what they acquired. One of the qualitative things
8 that Puget did in that bidding process would say we're
9 going to go green. We're going to go small, we're
10 going to diversify fuel, we're going to do some
11 diversity with respect to where the resources are
12 located.

13 Q. We're going to start getting into
14 quantification of externalities if we're going to talk
15 about going green, ultimately if there is a cost
16 impact it's the measurability of the cost in that
17 situation and that's the challenge. If they chose, if
18 if there were resources bid and they accepted higher
19 cost resources than some bid because there were other
20 criteria and those criteria were they were going to go
21 green, they were going to go small, ultimately that's
22 cost-driven, I think. It's not driven by the fact
23 that they like to deal with small people. It's driven
24 by the fact that that is a more economic choice for a

25 variety of reasons than a larger facility, or if they

(ELGIN - EXAM BY COMMISSIONER CASAD)

2497

1 go green the environmental costs probably outweigh the
2 extra costs that they immediately are going to face by
3 going green. Do you see my point?

4 A. Yes. I agree, but I can't tell you why
5 they chose what they did based on this document and
6 then I can't tell you what that specific decision to
7 do that might bode for rates. There is no connection.
8 Like, for example, in the 1989 Dare action plan it's
9 one of the action plans was to pursue long term
10 natural gas contracts. Well, that was part of the
11 specific action plan but I can't -- there's no
12 evidence from Puget's presentation to show me first
13 thing why they chose not to do that with this specific
14 resource stack in here. And then second thing is if
15 they do this and pursue this type of resource, in
16 other words acquiring gas and maybe using gas for
17 their own combustion turbines what that bodes for
18 rates. What other risks are there. There is no
19 information, we don't know. And there's two things
20 going on. You don't know what it bodes for rates and
21 then at the same time you don't know why they chose
22 what they chose and what it meant for least cost mix
23 of resources. You just don't know. In general terms
24 what they have done is consistent with this but the

25 specific resources and the specific actions they take,

(ELGIN - EXAM BY COMMISSIONER CASAD)

2498

1 I can't tell you.

2 Q. Well, then how could you recommend that
3 that be accepted as a least cost plan, as an
4 acceptable least cost plan?

5 A. Because it meets the minimum requirements
6 of our rule. Our rules do not have this kind of rigor
7 and this kind of requirement to be this rigorous
8 and what's the issue is the company's allusion to
9 everything that's done is in line with the least cost
10 plan and therefore they are prudent. That's not
11 enough.

12 Q. That's going to lead to the next point that
13 I want to discuss. But I would like to throw
14 something else before we get to that. On page 2 --
15 this is a question I asked Dr. Lurito yesterday
16 because I happened to get to him before I had a chance
17 to get to you, and on line 16 it says "Puget is
18 requesting continued compensation for risks that have
19 been transferred to ratepayers by the PRAM."

20 And my question of Dr. Lurito and my
21 question of you is due to the experimental nature of
22 the PRAM investors really don't know how long the PRAM
23 is going to last. Is this for certain, is it going to
24 be rejected by the Commission at the end of five

25 years, if it does go the five years, is there going to

(ELGIN - EXAM BY COMMISSIONER CASAD)

2499

1 be another possible approach. So in fact has that
2 shift really occurred? Theoretically I can see where
3 it would occur if in fact that had been accepted by
4 investors but I guess I am concerned about investor
5 perception. Has what theoretically should happen
6 actually happened because of the experimental nature
7 of the program?

8 A. Yes, and I could point to two things in
9 terms of real time measure of what has happened. I
10 think I tend to agree with Dr. Lurito on the impact on
11 ROE that because of the PRAM and decoupling he
12 estimates it was about a 50 basis point differential
13 and how he measured that was how rapidly return on
14 equities had fallen since the last base rate case.

15 However, on the other side of the coin to
16 that, I don't think we're seeing the full benefits of
17 it in the sense of what the financial analysts want to
18 equity ratios. I still think there's an issue there
19 with respect to understanding what PRAM does and how
20 it stabilizes earnings and how the company ought to be
21 capitalized. So that has not been fully captured.
22 With respect to ratepayers and what ratepayers are
23 paying I think all you need to do is look at PRAM 3.
24 Puget has \$76 million of deferrals. They're asking

25 for half of that to be implemented October 1 and that

(ELGIN - EXAM BY COMMISSIONER CASAD)

2500

1 is real time basis, concrete evidence that the risks
2 have been shifted to ratepayers, because absent PRAM
3 the hydro variations, the temperature variations, and
4 those types of fluctuations, absent filing a general
5 rate case those would have been absorbed by
6 shareholders.

7 Q. And you think that investors if not
8 ratepayers are well aware of that?

9 A. Well, I think ratepayers to some extent
10 don't fully understand it, but as we go through the
11 public hearing process and we go through the hearings
12 and see what the public has to say about the PRAM 3
13 filing we'll get a better idea. But in real terms
14 what we will be asking ratepayers to pay that risk has
15 been shifted.

16 Now, with respect to the market that's why
17 the staff is recommending stay the course. Let's have
18 some regulatory certainty with respect to PRAM. The
19 staff is not recommending any wholesale changes to the
20 mechanism and let's see if these benefits really do
21 occur because I think in the long run the Street needs
22 to recognize that equity ratios do not have to be as
23 robust with a mechanism like PRAM or decoupling, and I
24 think once the Street fully understands how the PRAM

25 works for purchased power I think that they will --

(ELGIN - EXAM BY COMMISSIONER CASAD)

2501

1 should recognize that Puget does not need a 45 percent
2 equity ratio to maintain its current rating, and in
3 fact I think that if you really are concerned are a
4 decoupled environment, to maximize shareholder wealth
5 you do need less equity.

6 So to the extent that the company can make
7 its operations more efficient and then to the extent
8 that it has whatever control over earnings that it
9 continues to have to the extent that it is cost
10 effective and efficient you're able to lever return on
11 equity. You're able to substitute that capital for
12 equity capital. The prime example is the six and a
13 half million dollars that the Commission granted Puget
14 for conservation incentives. If you have less equity
15 in your capital structure that six and a half million
16 dollars has a bigger impact on EPS because there's
17 less equity, less shares outstanding. That's the
18 concept of leverage and that's why you use it to
19 appropriately finance and capitalize a company to
20 maximize shareholder wealth and I think the
21 Street needs to recognize that.

22 Q. So I guess you're saying that in fact
23 investors and analysts have not recognized that the
24 risk has been shifted?

25 A. Not as fully as it should be. It's still

(ELGIN - EXAM BY COMMISSIONER CASAD)

2502

1 in the experimental stage and I still think that Puget
2 has some more work to do with respect to communicating
3 what the regulatory processes and how PRAM works with
4 the Street.

5 Q. I don't want to unnecessarily belabor that
6 one. Let's go back to the Integrated Resource Plan.
7 On page 3 of your testimony you, in essence, request a
8 declaration from the Commission that least cost, the
9 Integrated Resource Plan does not connote preapproval
10 of resource acquisition?

11 A. Yes, sir.

12 Q. And you believe this is true even after the
13 Commission has forcefully as it indicated on every
14 opportunity and every occasion that arose, that in
15 fact the Integrated Resource Plan was not preapproval
16 of resource acquisition, i.e., the Integrated Resource
17 Plan, least cost plan is accepted, it's not approved,
18 it's accepted as filed. The rule itself governing
19 least cost planning was structured in a way in which
20 provided the maximum degree of flexibility to the
21 utility so that it could in fact develop a plan which
22 they felt was effective and it was not conditioned
23 upon the Commission's approval of each step that they
24 took. And you still feel despite all of that it's

25 still necessary to instruct everyone that the least

(ELGIN - EXAM BY COMMISSIONER CASAD)

2503

1 cost plan does not connote preapproval of resource
2 acquisition?

3 A. Well, obviously, I don't believe Puget got
4 the message, and that's why I put this in here,
5 because from the staff perspective Puget's, if you
6 will, demonstration of prudence is the fact that
7 they're saying that this is a reference to what they
8 have done is consistent with the IRP as prudence.

9 Q. I have to agree. I was somewhat amazed at
10 the line of questioning by the company a day or so ago
11 in this very area where there was discussion that the
12 resource acquisition had complied with the integrated
13 resource plan, therefore, it was a prudent
14 acquisition. So I guess maybe there is some merit to
15 restating it. But I must admit some degree of
16 frustration after trying to make it as clear as
17 humanly possible in structuring the plan as you made
18 it possible to indicate that it is not preapproval of
19 resource acquisition?

20 A. I could not agree with you more, sir.

21 COMMISSIONER CASAD: That's all I have.

22

23 E X A M I N A T I O N

24 BY COMMISSIONER HEMSTAD:

25 Q. This is really a follow-on to questions

(ELGIN - EXAM BY COMMISSIONER HEMSTAD)

2504

1 both from Chairman Nelson and from Commissioner Casad.
2 And I found your answers very helpful to those
3 questions, but on page 3 in your summary, at line 11,
4 reading it says, "The current least cost planning
5 process, while valid for certain purposes, is too
6 generic and nonspecific to accomplish such an
7 objective. The Commission should put Puget on notice
8 that the current least cost planning process is not
9 rigorous enough to be equated with prior approval of
10 its specific resource acquisitions decisions. That's
11 been discussed and you fill in the blanks in response
12 to Chairman Nelson's request as to what you would do,
13 but in your testimony here I don't find that you made
14 explicit recommendations as to what should be done
15 differently or how the process ought to be improved.
16 Do you see that as not your responsibility to make
17 recommendations in that area and to help the
18 Commission?

19 A. I'm sorry if my testimony was not clear in
20 that respect, Commissioner Hemstad. I have made a
21 recommendation. I think the rule serves a valid and
22 useful purpose as it is structured and I do think
23 that this connection to a rate setting process can
24 be construed within the existing rule. So I think

25 that's something that would not cost very much more

(ELGIN - EXAM BY COMMISSIONER HEMSTAD)

2505

1 for the company to provide. So as part of when they
2 -- in the rule there's a requirement that they have a
3 two-year action plan. So to the extent that within
4 this two year action plan there are some anticipated
5 rate consequences of that, I don't think it would be
6 very much more difficult for the company to say this
7 is what we think rates will result from this action
8 plan.

9 The other thing I'm saying is that the rule
10 shouldn't be changed that when a company comes in in a
11 general rate case it should still be required to
12 demonstrate prudence. And that the rule, as I spoke
13 with Commissioner Casad, the rule -- we've tried to be
14 very clear that the planning process does not equate
15 to resource prudence and the rule is a good rule for
16 what it does. It highlights what resource options the
17 company has out there, some generic ideas about
18 economic costs, some generic discussion about risk,
19 some generic discussion about where the company is
20 going with the conservation programs, where that's
21 going to be. And then also it's very good for looking
22 at and assessing various demand scenarios, but it's
23 not a document that lends itself to the company coming
24 in and demonstrating that what it chose to do

25 specifically is in fact prudent.

(ELGIN - EXAM BY COMMISSIONER HEMSTAD)

2506

1 So I think the recommendation is to say,
2 the staff recommendation is we don't need to change
3 the rule but the purpose of the staff discussion in
4 this regard is to put Puget on notice that it would be
5 useful for them to connect the rate process and the
6 planning process somehow. And I don't think there
7 needs to be an amendment to the rule to accomplish
8 that and that in the next rate case their
9 presentation, if it's like what we see today, they're
10 on notice that the staff recommendation will be to not
11 allow any of those costs unless they can demonstrate
12 and have a prudence documentation. This is a red flag
13 for the company. This is not sufficient.

14 Q. At the top of page 3 it was alluded to in
15 the earlier question, it says at line 1, "Staff is
16 also concerned that Puget is not adequately presenting
17 the benefits of PRAM to the financial community."
18 Company certainly has plenty of incentives to
19 communicate that, doesn't it?

20 A. I am not so sure.

21 Q. Let me pose the question this way. If it's
22 your concern that they are not -- if the benefits of
23 PRAM were adequately communicated, wouldn't that
24 translate into a lower risk assessment by the

25 financial community and therefore a higher price for

(ELGIN - EXAM BY COMMISSIONE HEMSTAD)

2507

1 the securities of the company?

2 A. As Dr. Lurito -- no, not necessarily. As
3 Dr. Lurito testified yesterday, the investors are
4 going to get theirs. They're going to assess the risk
5 and establish the required rate of return and bid for
6 the securities.

7 Q. But isn't it your point that the investors
8 don't adequately understand at the present time?

9 A. I believe that they don't adequately
10 understand it, but in particular our concern is what
11 the investment community that represents the bond
12 analysts, we're really troubled by the -- we're
13 troubled by the company's presentation by Messrs.
14 Miller and Abrams in that respect on purchased power
15 and capitalization and the whole issue of their senior
16 securities in those ratings. I think the company has
17 done a fairly good job of explaining how PRAM treats
18 conservation, and I think if you look at the testimony
19 of Northwest Conservation Act Coalition, Mr. Peseau, I
20 think that that's what he's describing is I think
21 Puget has done a good job saying to the financial
22 community that this incentive for conservation is
23 taken away, and I think that has had a very salutary
24 effect on return on equity, but what's still out there

25 and what is still troubling to staff is Puget's, if

(ELGIN - EXAM BY COMMISSIONER HEMSTAD)

2508

1 you will, Puget's presentation about purchased power
2 and its impact on their financial profile. There
3 seems to be a fundamental misunderstanding of what
4 regulation does in this jurisdiction and its treatment
5 for that and its impact on Puget's financial profile.

6 Q. Are you inferring that there is some
7 incentive, whether conscious or unconscious, within
8 the personnel of the company not to communicate that?

9 A. Well, the question ultimately is what
10 benefit -- I can't understand why they're not
11 communicating that. It doesn't make any sense to me.
12 What I am suggesting and what Dr. Lurito discussed
13 with you is if you were to accept this proposition of
14 Puget that they need a 45 percent equity ratio and a
15 13 percent return on equity, or whatever it is, what
16 else is there left for management to do, that the
17 staff is troubled by the message it's sending, is that
18 it is just way too much compensation and way too
19 generous and not providing enough incentive for them
20 to control, if you will, to manage those costs and
21 control its operations to provide the benefit for
22 ratepayers in terms of capital costs and then maximize
23 shareholder wealth. We don't see where there's an
24 incentive for them to do that if you granted them what

25 they've asked for. That's our concern.

(ELGIN - EXAM BY COMMISSIONE HEMSTAD)

2509

1 Q. I have a couple of more technical
2 questions. Could you give me a brief or a succinct
3 description of what an attrition adjustment is?

4 A. Yes, sir. The Commission adopted attrition
5 in the late 70's and early 80's because of inflation
6 and rising capital costs. Our rate making process are
7 what we call historical rate making. We look at an
8 actual test period and establish relationships between
9 revenues, costs, rate base and rate return and we design
10 rates to provide the utility an opportunity to earn
11 that fair rate of return. When something happens, for
12 example, inflation, rising capital costs, declining
13 sales where we note that what we're measuring there's
14 going to be a mismatch between those relationships in
15 the test year, we try to measure that mismatch and
16 then provide revenues or take away revenues because we
17 know those relationships won't hold. That's
18 attrition.

19 Q. Can you give me a brief description of the
20 so-called and commonly referenced here collaboration
21 process?

22 A. It's similar to negotiation, but where it
23 differs from negotiation is that it's not really that
24 you're trying to find common interests. You're more,

25 if you will, trying to -- maybe that's not correct.

(ELGIN - EXAM BY COMMISSIONER HEMSTAD)

2510

1 You do have common interests. You have some policy
2 direction from the Commission that you want to solve
3 some type of problem, so that's your objective. And
4 then to collaborate you say, this is the policy
5 direction that the Commission wants.

6 Now how do we go about getting there so
7 that all the different parties' various interests are
8 met and through a formal process of regular systematic
9 meeting and trading of information that we then as
10 part of that process bring solutions to the Commission
11 to, if you will, implement those policy directives.

12 Q. Trying to get away from the more
13 traditional adversarial lawyer-dominated process, is
14 that it?

15 A. That's good.

16 Q. I say that as a lawyer. In your response
17 to questions from counsel I was left with the
18 impression that you're not particularly impressed with
19 the process?

20 A. Well, we believe the process has value but
21 the problem that the staff had in evaluating this
22 proceeding was a resource issue. We were faced with
23 with evaluating a very aggressive rate case, request
24 for \$117 million, and we had just insufficient

25 resource to both collaborate and process an

(ELGIN - EXAM BY COMMISSIONER HEMSTAD)

2511

1 adversarial type rate case. They are resource
2 intensive. They are time intensive and you do get
3 solutions but they take more time and we just did not
4 have the time and the resources to participate.

5 Q. So your concern focused more on this
6 particular proceeding, not necessarily on the process
7 itself?

8 A. That is correct.

9 JUDGE HAENLE: Commissioners, anything
10 else?

11

12 E X A M I N A T I O N

13 BY COMMISSIONER CASAD:

14 Q. Just very briefly, the collaborative
15 process, I think it must be placed in context, and I
16 think one has to look at the collaborative process
17 with a view of where would you be if you didn't have
18 it. And if one looked at this whole mechanism, the
19 PRAM, decoupling, this whole experimental radical
20 regulatory approach, and one looked at the viability
21 of implementing that approach in the absence of a
22 collaborative group, I would submit that it would not
23 be being tried today. And if one looks back -- I will
24 try to frame this as a question -- in your experience

25 with the Commission if you look back just a few years

(ELGIN - EXAM BY COMMISSIONER CASAD)

2512

1 ago and examine the relationship that existed amongst
2 the parties prior to the collaborative groups and look
3 at the relationships that exist today even in the
4 crucible, the heated crucible of a rate case, which
5 this is, I would submit also that those relationships
6 are changed drastically and that there's far more
7 information available, far more upfront sharing, far
8 more upfront examination of the issues that are there
9 than occurred before, not to say that there are not
10 problems with the process and not least of that is the
11 Commission's ability to have a window to look at
12 those. But would you not agree that the relationship
13 that sharing of information, the analysis of data is
14 improved with the collaborative as opposed to the old
15 system, straight adversarial approach?

16 A. There is a better flow of information and a
17 better dialogue between the companies and the staff in
18 the past two, three years. I would agree with that.

19 Q. Thank you.

20

21 E X A M I N A T I O N

22 BY CHAIRMAN NELSON:

23 Q. Commissioner Hemstad's discussion with you
24 about markets reminded me of another question I wanted

25 to ask. To return to the link between the planning

(ELGIN - EXAM BY CHAIRMAN NELSON)

2513

1 process and the rate setting process. We do have a
2 competitive bidding rule in this jurisdiction as well
3 where we try to have some market checks of the
4 rationality of the company's choices and essentially
5 we try to level the playing field between the supply
6 and demand side resource and so on. Doesn't that also
7 provide -- doesn't a market check help the staff in
8 assessing the rationality of the company's actual
9 resource decisions?

10 A. Yes, it does, but in the context and timing
11 that we have to evaluate that the only check we have
12 really is avoided costs, that the company -- there
13 were resources out there that the company did not
14 choose to acquire and that there were resources that
15 the company did choose to acquire. So there is a
16 broad check, it's a broad filter but there were
17 resources out there that cost less but the company did
18 not acquire those. And that needs to be evaluated and
19 that needs to be presented before you to make a
20 determination with respect to prudence still even
21 though they were all bid resources. But, yes, in the
22 broadest sense that does provide a check.

23 Q. Thank you.

24 JUDGE HAENLE: Commissioners, anything

25 else?

(ELGIN - EXAM BY CHAIRMAN NELSON)

2514

1 Redirect, Mr. Trotter?

2

3 REDIRECT EXAMINATION

4 BY MR. TROTTER:

5 Q. Mr. Elgin, turn to page 8 of your
6 testimony. Like to focus on the criteria you list on
7 page 20, but before I do that seems like several days
8 ago now you were cross-examined by Mr. Marshall
9 initially and you testified that in your view PRAM met
10 certain policy goals and I think there were a couple
11 of charts that were presented to us. Do you recall
12 those questions?

13 A. Yes, I do.

14 Q. I believe it was your testimony that you
15 believe that the PRAM met certain of those policy
16 goals. First of all, are these four criteria on line
17 20 to 23 of your testimony, page 8, are those the
18 policy goals or are those the criteria that the
19 Commission has enunciated?

20 A. Those are the criteria for evaluating the
21 mechanism for regulatory reform.

22 Q. Did you take these from the PRAM 2 order?

23 A. Yes, I did.

24 Q. If the PRAM meets certain of the policy

25 goals, why is the staff recommending revisions to and

(ELGIN - REDIRECT BY TROTTER)

2515

1 please be concise?

2 A. It's primarily to incorporate the results
3 of the initial couple of years under the experiment
4 and to make it more fair in balance between ratepayers
5 and shareholders.

6 Q. You were asked a question regarding Mid
7 Columbia contracts and it was pointed out that it's
8 not in rate base so the investor does not earn a
9 return on those. My question is does the fact that
10 the company does not earn a return on a cost justify a
11 dollar for dollar recovery of that cost on an actual
12 basis?

13 A. No, it does not.

14 Q. You were also asked some questions about
15 conservation, and your testimony spoke to that
16 investment being low cost and low risk and flexible
17 and so on. Do you recall that testimony?

18 A. Yes, I do.

19 Q. If a company did not choose to implement
20 that type of resource, does that have implications to
21 any claim that that company is concerned about its
22 competitive position?

23 A. Well, it occurs to me on page 9 when I
24 stated prudent management should take advantage of all

25 available low cost low risk resources, if the company

(ELGIN - REDIRECT BY TROTTER)

2516

1 is concerned about its competitive advantage it will
2 in fact opt for the lowest cost low risk resources
3 because of its impact on competition and its
4 competitive position.

5 Q. You testified regarding the investment
6 community's concern with the PRAM 2 order. Was that
7 due to a concern -- your understanding -- a concern
8 that there was a potential to restating earnings or
9 writing down earnings?

10 A. That is my understanding of what the
11 primary concern was.

12 Q. In your opinion, whether any of staff's
13 recommended changes to PRAM cause Puget to restate
14 earnings?

15 A. Absolutely not.

16 Q. Now, Puget offered Exhibit 676 which was a
17 March 30, 1993 letter to you from a Mr. Gaines.

18 A. Yes, I recall that.

19 Q. Have you ever received a letter of that
20 type from any regulated utility in your tenure at the
21 Commission?

22 A. No, I have not.

23 Q. Did Puget precede that letter with any
24 telephone or other contact with you on the substance

25 of that letter?

(ELGIN - REDIRECT BY TROTTER)

2517

1 A. Not to my recollection.

2 Q. Did they make any followup phone call
3 regarding that letter?

4 A. No. Given the narrow timing of how quickly
5 they wanted me to respond I don't think they possibly
6 could have.

7 Q. So they indicated that they plan to visit
8 the rating agencies the following week. Did they
9 contact you in any manner prior to April 6 regarding
10 the letter?

11 A. No.

12 Q. You were asked a question and my note said
13 that you were asked a question whether the staff was
14 proposing that the company drop certain of its
15 liability insurance coverage. Do you recall that?

16 A. Yes, I do.

17 Q. Does staff have an adjustment for liability
18 insurance in this case?

19 A. Yes, Mr. Nguyen provides that adjustment.

20 Q. Is staff recommending that liability
21 insurance be dropped?

22 A. No, it's just recommending an adjustment.

23 Q. That's to change liability insurance
24 premiums to a level that staff thinks is more

25 reasonable?

(ELGIN - REDIRECT BY TROTTER)

2518

1 A. That is correct, and also to allocate some
2 of that liability insurance premium to its subsidiary
3 operations.

4 Q. You were asked some questions regarding
5 conservation as being a high priority resources under
6 federal and state law. Do you recall that?

7 A. Yes, I do.

8 Q. I believe your response dealt with state
9 legislation and the National Energy Policy Act of
10 1992?

11 A. That is correct.

12 Q. Do you have any other references to federal
13 law where conservation has been declared a high
14 priority?

15 A. Yes, the 1980 regional power act is also an
16 area that refers to conservation as a high priority
17 type resource.

18 Q. You were also asked some questions about
19 rate case expense and whether the Commission has ever
20 disallowed any costs for rate case expense for a
21 utility. Did you have a chance to check on that? Can
22 you update your answer?

23 A. Yes. For a utility company I don't know of
24 any, but just recently in a rate case involving a

25 transportation or a garbage hauler, waste management

(ELGIN - REDIRECT BY TROTTER)

2519

1 the Commission did disallow rate case expenses.

2 Q. You were asked whether Puget was either the
3 highest or among the highest electric utilities in its
4 use of purchased power. Do you recall that?

5 A. Yes.

6 Q. Are you aware of any utility in the country
7 that has more low cost hydro than Puget?

8 A. No, I am not.

9 Q. Are you disputing that Mr. Abrams is aware
10 that Puget is a hydro-based utility?

11 A. No. I believe Mr. Abrams is aware that
12 Puget is a hydro-based utility.

13 Q. Is your concern with his analysis that it
14 does not adequately reflect that system and that is an
15 issue addressed by Mr. Lurito?

16 A. Yes, it is.

17 Q. In response to the question whether
18 conservation is financed 100 percent -- with 100
19 percent equity I believe you stated that that was the
20 company's position. What is the staff's position on
21 that issue?

22 A. That conservation should be financed by a
23 mix of capital that's available to the company. So
24 it's basically financed by its weighted average cost

25 of capital.

(ELGIN - REDIRECT BY TROTTER)

2520

1 Q. You were also asked some questions
2 regarding financial accounting standard 71. Do you
3 recall that?

4 A. Yes.

5 Q. I believe that was made an exhibit, the
6 standard 71. Should questions regarding that issue be
7 addressed to Mr. Martin?

8 A. Questions concerning FASB should be -- I
9 believe that exhibit is referenced as FASB 100, but
10 questions to that effect should be directed to
11 Mr. Martin.

12 Q. And finally there was some questioning on
13 the staff's nonattendance at the collaborative
14 meetings regarding the PRAM decoupling from 1992 and
15 1993 and you got some of those questions from the
16 bench as well from the company. Do you recall that?

17 A. Yes.

18 Q. Did that collaborative -- offer for a
19 collaborative occur prior to the company filing its
20 case or upon the company filing its case?

21 A. To my knowledge upon the company filing
22 that case.

23 Q. Were you asked a data request regarding
24 staff's level of participation in that matter?

25 A. Yes, we were.

(ELGIN - REDIRECT BY TROTTER)

2521

1 MR. TROTTER: Your Honor, I would like to
2 have marked actually two documents. The first is
3 response to company data request 4537 and the second
4 is a letter dated November 19, 1992 from Paul Curl,
5 secretary of the Commission to Mr. Sonstelie,
6 president of Puget.

7 JUDGE HAENLE: A response to company data
8 request 4537 will be marked as Exhibit 725 for
9 identification.

10 (Marked Exhibit 725.)

11 JUDGE HAENLE: And the two-page letter will
12 be marked as 426 for identification. I'm sorry, 726.

13 (Marked Exhibit 726.)

14 Q. Mr. Elgin, do you recognize Exhibit 725 for
15 identification as your response to the company's
16 request that the staff state all reasons why it, to
17 use Puget's word, "refused to participate in any
18 collaborative meetings relating to PRAM decoupling in
19 1992 and 1993?"

20 A. Yes, it is.

21 Q. Focusing on the response section of this
22 request, the second reason deals with -- dealing with
23 the issue of what Puget should have filed which
24 resulted in supplemental testimony?

25 A. That is correct.

(ELGIN - REDIRECT BY TROTTER)

2522

1 Q. And is the matter of the supplemental
2 testimony addressed in Exhibit 726 for identification?

3 A. Yes, it is.

4 Q. Turn to the second -- well, bottom of the
5 first page this letter discusses the PRAM 2 order and
6 criteria specific items that need to be addressed?

7 A. Yes, it does.

8 Q. Is prudence review of new resource
9 contracts included in this?

10 A. Yes, it is.

11 Q. Where is that? Is that on the third line
12 of the second page?

13 A. Yes. Prudence review of new resource
14 contracts.

15 Q. Is it this letter that then gave rise to
16 the supplemental testimony that the company filed in
17 this case?

18 A. Yes, to evaluate the PRAM. However, the
19 supplemental testimony did not contain any prudence
20 review of new resource contracts.

21 MR. TROTTER: Move for the admission of 725
22 and 726.

23 MR. MARSHALL: No objection.

24 MR. ADAMS: No objection.

25 MR. TRINCHERO: No objection.

(ELGIN - REDIRECT BY TROTTER)

2523

1 MR. FURUTA: No objection.

2 JUDGE HAENLE: Exhibits 725 and 726 will be
3 entered into the record.

4 (Admitted Exhibits 725 and 726.)

5 JUDGE HAENLE: Can you estimate how much
6 you have?

7 MR. MARSHALL: Shouldn't be more than about
8 five more minutes.

9

10 RE CROSS-EXAMINATION

11 BY MR. MARSHALL:

12 Q. In the cross-examination by Mr. Adams of
13 you he asked you some questions about and you
14 responded about the equity component and I believe you
15 said that you felt a 41 percent equity component in
16 the capital structure would provide adequate coverage
17 for Puget?

18 A. Yes, I did.

19 Q. What would those coverages be?

20 A. Dr. Lurito provides those in his testimony.
21 I would refer you to his testimony and exhibits.

22 Q. Did you do an analysis in this case of the
23 coverages?

24 A. No. Dr. Lurito was specifically hired to

25 do that.

(ELGIN - RE CROSS BY MARSHALL)

2524

1 Q. Have you made any independent check of
2 those coverages?

3 A. I don't recall whether I did or not. I
4 trust Dr. Lurito to make sure that his recommendation
5 provides safety and economy and I believe I looked at
6 those calculations but I don't recall specifically
7 when I did.

8 Q. Is it possible that Puget has communicated
9 to the analysts the benefits of PRAM?

10 A. It's possible.

11 Q. Is it possible that they just simply don't
12 agree?

13 A. Anything is possible, Mr. Marshall.

14 Q. Do you know whether the analysts prefer
15 something like the standard fuel clause adjustments
16 that we went through for the NARUC document to what we
17 have in this case?

18 A. You mean prefer in the sense that they
19 would like to see them?

20 Q. I take it you understand that there are
21 plenty of them out there, fuel clause adjustments?

22 A. Yes, they're as diverse as the utilities
23 that have them.

24 Q. Do you understand how the analysts analyze

25 and rate those?

(ELGIN - RECCROSS BY MARSHALL)

2525

1 A. As I understand they do an assessment of
2 whether or not they have one or they don't but I don't
3 know any more specifics. It's been a while since I
4 looked.

5 Q. Are there risks associated with companies
6 that have a large percentage of hydro power?

7 A. Anything a company does has risks
8 associated with it, Mr. Marshall, so yes.

9 Q. Is hydro power more risky or less risky
10 than coal in terms of fuel, of costs and availability
11 or do you have an opinion on that?

12 A. I don't have an opinion on that.

13 Q. Now, Mr. Adams I believe asked you some
14 questions about Nintendo. Did Nintendo ask Puget to
15 serve it?

16 A. Yes.

17 Q. And did Nintendo indicate that they did not
18 want service from Tanner?

19 A. Actually, Nintendo initially indicated it
20 did not care who it got service from and subsequently
21 said it wanted service from Puget. Customer choice is
22 not an issue.

23 Q. But you did speak to Mr. Bruce Myer from
24 Nintendo?

25 A. Yes, on two occasions.

(ELGIN - RE CROSS BY MARSHALL)

2526

1 Q. Going to hand you an exhibit which is a
2 two-page exhibit.

3 JUDGE HAENLE: Are you asking the document
4 be marked?

5 MR. MARSHALL: Yes, I am.

6 JUDGE HAENLE: You've handed me a two-page
7 document and at the top it says Witness Kenneth Elgin
8 date February 17, 1993. I will mark this as Exhibit
9 727 for identification.

10 (Marked Exhibit 727.)

11 Q. Are these questions, these answers true
12 questions and answers given by you, answers given by
13 you on February 17, 1993?

14 A. If you give me a moment to read it.

15 JUDGE HAENLE: In what context?

16 MR. MARSHALL: At the proceedings involving
17 Tanner, Puget and Nintendo.

18 MR. ADAMS: Was it before this Commission?

19 JUDGE HAENLE: Are you talking about
20 something having to do with the declaratory ruling?

21 MR. MARSHALL: In the trial in this matter.

22 MR. TROTTER: Superior Court.

23 MR. MARSHALL: Correct.

24 Q. Mr. Elgin, you testified on behalf of

25 Tanner at trial in this matter, did you not?

(ELGIN - RE-CROSS BY MARSHALL)

2527

1 A. I did not testify on behalf of Tanner. I
2 was subpoenaed by Tanner and I provided testimony in
3 my capacity as an employee of the Commission.

4 Q. And are these the answers you gave to those
5 questions on that date?

6 A. I haven't read it all. I will accept your
7 representation that this is a true copy of the
8 questions and answers.

9 Q. Would you agree that Nintendo is an
10 important ingredient in the region's economy?

11 A. Yes.

12 MR. MARSHALL: No further questions.

13 JUDGE HAENLE: What is your intent with
14 regard to 727 for identification?

15 MR. MARSHALL: Move the admission.

16 MR. TROTTER: Could we have a statement of
17 relevance, please.

18 JUDGE HAENLE: For what purpose?

19 MR. MARSHALL: Mr. Elgin indicated that he
20 did not know the reasons for why decisions were made
21 to serve Nintendo. This goes to those questions that
22 were asked upon the cross-examination of the other
23 parties including Mr. Adams.

24 MR. TROTTER: Does not appear to go to that

25 issue. Furthermore, these issues were fully aired

(ELGIN - RE-CROSS BY MARSHALL)

2528

1 before the trial court and the jury found against

2 Puget and rendered a verdict. I guess I am not

3 --

4 JUDGE HAENLE: Are you making an objection?

5 MR. TROTTER: Yeah, it's not relevant.

6 JUDGE HAENLE: The objection is relevance.

7 MR. MARSHALL: Well, again, Mr. Elgin

8 testified on cross-examination by Mr. Adams that he

9 did not know why Puget served Nintendo. I asked a

10 series of questions as to whether Nintendo asked Puget

11 to serve it, it was based on reliability concerns and

12 Mr. Elgin indicated in these questions and answers

13 that he didn't have a method by which to evaluate

14 reliability. He wasn't an engineer and he didn't have

15 anyone on staff who was an engineer.

16 MR. ADAMS: Objection.

17 JUDGE HAENLE: Mr. Adams.

18 MR. ADAMS: Neutral on it. I wasn't

19 involved in the proceedings and I am not that aware of

20 it.

21 JUDGE HAENLE: Mr. Furuta?

22 MR. FURUTA: Take no position.

23 MR. TRINCHERO: No objection, your Honor.

24 JUDGE HAENLE: I don't see that it's

25 relevant. There's nothing to indicate in here that

(ELGIN - RE CROSS BY MARSHALL)

2529

1 Tanner gave testimony about the reasons and I don't
2 see that it applies to anything that we talked about
3 so I would not enter it on the basis of relevance.

4 MR. TRINCHERO: A few followup questions
5 on some questions asked by the Commission.

6

7 RE CROSS-EXAMINATION

8 BY MR. TRINCHERO:

9 Q. Mr. Elgin, turning to page 15 of your
10 testimony you were asked by Chairman Nelson about your
11 proposal that the revenue per customer calculation
12 should be differentiated between major customer
13 classes for Puget and you were also asked whether or
14 not that is similar in any way to a proposal in Oregon
15 and a proposal in New York. And I understand that
16 you're not familiar with those proposals but I think
17 we may need some clarification on this. Under your
18 proposal, allocation of the revenues that are
19 determined pursuant to this calculation are not
20 changed; is that correct?

21 A. No.

22 Q. This simply relates to how you calculate
23 the amount under the PRAM; is that right?

24 A. That is correct. In other words, as a

25 result of the cost study we would have the revenue per

(ELGIN - RECCROSS BY TRINCHERO)

2530

1 customer segregated by these four various customer
2 classes. You would have a growth rate for primary,
3 secondary high voltage and firm resale.

4 Q. And assume with me for a second that the
5 opt-out provision that was referred to would actually
6 allow a certain customer class to not participate in
7 the allocation of revenues under a decoupling
8 mechanism. That is not suitable in this?

9 A. No, it's not.

10 Q. And I would also like to clarify one other
11 thing. You were asked some questions from
12 Commissioner Casad regarding the market and its
13 reaction to the PRAM and you have recommended that the
14 Commission, to use your words, stay the course. Were
15 you present in the room when Mr. Lurito testified?

16 A. Yes, I was.

17 Q. And many days ago now I asked you a
18 question about Central Maine Power and a decision that
19 was rendered on January 20 of this year by the Maine
20 Public Utility Commission which terminated the ERAM
21 program there, and then I asked you to accept subject
22 to check, which you did, that the day following that
23 decision Central Maine Power's market price went up 50
24 cents or nearly 2 percent in one day, and then on

25 cross-examination of Dr. Lurito by Mr. Adams, Dr.

(ELGIN - RE-CROSS BY TRINCHERO)

2531

1 Lurito said he wasn't sure whether or not that
2 decision had actually terminated the plan. Then he
3 was asked by me -- I know this is very lengthy but I
4 just want to clarify something here. He was asked by
5 me whether or not indeed the January 20, 1993 decision
6 had effectively terminated the plan. He agreed that
7 it had and that his answer to Mr. Adams was simply in
8 recognition of the fact that there may be a hearing
9 coming up on whether or not the plan should be
10 reinstated.

11 A. Yes, I recall all that.

12 Q. So here's my one question to you. On the
13 21st of January, on the day in which the Central
14 Maine Power's market price went up, at that time
15 investors had no idea that the decoupling program that
16 was terminated in the decision the day before would be
17 reinstated; is that correct?

18 MR. MARSHALL: I object. I don't think
19 this witness has any personal knowledge and I think
20 the record sufficiently is unclear about what happened
21 when.

22 MR. TROTTER: Join the objection.

23 JUDGE HAENLE: Do you have any personal
24 knowledge, Mr. Elgin?

25 THE WITNESS: Of what happened, what

(ELGIN - RE-CROSS BY TRINCHERO)

2532

1 happened on January 21?

2 JUDGE HAENLE: Personal knowledge in
3 answering the question?

4 A. I don't know what investors would have been
5 anticipating.

6 JUDGE HAENLE: Sustain the objection.

7 MR. TRINCHERO: May I rephrase the
8 question. Please allow me because I think this is a
9 very important point.

10 JUDGE HAENLE: It occurs to me that what
11 you're probably asking is something that you ought to
12 be commenting on in brief, not going through Mr. Elgin
13 if he didn't have any information on it.

14 MR. TRINCHERO: I am not going to ask a
15 question about investors and what they perceived
16 because that question was objected to and the
17 objection was sustained. I am going to ask a
18 different question.

19 Q. On January 20, 1993, would you accept
20 subject to check that the Public Utility Commission of
21 Maine adopted a stipulation in which Central Maine
22 Power consented to the termination of the ERAM program
23 as of December 1, 1993?

24 A. Yes.

25 MR. TRINCHERO: Thank you.

(ELGIN - RE CROSS BY TRINCHERO)

2533

1 JUDGE HAENLE: Anything else, Mr. Furuta?

2 MR. FURUTA: No.

3 MR. ADAMS: Your Honor, I have one question
4 but I might also just indicate I am doing this a
5 little bit at risk, but Mr. Hill who I think was going
6 to be here on Monday I believe was involved in the
7 Central Maine issue and may be able to answer
8 questions a little bit on that area. Without having
9 consulted with him, but I believe he may have
10 firsthand knowledge.

11 MR. TRINCHERO: Thank you.

12

13 RE CROSS-EXAMINATION

14 BY MR. ADAMS:

15 Q. Mr. Elgin, there have been a number of
16 questions from both the bench and particularly from
17 Mr. Marshall concerning the risk perceptions of the
18 PRAM and decoupling and the light -- in the eyes of
19 investors and I would kind of like to ask you this as
20 sort of a bottom line question to make sure I
21 understand the thrust of your testimony. Let's
22 assume, for the moment, that the risks of hydro
23 weather cycle and so forth have been shifted to
24 customers, basically as they have been under the

25 current PRAM and decoupling?

(ELGIN - RECCROSS BY ADAMS)

2534

1 A. I have that.

2 Q. Let's also assume that investors for
3 whatever reasons do not recognize or do not believe
4 that there is a risk reduction that comes from this
5 PRAM and decoupling mechanism?

6 A. Okay.

7 Q. Under those circumstances, would staff
8 recommend a continuation of this experiment as being
9 fair to ratepayers?

10 A. We would have to seriously question whether
11 or not -- and that's precisely what Dr. Lurito was
12 testifying to yesterday that at the next three-year
13 cycle to the extent that we can quantify and evaluate
14 what benefits there are in terms of reduced costs to
15 capital, and if there are none and we can't identify
16 those, we would have to then look into that question
17 at that point.

18 Q. But if I understand that, you are saying
19 that you are willing to wait three more years to find
20 out the answer to that question?

21 A. I believe that what you're saying is that
22 the staff recommendation for rate of return is
23 attempting to provide some of those benefits to the
24 extent that we can quantify them right now, and then

25 in the next three years we also then need to

(ELGIN - RE CROSS BY ADAMS)

2535

1 reevaluate what those benefits are and we do feel that
2 there are benefits in the form of lower cost of
3 capital to ratepayers right now. Dr. Lurito testified
4 to those yesterday and so the staff is willing to stay
5 the course.

6 Q. Are you willing to stay the course on the
7 assumption that your recommendations as to equity
8 returns and capitalization structure are accepted by
9 the Commission?

10 A. Yes.

11 Q. What if they are not?

12 A. The Commission has to evaluate that. We've
13 made our recommendation and the Commission has to
14 determine what it determines is a fair rate of return
15 in a decoupled environment.

16 Q. I understand that, the Commission will make
17 its decision. I am saying if the Commission were to
18 accept Puget's recommendations on cost of capital and
19 capital structure and continue also the PRAM and
20 decoupling, do you think that is fair to ratepayers?

21 A. It is not fair to ratepayers.

22 JUDGE HAENLE: Anything more of the
23 witness? Excellent. Thank you, Mr. Elgin, you may
24 go. Let's take our afternoon recess, come back,

25 please, at 25 minutes after 3.

(ELGIN - RE CROSS BY ADAMS)

2536

1 (Recess.)

2 JUDGE HAENLE: Let's be back on the record
3 after an afternoon recess. We have the next witness
4 on the stand, Mr. Schooley for the Commission staff.
5 We will mark a number of documents for identification
6 as follows: Marked as Exhibit T-728 is a multi-page
7 document. In the upper right-hand corner it has
8 TES-Testimony in 48 pages.

9 TES-1 in two pages is Exhibit 729 for
10 identification.

11 730 for identification is TES-2 in four
12 pages.

13 731 for identification is TES-3 in one
14 page.

15 732 for identification is TES-4 in three
16 pages.

17 733 for identification is TES-5 in one
18 page.

19 734 for identification is TES-6 in seven
20 pages.

21 735 for identification, TES-7 in one page.

22 And 736 for identification is TES-8 in
23 one page. Your witness has been sworn.

24 (Marked Exhibits T-728, 729 - 736.)

25 Whereupon,

(ELGIN - RE CROSS BY ADAMS)

2537

1 THOMAS SCHOOLEY,

2 having been first duly sworn, was called as a

3 witness herein and was examined and testified as follows:

4

5 DIRECT EXAMINATION

6 BY MS. BROWN:

7 Q. Mr. Schooley, could you please state your

8 full name for the record and spell the last?

9 A. My name is Thomas Schooley, S C H O O

10 L E Y.

11 Q. What is your business address?

12 A. Business address is 1300 South Evergreen

13 Park Drive Southwest, Olympia, Washington 98504.

14 Q. You are employed by the Washington

15 Utilities and Transportation Commission?

16 A. Yes.

17 Q. What is your position?

18 A. I'm a revenue requirement specialist two.

19 Q. In preparation for your testimony here

20 today, did you predistribute what's been marked for

21 identification as Exhibits T-728 through 736?

22 A. Yes.

23 Q. Are there any revisions or corrections you

24 would like to make to your testimony today?

25 A. No.

(SCHOOLEY - DIRECT BY BROWN)

2538

1 Q. Are these exhibits true and correct to the
2 best of your knowledge?

3 A. Yes.

4 Q. Were they prepared under you or under your
5 direction and supervision?

6 A. Yes.

7 Q. If I were to ask you the questions set
8 forth in Exhibit T-728 would your answers be set forth
9 as indicated therein?

10 A. Yes.

11 MS. BROWN: Move the admission of Exhibits
12 T-728 through 736.

13 MR. MARSHALL: No objection.

14 MR. ADAMS: No objection.

15 MR. TRINCHERO: No objection.

16 JUDGE HAENLE: Exhibits T-728 and
17 729 through 736 will be entered into the record.

18 (Admitted Exhibits T-728, 729 - 736.)

19

20 CROSS-EXAMINATION

21 BY MR. MARSHALL:

22 Q. Good afternoon, Mr. Schooley.

23 A. Good afternoon.

24 JUDGE HAENLE: Everyone will have to speak

25 up loudly because of that lawnmower.

(SCHOOLEY - CROSS BY MARSHALL)

2539

1 Q. You presented some prefiled testimony on a
2 number of areas, including as I understand it, storm
3 damage, self insurance, rate case expenses, corporate
4 publications, vegetation management, Edison Electric
5 Institute dues and post retirement benefits among
6 other things; is that right?

7 A. That's right.

8 Q. In your testimony you said you were first
9 employed by the Commission in September of 1991; is
10 that correct?

11 A. Yes.

12 Q. Before September of 1991 were you employed
13 by any other utility commission or utility?

14 A. In the early 70's I worked for Consumers
15 Power Company.

16 Q. What capacity?

17 A. Office clerk.

18 Q. Have you been employed by any other utility
19 at any other time other than that?

20 A. No.

21 Q. Your duties as clerical, were they in any
22 way related to any of your testimony here today?

23 A. No.

24 Q. You said you attended Central Washington

25 University and received a bachelor of science degree

(SCHOOLEY - CROSS BY MARSHALL)

2540

1 in 1986. You also received a bachelor of science
2 degree from the University of Michigan majoring in
3 geology. What year did you receive that degree?

4 A. 1974.

5 Q. Have you ever presented testimony at a
6 utility general rate case before the testimony you
7 were just asked to affirm?

8 A. No.

9 Q. Let's go through these items one by one.
10 First is storm damage reserve adjustment, 2.08 in your
11 testimony?

12 A. Yes.

13 Q. Briefly your testimony on storm damage
14 reviewed how storm damage had been treated in the past
15 in rate cases and then about how in your judgment
16 there are different levels of storm damage. Then you
17 presented a proposal for accounting for storms to fit
18 that definition of different levels of storm damage
19 and then you applied that method to account for storm
20 damage events which have already occurred; is that
21 correct?

22 A. Yes.

23 Q. Now, please state how much the company
24 would have to write off if the Commission adopted your

25 new method of storm damage reserves?

(SCHOOLEY - CROSS BY MARSHALL)

2541

1 A. I think the reserve account is overstated
2 by about \$5 million.

3 Q. When you say that, do you mean that that's
4 not what future revenues would be but that's an amount
5 that the company would have to write off its books
6 that are currently on its books?

7 A. Well, let's say I think it's an amount
8 that's been inappropriately put into assets so far.

9 Q. The company has booked those assets, has it
10 not?

11 A. Yes, they have.

12 Q. And appears in its statements to
13 stockholders, to investors and in annual reports?

14 A. Yes.

15 Q. So that amount would have to be written
16 off; is that correct?

17 A. Yes.

18 Q. Do you have any idea what amount -- what
19 that would mean to earnings per share?

20 A. No, not in terms of cents per share,
21 anything like that. \$5 million on 55 million shares
22 is less than a penny a share.

23 Q. Can you describe your experience in
24 assessing storm damage losses?

25 A. In assessing storm damage losses in what
 (SCHOOLEY - CROSS BY MARSHALL)

2542

1 sense?

2 Q. Do you have any experience at all in
3 assessing storm damage losses?

4 A. Like as a claims person for an insurance
5 company or anything like that, no, I don't.

6 Q. Do you have any experience as an insurance
7 professional?

8 A. I have paid insurance premiums and
9 complained about them over the years.

10 Q. So the answer is, no, you're not
11 experienced as an insurance professional?

12 A. No, I am not.

13 Q. Were you ever a risk manager as that term
14 has become known as?

15 A. No.

16 Q. Have you ever taken any courses on
17 insurance leading to any certificate of expertise?

18 A. No, I haven't.

19 Q. Have you read any books on insurance?

20 A. It was addressed in business law classes
21 for accounting.

22 Q. Well, have you read a book on insurance?

23 A. No, I haven't.

24 Q. I would like to review the company's storm

25 damage reserve accounting with you. The Commission

(SCHOOLEY - CROSS BY MARSHALL)

2543

1 sets a rate making expense allowance for storm damage
2 allowances in a general rate case; is that correct?

3 A. The Commission sets a level of insurance
4 expense in the rate making process. It's not a level
5 of insurance of -- not an insurance expense, storm
6 damage expense.

7 Q. Sets a storm damage expense reserve each
8 year?

9 A. It does not set the reserve. It sets the
10 level of the storm damage expense.

11 Q. And that that accounts for the amount that
12 then goes into reserves, correct?

13 A. That's the way the company has been
14 practicing that.

15 Q. This rate making expense allowance is
16 credited to a storm damage reserve account; is that
17 right?

18 A. That's how the company has been using it.

19 Q. And then the cost of actual storm damage
20 repairs is applied to reduce the balance of that storm
21 damage reserve account, correct?

22 A. The debits for the storm damage
23 expenditures are posted to the reserve account.

24 Q. And in any given time if there is a deficit

25 in a storm damage reserve this means that actual storm

(SCHOOLEY - CROSS BY MARSHALL)

2544

1 damage costs were greater than the rate making amounts
2 that had been credited for the storm damage reserve,
3 right?

4 A. It means that the expenditures to that
5 point in time have exceeded the level of expense
6 that's been in effect at that point in time.

7 Q. And two general rate cases, U-80-10 and
8 U-83-54 there were deficits in the storm damage
9 reserve account that had never been recovered through
10 rates; is that right?

11 A. I wouldn't characterize them as saying
12 they've never been recovered in rates. I would say
13 that the deficit at that point in time or the excess
14 of debits over the credits in the reserve was just an
15 artifact of the accounting at that point in time. It
16 wasn't a question of recovery in rates.

17 Q. Well, in both those cases, U-80-10 and
18 U-83-54 despite staff's objections the Commission
19 included the deficit balance when setting new storm
20 damage expense allowances to make the company whole,
21 right?

22 A. They did that in the early 80's.

23 Q. Page 4 of your testimony you indicated the
24 reason that staff objected to the inclusion of the

25 deficit balance in future rate making expense

(SCHOOLEY - CROSS BY MARSHALL)

2545

1 allowance was because it was an ephemeral, close

2 quote, amount, do you remember using that word?

3 A. Yes.

4 Q. What does the word ephemeral mean to you?

5 A. Means something that could come or go.

6 Q. Isn't the balance of the storm damage

7 reserve a precise amount at that point in time no more

8 ephemeral than the balances of accounts receivable or

9 accounts payable which are constantly changing?

10 A. And as such I would say balances and

11 accounts receivable are ephemeral numbers as well.

12 Q. So the same way you're using that word

13 applies to the balances of accounts receivable or

14 balances of accounts payable? An objective of

15 regulation is to enable a company to recovery all of

16 its legitimate costs?

17 A. No, that's not true.

18 Q. An objective of regulation is not to allow

19 a company to recover all of its legitimate costs?

20 A. An objective of regulation is to set

21 expense/revenue relationships which allow the company

22 an opportunity to earn its rate of return.

23 Q. In setting a rate case isn't it true that

24 you try to set a rate case to allow a company to

25 recover all of his legitimate costs?

(SCHOOLEY - CROSS BY MARSHALL)

2546

1 A. No.

2 Q. You don't look at legitimate costs that
3 incur and then project what they be in the future so
4 as to allow the company to recover?

5 MR. TROTTER: Objection, asked and answered
6 three times.

7 JUDGE HAENLE: Does sound like the same
8 question. Unless you've got something different,
9 sustained.

10 Q. When the Commission permits the company
11 to recover the deficits in a storm damage reserve as
12 it has done in the past through rates, these are bona
13 fide costs that the company is recovering only once;
14 is that correct?

15 A. I would beg to differ with that
16 characterization. I think in the process as it has
17 occurred over the past, at least past decade, the use
18 of an average for the recovery of storm damage
19 expenses has in effect allowed the company to amortize
20 expenses for four years, and the addition of a deficit
21 into the average is double recovery of those expenses.

22 Q. Has the company recovered double expenses
23 for any storm damage in the past?

24 A. I believe so.

25 Q. Do you know how much? Have you calculated

(SCHOOLEY - CROSS BY MARSHALL)

2547

1 any amount?

2 A. I would think that in the U-80 case and in
3 the other cases during the past decade there have been
4 at least three times when the deficits have been added
5 in and all range about a million and a half dollars so
6 there can be four or five million dollars of recovery
7 for those.

8 Q. Those are all amounts that the Commission
9 in contested cases approved and added to the future
10 accounts, correct?

11 A. The cases were contested; the amounts were
12 not necessarily contested.

13 Q. But the Commission did take the actions
14 that we talked about before?

15 A. For various reasons, yes.

16 Q. And the deficits in the storm damage
17 reserve accounts have been recovered through rates,
18 correct?

19 A. Yes, I believe they have been recovered.

20 Q. Page 5, line 9 when you point out that
21 there's no specific Commission order establishing the
22 storm damage reserve accounting, isn't it a fact that
23 on those two successive general rate cases the
24 Commission rejected the staff position and included a

25 storm damage reserve balance in future rates and isn't

(SCHOOLEY - CROSS BY MARSHALL)

2548

1 that evidence that the Commission approved that
2 accounting procedure?

3 A. As a procedure, no, I don't think they
4 addressed that issue specifically. They did include
5 those amounts at those times for different reasons
6 each time. One time they considered it an inflation
7 factor, early 80's were known for the high inflation
8 and they considered that appropriate at the time.

9 Q. Page 5, line 25 and continuing over to page
10 6, you describe a self-insurance reserve. Would you
11 explain how a self-insurance reserve differs from the
12 company's existing storm damage reserve?

13 A. Company considers its storm damage reserve
14 as a form of self-insurance and in prior cases, at
15 least prior to the U-89-2688 case, presented it as a
16 part of the self-insurance reserves.

17 Q. So storm damage reserve in your view is
18 basically the same as a self-insurance reserve?

19 A. In a theoretical sense, yes, they're used
20 the same way. I don't believe the company uses them
21 as a self-insurance reserve.

22 Q. Now, you at page 8, line 22 defined
23 catastrophic storm as one that affects 25 percent or
24 more of the customers. Where did you obtain that

25 definition?

(SCHOOLEY - CROSS BY MARSHALL)

2549

1 A. It's not a definition that you would
2 receive from a textbook or anything. It's from my
3 analysis of the outages that the company was able to
4 identify and in looking over those I could tell there
5 was a definite difference between two of the
6 catastrophic storms and the more or less normal level
7 that occurred in most years.

8 Q. You recommended on page 13, lines 14 and 17
9 that \$5.3 million of storm damage losses do not meet
10 your 25 percent criterion so they ought to be written
11 off without recovery; is that right?

12 A. Page 13, what line?

13 Q. I believe it's lines 14 to 17.

14 A. This is approximately \$5.3 million, which
15 if the Commission accepts my treatment of this the
16 FERC memorandum allowing the company to accumulate the
17 deficit in the reserve into account 182.1 would have
18 to be charged to other deductions in the year of
19 disallowance.

20 Q. So you would disallow \$5.3 million because
21 those storm damage losses do not meet your 25 percent
22 criterion?

23 A. Yes.

24 Q. Assume that after this rate case is

25 concluded, the area here suffers another storm that

(SCHOOLEY - CROSS BY MARSHALL)

2550

1 affects 25 percent of the company's customers. So the

2 company sets up a \$10 million storm damage reserve.

3 Assume with me that in the next rate case that new

4 staff accountant decides that 35 percent, not 25

5 percent is the cutoff point. Should the \$10 million

6 of the storm damage reserve be written off without

7 recovery?

8 A. Your characterization of the method there

9 is not what I am proposing. If a level of storm

10 damage or whether that's defined by a percentage of

11 customers or an absolute number of customers is

12 exceeded, that to me would fit the definition of what

13 should be included in the extraordinary property loss

14 account 182.1 and the company may then require or

15 request recovery of those expenses as an extraordinary

16 property loss. I don't see what you mean by -- if

17 your question is what would another accountant treat

18 it in the future, we'll have to determine that in the

19 future.

20 Q. My only point was if somebody else sets

21 that at 35 percent instead of 25 percent, as you have,

22 that could cause another write-off, couldn't it, just

23 as you've tried to write off or recommending writing

24 off \$5.3 million?

25 A. Not necessarily. It would depend on

(SCHOOLEY - CROSS BY MARSHALL)

2551

1 whether the outages that you're referring to occurred
2 between 25 and 35 percent. Right now 35 percent would
3 probably accommodate the same adjustments that I have
4 right now. If you would like to make it 35 percent I
5 would be happy to go along with that.

6 Q. All I'm trying to say is that if somebody
7 else on staff finds that 35 percent is a better number
8 than your 25 percent number, there would be nothing to
9 prevent that.

10 MS. BROWN: Object. I think you're
11 misstating or mischaracterizing this witness'
12 proposal. It's clear from his testimony that he is
13 making a proposal and recommendation for the
14 Commission's consideration. So your question would
15 have no relevance.

16 JUDGE HAENLE: Mr. Marshall.

17

18 CROSS-EXAMINATION

19 BY MR. MARSHALL:

20 Q. Assuming that a new staff member's
21 recommendation were followed by the Commission it
22 would have the same result that you're trying to
23 recommend that the Commission adopt here?

24 A. In general rate cases it's a good idea to

25 review the policies and see if they're still

(SCHOOLEY - CROSS BY MARSHALL)

2552

1 applicable to the circumstances at hand, and if a new
2 analyst decided to make a proposal and had substantive
3 reasons for doing so and the senior staff agreed with
4 it then that proposal should be made.

5 Q. The definition that you have of a weather
6 event when you define storms, you discuss your view of
7 storms in this area which you define as either are
8 "normal weather events" or "abnormal weather events."
9 And page 8, line 1 you were asked how would you define
10 normal weather events and how would you define
11 abnormal weather events. Do you see that question to
12 you?

13 A. Yes.

14 Q. And then you gave some definition. Do you
15 have any experience in meteorology or in defining
16 storms?

17 A. I have looked into this, yes. I find it
18 interesting. I like looking at weather and being in
19 weather. I think experience alone is a judgment of
20 what is normal and abnormal.

21 Q. So apart from being in weather you're not a
22 meteorologist?

23 A. I don't have a degree in meteorology. I
24 don't think that's necessary.

25 Q. Did you take your definition of a quote

(SCHOOLEY - CROSS BY MARSHALL)

2553

1 "normal weather event" from any textbook on weather?

2 A. I do have references as to what's normal.

3 Dr. Kruckeberg at the University of Washington is

4 a noted naturalist in the area has written a book

5 called the Natural History of Puget Sound Country. In

6 this he defines or states "Seattle has never been

7 known as a windy city and when the Pacific lows are

8 holding sway over the Sound, winds of any force are

9 almost nonexistent. Even when the climate machine

10 shifts gears out over the Pacific or in the northern

11 interior of the continent changes in wind velocity for

12 us are not usually great, but there are exceptions and

13 the exceptions are the Inaugural Day storm or the

14 November 1991 storm."

15 Q. Does the property -- policy for property

16 damage make a distinction between a normal weather

17 event and an abnormal event if there's damage?

18 A. Property damage do occur on a normal basis.

19 They are part of the expenses a company should expect

20 and plan for.

21 Q. My question, though, is insurance policies,

22 do they make a difference between normal weather

23 events or abnormal weather events?

24 A. Yes, I believe they do.

25 Q. Do they deny coverage if there's an

(SCHOOLEY - CROSS BY MARSHALL)

2554

1 abnormal weather event or normal weather event?

2 A. They do so by the negotiation and the
3 company's acceptance of the deductible levels. If
4 they had a zero deductible that would mean they would
5 be willing to recover normal weather events. They set
6 \$10 million deductible so therefore they're willing to
7 cover the abnormal weather events.

8 Q. I'm talking about a regular insurance
9 policy that a homeowner would have. Does that make
10 any distinction between abnormal and normal?

11 A. That's the purpose of a deductible.

12 Q. If a homeowner has a 250 deductible for its
13 policies a storm causing 250 is normal but one causing
14 more is abnormal; is that right?

15 A. There's a rather substantial order of
16 magnitude difference between a homeowner's policy and
17 a company's policy.

18 Q. I'm just trying to get at the definition of
19 normal versus abnormal to find out if there's some
20 specific things that we can define?

21 A. I don't know how insurance companies define
22 normal versus abnormal.

23 Q. Whether it's a normal weather event or
24 abnormal weather event if it causes more than 250 of

25 damage a homeowner is entitled to recover that?

(SCHOOLEY - CROSS BY MARSHALL)

2555

1 A. If that's what their deductible is.

2 Q. You appear to define abnormal weather
3 events as having to meet two events. One they have to
4 occur infrequently and less than once a year and two,
5 they must affect over 25 percent of Puget's customers;
6 is that correct, page 10 lines 21 to 22?

7 A. Yes.

8 Q. Was there any written regulation that
9 caused you to select 25 percent of customers instead
10 of 10 percent or 3 percent?

11 A. As I mentioned earlier it was a review of
12 the company's experience over the past four years.
13 This is presented in Exhibit 729, page 2. You can see
14 that there are two extraordinary lines on the graph
15 and that there are many of them that are at 100,000 or
16 fewer customers. 25 percent seemed to be a low enough
17 amount to capture the abnormal event.

18 Q. When you give a definition of abnormal
19 which is 25 percent of customers, isn't it more
20 important as to the number of people -- than the
21 number of people who have been out the length of time
22 that they're out? Let me back up. If 100 percent of
23 Puget's customers are without power for two minutes,
24 that wouldn't be a catastrophe but if 5,000 customers

25 are out for three weeks, that would be a hardship for

(SCHOOLEY - CROSS BY MARSHALL)

2556

1 them, wouldn't it?

2 A. It might be a hardship for those customers.

3 I can't envision an event which would cause 5,000

4 customers to be out for three weeks.

5 Q. Nevertheless, isn't it more important to
6 decide how long customers are out rather than just a
7 percentage or the number?

8 A. No, not due to weather events, I don't
9 think. There may be other circumstances which cause
10 it but -- I'm not trying to make this adjustment more
11 complicated than necessary.

12 Q. Insurance companies don't deny coverage on
13 the basis of whether 25 percent of the customers are
14 out or 10 percent or 3 percent, do they?

15 A. You say they don't deny coverage?

16 Q. No. The only thing they consider is the
17 amount of the property damage?

18 A. You asked if they deny coverage because
19 of --

20 Q. Right, they don't deny coverage.

21 A. I believe they deny the company coverage
22 for insurance because of the claims the company has
23 made over the past few years.

24 Q. That has nothing to do with whether it's 25

25 percent of customers that have been affected or 10

(SCHOOLEY - CROSS BY MARSHALL)

2557

1 percent or 3 percent, correct?

2 A. They're not looking at it from a percentage
3 of customers out, no. That's not one of their
4 criteria. Their criteria are dollars that they have
5 to spend.

6 Q. One of the storms that you defined as a
7 single weather event, that is the Arctic Express in
8 December of 1990, the insurance companies define it as
9 three separate weather events, didn't they?

10 A. The company was successful in its argument
11 that it was one events and was able to recover greater
12 insurance that way.

13 Q. The insurance companies said it was three
14 and you believe it was a settlement on that or did the
15 company prevail in litigation?

16 A. It was a settlement.

17 Q. Was it settled at one or was it settled at
18 two or three or do you know?

19 A. I believe in my discussion with Jack Dosch
20 on this he did not indicate there was a settlement on
21 the number of event just on the number of dollars.

22 Q. The insurance company in that case was
23 considering that to be three weather events, the
24 company was saying one and there was a compromise that

25 did resolve that issue; is that correct?

(SCHOOLEY - CROSS BY MARSHALL)

2558

1 A. That is correct.

2 Q. Now, if your proposal is adopted and
3 there's a storm that causes 20 percent of Puget's
4 customers to be out without service, that would be
5 about 150,000 customers, correct?

6 A. Yes.

7 Q. And they can be out for two weeks?

8 A. Not likely. They could be out for two
9 days. They could be out for five days.

10 Q. Would that be a hardship on them?

11 A. I am not addressing the question of hard-
12 ships to customers.

13 Q. And of course customers by customers there
14 may be more than one person per utility meter,
15 correct, so there might be three or four members of a
16 family?

17 JUDGE HAENLE: You know, Mr. Marshall,
18 these questions sound awfully repetitious to me.
19 Sounds to me like you're asking the same thing again
20 and again and I don't know that that's adding to the
21 record.

22 MR. MARSHALL: I will try to speed this up.

23 JUDGE HAENLE: Perhaps if you choose them
24 more carefully or just ask your basic question rather

25 than continuing to ask the same question would be

(SCHOOLEY - CROSS BY MARSHALL)

2559

1 helpful.

2 Q. If 20 percent of customers are out would
3 that mean more than 150,000 people?

4 JUDGE HAENLE: I just remember that
5 question exactly.

6 A. I answered that question.

7 MR. MARSHALL: The point is that customers
8 are different than people. Customers is a meter.
9 We're trying to talk about the numbers of people that
10 would be affected.

11 Q. And your answer is yes, correct?

12 A. I am not -- I didn't make that distinction
13 in your question, I'm sorry.

14 Q. Do you know whether customers, if 150,000
15 customers are out whether that would affect more than
16 150,000 people?

17 A. I assume there's more than one person in
18 each customer definition, each person you identify as
19 customer.

20 Q. Do you agree that most utilities respond in
21 an emergency by making restoration of service their
22 top priority in order to prevent hardship from turning
23 into something worse and turning into tragedy?

24 A. I do, and I don't criticize the company for

25 its efforts in doing so.

(SCHOOLEY - CROSS BY MARSHALL)

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1 Q. And that's particularly true for people who
2 are older, who are infirm, they're at risk if
3 electricity is not quickly restored, correct?

4 A. How does my accounting treatment for storm
5 damages relate to that question?

6 Q. Well, in an emergency situation where
7 restoration of service is a priority, do you want to
8 send a signal to the company that it should be
9 concerned about the costs more than they should be
10 concerned about the speed of return of service?

11 A. That's the company's problem.

12 Q. If storm damage costs are disallowed in
13 such an emergency situation, wouldn't that tend to cut
14 back on utilities restoring service as fast as they
15 possibly can?

16 A. My accounting treatment does not disallow
17 the company expenses. It sets a normalized level, a
18 reasonable level of expense for events which occur on
19 a regular basis. It also allows the company to
20 recover extraordinary property losses. I think it's a
21 fair and reasonable way of looking at this type of
22 expenditure the company makes on a regular basis.

23 Q. You agree that in an emergency situation
24 the company doesn't have the opportunity or time to go

25 through a long negotiation process in order to agree

(SCHOOLEY - CROSS BY MARSHALL)

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1 on prices for essential materials and people?

2 A. The company does establish how they are
3 going to restore service on different levels by
4 negotiating with other utilities or with suppliers
5 ahead of time and how to handle those events when they
6 do occur.

7 Q. Now, at page 13 you have explained that
8 storm damage treatment that you recommend is similar
9 to bad debt expenses which you indicate, "vary from
10 year to year and is normalized for rate making
11 purposes"?

12 A. Yes.

13 Q. And bad debts are calculated as a percent
14 of accounts receivable; is that correct?

15 A. Yes.

16 Q. And the percentage on that remains
17 virtually unchanged from year to year, isn't that
18 true?

19 A. It varies some, yes. It varies. I don't
20 know what you mean by virtually the same. If you took
21 a percentage difference from one year to another it
22 may not look so stable.

23 Q. But it's pretty easy to predict and to
24 calculate compared to say storm damage losses. Isn't

25 that fair to say?

(SCHOOLEY - CROSS BY MARSHALL)

2562

1 A. Depends on what period of time you're
2 looking at.

3 Q. For the past twelve years the company has
4 used storm damage reserve accounting that provided for
5 the recovery of deficit balances in a subsequent
6 period, this is the accounting procedure we discussed
7 that the Commission adopted in two general rate case
8 proceedings?

9 A. The Commission did not adopt that
10 procedure. The Commission and the Commission staff
11 have not challenged that procedure.

12 Q. So that procedure has gone into effect in
13 two successive rate cases unchanged even though it
14 was brought up?

15 A. It was not brought up. Well, the use of
16 the deficit as you had mentioned --

17 Q. Correct. And the use of the four year
18 average was brought up in the testimony?

19 A. No, I did not find anything which changed,
20 which addressed the issue of changing from a prior
21 six year average to a four year average.

22 Q. You're aware that the company since 1983
23 has been using a four year average?

24 A. Yes.

25 Q. And if you want to change that, wouldn't

(SCHOOLEY - CROSS BY MARSHALL)

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1 the fair method be to change that prospectively and
2 propose a new method of recovery and a new definition?

3 A. I believe that's what I'm doing.

4 Q. On a prospective basis?

5 A. I believe that's what I'm doing.

6 Q. That wouldn't cause a \$5.3 million write
7 off?

8 A. The company's storm damage proposal I
9 believe is excessive in its recovery. It would allow
10 the company to recover over \$32 million in four years
11 versus the 26 million that is posted in the average.

12 Q. Is it fair to ask the company to absorb
13 \$5.3 million loss in accounting or loss in this area
14 for no reason other than a change in this accounting?

15 A. I think that's fair, yes.

16 Q. You state at page 6, line 12 of your
17 testimony that there is a normal level of repairs that
18 could be expected each year?

19 A. Yes.

20 Q. And you forecast that level using a six
21 year average; is that right?

22 A. I wouldn't characterize it as a forecast.
23 I would say that is a level which would represent for
24 rate making purposes a reasonable amount.

25 Q. And you understand the company has been

(SCHOOLEY - CROSS BY MARSHALL)

2564

1 using a four year average since 1983?

2 A. Yes.

3 Q. Your recommended change to a six year
4 average from a four year average would produce a lower
5 annual allowance?

6 A. In this case.

7 Q. Is that correct?

8 A. In this case it does.

9 Q. And how much less does it produce going
10 forward?

11 A. Off the top of my head I think it's about
12 maybe a million dollars.

13 Q. You go back six years, and if you don't
14 adjust for inflation going back six years, doesn't
15 that have the effect of artificially reducing the
16 annual allowance and forcing the company to absorb
17 inflation?

18 A. Inflation in the past six years has been
19 minimal.

20 Q. If you look at the types of things that
21 have to be replaced in a storm, those things would
22 include poles and various kinds of clamps and other
23 things; is that right?

24 A. Yes.

25 Q. Have you looked to see how those have

(SCHOOLEY - CROSS BY MARSHALL)

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1 increased over the last four to six years?

2 A. No, but I think the variability in the
3 expenditures is more due to the number of and the
4 severity of the storms rather than to any price
5 increases that have occurred during that time.

6 Q. But by taking a six year rather than a four
7 year average you're also taking out the effect of
8 inflation for poles on those other things; isn't that
9 correct?

10 A. I suppose on a theoretical level.

11 Q. Do you have any idea what level of
12 inflation cost increases and those kinds of items has
13 been?

14 A. No, I don't.

15 Q. Have you tried to propose any sort of
16 inflation adjustment if you go back six years rather
17 than four years?

18 A. I don't think that's necessary.

19 Q. Now, again, it's not usual for individuals
20 or companies to insure their property against storm
21 damage, isn't that a fair general statement?

22 A. That's true, and I, in my testimony,
23 encourage the company to pursue insurance of its storm
24 damage.

25 Q. It's considered a legitimate business

(SCHOOLEY - CROSS BY MARSHALL)

2566

1 expense for a company to buy storm damage insurance?

2 A. Assuming they can obtain it at reasonable
3 premiums.

4 Q. Those kind of payments for insurance
5 premiums were considered by the IRS, for example, as a
6 legitimate business expense?

7 A. I don't know how the IRS treats it. I
8 suppose so.

9 Q. And it's also legitimate if a business
10 wants to create a self insurance reserve and to
11 maintain a credit balance?

12 A. The question is?

13 Q. Is it legitimate for a business to do that,
14 to create a self insurance reserve?

15 A. If they maintain a credit balance in it,
16 yes.

17 Q. Should regulation set up a system that
18 would penalize a company's shareholders unless the
19 company insures all of the storm damage risk with
20 insurance from an outside insurance company?

21 A. I don't believe my treatment of this
22 penalizes the company or its shareholders.

23 Q. Under your proposal, company stockholders
24 would have an immediate \$5.3 million write off and a

25 loss. Wouldn't that send a signal to the company to

(SCHOOLEY - CROSS BY MARSHALL)

2567

1 insure all storm damage with outside insurance?

2 A. The \$5 million I think is an amount which
3 reflects more the rather low level of expense and the
4 practice the company used in its so-called reserve.
5 It's not an amount which is a penalty to the company.
6 As I said earlier, I think it was an amount that's
7 been inappropriately booked as an asset.

8 Q. Well, the company could avoid the risk of
9 your new proposal by insuring all of its storm damage
10 with outside insurance. Isn't that true?

11 A. No, because I think the premium on that
12 would represent such an incredible amount that it will
13 be even more risky to the shareholders.

14 Q. Would the premium -- isn't the whole idea
15 behind having some sort of self insurance reserve,
16 storm damage insurance reserve to try to reduce those
17 costs to benefit the ratepayers? Isn't it the
18 ratepayers who get all the benefit of those cost
19 savings?

20 A. No, I don't think that's entirely to the
21 ratepayer's benefit. It's also to the shareholder's
22 benefit.

23 Q. But insurance again you've agreed is a
24 legitimate expense?

25 A. Yes.

(SCHOOLEY - CROSS BY MARSHALL)

2568

1 Q. And self insurance reserves are legitimate
2 expense particularly if they go to help reduce overall
3 insurance costs?

4 A. If they're used properly, yes.

5 Q. Now, do you know what would happen if you
6 change the accounting practice for storm damage
7 reserves, what impact that would have on the ability
8 of Puget outside auditors to certify Puget's financial
9 statement to the Securities and Exchange Commission?

10 A. Could you be more specific in what you
11 mean?

12 Q. Sure. This \$5.3 million that would have to
13 be written off, those have been certified by Puget's
14 outside accountants in prior statements, financial
15 statements, including the annual report and the 10K
16 to the SEC. Do you understand that?

17 A. Yes.

18 Q. Would your change in accounting practice
19 which would require now \$5.3 million write off have an
20 impact on the ability of Puget's outside auditors to
21 certify Puget's financial statements in the future for
22 other reserves like this?

23 A. If they left that \$5 million on their
24 books, yes, it would present a big problem to them, as

25 well it should.

(SCHOOLEY - CROSS BY MARSHALL)

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1 Q. The SEC wants uniform accounting so
2 potential investors can compare companies on a fair
3 and uniform basis across the country. Correct?

4 A. Yes.

5 Q. And do you know or do you have in mind a
6 definition of what a regulatory asset is?

7 A. Yes.

8 Q. And if adopted your change would require,
9 again, a write off of \$5.3 million which would affect
10 earnings and which would change an accounting practice
11 that has been reflected in those company books for the
12 past 12 years, correct?

13 A. The company has reflected on its books
14 amounts which I consider to be normal operating
15 expenses. In the 182.1 account by the uniform system
16 of accounts they define this as extraordinary property
17 losses which could not reasonably have been
18 anticipated and which are not covered by insurance or
19 other provisions such as unforeseen damages to
20 property. I don't think that's what's accumulated in
21 the 182.1 account at present. If your auditors have
22 considered that to be a fair presentation of the
23 company's position, perhaps they should be held
24 accountable for it.

25 Q. Do you have a letter in your files from the
(SCHOOLEY - CROSS BY MARSHALL) 2570

1 Federal Energy Regulatory Commission to the company
2 about what amounts have been put into account, FERC
3 account 182.1 that you just referred to?

4 A. FERC's memo to the company.

5 Q. The FERC letter dated June 17, 1991?

6 A. June 13, 1991, received June 17, 1991.

7 Q. Yes.

8 MR. MARSHALL: Let's mark that as the next
9 exhibit in order.

10 JUDGE HAENLE: You handed me a two-page
11 document with those dates at the top. I will mark
12 this as Exhibit 737 for identification.

13 (Marked Exhibit 737.)

14 Q. Is this a letter that the FERC sent to the
15 the company confirming that the company has properly
16 accumulated reserve account deficits for the storm and
17 FERC account 182.1?

18 A. It does not certify --

19 JUDGE HAENLE: Begin yes or no, and then
20 explain your answer, if you could continue to do that
21 that would be real helpful.

22 A. No, this letter does not state that the
23 company has properly accumulated these deficits. It
24 recognizes there is a debit balance in the 228

25 accounts, the liability account, which of course

(SCHOOLEY - CROSS BY MARSHALL)

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1 cannot carry a debit balance. It goes on to say if
2 recovery of any of the -- is in the second to last
3 paragraph -- is denied in any future rate proceedings
4 all amounts shall be charged to account 426.5.

5 Q. At the top of page 2 doesn't it state
6 "Since these amounts reflect substantial losses
7 related to utility property which primarily resulted
8 from unforeseen damages they should be classified as
9 extraordinary losses in account 182.1, extraordinary
10 property losses." Do you see that at the top of page
11 2?

12 A. I see that. I think the extraordinary
13 losses which they are referring to would be the ones
14 resulting from the December 1991 -- December '90,
15 January '91 Arctic Express event.

16 Q. Isn't this FERC person directing the
17 company to transfer the debit balances of \$6.6 million
18 from account 228 into account 182.1?

19 A. Could you repeat that, please.

20 Q. Doesn't this letter direct the company to
21 transfer the debit balances totaling \$6.6 million
22 from account 228.1 to account 182.1?

23 A. Yes.

24 Q. And authorizing the continued deferral of

25 those amounts in that account 182.1?

(SCHOOLEY - CROSS BY MARSHALL)

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1 A. Until your next rate filing for
2 authorization of rate recovery of such balances, the
3 Commission has the right to determine the proper
4 level. It's not a given. Our Commission does not --
5 not the federal Commission.

6 Q. But the rules you were referring to were
7 the FERC rules, correct, what is defined for account
8 182.1?

9 A. Yes.

10 Q. And this letter results from an examination
11 by the FERC of the amounts that are in that account
12 182.1?

13 A. I don't believe the FERC examined what
14 expenses those were. The company requested the use of
15 the account 182.1. FERC allowed it. I don't think we
16 looked to see whether the events were extraordinary
17 events or not.

18 Q. Did you ask anybody at the FERC what they
19 did?

20 A. No.

21 Q. Now, does the company post all storm damage
22 amounts to account 182.1 or just some?

23 A. Company posts all storm damage expenditures
24 to account 228.1 and on a monthly basis shovels the

25 debit balance to account 182 and shovels it back at

(SCHOOLEY - CROSS BY MARSHALL)

2573

1 the beginning of the next month.

2 Q. Do they put all storm damage amounts to
3 account 182.1 or just some eventually?

4 A. All. As long as it's a definite balance in
5 the reserve.

6 Q. And your view is that all storm damage
7 property losses from whatever type of storm are put
8 into 182.1?

9 A. No. Only extraordinary events such as the
10 one I define.

11 Q. That's been the company's practice. They
12 do not post and they often expense storm damages in
13 small amounts and they do not put them in account
14 182.1, do they?

15 A. I believe it's in the company's
16 controller's manual they define what should be posted
17 to the 228 accounts as the expenditures and they do
18 say there are certain very minor circumstances which
19 would be expensed immediately such as one limb taking
20 out one customer but not anything that was -- it seems
21 like the company's practice is to accumulate storm
22 damages every time the wind blows.

23 Q. Have you examined the amounts that have
24 been expensed for storm damages that aren't put into

25 182.1?

(SCHOOLEY - CROSS BY MARSHALL)

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1 A. I examined the storm damages that were
2 posted to 228.1. As I said before, nothing is posted
3 directly to 182.1.

4 Q. What amounts are not posted eventually to
5 182.1? Have you made an examination of that, what the
6 total amount of that is?

7 A. I was looking at the storm damage reserve.

8 Q. So there could be considerable number of
9 storm damage expenses that are expensed, not
10 ultimately posted to 182.1?

11 A. There could be if you would like to present
12 evidence to that effect.

13 Q. Are you familiar with the testimony of John
14 Storey in U-85-53 regarding the method by which the
15 company computed storm damage?

16 A. I did not read his testimony in that case,
17 no. I believe it was a contested issue in that case.

18 Q. You didn't read the testimony in that case?

19 A. This was a U-85 case?

20 Q. Yes.

21 A. No.

22 Q. And I take it then you are probably not
23 familiar with the testimony of Helen Kling regarding
24 storm damage in that same case?

25 A. No.

(SCHOOLEY - CROSS BY MARSHALL)

2575

1 Q. Let's move to the self insurance reserve
2 adjustment that you make, the adjustment 2.09?

3 A. Yes.

4 JUDGE HAENLE: What's your intent with
5 regard to 737 for identification?

6 MR. MARSHALL: Offer that for admission.

7 JUDGE HAENLE: Any objection?

8 MS. BROWN: No objection.

9 MR. ADAMS: No objection.

10 JUDGE HAENLE: Any objection from an
11 intervenor?

12 MR. TRINCHERO: No, your Honor.

13 MR. FURUTA: No, your Honor.

14 JUDGE HAENLE: 737 will be entered into the
15 record.

16 (Admitted Exhibit 737.)

17 Q. Next adjustment you make is 2.09 to self
18 insurance reserves for workers comp liability and all
19 risk insurance beginning at page 14; is that correct?

20 A. Yes.

21 Q. And under your proposed adjustment how much
22 of a loss would the stockholders have?

23 A. I don't know.

24 Q. Do you have an estimate?

25 A. No, I don't.

(SCHOOLEY - CROSS BY MARSHALL)

2576

1 Q. Would you accept that the after tax write
2 off if your adjustment were accepted by the Commission
3 would be over \$1.6 million and that the revenue
4 requirement difference would be another 464,000?

5 A. I think that would be about right.

6 Q. Generally speaking, is the cost of
7 insurance in these areas, workers comp, liability and
8 all risk considered to be a legitimate business
9 expense?

10 A. Yes.

11 Q. When a utility buys an insurance policy,
12 the cost is like other legitimate business expenses
13 which are paid for by customers as a cost of service?

14 A. It's included in a revenue requirement in a
15 general rate case, yes.

16 Q. And if the company has a high deductibility
17 it's because they believe that that would result in an
18 overall lower cost to the customers, correct?

19 A. I don't know what the company's reasoning
20 on that is. The use of a high deductible would reduce
21 the premium on it. Whether that reduces the overall
22 cost to the customers or the overall expense in a rate
23 case, I don't know if the company takes that into
24 account.

25 Q. The only reason you could think of, though,

(SCHOOLEY - CROSS BY MARSHALL)

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1 for a deductible, would be to minimize the legitimate
2 overall insurance expenses, isn't that fair to say?

3 A. If the company is using a practice which
4 allows for the complete recovery of expense over time
5 in a general rate case setting then of course they
6 would like high deductibility so that they are
7 insulated from any of that expense.

8 Q. We're talking about workmans compensation,
9 liability and all risk insurance?

10 A. The company use of those accounts and
11 reserve accounts operates in the same manner as it
12 does for storm damage.

13 Q. Should the Commission encourage or
14 discourage efforts to produce an overall lower cost of
15 insurance by having a high deductible?

16 A. Commission should look at it in terms of
17 what the total expense is for both the premium on the
18 insurance policy and the expense for the uninsured
19 portions.

20 Q. Let's take these insurance policies, these
21 areas one by one. Let's first look for workers
22 compensation insurance. Do you have experience in
23 workers compensation insurance?

24 A. Some, yes.

25 Q. Have you read any books on workers

(SCHOOLEY - CROSS BY MARSHALL)

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1 compensation insurance?

2 A. I've worked in payroll areas of companies
3 for many years, workmen's compensation is a normal
4 expense generally administered by the state.

5 Q. It's required by law, can't avoid it?

6 A. One way or the other, yes.

7 Q. Under this state's law, as you understand
8 it, Puget, as well as other companies, can either opt
9 to insure to the state's workers compensation insurer
10 or they can do what Puget has done by setting up an
11 insurance reserve, correct?

12 A. Yes.

13 Q. And Puget was entitled to use the workers
14 compensation insurer for the state and just charge
15 those payments off as any other business, correct?

16 A. They could.

17 Q. And the only virtue, then, of using the
18 self insurance setup would be to try to overall reduce
19 the level of premiums that would have to be paid to
20 lower the ratepayer cost, correct?

21 A. Yes. I believe Mr. Storey has testified
22 that a study done by someone for the company showed
23 that at least for some period of time, a short period
24 of time that is true, the company has been able to

25 reduce -- has incurred lower expenses due to their

(SCHOOLEY - CROSS BY MARSHALL)

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1 method of self insurance.

2 Q. Will the effect of your proposal, the
3 message to your proposal really be an effect to force
4 the company's stockholders to protect themselves by
5 going over to the state workers comp system, just
6 doing it that way?

7 A. Not necessarily, no.

8 Q. Wouldn't that be a much easier thing to do
9 rather than run any risks and forcing the stockholders
10 to act as an insurance company?

11 A. The balance is whether you force the
12 stockholders to act as an insurance company or the
13 ratepayers to act as an insurance company.

14 Q. If there's insurance that could be had,
15 workers compensation insurance, wouldn't the effect of
16 your policy that you're proposing here be that the
17 company would just say, well, if we have risk by this
18 method, as we apparently do, let's just go ahead and
19 pay the state insurer and be done with it.

20 MS. BROWN: Asked and answered.

21 JUDGE HAENLE: I agree and it seems to me
22 that you're no longer obtaining information from this
23 witness about why he did what he did and it sounds to
24 me like you're arguing with the witness and trying to

25 bring him around to the company's point of view. I

(SCHOOLEY - CROSS BY MARSHALL)

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1 don't think it's productive.

2 MR. MARSHALL: Trying to look at the policy
3 implications behind the recommendations and I think
4 that's a very important thing.

5 JUDGE HAENLE: I agree with you but it
6 occurs to me that if you ask the question and get the
7 response and the reasons why the witness doesn't agree
8 with it or what he understands the policy implications
9 to be that that should probably be the end of it.

10 Q. Have you determined how much the company by
11 using its insurance reserve has saved for the
12 ratepayers in terms of costs?

13 A. Has saved versus the state's policy?

14 Q. Sure. I guess that would be the only other
15 alternative.

16 A. No.

17 Q. Let's turn to liability self insurance?

18 A. One point I would like to make is that
19 workmen's compensation is a fairly static amount
20 over time and there's not a great deal of variability
21 in that account.

22 Q. Okay. Let's turn to liability self
23 insurance. Have you had professional experience with
24 liability insurance other than making claims?

25 A. For other companies I've worked with I've
 (SCHOOLEY - CROSS BY MARSHALL)

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1 helped negotiate their insurance policies.

2 Q. And therefore you have kind of at least a
3 general understanding of what liability insurance is
4 intended to do?

5 A. Yes.

6 Q. And again it's normal for businesses to
7 insure, as well as it is for individuals to insure
8 against liability claims and losses?

9 A. Yes.

10 Q. And in fact under our state we have
11 compulsory liability insurance at least for
12 automobiles, people don't have a choice? They have to
13 insure for automobile liability?

14 A. No, that's not true. Why else would I have
15 to buy uninsured motorist policy.

16 Q. If you get hit by people out of state just
17 as easily by people in state for one.

18 JUDGE HAENLE: We're stretching the analogy
19 a bit here.

20 Q. Is it fair to say that premium payments for
21 liability insurance have always been a legitimate
22 expense to recover in utility rates?

23 A. Yes, and that's a part of Mr. Nguyen's
24 testimony.

25 Q. Do you agree that a Commission should

(SCHOOLEY - CROSS BY MARSHALL)

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1 encourage the company to look for a way to minimize
2 the insurance premiums by using deductibility or by
3 creating insurance reserves?

4 A. If insurance reserves are used and
5 maintained at a credit balance there is a need to look
6 at the total cost of both the premium with the
7 deductible and be expensed due to the uninsured
8 portions.

9 Q. Would you agree that the time to evaluate
10 the decision on whether to insure all liability risks
11 or to set up an insurance reserve should be made
12 prospectively rather than retrospectively?

13 A. I think in a general rate case setting you
14 can look at any expense and judge whether it needs to
15 be implemented prospectively or retrospectively.

16 Q. A homeowner or a company trying to make a
17 decision on whether to insure all of its liability
18 risk with outside insurance or to have some
19 combination of deductibles or limits on insurance,
20 that decision has to be made by definition against
21 prospective events?

22 A. And it's probably made yearly as the policy
23 is expired.

24 Q. I take it you talked to Mike Mane of Puget

25 Power who is the risk manager for Puget Power?

(SCHOOLEY - CROSS BY MARSHALL)

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1 A. Yes.

2 Q. And do you have any reason to believe that
3 Puget Power's risk management department is not as
4 good as any other department for any other utility in
5 the country?

6 A. I have no way to compare that.

7 Q. Do you take issue with any of the judgments
8 that they had made on liability insurance?

9 A. I am not the insurance witness in this. I
10 am treating the self insurance reserves, the manner in
11 which they've been used in the past and have a
12 proposal on how to use them for the future.

13 Q. Would the policy implication of your
14 proposal that the company would be much more inclined
15 to use outside liability insurance rather than risking
16 having any kind of an insurance reserve?

17 A. I think my proposal would give the company
18 more food for thought in determining what their
19 policies would be. I also think it's -- in this
20 setting it is a rate making treatment that we're
21 concerned with, not a question of whether the company
22 has or has not obtained insurance for certain items or
23 the levels of deductibles for those policies. The
24 company will make that determination regardless of the

25 rate making treatment.

(SCHOOLEY - CROSS BY MARSHALL)

2584

1 Q. Let's turn now to all risk property
2 insurance. Do you have the definition for all risk
3 property damage?

4 A. It's a definition which I requested of Mr.
5 Storey. He said it was for damages caused by third
6 parties to the company's property.

7 Q. Setting aside whether Mr. Storey is an
8 insurance expert or not, do you have any experience in
9 all risk property damage insurance?

10 A. Other than as an insurance purchaser?

11 Q. Right.

12 A. No.

13 Q. Did you seek out any expert to help you
14 with the testimony regarding what damages are normally
15 covered by all risk damage insurance?

16 A. I looked over the data submitted by the
17 company on its own insurance policies for this item.

18 Q. Did you look at the policies to see what
19 they covered?

20 A. No.

21 Q. Isn't it true that all risk insurance
22 includes any damage done to company property by
23 everything including thieves, avalanches, animals, the
24 whole range of things?

25 A. That's not the definition I received and

(SCHOOLEY - CROSS BY MARSHALL)

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1 that's not the definition that's in the transcripts.

2 Q. Well, I take it you asked Mr. Storey, but I
3 was wondering whether you had asked Mr. Mane or looked
4 at the policies to determine from the actual insurance
5 what all risk property damage was?

6 A. I did not review policies themselves. As
7 I've said I'm not the insurance witness here. I am
8 looking at the self insurance users and the methods
9 that the company uses those for to recover all
10 expenses.

11 Q. For it's all risk property insurance you
12 took issue with some of the insurance because you felt
13 the damage done by animals or avalanches and that sort
14 of thing shouldn't be covered by all risk insurance.
15 Isn't that true?

16 A. Many, as a matter of fact, probably most of
17 the expenditures for the all risk property -- I prefer
18 to look at it as the property damage account -- are
19 due to equipment failures. Question of whether a
20 squirrel is a third party or not is up to debate, but
21 I think the company seems to be using equipment
22 failures as a definition of all risk property damage
23 and accumulating expenses for that for ultimate
24 recovery in a rate case.

25 Q. In your testimony you excluded damages done

(SCHOOLEY - CROSS BY MARSHALL)

2586

1 by thieves, avalanches and animals as not being within
2 all risk insurance; is that right?

3 A. No. Only the equipment damages, equipment
4 failures do I take issue with. Avalanche seems like
5 it should be in storm damage account.

6 Q. In malfunctioning equipment, do you
7 understand that if something breaks down in a piece of
8 equipment and damages other equipment that is
9 considered to be within all risk insurance?

10 A. Do the insurance companies cover that, I
11 don't know.

12 Q. You haven't looked into that, I take it?

13 A. Primarily because most of the damages do
14 not exceed the deductibles the company has. As a
15 matter of fact, I think there's only one or two events
16 in the past four years that it exceeded the
17 deductibles, the White River flume failure was the
18 only one that comes to mind that was covered by
19 insurance.

20 Q. Was that a failure of malfunctioning
21 equipment that damaged other property?

22 A. It was a flume that failed allowing water
23 to damage the rest of the flume, I suppose, or the
24 damages to recover the flume itself, to repair the

25 flume.

(SCHOOLEY - CROSS BY MARSHALL)

2587

1 Q. Is it true that just to make sure we
2 understand each other that you believe that if a part
3 in a piece of equipment destroys other equipment that
4 should not be considered to be all risk -- covered by
5 all risk insurance?

6 A. Trying to put myself in insurance
7 adjuster's frame of mind. It would be debatable
8 whether that would be recovered or not assuming it was
9 within the deductible. Perhaps it was due to untended
10 to equipment or something like that that it failed.
11 You would have to look to blame for part of that
12 answer.

13 Q. You're not aware of insurance issues
14 involving failure of Allis Chalmers turbines over on
15 the Mid Columbia and whether that was covered by
16 insurance for a defect in one piece of equipment
17 damaging another piece of equipment?

18 A. I am not aware of that. Was that company
19 property?

20 Q. Property in which the company would have to
21 pay for repairs if it weren't covered by insurance.

22 Turn now to FAS 106, the post retirement
23 benefits. As a general matter, are Puget post
24 retirement benefits higher or lower than other

25 utilities in the United States?

(SCHOOLEY - CROSS BY MARSHALL)

2588

1 A. Is this before the change or after?

2 Q. Let's take it either way.

3 A. I think it would probably be on the high
4 side overall.

5 Q. Did you do a study of this?

6 A. No.

7 Q. Do you have anything in writing on this?

8 A. Company requested in its data request 4089
9 provide copies of documents in the staff's possession
10 which indicate whether defined contribution or defined
11 benefit plans are in place for utilities in
12 Washington. In the docket covering the generic
13 treatment of this FAS 106 companies did respond with
14 their different plans in place and how they've been
15 changed. So there are references here to how other
16 companies treat their retirement benefits.

17 Q. But you don't have an overall view of how
18 Puget's post retirement benefits compare prior to 1991
19 or after 1991 with other utilities?

20 A. Not a quantitative one, no.

21 Q. Were you here for the testimony of Ms.
22 Kelly on Puget's benefit levels in general?

23 A. Yes.

24 Q. And you heard her state that Puget was

25 below the median for utilities in the United States on

(SCHOOLEY - CROSS BY MARSHALL)

2589

1 benefits?

2 A. I assume that includes all benefits such as
3 active employee medical plans and such.

4 Q. Have you done any similar study with
5 respect to post retirement benefits or do you know
6 whether that's included in that other study?

7 A. I don't know.

8 Q. What benchmark did you use to make any
9 conclusion that Puget's decision making was anything
10 other than prudent on post retirement benefits other
11 than pensions? Did you have a specific benchmark that
12 you used?

13 A. A benchmark, you mean whether --

14 Q. Some written standard, some benchmark with
15 other companies, something specific?

16 A. My characterization here is based on
17 looking at the way medical trend rates and the policy
18 offered by the company was -- going back as far as the
19 mid to early 70's it was evident that medical
20 insurance trend rates were increasing rapidly and my
21 judgment that the offering of full benefits to
22 employees at that time was an imprudent act.

23 Q. My question, though, however was do you
24 have any specific benchmark to compare other companies

25 either other utilities or any other company?

(SCHOOLEY - CROSS BY MARSHALL)

2590

1 A. Many other companies offered similar
2 benefits. I would question the prudence of those
3 policies as they do now too.

4 Q. Do you have a benchmark that you consider
5 to be prudent, some other set of companies or some
6 other written statement someplace?

7 A. No.

8 Q. How much would your treatment of these post
9 retirement benefits other than pensions result in the
10 reduction of revenue requirement?

11 A. Versus the company?

12 Q. Yes.

13 A. I believe I state that in my testimony.

14 Q. Would you accept 776,736 subject to check?

15 A. That sounds about right.

16 Q. So about three-quarters of a million
17 dollars?

18 A. For the expense level in this rate case.

19 Q. Can you describe your experience in
20 reviewing other post employment benefit plans prior to
21 what you did here for your testimony?

22 A. Prior to my working on this in this case,
23 no, I have no experience.

24 Q. You described the company's other post

25 employment benefit plan in effect prior to 1992 as

(SCHOOLEY - CROSS BY MARSHALL)

2591

1 imprudent. What specific features of the plan are
2 imprudent?

3 A. I think it was imprudent that the company
4 -- and the company is not unique in this situation --
5 had offered to its employees unlimited medical
6 coverage for as long as they lived and their spouses
7 and any dependents that may qualify to get on the
8 plan.

9 Q. What specific changes must be made in the
10 company's pre 1992 plan to make it prudent in your
11 view?

12 A. My adjustment values the cost of those
13 plans at the same level that the current employees
14 receive, that of \$72 per year of employment as applied
15 to the medical insurance premiums.

16 Q. So in effect would you be telling the
17 company that it must now tell its retirees who retired
18 before 1992 that it will cut back on the post
19 retirement benefits, pensions, along the lines you
20 just suggested?

21 A. My proposal is to set an amount of expense
22 for rate making purposes. How the company handles it
23 after that, if it's accepted by the Commission is up
24 to the company.

25 Q. If we were to inform Puget pre 1992

(SCHOOLEY - CROSS BY MARSHALL)

2592

1 retirees of your proposed change what sort of notice
2 would you think that we should send them?

3 A. If you intended to change their plan, which
4 you have the right to do, according to the documents
5 I've seen, you would probably notify them in a manner
6 similar to the notification you gave to current
7 employees that the plan was being changed.

8 Q. The notice for change in the future are to
9 people who have not yet retired but who will retire at
10 some point in the future?

11 A. Yes.

12 Q. And the notice that we are just now
13 discussing will be to people who are already retired
14 who have been receiving benefits who would no longer
15 receive those benefits because you considered them
16 imprudent; is that correct?

17 A. They would still receive benefits. They
18 may have to pay more for them as they are paying more
19 for them now than they did a few years ago.

20 Q. Are you aware of any Washington utilities
21 or industrial companies that did not use pay as you go
22 accounting for other post employment benefits before
23 SFAS 106?

24 A. I am trying to think if US West is in that

25 situation or not. I believe not. I don't think there

(SCHOOLEY - CROSS BY MARSHALL)

2593

1 are.

2 Q. If your recommendation is adopted and the
3 company management doesn't reduce those benefits it
4 would then be sued by its stockholders if it didn't as
5 incurring an imprudent expense?

6 MS. BROWN: Uncalling for speculation.

7 MR. MARSHALL: Withdraw the question.

8 Q. Does the state of Washington under laws, to
9 your knowledge, and you may not know, recognize vested
10 rights in retirement benefits?

11 A. I do not believe retirement benefits have a
12 vested right legal obligation as pensions do.

13 Q. Have you looked into that specifically?

14 A. I haven't looked into it specifically. I
15 have seen many reference to the vested interest in
16 retirement benefits and it's always been stated that
17 that vested interest does not exist.

18 Q. Do you believe it's appropriate to consider
19 the entire package of retirement benefits including
20 pensions to look at the overall level?

21 A. Overall level of what?

22 Q. Of post retirement benefits. Should you
23 include pensions, the level of pension and any other
24 benefits including medical coverage?

25 A. From an employee's point of view, I think

(SCHOOLEY - CROSS BY MARSHALL)

2594

1 you might take that into consideration. I doubt that
2 it would be a major issue in whether you're going to
3 hire on to that company or not.

4 Q. You made a systematic study to determine
5 whether the retirement benefits, including pensions
6 and other benefits for Puget employees are comparable
7 to benefits to the employees of other utilities?

8 A. No, I haven't.

9 Q. Let's move to another area of rate case
10 costs. You've addressed that also in your testimony;
11 is that correct?

12 A. My testimony, in my testimony I would only
13 be willing to address the arithmetic of this, not the
14 rationale behind it.

15 Q. I take it then you just simply accepted the
16 testimony of Mr. Elgin on whether to include certain
17 rate case expenses or exclude them; is that correct?

18 A. Yes.

19 Q. You didn't make specific policy decision
20 yourself on those; is that right?

21 A. That's right.

22 Q. Did you, however, make any systematic study
23 to determine what expenses are allowed in other
24 jurisdictions in rate case costs?

25 MS. BROWN: Objection, beyond the scope.

(SCHOOLEY - CROSS BY MARSHALL)

2595

1 MR. MARSHALL: I think it's fair to ask.

2 JUDGE HAENLE: I'm afraid I didn't hear the
3 question.

4 Q. Have you made any systematic study to
5 determine what expenses are allowed in other
6 jurisdictions for rate case expenses?

7 MS. BROWN: I objected to that question as
8 being beyond the scope of this witness' testimony.
9 The prior question and answer exchange pertain to rate
10 case cost expense and the extent of Mr. Schooley's
11 involvement in the policy decision behind Mr. Elgin's
12 recommendations regarding those expenses. Mr.
13 Schooley explained that he had no involvement in that
14 aspect of it.

15 JUDGE HAENLE: Well, I am going to overrule
16 the objection. I believe there might have been some
17 part of Mr. Schooley's development of this, if it
18 isn't, he can certainly say so.

19 A. I have looked in FERC form ones to see what
20 level of expenses other companies in Washington have
21 incurred in rate case cost. It's difficult to compare
22 to Puget's request because they don't delineate them
23 in the same manner.

24 Q. Have you extended that FERC form one study

25 to other utilities around the country?

(SCHOOLEY - CROSS BY MARSHALL)

2596

1 A. I only looked at Washington Water Power and
2 Pacific Corp.

3 Q. Do you have that study available?

4 A. I wouldn't say it was a study. It was just
5 a review of page 350 in the FERC form one.

6 Q. Do you have copies of those that you've
7 assembled someplace in the file?

8 A. No, other than being in the FERC form one.

9 Q. Now, you also propose to make an adjustment
10 in, I guess, to doing the arithmetic for Mr. Elgin's
11 policy direction that would cause the company to have
12 to write off 214,000 of previously booked revenue
13 based on your view of the way in which to amortize
14 expenses from the last general rate case; is that
15 correct?

16 A. I don't think that's a fair
17 characterization of it. I wouldn't say it's
18 previously booked revenue.

19 Q. Your recommendation would require a write
20 off of approximately 214,000 based on rate expenses
21 from the last general rate case in how they were
22 treated, correct?

23 A. My adjustment considers the fact that the
24 last general rate case expenses were amortized over

25 two years. It's been -- and/or by the time the rates

(SCHOOLEY - CROSS BY MARSHALL)

2597

1 will go into effect in this case it will be almost
2 four years since that case and the company has in
3 effect recovered those expenses for an additional 20
4 months, and I am applying that recovery to the
5 expenses as determined in my adjustment.

6 Q. You're going back into a prior period and
7 reducing what you consider to be an amount from what
8 approximately February of 1992 --

9 A. Which is within the test year.

10 Q. -- to September of 1993 as being written
11 off by the company; is that correct?

12 A. I wouldn't characterize it as a write off
13 by the company.

14 Q. Do you have any indication of actual rate
15 case expenses that have been incurred in the period of
16 February of 1992 to the September 1993, actually
17 incurred by the company?

18 A. You mean for this general rate case?

19 Q. For PRAM, for this general rate case, for
20 any other case?

21 A. No. None were booked into that account as
22 far as I know.

23 Q. So you didn't take those new costs into
24 account. You assume that old costs that had already

25 been amortized and no new costs were coming in. Is

(SCHOOLEY - CROSS BY MARSHALL)

2598

1 that true?

2 A. The PRAM expenses are not a general rate
3 case expense so they must fall into the company's
4 general legal costs. There were no other general rate
5 cases during that time.

6 Q. Do you follow the rate making principle
7 that uses historic test year to determine future costs
8 even though some specific items of cost may disappear
9 and new items or costs appear?

10 A. The historical test year is an accepted
11 rate making technique.

12 Q. And that assumes that some costs will be
13 amortized and disappear and other costs will -- new
14 costs of same or similar category will appear,
15 correct?

16 A. It assumes that the relationship
17 established in an order will be maintained, a
18 relationship between the expenses and the revenues.
19 If that relationship diverges from that general rate
20 case the company, if it's against the company then the
21 company will come in for a rate case. It's not a
22 question of establishing expenses which come or go.

23 JUDGE HAENLE: How are you doing on your
24 questioning?

25 MR. MARSHALL: I should be finished here

(SCHOOLEY - CROSS BY MARSHALL)

2599

1 before 5:00.

2 JUDGE HAENLE: Okay.

3 Q. Did you discuss your proposed adjustment to
4 rate case costs with anybody at the company before you
5 filed your testimony?

6 A. No.

7 Q. Let's turn now to corporate dues briefly.
8 The adjustments you propose on company dues to the
9 Edison Electric Institute and others would have the
10 effect of decreasing operating expenses by an amount
11 of over \$2.3 million; is that correct?

12 A. Versus, my adjustment versus your
13 adjustment?

14 Q. Yes.

15 A. Subject to check.

16 Q. Of that amount how much is for the way in
17 which you revised your calculations on EEI activities?

18 A. Could you go back to your prior question
19 and what the amount that you just stated for that was.

20 Q. I believe the amount I stated was over \$2.3
21 million?

22 A. No, that's not true. The difference
23 between my adjustment and the company is about
24 \$900,000.

25 Q. Of that amount, whatever that amount is,
(SCHOOLEY - CROSS BY MARSHALL)

2600

1 how much was due to your revised calculations on EEI
2 activities?

3 A. My adjustment for EEI activities is about
4 \$235,000. I believe the company's is maybe \$50,000.

5 Q. Have you reviewed testimony from past
6 cases, past cases involving Puget Power on EEI
7 expenditures?

8 A. Yes.

9 Q. Do you have any experience regarding the
10 EEI activities?

11 A. No.

12 Q. Let's turn briefly now to company
13 publications. How much is the proposed adjustment
14 that you recommend there?

15 A. Increasing NOI of \$95,000.

16 Q. What effect does that have?

17 A. Decreases the revenue requirement by
18 \$95,000.

19 Q. And you have derived that amount by
20 reviewing some publications of Puget Power including
21 the company quarterly review which has an annual cost
22 of over \$8,000; is that correct?

23 A. \$8200, yes.

24 Q. And isn't it true that one of the

25 responsibilities of regulation is to insure that the

(SCHOOLEY - CROSS BY MARSHALL)

2601

1 regulated utility is capable of attracting sufficient
2 capital?

3 A. Repeat that.

4 Q. We've had a lot of testimony here in the
5 last couple of days about Puget communications with
6 investors, potential investors?

7 A. Yes.

8 Q. Wouldn't you agree that that is a
9 legitimate thing for a company to try to do because it
10 must attract capital on favorable terms?

11 A. I suppose the investors would be looking as
12 much towards the SEC filings as they would to some
13 quarterly publication by the company that is intended
14 strictly for its shareholders.

15 Q. Could you answer the question?

16 A. The question is do shareholders or
17 potential shareholders require information to make
18 their decisions, yes, they do.

19 Q. And isn't it a fair and legitimate expense
20 for the company to communicate to investors so as to
21 continue to attract capital on favorable terms?

22 A. Yes.

23 Q. And isn't the quarterly review one method
24 of keeping track of what the company is achieving by

25 way of maintaining the ability to attract capital?

(SCHOOLEY - CROSS BY MARSHALL)

2602

1 A. It's not a necessary one probably. There
2 are many other documents that investors have at their
3 disposal.

4 Q. Should the company spend more on investor
5 communications in order to meet the concerns that
6 Mr. Elgin has discussed or should it spend less?

7 A. I don't believe that's within the scope of
8 my testimony.

9 Q. You also disallow certain portion of the
10 costs relating to the publication of employee
11 newsletter called the Outlet?

12 A. Yes.

13 Q. And isn't it true that that's -- customers
14 rather, excuse me -- employees are one of the key
15 groups responsible for the success of Puget Power?

16 A. Yes, and I think the Outlet is a very well
17 done publication.

18 Q. With a far flung geographic spread of
19 operations it's important to have some regular way of
20 communicating with employees?

21 A. I wouldn't characterize the company's
22 service territory as far flung, though.

23 Q. Do you understand that there are other
24 publications that other utilities around the Puget

25 Sound area send out to their employees?

(SCHOOLEY - CROSS BY MARSHALL)

2603

1 A. I suppose there are.

2 Q. Have you made any study of those?

3 A. No.

4 Q. Are you aware that Seattle City Light,
5 Tacoma City Light, Snohomish PUD and many, many others
6 put out employee publications?

7 MS. BROWN: Objection, asked and answered.

8 JUDGE HAENLE: I believe the witness
9 indicated he didn't know, Mr. Marshall. Let's go on.

10 Q. Let me just, with reference to one specific
11 utility, are you familiar with what Snohomish County
12 PUD No. 1 does?

13 A. No.

14 MS. BROWN: Objection, asked and answered.
15 Witness already stated he performed no studies.
16 Lack of foundation.

17 JUDGE HAENLE: I agree. Mr. Marshall.
18 You've got a pile of things in front of you but if the
19 witness has said he's not familiar with them it's not
20 appropriate to question about them.

21 Q. Have you made any attempt to find out what
22 other utilities around Western Washington do about
23 employee publication?

24 A. No.

25 MS. BROWN: Objection. He already

(SCHOOLEY - CROSS BY MARSHALL)

2604

1 stated --

2 JUDGE HAENLE: I don't think that's the
3 same question as have you made a study. I don't know
4 if have you made any attempt to find out is in any way
5 different than that.

6 Have you made any attempt to find out?

7 THE WITNESS: No.

8 JUDGE HAENLE: We've exhausted that area.

9 Q. Does WUTC, the Commission itself publish an
10 employee publication or something called a Regulator?

11 A. Yes, it does. It contains no want ads in
12 it, though.

13 Q. It does contain photographs and other
14 things of interest to employees that probably wouldn't
15 be of interest to anybody else. Isn't that fair to
16 say?

17 A. I find the Outlet of interest. I probably
18 read it more regularly than most of your employees.

19 Q. Part of what you did in reading the Outlet
20 is you spend some time with a ruler and measuring
21 column inches; is that correct?

22 A. Far too much, yes.

23 Q. And by far too much, how much time did you
24 spend doing this?

25 A. I would guess eight hours maybe.

(SCHOOLEY - CROSS BY MARSHALL)

2605

1 Q. And you were measuring -- what were you
2 measuring?

3 A. The number of inches that certain articles
4 occupied.

5 Q. Could you describe how you did that and
6 what conclusions you came to?

7 JUDGE HAENLE: Could we perhaps just jump
8 right to the bottom line what he excluded and why he
9 excluded that rather than going through the entire
10 process? I assume that's what you're getting to.

11 MR. MARSHALL: I thought that that's
12 probably what the answer would show.

13 JUDGE HAENLE: Can we get right to that,
14 Mr. Schooley? What kinds of things did you exclude
15 and why did you feel they should be excluded?

16 A. I excluded certain articles. One is called
17 Bid and Barter. It is an exchange or want ad section
18 which does not seem relevant to utility operations.
19 There's an item called Calendar which identifies
20 certain upcoming events, many of which are irrelevant
21 to utility operations. There's an area called PPEA
22 News. Which I think stands for Puget Power Employee's
23 Association. Many of the notices, news in that were
24 irrelevant to utility operations. There's a section

25 called Notices which also contained, I don't know,

(SCHOOLEY - CROSS BY MARSHALL)

2606

1 various things which were not utility related. There
2 was one called Stock Watch which I did not consider
3 ratepayer related. That's it.

4 JUDGE HAENLE: Was your test whether the
5 articles were related to utility operations?

6 THE WITNESS: Yes.

7 Q. And then you measured the column inches of
8 those areas that you just described against the column
9 inches of the remaining articles; is that correct?

10 A. Described on page 45 of my testimony, yes.

11 Q. And you came up with a disallowance based
12 on that approach that you used?

13 A. For all of 8200, yes.

14 Q. Did you have any experience in employee
15 communications?

16 A. Yes.

17 Q. You put out employee newsletters before?

18 A. I've worked on such things.

19 Q. Isn't it true that what you try to do is
20 try to interest employees so that they do read things
21 that are important to communicate? That's why they
22 use photographs, for example, rather than just text.
23 It's more interesting?

24 A. I didn't take exception to any photographs.

25 Q. Would you agree that it's proper to allow

(SCHOOLEY - CROSS BY MARSHALL)

2607

1 some features of interest to promote readership?

2 A. Sure, and I think many of the features
3 which extoll the virtues of the employees do just
4 that.

5 Q. By helping employees know about things that
6 go on that helps customers. This isn't -- in other
7 words, a publication for customers is -- it's for
8 employees, right?

9 A. I believe it was last November such as in
10 the Bid and Barter thing someone was giving away free
11 fuzzy bunnies. I don't know how that relates to the
12 utility or gets the readers any more interested in it
13 than something which is stating changes in their
14 employee contributions to the 401K plan, for instance.

15 Q. You believe that the company should have
16 some latitude to exercise judgment in promoting
17 readership of things such as the Outlet?

18 A. In promoting readership, I don't know how
19 that relates.

20 Q. Let's move on to another area. Adjustments
21 that you made on vegetation management. Adjustment
22 4.04. What effect would your proposed recommendation
23 on vegetation management have on company finances?

24 A. None.

25 Q. Would your recommendation reduce the

(SCHOOLEY - CROSS BY MARSHALL)

2608

1 revenue requirement in the O and M category by over \$3
2 million?

3 A. It would reduce it to the level the company
4 expects to be spending in the upcoming rate year.

5 Q. Would it reduce the revenue requirement in
6 the O and M category that Puget has by 3 million?

7 A. Appropriately so, yes.

8 Q. So the answer is yes?

9 A. I said so.

10 Q. In your testimony you said during the test
11 year the company spent \$12 million on vegetation
12 management and then you propose to reduce that to a
13 level in its budget for the rate year; is that right?

14 A. Yes.

15 Q. Have you gone through the company's a
16 budget and compared every instance where the company's
17 test year O and M expenses were less than the budgeted
18 expenses for the rate year?

19 A. I did not do an item by item look at this.
20 I was only looking at this particular item.

21 Q. O and M expenses are the kinds of expenses
22 where if you have money in one category for one year
23 you may use it in another category of O and M expenses
24 in another year, correct?

25 A. Well, I believe that the budgets each are

(SCHOOLEY - CROSS BY MARSHALL)

2609

1 administered by different people who are responsible
2 for those budgets and they all are supposed to state
3 within their own budget. It's not like somebody says
4 I'm over budget, I'm under budget, you want some of my
5 money.

6 Q. Wouldn't you agree if you make a downward
7 adjustment because the budgeted amount is less than
8 the historic test year that you ought to make an
9 upward adjustment if the budget amount is more,
10 particularly if it's in the same category such as O
11 and M?

12 A. If there was a compelling reason to do so,
13 yes.

14 Q. Do you have any idea whether there are
15 categories in which the O and M expenses will go up in
16 the rate year compared to the test year?

17 A. I don't know of specific ones. An example
18 of such would be if the company's labor contracts have
19 an established increase that would occur at some time
20 after the test year. That would be taken into account
21 in the calculation of wages.

22 Q. Is it reasonable to include vegetation
23 management as part of general O and M costs for the
24 company? Is that in the right general category,

25 vegetation management part of O and M?

(SCHOOLEY - CROSS BY MARSHALL)

2610

1 A. It's a part of transmission and
2 distribution maintenance expense.

3 Q. That's part of the larger category of O and
4 M?

5 A. I suppose so.

6 Q. Should the staffing inquiry be whether the
7 general budget expense for the rate year as has in an
8 overall level that's the same or higher than the test
9 year rather than trying to take out in this fashion
10 individual expense items for downward adjustments?

11 A. I don't believe this jurisdiction bases its
12 rate making on budgets so no, I don't think overall
13 budget level is appropriate. What is appropriate is
14 to look at expenses during the test year and to
15 determine if a program or a certain expense has been
16 discontinued since that point in time.

17 In the vegetation management program the
18 cycle one of that program has been discontinued and
19 the level of expenses which on an ongoing basis were
20 closer to \$10 million rather than the \$12 million
21 incurred during the test year, has ceased. That
22 expense no longer exists. An appropriate rate making
23 treatment would be to reduce that expense to zero,
24 since the budgeted amount or the company plans on

25 instituting a second cycle, which is drastically

(SCHOOLEY - CROSS BY MARSHALL)

2611

1 different from the first cycle at a much lower expense
2 level, I thought it was fair to include what the
3 company budgeted for that second cycle rather than
4 just simply reducing it to zero for a discontinued
5 program.

6 Q. Did you make any upward adjustments to O
7 and M due to the imposition of new regulations for
8 environmental costs for growth management act
9 implementation or for any of the costs that are
10 tending to go upward because of those new initiatives?

11 A. That wasn't a part of my review. I did
12 make an upward revision due to the increase in the
13 WUTC fee.

14 Q. And you consider that appropriate but you
15 didn't consider making the same kinds of adjustments
16 to O and M?

17 A. That was not a part of my assignment.

18 Q. Who gave you that assignment?

19 A. The lead analyst that was responsible for
20 assigning various adjustments to people to work on.

21 Q. And who was that individual?

22 A. Mr. Martin.

23 Q. Did you discuss your proposed adjustment to
24 reduce vegetation management with anybody at the

25 company before you made your recommendation?

(SCHOOLEY - CROSS BY MARSHALL)

2612

1 A. No.

2 Q. Just one more quick area. You made an
3 adjustment to Colstrip on some tax issues?

4 A. Yes.

5 Q. You had about a 61,000 adjustment?

6 A. Yes.

7 Q. Did you look to see what other offsetting
8 accounts there were on that?

9 A. I believe the offsetting account is the one
10 the company included for the same issue, the same
11 item.

12 Q. How did you derive the 61,000 amount?

13 A. I think that came out of the company's
14 accounting system.

15 Q. Did you speak to anybody about that
16 adjustment before you recommended that?

17 A. Mr. Martin, just to Mr. Martin.

18 Q. But he's not at the company. He's with the
19 WUTC?

20 A. I did not speak with anyone at the company.

21 Q. So you don't know whether your calculations
22 have omitted any of the other offsetting adjustments
23 that would have to accompany that?

24 A. I don't know.

25 MR. MARSHALL: No further questions at this
(SCHOOLEY - CROSS BY MARSHALL) 2613

1 time, thank you.

2 JUDGE HAENLE: Do you have questions, Mr.
3 Trincherero?

4

5 CROSS-EXAMINATION

6 BY MR. TRINCHERO:

7 Q. Good afternoon Mr. Schooley.

8 A. Good afternoon, Mr. Trincherero.

9 Q. As part of your testimony on adjustments
10 that you have made, you address SFAS 106 and your
11 analysis on that focuses solely on the prudence of the
12 expenditures; is that correct?

13 A. Yes.

14 Q. And have you analyzed whether the
15 transition that is required to the accrual method
16 under SFAS 106 should be recognized at all?

17 A. I believe Mr. Larkin addresses this issue;
18 I did not.

19 Q. Thank you very much.

20 MR. TRINCHERO: No further questions.

21 JUDGE HAENLE: Mr. Furuta.

22

23 CROSS-EXAMINATION

24 BY MR. FURUTA:

25 Q. Good afternoon.

(SCHOOLEY - CROSS BY FURUTA)

2614

1 A. Hello, Mr. Furuta.

2 Q. I would like to turn to your section in
3 your testimony concerning the bad debt adjustments?

4 A. Yes.

5 Q. That's around page 33. Now as I understand
6 it the company has based its bad debt expense claim on
7 the five-year average percentage of bad debt
8 write-offs applied to the test year revenues. Is
9 that your understanding?

10 A. Yes.

11 Q. And in your testimony you state that staff
12 agrees with the method and the calculation presented
13 by the company for determining the bad debt expense;
14 is that right?

15 A. Yes.

16 Q. Do you happen to have Mr. Knutsen's
17 testimony with you?

18 A. No, I don't.

19 Q. I wonder if you would accept subject to
20 check that on page 13 of his direct testimony, I
21 believe that's Exhibit T-539, that he states that
22 "losses due to bad debt as measured by net write-offs
23 of uncollectable accounts have decreased substantially
24 from 1985 levels"?

25 A. I think I've seen that, yes.

(SCHOOLEY - CROSS BY FURUTA)

2615

1 Q. And are you aware that the company formed a
2 corporate credit department that provides for
3 additional attempts to reach customers with unpaid
4 bills before referring the bill to collection
5 agencies?

6 A. Yes.

7 Q. And do you also know that the company
8 automated its active credit system Fingers in 1989?

9 A. I don't know what systems they automated
10 there. I am thinking of a recent presentation the
11 company made to us within the past few weeks of a
12 brand-new system. I don't know.

13 Q. Would you accept subject to check that
14 that's Mr. Knutsen's testimony at page 14?

15 A. Yes.

16 Q. And are you aware that the Commission
17 authorized Puget to institute a late payment
18 disconnection visit fee in October of 1990?

19 A. Yes.

20 Q. Would all of those actions which I
21 mentioned cause the company's bad debt expense level
22 as a percentage of revenues to decrease or increase in
23 your opinion.

24 A. Some of them I think have had an effect on

25 the company's level. Overall, I think in discussions

(SCHOOLEY - CROSS BY FURUTA)

2616

1 with company personnel I believe it was stated the
2 late fee, the disconnect fee or whatever, has not had
3 much effect. If people are not going to pay their
4 bill they're not going to pay the late fee either.

5 Q. You mentioned that some have had an effect.
6 Would that effect be to decrease the bad debt expense?

7 A. Probably.

8 Q. Would you agree that the company's percent
9 of write-offs to revenue for the period of July
10 through December of 1987 was approximately .48
11 percent? And here I'm referring to Mr. Storey's
12 Exhibit 558. It's at page 2.17, if you happen to have
13 that. If not, I would accept that subject to check.

14 A. I can't find that page. I think it was
15 high. I think that's as high as it is was due to
16 seasonal variations.

17 Q. And would you agree that that particular
18 period was part of the five-year period used by the
19 company to determine the average percent of write-offs
20 to revenue?

21 A. Yes. There was another period at the end
22 which was below average too. So the average of .3 or
23 thereabouts was what the total is.

24 Q. Could you tell us what percent of

25 write-offs to revenues realized by the company during

(SCHOOLEY - CROSS BY FURUTA)

2617

1 the test year? Do you happen to know what that was?

2 A. It was around .24, something like that.

3 Q. I believe Mr. Larkin reports in his
4 testimony, which we haven't received yet, at .26
5 percent. But again, if you could accept that subject
6 to check that would be fine.

7 A. Sure.

8 Q. Were you aware that during the
9 cross-examination of Mr. Knutsen that he indicated
10 that he expected the relationship of uncollectability
11 to net customer revenues to be at the test year level
12 on a normal basis?

13 A. I believe I read that in Mr. Larkin's
14 testimony, yes.

15 Q. That that's Mr. Knutsen's opinion?

16 A. Yes.

17 Q. And that Mr. Knutsen also stated that he
18 did not expect the relationship of uncollectables to
19 net customer revenues to worsen during the period
20 after the test year. Does that sound familiar?

21 A. That sounds familiar.

22 Q. I assume that you would agree that rates
23 should reflect a normal forward looking level of
24 uncollectable expense?

25 A. I think in the rate making process you

(SCHOOLEY - CROSS BY FURUTA)

2618

1 establish a relationship, as I've said before, and if
2 that relationship is based on a forward looking manner
3 and that's accepted as the reasonable method, then,
4 yes, that would be -- generally it's looked at as a
5 test year or normalized basis.

6 Q. Can you refer to any evidence that the test
7 year relationship of uncollectibles to net customer
8 revenues does not represent a normal forward looking
9 level?

10 A. I did not look into that.

11 MR. FURUTA: Thank you.

12 JUDGE HAENLE: Mr. Adams.

13

14 CROSS-EXAMINATION

15 BY MR. ADAMS:

16 Q. Just had a couple of questions concerning
17 storm damages and first I want to ask you, it appears
18 from your testimony that any damages that were
19 incurred in the Inaugural Day storm of this year have
20 not been included in either the company's case or the
21 staff case?

22 A. That's true.

23 Q. Is it my understanding that that expense,
24 whatever it may result in, will be picked up in the

25 next general rate case and become part of a rolling

(SCHOOLEY - CROSS BY ADAMS)

2619

1 average?

2 A. Not in my proposal. That would not be part
3 of a rolling average or the average. It would be, in
4 this instance, since it was of such great magnitude,
5 that it would be considered a catastrophic or an
6 extraordinary property loss which would be judged as
7 to the amount and then allowed to be amortized
8 specifically.

9 Q. Let me just ask you then assume for
10 purposes of our discussion that you have an event,
11 and, and this may come close to the Inaugural Day
12 storm of \$17 million in damages, you have a \$10
13 million deductible insurance policy. And it affects
14 more than 25 percent of the customers so that it meets
15 your criteria. How would that be treated?

16 A. Those expenses would be able, assuming FERC
17 agrees, because they need to give their permission,
18 would be posted to the 182.1 account. In a general
19 rate case setting the total of that expense would be
20 determined to be valid and my treatment would be to
21 amortize that over six years at that point.

22 Q. When you say amortize that it would be the
23 net of insurance amount?

24 A. Yes.

25 Q. So the \$10 million?

(SCHOOLEY - CROSS BY ADAMS)

2620

1 A. It would be \$7 million in your example.
2 You said it was a \$17 million tolling expense 10
3 million of which was covered in insurance, \$7 million
4 left over would be amortized left over six years.

5 Q. I thought it was \$10 million deductible but
6 in either case the amount that was net of the
7 insurance coverage would be then amortized over a six
8 year period?

9 A. Yes.

10 Q. When you say amortized is that amortized as
11 a rate base item or dollar for dollar?

12 A. Amortized dollar for dollar.

13 Q. Now, under that same hypothetical how is
14 the company proposing to treat that amount of money?
15 I want to make sure I understand the difference
16 between your proposal and the company's.

17 A. The company would add that into their
18 average, in their case it's a four year average. If
19 there is a deficit in the reserve at the time of the
20 next general rate case they would propose to add that
21 deficit on top of the average and then in essence
22 amortize the total over the next four years. The use
23 of the average is in essence an amortization.

24 MR. ADAMS: Thank you.

25 JUDGE HAENLE: Commissioners, have you

(SCHOOLEY - CROSS BY ADAMS)

2621

1 questions?

2 CHAIRMAN NELSON: Just one. Mr. Schooley,
3 with respect to the post retirement benefits, page 26
4 of your testimony. You refer to a study conducted in
5 1989?

6 THE WITNESS: Yes.

7 CHAIRMAN NELSON: Who conducted the study
8 for the company?

9 THE WITNESS: The study group was composed
10 of various members of Puget Power's staff and their
11 auditor and a benefits plan broker and consultant.
12 Who prepared the study itself, I don't know.

13 CHAIRMAN NELSON: Do I understand the rest
14 of the testimony to mean the division of the retirees
15 in the group one and group two is not compelled by any
16 legal requirement?

17 THE WITNESS: The company offers different
18 benefits to the people who retired prior to January 1,
19 1992 to those who retired after that point in time and
20 that's the division of the group.

21 CHAIRMAN NELSON: I understand that, and
22 what I am asking is, if the company chooses can it
23 change the benefits available for group one?

24 THE WITNESS: Yes, it may.

25 CHAIRMAN NELSON: As far as you know

(SCHOOLEY - CROSS BY ADAMS)

2622

1 there's no legal impediment for them to do that?

2 THE WITNESS: No.

3 JUDGE HAENLE: Anything else,

4 Commissioners? Is there any redirect?

5 MS. BROWN: Just a few questions, thank
6 you.

7

8 REDIRECT EXAMINATION

9 BY MS. BROWN:

10 Q. Mr. Schooley, could you please turn to page
11 8 of your testimony, beginning at line 3. You were
12 asked some questions by Mr. Marshall regarding
13 catastrophic weather event. Isn't it true that by
14 defining abnormal weather event as catastrophic you
15 are defining those as occurring infrequently? By that
16 I mean less than once per year, widespread throughout
17 the company's territory and large numbers of
18 customers, i.e. 25 percent or more, are affected?

19 A. Yes.

20 Q. You were also asked some questions by
21 Mr. Marshall regarding the specter of a staff analyst
22 next year or next general rate case proposing a 35
23 percent figure rather than a 25 percent figure. Isn't
24 it true that in this case you are asking that the

25 Commission adopt the standard?

(SCHOOLEY - REDIRECT BY BROWN)

2623

1 A. Yes.

2 Q. You were also asked a series of questions
3 regarding post retirement benefits other than pensions
4 and the prudence of those sorts of plans and benefits.
5 Isn't it true that the prudence or imprudence of such
6 benefits are to be determined after a review of the
7 circumstances surrounding the time that the benefits
8 would be implemented?

9 A. Yes, I suppose so.

10 Q. As opposed to a now hindsight inquiry?

11 A. I think a prudence review can be conducted
12 at any time.

13 Q. The prudence review that you're referring
14 to would be based on circumstances available to time;
15 is that right?

16 A. Would be based on the information and
17 circumstances at the time the review could take place
18 and should take place at a different point in time in
19 the future.

20 Q. Regarding the publications you were asked
21 about, you were specifically asked a question by Mr.
22 Marshall regarding the latitude or deference that
23 should be paid to the company in its effort to promote
24 readership. Isn't your primary concern regarding

25 these publications the issue of whether or not the

(SCHOOLEY - REDIRECT BY BROWN)

2624

1 ratepayers should bear those costs?

2 A. Yes, and actually the bulk of the
3 difference in that is due to the change in the
4 production of the outlet. Has very little to do with
5 the exclusion or inclusion of certain articles. The
6 company made a big change in the costs it incurs to
7 produce the thing and that's the reflection of the
8 bulk of the difference in my adjustment.

9 Q. Did the company testify in this proceeding
10 that it was reducing its vegetation management program
11 from test year levels?

12 A. Yes.

13 Q. And did the company adjust for that?

14 A. No.

15 MS. BROWN: Nothing further.

16 JUDGE HAENLE: Anything more?

17 MR. MARSHALL: Just a follow-up to Mr.
18 Adams' hypothetical.

19

20 RE-CROSS-EXAMINATION

21 BY MR. MARSHALL:

22 Q. Do you recall the one he gave you about \$17
23 million in the storm damage affecting 25 percent of
24 the customers?

25 A. Right.

(SCHOOLEY - RE-CROSS BY MARSHALL)

2625

1 Q. Let me take that same hypothetical and make
2 one minor change to it. Assume \$17 million of storm
3 damage and assume that it averages 24 percent of the
4 customers, not 25 percent. What would your treatment
5 be? Same question Mr. Adams asked?

6 A. If the Commission strictly accepted my
7 proposal then I suppose that would be a part of normal
8 operating expenses for that year and as such come a
9 future rate case it would be a part of the average at
10 that time.

11 Q. That would have the effect of disallowing
12 the \$7 million that would have otherwise been
13 amortized and recovered by the company?

14 A. If it used its current method?

15 Q. You told us in response to Mr. Adams
16 question that if it affects 25 percent of the
17 customers that the \$7 million in excess of the 10 that
18 you assumed was in the average would get amortized and
19 returned to the company. If it affects 24 percent of
20 the company the company loses \$7 million dollars,
21 correct?

22 A. Yes. Well, it doesn't really lose that.
23 It incurs that as an expense of the year.

24 Q. Which is never recovered?

25 A. Depends on whether it's -- it is in essence

(SCHOOLEY - RE CROSS BY MARSHALL)

2626

1 because later it would be part of an average which
2 would be used to establish a new rate level.

3 Q. But even under the hypothetical you gave
4 Mr. Adams it would be part of the average just that if
5 it affected 25 percent of the customers in addition to
6 being part of the average you also get the recovery of
7 the \$7 million whereas under this other hypothetical
8 you don't?

9 A. This can go the other way as well. Perhaps
10 there were no major storms during the year. There
11 could be only minor damages incurred, maybe only a
12 million dollars for the whole year. If the rates were
13 established on an average of 3 million or 5 million
14 the company would come out ahead.

15 Q. But in trying to illustrate the difference
16 between 25 percent and 24 percent, you would agree
17 that just by a one percent change that the company
18 under the hypothetical Mr. Adams had given you would
19 lose \$7 million?

20 A. Strictly speaking, yes.

21 MR. MARSHALL: No further questions.

22 MR. ADAMS: I feel compelled to come back
23 to my hypothetical for a moment.

24

25

REXCROSS-EXAMINATION

(SCHOOLEY - REXCROSS BY ADAMS)

2627

1 BY MR. ADAMS:

2 Q. I thought, and correct me if I'm wrong,
3 that under the approach you are proposing, under the
4 hypothetical the company would get a direct
5 amortization of the \$7 million?

6 A. That is correct.

7 Q. And nothing relating to that amount would
8 show up in the rolling average, am I --

9 A. That's right. Because that would be an
10 amount determined as an extraordinary property loss to
11 be amortized.

12 Q. So under the scenario, if you will, the
13 addition that Mr. Marshall has given you, that amount
14 that it does not collect on an amortized basis will be
15 reflected in future average which will theoretically
16 raise the amount the company will get in future years,
17 and so the two scenarios are not inconsistent, if you
18 will?

19 A. That's right.

20 Q. One way you get it, in effect, through a
21 rolling average, the other one you get it through a
22 direct amortization?

23 A. That's right.

24 JUDGE HAENLE: Anything more?

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No, nothing more. Thank you, you may step

(SCHOOLEY - RE-CROSS BY ADAMS)

2628

down. Let's break for the evening. We'll begin again
in the morning at 9:00.

(Hearing adjourned at 5:25 p.m.)

