

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

2

3 PETITION FOR 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 XVI  
 16 COMPANY, ) PAGES 2629 - 2834  
 )  
 17 Respondent. )

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 18 )

19 A hearing in the above matter was held on  
 20 June 4, 1993 at 9:00 a.m., at 1300 South Evergreen  
 21 Park Drive Southwest, Olympia, Washington, before  
 22 Chairman SHARON NELSON, Commissioners RICHARD  
 23 CASAD and RICHARD HEMSTAD, and Administrative  
 24 Law Judge 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                   PUGET SOUND POWER & LIGHT, by JAMES VAN  
9                   NOSTRAND and STEVEN C. MARSHALL, Attorneys at Law,  
                  411 - 108th Avenue NE, Bellevue, Washington 98004.

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

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

15                  PUBLIC INTEREST, by CHARLES F. ADAMS,  
16                  Assistand Attorney General, Suite 2000, 900 Fourth  
                  Avenue, Seattle, Washington 98164.

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I N D E X						
	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS	EXAM
1						
2	T. NGUYEN	2633	2635	2686		
3						
4						
5	R. MARTIN	2688	2689	2784	2786	2764
6						2771
7						2779
8	P. MOAST	2791	2793			
9						
10	EXHIBIT	MARKED	ADMITTED			
11	T-738, 739-742	2633	2635			
12	743	2639	2644			
13	744,745	2652	2652			
14	746-748	2662	2663			
15	T-749,750-754	2687	2689			
16	755	2694	2694			
17	756-757	2702	2703			
18	758	2709	2710			
19	759-760	2725	2733,2728			
20	761-765	2738	2738			
21	766-777	2784	2786			
22	T-778,779-784	2791	2793			
23	785	2817	2819			
24	786-788	2829	2833			

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

2 JUDGE HAENLE: The hearing will come to  
3 order. This is a 16th day of hearing in the  
4 consolidated Puget cases. The hearing is taking place  
5 on June 4, 1993 at Olympia before the Commissioners.  
6 We will be continuing with cross of Commission staff,  
7 intervenor, public counsel experts today in the  
8 general phase of the case. In the way of preliminary  
9 matters we briefly discussed witness scheduling for  
10 the rest of the sessions. I think according to your  
11 estimates that we will be able to make it if we go  
12 part of the day on Wednesday. I don't think we will  
13 need Tuesday from the estimates that we've got. I  
14 hope that your estimates are accurate. Otherwise we  
15 will be going late. So why don't we plan on going  
16 Wednesday after the open meeting, then Thursday and  
17 Friday. So we will have Monday, we won't need  
18 Tuesday, Wednesday after the open meeting and Thursday  
19 and Friday.

20 Is there anything else of a procedural  
21 nature we need to discuss before we take the next  
22 witness?

23 Hearing nothing, would you raise your right  
24 hand, sir.

25 Whereupon,

2633

1 THO NGUYEN

2 having been first duly sworn, was called as a

3 JUDGE HAENLE: Before we went on the record

4 I marked several documents for identification as

5 follows. Marked T-738 for identification is a

6 multi-page document. In the upper right-hand corner

7 is THN-testimony.

8 739 for identification, a two-page

9 document, THN-1 in the upper right-hand corner.

10 740 for identification a two-page document

11 THN-2.

12 741 for identification a five-page

13 document, THN-3.

14 And 742 for identification, THN-4.

15 (Marked Exhibits T-738 and 739 through

16 742.)

17 DIRECT EXAMINATION

18 BY MS. BROWN:

19 Q. Good morning.

20 A. Morning.

21 Q. Please state your name and spell it for the

22 record.

23 A. My name is Tho Nguyen, my last name is

24 spelled N G U Y E N.

25 Q. What is your business address?

(NGUYEN - DIRECT BY BROWN)

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1 A. My business address is General Plaza  
2 Building, 1300 South Evergreen Park Drive Southwest,  
3 P.O. box 47250, Olympia, Washington 98504.

4 Q. You are employed by the Utilities and  
5 Transportation Commission?

6 A. Yes.

7 Q. What is your position?

8 A. My position is revenue requirements  
9 specialist five.

10 Q. In preparation for your testimony here  
11 today, did you predistribute what's been marked for  
12 identification as Exhibit T-738 through 742?

13 A. Yes, I did.

14 Q. Are those exhibits true and correct to the  
15 best of your knowledge?

16 A. Yes, they are.

17 Q. Were they prepared by you or under your  
18 direction and supervision?

19 A. Yes.

20 Q. If I were to ask you the questions in  
21 Exhibit T-738 would your answers be as set forth  
22 therein?

23 A. Yes, they would.

24 MS. BROWN: Your Honor, move the admission

25 of Exhibit T-738 through 742.

(NGUYEN - DIRECT BY BROWN)

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1 JUDGE HAENLE: Any objection.

2 MR. VAN NOSTRAND: No, your Honor.

3 MR. ADAMS: No objection.

4 MR. FURUTA: No objection.

5 MR. TRINCHERO: No objection.

6 MR. BENNETT: No objection.

7 JUDGE HAENLE: Since I forgot to ask you  
8 for appearances those are the people who are present  
9 this morning. T-738 and 739 through 742 will be  
10 entered into the record.

11 (Admitted Exhibits T-738 and 739 through  
12 742.)

13 MS. BROWN: Witness is available for  
14 cross-examination.

15

16 CROSS-EXAMINATION

17 BY MR. VAN NOSTRAND:

18 Q. Morning, Mr. Nguyen.

19 A. Morning.

20 Q. Your testimony discusses a number of  
21 accounting adjustments including property sales,  
22 employee insurance, company insurance and wage and  
23 salary; is that correct?

24 A. Yes, that's correct.

25 Q. Mr. Elgin said that among other things you  
(NGUYEN - CROSS BY VAN NOSTRAND) 2636

1 had also discussed the issue of calculating base costs  
2 per customer by class. Does that appear anywhere in  
3 your testimony?

4 A. It is not in my testimony but I can address  
5 that issue.

6 Q. And do you have any exhibit which addresses  
7 that issue?

8 A. No.

9 Q. Is there any place in your testimony and  
10 exhibits that sets forth the staff calculation of base  
11 cost per customer by class?

12 A. Not in my testimony but it was addressed by  
13 -- it was included in Mr. Elgin's testimony but the  
14 issue was referred to me so I can answer the question  
15 on that issue.

16 Q. And you have the calculation of base cost  
17 per customer by class under the staff recommended  
18 allocation of costs between base and resource?

19 A. Well, the calculation of -- yes, yes. I  
20 remember providing that calculation in response to the  
21 company's data request. I don't remember the data  
22 request number but that was the staff response, one of  
23 the company requests to Mr. Elgin.

24 Q. And so you're saying there is -- there has



25 been evidence provided that sets forth the staff

(NGUYEN - CROSS BY VAN NOSTRAND)

2637

1 number for base costs per customer allocated by  
2 customer class using the revenue requirement the staff  
3 proposes in this proceeding?

4 A. Okay. Now, I have to try and find out that  
5 issue. The allocation of the last general rate case  
6 revenue requirements to various classes of customers  
7 was done by company and was provided by the company  
8 response to a staff data request. And based on those  
9 allocated amount and also based on the number of  
10 customers for each class, we derived the average  
11 amount of allowed revenue per customers for each  
12 class. And based on those figures and based on the  
13 number of customers projected by the company for the  
14 PRAM 2 period we arrive at a total revenue base cost  
15 amount that was less than the amount charged by the  
16 company -- by 3.6 million dollars. The calculation of  
17 that result was provided to the company in response to  
18 company data request to Mr. Elgin.

19 Q. And that was in this proceeding?

20 A. Yes, in this proceeding.

21 Q. And what are the specific numbers as far as  
22 base cost per customer by class which staff proposes  
23 to use in this proceeding?

24 A. I didn't bring that information with me

25 because it was not in my testimony, but I can provide

(NGUYEN - CROSS BY VAN NOSTRAND)

2638

1 that.

2 Q. Are you aware that Mr. Elgin indicated that  
3 you would be able to answer questions about the base  
4 cost per customer calculation proposed by staff?

5 A. Yes, but still I don't have that  
6 information with me right now. But after a break when  
7 I get a chance to get back to my office I can have  
8 that. But that was shown in the staff response to the  
9 company request.

10 Q. But it's not in evidence in this  
11 proceeding, is it?

12 A. It was not introduced into evidence in this  
13 proceeding, but if you want to I can do that.

14 Q. Your testimony, start with your testimony  
15 regarding the property sales adjustments beginning on  
16 page 4 at the very bottom of the page. Your testimony  
17 on property sales has a number of different  
18 components, wouldn't you say?

19 A. Yes.

20 Q. And first there's the adjustment for the  
21 average level the deferred gains for the test year and  
22 you agree with the company that an adjustment credit  
23 of 1.025 million should be made to rate base; is that  
24 right?

25           A.     Yes.

(NGUYEN - CROSS BY VAN NOSTRAND)

2639

1           Q.     And another piece of your adjustment has to  
2 do with the gains of 28,596 remaining from the last  
3 general rate case; is that correct?

4           A.     That is correct.

5                   MR. VAN NOSTRAND: Your Honor, if I could  
6 distribute an exhibit.

7                   JUDGE HAENLE: You've handed me a  
8 multi-page document. The heading is in the Washington  
9 state court of appeals division one No. 29404-1.  
10 This will be marked as Exhibit 743 for identification.

11                           (Marked Exhibit 743.)

12          Q.     Mr. Nguyen, your testimony in a number of  
13 places refers to a settlement following the court of  
14 appeals in 1992; is that correct?

15          A.     Yes.

16          Q.     Do you recognize Exhibit 743 as a copy of  
17 the stipulation and settlement agreement filed with  
18 the court of appeals?

19          A.     Yes, I do.

20          Q.     And the \$28,596 figure referred to in your  
21 testimony that's discussed on page 4 of the agreement,  
22 if you could turn to page 4 of Exhibit 743. If you go  
23 down to the middle of that page, the agreement states,  
24 "As the total amount to be amortized was \$3,847,465

25 there will be \$28,596 that will be included in the  
(NGUYEN - CROSS BY VAN NOSTRAND)

2640

1 next property adjustment, which the parties expect  
2 would be October 1, 1993." Is that a correct reading  
3 of the settlement agreement?

4 A. Yes.

5 Q. This is the same \$28,596 that you're  
6 referring to in your testimony?

7 A. Yes.

8 Q. And the position taken in your testimony is  
9 that this \$28,596 should be included in its entirety  
10 in the first -- in the rate year amortization rather  
11 than spread over three years as proposed by the  
12 company?

13 A. Yes. And the reason for that is because  
14 the annual amortization amount would have been as  
15 shown in this stipulation here should have been  
16 \$732,850. However, due to the acceleration of the  
17 amortization by the end of September 1993 only \$28,000  
18 plus was left. So that is the left over of an annual  
19 amortization amount. So I believe that the whole  
20 amount should be included in the rate year starting on  
21 October 1, 1993.

22 Q. Well, there's no issue about the amount  
23 being \$28,596, that's calculated in the settlement  
24 agreement, correct?

25           A.     No -- yes, that's correct.

(NGUYEN - CROSS BY VAN NOSTRAND)

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1           Q.     The issue is the period over which that  
2 would be covered. I take it you're proposing one  
3 year, the company is proposing three years; is that  
4 right?

5           A.     Yes.

6           Q.     If we could turn to page 6 of the  
7 settlement agreement, paragraph 9. Isn't it correct  
8 that the settlement agreement reads as follows: For  
9 gains/losses realized since the previous general rate  
10 case, and for the unamortized portion of previously  
11 accounted for gains/losses, public counsel, the  
12 Commission staff and the company agree to propose an  
13 amortization period of no less than three years absent  
14 mutual consent." Is that a correct reading of that  
15 paragraph?

16          A.     Yes. That is a correct reading of the  
17 paragraph, but I don't think this amount of leftover  
18 of amortizations should be amortized one more time,  
19 because the whole amount of more than \$8 million  
20 that was reduced by the settlements to more than \$3  
21 million has been amortized over more than five years  
22 and the annual amortization amount would have been  
23 more than \$700,000. At the end of September of 1993  
24 only \$28,000 was left, so that leftover amount should

25 be passed on to ratepayers during the rate year. If

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 you amortize that amount again over three years, well,  
2 the total number of years to be amortized would upset  
3 the 5.25 years as agreed to in this settlement. The  
4 amortizations started in 1990, okay? Now originally  
5 the staff proposed and the Commission approved the  
6 amortization of the rate over 15 years but the  
7 settlements reduced the amortization time to 5.25  
8 years. Starting from 1990 and now, if you counted, if  
9 you would count the number of years of amortization  
10 based on the company proposal, well, from 1990 through  
11 October 1993, it was three and three-quarter years  
12 already. And if you add three more years starting  
13 from October 1993 that would extend the amortization  
14 years to beyond that five and a quarter years  
15 amortization agreed to by the parties to this  
16 settlement.

17 Q. So you are disagreeing with paragraph 9 of  
18 the settlement? Doesn't that provide that staff,  
19 company and public counsel all agree that the 28,596  
20 should be amortized over a period no longer than three  
21 years and no less than three years?

22 A. This says that this paragraph would  
23 contradict the amortizations time agreed to by the  
24 parties to this agreement?

25 Q. You're saying it should be one year instead

(NGUYEN - CROSS BY VAN NOSTRAND)

2643

1 of three years, aren't you?

2 A. I think that 28,000 should be amortized  
3 over one year, not three years.

4 Q. Notwithstanding what's in paragraph 9?

5 A. Some other paragraph, paragraph 2, for  
6 example, on page 2,

7 Q. I don't believe there's any issue about the  
8 5.25 years referred to in paragraph 2. We're talking  
9 about the 28,596 which you agreed was leftover  
10 amortization. We're talking about the amortization  
11 period for that recovery of that amount.

12 A. I should try to point out this agreement  
13 between the two paragraphs. On the one hand paragraph  
14 2 says that the amortization period should be over  
15 five and a quarter years and the amortization will  
16 start from 1990, the beginning of 1990. So if you  
17 want to amortize that \$28,000 over three more years so  
18 the total would add up to more than five and a quarter  
19 years so the two paragraphs disagree. And also,  
20 paragraph 10 provides that this agreement may be  
21 modified by written consent of all of the parties  
22 hereto.

23 Q. Have the parties all mutually agreed to  
24 shorten the amortization period from three years to

25 one year?

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 A. This is not an issue of amortization over  
2 three years changing to one year, but the issue is  
3 whether that amount should be amortized again one more  
4 time over three years or should that leftover of an  
5 amortization should be included in rate, in the rate  
6 year.

7 JUDGE HAENLE: What's your intention with  
8 regard to entering 743 for identification?

9 MR. VAN NOSTRAND: I would like to move it,  
10 your Honor.

11 MS. BROWN: No objection.

12 MR. ADAMS: No objection.

13 MR. FURUTA: No objection.

14 JUDGE HAENLE: Exhibit 743 will be entered  
15 into the record.

16 (Admitted Exhibit 743.)

17 Q. Third component of your property sales  
18 adjustment has to do with Mr. Storey's adjustment of  
19 deferred gains since the last rate case; is that  
20 correct? To be more specific the issue is at the  
21 bottom of page 6 is his number of 1.195 million versus  
22 your number of 1.233 million?

23 A. Yes.

24 Q. And your testimony refers to column O of



25 Exhibit 640 in calculating these gains and losses,  
(NGUYEN - CROSS BY VAN NOSTRAND)

2645

1 referring you on page 6 lines 18 and 19?

2 A. Yes.

3 Q. In calculating your total for gains and  
4 losses did you include all the amounts listed in  
5 column O or did you make some allocation between  
6 customer and shareholder?

7 A. I included all the amounts.

8 Q. All the amounts?

9 A. Yes, all the amounts.

10 Q. So it's your understanding that no portion  
11 of the gains included in column O should be allocated  
12 to the shareholders?

13 A. No, should, because the rate or losses was  
14 calculated based on the appraised value taken in the  
15 time the property was transferred to nonutility, not  
16 the appraised value taken at the time of this  
17 position.

18 Q. And another component of your adjustment  
19 has to do with the twelve nonutility properties listed  
20 in Exhibit 642 which the company has earmarked for  
21 sale or transfer to a subsidiary. I believe you  
22 discussed that on page 14, line 13, 15; is that  
23 correct?

24 A. Yes.

25 Q. And according to your testimony on that

(NGUYEN - CROSS BY VAN NOSTRAND)

2646

1 same page, the company has indicated that it would not  
2 object to the inclusion of these properties in your  
3 adjustment; is that correct?

4 A. Yes.

5 Q. And the basis for your understanding is Mr.  
6 Storey's deposition of March 22, page 49; is that  
7 correct? I believe that's what you indicate at the  
8 top of the page on 14. You have a reference to  
9 Exhibit 644, page 49.

10 A. Yes.

11 Q. And if I could refer or read to you from  
12 that portion of the transcript, the question is, will  
13 the company object to the accounting for the gains or  
14 losses on the disposition of these properties in this  
15 rate case? And the answer by Mr. Storey. On the one  
16 being transferred?

17 "QUESTION: Yes.

18 "ANSWER: No."

19 So is your understanding from this  
20 transcript which you referred to that Mr. Storey  
21 agrees with the treatment that you're proposing?

22 A. Yes. My interpretation of this letter was  
23 a concern by the company to the accounting for the  
24 gains or losses on those properties and especially on

25 page 50 of the same transcript starting from line 18

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 through line 20. When asked the same question again  
2 as to whether the company object to the accounting for  
3 the gain or loss on those property Mr. Storey answered  
4 and put it: "I don't understand the question. I just  
5 said that we wouldn't mind. I just indicate that this  
6 is a preliminary analysis." So that was a  
7 confirmation of this agreement or at least the  
8 expression that the company would not object to the  
9 accounting for the gain or loss on those properties.

10 Q. Are all the properties included in Exhibit  
11 642 actually being transferred?

12 A. Repeat the question.

13 Q. Are all the properties identified on  
14 Exhibit 642 actually being transferred?

15 A. At least at a point of time of the staff  
16 preparation of staff case all property has been  
17 earmarked for transfer or for sale. I don't know  
18 whether any of those have been actually transferred or  
19 sold. Probably one of them was sold already in 1991.  
20 Kit's corner south land No. 16 in the listing. Was  
21 transferred to or was sold or was dedicated to King  
22 County in June 1992. That was reflected in the  
23 company response to supplemental deposition request  
24 No. 68.

25 Q. Have you completed your answer?

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 A. Yes.

2 Q. Last part of your adjustment has to do with  
3 the gains or losses arising from disposition of  
4 properties that have been transferred to nonutility;  
5 is that correct? I believe you discuss on page 8,  
6 line 17 to 25?

7 A. Yes. This paragraph, in this paragraph I  
8 discuss the company practice of the gain or losses  
9 from repossession of property that had been  
10 transferred to nonutility.

11 Q. And you also discuss 13 properties with a  
12 total appraised value of 6.2 million that were  
13 transferred to nonutility?

14 A. Yes. Those 13 properties were reflected in  
15 Exhibit 640.

16 Q. And these were transferred to nonutility  
17 during the period of April 1989 through September of  
18 1992?

19 A. Yes. Well, let me -- yes, they are  
20 reported as being transferred to nonutility within  
21 that time frame.

22 Q. When a company transfers a property from  
23 one account to another within the company, can a gain  
24 or loss be recorded for financial reporting purposes?

25           A.     No.

(NGUYEN - CROSS BY VAN NOSTRAND)

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1           Q.     And has a transaction occurred for  
2 financial reporting purposes when a property is  
3 transferred from one account to another?

4           A.     No.  However, when it is the time of  
5 accounting for the gain or loss and the time of the  
6 transfer out of the company to a subsidiary or at a  
7 time of the sale of the property, for example, the  
8 gain or loss should be based on the appraised value  
9 taken at disposition time.  I am pointing out here --  
10 what I am trying to point out here is the company  
11 procedures for the accounting of the gain or losses on  
12 the property that had been transferred to nonutility.  
13 Those procedures are not fair to the ratepayers in  
14 that when it is time of accounting for the gain or  
15 loss and the sale or transfer to a subsidiary, the  
16 company owes the appraised value taken at the time of  
17 transfer of those properties to nonutility accounts  
18 regardless of how many years those properties had been  
19 sitting in nonutility.  So there's a lapse of time  
20 between the time of the transfer to nonutility and the  
21 time of the disposition, the company wants to account  
22 for the gain or loss at the time of disposition, but  
23 the company also wants to use the appraised value  
24 taken at a previous transfer to nonutility, even

25 though the two time frames may be years apart. That's

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 not fair.

2 Q. You would have the companies recognize a  
3 gain or loss when a property is transferred from one  
4 account to another even though for financial reporting  
5 purposes you've stated that you recognize the company  
6 cannot recognize a gain or loss?

7 A. I recognize that the company's do not have  
8 to recognize the gain or loss at a time of transfer of  
9 property from utility to nonutility. However, if the  
10 companies want to delay the accounting for the gain or  
11 loss until the time of the disposition of the  
12 property, I think that the appraised value of the  
13 property to be based of in accounting for those gain  
14 or loss should be the appraised value at disposition  
15 time.

16 An example of this unfair practice as shown  
17 by the staff on page 9 of my testimony.

18 MR. VAN NOSTRAND: Your Honor, I would like  
19 to distribute an exhibit.

20 MS. BROWN: I don't believe the witness has  
21 finished his response.

22 MR. VAN NOSTRAND: There is no question  
23 pending.

24 JUDGE HAENLE: Had you finished the

25 response to the question?

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 THE WITNESS: No, I tried to explain  
2 something more.

3 A. On page 9. Starting on the line No. 3 I  
4 cited the company compilation of net loss and the  
5 disposition of the Snoqualmie switch land shown as  
6 item 9 on page 2 of Exhibit 640. This property had  
7 been transferred from a utility account to a  
8 nonutility account in 1986. Then was transferred to  
9 Puget Western in January 1989. At the time of the  
10 transfer of this property to Puget Western the company  
11 ordered an estimate of the value increase from 1981  
12 through 1986 for that property. The company then used  
13 this 1986 price level to calculate a loss of \$24,619  
14 for this transfer despite the fact that the transfer  
15 did not take place until January 1989. And that if  
16 the price had been updated to the end of 1988 the  
17 appraised value to be used in this calculation would  
18 have been greater.

19 JUDGE HAENLE: You distributed two  
20 documents. I assumed you want them marked separately,  
21 Mr. Van Nostrand.

22 MR. VAN NOSTRAND: Yes, your Honor.

23 JUDGE HAENLE: First is marked at the top  
24 response to company data request 4126. This will be

25 marked as 744 for identification. The second is

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 entitled response to company data request No. 4127.

2 This will be marked as 745 for identification.

3 (Marked Exhibits 744 and 745.)

4 Q. Mr. Nguyen, do you recognize what's been  
5 marked for identification as Exhibit 744 and 745 as  
6 your responses to company data request 4126 and 4127  
7 respectively?

8 A. Yes.

9 Q. And these responses have to do with the  
10 accounting treatment of property transferred to  
11 nonutility; is that correct?

12 A. Yes.

13 MR. VAN NOSTRAND: Your Honor, move the  
14 admission of Exhibit 744 and 745.

15 MS. BROWN: No objection.

16 MR. ADAMS: No objection.

17 MR. TRINCHERO: No objection.

18 MR. FURUTA: No objection.

19 JUDGE HAENLE: 744 and 745 will be entered  
20 into the record.

21 (Admitted Exhibits 744 and 745.)

22 Q. Mr. Nguyen your testimony at page 11 claims  
23 that the company's delay in passing a gain or loss for  
24 the company's treatment is for no good reason; is that



25 correct, lines 15 and 16?

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1 A. Yes.

2 Q. Would you agree that delaying the  
3 recognition of the gain or loss to a time when the  
4 gain or loss can be recognized for financial reporting  
5 purposes might be a good reason?

6 A. I don't think it's a good reason for rate  
7 making purposes because rate making purposes as the --  
8 the basis of rate making is the fairness to the  
9 company, fairness to ratepayers. Whatever action  
10 would be fair to both sides should be considered as a  
11 guideline. We cannot simply base on some system of  
12 account or some even some FASB pronouncement to commit  
13 the actions, that would not be fair to the ratepayers.

14 As I point out in our response to the  
15 company data request No. 4127 that is now Exhibit 745,  
16 there are examples of practice, practices currently  
17 under -- approved by the Commission, but there are not  
18 covered by any FASB pronouncement like the calculation  
19 of working capital to be added to rate base, and the  
20 calculation of working capital using the  
21 investor-supplied method and the calculation of the  
22 depreciation expense using the average of monthly  
23 average example is not covered by any FASB  
24 pronouncement but they are in practice. So I will say

25 that we have to distinguish the procedure for rate

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1 making and the procedures for financial accounting and  
2 reporting.

3 Q. So you do acknowledge that FASB  
4 pronouncements exist which govern when a gain or loss  
5 can be recognized and it's your position that such  
6 accounting pronouncements don't apply as you state  
7 there in your response to 4127?

8 A. Yes. Don't apply to rate making when the  
9 pronouncement's requiring some bad reporting practice  
10 that's not fair to ratepayers. Or just recording them  
11 in accordance with the FASB but for rate making we  
12 have to make an adjustment.

13 Q. As far as the treatment of transfers to and  
14 from nonutility property, didn't the company and staff  
15 agree to a procedure whereby properties and nonutility  
16 would be disposed within six months of transfer?

17 A. Repeat the question.

18 Q. As far as the treatment generally of  
19 property transfers to and from nonutility, didn't the  
20 staff and company reach an agreement earlier in this  
21 proceeding as far as those companies would be disposed  
22 of within within six months generally?

23 A. I am not aware of such agreement.

24 Q. Turn to your adjustment for employee

25 insurance beginning on page 17. This adjustment has

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1 to do with using the number of employees at the end of  
2 the test period rather than the average of the monthly  
3 average number of employees during the test period.

4 Is that a fair statement?

5 A. Yes. The supposition is the average of,  
6 monthly average of monthly employees should be used in  
7 the calculation not the end of period number.

8 Q. And your testimony states that the number  
9 of employees taken at the end of the test period would  
10 be more reflective of the numbers that would be  
11 existing during the rate year. Is that an accurate  
12 reading of your testimony on page 19, lines 4 through  
13 7.

14 A. Yes.

15 Q. But your testimony goes on and states that  
16 it would violate the matching concept to use employee  
17 numbers at the end of the test year?

18 A. Yes.

19 Q. Are you familiar with the adjustment for  
20 OBC lease income in the company's last rate case?

21 A. No.

22 Q. I believe you presented testimony of that  
23 adjustment at the last rate case, didn't you?

24 A. I don't remember. Back in 1988-89.

25 Q. It had to do with how the company treats  
(NGUYEN - CROSS BY VAN NOSTRAND)

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1 the lease revenues it obtains for its property at One  
2 Bellevue Center?

3 A. Yes. I don't remember the detail of that  
4 without reviewing the director's work papers.

5 Q. Will you accept subject to check that the  
6 treatment adopted in that proceeding would use rate  
7 year revenue rather than test year revenue for  
8 purposes of the adjustment because rents went up?

9 A. Oh, yes. That's the use of the rate year  
10 revenue that you refer to was just the lease revenue,  
11 the amount lease revenue that would be in effect  
12 during the rate year.

13 Q. So you do recall the adjustment now?

14 A. I don't remember all the details but I  
15 remember the general -- I don't remember all the  
16 details.

17 Q. Do you remember whether even though the  
18 revenues were based on rate year levels that the  
19 expenses were based on test year levels?

20 A. That was an adjustment to give effect to  
21 the amount of lease revenue the company would be  
22 receiving during the rate year. I don't see -- I  
23 don't remember any expense was involved in the  
24 calculation of that lease revenue. The adjustment was

25 just put in -- put in to the revenue, operating

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1 revenue, the amount of proforma lease revenue that  
2 Puget would be receiving during the rate year and then  
3 the addition to rate base of the booked value of that  
4 piece of land. I don't remember any expense was  
5 involved in that calculation.

6 Q. In order to follow the matching principle  
7 which you cite here in the case of employee insurance,  
8 would the expense used have corresponded with the rate  
9 year revenue used?

10 A. Repeat the question, please.

11 Q. In order to follow the matching concept  
12 which you now cite in connection with employee  
13 insurance, wouldn't the expenses used have to follow  
14 the revenue used which is the rate year revenues?

15 A. I don't understand the question.

16 Q. With respect to the treatment of OBC lease  
17 income in the last rate case, if your matching concept  
18 were followed there as you claim it should be followed  
19 here, if you're going to increase the rate year --  
20 revenues to reflect rate year levels, wouldn't you  
21 expect that the operating expenses would be those from  
22 the rate year as well?

23 A. Yes. We make the adjustment, proforma  
24 adjustment, to increase the test year expenses to the

25 rate year level in the number of expenses. We do that  
(NGUYEN - CROSS BY VAN NOSTRAND)

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1 all the time. The wages for example, we recalculate  
2 the wages for the rate year using the pay rate, the  
3 pay increase that would be in effect during the rate  
4 year. The adjustment for other O and M expenses like  
5 employee insurance, for example, we do that. We  
6 restate the test year level to the rate year level  
7 using the premium rate that would be in effect during  
8 the rate year. We do that all the time.

9 Q. As far as the number of employees to be  
10 used for employee insurance, would you agree that the  
11 company calculated in insurance expenses the same way  
12 in this case as it did in the last case.

13 MS. BROWN: I would object to that. I  
14 think the witness has already testified he didn't  
15 recall the details. In fact he doesn't recall any  
16 expense levels in the last case?

17 JUDGE HAENLE: The testimony was about the  
18 OBC lease. I don't know whether the witness recalls  
19 what the adjustment was for that particular area or  
20 not. Let us ask him, do you recall, sir?

21 THE WITNESS: On the employee insurance?

22 JUDGE HAENLE: Yes, sir.

23 THE WITNESS: Yes, I did to make the  
24 research. I looked at the calculation of employee

25 insurance adjustment in a few prior Puget cases.

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1 JUDGE HAENLE: Then I will overrule the  
2 objection.

3 A. I realized that the number of employee used  
4 in that calculation was not contested in those prior  
5 cases. However, I don't think that would prevent the  
6 staff from raising the issue if that was an issue that  
7 should be raised. In the calculation of proforma  
8 expenses, we make the adjustment to give effect to the  
9 changes in rate prices but not the volume of service.  
10 Take, for example, the adjustment for salary and  
11 wages, for example. Remake the proforma adjustment by  
12 applying the pay rate that would be in effect during  
13 the rate year to the same number of employees existing  
14 during the test year. We don't retake the wages,  
15 salary to give effect to the change of the number of  
16 employees from the test year to the rate year, we  
17 don't do that. We adjust for the changes in the pay  
18 rate but not on the number of employee.

19 Q. When you apply your slippage adjustment  
20 don't you in fact look ahead at the number of  
21 employees that were added and create a new average  
22 wage for employee?

23 A. No, I don't look ahead. I just look at the  
24 principal.

25 Q. But you don't look at just --

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1 MS. BROWN: I don't believe he finished his  
2 response.

3 A. I just look at the principal. I looked  
4 at the number of employees used by the companies  
5 described as the number of employees existing at the  
6 beginning of July 1992. That is one day after the end  
7 of the test period. So I realize that those numbers  
8 was the end of period number. And when you use the  
9 end of period number to make the calculation it would  
10 amount to an annualization of expense and when you  
11 annualize expense and you don't annualize the  
12 productivity of employee, revenue whatever that would  
13 cause a mismatch.

14 Q. Back on the issue of number of employees to  
15 be used for the employee insurance calculation. You  
16 would agree -- you agreed that the company did use the  
17 same method in this case that it used in the last  
18 case; is that right?

19 A. Yes.

20 Q. And Mr. Parvinen of the Commission staff  
21 reviewed the company adjustment in the last case and  
22 found it to be proper; is that correct?

23 A. Yes.

24 Q. And apparently you have a different view on



25 how this adjustment should be calculated than Mr.

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 Parvinen did?

2 A. Yes. The only difference in the use of the  
3 number of customers. The number of customers should  
4 be an average of monthly average number.

5 JUDGE HAENLE: Number of customers or  
6 employees?

7 THE WITNESS: I'm sorry. The number of  
8 employees should be.

9 Q. So in your view the company should be  
10 required to account for items differently depending on  
11 the view of a particular staff witness assigned to  
12 review that item?

13 A. No, I don't think so. The company should  
14 be required to calculate in the correct way,  
15 regardless of the individual staff witness.

16 Q. Mr. Parvinen found that was the correct way  
17 three years ago; is that correct?

18 MS. BROWN: Asked and answered.

19 JUDGE HAENLE: I agree, Mr. Van Nostrand.

20 MR. VAN NOSTRAND: Withdraw the question,  
21 your Honor.

22 Q. Please go to the company insurance issue,  
23 page 20. Your adjustment for company insurance has  
24 two components; is that correct. The two parts have

25 one, having to do with the level of directors and

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1 officers liability coverage, and the second has to do  
2 with allocating a portion of that cost to the company  
3 subsidiaries; is that right?

4 A. Yes.

5 Q. And the first part of your adjustment is on  
6 page 23. You claim that a coverage limit of \$25  
7 million was sufficient and therefore the premium of  
8 \$216,000 for an additional coverage of \$25 million is  
9 unnecessary; is that correct?

10 A. Yes.

11 MR. VAN NOSTRAND: Your Honor, I would like  
12 to distribute three exhibits.

13 JUDGE HAENLE: Any particular order?

14 MR. VAN NOSTRAND: According to the number  
15 of response.

16 JUDGE HAENLE: They all say at the top  
17 response to company data request. The numbers are  
18 different. Mark as Exhibit 746 for identification  
19 will be 4007. Marked as 747 for identification will  
20 be 4198. And 748 for identification will be 4199.

21 (Marked Exhibit 746, 747 and 748.)

22 Q. Mr. Nguyen, do you recognize Exhibit 746,  
23 747 and 748 as your responses to three company data  
24 requests?

25 A. Yes.

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1 Q. And these have to do with your calculation  
2 of the employee insurance adjustment -- I'm sorry, the  
3 company insurance adjustment, specifically the  
4 director and officers liability coverage?

5 A. Yes. These responses are related to that  
6 adjustment.

7 MR. VAN NOSTRAND: Your Honor, I would move  
8 the admission of these three exhibits.

9 JUDGE HAENLE: Any objection?

10 MS. BROWN: No.

11 MR. ADAMS: No objection.

12 MR. FURUTA: No objection.

13 MR. TRINCHERO: No objection.

14 JUDGE HAENLE: Exhibits 746, 747 and 748  
15 will be entered into the record.

16 (Admitted Exhibit 746, 747 and 748.)

17 Q. Mr. Nguyen, when you proposed your  
18 adjustment to disallow the expense associated with \$25  
19 million of directors and officers liability coverage,  
20 did you rely on anything other than the information  
21 set forth in the Wyatt survey which you refer to in  
22 your response to Exhibit 746?

23 A. No. My adjustment was relied entirely on  
24 my analysis of the Wyatt report.

25 Q. Do you know how long that report was?

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1 A. That report was for eight years time frame.

2 Q. Speak in terms of the length of pages of  
3 the complete Wyatt report?

4 A. I just got a number of pages of that  
5 report, not the whole report. And those pages were  
6 provided by the company.

7 Q. In fact you just received pages 39 through  
8 48 of the Wyatt survey; is that right?

9 A. Yes, that's correct.

10 Q. And in order to use the results of the  
11 Wyatt report for your adjustment you had to make a  
12 number of assumptions as stated on Exhibit 747. Is it  
13 correct that you had to assume that it is likely that  
14 this statistics applied to all the companies  
15 surveyed"?

16 A. Yes.

17 Q. And you went on in the second paragraph of  
18 Exhibit 747 to state, "staff then assumed that this  
19 average claim magnitude was about the same for utility  
20 companies as well as for all the businesses surveyed?

21 A. Yes.

22 Q. And again in Exhibit 748 you made the  
23 assumption that because there is no specification as  
24 to whether the statement was based on utility

25 companies only or on all the companies surveyed it is  
(NGUYEN - CROSS BY VAN NOSTRAND)

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1 likely that it referred to all the businesses  
2 surveyed?

3 A. Yes.

4 Q. When you proposed this adjustment, did you  
5 consider the level of directors and officers insurance  
6 coverage obtained by other investor-owned utilities?

7 A. This is the issues that came up, I guess,  
8 the first time to me and I did not have a chance to  
9 deal with this issue in other utility cases.

10 Q. Apart from the rate cases did you do any  
11 sort of a survey of the level of directors and  
12 officers insurance companies maintained by other  
13 investor-owned utilities?

14 A. I checked if to other utility companies in  
15 this state, checked about the level of insurance  
16 coverage but I cannot disclose here due to  
17 confidentiality.

18 Q. Did you do any sort of analysis as far as  
19 comparing the coverage levels to the net assets of  
20 particular companies?

21 A. No.

22 Q. And any analysis as far as coverage levels  
23 as compared to, say, operating revenues?

24 A. No.

25 Q. Did you consider when you made your

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1 adjustment whether or not the company's ability to  
2 attract and retain qualified directors might be  
3 affected by the adequacy of its directors and  
4 officers liability coverage?

5 A. No, I don't think so. As I made it clear  
6 in my testimony here, if the company wants to have  
7 additional coverage the company should absorb the  
8 costs of anything -- any coverage that is in excess of  
9 a reasonable level.

10 Q. I am trying to test how you determine what  
11 a reasonable level was. I am saying did you take into  
12 account in setting the reasonable level whether or not  
13 the company's ability to attract and retain directors  
14 would be affected by the adequacy of the coverage?

15 A. As I testify here, I base on my adjustment  
16 to the finding of the Wyatt report, based on the  
17 relatively low claim frequency and rather moderate  
18 claim magnitude as well as so far the issuing  
19 companies have not had to pay anything on behalf of  
20 Puget and its directors and officers. So I think that  
21 that based on the claim magnitude of more than \$3  
22 million and you have a coverage up to \$25 million  
23 I think that that would be enough.

24 Q. So is it your position the company would be

25 in a better position to try to recover this expense if

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 it had several claims against its directors and  
2 officers?

3 A. I don't understand the question.

4 Q. Is it your position that the company would  
5 be better able to recover this expenditure if it had a  
6 number of claims pending against its officers and  
7 directors?

8 A. Well, I am saying that if the company wants  
9 to be extra cautious, well, to cover more than that  
10 reasonable and necessary level, the company simply pay  
11 for the extra costs. I am not saying anything else.

12 Q. As far as your second portion of the  
13 company insurance adjustment you allocated 3.3 percent  
14 of the directors and officers insurance premiums to  
15 the company's subsidiary; is that correct?

16 A. Yes.

17 Q. And this 3.3 percent is based on the assets  
18 as of the end of 1992?

19 A. Yes.

20 Q. I believe your testimony states the company  
21 agreed to a similar adjustment in the 1989 rate case;  
22 is that right?

23 A. What portion of the testimony, please?

24 Q. I think you indicated that in your

25 testimony, but regardless of whether you said it or  
(NGUYEN - CROSS BY VAN NOSTRAND)

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1 not, didn't the company make a similar sort of  
2 adjustment in the '89 rate case, the last rate case?

3 A. Well, in the last rate case there was a  
4 data request from one party to -- in the last general  
5 rate case the company response to record requisition  
6 No. 116 the company said that yes, if an allocation  
7 is made to the July 15, 1989 to July 15, 1990 period,  
8 11,734 would be allocated to the subsidiaries. So I  
9 think that it's clear from that response that the  
10 company recognized the need to allocate some of the --  
11 consider the need to allocate some of the director and  
12 officers insurance premium to the subsidiaries because  
13 the issuance benefits both the company and its  
14 subsidiaries.

15 Q. Are you aware that PESI is no longer a  
16 subsidiary of the company?

17 A. No.

18 Q. If you determine that PESI is no longer a  
19 subsidiary of the company, would you agree that  
20 there's no need for directors and officers liability  
21 insurance coverage for PESI during the rate year?

22 A. Yes.

23 Q. And a proforma adjustment would be  
24 appropriate to eliminate a portion of the PESI?



25 A. Yes.

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1 Q. If we could turn now to wage and salary  
2 portion of your testimony beginning on page 24. If I  
3 understand your testimony on page 26 you're proposing  
4 two differences in the calculation of this adjustment,  
5 one having to do with the treatment of bonuses and the  
6 other having to do with the calculation of slippage;  
7 is that correct?

8 A. Yes.

9 Q. And first as to bonuses, your testimony  
10 claims that the amounts of bonuses should have been  
11 excluded from test year wages before applying the  
12 percentage increases; is that correct?

13 A. Yes, that's correct.

14 Q. And then so your adjustment would take out  
15 all the amounts of bonuses embedded in the test year  
16 wage amounts before applying the percentages of the  
17 increase to these amounts, right?

18 A. That's true.

19 Q. In doing your analysis, did you consider  
20 whether or not bonus amounts were stated as dollar  
21 amounts or stated as percentage of salary?

22 A. The company response to staff data request  
23 No. 1165, the revised response to staff request 1165  
24 indicates that the total amount of 2,741,909 of bonus

25 included the wages column consisted of \$1.9 million  
(NGUYEN - CROSS BY VAN NOSTRAND)

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1 for Energy Plus, \$175,959 for Performance Plus, and  
2 more than \$18,000 on Ideas Plus and more than \$465,000  
3 on a lump sum distribution. So this lump sum  
4 distribution included \$375,000 of payment related to  
5 the Pay at Risk program. So I analyze the way the  
6 company paid on the Energy Plus, Performance Plus,  
7 Idea Plus and lump sum. Now, none of those bonuses  
8 were paid on the percentage of base wages, except for  
9 that \$375,000 of payment related to Pay at Risk. That  
10 was removed from this calculation based on the reason  
11 by Ms. Kelly. So all of the remaining bonus amount  
12 were paid in a certain amount like the Energy Plus,  
13 \$300 per employee, \$500, \$800, depending on the number  
14 of whole achieved.

15 Performance Plus was paid in the amount,  
16 2,000, 3,000 and Idea Plus was based on the percentage  
17 amount of saving to the company, 10 percent or so, and  
18 lump sum, there's no basis, there's no basis to the  
19 wage base amount. So I don't see any reason why those  
20 bonuses amount, the bonus amount should be pro-formed,  
21 should be increased by the increase in the salaries,  
22 in the employee's pay rate.

23 Q. If we can turn to the second portion of  
24 your wage and salary adjustment having to do with the

25 concept of slippage?

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1 A. Yes.

2 Q. Can you please define what you mean by  
3 slippage as that term is used in your adjustment. Can  
4 you please define the term slippage as that term used  
5 in your adjustment.

6 A. Well, I don't know who coined slippage,  
7 but my understanding of the adjustment is we try to  
8 find out the relationship between the effective  
9 increase in management wage and the percentage of  
10 increase granted by the company based on the staff  
11 study in the last general rate cases and that was  
12 approved by the Commission. The finding was that the  
13 actual increases in management wages over a number of  
14 years under the study amount to just more than 48  
15 percent of the percentage of increase granted by the  
16 company. And the company itself its study in response  
17 to staff data request 1046 that was marked as -- that  
18 is presented with my testimony as Exhibit 742 THN-4.  
19 Based on the company's study in this response on the  
20 last page of that exhibit, the actual increase for a  
21 percentage of the company increase during the years  
22 from 1986 through 1993 was 47.84 percent. That was  
23 the finding filed by the company and provided by the  
24 company.

25

So in sum, the slippage study is just a

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 study to find out whether or not the actual increases  
2 to management wages is the same or different from the  
3 percentage of increases granted by the company. And  
4 if those percentages are different how much they are.  
5 It appears that the study provided by the company  
6 here, the difference is 47.84 percent. I mean that  
7 the actual increase on management wage was 47.84  
8 percent of the increases granted by the company.

9 Q. And you did your own study based on the  
10 numbers provided by the company and that's shown on  
11 page 4 of your Exhibit 741?

12 A. No, because the company did that already.  
13 And I just modified the calculation to make the  
14 correction to an incorrect percentage of increase  
15 granted to management's personnel on January 1, 1993,  
16 the company used an estimate percentage of 4.5 percent  
17 but the actual increase granted to management  
18 personnel on that date was 3 percent. So I just  
19 changed that estimate figure to the actual figures.

20 Q. And this figure shows -- this exhibit shows  
21 how you derived your 50.8 percent number; is that  
22 right?

23 A. Yes. That percentage, 50.8 percent was  
24 derived by correcting that percentage of management's

25 increase on January 1, 1993.

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 Q. And we could look at page 4 of Exhibit 741,  
2 you calculate your 50.8 percent by looking at the  
3 30.91 percent of the stated percentage increases by  
4 the company and comparing that to the actual effective  
5 increase of 15.7 percent; is that right? That's how  
6 you derived your 50.8?

7 A. What page again, please?

8 Q. Page 4 of Exhibit 741?

9 A. Okay. What is the question?

10 Q. Question is you derived your 50.8 percent  
11 by comparing the 15.7 percent actual effective  
12 increase to the 30.91 percent stated increase?

13 A. Yes.

14 Q. If we could look at the last line of that  
15 exhibit, just the January 1, 1993 number. That entry  
16 would indicate that even though the company states it  
17 gave a wage increase of 3.00 percent, that the actual  
18 effective increase during that period was 3.69  
19 percent; is that correct?

20 A. Yes.

21 Q. So if we apply the same sort of analysis in  
22 just this last line of your exhibit, wouldn't the  
23 number be 123 percent rather than 50.8 percent if we  
24 take the 3.69 and divide it by 3.0 as you've done with

25 the 15.7 dividing by the 30.91?

(NGUYEN - CROSS BY VAN NOSTRAND)

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1 A. You mean that the 3.69 percent would be 123  
2 percent of the 3 percent. I will accept that subject  
3 to check.

4 Q. Yes.

5 A. Yes, subject to check.

6 Q. And that if we apply the 123 percent to the  
7 5.62 percent that you've shown in your last line that  
8 the suggested increase in wage and salary would be  
9 6.91 percent rather than the 2.86 percent which you've  
10 shown on the bottom line?

11 A. No.

12 Q. What do you get when you take 123 percent  
13 times 5.62 percent?

14 A. Well, because the calculation here is the  
15 calculation of an average amount we don't -- we cannot  
16 just separate, single out just a couple of figures  
17 from one line.

18 Q. Suppose the Commission wanted to use the  
19 most recent actual experience and just looked at the  
20 last line of your exhibit. Wouldn't that be the  
21 approach they would follow is looking at an actual  
22 3.69 percent increase when the stated increase was  
23 only 3 percent?

24 A. I still don't think that the use of that

25 single line in the calculation of the total average is  
(NGUYEN - CROSS BY VAN NOSTRAND) 2675

1 appropriate just because the the 3.69 percent showing  
2 as actual effective increase for management employees  
3 on January 1, 1993 may include something else that we  
4 don't know.

5 Q. Isn't that true of all the lines in your  
6 exhibit?

7 A. And again, just because the study is made  
8 on seven years period from January 1986 through 1993  
9 we have to take the overall average of all the years  
10 as done by the companies in Exhibit -- on page 7 of  
11 Exhibit 722.

12 JUDGE HAENLE: How much more do you have?

13 MR. VAN NOSTRAND: Couple of more  
14 questions.

15 Q. Go to page 36, the Stone Creek adjustment.  
16 I take it it's your testimony you proposed to exclude  
17 from this proceeding any impacts associated with the  
18 Stone Creek hydro project; is that correct?

19 A. Yes, I propose to remove the Stone Creek  
20 from this proceeding.

21 Q. And if Stone Creek is sold at a price that  
22 produces a profit, i.e., a price that exceeds costs,  
23 would staff still propose that the impact of Stone  
24 Creek be excluded from this proceeding?

25           A.     That's beyond the scope of my testimony.

(NGUYEN - CROSS BY VAN NOSTRAND)

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1           Q.     Would your approach apply regardless of  
2 which way those costs versus sales proceeds runs?

3           A.     I have no idea because on the one hand the  
4 company may realize some profit in selling the Stone  
5 Creek but on the other hand the company may propose to  
6 include in rate the loss on number of other projects  
7 that was not as fruitful as the Stone Creek.  So I  
8 have no idea.

9           MR. VAN NOSTRAND:  No further questions.

10          JUDGE HAENLE:  You have questions, Mr.  
11 Bennett.

12          MR. BENNETT:  No.

13          JUDGE HAENLE:  Mr. Trincherero.

14          MR. TRINCHERO:  Just one or two, your  
15 Honor.

16

17                               CROSS-EXAMINATION

18 BY MR. TRINCHERO:

19          Q.     You were asked some questions by counsel  
20 earlier this morning about the calculation of the base  
21 cost per customer by class, and I believe you  
22 indicated that you had provided a response to a data  
23 request in which the calculation was based on the cost  
24 allocation from the last general rate case and the



25 number of customers from the PRAM 2 filing; is that  
(NGUYEN - CROSS BY TRINCHERO)

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1 correct?

2 A. I used the cost allocations based on the  
3 last general rate case and the number of customers  
4 existing in the last general rate case to derive the  
5 amount of base cost per customer for each class  
6 and I apply those amounts to the number of customers  
7 projected for the rate year of the PRAM to find out  
8 what the amount of revenue for base costs would have  
9 been if a separate amount of base costs per customer  
10 for each class has been applied. And I found that the  
11 results was \$3.6 million difference in favor of the  
12 company.

13 Q. Would it be accurate to say that that  
14 response was prepared as an illustration of how the  
15 calculation would be done as opposed to the manner in  
16 which you would actually do it, if the cost allocation  
17 from the last general rate case is changed in this  
18 general rate case? Let me rephrase the question. If  
19 this base cost per customer by class system were to be  
20 used, would you use the cost allocation coming out of  
21 this case and a new number of customer count in order  
22 to perform the calculation?

23 A. You mean the application for recovering  
24 PRAM 3?

25 Q. On a forward going basis, I guess I am  
(NGUYEN - CROSS BY TRINCHERO)

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1 wondering where you would apply this. Would you apply  
2 this to PRAM 3 or would you wait until PRAM 4 and what  
3 numbers would you use as the basis of the calculation?

4 A. I don't know that. I don't know when the  
5 staff would propose the application of that new base  
6 cost per customer for each class, I don't know yet.

7 Q. But in general would it be accurate to say  
8 that that you would use the most up-to-date cost  
9 allocation that has been adopted by the Commission and  
10 the most up-to-date customer count at the time that it  
11 is implemented?

12 A. Yes. My personal opinion is that the  
13 costs should be updated and should be -- so the costs  
14 are derived from the current proceeding and the number  
15 of customers existing in the test year of each case  
16 ought to be more updated more current than the past  
17 elements of costs and customers, number of customers.

18 MR. TRINCHERO: No further questions.

19 JUDGE HAENLE: Let's take our morning  
20 recess at this time. We'll be in recess for fifteen  
21 minutes. Be back at five minutes to.

22 (Recess.)

23 JUDGE HAENLE: Let's be back on the record  
24 after our morning recess. Do you have questions, Mr.

25 Furuta?

(NGUYEN - CROSS BY TRINCHERO)

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1 MR. FURUTA: Yes, a few.

2

3 CROSS-EXAMINATION

4 BY MR. FURUTA:

5 Q. Good morning, Mr. Nguyen.

6 A. Good morning, Counsel.

7 Q. I would like to go back to your  
8 disagreement with the company on accounting for gains  
9 and losses on disposition of properties that had been  
10 transferred to nonutility. And I understand that you  
11 proposed to value such properties at the time when  
12 they are disposed of by sale or transfer in contrast  
13 with the company's calculation which uses a value at  
14 the time when the property is transferred to a  
15 nonutility account; is that correct?

16 A. Now, my proposal is that if the company  
17 want to delay the accounting for the gain or loss on  
18 property until the time of the disposition of that  
19 property then the appraised value taken at that  
20 disposal time to be used in the calculation. However,  
21 if the company want to use the appraised value at the  
22 time of the transfer of that property to nonutility  
23 then the accounting for the gain or loss to the  
24 customers should be done at that time.

25 Q. Now, I understand at page 10 of your

(NGUYEN - CROSS BY FURUTA)

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1 testimony that you point out that the company's method  
2 is in violation of the procedures established by this  
3 Commission in Puget's last rate case for the  
4 calculation of gains or losses on the transfers of  
5 former utility properties; is that correct?

6 A. Yes.

7 Q. And I believe in that case the Commission  
8 used values computed at the time the properties were  
9 sold to a third party or transferred from the company  
10 to a subsidiary; is that correct?

11 A. Yes. That's why in that case there was an  
12 allocation of the gain between the shareholders and  
13 the ratepayers based on the time the property was in  
14 nonutility and the time that property was in utility.

15 Q. Now, I understand you also take issue with  
16 Puget's failure to include for consideration in this  
17 rate case gains relating to 13 properties transferred  
18 to nonutility during the period from April 1989  
19 through September 1992, which I believe you discuss on  
20 page 11; is that correct?

21 A. Well, basically what I describe on page 11  
22 was that the companies don't want to account for the  
23 gain or loss on those 13 properties at this time.

24 Q. And I believe your point is that the

25 company's failure to include gains for those 13

(NGUYEN - CROSS BY FURUTA)

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1 properties would unfairly delay the recognition of the  
2 gains to ratepayers; is that correct?

3 A. Well, I would like to explain. On the one  
4 hand the companies want to use the appraised value at  
5 the time of the transfer of the property to nonutility  
6 to calculate the gain or loss. On the other hand the  
7 companies want to delay that accounting to a future  
8 disposal time. That is an unfair practice.

9 Q. Is it your opinion that ratepayers are  
10 entitled to receive the net gain on disposition of  
11 former utility properties because such properties had  
12 been included in rate base for a period of time and  
13 that ratepayers had been paying Puget a return on such  
14 properties during that period?

15 A. Yes, absolutely.

16 Q. And the return paid by ratepayers on  
17 property held for future use includes a gross-up for  
18 income taxes in order that Puget may have an  
19 opportunity to earn the authorized return approved by  
20 this Commission; is that correct?

21 A. Repeat the question, please.

22 Q. The return paid by ratepayers on property  
23 held for future use, that amount includes a gross-up  
24 for income taxes, does it not?

25           A.     Well, on the return taken by the company  
(NGUYEN - CROSS BY FURUTA)

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1     on the property that is included in rate base only  
2     gross-up for income tax to arrive at the revenue  
3     requirement level to be collected from the ratepayers.

4           Q.     So it does include a gross-up for taxes?

5           A.     Yes.

6           Q.     To your knowledge has Puget disposed of  
7     parcels of properties held for future use prior to  
8     those properties ever being used for utility service?

9           A.     Yes, in a rate case filed a number of  
10    future used properties that were disposed of and that  
11    had never been in service.

12          Q.     Never in service?

13          A.     Yes.

14          Q.     To the sale, okay. Had you made any  
15    comparisons of the gain made by Puget upon disposal of  
16    those properties with the cost that ratepayers have  
17    paid Puget for those properties from the inclusion in  
18    rate base for a number of years?

19          A.     I don't make specific study on that but  
20    from my visual inspection of a number of items I  
21    would, base on the date in rate base of that item I  
22    would imagine that Puget has recovered much more than  
23    either the actual costs of the plant or the future  
24    selling price.

25 MS. BROWN: Your Honor, for the record I  
(NGUYEN - CROSS BY FURUTA)

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1 would like to clarify that Mr. Martin, who will be  
2 testifying after Mr. Nguyen, actually addressed the  
3 plant held for future use issue in his testimony.

4 Q. I would like, however, ask of this witness  
5 your opinion, if ratepayers have paid the utility more  
6 in return on a property held for future use than the  
7 company realizes in a gain on the disposition of that  
8 property, do you have an opinion on how you would  
9 treat that situation?

10 MS. BROWN: Your Honor, I would object.  
11 This is beyond the scope of this witness' testimony.

12 A. Yes, I don't handle plant held for future  
13 use.

14 JUDGE HAENLE: Your counsel has objected.  
15 I need to rule on the objection before the answer is  
16 given. Since counsel has indicated that another  
17 witness will address this, I think that should  
18 properly be addressed to a different witness.

19 MR. FURUTA: Is that your understanding  
20 that Mr. Martin is the appropriate witness for that?

21 MS. BROWN: Yes.

22 MR. FURUTA: Then I will withdraw that  
23 question.

24 Q. Just one last question, Mr. Nguyen. Is it

25 possible that ratepayers may be paying Puget a return

(NGUYEN - CROSS BY FURUTA)

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1 each year for property held for future use which Puget  
2 may never end up actually using to provide utility  
3 service?

4 A. That may be a possibility, but again I  
5 don't handle plant held for future use in this  
6 proceeding.

7 MR. FURUTA: That's all I have.

8 JUDGE HAENLE: Have you questions, Mr.  
9 Adams.

10 MR. ADAMS: Just briefly.

11

12 CROSS-EXAMINATION

13 BY MR. ADAMS:

14 Q. Referring generally to your wage and salary  
15 adjustment, Mr. Nguyen. Did staff analyze the  
16 reasonableness of the increase of 5.25 percent and 4.5  
17 percent for management salaries in the 1992-93 time  
18 frame in light of the economy, poor hydro conditions,  
19 and the low inflation?

20 A. I did inquire on that percentage of  
21 increase granted by the company to its management's  
22 personnel. And that was the subject of a data request  
23 No. 45. That was an informal data request because my  
24 inquiry was made during the time I visited the company



25 and the company response to that request the company  
(NGUYEN - CROSS BY ADAMS)

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1 did provide an explanation for the 5.25 percent which  
2 increased from management given at the beginning of  
3 January 1992. The company cited and provided the  
4 level market salary increase data and compare those  
5 data with Puget's corresponding salary increase  
6 budget. So the study shows a 5 percent average  
7 increase in 1992 and Puget's management budget  
8 increase was 5.25 percent or somewhat higher than the  
9 average but not too much.

10 Q. And this was for the year 1991; is that  
11 correct?

12 A. That was for 1992.

13 Q. Excuse me, for 1992. And that was a Puget  
14 performed study; is that correct? This was not a  
15 staff study you were referring to?

16 A. Yes. The staff's study was provided by  
17 Puget.

18 Q. Would you agree that were it not for the  
19 existence of the PRAM mechanism and the cost recovery  
20 that comes under the PRAM mechanism the company's net  
21 revenue would be considerably lower -- would have been  
22 considerably lower for the years 1992 and 1991?

23 A. Yes. I think so.

24 Q. But I just want to make sure, in terms of

25 your analysis now, you didn't look at that in looking  
(NGUYEN - CROSS BY ADAMS)

2686

1 at the reasonableness of salaries; is that correct?

2 A. Yes.

3 Q. Thank you.

4 JUDGE HAENLE: Commissioners, do you have  
5 questions?

6 COMMISSIONER CASAD: No.

7 JUDGE HAENLE: Any redirect of the witness?

8 MS. BROWN: Yes.

9

10 REDIRECT EXAMINATION

11 BY MS. BROWN:

12 Q. Could you please turn to page 21 of your  
13 testimony. Beginning at line 10 you state that you  
14 asked the company to justify the need for additional  
15 directors and officers coverage; is that right?

16 A. Yes.

17 Q. And the company by way of the only  
18 documentation it supplied to you were selected pages  
19 of the Wyatt report; is that right?

20 A. Yes.

21 Q. And any assumptions that you made were  
22 based on the information in those selected pages the  
23 company supplied to you; is that right?

24 A. Yes, that's true.

25 Q. Thank you.

(NGUYEN \_ REDIRECT BY BROWN)

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1 JUDGE HAENLE: Anything more of the  
2 witness?

3 All right. Thank you, sir. You may step  
4 down. Let's go off the record to change witnesses.

5 (Recess.)

6 (Marked Exhibit T-749 and 750 through 754.)

7 JUDGE HAENLE: Let's be back on the record.  
8 During the time we were off the record another staff  
9 witness has assumed the stand. During the time we  
10 were off the record I marked for identification a  
11 number of documents as follows:

12 Marked as Exhibit T-749 for identification  
13 is the testimony R C M-Testimony.

14 Marked as Exhibit 750 for identification, a  
15 six-page document in the upper right-hand corner R C  
16 M-1.

17 751 for identification in one page R C M-2.

18 752 for identification in one page R C M-3.

19 753 for identification in two pages R C

20 M-4.

21 And 754 for identification three pages R C

22 M-5.

23 Whereupon,

24 ROLAND MARTIN

25 having been first duly sworn, was called as a

(NGUYEN \_ REDIRECT BY BROWN)

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1

2

DIRECT EXAMINATION

3

BY MS. BROWN:

4

Q. Could you please state your name for the  
5 record and spell the last?

6

A. My name is Roland C. Martin, M A R T I N.

7

Q. What is your business address?

8

A. My business address is 1300 South Evergreen  
9 Park Drive Southwest, Olympia, Washington 98504.

10

Q. And you're employed by the Utilities and  
11 Transportation Commission?

12

A. Yes.

13

Q. What is your position?

14

A. My position is revenue requirements  
15 specialist five.

16

Q. In preparation for your testimony here  
17 today, did you predistribute what's been marked for  
18 identification as Exhibits T-749 through 754?

19

A. Yes, I did.

20

Q. Are those exhibits true and correct to the  
21 best of your knowledge?

22

A. Yes.

23

Q. Were they prepared by you or under your  
24 direction and supervision?

25 A. Yes.

(MARTIN - DIRECT BY BROWN)

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1 Q. If I were to ask you the questions set  
2 forth in Exhibit T-749, would your answers be the same  
3 as currently set forth therein?

4 A. Yes, they would.

5 MS. BROWN: Your Honor, move the admission  
6 of Exhibits T-749 through 754.

7 JUDGE HAENLE: Any objection?

8 MR. VAN NOSTRAND: No objection.

9 MR. ADAMS: No objection.

10 MR. FURUTA: No objection.

11 JUDGE HAENLE: Exhibits T-749 and 750  
12 through 754 will be entered into the record.

13 (Admitted Exhibits T-749 and 750 through  
14 754.)

15

16 CROSS-EXAMINATION

17 BY MR. VAN NOSTRAND:

18 Q. Morning, Mr. Martin.

19 A. Morning.

20 Q. Like to start first with your allocation to  
21 the wholesale customers testimony beginning on page 9.  
22 Do I read correctly your wholesale customer adjustment  
23 proposal to allocate by \$1.6 million of the rate  
24 increase to the firm wholesale class?

25           A.     The adjustment is intended to provide

(MARTIN - CROSS BY VAN NOSTRAND)

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1     proforma recoveries to recover 100 percent from the  
2     cost of service for the class.

3           Q.     What would be the amount of revenue  
4     increase allocated to that class? Is it 1.6 million?

5           A.     It's \$1.793 million.

6           Q.     And where is that figure in your testimony?

7           A.     That number can be found on Exhibit  
8     RCM-2, Exhibit 751, line 11.

9           Q.     In your testimony it states that this is  
10    based on staff's recommended cost of service study in  
11    the rate design case?

12          A.     That is correct.

13          Q.     Are you aware in the rate design case the  
14    staff proposed to assign an increase to all classes  
15    including firm resale using a gradualism approach that  
16    would move only one-third of the way towards parity?

17          A.     For this class?

18          Q.     Yes.

19          A.     This is an issue which is, I believe, I  
20    consider as interior jurisdictional issue and the  
21    proposition that I am making is since the firm  
22    wholesale class is outside this Commission's  
23    jurisdiction and any findings in the rate design case  
24    is not going to be within the jurisdiction of this

25 Commission to implement, then I believe that we should

(MARTIN - CROSS BY VAN NOSTRAND)

2691

1 remove any subsidy by the customers that are under the  
2 regulation of this Commission. So the purpose of this  
3 adjustment that I am sponsoring now is to have that  
4 class recover its total cost of service.

5 Q. And it's your understanding that that's  
6 consistent with Ms. Sorrells' testimony in the rate  
7 design proceeding?

8 A. I am not really that familiar with the  
9 specific recommendation with regards to this firm  
10 class and if there's any recommendation I think my  
11 proposal should prevail because as I have said that  
12 class is beyond the jurisdiction of this Commission.

13 Q. So the interests of gradualism and avoiding  
14 rate shock to customers in your view should not be  
15 applied to customers in the firm wholesale class?

16 A. Yes.

17 Q. To the extent Ms. Sorrells in the rate  
18 design case proposed gradualism moving one-third of  
19 the way towards parity you interpret that not to apply  
20 to the wholesale class?

21 A. Yes. The intent of my adjustment is not to  
22 change the principles adopted or proposed in that rate  
23 design case with regards to the retail customers.

24 Q. Are you familiar with staff's response to

25 bench request 6 in the rate design proceeding?

(MARTIN - CROSS BY VAN NOSTRAND)

2692

1 A. Yes.

2 Q. And that response presents a revised cost  
3 of service which reflects staff's proposed revenue  
4 requirement; isn't that correct?

5 A. That is correct.

6 Q. And doesn't that study indicate that at 100  
7 percent parity the firm resale class would be  
8 allocated an increase of about \$1.4 million?

9 A. Yes.

10 JUDGE HAENLE: Do you have an exhibit  
11 number cite for that from the rate design case.

12 MR. VAN NOSTRAND: That was just submitted  
13 a couple of weeks ago. There might be one reserved  
14 for it, your Honor, but I think it was just submitted  
15 on May 26.

16 JUDGE HAENLE: Thank you.

17 Q. So how does the \$1.4 million figure from  
18 staff's cost of service study compare with your 1.79  
19 figure in your testimony?

20 A. If we look at the comparative level, the  
21 proforma revenues with the assignment -- the number  
22 produced by the cost of service model run and my  
23 mathematical calculation of these are within \$24,000  
24 difference, so I think the result is accurate.



25 Q. Which numbers should the Commission be

(MARTIN - CROSS BY VAN NOSTRAND)

2693

1 using?

2 A. They can use one or the other because as I  
3 said the difference is immaterial, \$24,000.

4 Q. How do you get from 1.4 million to 1.79  
5 million? You're saying that's \$250,000 -- isn't it  
6 1.44 million in the staff cost of service study to  
7 your 1.79 million?

8 A. As I said, I qualified my answer before  
9 that they should be broken to comparative level.  
10 If you compare 1.4 and 1.79 they are not comparable.  
11 The comparable level would be the proforma revenues  
12 obtained. Because this is added to the present  
13 revenues. The present revenues under the cost of  
14 service run is 3,649,000 -- I mean under the  
15 calculation I made the present revenues is 3,649,949  
16 and if you add to that 1,793,516 the resulting total  
17 will be 5,443,465. On the other hand, the cost of  
18 service model which produced the 1,444,069, you have  
19 to add that increase to 3,975,193 to get a total  
20 of 5,419,262. So the difference is approximately  
21 24,000.

22 Q. If we could turn to your environmental  
23 remediation adjustment on page 13. I would like to  
24 distribute an exhibit, your Honor.

25 JUDGE HAENLE: You've given me a one-page  
(MARTIN - CROSS BY VAN NOSTRAND) 2694

1 document entitled Environmental Remediation Work Paper  
2 Adjustment 2.10. I will mark this as Exhibit 755 for  
3 identification.

4 (Marked Exhibit 755.)

5 Q. Mr. Martin, you have before you what's been  
6 marked for identification as Exhibit 755?

7 A. Yes, I do.

8 Q. Do you recognize that as page 5 of your  
9 accounting work papers?

10 A. Yes.

11 Q. And this exhibit shows your calculation for  
12 your amortization of the environmental remediation  
13 costs?

14 A. Yes.

15 MR. VAN NOSTRAND: Your Honor, move the  
16 admission of Exhibit 755.

17 JUDGE HAENLE: Any objection?

18 MS. BROWN: No objection.

19 MR. ADAMS: No objection.

20 MR. FURUTA: No objection.

21 JUDGE HAENLE: 755 then will be entered  
22 into the record.

23 (Admitted Exhibit 755.)

24 Q. Mr. Martin, your testimony on environmental

25 remediation concerns the treatment of costs incurred

(MARTIN - CROSS BY VAN NOSTRAND)

2695

1 by the company under its environmental program; is  
2 that correct?

3 A. That's right.

4 Q. And these activities generally are subject  
5 to the provisions of an accounting order issued by the  
6 Commission? I believe you referred on page 13, line  
7 18 docket No. UE 911476?

8 A. Yeah. There were costs that were subject  
9 to the accounting order but the adjustment does not  
10 reflect solely those costs.

11 Q. Right. These company's environmental  
12 activities, a portion of which were subject to that  
13 accounting order, then there's a number of other  
14 expenses related to environmental programs which is  
15 primarily what you're discussing in your testimony; is  
16 that right?

17 A. That is correct.

18 Q. And one of the adjustments you propose to  
19 make in your testimony is to lengthen the amortization  
20 period for these costs from three years to six years;  
21 is that correct?

22 A. That is correct.

23 Q. And you said in response to a data request  
24 4046 is that the purpose of lengthening the

25 amortization period is to minimize the impact on

(MARTIN - CROSS BY VAN NOSTRAND)

2696

1 ratepayers; is that correct?

2 A. That is correct.

3 Q. And that by using a six-year amortization  
4 period the pressure of the revenue requirement  
5 increase is reduced by one half compared with the  
6 three-year period under the company's proposal; is  
7 that correct?

8 A. Yeah, for this specific portion of the  
9 adjustment.

10 Q. Cumulatively the total payment by  
11 ratepayers would be more, not less, if a six-year  
12 amortization period was used; is that correct?

13 A. We're amortizing the same amount, only it's  
14 over a longer period so the total amount being  
15 amortized is the same.

16 Q. Is there any time value of money, any  
17 return on the unamortized balance?

18 A. There's a time value of money on any type  
19 of money, that's right.

20 Q. On any type of money?

21 A. Yeah.

22 Q. So if you're just looking straight at the  
23 nominal dollars, the ratepayers would be paying more  
24 if it's amortized over six years instead of three

25 taking into account the time value of money?

(MARTIN - CROSS BY VAN NOSTRAND)

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1 A. If you make the imputation or tried to  
2 calculate the value, then the nominal amount will be  
3 different from the adjusted amount.

4 Q. And if you use a six-year period the  
5 amortization is likely to run into the next test  
6 period in a rate proceeding, won't it?

7 A. That's correct. And there's an underlying  
8 reason, another reason for the longer period and this  
9 will give time for a company to file all the necessary  
10 insurance claims so that during this time period there  
11 wouldn't be really that much amount during the next  
12 general rate case which will be subject to  
13 amortization because a portion of the unamortized  
14 balance would have been offset by the recoveries from  
15 insurance by that time.

16 Q. But you didn't cite that as a reason in  
17 response to data request 4046 as to why you lengthened  
18 the amortization period?

19 A. I did not.

20 Q. How do you decide when an adjustment  
21 for rate impacts becomes necessary to lengthen the  
22 amortization period from three to six years?

23 A. First, this is a reaction to the company's  
24 proposal of very high magnitude increase and one

25 of the ways to moderate that is to make a longer

(MARTIN - CROSS BY VAN NOSTRAND)

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1 amortization period for costs being requested for  
2 recovery. And we also have to take into consideration  
3 the magnitude of the impact of the adjustment itself.

4 Q. So even though staff is recommending a rate  
5 reduction in this case it's necessary to stretch out  
6 the amortization in order to moderate the impact on  
7 ratepayers for this particular adjustment?

8 MS. BROWN: Objection, argumentative.

9 JUDGE HAENLE: Mr. Van Nostrand.

10 MR. VAN NOSTRAND: I believe it's proper.  
11 He said one of the reasons they proposed stretching  
12 out the amortization is because of the magnitude of  
13 the company's request and I was probing as to whether  
14 or not that's relevant when staff is proposing a  
15 reduction.

16 JUDGE HAENLE: Overrule the objection and  
17 direct the witness to answer. I guess the question is  
18 whether or not those two are inconsistent.

19 A. No, they are not. The revenue requirement  
20 recommendation of the staff is the effect and the  
21 adjustment is the cost of that effect. So if you want  
22 to look at it around it becomes circular. If we  
23 remove this type of adjustment and any other similar  
24 adjustment then the recommendation of staff would no

25 longer be the level that we're recommending now

(MARTIN - CROSS BY VAN NOSTRAND)

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1 because as I've said it's the effect.

2 Q. What's the impact of this adjustment alone,  
3 just stretching the amortization period from three  
4 years to six years?

5 A. I don't have that amount specifically for  
6 this item, but I can make a comparison between the  
7 company's proposal and the staff proposal with this  
8 adjustment in total.

9 Q. That would be more than just the impact of  
10 the amortization period, wouldn't it?

11 A. That's right.

12 MR. VAN NOSTRAND: Can I have that in  
13 response to a record requisition, your Honor.

14 JUDGE HAENLE: Next record requisition  
15 would be 581.

16 (Record requisition 581.)

17 MR. VAN NOSTRAND: Would this be the effect  
18 of isolating -- extending the amortization period  
19 from three years to six years, the impact on the  
20 revenue requirement.

21 THE WITNESS: Can I check one thing because  
22 I believe I already responded to a data request to the  
23 company with regards to this.

24 JUDGE HAENLE: If it's not easy for you to

25 find, Mr. Martin, perhaps you could respond to the  
(MARTIN - CROSS BY VAN NOSTRAND)

2700

1 record requisition by providing that information,  
2 either the reference or the information?

3 A. I have the wrong adjustment in mind so I  
4 will provide it as record requisition.

5 Q. And the second portion of your adjustment  
6 on the environmental remediation is to normalize  
7 certain expenses?

8 A. That is correct.

9 Q. Basically this is what is shown in your  
10 accounting work paper page 25, Exhibit 765?

11 A. Yes.

12 Q. And your adjustment relates to nonmajor  
13 cleanup programs involving PCB contamination, garage  
14 cleanups and asbestos cleanup?

15 A. Yes. These are the programs described by  
16 Mr. Storey as ongoing programs.

17 Q. And I take it the point of your adjustment  
18 is the costs for these programs were not incurred in  
19 an even manner and you felt that the test year  
20 expenditures may not be representative?

21 A. That is correct.

22 Q. When you made your adjustment, did you  
23 consider the level of future expenditures in  
24 connection with these various programs?



25           A.    I considered the supplemental information I  
(MARTIN - CROSS BY VAN NOSTRAND)   2701

1   received from the company as to the status of these  
2   programs as of I guess February 1993 and the later  
3   information confirmed my -- the reasonings for my  
4   adjustment.

5           Q.    If these costs are variable from year to  
6   year, wouldn't it be preferable to handle them the  
7   same way as the major cleanups under the accounting  
8   order, in other words, to defer and amortize them over  
9   the appropriate period?

10          A.    I can't say that it's preferable because  
11   there are unique circumstances that surround the  
12   programs covered by the accounting order, and I have  
13   to make the necessary evaluation as to the  
14   applicability for this ongoing project cost.  For  
15   example, the Electron cleanup is a unique cleanup  
16   project and so are the environmental cleanup in the  
17   transformer sites.  Those are the types of remediation  
18   program costs that are covered by the accounting  
19   order, and certainly already a great deal of  
20   differences.

21          Q.    Like to move to another area having to do  
22   with your Creston adjustment being on page 15 of your  
23   testimony.

24                 MR. VAN NOSTRAND:  Like to distribute a

25 couple of exhibits, your Honor.

(MARTIN - CROSS BY VAN NOSTRAND)

2702

1 JUDGE HAENLE: You handed me two documents.  
2 Both indicate that they are responses to company data  
3 requests. I will mark the response to data request  
4 4049 as 756 for identification. And the response to  
5 4121 as 757 for identification.

6 (Marked Exhibits 756 and 757.)

7 Q. Mr. Martin, do you recognize what's been  
8 marked for identification as Exhibit 756, your  
9 response to company data request 4049?

10 A. Yes, I do.

11 Q. And Exhibit 757 as being your response to  
12 company data request 4121?

13 A. Yes.

14 Q. And Exhibit 756 relates to your proposal to  
15 extend the amortization period for Creston from five  
16 years to ten years?

17 A. Yes.

18 Q. And Exhibit 757 relates to your proposal to  
19 disallow the accrual of AFUDC on the company's Creston  
20 expenditures; is that right?

21 A. It's related to those.

22 MR. VAN NOSTRAND: Your Honor, move the  
23 admission of Exhibit 756 and Exhibit 757.

24 JUDGE HAENLE: Any objection, Ms. Brown?

25 MS. BROWN: No.

(MARTIN - CROSS BY VAN NOSTRAND)

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1 MR. ADAMS: No objection.

2 MR. TRINCHERO: No objection.

3 MR. FURUTA: No objection.

4 JUDGE HAENLE: Exhibit 756 and 757 will be  
5 entered into the record.

6 (Admitted Exhibits 756 and 757.)

7 Q. Now, the Creston item in this case concerns  
8 a proposal by the company to recover its investment in  
9 the Creston project, a planned generating station. Is  
10 that a fair statement?

11 A. Yes.

12 Q. I understand from your testimony that staff  
13 is not alleging that the company's participation in or  
14 pursuit of this project was in any way imprudent; is  
15 that correct?

16 A. That is correct.

17 Q. And notwithstanding that, staff proposes to  
18 reduce the amounts to be recovered by removing AFUDC  
19 as part of the recoverable costs; is that correct?

20 A. The portion of AFUDC that's not already  
21 removed by the company, that's correct.

22 Q. And as to the adjustment for AFUDC, is  
23 staff challenging whether or not the costs on which  
24 the AFUDC was accrued were actually incurred by the

25 company?

(MARTIN - CROSS BY VAN NOSTRAND)

2704

1 A. You mean whether the principal to which the  
2 AFUDC rate was applied to were actual cast out from  
3 the company?

4 Q. Yes.

5 A. I believe there were cast payments to  
6 Washington Water Power.

7 Q. And these amounts were recorded in  
8 construction work in progress by the company, were  
9 they not?

10 A. Initially, to my understanding, yes.

11 Q. As contrasted with Water Power's treatment  
12 of them putting them in preliminary surveys?

13 A. That's right.

14 Q. You would agree that there are costs of  
15 money associated with capital expenditures by the  
16 company for the Creston project?

17 A. Yes, there are capital costs associated  
18 with construction project but my problem is these  
19 projects never reached construction state so I  
20 wouldn't say that these are construction costs. These  
21 were preliminary and survey costs.

22 Q. Do you believe that a determination  
23 should be made to allow AFUDC expenditures on a  
24 project at the time the expenditures are incurred or

25 if it's later determined that the expenditures do not

(MARTIN - CROSS BY VAN NOSTRAND)

2705

1 lead to a completed project?

2 A. I think the uniform system of accounts  
3 provides guidance for according the cost. So there's  
4 a specific account for preliminary survey cost that  
5 says -- that do not provide accrual of AFUDC for those  
6 costs or booking that account. And that specific  
7 account provides that if construction results then  
8 they should be moved to another account and that's  
9 what the AFUDC accrual would commence.

10 Q. Would you agree that these costs were at  
11 the time they were incurred they were continuously  
12 incurred on a planned progressive basis?

13 A. I do not agree with that and in a response  
14 by Mr. Lauckhart to one of my data requests he said  
15 that there were continuous delays with regards to the  
16 scheduling of the project. So I wouldn't say that  
17 there was continuously progressive of cost.

18 Q. Were there delays incurred at the project  
19 prior to February of 1993?

20 A. I presume those were the delays that Mr.  
21 Lauckhart were referring to, that there were delays  
22 throughout the entire stage of development of this  
23 project.

24 Q. Does your treatment of AFUDC depend upon

25 when these delays occurred?

(MARTIN - CROSS BY VAN NOSTRAND)

2706

1 A. My treatment of AFUDC is, as that term  
2 implies, it's allowance for funds used during  
3 construction. So if there's construction or the  
4 project reaches the construction stage then that's the  
5 proper time to accrue the AFUDC.

6 Q. The second portion of your Creston  
7 adjustment proposes to increase the amortization  
8 period from five years to ten years; is that right?

9 A. Yes, for the reasons I stated in my  
10 testimony.

11 Q. And one of those reasons given in your  
12 testimony was to ease the rate impact on customers; is  
13 that right?

14 A. That's one of the reasons. Another reason  
15 is the consistency with the costs sharing principle  
16 between ratepayers and shareholders.

17 Q. In those cases you're referring to sort of  
18 an abandoned project losses that the company incurred?

19 A. Yes.

20 Q. And you're talking about the Skagit  
21 investment and the Pebble Springs investment in  
22 particular?

23 A. Yes.

24 Q. Wouldn't you agree that the magnitude of

25 those losses is on a much greater scale than the

(MARTIN - CROSS BY VAN NOSTRAND)

2707

1 Creston investment?

2 A. I would agree -- the magnitude, because  
3 those I think some construction took place.

4 Q. Wouldn't you agree the magnitude of the  
5 investment was such that easing the impact on  
6 ratepayers would be a much greater concern?

7 A. I believe the principle behind the easing  
8 of impact on ratepayers will apply as well to this  
9 Creston project.

10 Q. Would you accept subject to check that the  
11 Skagit investment at the time it was -- began to be  
12 recovered in rates was about \$82 million?

13 A. I will accept that subject to check.

14 Q. And that the Pebble Springs investment was  
15 about \$47 million?

16 A. Yes, I will accept that subject to check.

17 Q. What's the impact on shareholders of  
18 extending the amortization period from five years to  
19 ten years when no return is allowed on any unamortized  
20 balance?

21 A. I don't have a calculation but that goes  
22 with the principle that I am trying to apply here that  
23 there should be a cost sharing between ratepayers and  
24 shareholders, and one way of sharing is that there is

25 a mitigated impact on the customers and at the same

(MARTIN - CROSS BY VAN NOSTRAND)

2708

1 time there will be a cost being shouldered by the  
2 shareholders. You should know that the ratepayers are  
3 not getting anything out of this cost.

4 Q. But wouldn't you agree that by extending  
5 the amortization period from five to ten years without  
6 allowing a return on the unamortized balance has the  
7 effect of putting more of the loss on the  
8 shareholders?

9 A. I think it's a balanced treatment because I  
10 have said the ratepayers are paying for nothing,  
11 but since these are prudent costs incurred by the  
12 company with the intention of providing the services  
13 needed for the ratepayers there should be -- for a  
14 fair treatment there should be a sharing between the  
15 two parties. So I believe the treatment that I am  
16 proposing is consistent with the treatment of prior --  
17 is fair to both the ratepayers and the stockholders.

18 Q. Let's move into the exciting area of  
19 working capital page 48.

20 MR. VAN NOSTRAND: I would like to  
21 distribute an exhibit first, your Honor.

22 Q. Mr. Martin, before we get started in the  
23 details, could you briefly describe to me how you  
24 would define working capital.



25

JUDGE HAENLE: One-page document entitled  
(MARTIN - CROSS BY VAN NOSTRAND)

2709

1 work paper working capital adjustment 2.24 will be  
2 marked as Exhibit 758 for identification.

3 (Marked Exhibit 758.)

4 A. What was the question again.

5 Q. Would you briefly define working capital  
6 for us?

7 A. In general accounting terms working capital  
8 is just the difference between current assets and  
9 current liabilities and for rate making purposes it's  
10 defined in a somewhat different manner. The working  
11 capital funds that this balance sheet approach is  
12 trying to measure is to identify the working capital  
13 that's supplied by investors that should be allowed to  
14 be included in rate base because there's no provision  
15 for allowance of return somewhere else.

16 Q. And for that portion deemed to be coming  
17 from the investors, I take it it's part of the rate  
18 base and therefore the company earns a return equal to  
19 its overall rate of return on the amount defined to  
20 be working capital?

21 A. Yeah. It's the funds supplied by investors  
22 over and above what's been tied up to the investments  
23 both operating and nonoperating.

24 MR. VAN NOSTRAND: Your Honor, has this

25 been marked as an exhibit?

(MARTIN - CROSS BY VAN NOSTRAND)

2710

1 JUDGE HAENLE: Been marked as Exhibit 758  
2 for identification.

3 Q. Mr. Martin, do you recognize Exhibit 758 as  
4 accounting work paper page 48?

5 A. Yes.

6 Q. Prepared by you?

7 A. Yes.

8 Q. And it relates, it sets forth -- it's a  
9 working paper for your working capital adjustment?

10 A. Yes. Actually, it's an expansion of what's  
11 been marked as Exhibit 752.

12 Q. And what is essentially added is a  
13 discussion at the bottom, the description of staff  
14 adjustment; is that right?

15 A. That is correct.

16 MR. VAN NOSTRAND: Your Honor, I move the  
17 admission of Exhibit 758.

18 JUDGE HAENLE: Any objection, Ms. Brown.

19 MS. BROWN: No.

20 MR. ADAMS: No objection.

21 MR. TRINCHERO: No objection.

22 MR. FURUTA: No objection.

23 JUDGE HAENLE: Exhibit 758 will be entered  
24 into the record.

25

(Admitted Exhibit 758.)

(MARTIN - CROSS BY VAN NOSTRAND)

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1 Q. Mr. Martin, if I could just refer you to  
2 the bottom portion of Exhibit 758, note B refers to  
3 the \$9.4 million reduction which is entitled the BPA  
4 residential credit; is that correct?

5 A. Yes. This amount represents the average  
6 monthly average balance of the residential exchange  
7 account for the test year.

8 Q. And this is also the amount that appears on  
9 line 9 above; is that right, subtracted as item B on  
10 line 9 above?

11 A. Yes. That's the same amount on line 9 and  
12 the same amount on line 23.

13 Q. And the same for -- if you look at line F  
14 at the bottom, depreciation reserve, the \$2.3 million  
15 figure that you have reflected there also appears  
16 above on line 24; is that right?

17 A. That's right.

18 Q. And I take it these two items together,  
19 then, are subtracted again on line 63? In other  
20 words, the 9.4 million and the 2.3 million add up to  
21 11.7 million and you subtract that again on line 63,  
22 isn't that right?

23 A. Yes.

24 Q. Would you explain how, if you are

25 subtracting it on line 9 and again on line 23 and

(MARTIN - CROSS BY VAN NOSTRAND)

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1 again on line 24 that you again subtract it on line

2 63? Is that a double counting?

3 A. It's not a double counting. Take, for

4 instance, item B, which is the amount of adjustment.

5 What the impact of this is is to take out the amount

6 that's been included by the company because you will

7 note from this analysis that my starting point is the

8 company's working capital adjustment so what the

9 company did is to include the \$9.4 million as short

10 term debt and that's shown -- that's included under

11 column B on line 9. So the first step in my

12 adjustment is to remove that from the calculation and

13 then the next step will be to treat that amount in

14 the manner that I am proposing. So what I did is to

15 subtract that amount from the rate base so that what

16 happens is the working capital allowance on line 45,

17 that -- the total investor-supplied working capital,

18 what happened basically is that is increased because

19 the investment is reduced by that amount. So that

20 increases the investor-supplied working capital. And

21 the adjustment on line 63 is to mirror the treatment

22 that I have in this working capital calculation, which

23 is the rate base reduction. So this adjustment

24 subtracts directly from rate base.

25 JUDGE HAENLE: Mr. Van Nostrand, I notice

(MARTIN - CROSS BY VAN NOSTRAND)

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1 that the last two pages on Exhibit 757, the next to  
2 the last page says it's confidential. There is no  
3 protective order in this matter. Apparently this was  
4 provided by the staff. Ms. Brown and Mr. Van Nostrand  
5 should take a look at this and determine what ought to  
6 be done.

7 MR. VAN NOSTRAND: Can we do that at the  
8 break?

9 JUDGE HAENLE: I'm concerned that if this  
10 has been distributed and if it indeed is confidential  
11 it needs to be picked up immediately because there is  
12 no protective order, and if it's not supposed to be  
13 distributed I want it picked up right now. I don't  
14 want to wait until after break. Let's go off the  
15 record and discuss this.

16 (Discussion off the record.)

17 JUDGE HAENLE: Let's be back on the record.  
18 During the time we were off the record we discussed  
19 the issue. Mr. Trotter is going to let us know after  
20 lunch whether this should or should not have been  
21 distributed.

22 MR. VAN NOSTRAND: This is a good time to  
23 break.

24 JUDGE HAENLE: Let's take our lunch recess

25 then be back at 1:30.

(MARTIN - CROSS BY VAN NOSTRAND)

2714

1 (Luncheon recess.)

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(MARTIN - CROSS BY VAN NOSTRAND)

2715

1

AFTERNOON SESSION

2

1:30 p.m.

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JUDGE HAENLE: Let's be back on the record

after our lunch recess. At the time we broke you

were going to check about Exhibit 757, Mr. Trotter.

What did you find?

MR. TROTTER: Confidential designation can

be removed.

JUDGE HAENLE: All right. I will scratch

out the confidential designation on the official copy

then. Do so on your own copies, please. Thank you

for that clarification.

BY MR. VAN NOSTRAND:

Q. Mr. Martin, if we could turn to page 20 and

discuss your testimony of -- your adjustment for

dividends declared?

A. Yes.

Q. This issue concerns whether or not the

average balance of the dividends declared the account

should be included as part of invested capital. Is

that a fair statement?

A. Yes.

Q. And it's your testimony that when dividends

are declared a debit to retained earnings and a credit

25 to dividends payable are recorded; is that right?

(MARTIN - CROSS BY VAN NOSTRAND)

2716

1 A. Yes.

2 Q. And does this bookkeeping entry have any  
3 impact on the availability of funds for corporate  
4 purposes?

5 A. There's no impact on the availability of  
6 funds. The funds are still there until it's actually  
7 paid but the dividend credit entries have transformed  
8 the amount equivalent to the dividends declared from  
9 capital to short term liability. So, that's a  
10 significant change.

11 Q. Once dividends are declared investors don't  
12 immediately receive their funds from the company, do  
13 they?

14 A. Not immediately, no.

15 Q. They still, up until the money is paid to  
16 the shareholders, the funds are still in the hands of  
17 the company, the company has the use of them for  
18 corporate purposes?

19 A. Yes. The dividends declared are due to  
20 certain stockholders of record.

21 Q. Turning to the adjustment for BPA  
22 residential exchange account, page 21. This issue  
23 concerns the treatment of balance in the company's  
24 residential exchange account; is that right?



25           A.     That's right.

(MARTIN - CROSS BY VAN NOSTRAND)

2717

1           Q.     And the issue arises because the company  
2 occasionally has credit balances in the residential  
3 exchange account due to the timing of benefits paid by  
4 Bonneville and when these benefits are actually paid  
5 out in rates?

6           A.     For the test year the balances is credit  
7 balance so I might have trouble with the term  
8 occasionally. Based on the test year there has been  
9 an average credit balance in account.

10          Q.     And it's your understanding that BPA has  
11 asked the company to develop a method that allows the  
12 interest benefits from these credit balances to be to  
13 be flowed through only to the company's residential  
14 customers?

15          A.     Yes. And I believe the term is a direct  
16 accrual method, yes.

17          Q.     And your recommendation is rather than  
18 following that direct accrual method is to treat these  
19 account balances similar to the way customer deposits  
20 are treated; is that right?

21          A.     Actually, it's my method, the staff's  
22 proposal is also a direct accrual method, only the  
23 treatment of the available funds is treated  
24 differently from the company's proposal. So, in other

25 words, the staff's proposal directly accrues the

(MARTIN - CROSS BY VAN NOSTRAND)

2718

1 interest expense that's due to the undistributed  
2 credit exchange balance, and that same expense is  
3 going to be collected from the general body of  
4 ratepayers in the form of interest expense above the  
5 line.

6 Q. But in terms of how it's treated for rate  
7 base purposes you refer to it as a direct rate base  
8 reduction similar to the treatment of customer  
9 deposits?

10 A. That is correct.

11 Q. In your view are the characteristics of the  
12 residential exchange account similar to the  
13 characteristics of customer deposits?

14 A. Yes. There are similarities because the  
15 balance in the undistributed exchange credit account,  
16 those amounts are due to the ratepayers, residential  
17 ratepayers and small farm customers of the company.  
18 So in essence they are deposits by the company.

19 Q. Wouldn't you agree that the balances in the  
20 residential exchange account are much more volatile  
21 and subject to fluctuation than the balance in the  
22 customer deposit account?

23 A. In that case, yes, there's a dissimilarity.

24 Q. And particularly are you familiar with Mr.

25 Raynor's Exhibit 6 which is Exhibit 709 which shows  
(MARTIN - CROSS BY VAN NOSTRAND)

2719

1 the actual balances in the residential exchange  
2 account during the PRAM 1 and PRAM 2 periods?

3 A. I have seen the exhibit but I do not recall  
4 the specific amounts shown on that exhibit.

5 Q. Would you accept subject to check that  
6 during the PRAM 1 period the account balance ranged  
7 from 14 million to 4 million, a range of \$10 million  
8 and that during the PRAM 2 period the account balance  
9 ranged from a positive \$8 million to a negative \$6  
10 million?

11 A. I will accept that subject to check.

12 Q. And that so that over the PRAM 1 and PRAM 2  
13 periods together the range has been from 14 million to  
14 a minus \$6 million or a \$20 million range?

15 A. I will accept those figures subject to  
16 check.

17 Q. And in contrast the account balance for the  
18 customer deposits account is relatively stable  
19 over time, isn't it?

20 A. I think so, yes.

21 Q. How would staff's proposal work in the  
22 event we have a negative balance in the residential  
23 exchange account such as Mr. Raynor shows in his  
24 exhibit?

25           A.     It's very similar to what the company is  
(MARTIN - CROSS BY VAN NOSTRAND)

2720

1     proposing, that when the funds become negative that  
2     it's going to be replaced by short term debt and  
3     what's been captured is the cost will be equivalent to  
4     the short term debt rate and that's already embedded  
5     under the staff's proposal as an interest expense so  
6     the coverage is there.

7           Q.     Have you had an opportunity to review the  
8     rebuttal testimony of BPA witness Raynor in this  
9     proceeding?

10          A.     Yes.

11          Q.     And you understand that he is the person  
12     that at BPA is responsible for managing the  
13     residential exchange program?

14          A.     That's my understanding, yes.

15          Q.     And within that capacity he is responsible  
16     for conducting compliance reviews of Puget?

17          A.     Yes.

18          Q.     And in Mr. Raynor's rebuttal testimony  
19     he examines your proposed treatment of residential  
20     exchange benefits; is that correct?

21          A.     Yes.

22          Q.     And he concludes, doesn't he, that your  
23     proposed treatment does not respond to the concerns  
24     raised by BPA regarding compliance with the Northwest

25 Power Act?

(MARTIN - CROSS BY VAN NOSTRAND)

2721

1 A. Yes, and I think that conclusion is based  
2 on a misunderstanding of what the staff's proposal is:  
3 Specifically he mentioned that there are two concerns  
4 by the BPA that are not being addressed by the  
5 recommended method of staff. One is that  
6 nonqualifying customers benefit from the interest  
7 benefits, I think is wrong in that sense that the  
8 staff's method directly accrues interest in  
9 undistributed balance and that the exchange account is  
10 -- our concern is it uses estimates in the rate  
11 setting process and that's again the wrong conclusion  
12 because, as I've mentioned earlier, the calculation of  
13 staff is based on actual average balances of the  
14 residential exchange.

15 Q. But by using a direct rate base reduction  
16 approach, as you're proposing in your testimony,  
17 doesn't that have the effect of spreading the benefits  
18 of that rate base reduction to customers other than  
19 qualifying customers?

20 A. The result of the staff -- the impact of  
21 the staff's proposal is just to make sure that the  
22 cost of the funds that's being accrued interest on  
23 will be the same costs that the ratepayers will be  
24 paying. And that parity of costs burden and cost

25 benefit is not reflected in the company's

(MARTIN - CROSS BY VAN NOSTRAND)

2722

1 recommendation, because the company proposed to impute  
2 the short term debt rate on the balance while the  
3 added return on the additional rate base amount will  
4 be based or will be earning the company's authorized  
5 rate of return which is higher than the amount that's  
6 being accrued in the interest balance.

7 JUDGE HAENLE: So is the answer to Mr. Van  
8 Nostrand's question then no, that you do not believe  
9 the benefits are spread to nonqualifying customers?

10 THE WITNESS: The interest benefit for the  
11 undistributed balance will be directly accruing to the  
12 residential and small farm customers. So the answer  
13 is no.

14 Q. The way the working capital was calculated  
15 previously, didn't the customer also receive a benefit  
16 for these residential exchange balances?

17 A. I cannot absolutely say yes to that because  
18 the way it was treated before it was  
19 noninvestor-supplied capital and noninvestor-supplied  
20 capital can be used for purposes other than for the  
21 benefits of the ratepayer. Can be used for  
22 nonoperating aspects of their company.

23 Q. Turn to small hydro write-offs on page 27.  
24 This item concerns the company proposal to recover

25 over a five year period its cost rate of five

(MARTIN - CROSS BY VAN NOSTRAND)

2723

1 abandoned hydro projects?

2 A. That's correct.

3 Q. The staff is recommending this proposal be  
4 rejected?

5 A. Yes.

6 Q. One of the points you make in your  
7 testimony is any hydro project pursued by the company  
8 through its subsidiaries should be acquired through  
9 competitive bidding; is that right?

10 A. In between general rate cases, yes.

11 Q. What is your understanding as to why these  
12 projects were developed by the company using a  
13 subsidiary.

14 A. I believe the explanation that was given to  
15 me or as discussed in the company's testimony is that  
16 the ownership of the licenses or permits has to be --  
17 cannot be directly acquired by the company but it must  
18 be -- but the owners -- but the companies that own the  
19 permits must be bought by the company itself. I don't  
20 know whether I am saying it accurately. It's the way  
21 I understand it. It has something to do with the  
22 transferral ownership of permits.

23 Q. And you don't have any basis for  
24 questioning that explanation by the company?

25           A.     No.

(MARTIN - CROSS BY VAN NOSTRAND)

2724

1           Q.     Now, if these projects were required  
2 through competitive bidding the cost of the resources  
3 would be considered purchased power expenses. Is that  
4 the staff proposal?

5           A.     Yes.

6           Q.     And if it's purchased power who would the  
7 seller be?

8           A.     Subsidiary.

9           Q.     And if the market price established through  
10 competitive bidding were greater than the accounting  
11 costs of the project, would the profit resulting  
12 thereby be allowed to be retained by the subsidiary?

13          A.     Under the competitive bidding process there  
14 are tests that must be satisfied. That's why I call  
15 it competitive bidding so the most successful bidders  
16 will normally win and the price is one of the features  
17 of winning the bid and whatever the price that will be  
18 the allowable cost for the company.

19          Q.     But assuming that price which I take it  
20 would establish the market price is such that there is  
21 a profit above the costs calculated on an accounting  
22 basis, would that profit remain in the subsidiary  
23 under staff's view?

24          A.     Under the competitive bidding process, yes.



25 Q. Is that your understanding from what the  
(MARTIN - CROSS BY VAN NOSTRAND)

2725

1 company's proposal was that it would sell this at  
2 market-based rates and retain the profit in the  
3 subsidiary?

4 A. I think the subsidiary will be selling it  
5 at a price and it will need to recover the costs.

6 Q. So it would be a cost-based price?

7 A. Yes.

8 Q. Will you turn to your discussion of future  
9 use plant beginning on page 33.

10 MR. VAN NOSTRAND: I would like to  
11 distribute a couple of exhibits, your Honor.

12 JUDGE HAENLE: In which order do you want  
13 them marked?

14 MR. VAN NOSTRAND: Let's go with the data  
15 request first.

16 JUDGE HAENLE: I will mark as Exhibit 759 a  
17 one-page document. At the top it says response to  
18 company data request 4052. And I will mark as Exhibit  
19 760 for identification a single-page document. It  
20 begins 105 electric plant held for future use.

21 (Marked Exhibits 759 and 760.)

22 Q. Mr. Martin, this discussion in your  
23 testimony proposes to remove from rate base certain  
24 items of property booked by the company in the account

25 for plant held for future use; is that right?

(MARTIN - CROSS BY VAN NOSTRAND)

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1 A. That's right.

2 Q. And this is account 105 under the uniform  
3 system of accounts?

4 A. Yes.

5 Q. And the purpose of analysis of your  
6 testimony is to classify the properties at issue into  
7 four groups, A, B, C and D?

8 A. That's right.

9 Q. And with respect to the items in category  
10 A, the company agrees that these 16 properties should  
11 be removed from rate base?

12 A. That's right.

13 Q. And with respect to the items in group B,  
14 and these are laid out in your Exhibit 754 sets out  
15 the classification. With respect to the items in  
16 group B, it's staff's position that these properties  
17 do not qualify for inclusion in its plant held for  
18 future use because they have no definite date of use;  
19 is that correct?

20 A. That's right.

21 Q. Do you recognize what's been marked for  
22 identification as Exhibit 760 as an excerpt from the  
23 uniform system of accounts which describes account  
24 105, plant held for future use?

25           A.     Yes.

(MARTIN - CROSS BY VAN NOSTRAND)

2727

1           Q.     Is there anything in the definition of --  
2 description of account 105 in this document which  
3 requires there to be a definite date of use?

4           A.     There is no specific statement about a  
5 definite date of use but there's a specific statement  
6 about the definite plan and my conclusion is that if  
7 there's no definite time that it's going to be in  
8 service then the plan is not definite.

9           Q.     That's based on interpretation, it's not  
10 anything that's within 105. Is that what you said?

11          A.     That's based on my reading of 105.

12          Q.     So even if the company represents that  
13 it has a definite plan for the property staff would  
14 exclude it if that plan did not include a definite  
15 date. Is that a correct statement?

16          A.     As I stated earlier, if there's no definite  
17 time that it's going to be in service, we cannot  
18 possibly say that the plan is definite. So there is a  
19 great degree of speculation involved if there's no  
20 date of in service.

21                 MR. VAN NOSTRAND: Your Honor, I move the  
22 admission of Exhibit 760.

23                 JUDGE HAENLE: 759 and 760.

24                 MR. VAN NOSTRAND: Just 760 for now.

25 JUDGE HAENLE: Have you any objection, Ms.

(MARTIN - CROSS BY VAN NOSTRAND)

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1 Brown.

2 MS. BROWN: No objection.

3 MR. ADAMS: No objection.

4 JUDGE HAENLE: Intervenors?

5 All right, 760 will be entered into the  
6 record.

7 (Admitted Exhibit 760.)

8 Q. Turning to your items in group C, staff is  
9 proposing to exclude these on the basis of a policy  
10 that property should not be held for more than 20  
11 years; is that correct?

12 A. Yes. Possibly maybe less than 20 years.

13 Q. And you're asking in this proceeding that's  
14 the Commission enunciate a policy of a 20-year maximum  
15 holding period for properties in this category; is  
16 that right?

17 A. Yes. I should have said a statement that  
18 20 or less years.

19 Q. And that's what you indicated in your  
20 response to Exhibit 759 that no previous Commission  
21 order has established a specific policy on the rate  
22 treatment of this account; is that right?

23 A. As far as this Commission is concerned, I  
24 believe there has been no specific benchmark period

25 for plants held in account 105.

(MARTIN - CROSS BY VAN NOSTRAND)

2729

1 Q. And the effect of your adjustment is to  
2 apply this newly enunciated policy retroactively to  
3 exclude plant currently held in company's rate base;  
4 is that right?

5 A. Yes, and also prospectively.

6 Q. And you would agree the company has not  
7 been given an opportunity to change its method of  
8 handling this property in light of the new policy  
9 which you're having the Commission enunciate here?

10 A. Yes, because obviously 20 years, that's a  
11 long time already and to consider it as good planning  
12 for the company is questionable and it's not fair to  
13 the ratepayers.

14 Q. In your response to data request 4052,  
15 Exhibit 759 indicates that the Pennsylvania Commission  
16 has a policy of limiting the holding period to ten  
17 years; is that right?

18 A. Yes.

19 Q. And you cite the American Water Company  
20 decision, that proposition?

21 A. Yeah. That was the decision in case under  
22 a docket dated October 21, 1988 involving Pennsylvania  
23 PUC versus Pennsylvania American Water Company. The  
24 finding is that real estate owned not be developed

25 -- which might not be developed by the utility in the

(MARTIN - CROSS BY VAN NOSTRAND)

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1 next ten years may not be included in the utility's  
2 rate base.

3 Q. And doesn't the Commission in that decision  
4 also indicate that AFUDC will be allowed on it so that  
5 even if a property was held longer than ten years  
6 if that property is ultimately included in rate base  
7 the carrying costs would be recovered?

8 A. Yes. I might want to point out in my  
9 response that these are analogous cases and does not  
10 exactly mirror the recommendation that I am proposing.

11 Q. You're not proposing that AFUDC be allowed  
12 in the case of property held longer than 10 years or  
13 20 years hoping that it goes into rate base, are you?

14 A. I am not.

15 Q. Turning to your items in group D, I take it  
16 in your testimony that you believe these plans are  
17 rendered indefinite due to specific circumstances; is  
18 that correct?

19 A. That is correct.

20 Q. And these are set forth in the very last  
21 page of your Exhibit 754?

22 A. Yes.

23 Q. And the first item, the Lakeside switching  
24 station, the description discusses permitting

25 problems; is that correct?

(MARTIN - CROSS BY VAN NOSTRAND)

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1           A.     It's not only permitting but other  
2 circumstances involving this property. I noted there  
3 that expected service dates have been revised five  
4 times. Was originally booked in 1982 and the original  
5 expected to be in service date was 1987. So it  
6 appears to me that this project is speculated and the  
7 plan is not definite.

8           Q.     But there was a definite time stated in  
9 that time it had to be slipped because of  
10 complications in actually permitting the substation;  
11 is that right?

12          A.     Yes.

13          Q.     And the same is more or less true of the  
14 second one, the Moorlands switching station which  
15 refers to an ordinance having delayed the permitting?

16          A.     Yes, and the delay, it says that from the  
17 information received from the company the permitting  
18 will not be until 1984 or beyond. I think that's  
19 obviously not definite.

20                   JUDGE HAENLE: Remember that you're going  
21 to need to spell the names of these plants for the  
22 reporter. Moorlands is what.

23                   MR. VAN NOSTRAND: M O O R L A N D S.

24          Q.     Third item there is the Novelty Hill

25 switching station and the description there indicates

(MARTIN - CROSS BY VAN NOSTRAND)

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1 that that was projected for 1991 but the project could  
2 not be developed in 1992 as anticipated because of  
3 permitting problems as well; is that right?

4 A. Yes. So even if the company wants to build  
5 a plant if the people living around that area do not  
6 want it, and if they are against their wishes then I  
7 think the plan will not be definitely pursued.

8 Q. So as to these four items in your group D,  
9 even though the company has a definite plan for  
10 developing the properties it's staff's view that  
11 complications in the permitting process can make it  
12 indefinite enough so that the plant should not be in  
13 the group held for future use?

14 A. Yes, when the circumstances make the plan  
15 indefinite.

16 Q. Are you aware of any decisions from other  
17 jurisdictions or interpretations of account 105 which  
18 support this treatment of the term definite?

19 A. Subsequent to the submission of my response  
20 to the data request 4052, now marked as Exhibit 759, I  
21 received additional case in Wyoming. This involves  
22 power and light company involving Utah Power and Light  
23 Company and plant held for future use was disallowed  
24 because the evidence requires exclusion from the rate



25 base of plant held for future use which has a remote

(MARTIN - CROSS BY VAN NOSTRAND)

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1 unspecified time for utility station and utility

2 service. That was the finding in that case.

3 Q. And did that have to do with complications

4 in the permitting process making a plan indefinite?

5 A. Well, if you don't know when you're going

6 to get a permit or when you don't know you're going to

7 be able to pursue your plan then the plant is not

8 definite.

9 MR. VAN NOSTRAND: Next record requisition

10 if I could get a copy of that decision or else either

11 as an update.

12 JUDGE HAENLE: That will be 582.

13 (Record Requisition 582.)

14 MR. VAN NOSTRAND: Also move the admission

15 of Exhibit 759.

16 MS. BROWN: No objection.

17 MR. ADAMS: No objection.

18 MR. FURUTA: No objection.

19 JUDGE HAENLE: 759 will be entered.

20 (Admitted Exhibit 759.)

21 Q. Turn for a moment to the adjustment you

22 have for outside services employee. In particular the

23 item discussed on line 17 regarding costs incurred for

24 participants in the Colstrip project. Do you see

25 that?

(MARTIN - CROSS BY VAN NOSTRAND)

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1 A. Yes.

2 Q. And according to your definition this  
3 relates or according to the description in your  
4 testimony this relates to a suit filed to prevent the  
5 taxation of a BPA transmission line by the state of  
6 Montana; is that correct?

7 A. Yes.

8 Q. And in response to a data request  
9 indicating the basis for excluding this item you cited  
10 two authorities; is that correct? If I could refer  
11 you to response to company data request 4053. One was  
12 a description of account 426.4 which refers to  
13 expenditures for the purpose of influencing public  
14 opinion with respect to possible adoption of new  
15 referenda, legislation or ordinances; is that correct?

16 A. Yes.

17 Q. Other reference you cited was the  
18 Commission's regulation 480-100-032 which refers to  
19 expenses associated with political information or  
20 political education activity. Is that a fair  
21 statement?

22 A. Yes.

23 Q. Did you review the circumstances of the  
24 particular lawsuit which this cost relates to?

25           A.     I based my judgment based on the

(MARTIN - CROSS BY VAN NOSTRAND)

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1     information provided to me in data request and  
2     basically the information that was provided is the  
3     information that I stated in my testimony.

4           Q.     And doesn't this lawsuit concern whether  
5     the state of Montana can tax a transmission line?

6           A.     That is something that I can accept subject  
7     to check.

8           Q.     And if it has to do with taxing the  
9     transmission line, can you also accept subject to  
10    check that the effect of the tax would be to increase  
11    the cost of power from the company's Colstrip project?  
12    Would that be reasonable?

13           MS. BROWN:  I am going to object to this.  
14    The witness has already testified that he made his  
15    conclusions based on his review of data provided by  
16    the company.  He is not intimately familiarized with  
17    the law and how is he going to check whether or not  
18    the result of the tax will result in increased cost of  
19    power.

20           JUDGE HAENLE:  The question then is how  
21    would the witness if he is accepting the subject to  
22    check be able to check that?

23           MR. VAN NOSTRAND:  Well, the company's  
24    power supply work papers certainly indicate how

25 transmission costs for transmitting the Colstrip power

(MARTIN - CROSS BY VAN NOSTRAND)

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1 through Puget's service territory are recovered in  
2 rates.

3 JUDGE HAENLE: Does that answer the  
4 question, Mr. Van Nostrand?

5 MR. VAN NOSTRAND: It certainly can be  
6 verified, your Honor.

7 JUDGE HAENLE: The question is how would it  
8 be verified?

9 MR. VAN NOSTRAND: The company's power  
10 supply work papers, your Honor.

11 JUDGE HAENLE: Ms. Brown.

12 MS. BROWN: It seems to me that if the  
13 company wants to get this information in regarding  
14 the nature of the suit the company can do so in its  
15 rebuttal.

16 JUDGE HAENLE: It's my understanding what  
17 the company is trying to do is determine whether this  
18 case that's been cited by Mr. Martin actually applies  
19 or not. Now if it's been cited by Mr. Martin, it  
20 seems to me he should stand cross-examination on its  
21 applicability to the extent he knows it. So I will  
22 overrule the objection.

23 THE WITNESS: Is there a question for me?

24 JUDGE HAENLE: There was, I don't recall.

25 Q. I believe it related to the effect of the

(MARTIN - CROSS BY VAN NOSTRAND)

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1 tax and whether or not if the tax were allowed to be  
2 imposed it would affect the cost of power from the  
3 company's Colstrip project?

4 A. Under the theoretical assumption that  
5 there's an additional tax and that tax is going to be  
6 passed on to the company, then logically the cost to  
7 the company will increase. But the purpose of my  
8 testimony here is that the certain cost, legal cost,  
9 were incurred by the company to attempt to defeat this  
10 type of legislation, which I think falls under the  
11 category of lobbying. So I am making this adjustment  
12 under that basis.

13 Q. It's your understanding given those  
14 authorities that you cited that if the company  
15 challenged the legality of a tax in court that that  
16 amounts to lobbying and political activities?

17 A. Yes.

18 Q. Just a few more questions regarding the  
19 last page of your testimony regarding the PRAM  
20 evaluation.

21 MR. VAN NOSTRAND: Like to get most of this  
22 taken care of through data requests, your Honor. At  
23 the top of each page it has response to company data  
24 request.

25 JUDGE HAENLE: I will mark the numbers as  
(MARTIN - CROSS BY VAN NOSTRAND) 2738

1 follows:

2 761 for identification, data request 4055.

3 762 for identification, 4056.

4 763 for identification, 4057.

5 764 for identification, 4060.

6 And 765 for identification 4124.

7 (Marked Exhibits 761 through 765.)

8 Q. Mr. Martin , do you have before you  
9 Exhibits 761 through 765?

10 A. Yes, I do.

11 Q. Do you recognize these as your responses to  
12 company data requests regarding various issues in your  
13 testimony concerning PRAM evaluation?

14 A. Yes.

15 MR. VAN NOSTRAND: Your Honor, I move the  
16 admission of 761 through 765.

17 MS. BROWN: No objection.

18 MR. ADAMS: No objection.

19 JUDGE HAENLE: Intervenors.

20 All right. 761 through 765 will be entered  
21 into the record.

22 (Admitted Exhibits 761 through 765.)

23 Q. Your testimony discusses a staff proposal  
24 regarding a different allocation of costs between base

25 and resource?

(MARTIN - CROSS BY VAN NOSTRAND)

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1 A. Yes. And the proposal is identical to what  
2 was proposed in the initial PRAM decoupling case.

3 Q. Can you identify what the specific  
4 recommendations are regarding the categories of costs  
5 that would be moved under your proposal?

6 A. Yes. Under the staff's proposal we propose  
7 that all costs that are subjected to the production  
8 factor and the abandoned resource acquisition cost  
9 will also be classified as part of the resource cost  
10 category.

11 Q. Your testimony identifies at the top of  
12 page 41 cost elements adjusted by the production  
13 factor and you identify adjustment 2.02 power costs,  
14 2.03, sale resale secondary, and 2.28 production  
15 adjustment; is that right?

16 A. Yes. The amortization costs of abandoned  
17 or aborted projects is stated the next paragraph.

18 Q. Where is that quantified?

19 A. It's not quantified in my testimony or  
20 exhibits.

21 Q. Is there any place where the base cost per  
22 customer resulting from staff proposed allocation of  
23 costs between base and resource, is there any place  
24 where that's identified or calculated?

25 A. I'm sorry, I misspoke. The classification  
(MARTIN - CROSS BY VAN NOSTRAND) 2740

1 of these is found in Exhibit 750 but it will take some  
2 analysis to specifically single out those amounts from  
3 this exhibit, or in other words that the information  
4 is contained in Exhibit 750, but it takes some  
5 analysis to pull them out from that exhibit.

6 Q. As compared to the company's base cost per  
7 customer which it is proposing, what is the staff  
8 number for base costs per customer under your proposed  
9 allocation of costs between base and resource?

10 A. I have not calculated that. We will be  
11 presenting that number in our PRAM 3 case.

12 Q. And it's nowhere on the record in this  
13 proceeding?

14 A. As I have said I have not calculated that.

15 Q. And I take it from your response from  
16 Exhibit 763 that staff has not done any financial  
17 forecast to determine the effect on the company's  
18 earnings of adopting the allocation between base and  
19 resource which your testimony proposes; is that  
20 correct?

21 A. Yes. We don't have the resources or  
22 capability to do the financial modeling that the  
23 company can.

24 MR. VAN NOSTRAND: No further questions,



25 your Honor.

(MARTIN - CROSS BY VAN NOSTRAND)

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1 JUDGE HAENLE: Have you questions, Mr.  
2 Bennett.

3 MR. BENNETT: Yes.

4

5 CROSS-EXAMINATION

6 BY MR. BENNETT:

7 Q. Mr. Martin, I'm Barry Bennett representing  
8 Bonneville Power Administration and I just have a  
9 couple of questions on the residential exchange  
10 account. In response to a question from Mr. Van  
11 Nostrand you said that under the staff proposal for  
12 treatment of undistributed balance in the exchange  
13 account only the residential and small farm customers  
14 would receive interest benefits; is that correct?

15 A. That is correct.

16 Q. Can you point me to the place in your  
17 testimony where I can determine that only residential  
18 and small farm customers would be receiving the  
19 interest benefits?

20 A. I believe that's discussed in my testimony  
21 and I've said that the direct accrual will be a  
22 recognition of interest expense and that interest  
23 expense is going to be recovered as a general cost of  
24 service.

25 Q. Right. Excuse me.

(MARTIN - CROSS BY BENNETT)

2742

1 A. And that amount is going to be the amount  
2 that would be accrued to the undistributed balance of  
3 the residential exchange account.

4 Q. My question was where in your testimony I  
5 can specifically determine that only the residential  
6 and small farm customers will receive the interest  
7 benefits. I would like you to point me to the place  
8 in your testimony where I can specifically determine  
9 that.

10 A. I believe it's implicit on page 23. I  
11 stated in my testimony on page 23, line 5 to include  
12 as operating expense the interest on the average  
13 account balance rate equal to the short term debt rate  
14 proposed by staff. I think when you say a rate equal  
15 to the short term debt rate applied to the average  
16 account balance -- and I am referring to the  
17 residential exchange account balance -- then that  
18 interest is going to be accrued in that balance and  
19 that account is created specifically for the purpose  
20 of tracking the credits going to the residential and  
21 small farm customers.

22 Q. Would the customers receive these interest  
23 benefits through a reduction in revenue requirement?

24 A. The residential ratepayers, did you say?

25 Q. Well, whoever is getting them, would the

(MARTIN - CROSS BY BENNETT)

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1 ratepayers, whoever it is is getting the interest  
2 benefits -- let me reference you that same page, you  
3 say that the account balances will be a direct rate  
4 base reduction. Is it correct to state from that that  
5 the interest benefits will be passed through really  
6 through a reduction in revenue requirement?

7 A. No.

8 Q. It's not correct?

9 A. It's not correct.

10 Q. Why is that incorrect?

11 A. Because the interest benefits are accrued  
12 on the undistributed residential exchange account  
13 balance and that's the source of the benefits that's  
14 going to be passed through to the ratepayers -- I  
15 mean, the residential and small farm customers.

16 Q. Are they going to be passed through to  
17 schedule 94?

18 A. Yes.

19 Q. So it is your understanding that only  
20 residential and small farm customers are entitled to  
21 benefits under the residential exchange program?

22 A. Under my proposal, yes.

23 Q. Well, right. But under the residential --  
24 I asked under the residential exchange program?

25 A. Yes.

(MARTIN - CROSS BY BENNETT)

2744

1 Q. Okay. Let me ask a different question. On  
2 line 6 in your proposal, line 6, page 23, you refer to  
3 the average account balance. That's the amount on  
4 which interest will accrue; is that correct?

5 A. Yes.

6 Q. And that's the average of the monthly  
7 averages of the account balances during the test  
8 period, correct?

9 A. It can be calculated on that basis or it  
10 can be calculated on a monthly average balance basis,  
11 but the total amount will be the same.

12 Q. How is it calculated in your proposal? How  
13 do you propose to calculate it?

14 A. It depends on the company on how often do  
15 they want to accrue on the books.

16 Q. Well, are you not proposing a specific  
17 number to be used that's based on the average of  
18 monthly averages test period?

19 A. For these -- for the rate case, yes. It's  
20 based on the average of monthly average, but as I've  
21 said, if you do it on a monthly basis you arrive at  
22 the same result.

23 Q. If you do what on a monthly basis?

24 A. Accrue interest or calculate the interest

25 on a monthly basis.

(MARTIN - CROSS BY BENNETT)

2745

1 Q. During the rate period?

2 A. Test year.

3 Q. Okay. But the exchanges in the actual  
4 balance during the rate period do not figure into the  
5 calculation at all, do they, under your proposal?  
6 Interest won't be based on exchanges in actual  
7 balances during the rate period, will they?

8 A. It will be based on whatever the actual  
9 balance is in the residential exchange account.

10 Q. From the test period?

11 A. Yeah -- no. The balance during test  
12 period. What is being done during test period is just  
13 to capture that phenomenon. Whatever the actual  
14 balance during the account -- during the rate year or  
15 any year, any period subsequent to the test year, that  
16 will be the basis on which the interest is going to be  
17 applied or calculated.

18 Q. So you're saying you would track the  
19 monthly exchanges in actual balances during the rate  
20 year to accrue interest? I'm not sure I'm following  
21 what you're saying.

22 A. Let me put it this way. If credits are  
23 loaned to the company, an amount, and the company pays  
24 that amount on some predetermined term, then the

25 company will be paying interest on whatever the  
(MARTIN - CROSS BY BENNETT)

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1 balance of that is until it pays off its debt.

2 Q. Correct.

3 A. And that's going to be the same basis.

4 What's being captured in the test year is that there  
5 is this debt and there is this interest and that  
6 interest will accrue on that balance of the debt.

7 Q. Let me ask you this: If the customers  
8 won't be getting the interest through reduced revenue  
9 requirement, how does the direct rate base reduction  
10 fit into your proposal?

11 A. The direct rate base reduction deals with  
12 the treatment of how the funds are going to be used by  
13 the company. It does not deal with the interest on  
14 those accounts. So once the company receives the  
15 funds then I don't think it is a concern of BPA on  
16 how the company used the funds. But sometimes I get  
17 confused with the exact position of BPA because there  
18 are certain instances where I can glean that BPA wants  
19 those funds will be specifically used for the  
20 residential and small farm customers, but then again  
21 the issue or concern of BPA is the interest being  
22 passed on to the qualifying ratepayers. For  
23 residential and small farm customers.

24 MR. BENNETT: No further questions.

25 JUDGE HAENLE: Mr. Trincherro.

(MARTIN - CROSS BY BENNETT)

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1 MR. TRINCHERO: Check my notes for a  
2 second. No questions.

3 JUDGE HAENLE: Mr. Furuta.

4 MR. FURUTA: Yes, I do.

5

6 CROSS-EXAMINATION

7 BY MR. FURUTA:

8 Q. Good afternoon, Mr. Martin.

9 A. Good afternoon, Counsel.

10 Q. Were you present in the hearing room when I  
11 explored with Mr. Nguyen about the hypothetical  
12 regarding plant held in future use and my question was  
13 if ratepayers have paid Puget more in return on  
14 property held for future use than the company realizes  
15 in gain on disposition of that property, if there  
16 might be -- what might be an appropriate treatment of  
17 that situation? Do you recall that question?

18 A. Yes.

19 Q. Do you have an opinion on that matter?

20 A. I think that's a situation that places the  
21 ratepayers at great disadvantage and my proposal has  
22 tried to prevent that situation from occurring.

23 Q. This is the proposal --

24 A. To put a benchmark period for the time

25 horizon on which the ratepayers are required to pay a

(MARTIN - CROSS BY FURUTA)

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1 return on the plant that's not yet in service.

2 Q. But is it conceivable even under the terms  
3 of your benchmark proposal that this situation placing  
4 ratepayers in a disadvantage might still occur?

5 A. Yes, it might still occur. I think that  
6 there are certain examples in the historical  
7 transactions that losses were incurred in the  
8 disposition of plant held for future use or some  
9 properties disposed.

10 Q. And that is still conceivable even under  
11 the terms that you're recommending, that still might  
12 happen?

13 A. Yes, it might be possible.

14 Q. Would you recognize that there may be  
15 further methods of treatment that are fair and  
16 appropriate beyond which you recommended that might be  
17 appropriate to prevent that situation from happening  
18 or at least treating -- that would treat ratepayers in  
19 a more equitable manner?

20 A. Yeah. I think my proposal is basically  
21 very lenient because it involves a lengthy period of  
22 20 years. That's why the lesser the benchmark period  
23 I think the more protected the ratepayer is going to  
24 be. Taking the example of taking the extreme case of



25 we do not put plant in service or in plant held for

(MARTIN - CROSS BY FURUTA)

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1 future use any plant that's not going to be in service  
2 in one year, then I think the situation that you're  
3 describing is very unlikely to happen.

4 Q. Thank you.

5 MR. FURUTA: No further questions.

6 JUDGE HAENLE: Mr. Adams.

7

8 CROSS-EXAMINATION

9 BY MR. ADAMS:

10 Q. Mr. Martin, I would like to start off  
11 asking you a few questions concerning your section  
12 entitled the Environmental Remediation starting at  
13 page 13 of your testimony. First off, you've listed  
14 some of the sort of general categories of these costs.  
15 Can you tell me approximately when the events took  
16 place that gave rise to these costs? I'm asking, are  
17 these things that have happened in some cases up to  
18 10, 15, 20 years ago and which now are going to have  
19 to be remedied because of environmental requirement?

20 A. The actual events that caused the situation  
21 that's being dealt with right now, I think those  
22 happened many years ago, yeah. Could be more than ten  
23 years.

24 Q. I think I saw categories that included

25 PCBs, asbestos cleanups and I think was it garage

(MARTIN - CROSS BY ADAMS)

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1 cleanups?

2 A. Those are more recent, I guess, but what I  
3 am referring to as those that happened for a long time  
4 ago like the contamination in the Electron site, the  
5 remediation of things in the super fund sites. Those  
6 happened a long time ago.

7 Q. Reading your testimony does not appear to  
8 me that staff did any kind of prudence evaluation of  
9 the company's actions at those past historical times;  
10 is that correct? You didn't go back and try and  
11 determine whether what the company did ten years ago  
12 was reasonable or not?

13 A. I didn't do that to determine what really  
14 happened during those years.

15 Q. Am I correct that staff is including the  
16 full amount of the remediation costs in its  
17 recommendation here, in other words, it's not  
18 splitting those costs between ratepayers and  
19 stockholders as in the instance of abandoned plants or  
20 something of that sort?

21 A. That is correct.

22 Q. Would you agree that for an unregulated  
23 business in a competitive environment that it would  
24 not be able to simply go back -- simply increase its

25 prices to its existing customers for past occurrences?

(MARTIN - CROSS BY ADAMS)

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1 A. That is correct.

2 Q. I want to jump, actually go back in your  
3 testimony or to the front of your testimony and page  
4 4, lines 11 to 14, I just want to understand, get a  
5 general overview in terms of the difference between  
6 the bottom line recommendations between the company's  
7 case and the staff's case. When you at line 12 say  
8 that the revenue level, I think that you're  
9 recommending, is 101,093,476, that's the staff  
10 recommended additional revenue requirement, is that  
11 correct, over the last general rate case?

12 A. Yes.

13 Q. If I was to compare that with what the  
14 company is requesting, what figure is the company  
15 asking for above the last general rate case?

16 A. A rough number would be 215 million.

17 Q. Do I take that approximately 117 million  
18 and add that in addition to your figure?

19 A. Yes.

20 JUDGE HAENLE: Is that 215 or 250?

21 THE WITNESS: 215.

22 Q. So when you say at line 14 that you're  
23 recommending effectively a reduction of 1,663,450,  
24 that reduction is not to the levels established in the

25 last general rate case but that is compared with

(MARTIN - CROSS BY ADAMS)

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1 current rates, is that correct, which includes the

2 PRAM, the current PRAM filings?

3 A. Yes. Or another way of describing it is

4 here is \$101 million worth of increase from the last

5 general rate case and since there's already in place

6 rates in the tariff pages that will cover

7 approximately the annualized impact or there's already

8 rates in place that will cover portion of this

9 increase and the net effect is \$1.6 million more over

10 rates, so this is what this is portraying.

11 Q. Would you then characterize the PRAM rates

12 that are in effect as temporary rates?

13 A. Yes, they are by nature.

14 Q. When you give this figure of the reduction

15 of \$1.6 million you in I guess, though, are

16 recommending that a number of the expenses that the

17 company is seeking here basically be deferred to a

18 later time frame, correct?

19 A. There's a number of adjustments that defers

20 costs until they're actually incurred.

21 Q. And can I, then, effectively add those

22 deferred amounts to this 1.6 million to kind of get

23 where to what staff is recommending not for rates

24 right now but for rates when the time is right?

25           A.     Can I clarify?  Deferred amounts, you mean

(MARTIN - CROSS BY ADAMS)

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1     deferred under the PRAM or deferred under the general  
2     rate case?

3           Q.     There are issues, for instance, like new  
4     resources coming on and when is the appropriate time  
5     to recognize those costs, correct?

6           A.     Yes.

7           Q.     That's what I really meant by -- I didn't  
8     phrase it very succinctly.  I don't mean deferral  
9     under the PRAM but items which are not timely to be  
10    collected now in this general rate case; isn't that  
11    correct?

12          A.     Yes.

13          Q.     Isn't there approximately some \$47 million  
14    of costs that the staff is indicating can be collected  
15    but shouldn't be collected now?

16          A.     With regards to the specific amounts maybe  
17    Mr. Moast will be in a better position to give more  
18    detailed or more accurate numbers but my understanding  
19    there are certain projects those costs are not being  
20    recognized now because they are not within the test  
21    year and they will be recognized when they do come on  
22    line or when they get -- when the costs get actually  
23    incurred and those will be captured in the PRAM.

24          Q.     Let's turn now to page 21 of your

25 testimony, and frankly, each time I listen to the

(MARTIN - CROSS BY ADAMS)

2754

1 questions and answers and so forth on the residential  
2 exchange I get a little more confused. Am I correct  
3 that the proposal as you understand it for Puget in  
4 this case, and I gather that Bonneville concurs in  
5 this approach, would put the balances owed to the  
6 residential customer and consider them in working  
7 capital? Is that where that amount shows up?

8 A. Basically the impact is what you mentioned  
9 that by adding the undistributed balance of the  
10 residential exchange as short term debt or invested  
11 capital you are in fact increasing the  
12 investor-supplied working capital allowance which is  
13 going to be -- most part of it will be included as  
14 part of rate base so in essence you will be increasing  
15 rate base by that amount.

16 Q. That's what I wanted to get to. If you're  
17 increasing rate base by that amount in terms of a  
18 calculation of what return the company can earn on  
19 that amount, under staff's presentation it could  
20 earn at 8.9 percent and at the company's suggested  
21 rate of return a higher rate, correct?

22 A. Yes.

23 Q. And this is capital that interest accrues  
24 on only at 4 percent, which is a short term rate?

25 A. Yes.

(MARTIN - CROSS BY ADAMS)

2755

1 Q. And wouldn't it be correct that under the  
2 company approach if it was put into working capital  
3 that actually all customers would end up paying some  
4 of those costs?

5 A. Yes, at the authorized rate of return.

6 Q. So this is sort of the flip side of before  
7 there were concerns about residential customers, other  
8 customers getting the benefits of the exchange; here  
9 other customers conceivably could get some of the  
10 costs of the exchange?

11 A. Yes, through the extended additional  
12 working capital allowance will get added to the rate  
13 base.

14 Q. I don't want to go into the details of your  
15 presentation, but you believe that the approach staff  
16 is taking here would cure that problem so that  
17 residential customers would get both the benefits of  
18 any interest and if you will, the negative side of if  
19 the company pays out too much; is that correct?

20 A. Yes. My proposal actually equalizes the  
21 cost to the ratepayers and the benefits accruing to  
22 the residential and small farm customers.

23 Q. And so other customers who cannot take  
24 advantage of the exchange would not be impacted one

25 way or another?

(MARTIN - CROSS BY ADAMS)

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1 A. The interest benefits will accrue directly  
2 to those qualified customers while the funds that's  
3 available to the company will be used solely for  
4 operating purposes.

5 Q. But again, other customers who cannot  
6 benefit from the exchange would not be getting any  
7 benefits nor would they be paying any costs?

8 A. They would be paying the costs and they  
9 would be paying on getting -- getting some benefits.

10 Q. I said nonqualifying, that means  
11 nonresidential?

12 A. Yes. To the extent that the interest  
13 expenses it's going to be paid by general  
14 body of ratepayers and to the extent that the rate  
15 base reduction is being borne or rate base -- the  
16 return on rate base is being paid by everybody then  
17 the benefit of that rate base reduction is going to be  
18 matched by the cost that's being collected from the  
19 general body of ratepayers. However, that same  
20 interest which is accrued directly on the  
21 undistributed balance, that belongs solely to those  
22 qualifying residential and small farm customers.

23 Q. So isn't the answer -- isn't it correct  
24 then anyone who does not qualify under the residential



25 and small farm exchange would not be impacted either  
(MARTIN - CROSS BY ADAMS)

2757

1 positively or negatively by your treatment, by your  
2 suggested treatment?

3 A. It's kind of hard to say that -- there is  
4 an impact. As long as there are these funds that's  
5 available to the company for use by the company while  
6 it's not distributed to the residential and small farm  
7 customers then all I am making sure of is that those  
8 funds if we ask the general body of ratepayers to bear  
9 the cost of those funds that they get the benefit of  
10 those funds. In the extreme case is my third proposal  
11 where we take out this BPA exchange balance out from  
12 this calculation where everybody has no -- as far as  
13 the regulated portion will not be impacted at all.  
14 Maybe that's what you mean by no impact.

15 So what I did in the third proposal, in the  
16 last proposal is to have the funds directly allocated  
17 to the nonoperating portion and then it's up to the  
18 company to pay for the use of that funds which under  
19 the assumption is to be used for nonoperating  
20 purposes, then it becomes a deal directly between BPA  
21 or the residential and small farm customers as  
22 creditors or short term creditors and the company as  
23 users of the funds being lent for time being. So all  
24 the residential customers, commercial and everybody

25 else will not be brought in the picture under that

(MARTIN - CROSS BY ADAMS)

2758

1 proposal.

2 Q. Mr. Martin, I want to change to your  
3 testimony concerning property held for future use and  
4 basically the testimony that begins at the bottom of  
5 page 33 and goes for several pages thereafter. First  
6 off, I just want to make sure my understanding is  
7 correct that in terms of property held for future use  
8 that is included in rates, that is simply included as  
9 part of the rate base of the company; is that correct?

10 A. That is correct.

11 Q. That's true even though technically that  
12 property is not in service serving customers at that  
13 time; is that correct?

14 A. It's part of the rate base and since  
15 they're attendant property taxes then those property  
16 taxes will be included as part of the operating  
17 expenses.

18 Q. That property even though it is included in  
19 both the expense side and the rate base side is not  
20 serving customers directly at that moment in time?

21 A. Yes.

22 Q. Now, looking at page 35 at your group B and  
23 your group C, basically I was kind of wondering how  
24 can you have a group C that doesn't already fail

25 because of the group B categorization that you've

(MARTIN - CROSS BY ADAMS)

2759

1 made? In other words, if you've held a property for  
2 20 years are there properties being held currently by  
3 the company for 20 years that have a determinable  
4 service date which is your criteria for group B?

5 A. 754, if you look at column G it says note  
6 B, you can see that the properties -- there are some  
7 properties falling under that category that might be  
8 less than 20 years sitting in the plant held for  
9 future use account. But since we don't know when is  
10 the in service date that's why it's falling under this  
11 category.

12 Q. Would you object to a criteria for group C  
13 of less than 20 years being something like 10 years?

14 A. No, I wouldn't. As I have said in my  
15 testimony 20 or less. Whatever might be the preferred  
16 criteria, depending on how soon or how stringent the  
17 criteria is going to be.

18 Q. In your review of property held for future  
19 use, what is sort of the general outside limit for the  
20 property going into service under sort of a planned  
21 addition? I mean, I gather the company has plans for  
22 various pieces of property which it may put into  
23 service next year or the year after or whatever; when  
24 you look at the properties that you have not excluded,

25 what are the general time limits for putting those

(MARTIN - CROSS BY ADAMS)

2760

1 properties into service?

2 A. I don't see exact pattern or time limits  
3 with regards to when properties are going to be in  
4 service because sometimes or in many cases the  
5 original in service date are changed from not only  
6 once or twice or many times.

7 Q. I gather if the company had property and  
8 said we have property and going to put it in service  
9 in the year 2010 would the staff be supporting its  
10 inclusion in rates today?

11 A. When I was asked about a question of 20  
12 years I mentioned that that would be applicable  
13 retroactively and prospective basis. So if the  
14 company plans on putting in service in the year 2050  
15 then that's beyond the 20 years benchmark, then they  
16 shouldn't be booking it in account 105.

17 Q. You said you wouldn't oppose something less  
18 than 20 years. Do you believe a 10-year limit would  
19 be reasonable?

20 A. Could be reasonable, yes.

21 Q. Sorry?

22 A. It could be.

23 Q. Well, I recognize it probably could be but  
24 I am asking you would you consider that a reasonable

25 recommendation?

(MARTIN - CROSS BY ADAMS)

2761

1 A. I didn't make a determination as to the  
2 reasonability of ten years but I think 20 years is  
3 fair, fair benchmark period.

4 Q. I want to move one question concerning the  
5 base/resource cost allocation division that you have  
6 testified to, although I would not characterize your  
7 testimony here and that of Mr. Lazar several years ago  
8 I think in the original decoupling proposal as being  
9 the same, would you agree that they are generally  
10 similar in nature?

11 A. Yes, generally speaking. But the impact of  
12 Mr. Lazar's proposal at the time is to move more costs  
13 from the base to resource.

14 Q. Do you recall which specific accounts or  
15 types of costs that he proposed be moved to resource  
16 costs and you did not propose?

17 MR. VAN NOSTRAND: Objection, relevance.

18 MR. ADAMS: Your Honor, this was a  
19 recommendation. Staff has indicated that their  
20 recommendation in this proceeding is similar and not  
21 the same recommendation that was made -- I guess it  
22 was two-and-a-half years ago -- in the decoupling  
23 docket. I want to find out what are the differences  
24 between what staff is proposing here and what public

25 counsel and Mr. Lazar proposed then.

(MARTIN - CROSS BY ADAMS)

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1 JUDGE HAENLE: Why? To demonstrate what?

2 MR. ADAMS: Like to find out what accounts  
3 of a resource nature have not been moved to the  
4 resource category under staff's recommendation. You  
5 may recall Mr. Lazar's testimony dealt with  
6 similarities to the ASC methodology in defining  
7 resources by that methodology. Staff took a somewhat  
8 different view and I am just trying to determine what  
9 general accounts would not be included in staff's  
10 recommendation.

11 JUDGE HAENLE: Overrule the objection and  
12 allow the witness to answer.

13 A. There's a lot of differences because  
14 basically the basis of Mr. Lazar's recommendation is  
15 on the allocation of qualifying costs under the ASC  
16 methodology and staff's proposal is based on total  
17 revenue requirement of these items subjected to the  
18 production factor, including return, equity and debt  
19 components, and the associated taxes, or in other  
20 words, just the total elements that will comprise  
21 the revenue requirement of the cost requirements  
22 subjected by the production factor and the unamortized  
23 -- amortization expense of the abandoned projects.

24 Q. Do you include transmission expenses?

25           A.     Only the transmission that's subject to the  
(MARTIN - CROSS BY ADAMS) 2763

1     production factor of the 500 KV.

2           Q.     One last question and this refers back to a  
3     question that was deferred to you by Mr. Elgin  
4     regarding FAS 71.  As I understood it was an exhibit  
5     put in by the company yesterday.  I don't have it  
6     right in front of me but as I understand the issue as  
7     to whether the application of FAS statement No. 71  
8     would stop or discontinue, I think is the word, if a  
9     determination has been made that PRAM is a change in  
10    the regulator's approach to setting rates from  
11    cost-based rate making to another form of regulation.  
12    And I believe that the staff's position in this case  
13    is that PRAM is not cost based.  Is it correct that  
14    the -- is it correct that with the operation of PRAM  
15    the regulator's approach to setting rates has changed  
16    for purposes of FAS 71?

17          A.     I think the regulator's intent or the  
18    intent of this Commission in setting rates has not  
19    changed.  The intention, and I think this is the  
20    applicable criteria under SFAS No. 571, paragraph 5  
21    where it says that the regulated rates are designed to  
22    recover the specific enterprises costs of providing  
23    the regulated services or products.  I think this  
24    criteria is still being met because right now we're

25 under a general rate case and we're making cost-based

(MARTIN - CROSS BY ADAMS)

2764

1 pricing. And the next three years we will be doing it  
2 again. But the staff's concern is we carry out this  
3 intention of setting rates designed to recover costs  
4 but in the interim during PRAM periods we do not make  
5 the necessary reconciliation which we normally do  
6 during general rate cases. So that's the main concern  
7 of staff. That's why we say it's not cost based  
8 because we do not make a redetermination whether the  
9 relationships that we established in this general  
10 relationships are still valued during these PRAM  
11 periods.

12 Q. So presumably at the end of this case  
13 rates will be cost-based but after two more PRAMs they  
14 will not be. The PRAM additions are not cost-based  
15 but the general rate cases are?

16 A. Yes.

17 JUDGE HAENLE: Commissioners, have you  
18 questions?

19 CHAIRMAN NELSON: No.

20 COMMISSIONER CASAD: Yes, I am going to  
21 have to get back to the residential exchange again  
22 much to everybody's regret, I am sure.

23

24

E X A M I N A T I O N



25 BY COMMISSIONER CASAD:

(MARTIN - EXAM BY COMMISSIONER CASAD)

2765

1 Q. I am going to try to do a little primer on  
2 the exchange and I will leave out some significant  
3 things I'm sure but I want to grasp what you're  
4 recommending. The exchange was established in order  
5 to afford small farm and residential customers of  
6 investor-owned utilities the ability to realize some  
7 of the benefits of the federal-based system. And it  
8 was established that ultimately funds would be made  
9 available or passed through to those customers of  
10 investor-owned utilities. My understanding is that  
11 Bonneville makes available the funds -- and I won't go  
12 into the transaction of selling the power or the  
13 supposed transaction -- ultimately funds are made  
14 available for the benefit of small farm and  
15 residential customers. And these funds have been  
16 apportioned to the working capital funds of the  
17 company. Am I correct so far, or been treated as  
18 working capital funds of the company?

19 A. They were treated -- before they were  
20 treated as zero cost capital. Bonneville raised the  
21 issue. Seeing as these funds were being accorded  
22 treatment as working capital benefits were flowing,  
23 the interest benefits, interest should accrue on these  
24 funds because these funds were being used by the

25 company as working capital and there's a question of  
(MARTIN - EXAM BY COMMISSIONER CASAD)

2766

1 whether others other than small farm and residential  
2 customers are getting the benefit of the use of these  
3 funds in that manner.

4 Q. And that the interest should accrue on the  
5 use of those funds which the company is using and that  
6 interest should be for the benefit of small farm and  
7 exchange customers?

8 A. Yes. Those interests should be for the  
9 benefit of those.

10 Q. So how have those -- the benefits of those  
11 funds which have been used as working capital by the  
12 company flow to through to the residential and small  
13 farm customers? That's been through schedule 94?

14 A. Yes.

15 Q. How exactly have they been flowed through  
16 schedule 94? It's not been through a reduction in  
17 rate base generally, has it?

18 A. Up until now there is no interest being  
19 accrued in those balances so the actual amount of  
20 benefits being flowed through schedule 94 is just the  
21 amount of credit taken by the company.

22 Q. And that's flowed to schedule 94 through a  
23 reduction in rates paid by those people taking service  
24 under schedule 94?

25 A. Yes.

(MARTIN - EXAM BY COMMISSIONER CASAD)

2767

1 Q. And their rates are reduced by the amount  
2 of the residential exchange benefits that are made  
3 available to the company?

4 A. Yes, because the credits are being flowed  
5 through through the load or through the actual  
6 consumption that they consume.

7 Q. There is a transition point then when those  
8 funds cease to become working capital and are in fact  
9 flowed through through a reduction in rates to that  
10 class of customers, is that correct?

11 A. When you say rates, meaning the bills?

12 Q. Yeah, the amount that they pay?

13 A. Yes. So in that case whenever those actual  
14 credits to the bills were made, then the balance of  
15 the exchange account will correspondingly decrease and  
16 the corresponding decrease will be a reduction of the  
17 funds available to the company for use on their  
18 operations.

19 Q. Is that done on a monthly basis or  
20 something of set periodic basis or just as the company  
21 sees fit to do it?

22 A. My understanding is the company bills and  
23 accounts for all of this on a monthly basis.

24 Q. So there's a true-up each month where all

25 of those funds which have effectively been transferred

(MARTIN - EXAM BY COMMISSIONER CASAD)

2768

1 to rate reductions or credits to schedule 94, there is  
2 an accompanying reduction in the working capital funds  
3 of the company to reflect that transfer?

4 A. It's an accounting exercise. Maybe it will  
5 be helpful if I give you an idea of how the company  
6 accounts for it. When the company bills BPA they will  
7 debit an accounts receivable and credit this  
8 residential exchange account, and at the same time  
9 during that same month, customers are being billed and  
10 in their bills are reflected the estimated -- the  
11 approved schedule 94 credit amount. So, based on the  
12 consumption, based on the billings during that period,  
13 the amount is charged against this credit account and  
14 the offset to the amount that's reflected in the  
15 revenues is mirrored in the production expense account  
16 or the purchased power account. So basically there's  
17 an upset to the actual revenues and the expenses right  
18 of the lower cost and the residential exchange account  
19 will reflect the net available balance to be  
20 distributed again the following period.

21 Q. If that's the case, then that appears to be  
22 a relatively direct pass-through of the benefits to  
23 the residential and small farm customers. At what  
24 point does the -- if there's been a monthly crediting

25 of those accounts at what point is the concern about

(MARTIN - EXAM BY COMMISSIONER CASAD)

2769

1 interest and the use of these funds as working capital  
2 of the company, at what point does that develop as an  
3 issue?

4 A. Because there's a timing difference. The  
5 tariff schedule 94 credit is a fixed amount until  
6 changed during the next filing so the credit is  
7 accruing every month based on actual transactions and  
8 what's being exchanged. So there's some timing  
9 differences and differences due to the estimates of  
10 the credit being passed or reflected in the tariff.  
11 To that extent there will be some balances -- as Mr.  
12 Van Nostrand mentioned earlier there will be changes  
13 in the balance.

14 Q. There will either be a credit or a debit,  
15 it could be either one?

16 A. Yes.

17 Q. What happens if it's a debit?

18 A. I think the BPA allows the company to  
19 accrue the timing difference cost or deduct from the  
20 balance later accrued interest expense.

21 Q. The amount plus interest?

22 A. To deduct it from the credit available when  
23 there's a credit forthcoming.

24 Q. And the resource of that has been true when

25 there's been a credit in the account?

(MARTIN - EXAM BY COMMISSIONER CASAD)

2770

1 A. Yes.

2 Q. And so now the object of the exercise  
3 is to afford similar treatment when there is a credit  
4 in the account as to when there have been a debit and  
5 that is to provide for an interest component to be  
6 established during that period?

7 A. And we see it being recorded in that  
8 account. That's the object of the direct accrual  
9 method.

10 Q. Schedule 94, when there's a readjustment  
11 or a true-up of these, then that rate schedule is  
12 altered to reflect the change, you embark on the  
13 process again and then during that interim period that  
14 you have either a debit or a credit in that account,  
15 which again, will be subject to this treatment at the  
16 end of the period?

17 A. Yes. So the object is -- I think it was an  
18 issue in the last couple of PRAMs that there should be  
19 pass through as soon as possible, but how soon is as  
20 soon as possible is I think an exercise that only the  
21 company can determine through their expertise in  
22 estimating how much is going to be the credit  
23 forthcoming during the following months.

24 Q. But that's somewhat impacted by the fact

25 that if interest is paid it becomes less material, the  
(MARTIN - EXAM BY COMMISSIONER CASAD) 2771

1 speed of the pass through, as long as the residential  
2 ratepayers are being made whole?

3 A. Yes.

4 Q. I think I understand but I still am a  
5 little bit at sea as to the treatment and the  
6 difference between the recommendations of the company  
7 and your recommendation. Now you indicated you had  
8 made three recommendations the last of which was to  
9 treat this separately rather than treat it as working  
10 capital and directly pass it through to customers. Is  
11 that not true?

12 A. The last portion it was to take it out --  
13 last recommendation is to take this BPA exchange  
14 credit totally apart from the general rate making  
15 process or from the regulated operations of the  
16 company.

17 Q. That's Bonneville's recommendation?

18 A. That's their intention, but I don't know by  
19 endorsing the company's method whether they are  
20 accomplishing that intention.

21 COMMISSIONER CASAD: Thank you.

22 JUDGE HAENLE: Commissioner?

23

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

25 BY COMMISSIONER HEMSTAD:

(MARTIN - EXAM BY COMMISSIONER HEMSTAD)

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1 Q. Well, if Commissioner Casad is a little bit  
2 at sea I'm not yet in the water. In that regard,  
3 forgive me if my questions seem to be rather simple or  
4 simplistic. I would like to come back to the Creston  
5 category in your testimony starting on 15 and 16 and  
6 the treatment of abandoned projects. Let's see. Is  
7 it your first recommendation that with respect to  
8 Creston that there be no recovery at all by the  
9 company? I am reading on page 20, "in regard to the  
10 amount to be recovered staff objects to inclusion of  
11 any AFUDC as part of a recoverable cost." First tell  
12 me what does AFUDC stand for?

13 A. It stands for allowance for funds used  
14 during construction. It's another term for that in  
15 common words is capitalized interest.

16 Q. So is it your first recommendation that  
17 they would recover nothing at all? You say there is  
18 no authority granted by this Commission allowing the  
19 company to accrue AFUDC on the incurred preliminary  
20 survey and presentation of costs?

21 A. Yes.

22 Q. So that's your preferred recommendation  
23 that the company absorb the entire or that the  
24 shareholders absorb the entire cost?



25           A.     For the AFUDC portion of the cost.  So

(MARTIN - EXAM BY COMMISSIONER HEMSTAD)

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1   basically assuming that here's the total cost and here  
2   is the piece that's been capitalized, I am just  
3   proposing that the total cost will be recovered but  
4   not the interest on those costs.

5           Q.     I see, not the interests on the costs.

6   Next page you go on to say, "if recovery is allowed  
7   it's inappropriate to include the unamortized balance  
8   in the company's rate base."  So at that point you  
9   would say -- when you're saying if recovery is allowed  
10  that's for the capital costs then incurred or are you  
11  still talking only about interest?

12          A.     Basically it's following through the  
13  initial recommendation that no AFUDC should be allowed  
14  and currently there should be no interest being  
15  collected on those by inclusion in rate base.  So the  
16  bottom line of my proposal is just to have the company  
17  recover the cost but there will be no recovery on the  
18  cost in terms of return or interest on those costs  
19  while they are being amortized.

20          Q.     And therefore not to include those interest  
21  costs in the rate base?

22          A.     Yes.  Because by inclusion in rate base  
23  they are actually going to be earning a return on  
24  those costs.

25 Q. Back on page 16 you say at line 16 the

(MARTIN - EXAM BY COMMISSIONER HEMSTAD)

2774

1 staff found no evidence showing that the company was  
2 imprudent in participating in the project. Would your  
3 treatment of this have been different if the company  
4 had come to the Commission and gotten preapproval to  
5 participate in this preliminary planning?

6 A. If there was a preapproval naturally it's  
7 going to be very hard to make a recommendation  
8 contrary to the preapproved findings.

9 Q. What is the historical pattern of conduct  
10 of the regulated utility with respect to these kinds  
11 of the -- call it exploratory projects -- do they ask  
12 for preapproval or do they do this typically on their  
13 own initiative?

14 A. They do it on their own initiative and I  
15 think it's a policy of this Commission to preapprove  
16 this type of --

17 Q. Not to preapprove?

18 A. Yes.

19 Q. It's your conclusion that there's no  
20 evidence showing that the company was imprudent. So  
21 at that time, we're back now ten years ago or so, the  
22 company looking at its alternatives made a judgment  
23 that it was, I suppose, in the best interests as well  
24 as for both the shareholders and the ratepayers, to

25 participate in this planning process for this

(MARTIN - EXAM BY COMMISSIONER HEMSTAD)

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1 particular project. I suppose taking into account  
2 uncertainty about future supply or future low cost  
3 alternatives or technology or what have you they make  
4 that judgment. If it was prudent at the time to make  
5 that choice or at least abandon the choices that could  
6 have been made, why wasn't that kind of a choice in  
7 the interest of the ratepayers?

8 A. The choice of --

9 Q. To participate in the planning and the  
10 commitment of dollars in the Creston project.

11 A. I think my proposal recognizes that there  
12 is this project or act by the company that is being  
13 undertaken for the interest of the ratepayers and that  
14 is reflected by allowing recovery of the costs that's  
15 been incurred by the company.

16 Q. To recover the out-of-pocket costs?

17 A. Yes. And the AFUDC disallowance it's not a  
18 prudence issue, it's a compliance issue with regards  
19 to the accounting rules of this Commission.

20 Q. And what are those succinctly? I don't  
21 want to get into a lot of detail but succinctly when  
22 you say accounting rules what are those rules?

23 A. The uniform system of accounts describes  
24 that for preliminary survey and investigative charges

25 there should be no accrual of those, accrual of

(MARTIN - EXAM BY COMMISSIONER HEMSTAD)

2776

1 interest in those, because -- and it specifically  
2 provides that if construction results then those costs  
3 can be transferred to the construction work in  
4 progress account which specifically provides for  
5 accruing of interest or AFUDC.

6 Q. I think I've still got a lot more to learn  
7 in this area but shifting into the second part of your  
8 testimony in that area about the amortization period  
9 to be applied. In this particular case the company is  
10 asking for the three years and you're saying six or is  
11 it five and ten?

12 A. Five and ten.

13 Q. I should think that there would be within  
14 the utility industry on a nationwide basis some kind  
15 of accounting conventions for this kind of thing. Are  
16 there?

17 A. Oh, I think -- I would say Washington  
18 Commission convention because as far as the previous  
19 abandoned projects are concerned they are being  
20 amortized over a period of ten years.

21 Q. So the pattern in the past years has been  
22 ten years?

23 A. And most recently with regards to the  
24 non-rate-baseable portion of the WNP-3 agreement or

25 cost.

(MARTIN - EXAM BY COMMISSIONER HEMSTAD)

2777

1 Q. So the company's proposal to do it over  
2 five years this would be a change from the historical  
3 year or the precedent?

4 A. From those experiences that I've cited,  
5 yes.

6 Q. And those experiences are Skagit and Pebble  
7 Springs?

8 A. Skagit, Pebble Springs, BEP, WNP-3.

9 Q. So the big nuclear projects?

10 A. Yes.

11 Q. Are there others?

12 A. I can't think of any others at this point,  
13 no.

14 Q. Maybe there haven't been enough of these  
15 abandoned projects --

16 CHAIRMAN NELSON: There's been enough.

17 Q. -- but it's your position that the  
18 historical pattern is ten years and that the company's  
19 proposal here at five years would be a precedent?

20 A. Yes.

21 Q. Is that a precedent that is applied  
22 essentially across the country or does every  
23 Commission have its own standard in this regard?

24 A. I think every Commission makes a

25 determination on a case-by-case basis and ten years in

(MARTIN - EXAM BY COMMISSIONER HEMSTAD)

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1 Washington and ten years in another Commission might  
2 be pure coincidental.

3 Q. Well, I guess I am curious about the --  
4 overall about the choice of the amortization period  
5 then with the value of impact on ratepayers, the  
6 longer the amortization period, the lower the short  
7 term impact on rates. That's a fair statement, isn't  
8 it?

9 A. But then again, the longer the amortization  
10 period then basically there's this time value of money  
11 because we are not accruing interest in that then  
12 there's some benefit derived from that.

13 Q. Benefit for whom?

14 A. For the ratepayers.

15 Q. For the ratepayers, that's right, but that  
16 becomes, then, part of the equation is as to which  
17 amortization period to apply or how long an  
18 amortization period to apply?

19 A. Yes. So it's a balancing to achieve the  
20 fairest sharing of the costs between the ratepayers  
21 and the company, because there should be some sharing,  
22 but the ratepayers we realize are not getting anything  
23 from this costs that they are going to pay. On the  
24 other hand, we cannot blame the company for bearing

25 these cost bills. They had the ratepayers in mind

(MARTIN - EXAM BY COMMISSIONER HEMSTAD)

2779

1 when they buried those costs.

2 COMMISSIONER HEMSTAD: That's all the  
3 questions I have for now. I am sure I will have some  
4 more.

5 JUDGE HAENLE: I have two questions.

6

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

8 BY JUDGE HAENLE:

9 Q. Comparing the staff's proposal for  
10 treatment of the undistributed BPA exchange credits  
11 and that proposed by the company and endorsed by  
12 BPA, wouldn't residential and small farm customers  
13 receive the exact same amount in the future through  
14 schedule 94 under the two proposals?

15 A. Yes, because both proposals directly accrue  
16 on the actual and undistributed balance of the  
17 residential exchange credit.

18 Q. And my other question has to do with your  
19 Exhibit 751 you gave a figure from I think it was line  
20 11 of one million 700 something. Do you have a work  
21 paper that shows how you calculated that? 751 was  
22 your calculation of revenue requirement. Line 11 was  
23 the assignment of revenue requirement to firm  
24 wholesale customers.

25           A.     Yes, I do have a work paper on that. I

(MARTIN - EXAM BY JUDGE)

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1     will be glad to provide it.

2           JUDGE HAENLE: Can that be provided?

3           MS. BROWN: Certainly.

4           JUDGE HAENLE: If they have it right now  
5     they can put it in as a part of redirect.

6           COMMISSIONER CASAD: Not to unnecessarily  
7     belabor this but the the judge asked you a question  
8     about won't schedule 94 customers receive in the  
9     future exactly the same amount under both proposals  
10    and you answered yes. Why, then, are you offering a  
11    different proposal?

12          THE WITNESS: I state in my testimony that  
13    under the company's treatment the impact is to  
14    increase rate base and when we increase rate base we  
15    apply the rate of return on that solely due to the  
16    treatment of the BPA residential exchange balance. So  
17    that the effect is they will be collecting from the  
18    ratepayers the equivalent amount of the rate of return  
19    while accruing directly on the undistributed balance a  
20    lower amount.

21          COMMISSIONER CASAD: Then they wouldn't  
22    work out exactly the same.

23          THE WITNESS: So that's my objection to the  
24    company's proposal.



25 COMMISSIONER CASAD: But the end result

(MARTIN - EXAM BY JUDGE)

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1 would be they would not get exactly the same. They  
2 would get less under one proposal than the other  
3 because it would be included in rate base and there  
4 would be a return on that which they would not be  
5 getting the benefit of. Otherwise, it's a distinction  
6 without difference. If under both proposals  
7 ratepayers get exactly the same benefits why have a  
8 different proposal unless there's an impact and  
9 there's some reason to have a different proposal and  
10 to treat it differently?

11 THE WITNESS: The difference is in impact.  
12 If we take a look on how much is going to be directly  
13 accrued to the qualifying customers, in this respect  
14 under the company's proposal and under the staff's  
15 proposal the effect is the same, because we both  
16 propose that interest will be accrued to those unpaid  
17 balance. Now, with regards to those undistributed  
18 funds to which we are applying those interest, how are  
19 we going to treat those funds for rate making  
20 purposes. Under the company's proposal they are  
21 saying that they will include it in the working  
22 capital calculation as invested capital and the result  
23 of that is to increase the amount of a working capital  
24 allowance which will be added to rate base and the

25 company will earn a return on.

(MARTIN - EXAM BY JUDGE)

2782

1 COMMISSIONER CASAD: And ratepayers will,  
2 as a result, pay more?

3 THE WITNESS: Yes.

4 COMMISSIONER CASAD: Well --

5 THE WITNESS: But the ratepayers will be  
6 paying more will be the general body of ratepayers.

7 COMMISSIONER CASAD: But schedule 94  
8 ratepayers are ratepayers, too, are they not?

9 THE WITNESS: Yes.

10 COMMISSIONER CASAD: So all ratepayers?

11 THE WITNESS: It's a ratepayers versus  
12 subset of the general body of the ratepayers.

13 COMMISSIONER CASAD: But I mean they will  
14 be receiving the benefit, they will be receiving the  
15 direct flow of payments and the interest, but all of  
16 the ratepayers of the company will be paying more  
17 because of working capital allowance which the company  
18 is receiving which they would ordinarily or would  
19 not ordinarily pay for to support?

20 THE WITNESS: That's why the staff's  
21 proposal is to equalize those.

22 JUDGE HAENLE: Why don't we take our  
23 afternoon recess. Be back at 25 minutes to.

24 (Recess.)

25 JUDGE HAENLE: Let's be back on the record

(MARTIN - EXAM BY JUDGE)

2783

1 after our afternoon recess. I checked with the  
2 Commissioners. We will be beginning at 9:00 Monday  
3 morning, so 9:00 everybody, bright and early.

4 MR. FURUTA: Your Honor, would we be  
5 starting with where we're leaving off today or with my  
6 witness?

7 JUDGE HAENLE: I don't know, Mr. Furuta.  
8 You gentlemen want to discuss that and we can decide  
9 that before we go home? The intention was to finish  
10 the four staff witnesses today, and I note you had  
11 requested your witness for first on Monday. I don't  
12 know what the intention is between the two of those  
13 but if you gentlemen could discuss that.

14 MR. FURUTA: We're ready to go any time  
15 Monday.

16 JUDGE HAENLE: Then I expect we will begin  
17 with the staff witnesses.

18 JUDGE HAENLE: While we were off the record  
19 Ms. Brown distributed a number of document which I  
20 have marked as follows: They all say at the top  
21 -- they're responses to various data requests. The  
22 first group is response to BPA data request. 766 is  
23 data request 1905.

24 767 is 1906.

25                   768 is 1907.

(MARTIN - EXAM BY JUDGE)

2784

1                   769 is 1909.

2                   770 is 1910.

3                   771 is 1912.

4                   772 is 1913.

5                   773 is 1914.

6                   Then we begin with responses to company

7 data requests. 774 is data request 4053.

8                   775 is 4058.

9                   776 is 4059.

10                   And 777 I believe is in response to my  
11 request for the work paper supporting the calculation  
12 that I just asked for on the record; is that right?  
13 It says allocation to firm resale at the top.

14                   (Marked Exhibits 766 through 777.)

15                   COMMISSIONER CASAD: You know what would be  
16 helpful to me, your Honor, next time you do this if  
17 you would give the number you're assigning to the data  
18 request first and then the data request number second.

19                   JUDGE HAENLE: All right. I will try to  
20 remember.

21                   COMMISSIONER CASAD: That will be a lot  
22 easier because I keep getting them mixed up.

23

24                   REDIRECT EXAMINATION

25 BY MS. BROWN:

(MARTIN - REDIRECT BY BROWN)

2785

1 Q. Mr. Martin, do you recognize Exhibits 766  
2 through 776 as the data request responses issued --  
3 data requests issued to staff by either BPA or the  
4 company and staff's responses to those requests?

5 A. Yes.

6 Q. And do they appear to be true and accurate  
7 copies of staff's responses to those various requests?

8 A. Yes, they do.

9 Q. And Exhibit 777 was in response to a bench  
10 request requesting a work paper; is that correct?

11 A. Yes.

12 Q. And is Exhibit 777 a true and correct copy  
13 of your work paper regarding that line 11?

14 A. Yes.

15 Q. Thank you.

16 MS. BROWN: Move the admission of Exhibits  
17 766 through 777.

18 JUDGE HAENLE: Any objection, Mr. Van

19 Nostrand?

20 MR. VAN NOSTRAND: No, your Honor.

21 MR. ADAMS: No objection.

22 JUDGE HAENLE: Any objection from an  
23 intervenor.

24 766 through 777 then will be entered into

25 the record.

(MARTIN - REDIRECT BY BROWN)

2786

1 (Admitted Exhibits 766 through 777.)

2 MS. BROWN: I have nothing further.

3 JUDGE HAENLE: Any recross.

4 MR. VAN NOSTRAND: No, your Honor.

5 JUDGE HAENLE: Anything more.

6 MR. BENNETT: Just very briefly.

7

8 RECROSS-EXAMINATION

9 BY MR. BENNETT:

10 Q. Hate to return to residential exchange but  
11 just one or two questions. Mr. Martin, Mr. Adams and  
12 Commissioner Casad asked you some questions regarding  
13 I guess you could call it the company/BPA proposal on  
14 treatment of the undistributed exchange balances, and  
15 the effect on cash working capital and rate base.  
16 Without commenting on what effect, if any, the  
17 company's proposal in fact does have or does not have  
18 on rate base, I just want to ask you, because of the  
19 way the questions were phrased about BPA proposal as  
20 made in its direct testimony, isn't it true that in  
21 that proposal BPA did not propose that the  
22 undistributed balance be put in cash working capital  
23 or rate base?

24 A. BPA, you mean?

25 Q. BPA, yes.

(MARTIN - RECROSS BY BENNETT)

2787

1 A. That's my reading of what Mr. Raynor is  
2 stating in his testimony that he wants to remove the  
3 BPA exchange from the working capital calculation.

4 Q. And from the rate base?

5 A. I don't recollect specifically that portion  
6 of his testimony.

7 Q. Is there anything in BPA's testimony that  
8 indicates that the undistributed balances would have  
9 the effect of increasing rates to the customers?  
10 You've talked about your concerns with the proposal in  
11 response to Commissioner Casad's questions that were  
12 increased rates. BPA's proposal doesn't have that  
13 effect, does it?

14 A. To the extent that BPA is endorsing the  
15 company's method then I believe it has that effect.

16 Q. Well, aside from whether that's so or not,  
17 I am referring to the proposal that BPA actually put  
18 forward in its direct case, it doesn't have that  
19 effect, does it?

20 A. My understanding is that the BPA's proposal  
21 is the company's proposal.

22 Q. Well, let me refer you -- I see you looking  
23 at BPA's direct case which is Exhibit 704?

24 A. I have the rebuttal copy. I don't have the

25 direct testimony.

(MARTIN - RECROSS BY BENNETT)

2788

1 Q. Are you familiar with BPA's proposal as  
2 presented in T-704, the direct case?

3 A. As I have said, my understanding of BPA's  
4 proposal is endorsing the company's proposal which is  
5 presented in Mr. Storey's exhibit.

6 Q. It's your understanding that that's what's  
7 stated in Exhibit T-704?

8 A. Yes.

9 Q. Is it your understanding that in Exhibit  
10 T-704 BPA has proposed -- will you accept subject to  
11 check that on page 21 of Exhibit T-704 BPA states that  
12 the interest on the balance should to accrue in a  
13 restricted separated account outside of Puget's rate  
14 base?

15 A. I will accept that subject to check, but  
16 that doesn't address the concerns that I have, because  
17 under my proposal the interest is being accrued on a  
18 separate and distinct account.

19 Q. Well, under your proposal?

20 A. Yes.

21 Q. And under BPA's proposal, as I just read  
22 it's accrued in a restricted separate account,  
23 correct?

24 A. Yes.



25 Q. Will you also accept subject to check that

(MARTIN - RECROSS BY BENNETT)

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1 on page 17, lines 11 through 13 of Exhibit T-704 BPA  
2 states that under its proposal the undistributed  
3 balances and related interest earned will have no  
4 effect on the calculation of revenue requirement in  
5 the Commission's rate making process?

6 A. I accept that that's the testimony of Mr.  
7 Raynor.

8 Q. Just one final question here. There were  
9 some questions, I believe, from Mr. Adams, regarding  
10 your third proposal, staff made proposal and two  
11 alternatives. Under your third proposal, do you also  
12 propose flowing through the interest benefits to  
13 ratepayers through schedule 94?

14 A. Yes.

15 Q. And under the second -- you mentioned  
16 already that you did under your main proposal. Under  
17 the second proposal the same thing?

18 A. Yes, but the qualification that we'll have  
19 on the third proposal is it's outside our  
20 jurisdiction, becomes a matter between BPA and the  
21 company. So if the company does not want to accrue  
22 interest in it then there's nothing to pass through.

23 Q. Does not want to accrue, from your point of  
24 view you mean you wouldn't be enforcing that, you're

25 saying?

(MARTIN - RECROSS BY BENNETT)

2790

1 A. Yes.

2 MR. BENNETT: No further questions.

3 JUDGE HAENLE: Anything more of the  
4 witness.

5 Thank you, sir you may step down. Let's go  
6 off the record to get the next witness.

7 (Recess.)

8 JUDGE HAENLE: Let's be back on the record.  
9 During the time we were off the record we got another  
10 staff witness. During the time we were off the record  
11 I marked a number of documents for identification as  
12 follows:

13 Marked as Exhibit T-778 for identification  
14 is a 34-page document testimony of Patrick J. Moast,  
15 M O A S T. At the top it says PJM-testimony.

16 PJM-1 in one page is 779 for  
17 identification.

18 PJM-2 in seven pages is 780 for  
19 identification.

20 PJM-3 in two pages is 781 for  
21 identification.

22 PJM-4 in eight pages is 782 for  
23 identification.

24 PJM-5 in one page is 783 for

25 identification.

(MARTIN - RECROSS BY BENNETT)

2791

1 And PJM-6 in 19 pages is 784 for  
2 identification.

3 (Marked Exhibits T-778 and 779 through  
4 784.)

5 Whereupon,

6 PATRICT MOAST

7 having been first duly sworn, was called as a

8

9 DIRECT EXAMINATION

10 BY MR. TROTTER:

11 Q. Would you please state your name and  
12 business address.

13 A. Patrick Moast, and my address is 1300 South  
14 Evergreen Park Drive Southwest, Olympia, Washington.

15 Q. Spell your last name.

16 A. M O A S T.

17 Q. You're employed by the Washington Utilities  
18 and Transportation Commission as a utility rate  
19 research specialist?

20 A. Yes.

21 Q. In the course of your duties in that  
22 capacity, did you have cause to be prepared testimony  
23 and exhibits in this proceeding?

24 A. Yes.

25 Q. Referring you to Exhibit T-778, is that  
(MOAST - DIRECT BY TROTTER)

2792

1 your direct testimony?

2 A. Yes, it is.

3 Q. If I asked you the questions that appear  
4 there would you give the answers that appear there?

5 A. Yes, I would.

6 Q. In the course of that testimony you refer  
7 to exhibits that you are sponsoring, Exhibit 779  
8 through 784; is that correct?

9 A. Correct.

10 Q. And to the extent those exhibits were  
11 prepared by you are they true and correct?

12 A. Yes.

13 Q. To the extent they are documents provided  
14 in response to data requests or company work papers,  
15 are they true copies of what you relied on?

16 A. Yes.

17 MR. TROTTER: I would move the admission of  
18 Exhibits T-778 and Exhibits 779 through 784.

19 JUDGE HAENLE: Any objection?

20 MR. VAN NOSTRAND: No objection.

21 MR. ADAMS: No objection.

22 JUDGE HAENLE: Any objection from an  
23 intervenor?

24 All right, Exhibit T-778 and 779 through

25 784 will be entered into the record.

(MOAST - DIRECT BY TROTTER)

2793

1 (Admitted Exhibits T-778, 779 through 784.)

2 MR. TROTTER: Witness is available.

3

4 CROSS-EXAMINATION

5 BY MR. VAN NOSTRAND:

6 Q. Good afternoon.

7 A. Good afternoon.

8 Q. You're testifying this afternoon about

9 power supply issue; is that correct?

10 A. That's correct.

11 Q. Among other things your testimony proposes  
12 to exclude certain new resources, Tonaska, Stone Creek  
13 and Black Creek and a winter capacity from purchase?

14 A. That is correct.

15 Q. You also propose an adjustment to the coal  
16 price at Colstrip one and two and an adjustment to the  
17 assumed level of line losses?

18 A. That is correct.

19 Q. And the impact of your adjustments is to  
20 lower power costs by about 91.275 million; is that  
21 correct?

22 A. Subject to check, that's correct.

23 Q. I believe that's at page 5, line 20 of your  
24 testimony?

25           A.     Very good.

(MOAST - CROSS BY VAN NOSTRAND)

2794

1           Q.     You also presented testimony in the PRAM 2  
2 proceeding last summer, did you not?

3           A.     Yes, I did.

4           Q.     In that proceeding you testified regarding  
5 the expected commercial operating date of the Encogen  
6 and Sumas cogeneration units; is that correct?

7           A.     That is correct.

8           Q.     And your testimony had to do with the  
9 uncertainties regarding the expected commercial  
10 operation date; is that correct?

11          A.     That is correct.

12          Q.     If you recall with respect to the Sumas  
13 unit you testified that the July 1, 1993 expected  
14 commercial operation date was unlikely to be met; is  
15 that correct?

16          A.     No. I testified that it was uncertain.

17          Q.     Uncertain. And in support of your  
18 conclusion you cite the following reasons: Sumas had  
19 already changed its expected date of commercial  
20 operation once; major construction mechanical and  
21 electrical elements had either not begun or were in  
22 preliminary stages and weather uncertainties make  
23 construction susceptible to weather delays during the  
24 following winter season. Do you recall that from your

25 PRAM 2 testimony?

(MOAST - CROSS BY VAN NOSTRAND)

2795

1 A. Yes.

2 Q. The recommendation of your testimony was to  
3 exclude the Sumas project costs from recovery in the  
4 PRAM 2 period and to defer them until the PRAM 3  
5 period; is that correct?

6 A. Yes.

7 Q. Have you followed up on the status of the  
8 Sumas cogeneration project since you gave your  
9 testimony in that proceeding?

10 A. I have in conversation with Mr. Lauckhart  
11 been informed that the Sumas cogeneration project has  
12 begun a level of operation although I haven't been  
13 informed of whether the level of operations are close  
14 or equal to the levels that were projected in PRAM 2.

15 Q. Do you know whether or not the project has  
16 achieved its commercial operation date as determined  
17 and defined in the power purchase agreement?

18 A. No, I don't.

19 Q. Would you accept subject to check that the  
20 parties Puget and Sumas agreed in writing that the  
21 project achieved commercial operation effective April  
22 16, 1993?

23 A. I will accept that subject to check.

24 MR. TROTTER: Counsel, in order to check

25 that we will have to get documents from the company.

(MOAST - CROSS BY VAN NOSTRAND)

2796

1 MR. VAN NOSTRAND: They are right here,  
2 yes.

3 Q. So is it fair to say that the Sumas unit  
4 achieved commercial operation two and one half months  
5 earlier than the July 1 date that you expressed some  
6 uncertainty about in the PRAM 2 proceeding?

7 A. Yes.

8 Q. And with respect to the Encogen unit you  
9 also said that this unit was uncertain that it would  
10 achieve commercial operation by July 1; is that  
11 correct?

12 A. I did. And I also said that the rate  
13 treatment of those two power plants were better  
14 synchronized for cost recovery with the PRAM process  
15 of PRAM 3.

16 Q. But another reason you gave for the  
17 treatment you proposed was uncertainty as to those  
18 units achieving commercial operation?

19 A. Yes, that was the other reason I gave.

20 Q. The reasons you gave with respect to the  
21 Encogen unit were that the expected date of commercial  
22 operation has been changed once already, the  
23 construction mechanical and electrical work had not  
24 yet been completed and construction had not yet begun



25 on the gas pipeline. Do you recall that from your  
(MOAST - CROSS BY VAN NOSTRAND)

2797

1 PRAM 2 testimony?

2 A. Yes, I do.

3 Q. Have you followed up on the status of the  
4 Encogen units since you gave your testimony in the  
5 PRAM 2 proceeding?

6 A. No.

7 Q. Do you know whether or not that unit is  
8 operating or whether it's achieved commercial  
9 operation?

10 A. I do not know whether it's commercially  
11 operable yet.

12 Q. Do you know how much lower deferrals would  
13 have been in the PRAM 3 filing just made by the  
14 company had the Commission accepted the on line date  
15 for Sumas and Encogen rather than the recommendations  
16 in your testimony?

17 A. I haven't seen the PRAM 3 filing yet. I  
18 don't know.

19 Q. Wasn't the effect of your testimony or your  
20 adjustment in PRAM 2 to defer \$10.192 million from  
21 PRAM 2 to PRAM 3?

22 A. Subject to check, I will say yes.

23 Q. In this proceeding your testimony discusses  
24 the Tonaska project; is that correct?

25 A. Yes, it does.

(MOAST - CROSS BY VAN NOSTRAND)

2798

1 Q. And this project is expected to achieve  
2 commercial operation in April 1994; is that correct?

3 A. That is correct.

4 Q. And your testimony here as in PRAM 2 claims  
5 that this date of commercial operation is uncertain;  
6 is that correct?

7 A. It's a projection, yes.

8 Q. And one of the reasons you cite is the  
9 delays that Tonaska has already recognized in its  
10 projected date of commercial operation; is that  
11 correct?

12 A. Yes. There's document proof that Tonaska  
13 project has experienced at least one if not two  
14 scheduled delays from its original project on line  
15 date.

16 Q. Have you personally talked to any of the  
17 personnel at Tonaska involving construction of the  
18 project?

19 A. I have scheduled a visit for, I believe,  
20 June 16 but, no, I haven't to this date spoken with  
21 anybody at Tonaska. I expect to do that when I make a  
22 visit.

23 Q. Have you attended any of the monthly status  
24 meetings regarding the progress of the project?

25 A. No.

(MOAST - CROSS BY VAN NOSTRAND)

2799

1 Q. Reviewed the status of any of the  
2 preliminary permit and license applications for the  
3 project?

4 A. Not since the PRAM 2 process.

5 Q. Have you reviewed the milestone schedule  
6 for the project?

7 A. Yes, I have.

8 Q. And have you determined whether or not  
9 Tonaska is in compliance with milestone and their  
10 schedule?

11 A. No, I haven't determined that.

12 Q. And the meeting that you talked about, in  
13 fact you spoke with the company and scheduled that  
14 meeting after you had filed your testimony in this  
15 rate case; is that correct?

16 A. I don't recall.

17 Q. What is the basis for your conclusion that  
18 the date of commercial operation for the Tonaska unit  
19 is uncertain?

20 A. The basis for my conclusion that the  
21 projected date of commercial operation of April 1994  
22 is uncertain is that it's a projection and at the time  
23 that the company made its filing it was a projection  
24 going on into the future of one and a half years from

25 the time that Puget filed its general rate case and  
(MOAST - CROSS BY VAN NOSTRAND)

2800

1 therefore there was no other proof provided by Puget  
2 Power other than that that was the best estimate at  
3 the time that they made the filing that that was the  
4 date that the project will become commercially  
5 operable.

6 Q. If the project achieved commercial  
7 operation on April 1994 as anticipated, won't this  
8 result in deferrals that will be picked up in the PRAM  
9 4 period?

10 A. Yes. And it will also avoid prepayment by  
11 ratepayers if the project -- at the very least by six  
12 months if not more if the project experiences any  
13 additional delays.

14 Q. And your proposal with respect to Tonaska  
15 explicitly assumes that the PRAM will continue,  
16 doesn't it?

17 A. Yes.

18 Q. And have you reviewed the rate moderation  
19 proposal of the company?

20 A. Yes.

21 Q. And doesn't the company also propose to  
22 defer the rate impact of the Tonaska project?

23 A. That's what's recommended in Puget's  
24 proposal.

25 Q. And in that doesn't the rate proposal

(MOAST - CROSS BY VAN NOSTRAND)

2801

1 spread the rate impact of the Tonaska project out over  
2 on a longer period than the effect of your proposal?

3 A. I would have to say that my familiarity  
4 with that proposal is limited and I wouldn't want to  
5 answer that question.

6 Q. Will you look at your adjustment for the  
7 Colstrip 1 and 2 coal price where it begins on page 6  
8 of your testimony. Your testimony proposes an  
9 adjustment to the price that Puget will pay for coal  
10 supply at Colstrip 1 and 2; is that correct?

11 A. Yes.

12 Q. And an arbitration proceeding is scheduled  
13 to determine the actual price that Puget will pay for  
14 coal?

15 A. That's my understanding per my  
16 communications with Mr. Lauckhart.

17 Q. Are you familiar with the coal supply  
18 agreement for Colstrip 1 and 2?

19 A. I have reviewed the invoices that have been  
20 rendered to Puget and what Puget has been paying.

21 Q. Is it correct that the arbitration arises  
22 from the provisions of the agreement that allow a  
23 reopener on the price in the 20th year of the  
24 agreement?

25 A. Yes.

(MOAST - CROSS BY VAN NOSTRAND)

2802

1 Q. And that the Colstrip owners exercised  
2 their right over the agreement to reopen the coal  
3 price on the 20th anniversary which was July of 1991?

4 A. I didn't know that. It was the Colstrip  
5 owners that initiated the reopening.

6 Q. And would you agree that the issue under  
7 the coal supply agreement to be determined in  
8 arbitration is the setting of a price that will allow  
9 recovery of reasonable mining costs at a reasonable  
10 allowance for profit?

11 A. Subject to check I will accept that.

12 Q. You have not personally reviewed the  
13 applicable provisions of the coal supply agreement  
14 that will govern the outcome of the arbitration?

15 A. No.

16 Q. What's the price per ton net of royalties  
17 and taxes that Puget is now being billed by Western  
18 Energy for coal from Colstrip 1 and 2? Would you  
19 accept it as the \$7.45 that you have set forth in your  
20 exhibit?

21 A. Yes. It's in Exhibit 779.

22 Q. How long has this price been in effect?

23 A. I don't know.

24 Q. And has Puget been paying this amount?

25 A. No.

(MOAST - CROSS BY VAN NOSTRAND)

2803

1 Q. When did Puget stop paying this amount?

2 A. I believe it was September 1992.

3 Q. And the amount that Puget has been paying  
4 is the \$5.51 that's indicated on your Exhibit 779 by  
5 the fact that the \$7.45 is crossed out and the \$5.51  
6 is written in?

7 A. Correct.

8 Q. And how did Puget arrive at this \$5.51  
9 figure?

10 A. Based on Mr. Lauckhart's deposition  
11 testimony and discovery data request by the staff it's  
12 my understanding that Puget retained a consultant to  
13 do a series of scenario analyses of under different  
14 assumptions of discounted cash flow as well as other  
15 expense cost items and identified a price of \$5.51 per  
16 ton as the price that Puget ultimately chose for  
17 paying these invoices.

18 Q. And you would agree, wouldn't you, that  
19 it's the most favorable price of the various  
20 scenarios?

21 A. No, I wouldn't.

22 Q. What is it you're saying on page 13 -- page  
23 7, line 13, \$5.51 per ton was deemed to be the most  
24 favorable coal price among many?

25 A. I say according to Puget's consultant \$5.51

(MOAST - CROSS BY VAN NOSTRAND) 2804

1 was deemed to be the most favorable and that's quoting  
2 -- not quoting but interpreting Mr. Lauckhart's  
3 deposition testimony and his responses to data  
4 requests that staff issued. It's my understanding  
5 from a brief review of the scenarios that there were  
6 lower rates of return that were used in different  
7 scenarios and different levels of coal price  
8 assumptions that were used for the five years of the  
9 projected 20 year to 25 price reopening horizon, and I  
10 couldn't tell from that whether the \$5.51 was the most  
11 favorable to Puget or whether there may have been  
12 lower price scenarios.

13 Q. Did you review all of those scenarios?

14 A. I just looked at them briefly. It was very  
15 difficult to do any sort of quantitative analysis  
16 with them.

17 Q. I believe Mr. Lauckhart represented in  
18 Exhibit 592 in this proceeding that that price was as  
19 far as he was concerned the lowest price suggested  
20 under the various scenarios?

21 A. That's what his data response says.

22 Q. Is it fair to say that while the matter was  
23 in dispute Puget determined that it would pay the  
24 \$5.51 amount which was the amount which assumed that



25 it prevailed in arbitration?

(MOAST - CROSS BY VAN NOSTRAND)

2805

1 A. I don't know that. I will accept that but  
2 I can't say with any certainty that I've seen anything  
3 as a basis of believing that other than you're  
4 asserting it.

5 Q. Well, in fact wouldn't it have compromised  
6 Puget's litigation position if it paid a higher amount  
7 other than the \$5.51 amount that it was claiming as  
8 its position in arbitration?

9 A. Paying a lower --

10 MR. TROTTER: Your Honor, I will object to  
11 the question. This witness is not held out as an  
12 expert on Puget's litigating position.

13 JUDGE HAENLE: I don't see any foundation  
14 for that question. I will sustain the objection.

15 MR. VAN NOSTRAND: Can I have a chance to  
16 respond to the objection?

17 JUDGE HAENLE: Sure. Your response would  
18 be?

19 MR. VAN NOSTRAND: The witness has taken an  
20 amount based on an invoice which is based on a  
21 particular scenario run in litigation and the question  
22 was wouldn't it be consistent with the position in  
23 litigation not to pay a higher number while you were  
24 litigating based on the reasonableness of a lower

25 number.

(MOAST - CROSS BY VAN NOSTRAND)

2806

1 JUDGE HAENLE: The question was would it  
2 jeopardize Puget's litigation position and I continue  
3 to believe that there is no foundation for that, for  
4 the witness to be able to answer that.

5 Q. In fact, Mr. Moast, a number of different  
6 prices could be accepted in the arbitration; isn't  
7 that correct?

8 A. The arbitration is not settled. Any price  
9 may ultimately be resolved and it may even be lower  
10 than \$5.51.

11 Q. Were there scenarios that were higher than  
12 \$5.51?

13 A. As I said there were scenarios that were  
14 higher and to my recollection there were some  
15 scenarios that were lower.

16 Q. How high did the highest one go?

17 A. I don't recall.

18 Q. Do you recall how low the lowest one went?

19 A. No.

20 Q. You just picked out \$5.51 and decided it  
21 was reasonable?

22 A. It was the only known and measurable price  
23 that was provided in the filing through discovery. It  
24 is what Puget is currently paying. It is the document

25 price you are paying.

(MOAST - CROSS BY VAN NOSTRAND)

2807

1 Q. Is that what's being billed?

2 A. It's not what's being billed. It's what  
3 Puget is paying. It's documented.

4 Q. Even though Puget is being billed \$7.45  
5 that's not the known and measurable amount in this  
6 proceeding and that's the amount that it has been  
7 paying, that's not the known and measurable amount in  
8 this proceeding?

9 A. The price that Puget is paying actually on  
10 its invoices is \$5.51 as documented in my Exhibit  
11 779.

12 Q. What results did Puget assume for purposes  
13 of the coal price in this rate proceeding?

14 A. I'm sorry, could you please repeat that.

15 Q. What results did Puget assume for purposes  
16 of the coal price in this rate proceeding? Did it  
17 use the \$5.51 figure?

18 A. No. In this rate proceeding I believe  
19 Puget assumed a price of one dollar lower than the  
20 \$7.45 per ton prices crossed out on Exhibit 779.

21 Q. And it's your testimony that the position  
22 which Puget has staked out in the arbitration will be  
23 adopted by the arbitrator. Is that basically the  
24 point you make in your testimony?

25

MR. TROTTER: I will object to the

(MOAST - CROSS BY VAN NOSTRAND)

2808

1 question. I don't think there has been a foundation  
2 that the \$5.51 is the price that's been staked out in  
3 the arbitration.

4 JUDGE HAENLE: Mr. Van Nostrand.

5 MR. TROTTER: According to testimony it was  
6 developed by a consultant but how it's being used in  
7 the arbitration I am not sure has been testified to.

8 MR. VAN NOSTRAND: Puget's position is that  
9 it's been paying \$5.51 based on the fact that it  
10 believes the \$7.45 is too high and the fact that  
11 what's it's been paying is evidenced by the 779 where  
12 the \$7.45 figure is stricken and \$5.51 is written in.

13 MR. TROTTER: But what Puget is arguing in  
14 the arbitration has not been established by this  
15 witness.

16 JUDGE HAENLE: I believe the witness  
17 indicated he didn't know what figure was being used  
18 in the arbitration so I will sustain the objection,  
19 Mr. Van Nostrand.

20 Q. May I refer the witness to the testimony on  
21 page 7, \$5.51 price was developed by a consultant in  
22 preparation for a planned price reopening arbitration.  
23 According to Puget's consultant \$5.51 per ton was  
24 determined to be the most favorable price among many.

25           A.     I see that.

(MOAST - CROSS BY VAN NOSTRAND)

2809

1           Q.     And it's your testimony that it's mere  
2 coincidence that the \$5.51 number there is the same as  
3 the \$5.51 number in Exhibit 779.

4                   MR. TROTTER:  Your Honor, I think that -- I  
5 will object to the question on the basis that the link  
6 between what Puget is arguing for in arbitration and  
7 what the consultant developed hasn't been established.  
8 We're not -- the testimony doesn't prove that so I  
9 will object to the question.

10                   JUDGE HAENLE:  I think the question was  
11 argumentative.  Considering this witness has indicated  
12 he doesn't know what position Puget is taking in the  
13 arbitration, I don't see that we're getting anywhere.

14                   MR. VAN NOSTRAND:  Your Honor, if I could  
15 refer the witness to Exhibit 592.  The company was  
16 asked to explain how the unit price of \$5.51 per ton  
17 was calculated and that's the \$5.51 that is referenced  
18 on the invoices, and the company responded that the  
19 \$5.51 per ton figure was the most favorable outcome  
20 for the company in the arbitration proceeding.  I  
21 believe the link has been established.  This witness  
22 has cited Exhibit 592.  That establishes the link.

23                   JUDGE HAENLE:  This witness has indicated  
24 he doesn't know what position Puget is taking, Mr. Van

25 Nostrand. I think you can rephrase your questions

(MOAST - CROSS BY VAN NOSTRAND)

2810

1 just fine and still get the information you're looking  
2 for.

3 MR. TROTTER: I guess our point is that  
4 Puget could go into the arbitration at four dollars  
5 hoping to get to \$5.51. That's all I'm saying.

6 JUDGE HAENLE: Because this witness has  
7 indicated he doesn't know I really don't feel that  
8 approach has been appropriate, although I think you  
9 can rephrase your questions and get the information  
10 that this witness has.

11 Q. Is it your testimony that the \$5.51 figure  
12 which you have selected represents the rate of return  
13 and operating expense assumptions likely to be  
14 selected by the arbitrator and therefore the coal  
15 price that would be paid by Puget?

16 A. No. It's my assertion that the \$5.51 price  
17 is the price that was calculated by a Puget consultant  
18 and that is the price that's known and measurable and  
19 that is the price that Puget has decided to pay  
20 Western Energy Corporation.

21 JUDGE HAENLE: So is the answer to Mr. Van  
22 Nostrand's question yes or no?

23 THE WITNESS: No.

24 Q. And if the actual price determined in the

25 arbitration is different than the \$5.51 how will Puget  
(MOAST - CROSS BY VAN NOSTRAND) 2811

1 recover the difference in rates?

2 A. If the resolution of the arbitration occurs  
3 prior to the closure of this case, the record on this  
4 case, staff has no problem as documented in one of our  
5 data responses in considering that price. However,  
6 within the confines of the simplified dispatch model  
7 in the PRAM, the price of coal for the Colstrip units  
8 and the Centralia unit are determined in the general  
9 rate case and held constant until the next general  
10 rate case so that whatever price -- if the arbitration  
11 is closed after -- concluded after the close of this  
12 record, then it will -- the price that will be paid by  
13 ratepayers will be determined in this general rate  
14 case until the next general rate case as according --  
15 assuming that PRAM is continued.

16 Q. Isn't \$7.45 the current contract price  
17 unless the outcome of the arbitration changes it?

18 A. That's what's shown on the invoices.  
19 Again, I haven't seen the contract.

20 Q. If you haven't seen the contract then how  
21 can you make a decision as to what the likely outcome  
22 of the arbitration will be given that you're  
23 unfamiliar with the standard to be applied by the  
24 arbitrator?

25

MR. TROTTER: I will object to the

(MOAST - CROSS BY VAN NOSTRAND)

2812

1 question. The witness has stated that he is not using  
2 the \$5.51 is what the arbitration is going to be but  
3 rather that it's a known and measurable amount that's  
4 currently being paid and based on Puget consult's  
5 analysis.

6 MR. VAN NOSTRAND: Withdraw the question.

7 Q. Did you review the operating expense  
8 projections assumed by the consultant in arriving at  
9 that particular price in that scenario?

10 A. I looked at those operation expenses as  
11 well as very briefly the operating expense assumptions  
12 under the other scenarios.

13 Q. And have you performed any analysis  
14 regarding the reasonableness of the assumptions in the  
15 scenario that you chose over the others?

16 A. Based on my conversations with Mr.  
17 Lauckhart, the extent of my analysis is that there was  
18 a lot of uncertainty even on Mr. Lauckhart's part as  
19 far as what was going into all of the assumptions, the  
20 operating expenses, the labor costs, the supply and  
21 material costs, under all of those scenarios.

22 Q. How about deletion allowances? Isn't  
23 another issue going to be whether Western Energy's  
24 cost depletion will be used or the depreciation



25 allowed by the IRS for tax purposes?

(MOAST - CROSS BY VAN NOSTRAND)

2813

1 A. I don't know.

2 Q. Wasn't that one of the factors considered  
3 under the consultant's various scenarios?

4 A. That particular item wasn't discussed by  
5 Mr. Lauckhart and myself.

6 Q. In order to reach your conclusion that the  
7 \$5.51 was reasonable didn't you have to make some  
8 decision on that issue?

9 A. According to my previous answer what I'm  
10 saying is that there was so much uncertainty  
11 underlying all the line item assumptions across the  
12 range of scenarios including discount cash flow rate  
13 of return from between 15 percent -- to 15 percent  
14 including 12 percent underlying the \$5.51 that there  
15 is no reason to believe that a price lower than \$5.51  
16 could be the result of arbitration or above \$5.51.

17 Q. If Puget hadn't taken the position that it  
18 was going to begin paying less than the \$7.45 amount  
19 how would staff have calculated an adjustment in this  
20 proceeding?

21 A. Staff would have based its assessment on  
22 what was known and measurable.

23 Q. And wouldn't that have been the \$7.45  
24 contract price that was actually being billed to Puget

25 by Western Energy?

(MOAST - CROSS BY VAN NOSTRAND)

2814

1 A. So if you are saying that if you didn't  
2 decide to change the price and Puget paid the \$7.45  
3 and ultimately arbitration came in at five dollars  
4 ratepayers would be paying the \$7.45 in rates for the  
5 next three years, I suppose that would be the  
6 consequence of that.

7 Q. So your answer was staff would have based  
8 it on \$7.45 had the company not forced the issue by  
9 paying \$5.51?

10 A. Staff's review of the invoices showed that  
11 \$5.51 was the known and measurable price that Puget is  
12 paying.

13 JUDGE HAENLE: Is your answer to Mr. Van  
14 Nostrand question yes or no? Would it have been  
15 the \$7.45 if that's what Puget --

16 A. If that was the only information that was  
17 known and measurable in the filing then I say yes.

18 Q. Do you believe your adjustment encourages  
19 the company to aggressively pursue lower energy prices  
20 through arbitration?

21 A. I believe it's important that the company  
22 be as aggressive in being cost conscious and efficient  
23 in the prices that it pays for all forms of energy.

24 Q. And how do you believe your adjustment in

25 particular affects the company's incentives in that  
(MOAST - CROSS BY VAN NOSTRAND)

2815

1 regard?

2 A. I don't know. I am not the company going  
3 into arbitration.

4 Q. Turn to your proposed exclusion of Stone  
5 Creek and Black Creek beginning on page 12 of your  
6 testimony. Your testimony notes that the company is  
7 proposing to sell Stone Creek. Have you followed up  
8 or determined whether or not that sale will go  
9 through?

10 A. My knowledge of those developments is based  
11 on internal communications with other staff and I know  
12 nothing more on the status of that than what I knew at  
13 the time that I developed my testimony, that it was --  
14 it looked like it was going to go through and that was  
15 also based on Mr. Lauckhart's testimony that Puget was  
16 planning to sell it.

17 Q. And with respect to Black Creek your  
18 testimony is that this resource should have been  
19 acquired through competitive bidding; is that correct?

20 A. Puget should have considered that, yes.

21 Q. Is Puget required to acquire all its  
22 resources through competitive bidding?

23 A. No. And Puget can also consider contract  
24 proposals outside of the competitive bidding process

25 as well.

(MOAST - CROSS BY VAN NOSTRAND)

2816

1 Q. Does the competitive bidding process assure  
2 that resources will be cost effective when it is  
3 acquired?

4 A. It's Puget's decision on what resources it  
5 acquires through competitive bidding.

6 Q. Would you answer the question as to whether  
7 the competitive bidding process assures the resources  
8 will be cost effective?

9 A. Competitive bidding process is intended to  
10 assure that selected projects according to a series of  
11 criteria including avoided costs, that projects  
12 selected come in at or below avoided cost.

13 Q. Does that mean they're cost effective?

14 A. Only on the basis that they're cost  
15 effective relative to the documented avoided costs at  
16 the time.

17 Q. And not that they are cost effective as  
18 compared to the other available resources at the time?

19 A. There's no requirement that Puget acquire  
20 only the least cost resources although that's what we  
21 would like to see.

22 Q. Least cost in terms of price being the only  
23 factor considered?

24 A. No, there are other factors,

25 dispatchability, environmental impacts to name two.

(MOAST - CROSS BY VAN NOSTRAND)

2817

1 MR. VAN NOSTRAND: Like to distribute  
2 another document, your Honor.

3 JUDGE HAENLE: You've handed me a one-page  
4 document entitled response to company data request  
5 4067. I will mark this as Exhibit 785 for  
6 identification.

7 (Marked Exhibit 785.)

8 Q. Mr. Moast, do you recognize what's been  
9 marked for identification as Exhibit 785 as your  
10 response to company data request 4067?

11 A. Yes.

12 Q. And this concerns how the company would  
13 recover the cost of a company-built resource scheduled  
14 to come on line in November of 1993; is that correct?

15 A. Yes.

16 Q. And your testimony is that a company  
17 resource coming on line in November of 1993 would only  
18 be included in rates through a general rate case if  
19 it's not acquired through competitive bidding. Is  
20 that a fair statement of what your testimony and this  
21 exhibit?

22 A. Please repeat that.

23 Q. It's your testimony that a company resource  
24 coming on line in November of 1993 would only be

25 reflected in rates through a general rate case if it's  
(MOAST - CROSS BY VAN NOSTRAND)

2818

1 not acquired through competitive bidding.

2 A. The company can also sign a sales contract  
3 outside of competitive bidding. I said that earlier.

4 Q. With a company-owned resource?

5 A. As I said, this is an unclear data request  
6 in that it's posed as a hypothetical question.  
7 However, it was my first impression upon reading it  
8 that you were specifically referring to Black Creek  
9 which is not an owned company resource but it's owned  
10 by a subsidiary of Puget Power. Perhaps if you would  
11 clarify this data request at this point maybe I would  
12 be more able to respond to your question.

13 Q. If it was a purchase power agreement who  
14 would the seller be?

15 A. If you're talking about Black Creek it  
16 would be HEDC, I would imagine.

17 Q. And is it your understanding that that was  
18 the company's proposal would be to treat this as a  
19 power purchase agreement between a subsidiary and the  
20 company?

21 A. My understanding of the agreement is that  
22 Puget is attempting to rate base these costs.

23 Q. Based on actual costs; is that correct?

24 A. I will accept that subject to check.

25 Q. In Exhibit 785 you indicate one of the  
(MOAST - CROSS BY VAN NOSTRAND) 2819

1 reasons that a rate base adjustment for a new company  
2 resource is not appropriate is your paragraph numbered  
3 one, proforma adjustments to rate base are  
4 inappropriate. Is that a correct reading of your  
5 response?

6 A. Yes.

7 Q. Did you review the testimony and exhibits  
8 of staff witness Martin before you made that  
9 statement?

10 A. Yes.

11 Q. And you're aware that Mr. Martin proposes  
12 several proforma adjustments to rate base as part of  
13 his testimony and exhibits?

14 A. Subject to check I will say yes.

15 MR. VAN NOSTRAND: Your Honor, I would like  
16 to move the admission of 785.

17 JUDGE HAENLE: Any objection, Mr. Trotter.

18 MR. TROTTER: No.

19 MR. ADAMS: No objection.

20 MR. TRINCHERO: No objection.

21 JUDGE HAENLE: Exhibit 785 will be entered  
22 into the record.

23 (Admitted Exhibit 785.)

24 Q. Turn to your testimony on capacity purchase

25 beginning at page 15. Your testimony recommends that  
(MOAST - CROSS BY VAN NOSTRAND)

2820

1 Puget not be allowed to recover the costs associated  
2 with a 350 megawatt capacity purchase; is that  
3 correct?

4 A. Yes.

5 Q. And one of the reasons you give is that you  
6 question the need for this magnitude of increased  
7 capacity by the company?

8 A. Yes.

9 Q. In your view should the company have plans  
10 in place to cover its needs at the peak?

11 A. Yes. I believe that the company should  
12 have very thorough and rigorous plans fully evaluating  
13 all options for observing its energy and peaking  
14 needs.

15 Q. And so your answer was it reasonable to  
16 have the company to have plans in place to cover its  
17 peaking needs?

18 A. It would be reasonable. I don't know if  
19 the company has plans in place that are reasonable for  
20 meeting its peak.

21 Q. Have you reviewed Exhibit JRL-8 which is  
22 Exhibit 528 in this proceeding? That's the company's  
23 load resource calculation.

24 A. That's Exhibit 528?



25 Q. Yes.

(MOAST - CROSS BY VAN NOSTRAND)

2821

1 A. Yes.

2 Q. And that exhibit shows, doesn't it, a peak  
3 load of 5,111 megawatts for the '93-94 period?

4 A. That's what it shows.

5 Q. Do you know how that number was determined?

6 A. It was determined by Puget Power.

7 Q. And wasn't it arrived at by taking the  
8 company's extreme peak in 1991 and growing it by the  
9 percentage of system growth which has occurred since  
10 the extreme peak was recorded?

11 A. Subject to check I will accept that.

12 Q. Would you agree that if that's the approach  
13 followed by the company that the forecast system peak  
14 that it's a reasonable one?

15 A. No. Puget has never displayed to me its  
16 process for forecasting peak and I might add that  
17 there's two sides to the equation. The other side is  
18 what are the resources that Puget has considered to  
19 meet that peak whether it's correct or not.

20 Q. Strictly focusing on the load side, if this  
21 number was calculated by taking the actual extreme  
22 peak experienced by the company in 1991 and growing  
23 that by the same percentage that sales growth has  
24 occurred since then, would that not be a reasonable

25 way of forecasting system peak?

(MOAST - CROSS BY VAN NOSTRAND)

2822

1 A. No.

2 Q. What would be a reasonable way in your  
3 view?

4 A. There are many reasonable ways. That  
5 sounds, based on my experience, to be overly  
6 simplified.

7 Q. Do you think a different way would result  
8 in a lower number?

9 A. I don't know. I'm sure different ways,  
10 as I said there are many ways, would result in lower  
11 numbers and higher numbers.

12 Q. What are some of the factors that you think  
13 Puget should -- that you think should be considered  
14 that Puget's method doesn't?

15 A. Improvements in transmission and  
16 distribution, changes in the customer base, changes in  
17 the rate of growth on Puget's system, changes in the  
18 number of customer growth.

19 Q. Wouldn't that all be captured by looking at  
20 the actual system growth since the extreme peak has  
21 occurred?

22 A. No it's not a basis for forecasting. Rate  
23 of change from one year to the next can change and  
24 shouldn't be the basis for extrapolation into the

25 future.

(MOAST - CROSS BY VAN NOSTRAND)

2823

1 Q. Just since 1991.

2 MR. TROTTER: Is that a question.

3 MR. VAN NOSTRAND: Yes.

4 Q. These changes can be expected to  
5 materialize in just the two years since 1991?

6 A. Again, assuming that your basis for the  
7 actual of 1991 extreme peak is the basis for the  
8 starting point for calculating this five eleven, I  
9 still remain adamant that there are other  
10 considerations that should be considered ask not just  
11 the simple extrapolation.

12 Q. What do you mean by simple extrapolation?

13 A. Looking at the rate of change from one year  
14 to the next and then saying that the system will grow  
15 at the same rate the following year. There may be  
16 losses of load within your system and again, we're  
17 staying focused on the demand side. I will like to  
18 reiterate that looking at how you identify needed  
19 resources to serve project load also should be looking  
20 at the different resource options that could be used  
21 for serving any incremental projected need, not just  
22 identifying a generic 358 megawatt capacity contract.

23 Q. Do you agree that Exhibit 528 indicates  
24 that there's a 401 megawatt deficiency between the

25 loads and resources for the 1993-94 period at system  
(MOAST - CROSS BY VAN NOSTRAND)

2824

1 peak?

2 A. That's what it's showing on Exhibit 528.

3 Q. If your adjustment is adopted and the cost  
4 of the 358 megawatt capacity purchase are excluded how  
5 would the company recover in rates the costs it would  
6 incur to provide power and energy at its system peak?

7 A. There are many options. Puget can consider  
8 hydro firming to meet projected capacity needs by  
9 improving efficiency in dispatch of its hydro system.  
10 It could consider conversion of some of its existing  
11 simple cycle plants.

12 Q. This can all be done in time for the 93-94  
13 season?

14 A. The hydro firming option could be with some  
15 sort term purchases. Again, you're looking to embed  
16 into rates until the next general rate case these --  
17 this 358 megawatt purchase and it hasn't been  
18 displayed to me that it's needed in the first place.

19 Q. Would this just be the capacity portion of  
20 that cost or capacity and energy?

21 A. The proposed contract as filed by Puget is  
22 a 358 megawatt capacity contract.

23 Q. So there is no payment assumed for energy  
24 taken, is there?

25           A.     There is no contract, no contract has been  
              (MOAST - CROSS BY VAN NOSTRAND)                             2825

1     signed. I don't know what the terms of the contract  
2     would stipulate. If energy was needed to back up this  
3     capacity purchase.

4           Q.     Is the company asking for energy in  
5     connection with this particular contract?

6           A.     No.

7           Q.     Your testimony claims that Puget may need  
8     the additional capacity agreement to support the sale  
9     to BPA; is that correct?

10          A.     That's correct.

11          Q.     Do you know whether the sale to BPA is  
12     included within the load identified on Exhibit 528,  
13     the 5,111 that we've been discussing?

14          A.     I don't recall.

15          Q.     Haven't you already testified that you  
16     don't know how the 5,111 was calculated?

17          A.     You said that it was based on the actual  
18     extreme weather occurrence in the winter of 1991 and  
19     then extrapolated based on historic rates of growth.

20          Q.     If that's the case would the BPA sale be  
21     included in there?

22          A.     Based on that the BPA sale would not be in  
23     there.

24          Q.     Would you agree that under the terms of the

25 BPA sales agreement the company is given substantial  
(MOAST - CROSS BY VAN NOSTRAND)

2826

1 flexibility in delivering the power?

2 A. Yes, and included in that flexibility I  
3 believe Mr. Lauckhart has testified that the delivery  
4 would be coming from the Mid Columbia projects during  
5 off peak hours so that the Mid Columbia would be  
6 dispatched off peak to serve this energy sale to BPA.

7 Q. And in fact the company could fulfill its  
8 obligation under the BPA sales agreement during light  
9 load hours; is that right?

10 A. Yes, but not without detriment to the  
11 ability of using the Mid Columbia facilities to serve  
12 peak load during on peak hours -- not without hurting  
13 the ability of Mid Columbia facilities to serving peak  
14 load during on peak hours.

15 Q. And if the company has the flexibility to  
16 fulfill its obligations under this contract by  
17 delivering at light load hours, how does that affect  
18 its ability to get power from Mid Columbia during peak  
19 load hours?

20 A. You're drawing down the limited reservoirs  
21 behind the dam during off peak and you're diminishing  
22 its ability to dispatch and serve peak loads during on  
23 peak.

24 Q. And that's true, you believe, even though

25 the company has been given the flexibility under the  
(MOAST - CROSS BY VAN NOSTRAND)

2827

1 BPA sales agreement to fulfill its obligations to  
2 deliver power in a given month at any time?

3 A. Yes.

4 Q. You reviewed the terms of the BPA sales  
5 agreement?

6 A. Yes.

7 Q. Turn to your adjustment for the sale to  
8 Nintendo, page 27. Your testimony proposes to price  
9 the energy delivered to Nintendo at a rate equal to  
10 the highest price new power costs; is that correct?

11 A. Yes.

12 Q. And according to your exhibit this highest  
13 price resource is the Koma Kulshan project?

14 A. Based on my review of the simplified  
15 dispatch model listing of new resources that is the  
16 highest price newest resource for purposes of this  
17 example. I am not recommending that the Koma Kulshan  
18 ultimately be the highest price displaceable or  
19 defrayed cost resource, if in fact you bring on a  
20 newer higher priced resource then that higher priced  
21 resource would be the one that we would credit against  
22 the Nintendo.

23 Q. Could Puget have avoided the purchase from  
24 the Koma Kulshan project if it weren't serving

25 Nintendo?

(MOAST - CROSS BY VAN NOSTRAND)

2828

1 A. The Koma Kulshan is just an example of  
2 whatever the highest price resource is. To my  
3 knowledge Puget would not have to avoid the purchase  
4 of Koma Kulshan power if it wasn't selling to  
5 Nintendo.

6 Q. The question was could it have?

7 A. Would you please then repeat the question.

8 Q. Could Puget have avoided the purchase from  
9 the Koma Kulshan project if it weren't serving  
10 Nintendo?

11 A. No, the contract was signed prior to Puget  
12 selling power to Nintendo. It's just the highest  
13 price resource that Puget has in its SDM model and  
14 again was provided only as an example of our  
15 recommendation for treatment of looking at any sort of  
16 costs or lost or additional costs that Puget would be  
17 incurring for selling to Nintendo.

18 Q. Turn to your discussion of new resources on  
19 page 27 prudence in the Integrated Resource Plan.

20 MR. VAN NOSTRAND: Like to distribute an  
21 exhibit, your Honor.

22 JUDGE HAENLE: Did you want these to be  
23 marked together, Mr. Van Nostrand?

24 MR. VAN NOSTRAND: Separately, please.



25 JUDGE HAENLE: February 1 then March then

(MOAST - CROSS BY VAN NOSTRAND)

2829

1 May -- backwards.

2 MR. VAN NOSTRAND: 191, 192 and 193, your

3 Honor.

4 JUDGE HAENLE: Three documents. The first

5 is a multi-page document dated May 9, 1991. This will

6 be marked as 786 for identification. The next is

7 dated March 9, 1992, this will be 787 for

8 identification. And one marked February 26, 1993, 788

9 for identification.

10 (Marked Exhibits 786 through 788.)

11 Q. Mr. Moast, your testimony at page 29 states

12 that Puget promised to advise parties of new resources

13 in advance of its PRAM filing; is that correct?

14 A. Yes.

15 Q. And your testimony claims that in both 1992

16 and in 1993 Puget failed to provide the information to

17 the parties; is that correct?

18 A. Yes.

19 Q. If you review Exhibit 787 would you agree

20 that this is the notification which the company

21 promised it would make under the PRAM mechanism in

22 1992 with respect to new resources to be added in the

23 PRAM 2 hearing?

24 A. Subject to review of these documents I will

25 accept that subject to check, but I haven't reviewed  
(MOAST - CROSS BY VAN NOSTRAND)

2830

1 these documents before. I have never seen these  
2 documents before.

3 Q. And would you also accept subject to check  
4 that Exhibit 786 is the notification made by the  
5 company in 1991 regarding the new resources to be  
6 added in the PRAM 1 proceeding?

7 A. Subject to check.

8 Q. Would you agree that Exhibit 786 indicates  
9 at least according to the certificate of service that  
10 it was served on the parties that regularly appear in  
11 Puget's rate proceeding including Commission staff  
12 counsel and public counsel?

13 A. Some of the names on this list look  
14 familiar to me. Some don't.

15 Q. And the same with Exhibit 787, would you  
16 agree that it was served on staff counsel, public  
17 counsel, the NCAC, WICFUR, BPA and FEA?

18 A. Yes.

19 Q. Would you also accept subject to check  
20 Exhibit 788 is the notification that was filed on  
21 February of this year in accordance with the company's  
22 commitment under the decoupling order to notify  
23 parties?

24 A. Yes.

25 Q. And the certificate of service for Exhibit  
(MOAST - CROSS BY VAN NOSTRAND)

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1 788 indicates that it was served on all parties to  
2 this rate proceeding?

3 A. Subject to check.

4 Q. And will you also note that Exhibit 788  
5 states that any new resources that the company will be  
6 adding during PRAM 4 -- during PRAM 3, excuse me --  
7 were included as part of the company's general rate  
8 filing and therefore there are no new resources to  
9 notify the parties about in this document?

10 A. Yes.

11 MR. VAN NOSTRAND: Your Honor, I move the  
12 admission of Exhibit 786, 787 and 788.

13 JUDGE HAENLE: Any objection, Mr. Trotter.

14 MR. TROTTER: Your Honor, the certificates  
15 of service indicate that they served counsel, didn't  
16 serve the Commission. None of these -- there's  
17 service on Paul Curl or the Commission. I believe  
18 from my experience when I get notices of this type I  
19 would assume that the Commission is being served. I  
20 would just like the representation of counsel that the  
21 Commission was served with these notices.

22 MR. VAN NOSTRAND: I believe inasmuch as  
23 there wasn't a docket number assigned to an upcoming  
24 PRAM that had yet to be filed they probably were not

25 served on the secretary, but they were served on the  
(MOAST - CROSS BY VAN NOSTRAND)

2832

1 companies who regularly appear in the company's  
2 general rate and PRAM proceedings because they are the  
3 parties who wish to have notification of the new  
4 resources the company was wishing to include in PRAM  
5 filings.

6 MR. TROTTER: My observation -- and clearly  
7 my name is Donald T. Trotter and I am listed here and  
8 Steven Smith, but the witness is testifying that  
9 according to him he didn't get the notice. The  
10 company isn't attempting to impeach that testimony  
11 through these exhibits but these exhibits do not  
12 exhibit that the Commission was served, and when the  
13 Commission is served they get routed to the staff, and  
14 under normal representation of record when I get  
15 documents of this type that go into my file I assume  
16 the Commission is being served. So if these are being  
17 offered for impeachment purposes the record needs to  
18 reflect that these documents were not served on the  
19 Commission.

20 JUDGE HAENLE: I understood these to be  
21 offered to impeach your witness' statement about the  
22 parties not being served on page 29 of the testimony  
23 and I believe that your comment would not necessarily  
24 go to that.

25                   MR. TROTTER: I see. I assumed impeachment  
(MOAST - CROSS BY VAN NOSTRAND)

2833

1 testimony only as to parties other than the  
2 Commission.

3                   JUDGE HAENLE: Do you have an objection to  
4 the document?

5                   MR. TROTTER: With the understanding that  
6 the Commission was not served with any of these I  
7 don't object.

8                   JUDGE HAENLE: Have you an objection, Mr.  
9 Adams?

10                   MR. ADAMS: No.

11                   MR. TRINCHERO: No objection.

12                   JUDGE HAENLE: Exhibit 786, 787 and 788  
13 will be entered into the record. We need to look for  
14 a good stopping place between -- I don't know how much  
15 longer you have on this subject.

16                   (Admitted Exhibits 786, 787 and 788.)

17                   MR. VAN NOSTRAND: Probably about 25  
18 minutes.

19                   JUDGE HAENLE: Can you make a note to  
20 yourself about where you are and then we can begin  
21 again with that?

22                   MR. VAN NOSTRAND: Sure.

23                   JUDGE HAENLE: We're going to begin at  
24 9:00 in the morning on Monday. We still do have the

25 rest of this witness and one additional staff witness

(MOAST - CROSS BY VAN NOSTRAND)

2834

1 that we were scheduled to take today so we've got a  
2 number of people to take. I don't know if we'll take  
3 them on Monday or not. We will be in recess until  
4 9:00 on Monday.

5 (Hearing adjourned at 5:00 p.m.)

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