

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

2

3 PETITION OF PUGET SOUND POWER)
& 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)
10 PUGET SOUND POWER & LIGHT)
COMPANY,)
11 Respondent.)

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

14 vs.) DOCKET NO. UE-921262

15)
16 PUGET SOUND POWER & LIGHT) VOLUME 22
COMPANY,) PAGES 3736 - 3890
17 Respondent.)

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18

19 A hearing in the above matter was held on
20 June 23, 1993 at 1:30 p.m., at 1300 South Evergreen
21 Park Drive Southwest, Olympia, Washington, before
22 Commissioners RICHARD HEMSTAD and RICHARD CASAD and
23 Administrative Law Judge ALICE HAENLE.

24

25 Cheryl Macdonald, RPR, CSR, Court Reporter

1 The parties were present as follows:

2 WASHINGTON UTILITIES AND TRANSPORTATION
3 COMMISSION STAFF, by SALLY G. BROWN, Assistant
4 Attorney General, 1400 South Evergreen Park Drive
5 Southwest, Olympia, Washington 98504.

6 PUGET SOUND POWER & LIGHT, by JAMES VAN
7 NOSTRAND, Attorney at Law, 411 - 108th Avenue NE,
8 Bellevue, Washington 98004.

9 PUBLIC INTEREST, by CHARLES F. ADAMS,
10 Attorney at Law, Suite 2000, 900 Fourth Avenue,
11 Seattle, Washington 98164.

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1	YOUNG	3745			
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3	SMITH	3760			
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2

P R O C E E D I N G S

3

(Marked Exhibit 872.)

4

JUDGE HAENLE: The hearing will come to order. This is a 22nd day of hearing in the consolidated Puget docket numbers. The hearing is taking place on June 23, 1993 at Olympia, Washington before the Commission. The purpose of the hearing today is to take testimony from members of the public about the consolidated Puget rate filings. The hearing is taking place before Commissioner Richard Hemstad who is sitting on my left. My name is Alice Haenle, and I am the administrative law judge assigned to the case.

15

16

17

18

19

20

I introduced to you before we went on the record those representatives of the parties who are here today. They include James Van Nostrand, on behalf of the Company; Sally Brown on behalf of the Commission; and Charles Adams who is acting as public counsel.

21

22

23

We asked you if you planned to give testimony to please print your name and address, including the zip code, on the sign-in sheet at the

24 back of the room. Mr. Adams will then call your name
25 and you will give your testimony, one person at a

(COLLOQUY)

3740

1 time. I asked you also if you brought written
2 materials with you. When you're done giving your
3 testimony about them, if you will give these materials
4 to me, I will put them in with the exhibit that goes
5 with the hearing to date.

6 Because of the number of people we have to
7 cover and to make sure everyone can give their
8 testimony, I will ask you to limit yourself to five
9 minutes. If you have written material you can
10 summarize it, hit the high points and then give me the
11 entire written statement.

12 Mr. Adams, did you want to give a brief
13 description of the case?

14 MR. ADAMS: Thank you, your Honor. I will
15 make a brief summary. I think most of you picked up a
16 copy of the letter and I believe there is a fax sheet
17 as well back there. Gives you an idea of some of the
18 issues. There are basically two cases consolidated
19 today for hearing. One of which is the company's
20 request for general rate increase of about \$117
21 million. The second is the issue of redesigning some
22 of the company's rates or what we call the rate design
23 case.

24 Perhaps I ought to add to it, some of you
25 may have seen either in the newspaper or maybe if

(COLLOQUY)

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1 you've begun getting notices that the company has
2 subsequently, as of about three weeks ago, filed for a
3 PRAM rate increase of \$76 million. That's an addition
4 to the \$117 million being requested by the company in
5 the general rate case. That proceeding has not yet
6 gone to hearing in front of the Commission. So today
7 we're primarily aiming at the general rate case and
8 the rate design case.

9 If you look through the letter you can pick
10 up some of the specifics, but I think it is important
11 for you all to realize that one of the major issues in
12 the general rate case is whether what has been called
13 decoupling and the PRAM itself should be continued,
14 whether it should be modified or, as I say, eliminated
15 entirely.

16 Several years ago the Commission began this
17 experiment which was attempting to decouple the
18 company's sales from its profits to try to encourage
19 the company to invest in conservation, other
20 efficiency improvements and so forth which might
21 actually decrease the company's sales and without
22 decoupling conceivably hurt the company financially.
23 In addition, it adopted this PRAM mechanism which is

24 an annual event where the company updates its costs
25 for the current period, both updates past costs and

(COLLOQUY)

3742

1 projects for the next year.

2 Now, that PRAM picks up the effects of
3 decoupling and it also obviously picks up things like
4 weather, hydro conditions, other costs of the company,
5 new resource additions and so forth and those are some
6 of the dollars that are at issue in the \$117 million
7 rate request.

8 Just to give you an idea, on the rate
9 design case, there one of the issues is the
10 residential rate design. I think many of you here are
11 residential customers. Currently there are three
12 blocks in the residential rate tariff, that is, the
13 first 600 at one rate; the next from 600 to 1,000 at a
14 slightly higher rate; and then all over 1,000 KWH
15 usage per month at the highest rate. That's called an
16 inverted tail block. The company is suggesting that
17 that be reduced to a two block rate structure which
18 would be the first 800 KWH at one block and then the
19 tail block is anything above that.

20 The rate request, the \$117 million in terms
21 of a percentage increase, if it was all applied in the
22 first year approximates 12.7 increase to residential
23 customers, somewhat smaller increases to some of the

24 commercial customers and slightly higher increases
25 to some of the high voltage industrial customers.

(COLLOQUY)

3743

1 As I say, in addition the company has made the PRAM 3
2 filing which is not yet at issue, but that would be
3 approximately an additional 6.4 percent increase if
4 that was implemented all in one year. Now, the
5 company has suggested that these increases be phased
6 in and so they would -- most likely any increases
7 would not be that high and obviously if the Commission
8 disallowed certain costs it could be even lower. So
9 what I've given you is if it was all put into effect
10 in one year but the company's proposal is to phase it
11 in over several years so it could be considerably
12 lower than that.

13 There have been a number of issues
14 discussed and obviously we're here today to hear your
15 comments, both on those issues or particular issues of
16 interest to you. Several issues to briefly mention
17 that have been discussed relate, one, to the cost of
18 capital to the company, what should the appropriate
19 profit level, if you will, be for Puget. There has
20 been, just to give you an example, of the difference
21 between the staff's recommendation and the company's
22 recommendation, amounts to \$36 million a year. So
23 what I am saying is there is a considerable swing in

24 allowed increase depending what number you were to
25 pick in the area of the profit level.

(COLLOQUY)

3744

1 New resources, there's a whole bunch of new
2 cogeneration that's come in approximately 684 megawatts
3 of small hydro and new resources and approximately 28
4 average megawatts of conservation savings. These are
5 being added in as part of the costs the company is
6 seeking to recover. Prudence is another issue.

7 Finally, as I've just indicated, new
8 conservation investments are also sought to be
9 recovered in this proceeding. One issue that's been
10 raised both by staff and public counsel is the
11 company's advertising campaign and whether those
12 amounts of money should be chargeable to ratepayers.

13 Anyway, those are sort of a brief overview.
14 You can look at the letter for more details and I
15 will, as the judge has already said, I will call your
16 name in order off of the list.

17 JUDGE HAENLE: Go ahead, Mr. Adams.

18 MR. ADAMS: The first witness to sign up is
19 James Young and Mr. Young, as you're coming up, would
20 you come up front and be sworn.

21 Whereupon,

22 JAMES YOUNG,

23 having been first duly sworn, was called as a witness

24 herein and was examined and testified as follows:

25

(YOUNG - DIRECT BY ADAMS)

3745

1 DIRECT EXAMINATION

2 BY MR. ADAMS:

3 Q. Jim, would you state your full name and
4 spell your last name?

5 A. Yes. James, middle initial A, Young,
6 Y O U N G.

7 Q. You get to be the guinea pig of me asking
8 the preliminary questions. Would you give us your
9 address, please.

10 A. I am in the process of moving. I am going
11 to, for the record, give you my new address. It's
12 8525 - 438th Avenue Southeast, North Bend, 98146.

13 Q. Mr. Young, are you a residential or other
14 kind of customer of the company?

15 A. I am a residential customer, two dwellings
16 right now.

17 Q. Get you reclassified as commercial pretty
18 soon. Are you speaking individually or for any group
19 or organization?

20 A. The five minutes has me worried. I am
21 speaking for, I guess it would be a quasi-organization.
22 It's a group of volunteers known as a rate design task
23 force that was organized under the rate design

24 collaborative at the behest of Puget Power and
25 implicitly at the behest of the WUTC.

(YOUNG - DIRECT BY ADAMS)

3746

1 Q. Could you indicate very briefly how many
2 consumers were on that group?

3 A. We started with 38 and we ended with 30.

4 Q. And your meetings lasted approximately a
5 year, is that a fair statement?

6 A. No, actually six months would be more
7 accurate. We met first in October and ended in March.
8 A little bit of it filtered into April of 1992.

9 Q. And at the conclusion of your
10 deliberations, do I understand you presented
11 recommendations to both the company and to the, if you
12 will, other parties in the collaborative process?

13 A. Yes.

14 Q. Is part of your purpose today to present
15 those recommendations?

16 A. That's half of my purpose. The biggest
17 half, the most important half is to present the
18 recommendations of that group for the record to the
19 Commission. And I presume the WUTC has that since I
20 presented it to them earlier at the collaborative.
21 The other purpose is I do have some personal comments
22 that address the entire hearing, the issues at
23 hearing. If I have time for that I will. If not, I

24 will yield.

25 Q. That's fine. I would ask you to try to

(YOUNG - DIRECT BY ADAMS)

3747

1 note the distinction when you're moving from the task
2 force presentation into your own personal comments.

3 A. I will.

4 Q. I believe that the projector here is at
5 your request?

6 A. Can I change positions or do I need to stay
7 here?

8 JUDGE HAENLE: The problem is that the
9 court reporter may have trouble hearing you. If you
10 want to take that microphone.

11 Q. Am I correct that you have basically
12 documentation of whatever slides you're going to show
13 so that the record will reflect those?

14 A. Right.

15 THE WITNESS: May I leave that with you?

16 JUDGE HAENLE: Yes.

17 A. Actually, every bit of this documentation
18 is in this final report which I've shown here just for
19 familiarization for those who have not seen it. For
20 those of you who will be seeing it, this is what
21 you're looking at. We convened on the 9th of October
22 in 1991. 38 volunteers solicited by Puget Power based
23 upon whatever rationale they could come up with. We

24 basically came from -- come from all walks of the
25 community who are residential ratepayers.

(YOUNG - DIRECT BY ADAMS)

3748

1 I wanted to call your attention, all
2 members here, to the third paragraph because I feel it
3 appropriate and particularly with the cooperation we
4 had with the parties involved Puget Sound Power and
5 Light, the attorney general's office, and the WUTC
6 members that worked with us on the collaborative as
7 well as supporting us in other ways, and we are
8 grateful for that assistance and we felt as though we
9 were objective and we had the latitude to pursue it
10 accordingly.

11 Again, on paragraph 4 there if you turn
12 your attention momentarily to that, the type of people
13 we had there, I've left off one physicist who was
14 mentioned to me earlier today, but accountants, home
15 makers, craftsmen, homemakers, educators. We even had
16 an electric utility executive in our group, not Puget
17 Power's executive, I might add.

18 What I am going to try to rush through, and
19 I apologize for it and I hope someone from this
20 Commission will be in touch with me if they feel it
21 necessary to go into this in more more detail, I am
22 going to cover just superficially the executive
23 summary of recommendations which is indicated in

24 number four but it will include all of those areas
25 below that, the general residential ratepayer advisory

(YOUNG - DIRECT BY ADAMS)

3749

1 group, reduced expenses incentive and then rate
2 spread, those subelements I won't repeat them. The
3 rate design on the residential and those subelements
4 and the rate design under commercial, industrial,
5 other.

6 I will pause here and say that we were not
7 constrained in what we were asked to look at. We were
8 given just an open slate to look at anything we wanted
9 to look at in terms of what, for example, the
10 collaborative itself might be looking at. So I can
11 say to you that we sat at membership on the
12 collaborative and we represented, we felt we
13 represented the residential ratepayer and we felt as
14 though we had a sufficient cross-section to do that
15 reasonably.

16 I will just race right into it, and I think
17 that's the best way to handle it here. The first
18 thing, after we looked at across the board at all the
19 things we were involved with we realized that there
20 just wasn't enough time, information saturation took
21 place, but we felt like it was a terribly good idea to
22 have residential people meet and become informed. As
23 far as we could see there is no organized, enduring,

24 well-informed forum of residential ratepayers that
25 could bring in all of their points of view and then

(YOUNG - DIRECT BY ADAMS)

3750

1 look at the big picture of the utility, revenues
2 required, technology involved and so forth and then
3 make an advised recommendation.

4 We feel like there should be some enduring
5 method to do this, and without going into a lot of
6 detail, it's in the writing, we feel like there isn't
7 such a forum now and that there should be. And as I
8 understand it, counsel is reviewing this methodology.

9 The next one is reduced expenses incentive.
10 I, as a matter of credentials, I have substantial
11 corporate experience myself in an organization, at the
12 top of an organization of 150,000 people and billions
13 of dollars in operational expense and cost. And the
14 one thing I assign up to and that we, as a group,
15 agreed to is that Puget Power operates on a relatively
16 fixed revenue. There's very little incentive.

17 The more it costs to operate then you
18 change rates accordingly and the revenue stays about
19 the same. The less costs you change revenue --
20 revenue stays constant and you change the rates
21 accordingly.

22 It is patently obvious to our group that
23 there needs to be a mechanism for incentive for Puget

24 Power to increase -- this may sound blasphemous from
25 somebody testifying on behalf of the residential side

(YOUNG - DIRECT BY ADAMS)

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1 but from a corporate point of view there is no method
2 by which we see that over the long term Puget Power
3 can increase revenues and enhance investment in that
4 company from an investor standpoint. I do not invest
5 in Puget Power, for your information.

6 So what I am saying here is they are
7 allowed certain short-term gains, as we understand it.
8 There needs to be a methodology whereby through their
9 own initiative and incentives if they save sufficient
10 money in the operation of their company then it should
11 be distributed back to the company and to the
12 ratepayers in some proportion. It's in the writing,
13 and I can't go on in too much length unless you all
14 have questions, but there are ways of doing that and
15 it should be looked at very hard, as far as we're
16 concerned.

17 We looked at rate spread as well as rate
18 design and the rate spread group looked at the idea of
19 fair share costing. I am switching gears on you here
20 just because time is going by.

21 JUDGE HAENLE: Well, actually maybe we
22 could go off the record for just a minute.

23 (Discussion off the record.)

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

25 During the time we were off the record I had indicated

(YOUNG - DIRECT BY ADAMS)

3752

1 that because we have a number of people who are
2 intending to give testimony today and because I had
3 asked people to limit their comments to five minutes
4 so that everyone would get the chance to speak,
5 Mr. Young has agreed to come back on and finish his
6 comments after the other comments have been made so
7 that the Commission can hear the remainder of the task
8 force's recommendation. Appreciate your flexibility.

9 Go ahead, Mr. Adams.

10 MR. ADAMS: I would call Captain Earl
11 Eigabroadt.

12 Whereupon,

13 EARL E. EIGABROADT,
14 having been first duly sworn, was called as a witness
15 herein and was examined and testified as follows:

16

17 DIRECT EXAMINATION

18 BY MR. ADAMS:

19 Q. Would you state your full name and spell
20 your last name, please.

21 A. Earl E. Eigabroadt, E I G A B R O A D T.

22 Q. Could you give us your home address or
23 business address?

24 A. 2950 Tumbleweed Lane Southeast, Port
25 Orchard 98366.

(EIGABROADT - DIRECT BY ADAMS)

3753

1 Q. Are you a residential or commercial
2 customer or some other kind of customer?

3 A. Residential customer, sir.

4 Q. Speaking individually or for a group?

5 A. Individually.

6 Q. Go ahead.

7 A. I should add that I have never had any
8 association with any utility other than as a customer.
9 Neither have I ever been affiliated with any
10 environmentalist, consumer or other public interest
11 group. My views are my own and are influenced by no
12 one else. Your Honor, I will try to abbreviate my
13 comments and I have this in writing.

14 I would not deem myself qualified to
15 venture an opinion as to whether Puget Sound Power and
16 Light should be granted or should not be granted a
17 general rate increase at this time. Although I have
18 no credentials in economics or finance I've been
19 exposed to both disciplines enough to know that any
20 investor-owned utility like any other business has to
21 have a reasonable profit to survive. I also like to
22 make it clear, in view of the makeup of the
23 congregation here today that I do not view myself as

24 an adversary of Puget Power. Indeed, I have several
25 times assured Chairman Ellis and my good friend Corey

(EIGABROADT - DIRECT BY ADAMS)

3754

1 Knutsen, who's present, that their company has no
2 firmer friend nor more loyal customer than your
3 present speaker.

4 These details haven't been put on the
5 record. I should like to address briefly the matter
6 of the demand side management or DSM and verifying the
7 results thereof, incentive rewards and penalties and
8 the decoupling mechanism.

9 It happened while I was preparing my
10 remarks I received some additional information which
11 has helped a lot. Ever since Puget Power staged its
12 famous General Elliskopf extravaganza a couple of
13 years ago, I've been asserting to anybody I could get
14 to listen or to read that in my judgment no one knows
15 how many megawatts Puget Power is, quote, acquiring,
16 quote through its conservation campaign.

17 Eminently qualified researchers have
18 established conclusively that time is required for
19 verification of these results of energy conservation
20 measures or ECMs as they are known -- time for a
21 comparison of pre- and post-ECM action. And this is a
22 process that could be accomplished effectively only by
23 metering, before and after the improvements are made.

24 These studies reflect that with passage of
25 time benefits assumed to be gained tend to erode,

(EIGABROADT - DIRECT BY ADAMS)

3755

1 frequently by as much as from one-third to one-half,
2 and I have a partial list of references from which I
3 obtained this information which is attached to this
4 confirmation.

5 One of the more recent studies was
6 completed and the results published last year by
7 Dr. Paul L. Joskow and Donald B. Marron of the
8 Department of Economics at MIT. Their study was of
9 the DSM actions of ten utilities of which Puget Power
10 was one of; so was Pacific and Southern California
11 Edison. In many instances utilities failed to report
12 all relevant costs.

13 Second, with few exceptions, their reports
14 or results were based on engineering projects alone
15 with little, if any, attention given to verification.
16 And in some the researchers concluded, accordingly,
17 that on the average the cost of what they call a
18 "negawatt hour" computed from a utility reports
19 significantly underestimates the true societal costs
20 of conservation achieved. They go on to state that
21 while it was difficult to calculate the magnitude of
22 the underestimates they also suggest they may be
23 subject to error on the average by a factor of two or

24 more.

25 Now, if Puget Power has underestimated any

(EIGABROADT - DIRECT BY ADAMS)

3756

1 of its costs and/or overestimated its results or
2 anything approaching the scale reported by the MIT
3 professors, and after all Puget Power was one of the
4 utilities studied, the program obviously is not cost
5 effective.

6 I am a layman in this area, ladies and
7 gentlemen. But I have studied the subject extensively
8 as my capabilities and my resources have permitted and
9 I believe such to be the case. And yet Puget Power,
10 before the end of February 1992, reported the
11 "acquisition" of 17.58 megawatts through its 1991
12 effort and about the same point this year, 27.90 in
13 1992, and claimed incentive payments based on
14 exceeding its goal or goals.

15 JUDGE HAENLE: You're going to need to
16 summarize, if you can, in order to get to your other
17 points.

18 THE WITNESS: I am almost through.

19 A. Those figures can be nothing but
20 engineering projections. Not when they nail it down
21 to one one-hundredth of one megawatt. Well, they
22 can't fault Puget Power for that because with the
23 incentive payment system a hundredth of a megawatt is

24 real money. It is my contention, your Honor, and
25 Commissioners, that incentive payments should be made

(EIGABROADT - DIRECT BY ADAMS)

3757

1 only after the results are verified by pre- and
2 post-ECM mirroring.

3 On the decoupling mechanism, and again I
4 will have to -- as Mr. Adams has brought out, there
5 have been questions raised about the degree of income
6 that should be derived with so little risk. Utilities
7 protected against the risk of weather, investment,
8 such catastrophe such as the storm we had the year
9 before last and whether perhaps the rate of return
10 should be reduced in recognition of the eliminated
11 risk. Again, as a layman, the only investment I can
12 think of similarly sheltered from risk is a U.S.
13 Treasury obligation.

14 Finally raise one other objection.
15 Decoupling, which is defined as raising profit on
16 some other than product delivered is exactly the
17 procedure that was followed by the late Union of
18 Socialist Soviet Republics. Maybe we should learn
19 from their example.

20 Finally, again, I bear Puget Sound Power
21 and Light no ill will and I can't fault them for
22 participating in this decoupling process but if I
23 don't pounce on Puget Sound Power & Light, no one else

24 will. Were I a member of their board or the board of
25 any other corporation offered a deal like this

(EIGABROADT - EXAM BY COMMISSIONER HEMSTAD) 3758

1 guaranteed rate of return on equity with zero risk I
2 certainly would vote for it.

3 JUDGE HAENLE: Questions, Counsel?

4 MR. ADAMS: No. You have a copy of the
5 statement.

6 JUDGE HAENLE: Commissioner, questions?

7 COMMISSIONER HEMSTAD: Yes.

8

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

10 BY COMMISSIONER HEMSTAD:

11 Q. What is your business background?

12 A. I am retired professional soldier, sir,
13 with some post military experience in insurance,
14 banking and real estate.

15 Q. What would you have this Commission do,
16 then, go back to the regulatory arrangements prior to
17 the current experiments?

18 A. Again, Mr. Commissioner, I am not qualified
19 to make a specific recommendation on that.

20 Q. Do you think that system provided
21 sufficient incentives for conservation? Let me phrase
22 the question a different way. Do you think the
23 current system, at least, provides a mechanism to

24 encourage conservation of resources?

25 A. I think it's probably a step in the right

(EIGABROADT - EXAM BY COMMISSIONER HEMSTAD) 3759

1 direction. But my big question is -- or I won't call
2 it objection -- reservation -- is that the system, as
3 it is, permits the utility to come in with unverified
4 reports of conservation acquired and claim incentive
5 payments based on that. I think it is dangerous,
6 Mr. Commissioner, to replace a 100 watt incandescent
7 light bulb with a 20 watt fluorescent lamp and thereby
8 credit yourself with 80 watts. You won't get that
9 because the guy with the 20 watt bulb is going to be
10 as careful turning that on as he was with the 100.
11 Same with the reduced flow showers. We won't stay
12 under them longer. What we need is a system of
13 verification and that's beyond my competency.

14 Q. But I would assume that you would agree
15 that even if a system of verification is not perfect
16 if we have mechanisms that attack that problem to
17 measure verification that would be an attractive way
18 to pursue societal goals that are desired?

19 A. Perhaps so.

20 COMMISSIONER HEMSTAD: No further
21 questions.

22 JUDGE HAENLE: Thank you, sir. You may
23 step down.

24 MR. ADAMS: Earle Smith.

25 Whereupon,

(SMITH - DIRECT BY ADAMS)

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1 WILLIAM EARLE SMITH, JR.,

2 having been first duly sworn, was called as a witness

3 herein and was examined and testified as follows:

4

5 DIRECT EXAMINATION

6 BY MR. ADAMS:

7 Q. State your full name and spell your last.

8 A. William Earle Smith -- and I think Smith is
9 easy -- Junior.

10 Q. Give us an address, business or home.

11 A. 1076 Rindal, R I N D A L, Court Northeast,
12 Poulsbo, Washington 98730.

13 Q. Are you a residential or commercial?

14 A. I am residential but I will be representing
15 business.

16 Q. Go ahead and explain.

17 A. I am president of the Economic Development
18 Council for Kitsap County and will be representing the
19 businesses so associated in Kitsap County. I really
20 came to laud Puget Power because they have been a good
21 neighbor in Kitsap County, and I would like to speak
22 to Puget Power's corporate worth to what they have
23 meant to our community.

24 Puget has been more than a good neighbor.
25 They have volunteered time and effort to help our

(SMITH - DIRECT BY ADAMS)

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1 community. Mr. Ray White, the recent retired western
2 field division director, was the chairman of my board
3 for three years. He worked tirelessly to ensure that
4 we keep the quality of life in Kitsap County that we
5 want as we are still the fastest growing county in the
6 state of Washington. His relief, Mr. Merv Rosendahl,
7 is now on my executive board. Puget Power has run
8 four summits in our county, three community summits
9 and one diversification summit.

10 The community summit they ran in '89 in the
11 city of Bremerton is the real reason that the city of
12 Bremerton is revitalizing today and without Puget's
13 know-how and technical ability, I don't think we could
14 have gotten it done. I know I couldn't have. Their
15 participation brought with them the moderators, the
16 facilitators, the resource people from other corporate
17 entities and from the state to help us.

18 Because that one went so well, in 1990 we
19 ran a summit in Poulsbo. Because that one ran so
20 well, in '91 we ran one in Silverdale. In '93, we ran
21 a diversification summit where 233 people in Kitsap
22 County came to a consensus that we are too dependent
23 upon the Navy and we need to diversify.

24 What I guess I am trying to tell you is we
25 are pleased to have Puget Power in Kitsap County and

(SMITH - DIRECT BY ADAMS)

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1 our quality of life today would not be what it is
2 today if Puget Power was not a caring and participating
3 corporate entity and we're pleased to have them and we
4 hope they stay. And that's the end of my statement.

5 JUDGE HAENLE: Counsel, questions?

6 MR. ADAMS: Just one.

7 Q. Do you have any recommendation in terms of
8 the rate increase request that's at issue?

9 A. I am not qualified to do that. I am sure
10 you all will do that well. We want Puget to be a
11 healthy company and whatever you all decide I am sure
12 Puget will hopefully be able to live with because we
13 want them to be alive and well.

14 Q. Thank you.

15 JUDGE HAENLE: Commissioners, questions?

16 COMMISSIONER CASAD: No questions.

17 COMMISSIONER HEMSTAD: No questions.

18 MR. ADAMS: John Phillips.

19 Whereupon,

20 JOHN PHILLIPS,

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

23

24

DIRECT EXAMINATION

25 BY MR. ADAMS:

(PHILLIPS - DIRECT BY ADAMS)

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1 Q. Mr. Phillips, you've heard the drill.
2 Would you state your full name and spell your last
3 name?

4 A. John Phillips, P H I L L I P S. My address
5 is 5417 Countryside Beach Drive, Olympia 98502. I am
6 a residential and commercial customer as an
7 individual. I am here representing myself and my own
8 views.

9 Q. Go ahead.

10 A. Like Mr. Young, I have two residential
11 accounts right now. I am also moving. In fact,
12 please excuse my casual dress. I took a little time
13 out today being local to come and register a couple of
14 comments and I will go back to moving with the family
15 after this.

16 Q. Let me ask you which is more fun, moving or
17 testifying?

18 COMMISSIONER CASAD: I would be glad to
19 swap outfits.

20 THE WITNESS: That's a tough question.

21 Q. Go ahead, please.

22 A. I am here to register my support for Puget
23 Power's continued volunteer activity support. I

24 understand that it's a time of tough financial
25 decisions and a time when every cost and every

(PHILLIPS - DIRECT BY ADAMS)

3764

1 company, especially Puget's, needs to be recognized
2 and looked at, and I think it's a good time to look at
3 the support that Puget gives in its various
4 communities of activity to volunteer organizations.

5 I believe that if Puget or any other
6 company decides to begin withholding support in
7 volunteer activities then it's a time when the
8 communities start to die. I believe that volunteering
9 is a privilege and a responsibility that is the
10 foundation of the strength of our good communities,
11 and I would be strongly opposed to seeing any kind of
12 a rate reduction for that small part of its rate that
13 would continue to lend support for volunteer
14 organizations. And I would ask you to consider not
15 removing any volunteer organization support by Puget
16 Power.

17 JUDGE HAENLE: Counsel, questions?

18 BY MR. ADAMS:

19 Q. You spoke very generally and I wondered if
20 you could identify some of the specific volunteer
21 activities that you're referencing in a very general
22 sense?

23 A. Puget, in each community, chooses the area

24 that it's interested in, but certainly they are known
25 to be involved in many civic activities, the Economic

(PHILLIPS - DIRECT BY ADAMS)

3765

1 Development Council was mentioned. Chambers of
2 Commerce. There are so many areas and the volunteer
3 opportunities come and go and so I don't think it's
4 important that they're chosen with a bias toward any
5 one group or activity but just that there is a
6 reasonable budget place for volunteering and that
7 Puget employees are encouraged to continue
8 volunteering.

9 Q. Thank you.

10 COMMISSIONER CASAD: No questions.

11 COMMISSIONER HEMSTAD: No questions.

12 JUDGE HAENLE: Thank you, sir, you may step
13 down.

14 I did forget to mention, the very important
15 part that once you've finished giving your statement,
16 we need to give counsel an opportunity to ask you any
17 questions they might have about your statement and
18 also give the Commissioners a chance to ask questions.
19 So that's something that I missed in my opening spiel.

20 MR. ADAMS: Wayne Beckwith.

21 Whereupon,

22 WAYNE BECKWITH,

23 having been first duly sworn, was called as a witness

24 herein and was examined and testified as follows:

25

(BECKWITH - DIRECT BY ADAMS)

3766

1 DIRECT EXAMINATION

2 BY MR. ADAMS:

3 Q. Mr. Beckwith, would you state your full
4 name and spell your last name?

5 A. Wayne Beckwith, B E C K W I T H. I live at
6 606 Lilly Road Southeast, Apartment 223, Olympia,
7 98506. Speaking as an individual today and I am a
8 residential customer.

9 Q. Go ahead, please.

10 A. Did I cover all of the --

11 Q. You got it.

12 A. I am speaking also in support of two issues
13 in the Puget budget -- rate increase request and that
14 is, first, in support of community activities and
15 second, its estimated costs for purchase of
16 cogeneration.

17 First, on community costs. I think Puget,
18 as any large business, has marketing costs and also as
19 a good business, a successful business, they're going
20 to put those marketing monies and dollars where it
21 creates the best return. That's normal. And most
22 businesses can look at marketing anywheres from 3 to
23 12 percent of revenues. As part of this community

24 effort I think their conservation success is directly
25 attributable to their investment in the local

(BECKWITH - DIRECT BY ADAMS)

3767

1 community organizations, as well as its advertisement
2 program. All of that has come under marketing.

3 Under cogeneration, I think that most of
4 the general public do not realize that under federal
5 law, cogeneration is not often left to the company
6 to determine its purchase values and whether or not
7 it's going to purchase. And also the general public
8 is not aware of how much more costly most cogeneration
9 is over that utility's prime source of power.

10 And I would choose to ask the UTC that if,
11 in fact, it questions costs to the utility for
12 cogeneration that it may take on an effort at the
13 federal level with the congressional delegation to
14 correct some of these cogeneration laws and
15 regulations and so on that you're causing Puget Power
16 perhaps to -- which they have to handle because they
17 have to purchase that. And someone who buys or builds
18 a cogeneration facility, if it's done correctly I
19 realize, you're frowning there for a moment, but if it
20 builds a facility that creates power, can do it within
21 the framework of federal law. Often Puget Power, the
22 utility, has no choice but to contract for that power.
23 And that completes my comments.

24 JUDGE HAENLE: Questions, Counsel?

25 BY MR. ADAMS:

(BECKWITH - DIRECT BY ADAMS)

3768

1 Q. Mr. Beckwith, I just want to -- the frown
2 was I wasn't quite sure I understood what you were
3 asking. Have you been involved with, say, one of the
4 consumer panels of Puget?

5 A. No, I haven't. My background is primarily
6 in the communities. I am nine years active with the
7 Anchorage Chamber of Commerce and with Golden Valley
8 Electric Association, Matanuska Electric Association
9 and Chugach Electric Association, very deeply involved
10 with them as an individual and then in their
11 participation in the communities of Fairbanks,
12 Anchorage, Wasilla, so on and so on.

13 JUDGE HAENLE: Now you get to spell
14 Chugach.

15 THE WITNESS: C H U G A C H.

16 JUDGE HAENLE: And the other?

17 THE WITNESS: Matanuska is M A T A N U S K A,
18 I believe.

19 COMMISSIONER CASAD: What was the last one?

20 THE WITNESS: Golden Valley.

21 COMMISSIONER CASAD: Wasilla, W A S I L L A?

22 THE WITNESS: W A S I L L A. And here a
23 little over three years activity with the Olympia

24 Chamber of Commerce.

25 Q. Okay. When you talked about volunteering

(BECKWITH - DIRECT BY ADAMS)

3769

1 and so forth, that's the Chamber of Commerce that
2 you're referring to?

3 A. Yes, as well as any of the Economic
4 Development Councils or any economic groups within all
5 of those communities.

6 Q. And let me just ask you again, also, do you
7 have an opinion on the rate increase request per se
8 other than those specific issues?

9 A. I think those two issues, if the company
10 chooses to ask for those rate issues -- correction --
11 those issues as part of their overall rate increase,
12 marketing costs on the one hand and cogeneration
13 costs, I think that the Commission needs to look at
14 those more favorably than this document indicated.

15 One of the things you did not address under
16 cogeneration is a high risk on future availability of
17 that cogeneration cost which I think has to be in
18 those contract costs. There's high risk in purchasing
19 cogeneration power. And I don't think you've observed
20 that here.

21 JUDGE HAENLE: Commissioners, questions?

22 COMMISSIONER CASAD: I don't want to
23 unnecessarily prolong the discussion but I would like

24 to say a word about cogeneration.

25 I think there's cogeneration and

(BECKWITH - DIRECT BY ADAMS)

3770

1 cogeneration. There's good cogeneration which
2 fulfills a cost-effective role in a utility's resource
3 portfolio. It does serve a dual purpose. I think
4 what you're referring to are what have been termed
5 PURPA machines which have been developed exclusively
6 to try to reap benefit without particular input.

7 There is an avoided cost criteria which is
8 observed when a project or a resource is acquired by
9 Puget and must meet that test. So Puget has not gone
10 out and acquired cogeneration that is not cost
11 effective, and I think has done, as the other
12 utilities in our state, has done quite a reasonable
13 job in the cogeneration resources that they have
14 acquired.

15 JUDGE HAENLE: Other questions?

16 COMMISSIONER HEMSTAD: No questions.

17 JUDGE HAENLE: Thank you, sir. You may
18 step down. Mr. Adams?

19 MR. ADAMS: Philip Dolan.

20 Whereupon,

21 PHILIP DOLAN,

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

24

25

(DOLAN - DIRECT BY ADAMS)

3771

1 DIRECT EXAMINATION

2 BY MR. ADAMS:

3 Q. Would you state your full name and spell
4 your last name?

5 A. Philip J. Dolan, one L in Philip. Last
6 name D O L A N.

7 Q. Give us your address.

8 A. 2337 Fir Southeast, Olympia, Washington
9 98501.

10 Q. Are you a residential or business customer
11 of the company?

12 A. Residential.

13 Q. Speaking for yourself or any organization?

14 A. Well, I am speaking for myself but I would
15 like to speak in behalf of the residential customers
16 with electric heat.

17 Q. Go ahead, please.

18 A. I am speaking -- is it all right to start
19 now?

20 Q. Please, go ahead.

21 A. I am speaking only in connection with the
22 rate design change. Of course these other rate
23 increases will add probably substantially to my power

24 bill, too, but I have no knowledge of just what effect
25 they will have. My home is a rather small home. It's

(DOLAN - DIRECT BY ADAMS)

3772

1 all electric, has electric heat in the ceiling. It
2 was built 30 years ago when the builders and the
3 power company were pushing all electric homes because
4 the more kilowatts you used the cheaper the power was.
5 And then maybe 15 years ago they reversed that and now
6 the cost of a kilowatt is now more expensive the more
7 you use. My home is only about 1,500 square feet and
8 I am sure that -- and in connection with this rate
9 design change, I merely am noting the percentage as an
10 increase and that's what I am basing my remarks on,
11 and of course the other increases will cause that
12 percentage to go higher.

13 So, I have written material here but I
14 turned it in before I -- as I entered the room. But I
15 have checked -- I have computed my costs for the last
16 12 months under the proposed schedule 7, two block
17 schedule 7. And I have compared it now with my
18 current schedule 7 costs. I have my bills. I have
19 attached my power bills to what I have turned in at
20 the desk there, and I have computed the costs under
21 the proposed schedule.

22 For June to August it starts with the two
23 months beginning in June 1992, my percent of increase

24 will be 25.14 percent. For the next two months it
25 will be 22.9 percent. For the next two months, that

(DOLAN - DIRECT BY ADAMS)

3773

1 is from October to December, it will be 18.7 percent.
2 And from December to February, 18 percent; from
3 February to April, 19.3 percent; and for April to
4 June, 17.5 or an average of 19.36 percent for the
5 year.

6 Well, I personally for a small homeowner
7 and the rest of us who are struggling along to get by
8 -- I've been retired for 22 years -- 20 percent seems
9 like a pretty high increase to me. And then along
10 with this \$178 million or whatever the figures are,
11 that's going to be more yet, and I know there are many
12 more rate increases down the line. So I am beginning
13 to worry. That's the only reason I am here today. I
14 didn't really plan to come up and say anything but I
15 have anyhow. So that's all I have to say.

16 JUDGE HAENLE: Questions, Counsel?

17 BY MR. ADAMS:

18 Q. Just wanted to ask you, when you computed
19 those percentages, Mr. Dolan, how did you do that?
20 You took your usage?

21 A. I used schedule 7 only, the basic rate is
22 \$10 under the new schedule. The first 800 kilowatts
23 under the new proposed schedule are 6.0277 and

24 thereafter 6.7571. Then the rates change and become
25 higher during the winter months. So I supported my

(DOLAN - DIRECT BY ADAMS)

3774

1 written material with my power bill, the actual power
2 bills are there that show computed by Puget Power.
3 The kilowatts are shown, kilowatts consumed are shown
4 on the power bill, the amount charged is shown and
5 I've just simply taken off those kilowatts and made
6 the new computation, which is a very simple thing to
7 do, but I do think that people like me who have
8 electric power have no idea -- I mean they don't
9 realize the increase that's going to take place or
10 many of them -- or many more might be here to talk
11 about it. But of course it is a little complex and
12 people sometimes are complacent, but I thought -- I've
13 been thinking about this for sometime so that's the
14 reason I make my remarks today.

15 Q. Have you contacted the company concerning
16 their conservation programs that might be targeted to
17 your type of home?

18 A. Well, I have the greatest respect for Puget
19 Power. They're a very fine organization, have fine
20 people working for them but what we're talking about
21 here are rates, as I see it. It's money coming out of
22 your pocket. They can cut their expenses but I am not
23 able to cut mine any further. I have insulated to the

24 maximum extent possible, and I cut my electric light
25 down. So I don't think there's any point in saying

(DOLAN - EXAM BY COMMISSIONER CASAD)

3775

1 that you must penalize people for using more
2 electricity. How are you going to use less? So if
3 they can reduce their costs why that's all that could
4 be done, I guess.

5 Q. Thank you.

6 JUDGE HAENLE: Commissioners, questions?

7

8

EXAMINATION

9 BY COMMISSIONER CASAD:

10 Q. Mr. Dolan, you indicated that you had done
11 everything you thought you could in the conservation
12 area. And have you consulted with the company at all,
13 talked to them about the conservation programs that
14 they offer?

15 A. Well, I have taken advantage of their
16 conservation programs. Like I say, they're a fine
17 company, they help me put in my storm windows, and
18 insulated my hot water tank and they furnished me a
19 shower reduction valve and furnished me one of these
20 fluorescent lights. All wonderful.

21 Q. That was what I wanted to try to establish.
22 Approximately your monthly bill, how many kilowatt
23 hours do you use?

24 A. Like I say, my house is only 1,500 feet and
25 I can handle what is handed out at the present time

(DOLAN - EXAM BY COMMISSIONER CASAD)

3776

1 but I am concerned about what is coming out in the
2 future. I have used 18,208 kilowatts in a 12-month
3 period which, compared to other people --

4 Q. I think a lot of residential customers have
5 gone through this same process in trying to sort out
6 what's the most cost-effective way to manage their
7 energy cost. You've done everything you could
8 apparently in the conservation area so doesn't look
9 like you can lower costs there. Is there any more
10 efficient heating source? You mentioned you had
11 radiant heat in the ceiling?

12 A. Yes.

13 Q. Have you explored any alternative heating
14 method? That's probably not the most efficient kind
15 of heating system.

16 A. Well, you mean from electrical?

17 Q. Either. Gas or electric?

18 A. Well, of course in my home I would have to
19 put in duct work, which would be quite expensive. I
20 would have to put in some kind of a furnace and --
21 well, I mean those are alternatives for the future but
22 it will be expensive.

23 Q. I think in today's environment with energy

24 costs the way they are, and we're all conscious of
25 them, that I think residential customers are well

(DOLAN - EXAM BY COMMISSIONER CASAD)

3777

1 advised to explore any cost-savings methodology that
2 might be out there. And sometimes I think what
3 appears up front, too, may be not be cost-effective.
4 Maybe over time might be, and you're obviously a very
5 careful and thorough examiner of your energy use, but
6 I would encourage you to try to continue to seek the
7 most efficient use of energy in your home that you
8 possibly can, and you have my -- I share your concerns
9 about the continuing escalating costs.

10 COMMISSIONER HEMSTAD: No questions.

11 MR. ADAMS: Blake Lindskog?

12 Whereupon,

13 BLAKE LINDSKOG,

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

16

17 DIRECT EXAMINATION

18 BY MR. ADAMS:

19 Q. State your full name.

20 A. First name is Blake V. Lindskog, spelled
21 L I N D S K O G.

22 Q. Could you give us your address, please?

23 A. 3745 Sunset Beach Drive Northwest. That's

24 Olympia 98502.

25 Q. Are you a residential or some other kind of

(LINDSKOG - DIRECT BY ADAMS)

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1 customer?

2 A. I am both, and today I am representing

3 commercial Lacey area Chamber of Commerce as

4 president.

5 Basically, I recognize the support that

6 Puget Power has given to this community, and I also

7 recognize that the capital requirements and that

8 the company needs to make a reasonable profit.

9 One of our concerns and as a resident in

10 this community for 36 years is that the possibility of

11 the restrictions that may be imposed on the volunteer

12 and the contributions made to an outfit such as ours,

13 our 501-C organization. You know, Puget Power

14 certainly offers a quality of life in our community

15 that is very important to all of us. I think we can

16 attest to that in the latest storm in April, that is

17 -- and also as a responsible corporation I think that

18 their involvement in our community has been important.

19 It will be important in the future.

20 I have worked with a number of different

21 members of Puget Power, some executives, some of the

22 regular force. I find them both effective in our

23 community and very helpful. I found that they

24 continue to be a strong support. I will hate to see
25 that restriction apply and I hope that we can vote in

(LINDSKOG - DIRECT BY ADAMS)

3779

1 favor of the continued support to the community
2 service programs that exist. That's it.

3 JUDGE HAENLE: Questions, Counsel?

4 BY MR. ADAMS:

5 Q. Mr. Lindskog, several other people have
6 also commented about the concern of the cutting of the
7 volunteer programs. What specifically in the rate
8 case is this issue, if you will?

9 A. It was brought to my attention that part of
10 the rate increase may, whether it be marketing
11 expenses or however it's implied that one of the ideas
12 to help cut costs would be to eliminate the funding of
13 the various organizations that they participate in
14 now, such as EDC, the Chambers, Rotaries, et cetera,
15 et cetera, and my position is that they strengthen our
16 community rather than -- that little bit of money put
17 aside to help these different organizations goes a
18 long way in both the responsibility for the
19 corporation and also for the strength in the community.

20 Q. You say it was brought to your attention.
21 Who brought that to your attention?

22 A. Just in the discussions that we've had with
23 our own members and their concerns that this might --

24 there's been no one specifically from the power
25 company. It's those in our general forums and we

(LINDSKOG - DIRECT BY ADAMS)

3780

1 discuss these things that this could have an impact.

2 Q. But I presume, is there a Puget Power
3 member as well?

4 A. There are several members.

5 Q. Also, do you have any opinion on the rate
6 increase per se other than this element of the rate
7 increase?

8 A. Yeah. I am not -- I would say that I
9 personally have not looked at the statistics other
10 than I do in my own line of business know that certain
11 requirements are required and reasonable profits are
12 important. So I personally have not studied the issue
13 to give a full opinion on that.

14 JUDGE HAENLE: Commissioners, questions?

15 COMMISSIONER CASAD: No questions.

16 COMMISSIONER HEMSTAD: No questions.

17 MR. ADAMS: Glen Brincken.

18 JUDGE HAENLE: Mr. Adams has the unenviable
19 task not only of deciphering some of the rather unique
20 handwritings but also some of the unusual
21 pronunciations that are always on the list.

22 Whereupon,

23 GLEN BRINCKEN,

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

(BRINCKEN - DIRECT BY ADAMS)

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1 THE WITNESS: Actually, very few can read
2 my writing, so he did a good job.

3 JUDGE HAENLE: Well, I haven't seen the
4 list. I wasn't referring to you specifically.

5

6 DIRECT EXAMINATION

7 BY MR. ADAMS:

8 Q. Can I ask you to state your full name and
9 spell your last?

10 A. Glen W. Brincken, one N in the Glen,
11 B R I N C K E N, 2217 Lakemoor Drive Southwest,
12 Olympia 98512.

13 Q. Are you a residential or commercial
14 customer?

15 A. Residential. I am also a Puget retiree and
16 I am representing some of the retirees in the area.

17 In view of the rate case, it is my
18 understanding that Puget may be required to curtail
19 funding of the medical benefit cost of Puget retirees
20 thusly shifting the burden or actually an additional
21 financial burden on the retirees. The retirees I've
22 discussed this with are obviously very concerned about
23 it, as most of them are on fixed incomes and inflation

24 has been eroding certainly their assets. Many
25 benefits costs have been escalating dramatically over

(BRINCKEN - DIRECT BY ADAMS)

3782

1 the past few years and payments have increased both on
2 the part of the company and on the part of the
3 individual retirees. And this cost, of course, will
4 continue to escalate, I am sure, as far as the medical
5 costs are concerned. Retirees have given many years
6 of their lives to the company and have planned on
7 these benefits and it would be a real hardship to
8 curtail them in any way. That's all I have.

9 Q. Mr. Brincken, has the company indicated to
10 its retirees that it would cut these programs?

11 A. No. I made some inquiries from Puget.

12 Q. And that's what I'm asking you about,
13 though.

14 A. Yes. And I understand there is a
15 possibility.

16 Q. And that is, what, dependent upon the
17 Commission's action in this rate case, is that your
18 understanding?

19 A. Right.

20 Q. And has the company quantified what the
21 cuts would be?

22 A. I have not requested that. I have not
23 asked that in the information, no.

24 JUDGE HAENLE: Commissioners?

25 EXAMINATION

(BRINCKEN - EXAM BY COMMISSIONER CASAD)

3783

1 BY COMMISSIONER CASAD:

2 Q. I find it a little surprising that medical
3 benefits which have been committed to by the company
4 to its retired employees would be possibly cut as a
5 product of this rate case. Quite frankly, I am at a
6 loss to understand how this Commission -- this
7 Commission has not disallowed any legitimate costs,
8 nor has the company requested any questionable costs
9 regarding the full funding of whatever its obligations
10 are to its retired employees for medical benefits. So
11 I am at a little bit of a loss to understand what
12 we're talking about here. Do you have any further
13 information?

14 A. No. I think this may be a supposition
15 certainly on my part.

16 Q. I see.

17 A. But this is something in our discussions,
18 and we do have regular meetings on the retirees in the
19 area, and this was something that was discussed
20 sometime and so we wanted to go on record as
21 indicating if there is any possibility of curtailing
22 that we are certainly concerned about it.

23 COMMISSIONER CASAD: Appreciate your

24 comment. I have been advised that there have been
25 some recommendations regarding this area generally and

(BRINCKEN - REDIRECT BY ADAMS)

3784

1 I will have to go back and review where we are. But
2 to my knowledge it has not occurred in the past that
3 anything of that nature has happened and there has
4 been a FASB, Federal Accounting Standards Board,
5 ruling regarding post-retirement benefits, but I don't
6 correlate that directly with this rate case. I
7 haven't read that specifically either so I cannot add
8 anything to that.

9 JUDGE HAENLE: Commissioners?

10 MR. ADAMS: One follow-up.

11

12 REDIRECT EXAMINATION

13 BY MR. ADAMS:

14 Q. There was a gentleman who spoke to the same
15 issue on Monday up in Bellingham, similar retiree of
16 Puget, and I wanted to find out if you agreed with his
17 statement. It's my understanding that this is not a
18 contractual right, in other words, that the company is
19 basically not bound to a certain level. That's
20 something that could be redetermined?

21 A. That's my understanding.

22 Q. The issue that you're talking about is
23 something that you would like to see the existing

24 situation continue on and not reduced?

25 A. That is correct.

(BRINCKEN - REDIRECT BY ADAMS)

3785

1 JUDGE HAENLE: How many more names?

2 MR. ADAMS: About a dozen. Tom Adams. No
3 relation.

4 Whereupon,

5 THOMAS ADAMS, JR.,

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

8

9 DIRECT EXAMINATION

10 BY MR. ADAMS:

11 Q. State and spell your last name.

12 A. I will deny any relationship as well. My
13 name is Thomas C. Adams, A D A M S, Junior. The
14 address I gave you was 1415 College Street Southeast,
15 Lacey, Washington. That's my common mailing and
16 business address. My home address is 2108 Trillion
17 Street Southeast, Lacey, Washington 98503.

18 Q. And are you a customer of the company, what
19 kind of customer, sir?

20 A. I am a commercial as well as a personal
21 homeowner in the area.

22 Q. You're speaking individually?

23 A. Speaking primarily for myself, my ideas,

24 but also as past president of -- an active member of
25 the Chambers of Commerce, the Economic Development

(ADAMS - DIRECT BY ADAMS)

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1 Council and similar business organizations.

2 Q. Is that for Lacey or Olympia?

3 A. I have been a member of the Olympia Chamber
4 in the past. I have been past president and long time
5 member of the Lacey Chamber of Commerce and I was
6 cofounder of the Thurston County Economic Development
7 Council, just recently retired.

8 Q. Go ahead.

9 JUDGE HAENLE: As you say that that is
10 your background, you have not been authorized to come
11 and speak for those organizations today, I assume?

12 THE WITNESS: That's correct.

13 JUDGE HAENLE: Go ahead and please remember
14 to speak slowly.

15 A. Yes. My experience with Puget Power is
16 much as was presented by previous witnesses,
17 particularly Mr. Smith, who was also the EDC director
18 in, I believe it was, Kitsap County. However, we have
19 always regarded Puget Power and its participation in
20 the community as a valuable resource. Without it, our
21 organizations would never have developed and the
22 community would never have developed without that
23 background and that assistance. We have always found

24 their executives or their personnel assigned to
25 various organizations as extremely capable,

(ADAMS - DIRECT BY ADAMS)

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1 knowledgeable, experienced and added much to the
2 process. I do appear -- well, I will say this. As a
3 ratepayer, not only for two commercial office
4 buildings but for my own home, I always have felt
5 fortunate in the Northwest with the power rates so I
6 have never challenged them to any great degree. Maybe
7 it's because I could afford to pay them a little bit
8 better than anybody else but I have not complained. I
9 have friends and family across the country and my
10 rates are much better and I appreciate that. However,
11 I have been advised and I have talked to company
12 people who indicated to me that their involvement in
13 the community could very well be curtailed if those
14 costs were not acceptable costs which could be passed
15 on to their customers and we have always valued them
16 as a valuable contribution. We think they have more
17 than made their way, paid their dues, that they paid
18 back to the community. They give back to the
19 community what they are charging in these respects,
20 even more so.

21 Their junior achievement program was
22 another one. It's a very valuable help in the
23 community. The Lacey Library has had significant help

24 and that was very much appreciated to get it off the
25 ground and get it open and operating. So it was with

(ADAMS - DIRECT BY ADAMS)

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1 the idea that we hope that that is a legitimate cost,
2 just as I am expected to contribute toward
3 organizations and contribute to the community, just as
4 the Olympia Brewery is; just as US West. Just as I
5 will say the school districts do. We like to see them
6 there, we need them there and I think it's a
7 legitimate expense that they should be allowed to
8 include it in their cost basis and let them pass it
9 on. I think it's money well spent.

10 Q. Does that conclude your remarks?

11 A. Yes.

12 Q. Just again a clarification. What was the
13 representation -- I gather you said you talked with
14 some of the company representatives. What was told to
15 you was at issue in this case relative to these
16 volunteer or support services that you're addressing?

17 A. It's my understanding and I talked to --
18 one of them was the current manager of the Puget Power
19 Olympia office has indicated that their ability to
20 pass these rates on and not having to absorb them as
21 part of their costs was before the Commission and that
22 they were concerned and obviously I was concerned.

23 Q. I'm sorry, just to be more specific, that

24 if they didn't get these costs passed on that they
25 would have to curtail their involvement? Is that what

(ADAMS - DIRECT BY ADAMS)

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1 the bottom line was?

2 A. The bottom line was that they would
3 possibly have to, and I am sure the local manager
4 doesn't make that decision. But they're concerned.

5 JUDGE HAENLE: Commissioners, questions?

6 COMMISSIONER CASAD: No questions.

7 COMMISSIONER HEMSTAD: No questions.

8 MR. ADAMS: Don Glitschka.

9 Whereupon,

10 DON GLITSCHKA,

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

13

14 DIRECT EXAMINATION

15 BY MR. ADAMS:

16 Q. Could you state your full name and spell
17 your last name?

18 A. Donald, middle initial W, last name spelled
19 G L I T S C H K A.

20 Q. An address?

21 A. 521 Cougar Street Southeast, Olympia,
22 98503.

23 Q. Are you a residential or business customer

24 of the company?

25 A. Well, I am a homeowner in the area. I am

(GLITSCHKA - DIRECT BY ADAMS)

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1 here basically to speak to the conservation program
2 that Puget Power offers and our participation in that
3 program on behalf of North Thurston School District.

4 Q. Could you explain a little bit to what your
5 position is?

6 A. I am the maintenance director for the
7 school district.

8 Q. You're authorized to speak today?

9 A. Yes. Basically I am here to share our
10 experience in Puget's conservation program. And to
11 encourage that that be permitted to continue. We have
12 had three projects that we have participated in with
13 Puget in correcting either equipment that was broken,
14 control systems that were down, and on those two
15 projects we were able to make those corrections with
16 about a third of the cost that it would have taken
17 otherwise. That money in turn was diverted back into
18 the classroom. We're looking at a difference of
19 30,000 versus 10,000. And it came at a time where our
20 budgets are tight, and they're certainly tighter today
21 than they were two years ago.

22 At the current time we are completing a
23 district-wide lighting retrofit program and that

24 involves converting fixtures, the kinds of tubes going
25 in, state-of-the-art tube, electronic ballasts. We

(GLITSCHKA - DIRECT BY ADAMS)

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1 are converting fixtures. We're delamping, all of the
2 things that we can do all of the things that we can
3 do, to reduce power without reducing lighting levels
4 in the classroom.

5 Puget Power is participating in that
6 program at a rate of about 46 percent. We project we
7 will save anywhere from a million-two to a million
8 and a half kilowatt hours per year. That converts to
9 roughly \$75,000 in energy savings let alone we will
10 have maintenance savings for the first three or four
11 years on top of that.

12 So in our school district and in this one
13 project alone that would enable us to provide
14 electrical power for about two-and-a-half new
15 elementary schools and meantime those deferred costs
16 can be used for other things primarily on the
17 instructional side.

18 So we understand there's some proposed
19 changes here that would reduce Puget Power's ability
20 to participate and offer those programs and on behalf
21 of our school district we would like to see that not
22 happen. We feel that it helps us, enables us to get
23 more money back into the classroom which is always a

24 challenge and enables us to also be a good efficient
25 manager of energy in terms of maintaining our

(GLITSCHKA - DIRECT BY ADAMS)

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1 facilities.

2 Q. Are you taking any position on the overall
3 rate increase?

4 A. Not today.

5 Q. Secondly, I think you indicated that there
6 was some concern that issues of this case might affect
7 that program. Could you please tell us what you heard
8 specifically?

9 A. It's my understanding, based on a letter
10 that we received, that if changes are not -- in other
11 words, if there is a reversal on the Commission stand
12 that the participation or the benefits that a school
13 district would be able to garner from the current
14 program would be reduced about 75 percent in terms
15 of the matching. And in that case those programs are
16 not going to be attractive to public schools.

17 We are currently participating -- we are
18 getting almost a 50/50 split, and about a six and a
19 half year payback for our particular district.
20 Without that participation, we would be getting to ten
21 years or more and most school boards, I don't think,
22 will participate in a program that has that long a
23 payback.

24 Q. Is that a letter from Puget Power?

25 A. Yes.

(GLITSCHKA - DIRECT BY ADAMS)

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1 Q. Could you provide us a copy of that letter?

2 Be glad to give you my card. I assume you don't
3 have it?

4 A. I did not bring it today. I will make sure
5 you get a copy.

6 JUDGE HAENLE: Shall we include that then
7 in the exhibit that will go with this hearing,
8 Mr. Adams?

9 MR. ADAMS: That would be fine. I have not
10 seen the letter nor has other counsel. I have no idea
11 what the nature of the letter is but I don't think I
12 have any objection to that.

13 JUDGE HAENLE: Mr. Van Nostrand, is that
14 all right with you?

15 MR. VAN NOSTRAND: Yes, it's fine.

16 JUDGE HAENLE: If you will provide it to
17 Mr. Adams, he will provide it to the rest of us.

18 THE WITNESS: I will do that.

19 JUDGE HAENLE: Other counsel, questions?
20 Commissioners?

21 Thank you, sir, you may step down.

22 MR. ADAMS: Priscilla Terry.

23 Whereupon,

24

PRISCILLA TERRY,

25 having been first duly sworn, was called as a witness

(TERRY - DIRECT BY ADAMS)

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1 herein and was examined and testified as follows:

2

3

DIRECT EXAMINATION

4 BY MR. ADAMS:

5 Q. Could you state your name and spell your
6 last name?

7 A. My name is Priscilla Terry, first name,
8 P R I S C I L L A, T E R R Y.

9 Q. Address, please.

10 A. My business address is 1000 East Union,
11 Suite 200, Olympia, Washington, and I am here speaking
12 as a business person. I am also a residential
13 customer.

14 Q. Could you identify the business or the
15 commercial interest that you have?

16 A. Yes. My small business is called Prime
17 Locations. It's a commercial real estate company.

18 Q. Are you speaking on behalf of your business
19 or are you also a member of, like, a Chamber of
20 Commerce?

21 A. Speaking probably as both and I am here to
22 add my voice to people who also belong to volunteer
23 organizations who wish to see Puget Power remain a

24 strong community member and generate the goodwill
25 that it has done over the last several years, probably

(TERRY - DIRECT BY ADAMS)

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1 since its inception.

2 It's my understanding from, I guess, people
3 talking in the Chamber that there's a possibility that
4 the costs of participating in these volunteer
5 organizations may not be able to be added to the rate
6 base for Puget Power. If that's the case, I would
7 like to object to that, and I would like to encourage
8 the Commission to allow these costs be able to be
9 passed on to the ratepayers. Prime Location, my
10 business, is a very small business. We contribute to
11 probably eight or ten local organizations. We
12 strongly believe in community participation and it is
13 a large percentage of our overhead, probably, I
14 suspect, much larger percentage than Puget Power's.
15 We do it because we believe in giving back to the
16 community and we think it is a good source of goodwill
17 and all of those things that accompany that to us.
18 That's the end of my statement.

19 Q. Could you just identify the volunteer
20 organizations that you're referring to?

21 A. There's several chambers, even the U.S.
22 Chamber. There's business organizations, there's EDC
23 and other organizations, just mainly business things.

24 Q. Thank you.

25 JUDGE HAENLE: Commissioners, questions?

(SHAW - DIRECT BY ADAMS)

3796

1 COMMISSIONER CASAD: I have no questions.

2 COMMISSIONER HEMSTAD: No questions.

3 JUDGE HAENLE: Thank you. You may step
4 down.

5 MR. ADAMS: Frank Shaw.

6 Whereupon,

7 FRANK SHAW,

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

10

11 DIRECT EXAMINATION

12 BY MR. ADAMS:

13 Q. Mr. Shaw, would you state your full name
14 and spell your last name, please?

15 A. Frank L. Shaw, S H A W.

16 Q. If you would give us your address, please?

17 A. Route 5, Box 998, Ellensburg, Washington
18 98926.

19 Q. You are the winner of the distance award so
20 far today.

21 A. Thank you, sir. That was three hard hours
22 getting here and I have done 26 and a half hours at
23 the fire department and I am a little tired. I

24 apologize.

25 Q. Are you a residential and/or business

(SHAW - DIRECT BY ADAMS)

3797

1 customer?

2 A. I am a residential customer of Puget Power.

3 Q. And speaking individually or for any group?

4 A. Speaking individually. My experience is
5 predominantly through their conservation programs.

6 Q. Go ahead, please.

7 A. I'm sorry, I don't have a prepared
8 statement. I have tried to participate in Puget
9 Power's conservation programs, heat pump program
10 before it was discontinued, insulation program, window
11 program. They also offer lights, faucets; and there
12 was a rebate for buying new refrigerators that were
13 energy efficient. Of all of those programs, only one
14 have I been able to use and that was they gave me a
15 rebate for a new fridge and I just happened to need to
16 buy one at the time. I was thrilled with the idea of
17 trying to conserve energy. I am not an
18 environmentalist but I am concerned for the
19 environment. So anything I can do to aid that, I am
20 happy for, plus it saves me money in the long run.

21 I was very disappointed in the process that
22 was used, and I am also very disappointed in the bids
23 that I received through the approved contractors from

24 Puget Power. Coming from the east side of the state,
25 we do have a limited number of contractors that are

(SHAW - DIRECT BY ADAMS)

3798

1 active on their list. You folks on the west side do
2 have a little bit better advantage that there are
3 other folks participating.

4 My initial contacts with these contractors
5 was during the period that I was remodeling my home
6 right after I purchased it. And it would have been
7 nice to have all of that dirty work, sawing, cutting
8 done during that period. The process was drug out for
9 months, and even though my remodeling took four
10 months, the process still continued. To address the
11 individual bids that I received -- my apologies to the
12 Commission, I don't have 100 percent of the bids in
13 front of me after looking through my material.

14 My heat pump bid through the first
15 contractor on their list was \$7,600. Of my share of
16 that was \$3,600. Seemed a wee bit steep to me. I do
17 have a little bit of an association with remodeling
18 and contracting. Not to second-guess this gentleman
19 but to answer to myself whether there was a fair bid,
20 my father-in-law lives on the west side here and has
21 had Puget Power as his power company and also had the
22 same process done to his house.

23 Unable to compare apples to apples,

24 unfortunately my house is a little different than my
25 father-in-law, but just in general conversation when

(SHAW - DIRECT BY ADAMS)

3799

1 he told me that his bid was \$3,200 for the whole thing
2 I obviously was a little astounded. There's \$3,400
3 difference between mine and his, so I started asking
4 around in my immediate little world as to others who
5 have participated and tried to participate in the
6 program on the east side.

7 One of my fellow employees had the same
8 company do his home. His bid was \$7,800. He did have
9 the work done. Another gentleman I ran into doing a
10 little remodel work had a system done for him and this
11 was all within a period of months. His bid, \$7,400.
12 These are falling within about \$300 of another and I
13 am still under the impression this is a little
14 expensive to me since I just made a brief phone call
15 and, I don't have this document, I asked the guy, you
16 know, you haven't seen my house and I don't want to
17 hold you to this over the phone but I says how much to
18 do this just off the cuff and he says about \$3,600.

19 Okay, with that in mind I started chasing
20 other bids. I have a complete heating system bid
21 from a contractor not on Puget's list for gas system
22 and it was \$4500. My area obviously is a little more
23 expensive to do remodeling work than others.

24 Two years later I have another heat pump
25 bid, this is air to air so that I can compare apples

(SHAW - DIRECT BY ADAMS)

3800

1 to apples to Puget Power's bid. And it came in at
2 \$6600. Significant savings, a thousand dollars. This
3 gentleman was having to travel over 40 minutes to come
4 to my residence. He wasn't in the town.

5 I tried the other contractor on Puget
6 Power's list out of Yakima, and I got a bid for \$8,700
7 for an air to air system with the calculations being
8 the same for energy loss and so on. Wasn't pleased.

9 So I tried the insulation.

10 JUDGE HAENLE: Can I ask you perhaps to
11 summarize your statement, sir? We've asked people to
12 keep to five minutes and I don't know how much you
13 have to cover there.

14 A. Although it's admirable that Puget Power
15 participates in all of these organizations that these
16 folks have testified to today, Puget Power has not
17 aided my personal world at all. I have not been able
18 to participate under any of the programs since they
19 are overpriced. I have private bids that are well
20 under and up to the same standard as Puget Power's
21 bids. My portion of those bids I can usually get the
22 work done for less than my portion of the Puget Power
23 bid.

24 Q. Mr. Shaw, I want to ask you, you started on
25 insulation. Did you have the same general experience

(SHAW - DIRECT BY ADAMS)

3801

1 or could you briefly indicate what your experience
2 was?

3 A. The insulation program, my understanding
4 that Puget Power only insulates living space. I asked
5 for an extra quote to cover my garage. Living space
6 and garage, the total bill was approximately \$1,800,
7 of my share of that was approximately \$880.

8 Q. This was under the bid?

9 A. This was under Puget Power's process. I
10 have a bid from an insulation company in Wenatchee
11 that came to my home. His bid is for roughly the same
12 amount of work for \$830. That's a \$40 savings just
13 having it done myself and not going through Puget
14 Power and the problems that was created by that.

15 Q. Do I understand the comparison was \$800
16 with whatever the full amount was?

17 A. Full amount from Puget was \$1,800, more or
18 less, and the full bill through this other company is
19 \$840.

20 Q. So is it, what you're finding is that the
21 bid process that Puget is using comes in much higher?

22 A. Much higher. Seems to be well padded.

23 Q. Just to clarify, when you say the bid, does

24 Puget do the bid or do they have --

25 A. These are contractors under Puget Power
(SHAW - DIRECT BY ADAMS)

3802

1 contractor's list.

2 Q. And in the Ellensburg area where you
3 reside, approximately how many are on that list, do
4 you have any idea?

5 A. I have two for insulation, one for glass
6 and two for heat pumps.

7 Q. Are these out of Yakima? Where are they
8 from?

9 A. The insulation and glass company are one
10 and the same. MacLanahan Insulation and Glass out of
11 Issaquah. The one insulation company on the list I
12 could never get ahold of and never return my calls.
13 And the two heat pump, one is Yakima, one is
14 Ellensburg.

15 JUDGE HAENLE: Commissioners?

16

17 EXAMINATION

18 BY COMMISSIONER CASAD:

19 Q. Mr. Shaw, have you ever taken this matter
20 up with the company and indicated to them?

21 A. Yes, sir, very much so. I have talked with
22 the director of the conservation program Hank Jones
23 through the Bellevue office. I have asked him

24 specifically, are they happy with these contractors?
25 Adamantly responding, yes, we're ultimately happy with

(SHAW - EXAM BY COMMISSIONER CASAD) 3803

1 was this thing. I asked the local manager in my area
2 and said, Are you happy with these contractors and
3 what I'm telling you. He said, If you can show me
4 documentation, maybe we'll lower some other things.
5 I've been in the Puget Power office four or five times
6 and have had no satisfactory answer from those folks
7 as to why this is. The only word, quote, unquote, I'm
8 given is, It's the quality. Well, \$3,000 worth of
9 quality sure must go a long way when you're talking
10 about a heat pump.

11 COMMISSIONER CASAD: Thank you.

12

13 EXAMINATION

14 BY COMMISSIONER HEMSTAD:

15 Q. Pursuing the heat pump example, how many
16 heat pump contractors are within your reachability in
17 Ellensburg?

18 A. Well, now you've struck another interesting
19 issue. There's approximately six and I've contacted
20 them, all of which I've only had about three respond.
21 It's a difficult market and I don't understand why.

22 Q. And there were two certified by Puget
23 Power?

24 A. That is correct, that are authorized under
25 their program.

(SHAW - EXAM BY COMMISSIONER HEMSTAD)

3804

1 Q. Do you know what kind of process they go
2 through to determine who is an approved contractor?

3 A. I've asked for that information. I've
4 asked Puget Power for that information, also asked
5 them for a copy of what it takes to have a certified
6 system through Puget Power and they keep telling me
7 that "It's so technical, you'll never understand."

8 COMMISSIONER HEMSTAD: No further
9 questions.

10 JUDGE HAENLE: Thank you, sir, you may step
11 down.

12 MR. ADAMS: Thank you for coming all this
13 way.

14 JUDGE HAENLE: How many more names do you
15 have, Mr. Adams? I was thinking we need to take five
16 minutes.

17 MR. ADAMS: Perhaps now would be a good
18 time.

19 JUDGE HAENLE: Let's take a five minute
20 break. If any of you in the audience want to sign up
21 and have not yet signed up, please do so with
22 Mr. Adams during the break. Be back at ten minutes
23 after.

24 (Recess.)

25 JUDGE HAENLE: Let's be back on the record

(GARDINER - DIRECT BY ADAMS)

3805

1 after a brief recess. I believe Mr. Gardiner is the
2 next witness. Would you raise your right hand, sir.

3 Whereupon,

4 EDWARD GARDINER,
5 having been first duly sworn, was called as a witness
6 herein and was examined and testified as follows:

7

8 DIRECT EXAMINATION

9 BY MR. ADAMS:

10 Q. Mr. Gardiner, if I could ask you to state
11 your full name and spell your last name, please?

12 A. My named is Edward M. Gardiner,
13 G A R D I N E R. Residence 4919 Northeast Tolo Road,
14 T O L O Road, Bainbridge Island, 98110.

15 Q. Are you speaking --

16 A. I am going to address residential rate
17 design only. I was a member of the task force and am
18 representing a minority view.

19 Q. Mr. Gardiner, go ahead, and again, just
20 again please try to be as concise as possible. I know
21 you need to get back to Bainbridge.

22 A. James will address the action of the full
23 committee. At the start there were 38 of us with 38

24 different opinions. And in time that was reduced down
25 to 30 different opinions because eight did leave. But

(GARDINER - DIRECT BY ADAMS)

3806

1 the issues that we addressed on rate design,
2 residential rate design went to the objectives that
3 are shown on the first chart. Receipts should cover
4 allowed revenue under expected conditions; rate shock
5 should be minimized; no need for further rate changes;
6 rate should be predictable; and Puget Power should be
7 able to buy further cost of service information
8 between base and resource categories. The freedom
9 that was giving was that we should be able to cover
10 rate design changes up to certain rates and rate
11 design was appropriate and that was quite a charter,
12 and most of us didn't understand it at the beginning
13 and our understanding came up through weekly meetings
14 where all types were represented. But we do come to
15 one point. This is the curve of charges made by the
16 company versus kilowatt hours per annum. These are
17 the annual costs, the average user, and the middle of
18 the 780,000 users incurs an annual cost of around
19 \$850.

20 We also learned and do not dispute that
21 those costs are about \$204 fixed charges, about \$250
22 which are directly allocable to demand, based on the
23 power that they require maximum and that .026 is

24 correctly allocated to the costs per kilowatt hour
25 delivered. So, however things are designed at the

(GARDINER - DIRECT BY ADAMS)

3807

1 normal point the two methods of costing show the same
2 answer they were designed to.

3 The point is that under variations from the
4 norm, the principal one being degree days temperature,
5 the requirement for space heating can vary
6 significantly. A sample was taken whereby we looked
7 at the number of degree days in 1992 versus the norm
8 and the difference was around 20 percent. On that
9 basis the amount charged the user was at this value
10 and the reduction in expense was this much to Puget
11 Power. Now, that difference when multiplied out by
12 the number of customers came out to around \$65 million
13 for this last year. And this is allocable to the
14 difference between the fact that this was a warm
15 winter, last winter, as compared to the standard.

16 Now, the variances that you see here say
17 that the heaviest user, if you were to carry on this
18 approach, tended to pay \$2,500 more in charges per
19 year than he was billed -- than was appropriate. But
20 down at the lower end, a small user would be paying
21 that much less than would be appropriate if you had a
22 single fixed charge for demand plus fixed and a single
23 rate charge. This brought up a fair amount of

24 confusion as to what could we do that would allow the
25 costs that the company incurs for a power to track the

(GARDINER - DIRECT BY ADAMS)

3808

1 charges that are made for power. You need the sum of
2 three elements do that. If you say the costs are the
3 sum of the fixed, demand and energy costs but the
4 charges that the company makes are the sum of fixed
5 and energy charges only, no demand, the charges cannot
6 track the costs for unpredicted energy usage. And the
7 difference is significant.

8 Now, what this implies is that if the rate
9 design were modified such that we would have
10 appropriate demand charges in addition to the rate
11 charges we could produce a rate that would track
12 unexpected temperature conditions. The first attempt
13 at that was to set four levels, a given fixed charge
14 and a rate for lighting only. Another charge, fixed
15 charge, plus the same rate charge for water heating.
16 A third one for space heating, and a fourth one to
17 cover large installations. We just call them estates
18 that have the higher demand. This meant that on the
19 average each would be paying same amount that they had
20 paid before, but with the desirable effect that as the
21 use reflected warmer or colder winters the costs would
22 track and the company would not be forced to apply for
23 a PRAM to alleviate it.

24 The problem with this was how do you pick
25 each of these rates, demand charges. There are what

(GARDINER - DIRECT BY ADAMS)

3809

1 we would call rate shock, because it is possible for a
2 lighting -- a water heating user to use as much energy
3 as a space heating user, and how do you choose which
4 rate he should be charged for demand on that basis.
5 Now, we found no effective way of getting around this
6 other than to recommend that demand metering be
7 applied.

8 Now, there are three techniques: Direct
9 measurement of demand, audit and derived demand. You
10 can change the meters to demand and energy meters.
11 The costs on that vary roughly for the entire
12 residential system, be around \$70 million. You could
13 consider, if you were going to make that investment,
14 you could update the measurement means with new
15 systems which combine energy and demand readings and
16 can be designed for remote readout which could reduce
17 significantly the meter reading cost. In such case
18 you might be able to pay for the cost of the increased
19 capitalization required.

20 A third approach is the demand reading is
21 only needed for one time of the whole year. So it
22 would be possible to use clip-on or temporary demand
23 metering to determine what each user's demand is.

24 The second approach is to conduct an audit
25 which either the users themselves determined what

(GARDINER - DIRECT BY ADAMS)

3810

1 their equipment was and submitted it or a volunteer
2 customer specialist could help out similar to the task
3 force or to the other consumer panels; or, third,
4 professional team could be used for this
5 determination. The point is on auditing each would
6 have to be subject to appeal with a new decision or
7 installation. And the second point is you would have
8 to update it each year.

9 The third technique is to determine what a
10 year's demand is based on a review of past usage. You
11 can look at last year's use, make an estimation of the
12 use factor and back into a kilowatt demand. That last
13 approach gives us a minimum of additional labor or
14 expense but a periodic update is also required. We
15 look at three cases. They're what we might call edge
16 of the envelope cases.

17 JUDGE HAENLE: Perhaps this would be a good
18 thing to summarize, this particular point.

19 A. First one is the poor widow with a very
20 minimum of power, uses it all the time. Her lighting
21 load is the principal variant, and the problem that
22 she has is the fixed charges are now too high and the
23 energy charge even though she's paying at the lower

24 end of the spectrum is too high.

25 The second one has been ignored to a

(GARDINER - DIRECT BY ADAMS)

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1 certain extent that was addressed in this situation
2 and that is of the poor renter who rents houses that
3 are the 30- to 40-year age that have electric space
4 heat, thin windows, no insulation but the point is the
5 house belongs to an owner who isn't concerned about
6 economy. He doesn't have to pay the bill. The owner
7 has no incentive.

8 On the other side, we have the users that
9 use power very infrequently but heavily. And I picked
10 as an extreme example the owners of a ski hut that may
11 use it for weekends during several months during the
12 entire year but they have a very high space heat,
13 water heat, all the applications there. And it turns
14 out that their annual bill is about the same as the
15 minimum continuous user, even though their demand on
16 the system can be 40 times as great. And by demand I
17 am referring to that which causes transformers to heat
18 up, brownouts to occur and in the case of the ski
19 users peak system load.

20 My own recommendation on this is that the
21 WUTC should direct its staff and Puget Power to
22 prepare proposals on an acceptable method of
23 determining residential user demand and it should

24 include an optimum interim as well as final solution.

25 It should also recognize that approximately

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1 50 percent of the residential load revenue will be
2 received as demand charges are applied. And this
3 could be applied to the property owners and this has a
4 particular connotation to rental operations. The
5 renter pays the monthly bill, the owner receives the
6 charges for demand. To the extent that this technique
7 of charging would mitigate strongly the impact of
8 annual ups and downs on total demand and total
9 discontinuity between charges and costs, the WUTC
10 could then consider canceling the PRAM operation.
11 That's a very quick summary of rather a complex issue.

12 JUDGE HAENLE: Thank you. Mr. Adams,
13 questions?

14 Q. Just to make sure, the hard copy of the
15 graphs that you presented are in the file?

16 A. Each of the members has it and you have a
17 copy.

18 JUDGE HAENLE: Commissioners, questions?

19 COMMISSIONER CASAD: No questions.

20 COMMISSIONER HEMSTAD: I probably do, but I
21 can't formulate them right now so I will have to say I
22 don't have any questions. It was an interesting
23 presentation.

24 THE WITNESS: This approach is in the
25 minority report of the report of the task force on

(GARDINER - DIRECT BY ADAMS)

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1 residential systems.

2 COMMISSIONER HEMSTAD: This doesn't go to
3 the quality of your comments. How many members of the
4 committee joined your minority before --

5 THE WITNESS: My guess is four to five.
6 There were two of us that argued very strongly during
7 -- Dave Palmer and I really went over this at the
8 first part and then we found we were saying the same
9 thing, only using slightly different words. There are
10 two minority reports that were submitted and the two
11 complement each other.

12 COMMISSIONER HEMSTAD: What is your
13 business background?

14 THE WITNESS: I am an electrical engineer.
15 I, at one time, worked for Puget Power. They work for
16 me now. I am a stockholder. Resident retired.

17 JUDGE HAENLE: Thank you, sir. You may
18 step down.

19 MS. BROWN: Mr. Gardiner, do you have an
20 extra copy of your presentation?

21 THE WITNESS: Yes.

22 MS. BROWN: You can give it to Mr. Adams.
23 I took his.

24 MR. ADAMS: Nancy Watkins.

25 FROM THE AUDIENCE: She wants to submit

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1 written comments. She had to leave.

2 MR. ADAMS: Douglas DeForest.

3

4 Whereupon,

5 DOUGLAS DeFOREST,

6 having been first duly sworn, was called as a witness

7 herein and was examined and testified as follows:

8

9 DIRECT EXAMINATION

10 BY MR. ADAMS:

11 Q. Would you state your name and spell your
12 last name?

13 A. Full name is Douglas DeForest,

14 D e F O R E S T.

15 Q. Address?

16 A. Business address 1211 State Avenue

17 Northeast, Olympia 98506.

18 Q. Since you live in Olympia, are you also a
19 residence and business?

20 A. I am both a residential and commercial
21 customer and I am really wearing several different
22 hats. I would like to first wear one hat as president
23 of the Olympia/Thurston County Chamber of Commerce

24 which is the largest independent organization in this
25 county, I would like to reaffirm the remarks made by

(DeFOREST - DIRECT BY ADAMS)

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1 previous members of the EDC and Chambers of Commerce.
2 We would support their positions. I am not here
3 primarily to talk about that. Rather I am here in my
4 position as the executive officer of the Olympia
5 Master Builders and appearing on behalf of that
6 organization.

7 I think it's important for you to know that
8 the Olympia Master Builders is an association of
9 builders of primarily residential home builders. We
10 have about 320 members. We are affiliated with the
11 Building Industry Association of Washington and in
12 turn with the National Association of Home Builders.
13 Our particular association with 320 members is pretty
14 typical of most of the builder's organizations around
15 the state. They range from three to 400 members; the
16 exception, of course, would be Seattle.

17 Our association is a nonprofit association.
18 Its basic mission is to promote and defend affordable
19 housing throughout our area. I say that there is a
20 certain amount of self-interest in that our members
21 obviously want to build a product that appeals to the
22 majority of people, not a product that appeals to a
23 limited market. Our association, like most of the

24 associations throughout the state, is composed
25 primarily of small builders. A big builder for us is

(DeFOREST - DIRECT BY ADAMS)

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1 somebody like -- somebody that builds 60 to 80 homes a
2 year. That's a big builder and even at that size,
3 that kind of an operation is still pretty much a
4 family operation.

5 The point that I am getting at is that with
6 the kind of people that are members of our association
7 are small companies. They do not have big staffs.
8 They don't have specialists, and they're pretty much
9 dependent upon their own resources as to what they do,
10 but the kind of people who get up early in the morning
11 at 5:00, start phoning their subs, start phoning for
12 inspectors, start making the rounds, they may have
13 two or three houses going at the same time. They may
14 be swinging a hammer themselves or they may be relying
15 on other people to do it. They start early and by
16 about 5:30 in the afternoon they're getting pretty
17 tired. In the summer season they'll go on until it's
18 dark.

19 They do not have a lot of time for reading.
20 They do not have a lot of time for attending meetings
21 like this. They count on me to do it. And typically
22 our staffs are pretty small. So we're an organization
23 that performs a vital function in this community and

24 we are dependent upon assistance from other
25 organizations such as Puget Power. And my specific

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1 point to make to you today is that far from looking
2 too narrowly at what Puget Power is doing, we would
3 submit to you that in the case of associations such as
4 ours, Puget Power is not doing enough and that they
5 should be allowed greater latitude. We need to have
6 Puget Power as our members. We need to have them
7 participating in our organization. We need to have
8 them spreading the word as to what is going on. That
9 is good for our builders, and it is good for the
10 consumer. Because, as we all know, we live in a world
11 of continuing change. New rules, new regulations, new
12 techniques. And the builders, quite frankly, don't
13 have the time to read the piles of junk that come
14 before them. Frankly, neither do I and I often don't
15 understand it.

16 We count on the word of mouth; count on the
17 Puget Power rep; count on the Washington Natural Gas
18 rep to be working with our people, to be continually
19 putting forth what is going on in their business.
20 What are the things that our people ought to look for,
21 what are the techniques that ought to come out.

22 JUDGE HAENLE: Slowly, please.

23 A. What are the new techniques that are coming

24 out. We are dependent upon Puget Power as a vital
25 communication link and I would submit to you that

(DeFOREST - DIRECT BY ADAMS)

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1 their outreach program needs to be expanded, not
2 reduced.

3 I would further submit to you that in
4 thinking about what they do in the way of advertising,
5 which I consider to be part of their outreach program,
6 that some of the criticisms that they're trying to
7 promote their own public interest are somewhat
8 specious.

9 For example, the city of Olympia just put
10 out a newsletter recently and they are talking about
11 what they're doing in their streams program. Are they
12 doing that to promote the image of the city of Olympia
13 or do they have a real bona fide justification for
14 their concern about the quality of our streams.

15 I would submit that Puget Power has a bona
16 fide interest in conserving energy and I don't think
17 you can start to draw the line and say this one is
18 good and this one is bad. I know that in
19 participating in a variety of different activities
20 around town, storm water service advisory board and so
21 on, that education is a primary component and you all
22 know here the voters are going to be asked to approve
23 a new ground water tax and that includes funds for

24 about a quarter of a million dollars worth of public
25 education. I would submit that the utilities, Puget

(DeFOREST - DIRECT BY ADAMS)

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1 Power included, have a vital role in that educational
2 process if we are to achieve our objectives of
3 reducing our energy consumption in preserving our
4 other natural resources.

5 In conclusion, then, I hope that the
6 Commission will consider strongly that Puget Power
7 needs to do more to support the trade associations to
8 support the kind of industries that are trying to
9 deliver a product to our residents and that product
10 being affordable housing. Thank you very much.

11 JUDGE HAENLE: Counsel, questions?

12 BY MR. ADAMS:

13 Q. Same clarification. Do you take any
14 position on the overall increase that's being
15 requested?

16 A. Our position on the increase is that that
17 portion of the increase that relates to their outreach
18 program should be granted, if not increased.

19 Q. What about the rest of it?

20 A. As far as the rest of it is concerned, I am
21 not qualified to talk on the rest of it.

22 Q. Fine.

23 JUDGE HAENLE: Commissioners, questions?

24 COMMISSIONER CASAD: No questions.

25 COMMISSIONER HEMSTAD: No questions.

(LOUISELL - DIRECT BY ADAMS)

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1 JUDGE HAENLE: You may step down.

2 MR. ADAMS: Frank Fahland.

3 MR. LOUISELL: I'm here. I should be just
4 above Frank.

5 MR. ADAMS: You're right. Glad you caught
6 me.

7 Whereupon,

8 MICHAEL LOUISELL,

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

11

12 DIRECT EXAMINATION

13 BY MR. ADAMS:

14 Q. Would you state your full name and spell
15 your last name?

16 A. Full name is Michael W. Louisell,
17 L O U I S E L L.

18 Q. Could you state your address, either
19 business or residential?

20 A. I live at 2629 - 19th Way Northwest,
21 Olympia 98502.

22 Q. And are you a customer of the company and,
23 if so, what type of customer?

24 A. I am a residential customer for Puget since
25 1987.

(LOUISELL - DIRECT BY ADAMS)

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1 Q. And are you speaking individually today or
2 for any organization?

3 A. I am speaking individually.

4 Q. Go ahead, please.

5 A. I do live in west Olympia and for the past
6 three years my association with Puget Power has
7 included being a member of their consumer panels for
8 the Thurston division, and I received a bill stuffer
9 for that to learn about the consumer panels and I've
10 served on three panels. The underground cable
11 installation task force, also a task force for
12 studying environmental externalities and the current
13 panel was integrated resource planning. We meet about
14 five months out of the year as consumer panel members,
15 January through May. Volunteering about 50 hours of
16 our time over that length to attend the meetings and
17 also additional time to study and read information.

18 And I am not going to speak very long but
19 basically I am just going to state that I've been very
20 impressed with Puget Power's management in
21 availability to answer our questions and to appear
22 before our panels. And in the ability to obtain
23 outside speakers, including I know I've used at least

24 two speakers from Washington Utilities and
25 Transportation Commission. I am just very impressed

(LOUISELL - DIRECT BY ADAMS)

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1 with the way Puget has been running their company, as
2 I do -- I am not a stockholder but I do receive their
3 annual reports. And I do consider it certainly a blue
4 chip company, up there with Nordstrom, Microsoft and
5 Boeing as one of the prestige companies in the
6 Northwest. My question I might have about this as far
7 as the rate increase -- I don't have any specifics is
8 \$117 million too high or too low or anything of that
9 nature. I did read your comments about the
10 advertising. I am a public information officer myself
11 and I enjoyed their ads, thought they were very
12 effective in communicating the need for conservation,
13 and there are blurred lines between is it an
14 institutional ad benefitting the company and its image
15 or is it strictly conservation. I noticed they do
16 have phone numbers for conservation information and I
17 am impressed with the way their messages have played
18 on the TV and mainly also in the newspapers, their
19 informational ads in the newspapers I like even more.

20 So that really concludes my comments.

21 Q. Only one question, Mr. Louisell. Do I
22 gather -- where do you stand on the general rate
23 increase? Are you not taking a position on that?

24 A. You're correct. I am not taking a formal
25 position on the general rate increase. I do take the

(FAHLAND - DIRECT BY ADAMS)

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1 position that advertising should be shared between
2 shareholders and ratepayers. What percentage I am not
3 qualified to state

4 JUDGE HAENLE: Commissioners?

5 COMMISSIONER CASAD: You're no relation to
6 a rather well-known regulatory economist?

7 THE WITNESS: I believe he puts an E on the
8 end of his name. I did investigate that once and
9 we're not related, unfortunately.

10 JUDGE HAENLE: Other questions?

11 Thank you, sir. You may step down

12 Whereupon,

13 FRANK FAHLAND,

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

16

17 DIRECT EXAMINATION

18 BY MR. ADAMS:

19 Q. Could you state your full name, please?

20 A. Frank, middle initial R., Fahland. I spell
21 it, F A H L A N D.

22 Q. Would you give us your address, please?

23 A. 5838 - 55th Way Southeast, Olympia, 98513.

24 Q. And are you a residential or other type of
25 customer?

(FAHLAND - DIRECT BY ADAMS)

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1 A. I am a residential customer and I am here
2 today speaking on my behalf as a citizen. First off,
3 I would identify myself as a member of the rate design
4 task force process that was referenced earlier. I am
5 not here to preempt or to duplicate what J. Young as a
6 leader of that group has to say. I would have some
7 other points.

8 First off, while I think one must
9 acknowledge that the initiative for the collaborative
10 group was due to WUTC, I believe it was at Puget
11 Power's initiative that the rate design task force was
12 brought together. And it's the only attempt that I am
13 aware of to get this kind of input from residential
14 customers, of citizens who are interested and who are
15 thoughtful and objective and who are willing to put
16 forth the effort to study and then make their
17 considered recommendations.

18 You all have a number of parties,
19 intervenors to these proceedings and you have people
20 who purport to represent the public, but I emphasize
21 again I know of no effort that is as commendable as
22 this rate design task force. Having said that, I
23 would invite you and urge you to give proper weight to

24 the recommendations of this task force. And it seems
25 to me at this point that there are several points that

(FAHLAND - DIRECT BY ADAMS)

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1 this task force recommended that have been lost so far
2 in these proceedings.

3 A very strong and pervading theme that runs
4 through it is that each customer class should bear the
5 cost that is properly allocated to it. And that was
6 based on the recommendation which, incidentally, also
7 was made by the collaborators, that there be a
8 WUTC-approved cost of service. And I believe that
9 Puget Power has a model and has offered repeatedly to
10 let others use it and as a matter of fact to train
11 them in how to use this model.

12 The recommendations were made in February
13 and April of 1992 and so far as I know there really
14 hasn't been a joining of that particular question.
15 Somehow, people have been foot-dragging on this
16 question, but I would submit that having an agreed
17 cost of service is pretty basic to further proceedings
18 of this august commission.

19 Couple of more points which seem to me to
20 have been lost. It was very clearly a recommendation
21 of the rate design task force that the rate -- the
22 base charge which was to be based upon a pro rata
23 allocation of fixed costs should be increased to, I

24 believe, \$15 per month. That is not what Puget Power
25 submitted, but I might conjecture that part of the

(FAHLAND - DIRECT BY ADAMS)

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1 reason Puget didn't submit that number is intimidation
2 from having been knocked down on that particular issue
3 so many times in the past.

4 A second point which seems not to have been
5 considered very seriously -- at least I don't find it
6 in the attorney general summary of what remains as
7 issues in this case -- is the very clear recommendation
8 of the rate design task force that there be a reduced
9 expenses incentive provided to Puget Power. And I would
10 commend that for your consideration.

11 Q. I want to ask you also, do you have any
12 position on the rate increase? I know you've
13 approached the rate design features of this case.

14 A. And I think that's pretty basic. I find it
15 difficult to understand all of the pronouncements
16 about what is too much and so on before there's some
17 pretty basic agreements on what the costs are and how
18 they should be allocated.

19 Q. So you think that should be done first and
20 then look at the rate case?

21 A. That should be very much a basic part of
22 it, sure.

23 JUDGE HAENLE: Commissioners, questions?

24

25

EXAMINATION

(FAHLAND - EXAM BY COMMISSIONER CASAD)

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1 BY COMMISSIONER CASAD:

2 Q. Yes. And I was remiss in the earlier
3 witnesses. There have been a couple of witnesses who
4 have recommended that incentives be provided the
5 company. Mr. Fahland, do you have any specific
6 incentive mechanism in mind to offer or did your group
7 give any particular thought to the mechanism that
8 you --

9 A. I would, first off, refer you to the report
10 because there's some lengthy discussion there and it's
11 suggested that -- and these are numbers that I think
12 are fairly arbitrary -- but 25 percent of the savings
13 realized could be applied to increase earnings for
14 Puget Power and 75 percent be applied to reducing
15 rates. Now, there are any number of ways which modern
16 industry that isn't subject to the kind of constraints
17 that Puget is has demonstrated in the last several
18 years on how to save money, and I am sure that amongst
19 all of those demonstrations many of them would apply
20 to Puget.

21 Q. I have not yet had the opportunity to look
22 at the report.

23 JUDGE HAENLE: Remember that we're going to

24 have another speaker at the end of these who will
25 present the majority report.

(FAHLAND - EXAM BY COMMISSIONER CASAD)

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1 COMMISSIONER CASAD: Yes.

2 A. I think you already have commendable, let
3 me say, productivity from Puget. As I've had occasion
4 this past year in a very cursory way to compare the
5 kilowatt sales per employee for example. It would
6 seem to me, as I said, first cut, that Puget is much
7 more productive than the people who are providing
8 power to Seattle or Tacoma or Snohomish. That isn't
9 to say it couldn't be improved. What's the incentive?

10 Q. That was the kind of issue that I was
11 after. What kind of measurement methodology do you
12 think would be appropriate?

13 A. That's one is how many kilowatts delivered
14 per employee, but there are lots of others. You won't
15 know until you start measuring them.

16

17 EXAMINATION

18 BY COMMISSIONER HEMSTAD:

19 Q. I'm curious, what is your occupation or
20 business background?

21 A. I am a professional mechanical engineer and
22 I spent a number of years employed by McDermott
23 International and they're in the energy business.

24 Q. Thank you.

25 JUDGE HAENLE: Thank you, sir. You may

(HARMON - DIRECT BY ADAMS)

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1 step down.

2 MR. ADAMS: Brian Minnich.

3 MR. MINNICH: I have not signed up to
4 testify. Thank you.

5 MR. ADAMS: Buck Harmon.

6 Whereupon,

7 M.A. (BUCK) HARMON,

8 having been first duly sworn, was called as a witness

9 herein and was examined and testified as follows:

10

11 DIRECT EXAMINATION

12 BY MR. ADAMS:

13 Q. Get you to state your full name and spell
14 your last?

15 A. Maurice A. Harmon, H A R M O N. They call
16 me Buck.

17 Q. Address?

18 A. 2215 Woodcrest Drive, Olympia, Washington
19 98501.

20 Q. Are you residential or other type of
21 customer?

22 A. Residential.

23 Q. Are you speaking for any organization or

24 individual today?

25 A. No, I am speaking for myself. If I were

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1 speaking for an organization it would be for retirees
2 one of which I am.

3 Q. Go ahead.

4 A. Commissioners and Senator. I thank you for
5 the invitation, and I refer to the letter from
6 Mr. Adams, the assistant attorney general, that you
7 don't have to be an expert, and I am in terms of
8 technical issues -- and I am certainly no expert in
9 terms of technical issues. I have been an
10 administrator of human services for 40 years in this
11 state and three other states.

12 I moved here some 40 years ago shortly
13 following five years in World War II, three years of
14 which was in the combat area. I've been an extreme
15 volunteer in this local community, especially since I
16 retired, and I among many others who have spoken today
17 have great appreciation for Puget Power's
18 participation in various organizations in the
19 community. I want to acknowledge that because I want
20 later to say that that may not be as important to me
21 at least as it sounds. I have noticed in a lot of the
22 literature and advertisements that Puget Power puts
23 out -- incidentally I want to say this. I testified

24 here before the Commission some five or six years ago
25 I think it was and I was so positive about Puget Power

(HARMON - DIRECT BY ADAMS)

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1 that the following week Puget Power took me to lunch
2 at their expense because I followed many speakers who
3 were very negative about them, but I particularly
4 appreciated what they did during the Columbia Day
5 storm and I want the Commission to remember that at
6 one time I was extremely positive.

7 COMMISSIONER CASAD: Paid for by
8 shareholders?

9 THE WITNESS: They won't buy me a lunch
10 today, I don't think.

11 A. I want the gentleman and lady from the
12 Commission to put their shoes for the moment -- put
13 their feet rather in the shoes of a retiree. And if
14 you're not a retiree yet, you soon will be. It's
15 amazing how fast life flows. And I am a retiree,
16 have been eight or nine years. And my appeal today,
17 ladies and gentlemen, is to people who own their own
18 homes, as I am fortunate to do, who are retired on a
19 very fixed income, a rather meager one really, and
20 the difficulty of keeping up with utility rates. Only
21 Puget Power is before us today but we can talk about
22 the increased utility rates from the gas company,
23 Washington Natural Gas, from the local community and

24 their utilities, from the county and their utilities
25 and now soon it will be ground water. Every year

(HARMON - DIRECT BY ADAMS)

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1 there are increased rates in terms of utilities. I am
2 extremely not only aware of this in terms of myself
3 and other retirees but this can be a devastating
4 situation. It's going across not only in this
5 community and in this state but nationwide and now
6 after being able to advise people a number of years
7 about their problems, I am now suggesting to people
8 don't save your money and try to buy a house because
9 after you buy a house and you retire on a fixed income
10 you will be damn lucky to maintain that house with
11 these ever-increasing utility rates.

12 One thing puzzles me, ladies and gentlemen.
13 I keep reading about one of the reasons that a utility
14 company such as Puget Power needs a rate increase is
15 because of their extreme new growth and all the
16 expenses that come along with new growth. Now, I am
17 truly puzzled, and not putting this on, the average
18 business as they increase their extent of sales, as
19 they increase their extent of business, hey, normally
20 that's wonderful because they are able to produce
21 whatever they're making or providing at a lesser cost.

22 Why, I ask myself and others, why is it
23 necessary for the resident or the business for that

24 matter to pay all the costs that go into this
25 increasing of their growth. If they're growing they

(HARMON - DIRECT BY ADAMS)

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1 should be very happy about it rather than sock it to
2 the consumer because they now become a part of this
3 growth.

4 And I want to say also, in spite of some of
5 the excellent testimony from some of the participants
6 today, I am directly opposed to the philosophy that
7 the rateholder needs to pay for all this marketing
8 expenses.

9 Oh, it's fine perhaps for the participation
10 of other businesses and all of the semi-political
11 yakking that I heard today about the great things that
12 Puget Power has done for these associations, and it
13 has been great. I know they participate. They do
14 very well. I know a lot of people who have served
15 Puget Power and who have worked for Puget Power and I
16 admire them, I am impressed by them. But why in the
17 devil should a retiree, as well as others, have to pay
18 for all of this marketing, all of these Puget one-page
19 advertisements, all of these nice spreads to point
20 out what a wonderful, pleasing company Puget Power is.

21 And it's not only Puget Power. We could
22 talk about other companies, too, but Puget Power is
23 addressing you today. I see no philosophical excuse

24 for passing on this expense to the consumer, and this
25 was said specifically by one gentleman today who was

(HARMON - DIRECT BY ADAMS)

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1 the president of a business organization, I think it
2 was the Lacey Chamber, who says it should be passed
3 on, it should be passed on to the rateholder. My
4 goodness, what an alarming statement that is, that I
5 should participate in the marketing of the Puget Power
6 Company. I have no understanding of that. I hope
7 they continue to participate in these various
8 organizations, but not at my expense. Heavenly days,
9 it doesn't help me a damn bit.

10 JUDGE HAENLE: Can I ask you to summarize
11 the rest of your statement?

12 A. My summary is that to me this is a subject
13 of a new policy that not only Puget Sound Power and
14 Light but other utility companies should begin to
15 adopt. They should begin to recognize statistically
16 that the extreme growing population of seniors, as
17 they call us, of people who are retired, of people who
18 own their own homes and people who cannot afford this
19 ever, ever, ever-increasing utility rate. I don't
20 know how many times over the years we see a new rate
21 and an increased rate coming down the pike, and I
22 think that this policy is evil. This is bad.

23 It is not taking into regard at all the

24 ever-increasing number of people who can't afford
25 these increasing rates and in a sense, in a great

(HARMON - DIRECT BY ADAMS)

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1 sense it's a captured audience. If you own your own
2 home you have to depend on utilities. You can't say
3 well this year I won't buy utility. I won't buy a new
4 car. Well, you got to buy your utility, you got to
5 keep warm, have water, heat, light, gas. So I think
6 this whole thing is different.

7 I wasn't prepared to think that my comments
8 should even be heard today. They're entirely
9 subjective. They're entirely my own. But after
10 listening to a number of speakers whose very position
11 of their organization depends upon a participation of
12 Puget Sound Power and Light, I feel it's necessary to
13 speak for a lot of people who don't say what I say
14 today. There's only been one gentleman who is saying
15 what I am saying today. I think his name was Dolan.
16 There ought to be a thousand retirees yakking the
17 same way. I appreciate your listening and taking the
18 time to listen to these people.

19 Q. Perhaps in a philosophical mode I also ask
20 you a question. Do you have any reason -- can you
21 understand why there aren't more retirees or other
22 customers in here today?

23 A. I am ashamed at the lack of them today.

24 They should be storming the doors. They're the people
25 paying. The people who testified today, most of them

(HARMON - DIRECT BY ADAMS)

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1 are not paying for. They're happy members of these
2 various associations. And I am proud of these
3 associations and I am not knocking them but they have
4 to come in here and speak positively about the
5 participation of Puget Power and Light and other
6 utilities in supporting their programs. What else
7 can they do? They have to do that but I don't have to
8 do it. They're not helping my income and I detest
9 supporting them via my rates just because they're
10 participating in these organizations.

11 JUDGE HAENLE: Commissioners, questions?

12

13 EXAMINATION

14 BY COMMISSIONER CASAD:

15 Q. Just very briefly regarding growth and its
16 relationship to increased profits and/or costs. The
17 region has been blessed with a hydroelectric system
18 which, over the years, has been essentially a very low
19 cost producer of energy. And the costs of new
20 resources at the margin are substantially higher than
21 the embedded costs of the low cost system that we have
22 which contributes to higher costs where in many
23 industries you don't have that low embedded cost of

24 basic resources. You're paying at the margin for
25 resources at the same time as you're selling. So the

(HARMON - EXAM BY COMMISSIONER CASAD)

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1 costs do tend to be higher because we have that lower
2 embedded cost available to us and that does contribute
3 to higher costs for growth. That's one of the issues
4 that was faced in the whole decoupling process, trying
5 to separate resource and base costs and come up with
6 some kind of a meaningful, reasonable kind of
7 approach.

8 A. I understand, sir. But in that regard it
9 seems to me those kind of costs, particularly the
10 marketing, particularly the marketing cost should be
11 part of a budget.

12 Q. I am not talking about that. I am talking
13 about generating resources.

14 A. But even there, I would think this should
15 be a budget issue that is internal and not something
16 that comes out to have the consumers pay for it.
17 Seems to me if you want to expand your business you
18 arrange to expand your business. You either get a
19 loan or whatever but I don't see why the consumers
20 have to pay for it.

21 Q. Well, the company has an obligation to
22 serve those consumers.

23 A. I understand that.

24 Q. And so they don't have much choice about
25 expanding.

(HARMON - EXAM BY COMMISSIONER CASAD)

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1 A. We have no choice either, sir.

2 THE WITNESS: Senator, nice to see you
3 again.

4 MR. ADAMS: C. J. Washington.

5 Whereupon,

6 CARLANE WASHINGTON,
7 having been first duly sworn, was called as a witness
8 herein and was examined and testified as follows:

9

10 DIRECT EXAMINATION

11 BY MR. ADAMS:

12 Q. Could you state your full name and spell
13 your last name, please.

14 A. My name is Carlane, C A R L A N E, Joyce H.
15 Washington, as in the state of.

16 Q. Address, please?

17 A. My address -- we're moving. P.O. Box 2251,
18 Olympia 98501.

19 Q. And are you a residential or business
20 customer?

21 A. I am a residential customer.

22 Q. And are you speaking individually today or
23 for any group or organization?

24 A. I am speaking both individually and as a
25 member of the Washington Association for Vocational

(WASHINGTON - DIRECT BY ADAMS)

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1 Education Special Needs Personnel.

2 Q. Go ahead, please.

3 A. That is a statewide educational
4 organization. I also work for the State
5 Superintendent of Public Instruction's office here in
6 Olympia, but I am speaking not in representation of
7 that agency but as an educator in the field. I would
8 like to thank you, the Commissioners, for allowing me
9 an opportunity to present some of my feelings and
10 views on a general discussion of what is happening,
11 relevant to Puget Power participation, with the other
12 organizations in the state. The purpose of my
13 statement today is to commend Puget Power for
14 supporting, being supportive of vocational education
15 and taking -- technical education throughout the past
16 several years. I've had an opportunity to work with
17 members of your organization since 1988-89 fiscal
18 year.

19 The results of that is that we have
20 collectively provided in-service training for 1,800 to
21 2,000 instructors throughout the state during the past
22 four or five year period of time and if you compute
23 that on the average of 30 students per class you can

24 see the impact that that would have relevant to
25 students in the role of education in the secondary and

(WASHINGTON - DIRECT BY ADAMS)

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1 post secondary system.

2 In vocational education we're working in
3 specific areas to train individuals for the world of
4 work. That includes agriculture, home and family
5 life, business education, trades and industry and
6 health occupations, marketing, education and
7 diversified occupations. We also cover a guidance and
8 counseling activities as well as educational
9 administration.

10 In 1991, our organization WAVSMAP, did
11 present Puget Power with an award for outstanding
12 participation and cooperation with education and we
13 were very pleased to acknowledge that the constant
14 support that we've worked cooperatively through the
15 years has really begun to show signs of productivity
16 in the outcome.

17 So I would like to say in summary that I
18 hope that Puget Power continues to participate
19 cooperatively with education and that it continues to
20 provide a corporal integrity in the role of
21 establishing continued educational opportunities, not
22 only for students but also for educators who normally
23 quite frequently would not have a chance to get the

24 kind of in-service training that they would normally
25 have unless we are providing that information to them.

(WASHINGTON - DIRECT BY ADAMS)

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1 Thank you very much.

2 JUDGE HAENLE: Counsel, questions?

3 BY MR. ADAMS:

4 Q. Again, just a clarifying. As I've asked
5 several preceding witnesses, do you take any position
6 on the rate request specifically.

7 A. No.

8 JUDGE HAENLE: Commissioners, questions?

9 COMMISSIONER CASAD: No questions.

10 COMMISSIONER HEMSTAD: No questions.

11 JUDGE HAENLE: Thank you very much. You
12 may step down.

13 Whereupon,

14 JIM HARDING,

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

17 THE WITNESS: I do have copies of my
18 testimony which I have provided to public counsel.

19 JUDGE HAENLE: When you're done give one
20 copy to me and one to the court reporter, please.

21 Thank you.

22 Q. Could you --

23 A. H A R D I N G.

24 JUDGE HAENLE: First name?

25 THE WITNESS: Jim.

(HARDING - DIRECT BY ADAMS)

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1 Q. And either business -- probably business
2 address?

3 A. Live at 1725 Arbutes Street, Olympia.

4 THE WITNESS: A R B U T E S.

5 Q. I think you're a residential ratepayer, are
6 you not?

7 A. I am.

8 Q. Are you speaking individually today or on
9 behalf of the energy office?

10 A. I represent the Washington State Energy
11 office.

12 Q. Could you please very briefly identify that
13 organization.

14 A. The Washington State Energy office has been
15 in existence since the mid 1970's. Its
16 responsibilities go to energy policy. I will --
17 anticipating your question, Counsel, I am not
18 testifying either in favor or opposed to Puget Power's
19 current rate request. Our responsibilities do not
20 extend to ratemaking but to energy policy issues in
21 the state and I will limit my testimony to those
22 issues.

23 Q. Go ahead, please.

24 A. I should further state that looking south
25 to California, the legislature, I think, probably

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1 wisely precluded the Washington State Energy Office
2 from becoming a formal party in the regulatory
3 proceedings of the UTC or any other utility not
4 regulated by the Commission in Washington state, we
5 are nevertheless -- we have served as expert witnesses
6 in hearing before the Commission and are not precluded
7 from offerings our opinions in proceedings such as
8 this one. I think I have not said that I am currently
9 serving as assistant director at the Washington State
10 Energy Office responsible for policy resources program
11 research and policy citing.

12 In essence, my testimony is that Puget
13 Power conservation programs clearly serve a public
14 interest. The company's programs in our view reduce
15 the cost of providing service to ratepayers and
16 improve environmental quality over what they otherwise
17 would have been. We further believe that the
18 company's programs outpays the rest of the region's.
19 Conservation programs, their impact in our eyes is
20 apparent and measurable. And finally we believe that
21 regulatory treatment which breaks the link between the
22 utility's sales and its net revenues and offers
23 superior performance -- incentives for superior

24 performance is inextricably linked to that outcome.

25 In its 1991 plan, the Northwest Power

(HARDING - DIRECT BY ADAMS)

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1 Planning Council identified an ambitious but
2 achievable level of conservation for the region, and
3 those conservation efforts are significantly less
4 costly than new generation. The council and the State
5 Energy Office have looked at the economic benefits
6 associated with those conservation measures and have
7 calculated that failure to capture that planned energy
8 efficiency would cost in Washington state alone over
9 the next 20 years about \$3.4 billion in 1993 dollars.
10 So the savings associated with conservation programs
11 are quite significant in terms of electric costs as
12 well as other costs felt throughout the economy.

13 Over the last few years utilities in the
14 Northwest have captured, setting aside the directly
15 served industries, about 130 megawatts of
16 conservation. Of that Puget accounts -- this is 1991
17 and 1992. Of that Puget's efforts account for roughly
18 a third, 44, 45 megawatts. And yet Puget accounts for
19 about 14 percent of the region's electric power sales.
20 So looking at it from that perspective they are
21 significantly outperforming the rest of the region's
22 utilities. They also account for about 15 percent of
23 the sales growth and about 23 percent of the region's

24 customer growth. This has not always been the case.
25 During the decade of the 1980's Puget Power's programs

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1 captured an average of half to a third of what they do
2 today.

3 And in our view one of the principal
4 reasons for the improved performance has to do with
5 the 1991 decoupling experiment entered into with this
6 commission. If Puget Power is achieving efficiency
7 improvements, general efficiency improvements, we've
8 had questions today about the extent to which those
9 conservation improvements can be verified. And I will
10 grant that verifying the performance of conservation
11 investments can be difficult. We have attempted in
12 our testimony to identify some of these conservation
13 investments, and their effectiveness and their impact
14 overall on electricity use trends for Puget customers.

15 In the residential sector the data provided
16 by BPA and Puget Power suggests that per customer
17 electric use is declining significantly faster in
18 Puget's service territory than in the rest of the
19 region, and in the commercial and industrial sectors
20 average use per customer is growing significantly
21 slower than in the rest of the region. This is a
22 trend we would expect to see if Puget were conducting
23 a stronger and more effective program than we would

24 see from other parallel utilities.

25 One could argue, of course, that these

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1 trends result not from Puget conservation programs
2 but from cost effective fuel switches from electric
3 space and water heating to natural gas. And I think
4 the point that I would make is that that is -- that
5 may be accurate but in my view irrelevant. One of the
6 key benefits of a decoupling mechanism is that it
7 makes a utility stockholder neutral to the question of
8 fuel switching. Without decoupling or an equivalent
9 mechanism a utility faces a fairly schizophrenic
10 choice. On the one hand it wants to deliver low cost
11 electric services. On the other it wants to retain
12 loads that consumers if left otherwise uninfluenced
13 would shift to lower cost fuels. In our written
14 testimony we will provide some specific evidence of
15 trends and per customer electric use in Washington
16 state. In our view both the residential as well as
17 commercial sector Puget's performance is better than
18 the region as a whole. We would attribute that, while
19 causality is always difficulty in areas like this,
20 to the combination of a strong conservation program
21 and the decoupling and incentive mechanisms.

22 There is some question, there has been some
23 question about the cost of Puget's conservation

24 efforts and also some question about the cost of BPA's
25 conservation efforts. And we have some information in

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1 our testimony that addresses this. The easiest
2 comparison is with BPA conservation programs because
3 both BPA and Puget run very similar efforts and we
4 found by an effort to compare the cost of those
5 programs that Puget's programs are very significantly
6 below the cost of equivalent BPA programs. BPA
7 programs run about \$3,500 to \$4,000 per kilowatt,
8 capital cost, Puget's run about \$2,100, and even if
9 one takes out the particularly low cost, low lifetime
10 conservation programs like residential water heat
11 wraps or shower heads and aerators, the company's
12 costs are still fully a third less than BPA.

13 JUDGE HAENLE: Can you summarize the
14 remainder of the statement? We've got several more
15 people to cover.

16 THE WITNESS: Yes.

17 A. This is my last paragraph. The recently
18 completed Washington Energy strategy emphasizes the
19 importance of improved efficiency and the role that
20 utilities must play. We believe that utilities can
21 only do that if they change their business objectives
22 and focus on a provision of ends use energy services
23 rather than a provision of kilowatt hours. We would

24 also like to indicate that in our view conservation
25 programs aren't necessarily enough. We've heard a

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1 little bit of discussion today about Puget Power's I
2 would not say marketing but advertising efforts that
3 focus not only on the role of conservation but also
4 power exchanges with the southwest, on cogeneration
5 and other resources and we believe that while it's
6 difficult again to count the benefit of a campaign
7 that addresses these issues, that in a fast changing
8 regulatory environment, some consideration needs to be
9 given to a company like Puget getting out a message
10 that its role in life is changing very significantly
11 and for it to have confidence, for it to have
12 confidence on the part of those it works with it needs
13 to establish a clear record of why it has made those
14 changes and that those changes are secure over the
15 long term.

16 In summary, we view Puget Power's
17 conservation programs as one, leading the rest of the
18 region; two, accomplishing measurable results; three,
19 doing so at costs that are below those of equivalent
20 conservation providers; and four, taking actions
21 through advertising that enhance the effectiveness and
22 context of their efforts. That performance is
23 inextricably linked in our eyes to the regulatory

24 changes that the UTC has worked on with Puget that
25 reduce the short-term incentive for the company to

(HARDING - DIRECT BY ADAMS)

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1 increase margins through increasing sales and by
2 eliminating a disincentive by restoring revenues that
3 would be lost if conservation programs grew.

4 JUDGE HAENLE: Questions?

5 Q. Would I be correct that the ESO has not
6 made a specific analysis of Puget's conservation
7 programs?

8 A. That is correct.

9 Q. So you're not addressing any of the
10 details? You're speaking more conceptually?

11 A. Uh-huh.

12 Q. You said you had additional copies for the
13 Commission.

14 JUDGE HAENLE: Commissioners?

15

16 EXAMINATION

17 BY COMMISSIONER CASAD:

18 Q. Very briefly. I see Mr. Watson in the
19 audience also of the Northwest Power Planning Council
20 also. I don't know whether he intends to testify. If
21 he does I will reserve my questions about the
22 measurement of conservation acquisitions to him
23 because the Council is committed and I know you've

24 been working with him on that. So I see him nodding
25 his head and I will defer those questions.

(HARDING - EXAM BY COMMISSIONER CASAD)

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1 JUDGE HAENLE: Commissioner?

2

3 EXAMINATION

4 BY COMMISSIONER HEMSTAD:

5 Q. Were you here when Mr. Eigabroadt
6 testified?

7 A. I was.

8 Q. Are you aware of the article by the MIT?

9 A. Paul Joskow's article, yes, I am.

10 Q. Do you have any comments about that article
11 or how their conclusions relate to Puget Power?

12 A. I have looked at -- I've read Dr. Joskow's
13 article which is in a fairly recent issue of Science
14 Magazine. And also in the MIT's Technology Review
15 which is a bimonthly magazine out of Michigan. I
16 have also seen some criticisms, some of which go to 40
17 pages, and what I would propose to do is provide a
18 written response back to the Commission in that area
19 because the last review I read of Dr. Joskow's article
20 had 145 footnotes and I would not like to summarize
21 the nature of that but it stirred up quite a rat's
22 nest of controversy. I think what I would say is that
23 many of those programs are very difficult to compare.

24 Some of them meet very different objectives. For
25 example, residential weatherization which is a

(HARDING - EXAM BY COMMISSIONER HEMSTAD) 3851

1 traditional utility program is primarily provided as a
2 customer service rather than a conservation acquisition
3 effort. And in some cases, the costs of those programs
4 have been included along with the more -- what we're
5 seeing as the more cost-effective utility conservation
6 programs to the focus of other sectors.

7 JUDGE HAENLE: Commissioners?

8 Thank you, sir. You may step down.

9 MR. ADAMS: Perhaps I should raise the
10 issue, I don't think it would be appropriate --
11 outside of this proceeding, the discussion might go on
12 on the merits of that issue but to have the witness
13 send a letter to the Commission with materials that
14 hasn't been considered by other parties probably would
15 not be appropriate. So perhaps we could encourage
16 outside discussion on the issues outside of the case.

17 JUDGE HAENLE: Mr. Adams?

18 MR. ADAMS: Next witness signed up is Dick
19 Watson.

20 COMMISSIONER CASAD: I am not quite clear
21 on that last point. He indicated he was going to send
22 a letter and you're objecting to the inclusion of that
23 letter in the record.

24 MR. ADAMS: Well, there are a lot of other
25 parties that aren't here. We're starting to get into

(HARDING - EXAM BY COMMISSIONER HEMSTAD) 3852

1 technical issues that may relate to merits of the
2 case. And to have it just come by way of letter
3 without it being examined causes a problem, and --

4 JUDGE HAENLE: It's a bit beyond the spirit
5 of what we consider the illustrative exhibits to be
6 doing.

7 MR. ADAMS: I am not trying to foreclose
8 information.

9 COMMISSIONER CASAD: I consider all the
10 testimony to be worthy of consideration in the case
11 and all the letters we receive to be worthy of
12 consideration. I know of no other way to get a
13 response to the question that you asked and -- I'm
14 sorry, that was Commissioner Hemstad asked the
15 question about Joskow's paper. But seems to me as
16 part of the illustrative part of the record seems to
17 me it could be made part of the record like all the
18 others.

19 MR. ADAMS: Seems to me if we're getting
20 into that level of technicality you ought to make it
21 as a bench request but the problem is we're getting
22 into the area where other parties -- I don't know.
23 Just a generic description of the problems in the

24 area.

25 JUDGE HAENLE: The rule does provide that

(HARDING - EXAM BY COMMISSIONER HEMSTAD) 3853

1 if material is going to be very technical or detailed
2 it needs to be prefiled and I think that we're getting
3 -- we don't have the paper as part of the record and I
4 think a response to the paper might not be
5 appropriate.

6 COMMISSIONER CASAD: They're not a party to
7 the case. They're just like any other public person
8 or group offering testimony.

9 JUDGE HAENLE: That's what the rule
10 provides that in the case of public hearings that if
11 materials are going to be particularly detailed or
12 technical that they don't generally go into the
13 illustrative exhibit in the manner we've described.

14 COMMISSIONER CASAD: Well, raises an issue
15 with me as to what should or what should not go into
16 the public record. I guess we will have to review the
17 rule and see exactly what the rule says but it seems
18 to me that if any public part offers testimony -- we
19 get letters from people all over the place, some from
20 some people with some level of technical expertise and
21 we enter them into the record as an exhibit and I
22 question whether this is much different.

23 MR. ADAMS: I tried to leave open the

24 opportunity of doing it as a bench request; generally,
25 a question and a response to a question doesn't come

(HARDING - EXAM BY COMMISSIONER HEMSTAD) 3854

1 in through the normal process of letters. That's all,
2 Commissioner. I am not trying to foreclose the
3 Commission asking the question. I was just going to
4 propose --

5 JUDGE HAENLE: Why could we not do it as
6 as a bench request.

7 MR. ADAMS: That might be something you
8 could produce.

9 JUDGE HAENLE: I guess we could ask for the
10 original study as well so we would know what we were
11 responding to. If you choose to ask for that we can
12 certainly give it a time to be provided and we can
13 take up its admissibility at the -- we won't be able
14 to do it in time for the rate design briefs but we can
15 do it in time for the rebuttal session if you were to
16 request its admissibility could be discussed at that
17 point. Mr. Van Nostrand?

18 MR. VAN NOSTRAND: We have no objection to
19 it being provided in response to a bench request.

20 MS. BROWN: Staff doesn't either.

21 JUDGE HAENLE: Fine. Next bench request in
22 line 512 is the next. I don't have them on me.
23 That's my best recollection.

24 (Bench Request 512.)

25 MR. ADAMS: I guess it's clear between

(HARDING - EXAM BY COMMISSIONER HEMSTAD)

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1 Commissioner Hemstad who asked the question and the
2 respondent what's being asked.

3 COMMISSIONER HEMSTAD: In view of this
4 discussion, I suppose the bench request should be for
5 a copy of the Joskow article and any comments with
6 respect to that article from the Washington State
7 Energy Office.

8 MR. ADAMS: I might indicate, Commissioner,
9 I believe it is either the Wall Street Journal
10 coverage relatively recently of just part of that
11 article and so it's in the public debate area.

12 JUDGE HAENLE: All right. Can you arrange,
13 with the witness, Mr. Adams, a time? I don't know
14 when it would be due. We need it in time to be
15 distributed before the rebuttal sessions or we won't
16 be able to rule on its admissibility.

17 Do you want to call your next witness?

18 MR. ADAMS: Mr. Watson.

19 Whereupon,

20 RICHARD WATSON,

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

23

24

DIRECT EXAMINATION

25 BY MR. ADAMS:

(WATSON - DIRECT BY ADAMS)

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1 Q. Mr. Watson, if you would state your full
2 name and spell your last name?

3 A. Richard H. Watson, W A T S O N. My place
4 of business is 851 Southwest Sixth Avenue, Portland,
5 Oregon. I am here representing the Northwest Power
6 Planning Council and more specifically Washington's
7 representatives to the Northwest Power Planning
8 Council, Tom Trulove, T R U L O V E and Ted Bottiger,
9 B O T T I G E R and I am not now a residential
10 customer of Puget Power but who knows, you never know
11 in this business.

12 Q. Before you start, I guess I would like to
13 raise a general inquiry because your testimony has
14 been presented in the case already through NCAC as one
15 of their witnesses and that testimony was stipulated
16 in by the various parties but it was also presented in
17 the "technical" phase of the case. I guess I need
18 to ask you at this point, is your testimony here for a
19 different purpose or what because, again, the other
20 parties are not here and I just need to know
21 generically before we get into it whether this is more
22 of that testimony or whether you're speaking in a
23 different capacity?

24 A. I am speaking representing council members
25 Trulove and Bottiger who were not able to be here

(WATSON - DIRECT BY ADAMS)

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1 today because of the fact the Council is meeting in
2 Spokane today. The testimony that I entered in for
3 NCAC was in my capacity of director of power planning
4 for the Northwest Power Planning Council. The
5 substance of what I have to say is quite similar.

6 Q. I guess you can go ahead. Unfortunately,
7 we don't have other parties here and and I can't
8 represent them one way or the other in terms of views
9 of this but I would say let's proceed.

10 JUDGE HAENLE: Sure.

11 A. Well, the purpose of my testimony today is
12 to support the retention of the decoupling mechanism
13 for Puget Power. This position is on the grounds that
14 this is an action item in the Council's 1991 plan, an
15 action item that was adopted on the grounds that
16 decoupling, or more generically, regulatory mechanisms
17 which remove disincentives to utility investment and
18 energy efficiency, support the public interest. I
19 will further be indicating the council's view that the
20 decoupling mechanism for the period of PRAM 1 and PRAM
21 2 at least correlates with significant conservation
22 performance on the part of Puget Power indicating
23 effectiveness of the decoupling mechanism.

24 As a matter of background, the Northwest
25 Power Planning Council was created by Congress in 1980

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1 with the mandate that it prepare a power plan for the
2 region that would assure the Pacific Northwest of an
3 adequate, efficient and reliable power supply. The
4 planning methodology that's employed by the Council
5 evaluates all resources, both supply side and demand
6 side, or efficiency resources, on an equal basis and
7 identifies a resource portfolio that results in the
8 least total cost to the region under a wide range of
9 possible demand and supply conditions. The Council's
10 1991 plan identifies a large block of conservation or
11 efficiency resources which are cost effective for the
12 region that need to be developed by both investor-
13 owned and publicly-owned utilities throughout the
14 region if we are, in fact, to obtain a least cost
15 electricity future.

16 Council staff have looked at the economic
17 impacts of not achieving the conservation goals
18 established in the 1991 plan. Under current fuel
19 price conditions the impact of not achieving 30
20 percent of the goal -- not the entire goal but rather
21 just 30 percent of the goal to the region would be
22 approximately \$1.8 billion net present value cost to
23 the region as a whole.

24 In addition, there are environmental
25 concerns such as the offsets of CO2 omissions that

(WATSON - DIRECT BY ADAMS)

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1 have not yet been quantified.

2 The Council's interests in decoupling stems
3 from the fact that under conventional regulatory
4 systems utility investments in end use efficiency
5 resources result in a reduction in the kilowatt hour
6 sales by the utility, and since the short run marginal
7 costs of serving those sales is typically less than
8 the utility's retail rate consequently the utility
9 loses margin. And that margin results in a reduction
10 in shareholder earnings, a clear disincentive to utility investment and
11 efficiency.
12

13 I won't go into other factors associated
14 with decoupling that I think are also benefits that
15 were alluded to I think by Mr. Harding. I think that
16 the key point is that in 1991 the Council's action
17 plan called for new policies to be developed to
18 decouple a utility's profits from the energy sales and
19 link profits to the energy the utility saves. That
20 action item was adopted by the Council after careful
21 consideration of the kinds of barriers that they feel
22 efficiency investments face in the utility world. And
23 I would have to say that the Council's adoption of

24 that action item was more or less coincident with this
25 commission's work on decoupling at that particular

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1 time.

2 Decoupling would have no value other than
3 in a theoretical sense if it were not actually leading
4 to results. As Mr. Harding indicated earlier,
5 correlation doesn't necessarily imply causality but
6 nonetheless, the data that we have looked at indicates
7 that since the implementation of the decoupling by
8 this commission in 1991 showed that between 1990 and
9 1991 a doubling of conservation acquisitions by the
10 utility and between 1991 and 1992 a 60 percent
11 increase in the conservation acquisitions. This is
12 more than any other investor- owned utility in the
13 region. The company is now meeting approximately
14 one-third its load growth through efficiency savings
15 and that is comparable to the levels in the Council's
16 conservation targets under conditions of the kind of
17 load growth that we're experiencing now.

18 Council staff have participated in the
19 various collaboratives that both established targets
20 for Puget, bringing to bear in that process I think
21 the best information available in terms of the actual
22 performance of conservation measures and has also
23 participated in establishing the verification

24 protocols that Puget is to be using. So we have a
25 high degree of confidence that the kind of efficiency

(WATSON - DIRECT BY ADAMS)

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1 estimates that Puget is using are as good as can be
2 made at the present time and that, in fact, a
3 reasonable verification procedure is being followed
4 thereafter. That concludes my testimony and I would
5 be happy to respond to questions.

6 JUDGE HAENLE: Counsel, questions?

7 BY MR. ADAMS:

8 Q. Just one clarification question. There are
9 a number, if you will, variations of decoupling being
10 proposed by various parties, including NCAC. And am I
11 correct that the Council is not taking a position, if
12 you will, on the specific ingredients of any
13 decoupling mechanism?

14 A. That is correct.

15 JUDGE HAENLE: Commissioners?

16

17 EXAMINATION

18 BY COMMISSIONER CASAD:

19 Q. Yes. I indicated I was going to defer a
20 question to you regarding the measurement of
21 conservation acquisition. The Council after
22 discussions with the regulatory commissions in the
23 Northwest agreed to take on that task to try to come

24 up with some reasonable definition of conservation
25 savings. Could you tell us where you are as far as

(WATSON - EXAM BY COMMISSIONER CASAD)

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1 that process is concerned?

2 A. At the present time we have in place, and
3 we're about to come up with the second edition of it
4 is a tracking of the reported conservation savings and
5 in this edition reported costs from the various
6 utilities. At this stage there is not a mechanism for
7 insuring consistency of the methods by which the
8 various estimates of the efficiency savings are made,
9 and we may have Bonneville reporting their savings in
10 one way and Puget Power reporting their savings as
11 based on a different set of estimates. We view this
12 as a long-term issue that the region and, I think
13 probably nationally, the industry needs to address.
14 We are planning undertaking some contract work to try
15 to get our arms around the evaluation efforts that
16 have gone on in this region to try to be able to
17 categorize the various evaluation and verification
18 activities by the approaches that they have used and
19 to try to come up with some recommendations for more
20 consistent ways of measuring reporting the savings
21 that were achieved through conservation programs.

22 Q. As public witnesses earlier testified, it's
23 not only common sense, it's absolutely fundamental to

24 any kind of realistic assessment of the success of a
25 conservation program, and I would encourage the

(WATSON - EXAM BY COMMISSIONER CASAD)

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1 continue efforts that have been taking place to
2 accomplish that.

3 A. Thank you.

4 JUDGE HAENLE: Commissioners.

5 COMMISSIONER HEMSTAD: No.

6 JUDGE HAENLE: You may step down.

7 MR. ADAMS: Let me just ask. As I look
8 around the room is there anyone else who has not
9 testified?

10 (Recess.)

11 JUDGE HAENLE: Let's be back on the record
12 after a five-minute recess. You had something -- go
13 ahead.

14 MS. BROWN: Thank you. I do want to move
15 to strike Mr. Watson's testimony. I don't think it's
16 appropriate at all that he should be allowed to
17 testify here today when he knows that counsel for all
18 of the intervenors in the general rate case will not
19 be present. I'm short of breath, I just ran from next
20 door. Excuse me. It's very simple. I just think
21 it's an abuse of the process. He's prefiled written
22 direct testimony on behalf of NCAC and, in fact, he just
23 admitted that that was the document that he was

24 referring to when testifying here today. And for the
25 simple reason that I don't think it's fair that

(WATSON - EXAM BY COMMISSIONER CASAD)

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1 counsel for any of the intervenors or counsel for
2 staff to be deprived of an opportunity to
3 cross-examine him. He was not cross-examined in the
4 rate case. All parties just stipulated that his
5 testimony would be admitted.

6 JUDGE HAENLE: Comment, Mr. Van Nostrand?

7 MR. VAN NOSTRAND: Well, there are a number
8 of points there, your Honor. I guess in terms of how
9 his testimony was admitted in the rate case, if there
10 were a problem or indeed a need to cross-examine
11 Mr. Watson, I guess maybe staff shouldn't have
12 stipulated to having his testimony go in. The fact is
13 it went in, he was speaking in a different capacity
14 here today, not on behalf of himself but on behalf of
15 the members of this state to the Northwest Power
16 Planning Council and his remarks were different than
17 his testimony offered on behalf of NCAC.

18 JUDGE HAENLE: I guess my understanding,
19 the witness just indicated that he was speaking from
20 his remarks. Is that not what you heard,
21 Mr. Van Nostrand?

22 MR. VAN NOSTRAND: He was paraphrasing from
23 them, and perhaps referring to them. I don't believe

24 it was a word-by-word reading in of his testimony.

25 JUDGE HAENLE: Comment, Mr. Adams?

(WATSON - EXAM BY COMMISSIONER CASAD)

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1 MR. ADAMS: Well, I am concerned by the
2 process, but the reason I asked him the questions in
3 the beginning was to try to find out whether he was
4 theoretically speaking from the same position or
5 speaking from somewhat different and I sort of viewed
6 him as having a little different hat here today than
7 he did for NCAC, but I do think this part of the
8 process where we have basically technical kind of
9 witnesses at this part of the process without alerting
10 other parties is of some concern. I am not moving to
11 strike but I think I want to express some concern but
12 I think that the comments that he made were somewhat
13 of another hat today.

14 JUDGE HAENLE: Are you supporting or
15 opposing the motion or taking no position?

16 MR. ADAMS: Taking no position.

17 JUDGE HAENLE: Any brief response?

18 MS. BROWN: I think that Mr. Watson himself
19 indicated that his testimony was echoing his prefiled
20 direct testimony and I think that it is an abuse of
21 the process. A concern is one way to term it I
22 suppose but we would be concerned by the Washington
23 State Energy Office's assistant director testifying

24 today without intervenors present or represented. It
25 was in that same vein. I renew my motion. I think

(WATSON - EXAM BY COMMISSIONER CASAD)

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1 that the testimony should be stricken.

2 JUDGE HAENLE: I would like to go off the
3 record. I would like to have the Commissioners to
4 have a chance to confer about this. Take just a few
5 minutes and we will be back for you, sir.

6 (Recess.)

7 JUDGE HAENLE: Let's be back on the record.
8 During the time we were off the record the
9 Commissioners were discussing the motion to strike
10 that was made by Ms. Brown. We finally decided that
11 we're going to need to take the motion under
12 advisement. We will let you know one way or another
13 by letter. I don't think it will affect anything you
14 say that will happen today but we're going to need to
15 look into it further.

16 We'll take the remainder of Mr. Young's
17 testimony. Then we need to mark the documents that
18 have come in at this hearing, we need to give the
19 number to the general exhibit of the other things that
20 are going in. So why don't you go ahead, sir.

21 COMMISSIONER HEMSTAD: Welcome back.

22 THE WITNESS: He's back. Thank you. Just
23 if I can ask your patience, I will just hit the first

24 two topics very cryptically so I can put it together
25 as one issue. What I will do as I go through here, I

(YOUNG - COLLOQUY)

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1 will talk to these, just a slightly more expansive
2 than what you see up here hopefully so you can capture
3 where we're at and if you have questions I would be in
4 the residential ratepayer's advisory group.

5 It was fairly obvious to us and becoming
6 more and more obvious to me here today that you don't
7 have any organized well-informed group of residential
8 rate groups out there so what you do get is more of an
9 ad hoc point of view than you would a focused and that
10 is fundamentally what happens. The reduced incentives
11 expenses I know that we did get some interest on that
12 and I appreciate Frank Fahland for raising that issue.
13 Is not quick to understand but the point there is we
14 would recommend, strongly recommend, the ability for
15 the utility to gain some benefit from savings that are
16 in nature long term rather than short term and only
17 get a short-term benefit. We have some examples in
18 the text of how that might be done. So with that, I
19 would like to move into rate spread and some of our
20 thoughts on rate spread. If you all wear out before I
21 do, please holler.

22 JUDGE HAENLE: We will have the material in
23 the record so if you could --

24 THE WITNESS: We're available. I am
25 available. You have people in the Commission who are

(YOUNG - COLLOQUY)

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1 fairly familiar with this kind of material because I
2 worked with them in the collaborative and so they've
3 had this on their desks for some time.

4 MR. ADAMS: Could I interject just a
5 moment. I am not sure that the document, the full
6 document of recommendations by the group is in
7 evidence. You may have a copy of it.

8 JUDGE HAENLE: I believe it's Exhibit 10.

9 MR. VAN NOSTRAND: Is in the rate design
10 case.

11 JUDGE HAENLE: I have DWH-3 Final Report
12 Rate Design Task Force. That is what the material is.
13 I do have a copy of it here and it will be part of the
14 hearing material as well. Go ahead.

15 THE WITNESS: In fair share costing, it's
16 been alluded to here, basically we feel strongly that
17 you get what you pay for and you pay for what you get.
18 We looked across the board at some of the structural
19 aspects of how the rate spread is managed and how one
20 segment pays more or less apparently for similar
21 amount of service. We concluded, for example, that
22 the commercial side of the house probably had the
23 worst posture as far as benefit to what they're paying

24 and industrial and residential property had a better
25 posture for getting more for their money. And you

(YOUNG - COLLOQUY)

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1 will see in our recommendation that we try to fix
2 that, and I see in part of Puget's recommendation they
3 sort of came in that direction which leads us on this
4 recommendation. Cost of recovery of conservation is
5 the bottom one on this page.

6 Put very simply, and I hope not too
7 cryptically, it is possible that the bulk of
8 conservation could occur in one element of the
9 consumer world out there. For example, let's say it
10 happens in the residential side of the house that most
11 conservation occurs there and you have then perhaps a
12 5-1/2 cent per kilowatt hour conservation savings that
13 ultimately might be sold for 2.6 cents in the scheme
14 of things. I know that it would be hard to follow
15 that kilowatt, but in any event that sort of thing can
16 happen, and what we're saying in this group is if one
17 group is providing the basis of savings and another
18 group benefits from it, the group benefitting would be
19 a much fairer posture for them to pay for it than to
20 have a general rate increase penalizing residential
21 because we're in a conservation decoupled mode. We
22 feel like that should be looked at in terms of finding
23 the right place to put the penalty or the right place

24 to balance the costs.

25 Well, gradualism doesn't need a lot of

(YOUNG - COLLOQUY)

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1 conversation. We can shorten this part of it up real
2 quick. We recommend whatever happens in terms of rate
3 increases, whether it be as a result of rate design or
4 whether it be through the business that we're in here at
5 this hearing and that we'll be in the newest proposal,
6 that whatever happens to avoid rate shock it could be
7 done gradually in some manner so that it doesn't hit any
8 group, whether it's industrial or agricultural or
9 residential, so that doesn't hurt them too much and
10 there's time for adjustment. For example, the one
11 gentleman, the retired fellow that was talking about 20
12 percent, if that were true, that would be a big pill to
13 swallow for a lot of people.

14 Sharing of low cost energy listed there is
15 the second bullet. Here we look at the kinds of
16 energy and how it's generated, whether it's thermally
17 generated or whether it's from natural resources and
18 we feel as though if it is derived from public
19 resources such as river water flow-through, already
20 established hydro, in-place equipment, that sort of
21 thing that it's much lower cost. Obviously, the
22 resource is much lower cost and that should be spread
23 evenly in some manner throughout the consumer

24 elements, all of them. And how that's done is not up
25 for grabs, I suppose, but it could be based on the

(YOUNG - COLLOQUY)

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1 amount of consumption of a particular class is what we
2 had as an example.

3 In any event, when we get into the rate
4 design for residential this thought will continue into
5 that.

6 The no low income rate. Expect some
7 politics involved here and I don't mean politics in
8 the purest sense of politics or political
9 considerations. We just want to clearly establish
10 that investor-owned utilities should not be in the
11 business of what we feel is government in terms of
12 providing for low income people, in managing the
13 provision of that. In the case of a utility they
14 would be managing low cost or subsidizing in some
15 manner or another through other ratepayers their
16 utility and so I am going to -- the next bullet will
17 hopefully shed some light on how we really feel
18 because the group is certainly not callous about this.

19 We thought very hard on this and one member
20 of our group, Dan Morrin was with the -- one of the
21 low income advocate groups and I can't think of it
22 right offhand but he really pleaded with us to help
23 and do something because he felt there was a strong

24 need for it, and I am here to tell you that I believe
25 all but two possibly in our group of 30 had the same

(YOUNG - COLLOQUY)

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1 opinion that something should be done. And so what we
2 did come up with under the centralized low income
3 utilities credit system is a recommendation that the
4 government per se, and I will just leave that generic
5 because you can read the words, look at this hard and
6 look into consolidation perhaps in some sense
7 privatizing the way that low income utilities are
8 handled, centralizing it and then providing some basis
9 for the utility to react to that. In other words, our
10 recommendation goes along the line of a credit system
11 by which a centrally managed low income utility
12 organization determines the need of a particular
13 household and provides them a credit. Let's say there
14 is a bill of \$100 and this family's income is such
15 that they would receive a credit of let's say \$60
16 leaving \$40 for them to pay. The system in this case
17 would tell a utility like Puget Power, this is the
18 posture of this family, credit 60, 40 they pay. In
19 this case Puget Power would bill them accordingly and
20 on the bill it would say you've been credited in this
21 system 60, you pay 40. There is statistical evidence
22 in experiments that have been done in the eastern part
23 of the country, I've seen at least one briefing and

24 two studies mentioned that shows that if there is a
25 lesser amount that the low income people actually have

(YOUNG - COLLOQUY)

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1 to pay that the statistics are far greater that they
2 will pay it.

3 Now, where the utility becomes involved
4 here in their contribution is that there are also
5 statistics available to show that if a utility bills
6 low income at the full rate now that the noncollection
7 is at a certain rate. And we're saying here under the
8 presumptions based upon two studies that if the
9 utility actually gains more return, more revenue, in a
10 posture where it's a credit system, then they
11 contribute some of that back into the system, like 75
12 percent of that benefit and then over time the credit,
13 hopefully the system would become relatively
14 independent and would autonomously agree on its own
15 and so that the 60 percent may diminish over time and
16 the utility's contribution may diminish over time but
17 in either case it would be a better posture than what
18 we're in right now.

19 JUDGE HAENLE: We do have the background
20 material within the report itself. So if you could
21 not hit the background material and just cover --

22 THE WITNESS: That's a good point.

23 COMMISSIONER HEMSTAD: I guess I didn't

24 understand. The \$60 credit?

25 THE WITNESS: Where would the money come

(YOUNG - COLLOQUY)

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1 from?

2 COMMISSIONER HEMSTAD: Where would it come

3 from?

4 THE WITNESS: We envision that in all of
5 the low income support areas being consolidated into
6 one managed area, this would include government
7 subsidizing that does exist. Includes other
8 subsidization programs that do exist, and there's
9 several bodies that now provide for low income that
10 they would actually pay that credit to the utility as
11 a bulk. In other words, one of their margin lights
12 would be credit for low income and it would be 7
13 million or whatever it is, probably closer to 3.

14 COMMISSIONER CASAD: Sir, do you think that
15 this might be a more appropriate topic for the
16 legislature to explore than the Commission?

17 THE WITNESS: I do. It is in our
18 recommendation that the body here, and probably all
19 members present, would raise this to the legislature.
20 It would be a legislative issue. But it has to get
21 there somehow. And I believe the low income
22 advocates, I don't believe they have the wherewithal
23 to do that based on my experience with them. Maybe

24 the utility and members here could toss this around.

25 I don't know.

(YOUNG - COLLOQUY)

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1 JUDGE HAENLE: Go ahead, sir. Would be the
2 right place for it?

3 THE WITNESS: But that would be the right
4 place for it?

5 A. Model residential rate design.
6 Mack Gardiner was one of our most respected members of
7 that group. He had his own idea about this, but we're
8 not too far apart. There are two members in our group
9 like Mack that had a demand billing demand charge
10 sort of point of view, and they came into our group
11 with that and they left with that although they
12 contributed immensely otherwise. Our model
13 residential rate design shows that we think there
14 ought to be a basic charge, as there is today, but one
15 that more appropriately reflects the fixed costs.
16 There are lots of discussions over what are fixed
17 costs and what are not fixed costs. What we gather,
18 including infrastructure, administration, that kind
19 of overhead, that it is in the neighborhood of \$15 a
20 month. And we arrived at that based upon data
21 available to us through Puget Power. As I mentioned
22 earlier, we looked at a first block rate based upon
23 low cost energy. Now, you get mitigation right away

24 because you have there two point something cents
25 kilowatt hour tacked on to a fairly large base charge.

(YOUNG - COLLOQUY)

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1 Then we would add a tail block that would get you back
2 into the conservation incentive mode, and get the
3 revenue back up to where it belonged.

4 Bear with me and see if I have one more
5 comment on that. It's a fairly large issue and I am
6 probably not treating it appropriately.

7 JUDGE HAENLE: Again, we do have the
8 materials.

9 THE WITNESS: You do. We are aware that
10 there have been sort of a bow wave of resistance
11 against this, both in the public counsel and we
12 believe in the Commission. There is, I guess, one
13 thing, and I will only show one. I have three graphs
14 in the report. This is one of them. It shows what
15 would happen to the rate you see at the lower end. I
16 only want to make this point why I'm belaboring the
17 issue of a view graph. In the lower end you see a
18 greater rate and we accept that but we find throughout
19 that greater rate it doesn't affect any particular
20 group more than another. In other words, you're not
21 dealing with strictly low income in that group or high
22 users, low users, what have you, and so it is fairly
23 evenly spread across there but we realize that

24 increase is there and it's not done arbitrarily or
25 without a great deal of thought.

(YOUNG - COLLOQUY)

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1 The top one, home energy rating system,
2 it's not a new deal, around the country here and there
3 and it came from a representative in our group from
4 another utility. By and large we liked it, and it's
5 in the text. It's a way to bring the attention of
6 consumers more in line with how energy is depleted in
7 a home or for that matter a business. Just to call
8 attention to it and have some method by which they
9 know in total an individual can know how efficient
10 they are, and then they can react to that however they
11 wish, whether they're buying a home, selling a home,
12 living in it, paying their bills.

13 JUDGE HAENLE: You're going to need to talk
14 slowly for the reporter or she won't get it. If you
15 can choose the points carefully but speak slowly.

16 THE WITNESS: Thank you. Interruptible
17 rates and time of use rates. Puget Power, and
18 probably rightfully so, does not see in the
19 residential sector, principally, does not see a big
20 savings at this time. Does not see a huge benefit
21 from these kinds of programs. This is like either
22 your water heater or time of day peak hour
23 curtailment, so forth in the residential sector. We

24 favor as a minimum an experimental program or a pilot
25 program because we feel very strongly the way the

(YOUNG - COLLOQUY)

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1 resource is moving that in the future this kind of
2 capability will not only be useful but be required and
3 we need to have some kind of learning curve to get
4 there from here plus we need the ratepayers to have
5 the opportunity to be involved in such programs if
6 they want as an elective program.

7 Our group looked at rate design in the
8 commercial, industrial, other areas to include all of
9 them. And as I mentioned earlier, we just can find no
10 excuse to have an inverted tail block in one area and
11 not in others. We could find no rationale for it. It
12 just doesn't make sense. And so we begin to wrestle
13 with that idea and we looked first, as you see here,
14 conservation in that context and derived from there in
15 four areas, and we started looking at heavy industry
16 and searched for a way -- I am bringing back
17 information from the collaborative meetings and noting
18 the resistance from the high energy users to any
19 change and so we looked for a way that might get them
20 to rope them in and get them involved in some
21 meaningful way and here is one example. Inverted tail
22 block rate for industry as indicated here. You have a
23 given rate for 90 percent, for example, and then a

24 premium rate for anything you save over that you get
25 credit for it. So if they're ambitious in that last

(YOUNG - COLLOQUY)

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1 10 percent of what they use and if they can do
2 something to improve it, then they benefit from it.
3 If not, this costs them a little more and they're a
4 little more conscious of it just like the residential
5 ratepayer. As it stands right now such incentive
6 isn't there right now as far as we can tell.

7 I don't know how big a problem this is but
8 we felt like at the time it could be a problem. When
9 you have new heavy industry move into an area with
10 large requirements, no planning time to get there,
11 it's going to hurt everyone across the board. One way
12 to mitigate we've indicated here and that would be to
13 develop, if they can't meet a lead time as we
14 suggested then to pay a higher rate until the utility
15 can come up to speed and be able to provide it at a
16 lesser rate or more of a standard rate that everyone
17 else is paying.

18 Second to last one there is a hook-up fee,
19 one area we did look at and you are all probably
20 extremely familiar with this, and this is in the area
21 of commercial buildings. As far as our group was
22 concerned the building energy code requirements that
23 go into commercial buildings is woefully lacking,

24 although we understand there was quite a bit of
25 activity in trying to fix that, in other words, trying

(YOUNG - COLLOQUY)

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1 to increase the energy savings requirements for
2 commercial buildings. But we think it's lacking. And
3 I don't know the current status of that. Somebody be
4 here probably knows but it probably still is lacking.
5 In this case you generate a larger hook-up fee for
6 buildings that were at least on the drawing board, for
7 example, and then diminish that cost as a function of
8 how energy efficient they became. In other words,
9 conservation incentive just like it is for anyone
10 else.

11 And finally in the rate classification area
12 we looked at the -- this is a broad area that's
13 covered here in this rate area and we looked at some
14 way of breaking it up. We had quite a bit of
15 assistance here in terms of what is a logical break
16 point. In other words, to break these into rate
17 paying consumer elements that are more appropriate for
18 what they consumed, and so we broke it down
19 accordingly to the small commercial business and then
20 the larger consumers according to what you see here
21 and fundamentally boils down to demand energy meters,
22 no demand energy meters. It looked like it was more
23 appropriate in distribution of charging for electrical

24 power.

25 I think that's all I have. I hope that the

(YOUNG - COLLOQUY)

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1 organization here can wade through this material

2 because there's considerable there and I can't

3 possibly do it justice here even in a half a day.

4 JUDGE HAENLE: Questions, commissioners?

5

6 EXAMINATION

7 BY COMMISSIONER CASAD:

8 Q. Might I ask in this exhibit that he's been
9 speaking from it's entered into the record who entered
10 that exhibit.

11 JUDGE HAENLE: The company, Mr. Hoff. This
12 copy will also be made part of this hearing exhibit
13 just for reference but it was a company witness.

14 Commissioners, questions?

15 COMMISSIONER HEMSTAD: I have some.

16

17 EXAMINATION

18 BY COMMISSIONER HEMSTAD:

19 Q. I assume you've had extensive discussions
20 with the company about the substance of your
21 recommendations?

22 A. Yes.

23 Q. And preliminarily, your committee was a

24 company-wide committee?

25 A. Yes.

(YOUNG - EXAM BY COMMISSIONER HEMSTAD)

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1 Q. With representation from the entire --

2 A. We had representation from Olympia,
3 Bellingham, fairly widespread, Bainbridge Island.

4 Q. To what extent in your judgment are your
5 recommendations included in the proposals being
6 submitted to the Commission by Puget Power?

7 A. I did review that and I had some comments
8 in my notes on that. I see -- well, to answer bluntly
9 what extent, I would say probably on the order of 30
10 percent of our recommendations are included one way or
11 another in their proposals. Maybe a little bit more
12 than that.

13 Q. Do you have any indication as to why not
14 more? And I am not asking that as a criticism but
15 just as informational.

16 A. Well, for example, we were quite aware
17 that there is great reluctance in the area of larger
18 base charge and so we weren't at all surprised to see
19 that Puget Power did not come forth with asking for
20 that. I personally believe they would. It makes more
21 sense from revenue management point of view to them to
22 do that. You would have to ask them that question but
23 if I were running the company it would make sense to

24 me.

25 Q. You referenced your minority member,

(YOUNG - EXAM BY COMMISSIONER HEMSTAD)

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1 Mr. Gardiner. Apparently the majority of your group
2 didn't -- weren't prepared to accept his
3 recommendations on demand?

4 A. That is correct.

5 Q. Why not?

6 A. Why didn't we accept the demand approach?

7 Q. Yeah.

8 A. Well, if you do get into the report you
9 will find that both Dave Palmer and Matt Gardiner, the
10 only two dissenters, were of the same general
11 persuasion on demand. And we felt like as a group
12 that it was a little bit complex and probably too hard
13 to handle in this state of the art of the business.
14 Too much required.

15 Q. I see.

16 A. Consumers probably wouldn't understand it.

17 Q. And I've asked other witnesses, what is
18 your occupation or business background?

19 A. I have primarily military, 32 years United
20 States Air Force, retired full colonel. In that it
21 ranges fully from managing small organizations,
22 economics analyst, operations analyst, physical
23 scientist, aviation development, executive management.

24 One of those jobs was an organization that managed 15
25 bases, McChord being one of them, including all of the

(YOUNG - EXAM BY COMMISSIONER HEMSTAD) 3884

1 utilities involved in that. So I have, while I don't
2 claim to be any kind of expert in any utility but we
3 did have some knowledge and did manage quite a bit of
4 that kind of thing, so large assets. I guess my
5 strongest attributes in management would be
6 inefficiencies is what I'm best known for.

7 COMMISSIONER HEMSTAD: One question of
8 counsel. In view of the fact that this material has
9 been entered as Exhibit 10 in the rate design case, do
10 you see any reason to object to its admission here in
11 this presentation here today in view of the earlier
12 objection?

13 MR. ADAMS: It wasn't my objection but I
14 believe it was entered by the company witness to show
15 those recommendations and Mr. Young was not a witness
16 at that time. Mr. Watson was a witness for another
17 party earlier in this. That was part of the nature of
18 the objection I think here and it appeared a second
19 time. So that position is not renewed. I just wanted
20 to say there was a difference in terms of how
21 procedurally it occurred.

22 COMMISSIONER HEMSTAD: Would that be your
23 distinction?

24 MR. ADAMS: In light of Mr. Young's
25 presentation here today I think it would be useful to

(YOUNG - EXAM BY COMMISSIONER HEMSTAD) 3885

1 have the task force's recommendation as they pertain
2 to rate design in this record for illustrative
3 purposes.

4

5 REDIRECT EXAMINATION

6 BY MR. ADAMS:

7 Q. Am I correct that your group was basically
8 started independently from what has been called the
9 rate design collaborative?

10 A. It was started independently from the
11 collaborative.

12 Q. And then part way through your process you
13 began attending the collaborative and participated in
14 the collaborative process as well?

15 A. Right. When I started, as I understood it,
16 we would prepare a report and submit it to the
17 collaborative for its consideration ultimately of
18 recommendations and we were not part -- to be part of
19 that collaborative. Ultimately very straight off we
20 were and this happened within a few days, maybe a
21 week. It became obvious to Puget Power that we could
22 be exchanging back and forth our knowledge and
23 expertise and abilities and so forth and

24 recommendations and it worked very well. I thought
25 that process worked very well, up until the end it

(YOUNG - REDIRECT BY ADAMS)

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1 worked super.

2 Q. I guess partly asking the question for
3 Commissioner Hemstad's benefit because he was asking
4 about what percentage, what was adopted, what was not.
5 But it was obvious all of your recommendations were
6 not adopted but they became part of the issues that
7 were discussed and agreed to and disagreed to in the
8 collaborative process?

9 A. Oh, yes. Very intricately involved in the
10 collaborative process. That wasn't the question and
11 that was the question.

12 COMMISSIONER CASAD: You mentioned in your
13 testimony a short time ago that in the collaborative
14 process that the industrial customers objected to a
15 particular proposal that -- or you thought they would
16 object to a particular proposal and with that in mind
17 you conditioned your exhibit here, about which you're
18 testifying. What was that again?

19 THE WITNESS: Let me think. Well, I can
20 only say it probably was my comment related to who is
21 paying a fair share -- you know, this is fair share
22 costing and I said that the industrial side of the
23 house, the heavy industry, residential side of the

24 house, probably don't pay their fair share based on
25 the data we saw. Commercial probably pays more than

(YOUNG - REDIRECT BY ADAMS)

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1 their fair share. Industrial would not agree with
2 that is what I said.

3 COMMISSIONER CASAD: And counsel for
4 industrial customers is not present here today.
5 Thank you.

6 MR. ADAMS: I think you can almost take
7 administrative notice that they would disagree with
8 that.

9 JUDGE HAENLE: Anything more of the
10 witness?

11 THE WITNESS: I have one comment if I
12 might. I appreciate the patience of this group
13 staying the course and hearing this and I apologize
14 for how cryptic it had to be because it is fairly
15 extensive and there's quite a bit behind it.

16 COMMISSIONER CASAD: Appreciate your
17 testimony.

18 JUDGE HAENLE: Thanks for your flexibility.

19 I think that's all of the witnesses. We
20 need to take the group of documents from the hearing
21 today. I will mark those as 873 for identification.
22 Those are the materials that people brought to the
23 hearing on June 23. Before we went on the record we

24 agreed to make 872 the group of letters from customers
25 who sent in letters to the Commission and to public

(YOUNG - REDIRECT BY ADAMS)

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1 counsel up through a cutoff date of July 2 so that we
2 could get those into the record and counsel could
3 address those on rate design briefs which are due July
4 9 and then later on if you still get letters after
5 that, Mr. Adams, if there are any left over after
6 July 2 we can discuss at the rebuttal phase, making an
7 exhibit of the remainder of those letters.

8 (Marked Exhibit 873.)

9 MR. ADAMS: That's fine. Just so it's
10 clear, there's probably almost no way we can
11 distinguish between those letters that came in on the
12 rate increase request and the rate design so we will
13 put them all together.

14 JUDGE HAENLE: I don't think we had ever
15 talked about separating them. What I wanted to do was
16 give them one group a cutoff date so that people
17 could address them to the extent they talk about rate
18 design in their briefs.

19 Is it all right with you, then, if 873 is
20 entered into the record? That is the materials from
21 this hearing, Mr. Van Nostrand?

22 MR. VAN NOSTRAND: Yes, your Honor. No
23 objection.

24 JUDGE HAENLE: Ms. Brown?
25 MS. BROWN: Subject to my motion to strike.
(YOUNG - REDIRECT BY ADAMS) 3889
1 JUDGE HAENLE: Mr. Adams?
2 MR. ADAMS: No objection.
3 JUDGE HAENLE: I will enter 873 with the
4 understanding the Commission has not yet ruled on the
5 motion to strike. I don't believe there were any
6 written materials from Mr. Watson here.
7 (Admitted Exhibit 873.)
8 MR. ADAMS: No.
9 JUDGE HAENLE: And 872 then will be entered
10 when it is received shortly after -- as shortly as
11 possible after July 2. Is that acceptable to you,
12 Mr. Van Nostrand?
13 MR. VAN NOSTRAND: Yes, your Honor.
14 JUDGE HAENLE: Ms. Brown?
15 MS. BROWN: Fine.
16 JUDGE HAENLE: Mr. Adams?
17 MR. ADAMS: Sure.
18 JUDGE HAENLE: We will enter that on
19 receipt. I might note that there has been an initial
20 session set up for the PRAM on July 9 just for your
21 information on the PRAM 3.
22 MR. VAN NOSTRAND: Is that 8:30 in the
23 morning?

24 JUDGE HAENLE: 8:30.

25 MR. VAN NOSTRAND: Just wanted to make

(YOUNG - REDIRECT BY ADAMS)

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1 sure.

2 JUDGE HAENLE: I just wanted to give you
3 advance warning because it is early. I did want to
4 make Mr. Adams' letter a part of this illustrative
5 exhibit so we have in the record at some point what
6 some of the public witnesses were responding to. Is
7 that all right with you, Mr. Van Nostrand?

8 MR. VAN NOSTRAND: Yes, your Honor.

9 MR. ADAMS: Yes.

10 MS. BROWN: Yes.

11 JUDGE HAENLE: Anything else we need to
12 discuss?

13 JUDGE HAENLE: We'll be in recess then
14 until tomorrow at 4:00 in Renton. Thank you.

15 (Hearing adjourned 5:35 p.m.)

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