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 1 BEFORE THE WASHINGTON

 2 UTILITIES AND TRANSPORTATION COMMISSION

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 3 )

 WASHINGTON UTILITIES AND )

 4 TRANSPORTATION COMMISSION, )

 )

 5 Complainant, )

 )

 6 vs. ) DOCKETS UE-170033

 ) and UG-170034

 7 PUGET SOUND ENERGY, ) (Consolidated)

 )

 8 Respondent. )

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 9

 HEARING, Volume III

10

 Pages 146 to 367

11

 ADMINISTRATIVE LAW JUDGE DENNIS MOSS

12 and

 ADMINISTRATIVE LAW JUDGE RAYNE PEARSON

13 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

14 9:00 a.m.

15 August 30, 2017

16 Washington Utilities and Transportation Commission

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0151

 1 HEARING

 Volume III: INDEX

 2

 3 WITNESSES: PAGE

 4 AMANDA LEVIN

 5 Direct Examination By Ms. Boyles 163

 6 Cross-Examination By Mr. O'Connell 164

 7 KEVIN HIGGINS

 8 Direct Examination By Mr. Boehm 167

 9 Cross-Examination By Mr. O'Connell 168

10 DANIEL DOYLE

11 Direct Examination By Ms. Carson 170

12 Cross-Examination By Mr. Bryant 172

13 ALI AL-JABIR

14 Direct Examination By Ms. Liotta 186

15 Cross-Examination By Mr. O'Connell 187

16 BOOGA GILBERTSON

17 Direct Examination By Ms. Carson 191

18 CATHERINE KOCH

19 Direct Examination By Mr. Oshie 195

20 Cross-Examination By Mr. Bryant 214

21 Redirect Examination By Ms. Carson 219

22 KATHERINE BARNARD

23 Direct Examination By Ms. Carson 226

24 Cross-Examination By Ms. Gafken 228

25 Cross-Examination By Mr. Oshie 240

0152

 1 MICHAEL GORMAN

 2 Direct Examination By Mr. Pepple 255

 3 Cross-Examination By Mr. O'Connell 255

 4 JON PILIARIS

 5 Direct Examination By Ms. Carson 260

 6 Cross-Examination By Mr. Casey 262

 7 Cross-Examination By Mr. Oshie 288

 8 Cross-Examination By Mr. Pepple 294

 9 Cross-Examination By Mr. Stokes 308

10 Cross-Examination By Ms. Liotta 321

11 Cross-Examination By Ms. Gafken 326

12 Cross-Examination By Mr. Ffitch 339

13 JASON BALL

14 Direct Examination By Mr. Shearer 346

15 Cross-Examination By Ms. Boyles 346

16 Direct Examination By Mr. Stokes 347

17

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 OLYMPIA, WASHINGTON, AUGUST 30, 2017

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 9:00 A.M.

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 P R O C E E D I N G S

 5

 6 JUDGE MOSS: Parties are ready? Good

 7 morning everybody. My name is Dennis Moss; I'm an

 8 Administrative Law Judge with the Washington Utilities

 9 and Transmission Commission. Seated to my left is Judge

10 Rayne Pearson who is co-presiding in this proceeding.

11 We will be sharing the duties at the bench today.

12 I have previously alerted those of you who

13 got here a little bit early as to exactly the format

14 that we'll follow. But just quickly again, I'll do the

15 opening, and then we have several, we have three

16 telephone witnesses appearing first, thanks to PSE's

17 agreement to that. And Judge Pearson will handle that

18 part of the hearing, and then we'll take up live witness

19 Mr. Doyle and then Gilbertson. So that will probably

20 take care of the morning. Or maybe not, it depends.

21 Those of you on the conference bridge line,

22 please mute your phones; you're interfering with our

23 hearing room. That was effective.

24 So I've talked to the parties informally off

25 the record about a few items this morning. I've alerted

0154

 1 everyone to the fact that the 18th is an unrealistic

 2 date for a settlement hearing, and so we have reserved

 3 the 27th, 28th and 29th, and so we'll probably be doing

 4 it then, depending. Obviously if circumstances warrant

 5 we'll push something to another day.

 6 Once again, those of you who are listening

 7 in to the WUTC hearing on the conference bridge line

 8 need to mute your phones because you are interfering

 9 with our hearing process. If I need to hear from you I

10 will call on you.

11 So we are convened this morning in the

12 matter styled WUTC against Puget Sound Energy, Inc.,

13 Dockets UE-170033, and UG-170034. This is Puget Sound

14 Energy's general rate proceeding filed earlier this

15 year. There's been a significant development in this

16 case in terms of there being a settlement in principal

17 among most parties. I believe all but one now have

18 settled the electric side. That's a question subject to

19 correction.

20 MS. CARSON: That's correct.

21 JUDGE MOSS: Now, Ms. Gafken, do you have

22 any update from the Attorney General?

23 MS. GAFKEN: I have no update to provide.

24 JUDGE MOSS: Okay. So we don't know about

25 the status of the Public Counsel and the settlement at

0155

 1 this juncture, and we know we have one party who will

 2 oppose the settlement. And we have a set of issues

 3 that's been identified concerning principally cost of

 4 service and rate design but some other things as well,

 5 and we will be having our evidentiary proceedings today

 6 concerning those issues only.

 7 However, what I would like to do this

 8 morning after we take appearances is stipulate in our

 9 exhibits for the full record and subject to objections,

10 of course. And we'll talk about that in just a minute,

11 but now that I've reminded myself, I first need to take

12 appearances. So let's start with you, Ms. Carson.

13 MS. CARSON: Good morning. Sheree Strom

14 Carson with Perkins Coie representing Puget Sound

15 Energy.

16 MR. STEELE: Good morning. David Steele

17 with Perkins Coie also representing PSE.

18 JUDGE MOSS: Why don't we go with you, Mr.

19 Boehm.

20 MR. BOEHM: Good morning. Kurt Boehm

21 representing The Kroger Company.

22 MS. BOYLES: Kristen Boyles with

23 Earthjustice representing Northwest Energy Coalition,

24 Renewable Northwest, and Natural Resources Defense Fund.

25 JUDGE MOSS: Thank you.

0156

 1 MR. STOKES: Good morning. Chad Stokes from

 2 the Cable Huston Law Firm representing Northwest

 3 Industrial Gas Users.

 4 MR. PEPPLE: Tyler Pepple on behalf of the

 5 Industrial Customers of Northwest Utilities. And with

 6 me is --

 7 MR. OSHIE: Pat Oshie also on behalf of

 8 ICNU.

 9 MR. FFITCH: Your Honor, Simon ffitch on

10 behalf of The Energy Project.

11 MS. GAFKEN: Good morning. Lisa Gafken of

12 Public Counsel.

13 MR. BRYANT: Armikka Bryant, Assistant

14 Attorney General for Public Counsel.

15 MR. O'CONNELL: Andrew O'Connell, Assistant

16 Attorney General with Commission Staff.

17 MR. SHEARER: Brett Shearer here on behalf

18 of Commission Staff.

19 JUDGE MOSS: All right. And we have

20 additional appearances of record for counsel for the

21 Staff, and those will be reflected ultimately in order.

22 Are there any representatives of parties on

23 the telephone who wish to enter an appearance? Hearing

24 none, I excused Mr. Xenopoulos.

25 Yes, come forward, please.

0157

 1 MS. LIOTTA: I'm sorry, Your Honor. I'm

 2 Rita Liotta for FEA.

 3 JUDGE MOSS: Maybe you could move up closer

 4 to the front and somebody can make a chair available to

 5 you.

 6 To those of you on the conference bridge

 7 line, because of the continued interference on that line

 8 I'm going to have it shut off. You'll have to redial

 9 in. When you do so, mute your phone. Thank you very

10 much. If we trace you down we will send dogs after you.

11 (Discussion off the record.)

12 JUDGE MOSS: So we've had the appearances.

13 Exhibits. Are we going to be able to stipulate in all

14 of the exhibits in the prefiled -- the prefiled

15 exhibits, not including the cross exhibits but just the

16 prefiled testimony and exhibits that various witnesses

17 provided, all 55 of them, provided us in advance of the

18 cross exhibits, can those be stipulated in or will there

19 be objections to some of those?

20 MS. CARSON: PSE has no objections.

21 MR. STOKES: No objections, Your Honor.

22 MR. PEPPLE: No objections.

23 MS. GAFKEN: Public Counsel has no

24 objections to the prefiled testimony and exhibits.

25 MR. SHEARER: And no objections from Staff,

0158

 1 Your Honor.

 2 MR. BOEHM: No objections, Your Honor.

 3 MS. BOYLES: No objections.

 4 JUDGE MOSS: What a morning; we're batting a

 5 thousand.

 6 Okay, so all the prefiled exhibits and

 7 testimony will be stipulated into the record. You will

 8 have an exhibit list, and so that exhibit list will be

 9 the one for the hearing.

10 Now, about the cross exhibits, can we

11 similarly stipulate in the cross exhibits that have been

12 designated for the witnesses today? We don't need to

13 worry about any cross exhibits that have been submitted

14 for witnesses who aren't appearing today if there are

15 such things. But for those witnesses who will appear

16 today, can we stipulate in the exhibits?

17 Mr. Steele? Ms. Carson?

18 MR. STEELE: Your Honor, the only objection

19 that PSE has is to JAP-60X. We believe it's an ICNU

20 cross-examination exhibit.

21 JUDGE MOSS: Well, that one exhibit, then,

22 there will be an objection when Mr. Piliaris is on the

23 stand?

24 MR. STEELE: Yes, Your Honor.

25 JUDGE MOSS: That's good, all right. We

0159

 1 wouldn't want Mr. Piliaris to get out of here unscathed.

 2 I appreciate the parties' efforts in this regard. I

 3 know you spent a lot of time looking at all this stuff

 4 to make sure everything is copacetic.

 5 All the cross exhibits submitted for the

 6 witnesses who are appearing today will be stipulated or

 7 are being stipulated into the record except for JAP-60X.

 8 And we'll take up the objection to that when we have

 9 Mr. Piliaris on the stand, all right? Good.

10 Anything else we need to do first? All

11 right.

12 (Discussion off the record.)

13 MR. STEELE: Your Honor, I just sent Judge

14 Pearson an exhibit list showing the exhibits that

15 were -- after consulting with the parties that have been

16 removed. As far as the stipulations go, we believe

17 those are out for hearing today.

18 JUDGE PEARSON: Have each of the parties

19 withdrawn those exhibits?

20 MR. STEELE: Yes, yes. Public Counsel --

21 I'll let Ms. Gafken speak for that.

22 MS. GAFKEN: So they're not withdrawn for

23 the proceeding but they're being held for the settlement

24 hearing. So they're exhibits that don't pertain to the

25 issues that are being discussed today, but they're not

0160

 1 being withdrawn completely.

 2 JUDGE MOSS: Okay. We'll have another

 3 opportunity at the time of the settlement hearing to

 4 talk about any other documents that need to be in or out

 5 of the record. So not all is lost if we got something

 6 in that shouldn't be or left something out that should

 7 be in. At the time of the settlement hearing the

 8 parties will have another opportunity to make

 9 objections.

10 (Discussion off the record.)

11 (A break was taken from

12 9:12 a.m. to 9:18 a.m.)

13 JUDGE PEARSON: Let's be back on the record

14 following a short recess. Judge Moss and I are joined

15 on the bench now by Chairman Danner, Commissioner

16 Rendahl and Commissioner Balasbas. For their benefit,

17 why don't we just go around the room and do brief

18 introductions again. And we'll just begin with Staff

19 and go around the room.

20 MR. SHEARER: Brett Shearer, Assistant

21 Attorney General on behalf of Staff.

22 MR. O'CONNELL: Andrew O'Connell, Assistant

23 Attorney General on behalf of Commission Staff.

24 MR. BRYANT: Armikka Bryant, Assistant

25 Attorney General on behalf of Public Counsel.

0161

 1 MS. GAFKEN: Lisa Gafken, Assistant Attorney

 2 General on behalf of Public Counsel. And also on the

 3 line is Glenn Watkins and Mike Brosch who can address

 4 issues that are being addressed today but do not have

 5 cross. But they're on the line available for questions

 6 should the bench have them.

 7 MR. FFITCH: Good morning, commissioners.

 8 Simon ffitch on behalf of The Energy Project.

 9 MR. OSHIE: Waiting for a break in the

10 conversation. Pat Oshie representing ICNU. And also my

11 colleague Tyler Pepple will also be representing ICNU in

12 this case.

13 MR. STOKES: Good morning. Chad Stokes for

14 the Cable Huston Law Firm representing the Northwest

15 Industrial Gas Users.

16 MS. CARSON: Good morning, commissioners.

17 Sheree Strom Carson with Perkins Coie representing Puget

18 Sound Energy.

19 MR. STEELE: Good morning. David Steele

20 with Perkins Coie also on behalf of PSE.

21 MS. LIOTTA: Good morning. Rita Liotta

22 representing the Federal Executive Agencies.

23 MS. BOYLES: Good morning. Kristen Boyles

24 with Earthjustice representing Northwest Energy

25 Coalition, et. al. Also on the phone I believe is my

0162

 1 colleague Matt Gearhart.

 2 MR. BOEHM: Good morning, commissioners.

 3 Kurt Boehm appearing on behalf of The Kroger Company.

 4 JUDGE PEARSON: Okay, thank you.

 5 So Ms. Levin, are on you the bridge line?

 6 MS. LEVIN: Yes, I am.

 7 JUDGE MOSS: We're all working on a

 8 work-around on this problem but it may take a few

 9 minutes, so let's proceed as best we can and hopefully

10 we'll know in a minute or two that we won't have to use

11 this line anymore. We'll find out. Thank you.

12 JUDGE PEARSON: Okay, thank you. So

13 Ms. Levin, if you could please where you are stand and

14 raise your right hand and I will swear you in.

15 AMANDA LEVIN, witness herein, having been

16 first duly sworn on oath,

17 was examined and testified

18 as follows:

19

20 -o0o-

21 JUDGE PEARSON: If you could just speak up

22 due to the noise in the background, Ms. Boyles, I will

23 turn her over to you for introductions.

24 ///

25 ///

0163

 1 MS. BOYLES: Thank you.

 2

 3 DIRECT EXAMINATION

 4 BY MS. BOYLES:

 5 Q. Amanda, could you please state your full name

 6 for the record.

 7 A. Amanda Marie Levin.

 8 Q. Ms. Levin, were you retained by the Northwest

 9 Energy Coalition, Renewable Northwest, and NRDC to

10 present testimony regarding electric residential monthly

11 basic charges, residential rate design, decoupling, and

12 low income assistance program issues?

13 A. Yes, I was.

14 Q. And where are you physically, Ms. Levin?

15 A. I'm physically in Washington, DC.

16 Q. Thank you. And can you hear me?

17 A. Yes.

18 Q. Okay. Do you have there with you what's been

19 marked and admitted by stipulation as Exhibits AML-1

20 through AML-18?

21 A. Yes, I do.

22 Q. Do you have any corrections or changes to that

23 testimony?

24 A. No, I do not.

25 Q. Thank you.

0164

 1 MS. BOYLES: Your Honors, Ms. Levin is

 2 available for questioning and cross-exam.

 3 JUDGE PEARSON: Okay. Mr. O'Connell?

 4 MR. O'CONNELL: Thank you, Your Honor.

 5

 6

 7

 8

 9 CROSS-EXAMINATION

10 BY MR. O'CONNELL:

11 Q. Andrew O'Connell for Commission Staff.

12 Ms. Levin, can you hear me or do I need to speak up?

13 A. This is all right. I may ask for some repeat in

14 case it gets a little worse.

15 Q. Okay. So I want to discuss your position on

16 decoupling as presented in your testimony.

17 Your responsive testimony supported the

18 continuation of decoupling; correct?

19 A. Yes, it did.

20 Q. So the Company proposed to make decoupling

21 permanent. What is your position on that issue?

22 A. I believe that would be appropriate.

23 Q. So I want to ask you about your recommendation

24 for the soft cap increase for natural gas residential

25 customers.

0165

 1 You in your testimony seem to appreciate the

 2 idea of reevaluating that element of the decoupling

 3 mechanism after a temporary amount of time; is that

 4 correct?

 5 A. Yes. The soft cap lift.

 6 JUDGE PEARSON: Mr. O'Connell, just a

 7 minute. We actually have another phone number for the

 8 witnesses to appear.

 9 (Discussion off the record.)

10 JUDGE PEARSON: Mr. O'Connell, you may

11 proceed.

12 Q. (BY MR. O'CONNELL) I'd like to repeat my last

13 question so we can start off again.

14 I wanted to ask about your recommendation

15 regarding the soft cap increase for natural gas

16 residential customers. And you seem to support the idea

17 of reevaluating that element of the decoupling mechanism

18 after a temporary amount of time; is that correct?

19 A. Yes, I do.

20 Q. Now, would that interest, to evaluate temporary

21 changes to the decoupling mechanism, also be served if

22 the Commission adopted a temporary amount of time for

23 the decoupling mechanism within which to be reevaluated,

24 so if it was not continued on a permanent basis?

25 A. So I believe the issue is slightly different

0166

 1 between the two scenarios. Given PSE's evidence about

 2 the perpetual under-recovery on the gas residential

 3 side, I believe that there was enough support for their

 4 suggestion to lift the cap in that particular case given

 5 the ongoing issues around the recovery of costs for gas

 6 customers.

 7 However, I have not seen that for the entire

 8 decoupling mechanism, and I do not believe it is

 9 necessarily perfect or necessary to do the same sort of

10 temporary authorization and then review for the entire

11 mechanism as a whole.

12 Q. Okay. If the Commission does determine that the

13 decoupling mechanism should not be permanent, would you

14 see a set timeframe for reevaluation of the decoupling

15 mechanism as an appropriate time for your recommendation

16 on the soft cap increase to also be reevaluated?

17 A. Yes. I believe that would make sense.

18 MR. O'CONNELL: Thank you, Your Honor. I

19 have no more questions for Ms. Levin.

20 JUDGE MOSS: One minute and 30 seconds.

21 JUDGE PEARSON: Ms. Boyles, did you have any

22 redirect for your witness?

23 MS. BOYLES: I don't, Your Honor.

24 JUDGE PEARSON: Okay. Do we have any

25 questions from the bench for Ms. Levin? No?

0167

 1 Okay, then Ms. Levin, you are excused. And

 2 we will wait for Mr. Higgins to call in.

 3 (Discussion off the record.)

 4 JUDGE PEARSON: Mr. Higgins, if you could

 5 please stand and raise your right hand. I will swear

 6 you in and we can get started.

 7

 8

 9 KEVIN HIGGINS, witness herein, having been

10 first duly sworn on oath,

11 was examined and testified

12 as follows:

13

14 -o0o-

15 DIRECT EXAMINATION

16 BY MR. BOEHM:

17 Q. Good morning, Mr. Higgins.

18 A. Good morning, Mr. Boehm.

19 Q. Can you please state your name and address for

20 the record.

21 A. My name is Kevin C. Higgins. My address is 215

22 South State Street, Suite 200, Salt Lake City, Utah

23 84111.

24 Q. Mr. Higgins, did you cause to be filed prefiled

25 response testimony filed on June 30, 2017, with attached

0168

 1 Exhibits KCH-2 and KCH-3?

 2 A. Yes.

 3 Q. Did you also cause to be filed cross-answer

 4 testimony filed on August 9, 2017?

 5 A. Yes.

 6 Q. Do you have any changes to this testimony?

 7 A. I do not.

 8 MR. BOEHM: Your Honor, Mr. Higgins is

 9 available for cross-examination.

10 JUDGE PEARSON: Thank you. Mr. O'Connell?

11 MR. O'CONNELL: Thank you, Your Honor.

12

13 CROSS-EXAMINATION

14 BY MR. O'CONNELL:

15 Q. Mr. Higgins, good morning.

16 A. Good morning.

17 Q. I want to ask you about your position on

18 decoupling as you presented in your testimony.

19 A. Okay.

20 Q. In your cross-answer testimony, you commented

21 that Staff has brought up many similar arguments to

22 those you've raised previously.

23 Which arguments are you referring to?

24 A. The arguments I'm referring to are that to the

25 extent that a decoupling mechanism is adopted, I

0169

 1 recommended in a prior case, actually the decoupling

 2 docket back in 2013, that customer classes that

 3 contained larger more heterogenous customers should be

 4 excluded from the mechanism. Specifically, I

 5 recommended that rate classes, electric rate classes for

 6 customers that are served at 350 kW or greater, that

 7 basically means starting with rate 26, should be

 8 excluded from the mechanism.

 9 Q. Okay, thank you. So you mentioned that to the

10 extent that decoupling is continued, in your responsive

11 testimony were you initially advocating that PSE's

12 decoupling mechanism should be discontinued entirely?

13 A. No, I do not.

14 Q. But you're aware that Staff argues that

15 decoupling should continue; correct?

16 A. Correct.

17 MR. O'CONNELL: Thank you, Mr. Higgins.

18 I have no more questions, Your Honor.

19 JUDGE PEARSON: Mr. Boehm, did you have

20 anything further?

21 MR. BOEHM: No, Your Honor.

22 JUDGE PEARSON: Any questions from the bench

23 for Mr. Higgins? Okay, Mr. Higgins, you are excused.

24 Thank you.

25 Ms. Liotta, it looks like you are contacting

0170

 1 Mr. Al-Jabir.

 2 (Discussion off the record.)

 3 DANIEL DOYLE, witness herein, having been

 4 first duly sworn on oath,

 5 was examined and testified

 6 as follows:

 7

 8 -o0o-

 9 JUDGE MOSS: Ms. Carson, proceed.

10

11 DIRECT EXAMINATION

12 BY MS. CARSON:

13 Q. Good morning, Mr. Doyle.

14 A. Good morning.

15 JUDGE MOSS: If I can interrupt for a half a

16 second.

17 (Discussion off the record.)

18 Q. (BY MS. CARSON) Mr. Doyle, please state your

19 name and title and spell your name for the court

20 reporter.

21 A. Daniel A. Doyle. I'm Senior Vice President and

22 Chief Financial Officer for Puget Sound Energy.

23 Q. Mr. Doyle, do you have before you what has been

24 marked for identification as Exhibit Numbers DAD-1T

25 through DAD-8 in these dockets?

0171

 1 A. I do.

 2 Q. These testimony and exhibits have been

 3 stipulated into the record. Do they constitute your

 4 prefiled direct and rebuttal testimony?

 5 A. Yes, they do.

 6 Q. Do you have any corrections to the exhibits at

 7 this time?

 8 A. I do have one. I will be adopting the testimony

 9 of Mr. Brandon Lohse. And in his testimony on Page 2,

10 there is a marginal long-term debt rate in a table, and

11 it is 5.73. When that table was replicated into my

12 rebuttal testimony that number changed to 5.74, so we

13 need to correct it back to 5.73. And I will note for

14 the record that that change does not affect the

15 calculation.

16 MS. CARSON: Thank you, Mr. Doyle. With

17 that correction, Mr. Doyle is available for

18 cross-examination, Your Honor.

19 JUDGE MOSS: All right. And we have, looks

20 like Public Counsel, you have designated 20 minutes for

21 Mr. Doyle.

22 MR. BRYANT: Correct, Your Honor.

23

24 ///

25 ///

0172

 1 CROSS-EXAMINATION

 2 BY MR. BRYANT:

 3 Q. Good morning, Mr. Doyle.

 4 A. Good morning.

 5 Q. I just have a few questions about the ECRM that

 6 you testified on.

 7 A. Okay.

 8 Q. Is it PSE's position that the Company could

 9 fund, could possibly fund more investments and

10 reliabilities but chooses not to without the Commission

11 granting the ECRM?

12 A. No, I don't think that's our position. I think

13 as any company, you cannot take on everything that you

14 would like to take on at once. From my perspective, I'm

15 in charge of dealing with the overall capital budget and

16 managing the finances of the business. And when I look

17 at the constraints on the business, I start with cash

18 flow from operations, I look at our capital spending,

19 dividend policy. I have to manage all of that in the

20 context of rating metrics, indeed metrics that apply

21 from the merger commitments, debt covenants. And all of

22 that comes together to basically suggest a reasonable

23 range of where capital spending could be.

24 Underneath all of that, we have processes

25 whereby Ms. Gilbertson and Mr. Mills, for example, in

0173

 1 the energy operations and generation area, they will

 2 look at the various types of programs that they need to

 3 have spending in. And what they will do is they'll

 4 optimize it to get the most -- in Ms. Gilbertson's

 5 perspective, the most reliability, resilience, customer

 6 benefit in general. And that's how we fund the program.

 7 So, you know, at this point we've been funding,

 8 for example, the underground cable issue over the past

 9 couple of decades. We have finished about or replaced

10 about 60 percent of the wire underground that's a

11 problem. And what we're talking about here is

12 accelerating that program in order to get that problem

13 taken care of on a much shorter timeframe than normal

14 capital budgeting parameters would allow.

15 Q. Okay. Thank you for that very detailed

16 response.

17 So the underground cable that you referred to,

18 is that the high molecular weight cable; is that

19 correct?

20 A. Yeah. I'm a finance guy. I think that's what

21 it's called.

22 Q. Okay, thanks.

23 Do you have your rebuttal testimony in front of

24 you?

25 A. I do.

0174

 1 Q. Could you please open that up to Page 22.

 2 A. I'm at Page 22.

 3 Q. Okay. I am at Line 7. And that's where you

 4 begin your discussion about the ECRM; correct?

 5 A. Yes, sir.

 6 Q. Okay. So on Lines 8 through 9, you claim that

 7 the ECRM is based -- and just for the record I'm going

 8 to called it ECRM. I know it's not technically an

 9 acronym but it works better than ECRM. But on Lines 8

10 and 9, you say that the framework is set forth by the

11 Commission in the Natural Gas Accelerated Replacement

12 Policy; is that correct?

13 A. Yes, that's correct.

14 Q. Okay. Is the importance of the ECRM to the

15 Company simply that PSE would elect to spend more and

16 faster with additional cost recovery through this new

17 mechanism than without the ECRM?

18 A. Well, I think it's a couple of issues. The

19 first thing is, at the current level of spending, if I

20 remember correctly we have about, on the cable side of

21 the equation, about 1,800 miles of underground cable

22 that need to be replaced. Under our current capital

23 budgeting, as we've optimized it, we'll get that cable

24 out of the ground I think in the next 25 to 30 years,

25 something like that.

0175

 1 The problem that we have right now is that, as

 2 Ms. Koch can explain in extraordinary detail, we're

 3 starting to see increased failures of that underground

 4 cable as it reaches the end of its useful life. So we

 5 have a confluence of end of useful life accelerating

 6 failure, which in my view make it very reasonable to

 7 consider accelerating this spending, putting it through

 8 a tracker such as the ECRM -- I really like that, ECRM,

 9 that's good -- and eliminate the regulatory lag that

10 would otherwise exist without that tracker.

11 So that's basically our position on that.

12 Q. Okay. So if I understand you correctly, the

13 Company intends to spend more if the Commission grants

14 the ECRM -- or spend the funds from the ECRM but not

15 replace the cable if the ECRM is not granted; is that

16 correct?

17 A. No. Again, over the past couple of decades

18 we've taken care of 60 percent of the problem, and we

19 have not sat still on this. What we're basically saying

20 is that there is an elevated urgency with the confluence

21 of increasing outages with respect to that asset and the

22 fact that they're actually getting to the end of their

23 useful life. We believe that it's better to get that

24 problem out of the ground. And with the ECRM, it would

25 eliminate any issues of regulatory lag and allow us to

0176

 1 get that problem eradicated without undermining the

 2 optimal allocation of the remaining capital budget

 3 categorically.

 4 Q. So would you agree that PSE continuously

 5 recovers depreciation on its existing plant in service

 6 investments through base rates providing internally

 7 generated cash to help fund new construction while

 8 reducing net plant in service in the amount of recorded

 9 depreciation accruals?

10 A. Can I ask you to try that one more time?

11 Q. Sure, absolutely.

12 Would you agree that PSE continuously recovers

13 depreciation on its existing plant in service

14 investments through its base rates providing internally

15 generated cash flows to help fund new construction while

16 reducing net plant in service in the amount of recorded

17 depreciation accruals?

18 In other words, does PSE receive bonus

19 depreciation that it could spend elsewhere?

20 A. I'm aware of bonus depreciation in the context

21 of the income tax side of the equation. I'm not sure I

22 understand the reference to rate making depreciation.

23 Q. Sure. Bonus depreciation with respect to

24 current plant in service.

25 A. I'm not aware of any bonus depreciation from a

0177

 1 rate making perspective. I believe that we did a

 2 depreciation study recently and presented that evidence

 3 in this case. It's based on the normal mortality rates

 4 and the analysis that's normally done. I am not aware

 5 of any bonus depreciation whatsoever in that context.

 6 Q. Okay. So it's your position that PSE does not

 7 receive bonus depreciation?

 8 MS. CARSON: Object to the question. I

 9 think it misstates what Mr. Doyle said.

10 JUDGE MOSS: I think it's a form of question

11 problem that we have here. I believe, if I understand

12 Mr. Doyle and perhaps this subject matter, bonus

13 depreciation is a matter of tax accounting, whereas,

14 you're asking about rate accounting, which is different.

15 With that clarification is your question the

16 same?

17 MR. BRYANT: Yes, it is, because

18 depreciation relates -- the depreciation that Public

19 Counsel understands PSE receives is on its plant in

20 service, the current high molecular cable underground

21 that the ECRM would go towards funding removal or

22 replacement.

23 JUDGE MOSS: Well, Mr. Doyle, if there's any

24 further answer you can give to this question, please do

25 so. If not, just tell us.

0178

 1 THE WITNESS: I don't think I can add

 2 anything else.

 3 Q. (BY MR. BRYANT) Thank you. Could you please

 4 turn to Page 34 of your rebuttal testimony.

 5 A. I'm there.

 6 Q. At Line 6 you state, Finally, the ECRM takes

 7 advantage of one of the significant benefits from the

 8 rate plan impart smaller and more predictable annual

 9 rate increases on customers and eliminates the need to

10 include much larger accumulated amounts of rate base and

11 appreciation expense and a general rate case or

12 expedited rate filing.

13 Do you believe that ratepayers would prefer to

14 pay higher electric rates sooner rather than later?

15 A. Yeah. I think in general, ratepayers handle

16 much better smaller, more frequent increases in their

17 electric rates and gas rates. You know, as I testified

18 in my prefiled direct, without the rate plan we'd be

19 adding $160 million of increased revenue in this

20 proceeding. That's a pretty significant increase. And

21 I believe those size of increases make it difficult, for

22 example, for the single working mother raising three

23 kids to plan that kind of an increase in their budget.

24 And it's been my experience over 35 to 40 years, I've

25 always looked at lower, more frequent increases as being

0179

 1 easier to manage and easier for customers to handle.

 2 Q. Do you recall responding to Public Counsel's

 3 data requests on this issue?

 4 A. Yeah. Yes, I did.

 5 Q. That's, for the record, Cross Exhibit DAD-11X.

 6 Could you please turn to that.

 7 A. I'm there, Counselor.

 8 Q. Did you provide any work papers in your response

 9 to this request that states that ratepayers would prefer

10 frequent smaller rate increases? Did you provide any

11 evidence?

12 A. Yeah. I provided the evidence in my 35 years of

13 managing these kind of matters.

14 Q. But no work papers though?

15 A. No, no work papers.

16 Q. Okay, thank you.

17 MR. BRYANT: I believe that's all I have for

18 this witness.

19 JUDGE MOSS: All right, thank you very much.

20 Any redirect?

21 MS. CARSON: No redirect, Your Honor.

22 JUDGE MOSS: Any questions from the bench?

23 CHAIRMAN DANNER: Just one. I want to just

24 hear in your own words, you mentioned, for example, the

25 Steamboat Island circuit as one that is high cost/low

0180

 1 density. Without an ECRM, when would the company get

 2 around to addressing that specific circuit?

 3 THE WITNESS: Commissioner Danner, I don't

 4 believe I testified to that particular line.

 5 CHAIRMAN DANNER: Okay. I have somebody

 6 else's testimony --

 7 THE WITNESS: Yeah, I don't have the

 8 engineering details.

 9 CHAIRMAN DANNER: So let's make my question

10 more generic. One of your worst circuits, without an

11 ECRM, is it your position that you would just never get

12 around to that circuit or that you would get to that

13 circuit eventually but it could be decades off?

14 THE WITNESS: I don't know that it's

15 decades. I mean, Ms. Gilbertson and Ms. Koch will be

16 better at handling the details of how they're allocating

17 dollars underneath the broader capital constraints. But

18 again, on both sides of the equation, on the underground

19 cable and the worst-performing circuits, work is being

20 done in those areas. I believe on the worst-performing

21 circuit side, we've got mostly radio lines, low customer

22 density on those lines. And in the underlying

23 determination of what gets allocated dollars, they don't

24 score as high as some of the other projects that we need

25 to do to enhance reliability and resiliency on the

0181

 1 system in more densely populated areas.

 2 So it's an issue of, we get to it when it's

 3 important but it doesn't always clear the hurdle every

 4 year, is the best way to put it.

 5 CHAIRMAN DANNER: So even with an ECRM,

 6 wouldn't there still be a prioritization exercise? You

 7 might find it might make more sense to spend it on a

 8 less worse-performing circuit because it would affect

 9 more people than a lower performing because there's

10 fewer people involved?

11 THE WITNESS: I think what we're saying is

12 we have our static capital budget, what it would be

13 going into the future without an ECRM. We'll optimize

14 that and we'll keep spending those dollars.

15 The ECRM program is one that allows us to

16 get at these issues more quickly and without the ensuing

17 regulatory lag. Because if you think about a capital

18 program that is optimized categorically, we get the

19 greatest reliability, the greatest resiliency, and the

20 greatest customer benefit out of it. If you undo that

21 categorical allocation to shift more over into areas

22 that don't really contribute to the optimization, you

23 de-optimize the portfolio.

24 CHAIRMAN DANNER: Right. But wouldn't that

25 be true without or with the ECRM; wouldn't you be making

0182

 1 those kind of prioritization calls? So yes, we're

 2 reducing regulatory lag, we have additional flexibility

 3 here, but we still want to get the most bang for the

 4 buck. So using Steamboat Island again as the poster

 5 child, you might not get to it?

 6 THE WITNESS: We might not get to it. But

 7 again, for example, we haven't fixed all the problem on

 8 the underground cable but we've gotten 60 percent of the

 9 way there over the last couple of decades. It's how do

10 you get at it. And on the cable side, we get at some of

11 it just from the fact that it fails. You go out and you

12 replace it when you're out there, or fix it and then go

13 back and replace it.

14 I think this is just a -- it's a program

15 that will allow us to get at these issues more quickly

16 for the benefit of customers. And I think it's a good

17 program, I think it's reasonable. We're not trying to

18 do this in three years or five years, but I don't think

19 it's appropriate to do it over 25 or 30 either,

20 particularly with the confluence of increasing failures

21 and, you know, getting to the end of useful life.

22 And I would also add that these are discreet

23 programs. You've got 1,800 miles. When it's done it's

24 done. You've got 130-some worst-performing circuits.

25 When we get through those, it's done. So this isn't a

0183

 1 program where we're categorically trying to increase

 2 growth. We're getting at discreet problems that are

 3 impacting customers, and this is in our view the best

 4 way of getting at it.

 5 CHAIRMAN DANNER: Thank you.

 6 MS. CARSON: And, Chairman Danner, I would

 7 encourage you to ask that question of Ms. Koch when

 8 she's up, too, because she can better address the

 9 prioritization under the ECRM.

10 CHAIRMAN DANNER: Very good. Thank you very

11 much.

12 JUDGE MOSS: Commissioner Rendahl?

13 COMMISSIONER RENDAHL: And this may, again,

14 be a question for Ms. Koch. And you can let me know,

15 Mr. Doyle. Good morning.

16 THE WITNESS: Good morning.

17 COMMISSIONER RENDAHL: So are you

18 responsible for the capital budget prioritization

19 process or is Ms. Koch? Or is there another witness who

20 is responsible for that?

21 THE WITNESS: So my responsibility in

22 capital budgeting is to basically look at the overall

23 financial parameters of the business and determine how

24 much capital expenditure we can actually afford to stay

25 within our rating metrics, stay within our balance sheet

0184

 1 constraints on covenants and dividend restrictions, et

 2 cetera, et cetera.

 3 From that point, I would turn it over to

 4 Ms. Gilbertson and Ms. Koch to basically prioritize and

 5 optimize the expenditures categorically in their areas.

 6 COMMISSIONER RENDAHL: So are you involved

 7 with establishing the prioritization methodology?

 8 THE WITNESS: No, I'm not.

 9 COMMISSIONER RENDAHL: You're not involved.

10 Is Ms. Koch involved in that process?

11 THE WITNESS: Yes, ma'am.

12 COMMISSIONER RENDAHL: Okay, thank you.

13 COMMISSIONER BALASBAS: Good morning,

14 Mr. Doyle.

15 THE WITNESS: Good morning.

16 COMMISSIONER BALASBAS: So my question has

17 to do with on the financing in the capital budget

18 program at the Company.

19 How are break fix type of -- like you

20 mentioned the underground cable; if it fails you go out

21 and replace it. How are those generally financed? And

22 in the capital budgeting generally, do you make a

23 provision or make some kind of set-aside for those kinds

24 of situations that will come up during the course of the

25 year?

0185

 1 THE WITNESS: So again, in the optimization,

 2 in Ms. Gilbertson's area along with Ms. Koch, they would

 3 actually allocate dollars accordingly for those break

 4 fix type items on an anticipated basis. And just to

 5 clarify for the record, there would be some capital and

 6 there would also be O&M expenditures, because when we go

 7 out and just fix an underground, it doesn't qualify as

 8 capital expenditures. So both sides of the equation.

 9 JUDGE MOSS: Does that complete our

10 questions from the bench? Any follow-up? Apparently

11 not.

12 Mr. Doyle, we appreciate you being here this

13 morning, and you are released from the witness stand.

14 THE WITNESS: Thank you very much.

15 JUDGE PEARSON: Mr. Al-Jabir, are you on the

16 line still?

17 MR. AL-JABIR: Yes, I am.

18 ALI AL-JABIR, witness herein, having been

19 first duly sworn on oath,

20 was examined and testified

21 as follows:

22

23 ///

24 ///

25 ///

0186

 1 JUDGE PEARSON: Okay, thank you. Ms.

 2 Liotta?

 3 DIRECT EXAMINATION

 4 BY MS. LIOTTA:

 5 Q. Could you please state your name for the record

 6 and provide your address.

 7 A. Yes. My name is Ali Al-Jabir. I'm a consultant

 8 with Brubaker & Associates. And my business address is

 9 5151 Flynn Parkway, Suite 412CD, Corpus Christi, Texas

10 78411.

11 Q. Thank you. Do you have before you the copies of

12 the documents marked as exhibits AZA-1T through 6T?

13 A. Yes, I do.

14 Q. And were those documents prepared by you or

15 under your direction?

16 A. Yes, they were.

17 Q. Do you adopt those exhibits as your sworn

18 testimony in this proceeding?

19 A. I do.

20 MS. LIOTTA: Your Honor, Mr. Al-Jabir is

21 available for cross-examination.

22 JUDGE PEARSON: Thank you. Mr. O'Connell?

23 MR. O'CONNELL: Thank you, Your Honor.

24

25 ///

0187

 1 CROSS-EXAMINATION

 2 BY MR. O'CONNELL:

 3 Q. Good morning, Mr. Al-Jabir.

 4 A. Good morning.

 5 Q. I want to ask you some questions about your

 6 position on decoupling as you've presented it in your

 7 testimony.

 8 Your primary position is that PSE's decoupling

 9 mechanism should be eliminated; correct?

10 A. That's correct.

11 Q. You're aware that Staff proposed that the

12 decoupling mechanism continue; correct?

13 A. Yes, I am.

14 Q. And you're also aware that Staff's proposal

15 would discontinue PSE's decoupling mechanism for large

16 farm and industrial customers, specifically Schedules

17 1226, 1031, 29, 35, 40, 46 and 49; correct?

18 A. Yes. I'm familiar with that proposal.

19 Q. Okay. If the Commission decides that the

20 decoupling mechanism should continue against your

21 primary recommendation, do you have any recommendation

22 for regrouping of the decoupling groups?

23 A. Well, I didn't address the regrouping issue in

24 general, but my specific recommendation was that

25 Schedules 40, 46 and 49 should be excluded from the

0188

 1 decoupling mechanism going forward if the decoupling

 2 mechanism in general is continued.

 3 As I stated in my testimony, I think that's

 4 appropriate because they have three-part rates. And so

 5 if you align the rates with costs properly and you're

 6 recovering fixed costs through demand charges, then this

 7 issue about not being able to recover fixed costs

 8 through the energy charges as conservation efforts are

 9 successful will not really arise for those particular

10 schedules that I just mentioned.

11 Q. So would it be true, then, that you agree with

12 Staff that decoupling would be appropriate to

13 discontinue for certain schedules?

14 MS. CARSON: Your Honor, I'm going to

15 object. This seems like friendly cross where the

16 parties are aligned with one another.

17 JUDGE MOSS: Mr. O'Connell, would you

18 address that, please?

19 MR. O'CONNELL: Sure. Your Honor, I believe

20 Mr. Al-Jabir in his testimony and in his response to

21 cross-questioning has stated that his primary position

22 is that it should be discontinued entirely. And Staff's

23 position is not consistent with that, and I am

24 attempting to cross Mr. Al-Jabir on alternatives to his

25 primary position.

0189

 1 JUDGE MOSS: That seems reasonable.

 2 MS. CARSON: I believe they're both in

 3 agreement, though, that certain schedules should be

 4 eliminated from decoupling; is that correct?

 5 MR. O'CONNELL: I would like to ask to

 6 confirm that, if that is true.

 7 JUDGE MOSS: Well, I don't think it's

 8 necessary to ask him to confirm it. If it's true it's

 9 true. I mean, you've got your position on it.

10 MR. O'CONNELL: I agree with Your Honor. If

11 he does agree then I will not continue.

12 JUDGE MOSS: Let's just find out if he

13 agrees and you can move on.

14 Q. (BY MR. O'CONNELL) Mr. Al-Jabir, I didn't

15 recall from your testimony that you wanted specific

16 schedules only to be removed. Is that true, that you

17 agree with Staff that certain schedules should be

18 removed?

19 A. Yes. In my testimony I made a general statement

20 that large customers should be removed from the

21 decoupling mechanism. And I believe there was a

22 discovery question, I don't recall the number exactly,

23 that came from the Company directed to FEA on that

24 particular issue. And we clarified our discovery

25 response that we were referring specifically to

0190

 1 Schedules 40, 46 and 49 as being the schedules that

 2 large customers take service under that should be

 3 removed from the decoupling mechanism as my secondary

 4 recommendation in the event that decoupling in general

 5 is continued.

 6 MR. O'CONNELL: With that, Your Honor, I

 7 have no further questions for Mr. Al-Jabir.

 8 JUDGE MOSS: All right. Thank you,

 9 Mr. O'Connell. And I'll say fair enough on that

10 question under the circumstances.

11 Very good. All right then, any questions

12 from -- I should ask first if there's any redirect.

13 MS. LIOTTA: No, Your Honor.

14 JUDGE MOSS: All right, there's no redirect.

15 Are there questions from the bench? There are no

16 questions from the bench.

17 Oh, what am I doing? I'm sorry, it's like

18 I'm on autopilot here. I apologize, Judge Pearson.

19 JUDGE PEARSON: No worries.

20 Thank you, Mr. Al-Jabir, you are excused.

21 Thanks for calling in.

22 JUDGE MOSS: I have been doing this for too

23 long. Let's be in recess for ten minutes, please.

24 (A break was taken from

25 10:03 a.m. to 10:10 a.m.)

0191

 1 JUDGE MOSS: Let's come to order, please.

 2 We'll be on the record, Ms. Gilbertson.

 3 BOOGA GILBERTSON, witness herein, having been

 4 first duly sworn on oath,

 5 was examined and testified

 6 as follows:

 7

 8 -o0o-

 9 DIRECT EXAMINATION

10 BY MS. CARSON:

11 Q. Good morning, Ms. Gilbertson.

12 A. Good morning.

13 Q. Can you please state your name and spell your

14 name for the court reporter.

15 A. Yes. Booga K. Gilbertson, Senior Vice President

16 of Operations at Puget Sound Energy. First name is

17 spelled B-o-o-g-a, middle initial K., Gilbertson,

18 G-i-l-b-e-r-t-s-o-n.

19 Q. Ms. Gilbertson, do you have before you what has

20 been marked for identification as Exhibit Numbers BKG-1T

21 through BKG-3 in these dockets?

22 A. I do.

23 Q. Is this your prefiled direct testimony and

24 exhibits?

25 A. Yes, it is.

0192

 1 Q. These have been stipulated into the record.

 2 Do you have any corrections to the testimony or

 3 exhibits at this time?

 4 A. I do not.

 5 MS. CARSON: Thank you. Ms. Gilbertson is

 6 available for cross-examination.

 7 JUDGE MOSS: Thank you. Ms. Gilbertson, I

 8 notice that you have a tendency to speak quickly, as do

 9 I. And I'll just ask you for the sake of the court

10 reporter if you would please moderate your pace when

11 you're answering questions this morning.

12 THE WITNESS: Will do.

13 JUDGE MOSS: Thank you very much. We have

14 cross indicated for Ms. Gilbertson by ICNU. Who will be

15 conducting that? Mr. Oshie?

16 MR. OSHIE: Yes, Your Honor.

17 JUDGE MOSS: All right, proceed.

18 MR. OSHIE: Your Honor, with permission,

19 ICNU would like to -- I wouldn't call it waive cross on

20 Ms. Gilbertson, but the questioning of Ms. Koch and

21 perhaps Ms. Barnard would satisfy the responses that

22 we're looking for from the witnesses. And so rather

23 than to dismiss her, if she could just be here. If

24 Ms. Koch cannot answer a question and wants to defer to

25 Ms. Gilbertson, then I will ask Ms. Gilbertson the

0193

 1 question. But I think Ms. Koch can probably answer all

 2 the questions that I have, as well as Ms. Barnard.

 3 JUDGE MOSS: All right. Well, we're always

 4 looking for opportunities to gain efficiency. We can

 5 release the witness from the stand subject to recall if

 6 needed. And there's no other party who has designated

 7 cross for this witness.

 8 Does the bench have questions for

 9 Ms. Gilbertson, however?

10 COMMISSIONER RENDAHL: I think my questions

11 may be similar to ICNU in that if Ms. Koch and

12 Ms. Barnard can't answer your question.

13 JUDGE MOSS: Okay. Well, Ms. Gilbertson,

14 I'm sorry to steal your glory or your opportunity for

15 it, but apparently Ms. Koch may have the information

16 people feel they need. But please stick around; you are

17 subject to recall. Thank you.

18 Let's have Ms. Koch.

19 JUDGE PEARSON: Ms. Koch, if you could

20 please stand and raise your right hand.

21 CATHERINE KOCH, witness herein, having been

22 first duly sworn on oath,

23 was examined and testified

24 as follows:

25

0194

 1 -o0o-

 2 JUDGE PEARSON: Please be seated.

 3 Ms. Carson, go ahead.

 4 EXAMINATION

 5 BY MS. CARSON:

 6 Q. Good morning, Ms. Koch.

 7 A. Good morning.

 8 Q. Could you please state your name and title for

 9 the record and spell your name for the court reporter.

10 A. Catherine A. Koch, Director of Planning for

11 Puget Sound Energy. Catherine, C-a-t-h-e-r-i-n-e, A.,

12 Koch, K-o-c-h.

13 Q. (BY MS. CARSON) Ms. Koch, do you have before

14 you what has been marked for identification as Exhibit

15 Numbers that CAK-1CT through CAK-8 in these dockets?

16 A. Yes.

17 Q. Do these constitute your prefiled direct and

18 rebuttal testimony in this proceeding?

19 A. Yes.

20 Q. These exhibits have been stipulated into the

21 record. Do you have any corrections to them at this

22 time?

23 A. I do not.

24 MS. CARSON: Thank you.

25 Your Honor, Ms. Koch is available for

0195

 1 cross-examination.

 2 JUDGE PEARSON: Okay, thank you. It's

 3 Public Counsel first.

 4 MR. BRYANT: I will defer to ICNU given the

 5 efficiencies that Mr. Oshie has articulated.

 6 JUDGE PEARSON: Okay, sounds good.

 7 Mr. Oshie?

 8 MR. OSHIE: Well, I can't guarantee that but

 9 I'm happy to proceed.

10

11 DIRECT EXAMINATION

12 BY MR. OSHIE:

13 Q. Good morning, Ms. Koch.

14 A. Good morning.

15 Q. So let's first talk about the work plan that's

16 envisioned by the ECRM. And you expect that there would

17 be a work plan filed every two years or annually

18 covering the two-year period?

19 A. It would be filed every two years representing

20 the two forward-looking years.

21 Q. So does PSE expect the Commission to approve the

22 work plans before PSE implements them?

23 A. PSE has put forth a proposal that follows the

24 gas CRM policy -- the accelerated pipeline policy that

25 has the Commission approving the plan. In this year PSE

0196

 1 has moved forward without that approval.

 2 Q. So if the Commission approves the plan, does

 3 that mean that the Commission's pre-approving, then, all

 4 the projects that are listed in the electric reliability

 5 plan for the two-year period?

 6 A. No. It means that the Commission agrees that

 7 that is the right approach to addressing reliability and

 8 that the projects in place will deliver the benefits of

 9 the objectives that are set forward. The prudency

10 always comes once you've completed that work and prior

11 to putting it into rates.

12 Q. So are you the proper witness to talk about

13 prudency, or would that be Ms. Barnard?

14 A. I would tend to refer to Ms. Barnard. I don't

15 know the nature of your questions.

16 Q. Well, I will perhaps ask a couple when the time

17 comes and then you can respond. And we can move to

18 Ms. Barnard if that's what you'd like to do.

19 A. Okay.

20 Q. So let's walk through the pre-approval process.

21 It begins with the filing. What happens next?

22 MS. CARSON: I'm going to object to the

23 question in terms of "pre-approval." I think there's

24 not a pre-approval is what I heard the witness say.

25 JUDGE PEARSON: Okay. I think you mean the

0197

 1 approval process for the work plan?

 2 Q. (BY MR. OSHIE) Yes, the approval process,

 3 sorry. That might have been one of those slips, I

 4 suppose. But yes, the approval process; that's exactly

 5 what I meant.

 6 A. So if we follow the process that's in place here

 7 in Washington relative to the Gas Cost Recovery

 8 Mechanism or the Accelerated Pipeline Replacement

 9 Policy -- I think I have the right ones here -- PSE

10 submits their plan. The Staff reviews that plan

11 relative to the projects, that it meets the objectives

12 of, in that case, the policy, that they agree that those

13 projects will deliver the benefits that are outlined

14 there. They then take that recommendation of what they

15 believe relative to that plan, and they take it forward

16 in a hearing or an open public meeting relative to the

17 Commissioners.

18 Q. How much time will Staff have to review the work

19 plan?

20 A. We would submit that with adequate time. I

21 think in the gas side we submit it six months in advance

22 of starting that plan.

23 Q. And you expect, then, that the Electric Work

24 Reliability Plan would then be filed six months ahead of

25 the date in which construction would begin on new

0198

 1 projects?

 2 A. If we follow the gas process, that would be what

 3 we would do.

 4 Q. Well, I guess that's my question. Are you

 5 following the gas process or are you not? Or has that

 6 not been discussed by the Company as to when you're

 7 actually going to submit the plan for review by Staff?

 8 A. PSE's proposed this, to follow that process. I

 9 think part of this discussion is whether there's

10 agreement to that from the Commission, that PSE proposed

11 that we would follow that same model. It seems to work

12 very well here.

13 Q. So the proposal is six months prior to the

14 proposed construction date of the projects that are

15 included in the work plan?

16 A. I don't have the exact dates that we do that.

17 That's what my memory serves from the gas side of what

18 we do.

19 Q. So would the Company seek any input of other

20 parties other than Staff in the review of the work plan?

21 A. I think in developing the work plan, as far as

22 the project specifics, the Company does seek input from

23 jurisdictions, from stakeholders, from customers to

24 develop the rights of the projects. And that's in

25 developing that set of projects.

0199

 1 Q. And before -- and then after the work plan has

 2 been prepared, will other parties after the filing --

 3 how much review or how much input do other parties have

 4 in the process of approval, if you will?

 5 A. Well, given that -- our proposal is follow the

 6 gas process. I'm not specifically familiar with what

 7 other stakeholders' engagement is in that process

 8 outside of Staff.

 9 Q. So you're saying that -- well, let me make this

10 more clear.

11 It's your understanding, then, that any other

12 party that will have access to the work plan will be

13 able to comment and prepare their comments, if you will,

14 to the Commission with regard to the work plan prior to

15 approval?

16 A. I'm not super familiar with the regulatory

17 process on that, but again, it would follow the gas

18 process. And if that's part of that process it would

19 follow the same process.

20 Q. And I imagine that PSE expects the Commission to

21 actually sign off on the projects that are included in

22 the work plan?

23 A. I believe the process is the Commission approves

24 the plan.

25 Q. Now, in that circumstance, I mean, isn't it

0200

 1 really the role of the management of the Company or the

 2 board of directors to decide what capital projects are

 3 needed by the Company, and isn't it really -- I mean,

 4 that's how I personally envision the role of the board

 5 of directors, as an example. Wouldn't that be true? I

 6 mean, aren't the capital projects approved by the board?

 7 A. PSE would still follow its internal processes,

 8 and PSE determines what we think the rights of the

 9 projects are. We still own that responsibility,

10 absolutely.

11 Q. So isn't the Commission, then, acting as sort of

12 a super board of directors in that kind of a

13 circumstance where you come to the Commission with your

14 proposed projects and you ask the Commission to approve

15 them prior to going forward under -- and I think later

16 on in your testimony in part you say and if the

17 Commission doesn't approve it you'll -- you're not going

18 to go forward with it?

19 A. So I think the way it works on the gas side is

20 that the Commission isn't approving a specific project,

21 they're approving that the work plan meets the

22 objectives set forth by, in that case, the policy

23 relative to addressing elevated pipeline risks in that

24 case. So it's that the work plan meets the objectives

25 that are trying to be accomplished.

0201

 1 Q. So the Commission would not be signing off on

 2 specific projects?

 3 A. I don't believe that's the process in place with

 4 the gas CRM.

 5 Q. But the work plan would contain projects;

 6 correct?

 7 A. The work plan has transparency to all of the

 8 work so that all of those interested understand the

 9 benefits that are being achieved. And that's really

10 what is being evaluated: Does it deliver the benefits

11 to the objectives that we're trying to accomplish.

12 Q. And it will have a budget; correct?

13 A. It does have a budget.

14 Q. And you can't get to a budget without a project

15 or a group of projects, can you?

16 A. No.

17 Q. Okay, thank you.

18 So how would work plan disagreements between PSE

19 and Staff or other parties be handled by the company?

20 A. I think in the process of the gas CRM today,

21 Staff receives the work plan and then asks questions,

22 and through conversation greater understanding or

23 disagreements are resolved. It's an informal process

24 that goes back and forth between the Staff and PSE

25 engineers that are familiar with the work and the

0202

 1 objectives. And I would suspect that we would have that

 2 same engagement with Staff in this process as well.

 3 Q. How many electrical engineers are on Commission

 4 Staff?

 5 A. I can't answer that.

 6 Q. Have you worked on the gas side?

 7 A. I have worked on the gas side.

 8 Q. Do you know how many electrical engineers work

 9 on the Commission's gas side?

10 A. I can't answer that.

11 Q. More than one?

12 A. I can't answer that. I don't know that.

13 Q. That's fine. Sorry.

14 So if there is -- you know, and I'm going to

15 just call it a significant disagreement between PSE and

16 Staff or another party on the work plan, would it ever

17 come back to the -- do you envision that coming back to

18 the Commission for some resolution?

19 A. I think we're speculating on the process that we

20 haven't actually talked through the details yet. But I

21 don't think so, because at the end of the day we want to

22 make sure that we are meeting the objectives, and if

23 there's disagreement then we have a discussion and we

24 resolve that. If there's not support for the work plan,

25 then PSE would not move forward with that work plan.

0203

 1 Q. So if Staff disagreed with some component of the

 2 work plan, then PSE would not go forward with it?

 3 A. Correct.

 4 Q. If ICNU disagrees with some component in the

 5 work plan, then PSE would not go forward with it?

 6 A. I think we've yet to talk about how stakeholders

 7 other than the Commission Staff engage in that, and

 8 again, what the disagreements are and how we resolved

 9 that. But at the end of the day it's about support and

10 agreement that the work plan meets the objectives, and

11 we would work through those issues. There's beauty in

12 the transparency that we've provided here.

13 Q. Well, and sometimes without -- and I understand

14 your comment, and it's -- but there's always a part of

15 being sort of -- from a legal perspective, there's

16 always the opportunity for risks and arguments,

17 otherwise lawyers wouldn't have a job. And so it is

18 really -- my question is, what if it comes down to

19 there's a significant disagreement? How is the

20 Commission going to resolve that? Do you see it going

21 to hearing, as an example?

22 A. I would not hope that it goes to the Commission.

23 I don't think that's the point of this. The point is to

24 have agreement that the work plan is meeting the

25 objectives that various parties agree are important for

0204

 1 PSE to address.

 2 Q. And so what if the Commission did nothing in

 3 response to PSE's work plan filing? What does that

 4 mean?

 5 A. In part of the -- from a process outside of

 6 this --

 7 Q. From a process perspective, yes.

 8 MS. CARSON: Objection; calls for

 9 speculation. And to the extent this is seeking

10 regulatory expertise, Ms. Koch probably isn't the best

11 witness for this.

12 JUDGE PEARSON: Mr. Oshie?

13 MR. OSHIE: I'd be happy to rephrase the

14 question, Your Honor.

15 JUDGE PEARSON: Okay.

16 Q. (BY MR. OSHIE) Have you been involved in

17 discussions over the process that is followed on either

18 the gas side or this new process under the ECRM?

19 A. Can you -- discussions with, about?

20 Q. Internally, excuse me, at the Company.

21 A. Yes. We're familiar with the gas process and

22 that's what we've discussed.

23 Q. So the question of whether the -- how ultimately

24 these disputes that may occur over the work plan may get

25 resolved has never come up?

0205

 1 A. We haven't experienced that.

 2 Q. Well, I'm asking if there were discussions at

 3 the Company where you were present and perhaps where

 4 that subject was addressed in preparation for hearing.

 5 A. I haven't been involved in discussions of that.

 6 And again, we haven't experienced that. It's been very

 7 successful.

 8 Q. So let me ask one more question and I'll get off

 9 this line if it's not -- if you're not comfortable with

10 it. And I'm sure a lawyer will object.

11 If the Commission did nothing in response to

12 PSE's work plan, would PSE then assume that the

13 Commission tacitly approved it?

14 A. I don't know the answer to that.

15 Q. Okay. Do you think the Company would ever

16 represent in a rate case or other proceeding, for

17 example a prudence proceeding dealing with any project

18 in the work plan, that silence by a party meant approval

19 of the work plan?

20 MS. CARSON: Objection; calls for

21 speculation.

22 MR. OSHIE: I'll withdraw the question, Your

23 Honor.

24 JUDGE PEARSON: Okay.

25 MR. OSHIE: I have some questions about the

0206

 1 true-up, Your Honor, and I don't know if that's really

 2 for Ms. Barnard.

 3 THE WITNESS: The true-up is better with

 4 Ms. Barnard.

 5 Q. (BY MR. OSHIE) Okay. So let me go -- I'll

 6 switch subjects from that and let's move on to system

 7 reliability to which you've testified.

 8 You testified, I believe, that the underground

 9 facilities to be replaced bear risk of failure of

10 reading the outages; is that correct?

11 A. Yes.

12 Q. And that the mechanism you're proposing would

13 make the system more reliable; is that correct?

14 A. The work associated with this mechanism will

15 increase reliability.

16 Q. And PSE is already under an obligation to

17 provide safe and reliable service to its customers, is

18 it not?

19 A. PSE is.

20 Q. And you would agree that PSE has provided safe

21 and reliable service in the past?

22 A. I would agree we are providing safe and reliable

23 service. The plan and the mechanism is about improving

24 that.

25 Q. So you provide -- PSE has provided safe and

0207

 1 reliable service in the past without the support of this

 2 mechanism; is that correct?

 3 A. PSE takes its reliability obligation very

 4 seriously. We focus on reliability. I think we

 5 demonstrated that our reliability is suffering and it

 6 needs to be addressed, and addressed in a significant

 7 way through these two mechanisms or these two areas of

 8 focus.

 9 Q. And so if PSE has reliability risks now existing

10 on its system, why is the Company's management not

11 choosing to address these risks without the mechanism?

12 A. So we've demonstrated what our reliability is.

13 I think in part the question here is, is that okay, is

14 our reliability performance at a level that's

15 acceptable. We proposed that we need to do more. We

16 focus on reliability already and we've made significant

17 headway, but we are seeing an escalating trend of

18 increasing outages and our reliability would be moving

19 in the wrong direction. And these two programs really

20 help us address those specifically.

21 Q. When you say you need to do more, you need to do

22 more, you mean the Company needs to do more to ensure

23 reliability?

24 A. Again, PSE has demonstrated what its reliability

25 is and identified that we've seen increasing trends of

0208

 1 outages relative to equipment failure and trees, and so

 2 we're moving potentially in the wrong direction. And

 3 that would support that we need to put some focus on

 4 that if we're going to maintain or drive reliability to

 5 a better place.

 6 Q. Now, when you say trees as an example, are you

 7 talking about your overhead system or your underground

 8 system or both?

 9 A. Trees generally affect your overhead system.

10 Q. Doesn't PSE have an allocation, I believe it's a

11 significant one, for tree trimming on an annual basis

12 already in rates?

13 A. It does. I think the focus of the plan is

14 addressing cable failures and addressing the

15 worst-performing circuits. The worst-performing

16 circuits are impacted by trees. Our tree program is

17 performing well; we're on cycle. It's addressing what

18 we can from a tree aspect. We need to think about the

19 worst-performing circuits outside of trimming more trees

20 because that's at its maximum effectiveness already.

21 Q. And you're telling the Commission in your

22 testimony, and I know Mr. Doyle didn't seem to agree

23 with you, that without this mechanism that you're asking

24 for, you'll either -- the Company will either delay a

25 replacement of these needed facilities, or I guess

0209

 1 that's probably what you're saying, it'll come at its

 2 own time, if you will? Is that true?

 3 A. Well, PSE is already addressing cable; we have

 4 for 27 years. We are still on a 25-year plan. PSE is

 5 already addressing worst-performing circuits, but these

 6 circuits tend to stay at the bottom of the list and so

 7 this program addresses that. Without the recovery, the

 8 timely recovery, PSE will probably follow the same plan

 9 but do it at historic levels as it's been doing in the

10 past, so it will take longer to accomplish.

11 Q. Are you saying, then, that the projects in a

12 proposed work plan are not really needed, they're more

13 aspirational? That's probably not the right word, but

14 you'd do it if you had the money but you don't really

15 need to do it to ensure reliability?

16 A. No, that's not what that says. It says that

17 we're facing a problem we need to address based on the

18 escalating failures. These are prudent projects. The

19 question that is part of the ECRM is, do we do it faster

20 to address reliability and make some improvements.

21 These are prudent projects; we would just take longer to

22 do them.

23 Q. I guess the question -- I'll let it go at this

24 point.

25 Let's talk about the internal budget development

0210

 1 process for PSE and its capital projects that are the

 2 subject of the ECRM or the proposed ECRM. So I imagine

 3 that you participate in planning meetings that lead to

 4 the development of your electric system replacement

 5 projects; is that true?

 6 A. It is true.

 7 Q. And I would imagine, too, that those meetings

 8 include the development of budgets of those projects?

 9 A. From a project-specific standpoint, yes.

10 Q. Are you responsible for developing the budget

11 for, for example, the ECRM-related projects?

12 A. So my team is responsible for developing a set

13 of projects that can be evaluated within the financial

14 constraints that Mr. Doyle talked about to deliver the

15 greatest value for the dollars.

16 Q. Are you aware of any circumstance in which your

17 team proposed the replacement of a problem, I'll just

18 refer to it as an HMW line, and sought to replace it,

19 but your proposal was rejected by management?

20 A. So let me explain the planning process a little

21 bit so you understand. The planners collect data

22 associated with the system performance and the drivers

23 on that system. They bring those forward with tools.

24 We evaluate the benefits and the risks of all of that

25 work. And then the process, given a financial

0211

 1 constraint, optimizes the best set of work to deliver on

 2 the benefits.

 3 There are projects that do not get funded as a

 4 result of that because they do not fit within an

 5 optimized set, again, based on the financial constraint.

 6 Q. So I guess taking Mr. Doyle's testimony, then,

 7 and your testimony here, is that you have a cap, capital

 8 cap that you can devote to projects like those involved

 9 in the ECRM, and then you use your risk optimizer to

10 decide what projects get built; correct?

11 A. I think Mr. Doyle described that there is finite

12 budget in all that we do. We have to make choices.

13 Q. And right now, as you said, the Griffin 13 line

14 has fallen outside of that financial parameter then;

15 correct?

16 A. So Griffin 13 is one of the worst-performing

17 circuits. Through that optimizations process, again

18 looking to provide the greatest value to the most

19 customers and thinking about the worst-performing

20 circuits, Griffin 13 happens to be a lower number of

21 customers, a longer circuit, higher costs, and typically

22 has fallen short of receiving dollars to fully address

23 the issue. In the last five years we've spent about 25-

24 or $30,000 on that circuit.

25 Q. So you're saying that the money is just not

0212

 1 available to fix Griffin 13, then, or to replace it, it

 2 seems what you mean?

 3 A. To find a solution for it. But again, it's

 4 within the -- we're optimizing the dollars for the

 5 greatest value of all the customers, which I think would

 6 be the right thing that we should be doing when they're

 7 thinking about the money.

 8 But the plan starts to look at those

 9 worst-performing circuits that we do think that the

10 Commission feel is valuable, and start to look at

11 addressing those in a more sustainable way.

12 Q. So let's go back just briefly. Now what it

13 sounds like you're telling me is that you're asking the

14 Commission to approve the work plan, so the Commission

15 is going to sit in the chair of management at that point

16 looking at those plans, deciding what to do with it.

17 And then you're also saying that without some kind of

18 support in the form of this ECRM, you're not going to go

19 forward with this. So then the Commission is sitting

20 not just in sort of a review of the engineering planning

21 and the program planning, but the Commission is now

22 sitting looking at budget planning, deciding whether or

23 not PSE's budget that they have allocated to electrical

24 projects is sufficient to cover their reliability; is

25 that correct?

0213

 1 MS. CARSON: Object to the form. I object

 2 to the form of the question. I'm not sure what the

 3 question was, but it sounded more like a speech or oral

 4 argument.

 5 MR. OSHIE: It wasn't intended to be,

 6 because -- I will repeat part of the question.

 7 Q. (BY MR. OSHIE) So PSE is asking the Commission

 8 to sit now as PSE's management for the purpose of

 9 dedicating funds to the reconstruction of certain

10 circuits under the ECRM program?

11 MS. CARSON: I object to the form of the

12 question.

13 JUDGE PEARSON: It was a statement, not a

14 question. Are you asking whether PSE is asking the

15 Commission to do that?

16 MR. OSHIE: I thought the way I said it

17 was -- but yes, Your Honor, I agree that's exactly what

18 I meant, which is, is it true that PSE's asking the

19 Commission to sit as basically a super manager of PSE

20 and deciding whether or not these projects will go

21 forward and determining the budget for it?

22 MS. CARSON: Object; asked and answered.

23 MR. OSHIE: I'll accept that, because it's

24 really a two-part question. Okay.

25 I believe that's all, Ms. Koch. And the

0214

 1 rest of the questions I'll save for Ms. Barnard. Thank

 2 you.

 3 JUDGE PEARSON: Mr. Bryant?

 4 MR. BRYANT: Yes, Your Honor?

 5 JUDGE PEARSON: Did you have any questions?

 6 MR. BRYANT: Yes, I do, Your Honor.

 7

 8 CROSS-EXAMINATION

 9 BY MR. BRYANT:

10 Q. Good morning, Ms. Barnard -- or Ms. Koch.

11 A. Good morning. Maybe I'd rather be Ms. Barnard?

12 No, I wouldn't? Okay.

13 Q. Do you have your rebuttal testimony in front of

14 you?

15 A. I do.

16 Q. Could you turn to Page 12, please.

17 A. Page what?

18 Q. 12.

19 A. I'm there.

20 Q. I'm at Line 16. And there you state, PSE takes

21 the obligation of providing reliable service seriously.

22 Is this obligation viewed as secondary to the

23 Company's obligation to provide earnings for its

24 shareholders?

25 A. No. PSE spends dollars to deliver reliable

0215

 1 services for the customers.

 2 Q. And that was the finite budget that you've

 3 referenced earlier?

 4 A. Within the constraints of operating a business,

 5 PSE focuses on reliability.

 6 Q. Okay. Could you please turn to Exhibit CAK-26X.

 7 A. Okay.

 8 Q. In your response to B, you state that, PSE will

 9 continue to invest in reliability at its historic levels

10 to address the worst-performing circuits and replace

11 high molecular weight cable when it fails.

12 Do you see that?

13 A. Yes, on the -- sorry. Are you reading my

14 response?

15 Q. Yes.

16 A. Sorry. Yes.

17 Q. So are you saying there that even if future

18 service quality metrics deteriorate, PSE won't increase

19 its reliability investment levels above historical

20 levels unless the Commission grants the requested ECRM

21 rate increases?

22 A. The statement is that PSE will do as it has done

23 in the past, again through an optimizing process to

24 address reliability and find the greatest value. We

25 might spend more than historic levels, but typically

0216

 1 this is the level that we've been able to replace the --

 2 or address the worst-performing circuits and address the

 3 high molecular weight issue. It is likely that

 4 reliability will decrease, performance will decrease

 5 unless we can proactively get ahead of the situation.

 6 Q. Okay. So can you turn back to your rebuttal

 7 testimony on Page 3.

 8 A. I'm there.

 9 Q. Okay. On Line 12 you indicate that, PSE is

10 proposing a separate ECRM, because if PSE relies on

11 traditional rate making to implement ERP, the Company

12 will face ongoing earnings erosions due to the

13 regulatory lag associated with traditional rate making.

14 Is that correct?

15 A. That's what it says.

16 Q. So are you saying that PSE would elect to incur

17 the incremental amounts proposed in its ERP under

18 traditional regulation, but the Company might suffer

19 lower earnings if it did this without the additional

20 revenues requested through the ECRM?

21 A. Can you restate your question?

22 Q. Absolutely.

23 Based on your statement on Page 3, Line 12, does

24 that statement mean that PSE would elect to incur

25 incremental amounts proposed in its ERP under

0217

 1 traditional regulation, but the Company may suffer

 2 earnings if it did this without the additional revenues

 3 requested from the ECRM?

 4 A. Yes. It says that if we were to spend or invest

 5 as the ERP or the ECRM has proposed and do that under

 6 traditional rate making, we would experience loss in

 7 revenue requirements. I think when we start to get into

 8 earnings, we might redirect to Kathie Barnard for more

 9 strength in accounting.

10 Q. Okay. Well, I'll see if I need to address this

11 next question for her.

12 So would you agree that your concern about

13 earnings erosion due to regulatory lag applies

14 generically to all the Company's discretionary

15 investments and expenses because any higher spending

16 between test years' GRC cases tends to increase pressure

17 on the Company's earnings?

18 A. Ms. Barnard is going to be better at answering

19 that.

20 Q. Thank you. So is it your opinion that PSE would

21 rather let its service quality deteriorate than incur

22 capital spending at rates that may reduce earnings?

23 A. PSE doesn't want to let its reliability

24 performance deteriorate, which is why we brought this

25 mechanism or this plan forward. Without the timely

0218

 1 recovery, PSE will optimize within the portfolio that it

 2 can make the best choices about how it drives

 3 reliability to impact the greatest number of customers.

 4 Q. But not at the expense of shareholders?

 5 A. Again, you're outside my expertise from a

 6 shareholder discussion.

 7 Q. Do you know if PSE has traditionally limited its

 8 distribution of capital investments to be tied to its

 9 customer growth rate?

10 A. I think from my understanding, that's

11 generally -- and from what we've discussed, we generally

12 align our investments in non-revenue-generating plant to

13 customer revenue. I think that in reviewing the Avista

14 rate order, it appeared to be a discussion that the

15 Commissioners shared as well that that is generally the

16 expectation, and that is generally how we decide how

17 much investment to make in that non-revenue-generating

18 plant.

19 Q. I'm glad you brought up the Avista rate because

20 that's my next question. On Page 4 on Line 3, that's

21 where you mentioned Avista GRC. And you claim the

22 Commission expressed a general expectation that

23 utilities would not increase capital investment in

24 non-revenue generation distribution plans beyond

25 customer growth rates.

0219

 1 Did you state that in your testimony?

 2 A. I did.

 3 Q. So is it your testimony, then, that the

 4 Commission would rather see service quality deteriorate

 5 rather than face future rate cases by capital spending

 6 due to customer growth rate?

 7 A. I can't speak for what the Commissioners would

 8 rather see or not.

 9 Q. Okay, thank you.

10 I had a little success with this question

11 earlier so I will pose it to you. Do you know if PSE

12 continuously recovers depreciation through its base rate

13 that provides internally generated funds to help pay for

14 new plant investment?

15 A. That's beyond my expertise.

16 MR. BRYANT: So Mr. Oshie actually stole a

17 lot of my glory this morning so I'll conclude my cross

18 questions.

19 JUDGE PEARSON: Okay, thank you.

20 Ms. Carson, did you have any redirect?

21 MS. CARSON: Just one.

22

23 REDIRECT EXAMINATION

24 BY MS. CARSON:

25 Q. Mr. Oshie asked the question why is management

0220

 1 not choosing to address these risks, meaning the high

 2 molecular weight cable and the worst-performing

 3 circuits. Has PSE been addressing these risks?

 4 A. Yes. PSE has been addressing the cable issues

 5 since 1990. And as Mr. Doyle pointed out, we've

 6 replaced 2,500 miles thus far, we have 1,800 left, so

 7 significant level of effort already. And worst-

 8 performing circuits, we address those on an annual basis

 9 as well. This mechanism just takes it beyond historic

10 levels.

11 MS. CARSON: Thank you. I have no further

12 questions.

13 JUDGE PEARSON: Thank you.

14 Any questions from the bench?

15 COMMISSIONER RENDAHL: Good morning,

16 Ms. Koch.

17 THE WITNESS: Good morning.

18 COMMISSIONER RENDAHL: So the first question

19 that I asked Mr. Doyle about, who is involved in the

20 prioritization process? Are you responsible for -- is

21 it part of your responsibility to work on establishing

22 what those capital budgeting priorities are?

23 THE WITNESS: Within the constraints, the

24 financial constraints that Mr. Doyle talked about, yes,

25 that's my job.

0221

 1 COMMISSIONER RENDAHL: So -- right, but are

 2 you responsible for helping to develop those priorities?

 3 Who develops those priorities in the Company, the

 4 optimization priorities?

 5 THE WITNESS: My team develops the

 6 optimization, but the optimization process is within

 7 the -- bound by the financial constraint of the dollars

 8 that we can -- we should be optimizing to.

 9 COMMISSIONER RENDAHL: Let me ask it a

10 different way. If somebody wanted to make a change to

11 the optimization model, the priorities of what the

12 capital budget spending is -- what is spent, what's the

13 process for reviewing the optimization model?

14 THE WITNESS: So can I talk a little bit

15 about that model?

16 COMMISSIONER RENDAHL: Yes, please.

17 THE WITNESS: Because I think that might

18 help.

19 So it is an optimization model, it's not a

20 prioritization model. And so planners, again, look at

21 the system performance, customer growth, other projects

22 that are going on, and issues that are going on with the

23 system. They propose solutions. And what goes into the

24 tool are all of the benefits associated with a specific

25 project, so there's some 13 or 14 benefits that are for

0222

 1 a specific project. Every project, data is entered and

 2 those are weighted. Those benefits are weighted with

 3 the help of senior management as to what's important;

 4 things like outages, public safety, worker risk, cost,

 5 stakeholder engagement. So there's numerous ones. And

 6 that weighting process goes on at the senior level to

 7 determine that.

 8 But the optimization process, at the end of

 9 the day you indicate what dollar you are optimizing to.

10 We may run several scenarios that say if we were to

11 allowed to spend X, here's what that set of optimized

12 portfolio might be. And we may create some scenarios to

13 give a sense of what the risk is and what the benefits

14 are around that.

15 But generally you constrain it to a

16 financial target around what T&D can support within,

17 again, the constraint that Mr. Doyle talked about as far

18 as an overall financial plan.

19 COMMISSIONER RENDAHL: So are you aware of

20 the management weighting when you're making your

21 optimized recommendations?

22 THE WITNESS: Those are embedded in the tool

23 already. So the tool does it for you based on what

24 you've put in there as the weightings.

25 COMMISSIONER RENDAHL: But you're not

0223

 1 responsible for coming up with what that weighting is?

 2 Are you involved in that process of determining the

 3 weighting?

 4 THE WITNESS: My team would lead an effort

 5 to review that weighting. It's not done every year,

 6 it's probably done once every three or four years. I

 7 haven't actually experienced it in this role, but I've

 8 seen where they gather around and they -- it's a

 9 would-you-rather-do-this-versus-this to decide those

10 weightings, because there are quite a few of those.

11 COMMISSIONER RENDAHL: My question is, since

12 this appears to be an issue with these certain projects,

13 the worst-performing circuits and the underground cable

14 not rising to the level of prioritization in the

15 optimized model, has there been discussion about looking

16 at the weighting and reviewing the weighting and whether

17 there's a different way to bring these type of projects

18 to a higher prioritization?

19 THE WITNESS: So you could, but again, under

20 a financial constraint you're picking and choosing. And

21 so you could weight this work higher at the detriment of

22 other reliability work that is impacting customers. And

23 so the model is really trying to address how do you get

24 the biggest benefit which generally is impacting the

25 most customers for the dollars that you have.

0224

 1 So again, it's all kind of under the

 2 boundaries of a constraint, and so you would just be

 3 making choices at that point.

 4 COMMISSIONER RENDAHL: Right. So you're

 5 making choices based on what is weighted and how things

 6 are weighted. So, for example, if you have escalating

 7 trends, which you referred to earlier in your testimony

 8 this morning, that could be weighted differently to

 9 prioritize projects differently; correct?

10 THE WITNESS: You could, but the core

11 weighting already delivers high value for the greatest

12 amount of customers. And again, if you think about

13 these circuits have low customers, high cost. And so

14 you could; you would just impact less customers in what

15 you were driving for from a reliability standpoint.

16 So your reliability may not improve as much

17 as if you continued to do that set of work that drove

18 the greatest value and you tackled the worst-performing

19 circuits and cable.

20 COMMISSIONER RENDAHL: So is the concern

21 that if it's not optimized to meet the greatest number

22 of customers, there may be an issue with prudency and

23 recovery?

24 THE WITNESS: Potentially.

25 COMMISSIONER RENDAHL: Okay. And I did want

0225

 1 to ask one other question about the order that you were

 2 discussing. So that's your rebuttal testimony of 4T on

 3 Page 4; correct?

 4 THE WITNESS: Correct.

 5 COMMISSIONER RENDAHL: That discussion was

 6 in the context of attrition adjustments. Is that your

 7 understanding? Or was it a general blanket statement?

 8 THE WITNESS: I think you're correct. If I

 9 pulled that up, it talked about attrition.

10 COMMISSIONER RENDAHL: Okay. Thank you,

11 that's all I have.

12 COMMISSIONER BALASBAS: Good morning,

13 Ms. Koch.

14 THE WITNESS: Good morning.

15 COMMISSIONER BALASBAS: Following up on

16 Commissioner Rendahl's questions, would you say that

17 really the main driver of the capital budget optimizing

18 process is the financial constraints that you were given

19 by senior management in starting that process?

20 THE WITNESS: The optimization is based on a

21 financial constraint. I think Mr. Doyle described that

22 capital plan and how that's developed, and there are

23 limits to that. So at the end of the day, yes, it's got

24 a constraint.

25 COMMISSIONER BALASBAS: So you mentioned in

0226

 1 one of the responses to Commissioner Rendahl about maybe

 2 periodically reviewing the optimization process. When

 3 do you anticipate your next review for the processes

 4 that you have oversight over would take place?

 5 THE WITNESS: I'm not sure we had one

 6 scheduled as of now.

 7 COMMISSIONER BALASBAS: That's all.

 8 JUDGE PEARSON: Okay, thank you. So at this

 9 point you may step down, however, subject to recall

10 after we hear from Ms. Barnard.

11 THE WITNESS: Thank you.

12 JUDGE MOSS: Ms. Barnard, you are next.

13

14 KATHERINE BARNARD, witness herein, having been

15 first duly sworn on oath,

16 was examined and testified

17 as follows:

18

19 -o0o

20 DIRECT EXAMINATION

21 BY MS. CARSON:

22 Q. Good morning, Ms. Barnard.

23 A. Good morning.

24 Q. Could you please state your name for the court

25 reporter and spell out your name, and also give your

0227

 1 title.

 2 A. Yes. My name is Katherine J. Barnard;

 3 K-a-t-h-e-r-i-n-e, middle initial J., last name

 4 B-a-r-n-a-r-d. And my role is Director of Revenue

 5 Requirements and Regulatory Compliance at Puget Sound

 6 Energy.

 7 Q. Ms. Barnard, do you have before you what has

 8 been marked for identification as Exhibit Numbers KJB-1T

 9 through KJB-40 in these dockets?

10 A. I do.

11 Q. Do these exhibits constitute your prefiled

12 direct supplemental and rebuttal testimony and related

13 exhibits?

14 A. They are.

15 Q. These have been stipulated into the record.

16 Do you have any corrections to your exhibits at this

17 time?

18 A. I do have one minor correction. In my original

19 direct testimony, KJB-1T, on Page 77 on Line 16, I

20 referenced making the update filing by November 30th.

21 And that should actually be November 15th, to be

22 consistent with the 45 days I outlined earlier in my

23 testimony.

24 MS. CARSON: Thank you. Ms. Barnard is

25 available for cross-examination.

0228

 1 JUDGE MOSS: Three parties have designated

 2 time; Public Counsel, ICNU, and FEA. The last time we

 3 had more than one, there was some preference among the

 4 parties as to who would proceed first in an effort to

 5 gain efficiency.

 6 Is there such preference this time?

 7 MS. LIOTTA: Your Honor, FEA has waived

 8 cross for Ms. Barnard as of yesterday late.

 9 JUDGE MOSS: Okay. Thank you very much, Ms.

10 Liotta. I must have missed the e-mail, but that's good

11 news to hear. That gives us exactly enough time to

12 finish Ms. Barnard.

13 So if there's no preference between ICNU and

14 Public Counsel? No? All right, go ahead, Public

15 Counsel.

16 CROSS-EXAMINATION

17 BY MS. GAFKEN:

18 Q. Good morning, Ms. Barnard.

19 A. Good morning.

20 Q. Would you please turn to your rebuttal

21 testimony, Exhibit KJB-17T, Page 6, Line 7 through 15.

22 A. I'm there.

23 JUDGE MOSS: I'm sorry, which page?

24 MS. GAFKEN: Page 6, Line 7 through 15.

25 JUDGE MOSS: Thank you.

0229

 1 Q. (BY MS. GAFKEN) There you take issue with

 2 Public Counsel's testimony questioning your expense

 3 trend analysis that was prepared on a per customer

 4 basis; correct?

 5 A. That is correct.

 6 Q. You compare Public Counsel's advocacy in this

 7 case with our advocacy in PSE's 2013 rate plan case;

 8 correct?

 9 A. Correct.

10 Q. Would you please turn to Cross Exhibit KJB-47X.

11 A. Yes. That's our response to their Request 473;

12 is that correct?

13 Q. You anticipated my question.

14 A. I just wanted to make sure I had the right

15 place.

16 Q. Yes, that's the document.

17 A. Okay.

18 Q. So you do recognize that Exhibit KJB-47X is

19 PSE's response to Public Counsel's Data Request 473?

20 A. Yes.

21 Q. In Subsection A, PSE confirms that the K factor

22 requested in the 2013 case was applied to the authorized

23 revenue per customer figures used in PSE's decoupling

24 mechanism; correct?

25 A. Yes.

0230

 1 Q. And Puget is not requesting a K factor in this

 2 case; correct?

 3 A. That is correct.

 4 Q. Would you please turn back to your rebuttal

 5 testimony which is Exhibit KJB-17T. And go to Page 7,

 6 Lines 9 through 16.

 7 A. I'm there.

 8 Q. There you criticize Mr. Brosch's comparison of

 9 PSE's annual growth expense to the national Gross

10 Domestic Product Price Index, GDPPI; correct?

11 A. I point out there that he is using a national

12 figure versus looking at potential regional differences.

13 Q. Would you please turn to Cross Exhibit KJB-48X.

14 A. I think I'm there.

15 Q. Do you recognize Cross Exhibit KJB-48X as PSE's

16 response to Public Counsel's Data Request Number 474?

17 A. Yes.

18 Q. In response to Cross Exhibit KJB-48X -- I'm

19 sorry.

20 The response in Cross Exhibit KJB-48X indicates

21 that your testimony is not meant to advocate one price

22 index over another but that you are pointing out that

23 the GDPPI is a national index; is that correct?

24 A. That is correct. And I also explained that for

25 purposes of the tables that I was referencing, my Tables

0231

 1 1 through 4 in my direct testimony, that had to do with

 2 looking at the multiyear rate plan. And so we had based

 3 that on a CPI, so that's the way we've been reporting it

 4 for the last several years.

 5 Q. And you'd expressed concern that the national

 6 metric may not be representative of PSE which is wholly

 7 in Washington. Is that an accurate representation?

 8 A. That's more or less correct. I mean, a national

 9 average for inflation may not be representative of what

10 we're seeing in Washington considering some of our

11 growth and things like that.

12 Q. In your testimony you didn't show any

13 information to show how PSE's price trends compare to

14 regional GDPPI indices, did you?

15 A. Can you say that again?

16 Q. Sure. In your testimony or in any of your

17 exhibits, you didn't show any information to show how

18 PSE's price trends compared to any regional indices, did

19 you?

20 A. Compared to regional indices, I did. I showed

21 a -- I noted in my direct testimony -- just a moment.

22 In my direct testimony on Page 8, I do show in Lines 9

23 through 12 that PSE's growth rate had compared favorably

24 to both the national CPI and a regional CPI. But

25 Mr. Brosch was addressing GDPPI, and I couldn't find

0232

 1 such a reference locally.

 2 Q. The last part of your statement, you didn't --

 3 do you mean that to say that you didn't find a local

 4 GDPPI to compare PSE to?

 5 A. Correct, I couldn't find that information. It

 6 appeared that the GDPPI was only a national indices.

 7 Q. Would you agree that PSE does not incur

 8 significant expenses for housing, food, entertainment,

 9 or clothing within its operating expenses?

10 A. I believe those were part of the subparts in

11 Cross Exhibit KJB-48. And I'm not going to speak to the

12 components of the CPI or what's in the GDPPI. That's

13 not my expertise.

14 Q. So are you testifying, then, that you're not

15 familiar with what a CPI measures or looks at?

16 A. That's correct, that's not my testimony.

17 Q. So you're not familiar if CPI looks at those

18 things?

19 A. I don't know the details of what makes up the

20 CPI. I know that it's a benchmark that's been used. I

21 also know it was used for a previous utility that I

22 worked for when we were addressing making sure we kept

23 costs within a certain containment, so. And it's

24 something that I used as support when we were looking at

25 the K factor back in 2013.

0233

 1 So I know there's both national numbers, and I

 2 know that if I research I can find local data on that

 3 price index at the Seattle-Bremerton-Kitsap area. I

 4 couldn't find the same thing for GDPPI.

 5 Q. Would you please turn to Page 8, Lines 4 through

 6 17 of your rebuttal testimony, Exhibit KJB-17T.

 7 A. Page 8, which lines again?

 8 Q. 4 through 17.

 9 A. I'm there.

10 Q. There you testified that Mr. Brosch should have

11 focused on the overall rate impacts rather than the

12 proposed base rate impacts; correct?

13 A. That is correct.

14 Q. Would you please turn to Cross Exhibit KJB-49X.

15 A. I'm there.

16 Q. Do you recognize Cross Exhibit KJB-49X as PSE's

17 response to Public Counsel Data Request 475?

18 JUDGE MOSS: Ms. Gafken, let me remind you

19 the exhibits have been stipulated in. You don't need to

20 lay foundation; you can just go straight to your

21 question.

22 MS. GAFKEN: Fair enough.

23 THE WITNESS: Yes.

24 Q. (BY MS. GAFKEN) In Part A, you refer to the

25 overall rate impacts of the Company's proposal as the

0234

 1 Company's rebuttal testimony as part of -- I'm sorry.

 2 In Part A, you refer to the overall rate impacts

 3 of the Company's proposal as stated in your rebuttal

 4 case; correct?

 5 A. I state that the net impact to customers on our

 6 rebuttal case is 58.3 million, yes. And that includes

 7 the net impacts of the various schedules that will be

 8 simultaneously removed at the conclusion of this docket.

 9 Q. In Part B, you state that 90 percent of the

10 increase is attributable to higher depreciation rates

11 that are proposed; correct?

12 A. Correct. Approximately 54 million of the rate

13 request is attributable to the adjustment to the

14 depreciation.

15 Q. Is it fair to conclude that you think that PSE

16 is doing very well at controlling expense growth and

17 overall revenue requirements as evidenced by PSE's

18 modest overall rate request?

19 A. Can you say that question again?

20 Q. Sure. Is it fair to conclude that you think

21 that PSE is doing very well at controlling expense

22 growth and overall revenue requirements as evidenced by

23 PSE's modest overall rate request?

24 A. My testimony certainly documents that we are

25 doing better than we had historically done at

0235

 1 controlling our costs. But my testimony also shows that

 2 we're still showing on a per customer basis or

 3 wholistically are showing growth in expenses. But it's

 4 certainly better than the historical levels that we were

 5 experiencing prior to the rate plan.

 6 Q. And does PSE intend to continue to focus on

 7 management efficiency and strong efforts to control its

 8 costs?

 9 A. I think PSE always has a duty to look to control

10 our costs. I think we've managed to keep them in

11 alignment. But I can't say that we won't see costs

12 continue to at least escalate in some form.

13 Q. Do you have reason to believe that PSE

14 management will reduce the attention paid to controlling

15 costs in the future?

16 A. Will you say that again?

17 Q. Sure. Do you have any reason to believe that

18 PSE's management will reduce the attention paid to

19 controlling its costs?

20 A. I think I already said that PSE will continue to

21 work to control its costs.

22 Q. Switching topics.

23 Would you agree that under PSE's current form of

24 decoupling, PSE's revenues tend to grow between rate

25 cases as new customers are added because the current

0236

 1 form of decoupling approved for PSE is revenue per

 2 customer decoupling?

 3 A. I'm actually not the Puget witness testifying on

 4 decoupling.

 5 Q. So I should defer that question to Mr. Piliaris?

 6 A. You probably should.

 7 Q. I will do that. I'm going to ask a couple of

 8 these questions and see if you can answer them, and if I

 9 have to defer them I'll do that.

10 Would you turn to Cross Exhibit KJB-50X.

11 A. I'm there.

12 Q. And you're listed as the witness knowledgeable

13 about the response, but you can tell me if I should

14 defer some of these questions to Mr. Piliaris.

15 A. Okay.

16 Q. In Cross Exhibit KJB-50X, Public Counsel asked

17 for your understanding of found margins and also your

18 understanding of Mr. Brosch's testimony; is that

19 correct?

20 A. That is correct.

21 Q. And the response states that Mr. Piliaris and

22 not you testified about decoupling, and then you recite

23 Mr. Brosch's testimony per your understanding. Is that

24 correct?

25 A. That is correct.

0237

 1 Q. Does this mean that you do not have an

 2 understanding about how revenue per customer decoupling

 3 causes PSE's revenues to grow as new customers are

 4 added?

 5 A. Well, certainly I know at a high level that the

 6 mechanism allows an allowed revenue per customer, it

 7 gets rid of the throughput, and so if customers grow

 8 then there will be additional revenues. However,

 9 there's also typically additional costs associated with

10 new customers.

11 Q. Will you please turn to your rebuttal testimony

12 which is Exhibit KJB-17T, and turn to Page 9, Lines 1

13 through 7.

14 A. I'm there.

15 Q. You characterize Mr. Brosch's testimony as

16 criticizing PSE for not proposing a multiyear rate plan,

17 K factor, or other attrition adjustment, and expressed

18 surprise; correct?

19 A. That is correct.

20 Q. Do you have Mr. Brosch's testimony handy?

21 A. I'm not positive I've got a complete.

22 Q. It's Exhibit MLB-1T.

23 A. If you tell me what page, I might have it.

24 Q. I'd like to refer you to Page 38.

25 A. I happen to have that page.

0238

 1 Q. Fantastic. If you'd look at lines -- well,

 2 actually, I'd like to refer you to Page 38 and 39, so

 3 beginning at Line 11 and then continuing to the top of

 4 Page 39 going to Line 3.

 5 That's the passage that you expressed surprise

 6 in your testimony; is that correct?

 7 A. I'd have to look at the reference in my

 8 testimony. That's correct. In this section Mr. Brosch

 9 is discussing that Puget hasn't proven or claimed an

10 attrition problem.

11 Q. Correct. But Mr. Brosch was not testifying that

12 Puget should have advanced a multiyear rate plan

13 proposal with an attrition component but, rather, he's

14 stating that Puget did not advance such a request;

15 correct?

16 A. I'm not sure because I don't have the full

17 context of his testimony, and I don't have our response

18 in full. So he's taken a subpart of this. So I'm not

19 positive I'm following the question.

20 Q. Okay. But in those lines, and those are the

21 lines that you expressed surprise in or of, in those

22 lines Mr. Brosch is not testifying that Puget should

23 have advanced a multiyear rate plan but, rather, he's

24 saying that Puget did not bring that proposal; is that

25 correct?

0239

 1 A. Well, his actual question is saying -- has to do

 2 with whether the Company should be allowed to have the

 3 decoupling on a customer -- to continue to include

 4 customer growth and stating that because we haven't

 5 claimed or proven attrition, that we shouldn't. And so

 6 that was surprising.

 7 But I believe Mr. Piliaris's testimony deals

 8 more directly with this package.

 9 Q. Okay.

10 A. And my testimony was merely pointing out that in

11 part we didn't come forward with a multiyear rate plan

12 or prove attrition because, quite frankly, Public

13 Counsel and other parties hated it in 2013.

14 Q. Do you think that Public Counsel is asking Puget

15 to bring such a proposal now?

16 A. We certainly had a number of data requests that

17 asked us to provide that data. And we did not perform

18 such a calculation. But there is information within my

19 testimony that shows that despite slowing the growth in

20 cost per customer, there is still an increase in costs

21 above the growth in customers. So that information is

22 here at a high level.

23 MS. GAFKEN: Okay. I have no further

24 questions.

25 JUDGE MOSS: Thank you very much.

0240

 1 Mr. Oshie?

 2 MR. OSHIE: Thank you, Your Honor.

 3

 4 CROSS-EXAMINATION

 5 BY MR. OSHIE:

 6 Q. Ms. Barnard, good morning.

 7 A. Good morning.

 8 Q. So you were, I believe, in the room when

 9 Ms. Koch was on the stand?

10 A. I was.

11 Q. She referred a few questions to you. We'll see

12 if we'll get to them here. But really I think what I

13 thought she might be able to answer was some of the

14 questions about the annual true-up and prudency filing

15 that was part of the ECRM program. So that's the

16 subject matter.

17 A. Okay.

18 Q. So let's get an understanding of what it is

19 that's going to be filed and when it's going to be

20 filed.

21 So as I understand the annual true-up and

22 prudency filing -- and I'll just refer to it as a

23 true-up. Would that be fine?

24 A. Yes, but I don't think it's necessarily correct

25 to consider it a true-up and prudency filing per se.

0241

 1 But there is an annual true-up proposed to address any

 2 differences between actual and the last two months that

 3 are estimated in the program.

 4 Q. And the filings would be made annually; correct?

 5 That's anticipated? The true-up filing would be --

 6 A. The true-up filing would be made the following

 7 year. As we discuss in my testimony, there's actually

 8 two filings a year with the proposed ECRM. That's a

 9 little different than the gas. The gas has three

10 filings.

11 Q. And just from your testimony, it's my

12 understanding that the filing is anticipated to be made,

13 you mentioned November 15th. I thought it was

14 November 1. The true-up filing now.

15 A. So I think the true-up filing that you're

16 referring to, or at least I had understood, is the one

17 that occurs the following year. Just like with the gas

18 CRM, currently you file in June, you file an initial

19 filing with the program spend for that year. And then

20 what you're doing is -- on the gas CRM I think the

21 second filing is in August or September with a final

22 filing of that program year in November. There is still

23 an estimate -- excuse me, I got the gas one wrong. The

24 third filing is actually in October for rates to go

25 effective on November 1. You still have an estimate.

0242

 1 And then the following year you're trueing up for

 2 whatever difference happened.

 3 Q. Let's be clear. This is the true-up filing.

 4 And I agree with you it'll follow the first year of

 5 operation.

 6 A. Okay. So that true-up for the previous year

 7 will be recognized in the initial filing with the ECRM

 8 which is proposed for the beginning of July. So we

 9 would be documenting at that point what was the

10 difference in the level from what was estimated -- and I

11 want to be clear.

12 So ECRM, the way it's proposed is you have an

13 estimate of the program year. Excuse me, I like to talk

14 with my hands. So you have the program year. So you

15 first make the filing, and you only have five months of

16 actual data. So that filing is made in July for rates

17 that would become effective in January. And then in

18 November, on the 15th November, based on my correction,

19 because it's 45 days prior to when the rates would go

20 into effect, you'll then have actuals through October,

21 and there will only be two months of estimated spending

22 for the rest of that year. That way it's known and

23 measurable.

24 Because there is an estimate for those two

25 months, the following year that will be trued up and you

0243

 1 will relook at the revenue requirement for the first

 2 year and make whatever adjustments were needed so that

 3 the revenue requirement that you collected for that

 4 first year of that program is true to what the actual

 5 spending was.

 6 Q. So for clarity's sake, then, let's refer to it

 7 as the November filing. And at least that will help me

 8 if that doesn't --

 9 A. I'll do my best.

10 Q. Okay. So November 15th would be the filing

11 date. And how much time does PSE anticipate that Staff

12 and the other parties will need to review the November

13 filing, at least as how PSE sees this mechanism working?

14 A. So the November filing is the second time that

15 Staff and the parties will have had to see that

16 estimated program year spending. So the initial CRM

17 filing is made in July, and it's based on the

18 reliability plan that Ms. Koch has discussed in detail,

19 and we calculate the revenue requirement. It shows the

20 actual dollars spent towards that annual budget of

21 actuals through May and then the estimate for the end of

22 the year.

23 So in November 15th when there's only 45 days

24 left, they're just seeing the last four to six months of

25 spending and it's still based on that plan that they've

0244

 1 been able to see for the entire year.

 2 Q. And you mentioned that will include two months

 3 of forecasted results; is that right? Is that how you

 4 want to put it?

 5 A. It's the forecast of the remaining program

 6 year's expenditures. So again, you've got an annual

 7 estimate of program expenditures; for example, for 2017

 8 it's 78 million. There's actuals that are coming in

 9 through the year. We're still targeting that 78

10 million, but something could change. And as you get

11 closer to that November date, then you're only

12 estimating the actual projects that will get completed

13 by the end of the year.

14 Part of it is because with the ECRM, you're only

15 picking up projects that are actually placed in service

16 before the end of the year. And sometimes the work

17 might not get completed and so it will slip to the

18 following program year. ECRM is designed to pick up

19 only dollars that will be placed in service.

20 Q. So is the -- so the November filing is -- how

21 does that affect -- if the ECRM were in effect, how does

22 the November filing get reflected in tariffs, rates?

23 A. So it's an update to the original filing that

24 was made in July 1. So it's in the tariff and it's a

25 proposed tariff rate.

0245

 1 Q. So the November filing is simply an update; it

 2 doesn't affect the actual tariff rate going forward; is

 3 that right?

 4 A. No, the tariff rate will include that update.

 5 So you're filing the proposed tariff rate initially in

 6 July based on the program spend and the estimated

 7 revenue requirement. Then in November you're going to

 8 file basically a substitute filing, I think is how we do

 9 it. So it's to update based on the more current

10 estimate of what will be in service in case some project

11 is going to slip.

12 Q. So will it be a tariff -- are you filing a

13 tariff in November, a tariff change in November? Let's

14 put it that way.

15 A. You are updating the tariff change that you

16 initially filed in July.

17 Q. So it will be a tariff change then? That's what

18 I'm really trying to get down -- to me it's a very

19 straightforward question.

20 In November when you file, it'll be an update of

21 the existing tariff. And will it change rates or not

22 based on the filing? Or was it proposed to change

23 rates?

24 A. It is proposed to change rates.

25 Q. Okay --

0246

 1 A. My point is that --

 2 Q. That --

 3 A. -- the original filing --

 4 JUDGE MOSS: No talking at the same time,

 5 please.

 6 THE WITNESS: My initial point, though, is

 7 that the tariff filing is made in July, and it is to

 8 propose the update to rates. It is further updated in

 9 November for it to become effective on January 1.

10 So it's still the same tariff filing, it's

11 still the same docket number, it's just an update or a

12 substitute to reflect the more current estimate.

13 Q. (BY MR. OSHIE) Well, then let's start with

14 July. Not that I want to back up the calendar here,

15 but. So let's go back to the question that I asked in

16 part to Ms. Koch.

17 So how would a disagreement on the tariff filing

18 in July be resolved? Would it be suspended, as an

19 example? Set for hearing? How does PSE see this

20 working in the event that there's a dispute over the

21 July filing?

22 A. So just like the gas CRM, the tariff filing

23 comes before the Commissioners at an open meeting.

24 There will be a Staff recommendation whether the rates

25 should be approved to go into effect. And so I envision

0247

 1 that same process would happen. By filing early in

 2 July, there's plenty of opportunities for discussions if

 3 something needed to be done. But I think there's a bit

 4 of ...

 5 Q. Wouldn't you expect that to happen if you were

 6 using the gas CRM as a model?

 7 A. So we file with the gas CRM early. Sometimes

 8 you'll get questions early. The actual format, it's

 9 very formulaic in terms of the revenue requirement

10 development and so there has not been a lot of questions

11 on that. Sometimes there will be questions, you know,

12 but it's pretty well based on that plan. So I envision

13 this being the same way.

14 Q. Okay. We're still not dealing with the timeline

15 other than it was the same way. So let me ask it again.

16 So it is a tariff filing so the Commission could

17 suspend it. And if it's suspended, there would be,

18 what, eleven months suspension period if necessary?

19 Wouldn't you agree?

20 A. If the tariff is suspended it can go through,

21 yes, an eleven-month adjudicated process. I think the

22 only change that's happening with the tariff, so we have

23 a draft tariff, I believe that's part of Jon Piliaris's.

24 So we actually have the proposed mechanism and the

25 mechanics. So if partially why there's a disagreement

0248

 1 as to the proposed rates, it would either need to be

 2 because of a calculation error, and those things are

 3 usually fairly easily dealt with, or it would be what

 4 was included in the plan, which the plan will have been

 5 laid out.

 6 Q. I'll ask the same question perhaps in a

 7 different way than I asked earlier.

 8 Do you anticipate that once you make the filing

 9 in July that Staff would have its work done by August,

10 August 15th?

11 A. Not necessarily. The rates won't go into effect

12 until January. But it certainly gives parties and Staff

13 the opportunity to review it earlier.

14 Q. So when was the prudency of the projects that

15 are included in the ECRM program, when would that be

16 determined?

17 A. So I look at it that there's actually a couple

18 opportunities for prudency on this. Like the gas CRM,

19 obviously you're laying out the program's scope and the

20 work, so you're hoping that there's some feedback on

21 those projects that are included in there.

22 I also think that with the gas projects, the

23 ultimate prudency is when those CRM rates are rolled

24 into a general rate case. So I think there's actually

25 two opportunities to look at the prudency on any capital

0249

 1 spend associated with the program.

 2 Q. When it's in a general rate, if they're rolled

 3 into a general rate case, or? Excuse me, I missed that.

 4 A. I think it's twice. There's this opportunity up

 5 front with the CRM program to look at the list of items

 6 that has been included, and that's part of Ms. Koch's

 7 testimony, to look at the electric reliability plan, but

 8 I think the ultimate prudency is always determined in a

 9 GRC.

10 Q. So PSE wouldn't expect, then, that the projects

11 would be determined prudent by the Commission when the

12 tariff will be approved in January of any given year?

13 A. No, I think what we're thinking that the

14 approval of the Commission when the rates go into effect

15 is that this is a reasonable plan, that the dollars were

16 reasonable, they are in service and used and useful.

17 And so that's what's allowing the recovery.

18 Q. Okay. You're envisioning, the Company is

19 envisioning that those projects would be determined

20 prudent and used and useful by the Commission at the

21 time the tariff is approved?

22 A. Certainly used and useful.

23 Q. That begs the question of prudency. I hate to

24 ask it, but it's used and useful but not prudent?

25 MS. CARSON: Objection; asked and answered

0250

 1 on the prudency issue.

 2 Q. (BY MR. OSHIE) I have one more question, maybe

 3 two.

 4 So I think you would agree that facility

 5 replacement costs such as the kind that are covered by

 6 the ECRM would normally be addressed in general rate

 7 case proceedings; is that correct?

 8 A. Yes, I mean, but there is a similar mechanism on

 9 the gas side.

10 Q. And if the Company carries its burden of proof

11 as to used and useful and prudency, then do you see any

12 reason why cost recovery would not be allowed by the

13 Commission in a general rate case?

14 A. Yes, cost recovery would be allowed in a general

15 rate case, but the completion of a general rate case is

16 close to 27 months and so there's a significant amount

17 of lag associated with this type of spending.

18 MR. OSHIE: I have no other questions, Your

19 Honor.

20 JUDGE MOSS: Thank you very much.

21 So do we have any redirect?

22 MS. CARSON: No, Your Honor.

23 JUDGE MOSS: Questions from the bench?

24 COMMISSIONER RENDAHL: Good morning,

25 Ms. Barnard.

0251

 1 THE WITNESS: Good morning.

 2 COMMISSIONER RENDAHL: So on that last

 3 point, you discussed this issue of the 27 months of

 4 regulatory lag in your rebuttal testimony but also just

 5 in your response to Mr. Oshie.

 6 Are you assuming that the Commission would

 7 use the average of monthly averages for rate making and

 8 no pro forma adjustments in that assumption of 27 months

 9 of regulatory lag?

10 THE WITNESS: That's correct.

11 COMMISSIONER RENDAHL: So could you reduce

12 that time amount if there were different methods of

13 looking at recovery, for example end-of-period rate

14 making and pro forma adjustments?

15 THE WITNESS: Certainly end-of-period helps

16 a bit. But you still have a far longer adjudicatory

17 process associated with a general rate case, so there's

18 still going to be additional lag beyond that that the

19 ECRM is mitigating.

20 COMMISSIONER RENDAHL: And it depends on

21 when those investments were made?

22 THE WITNESS: Correct. So partially when we

23 say 27 months, it could actually be as much as 30,

24 because AMA, as you mentioned, it takes a full 12 months

25 for an investment to be reflected in an AMA rate base.

0252

 1 End-of-period certainly reduces that down. But then you

 2 still have the preparation time and the adjudication, so

 3 there's typically 15 months associated with that.

 4 COMMISSIONER RENDAHL: So Mr. Schooley for

 5 Staff and his testimony on the ECRM identified that the

 6 Commission is developing or looking to develop

 7 distribution planning rules in its IRP rule making;

 8 correct?

 9 THE WITNESS: I believe it is.

10 COMMISSIONER RENDAHL: Okay. So if the

11 Commission were to approve the ECRM, would PSE be able

12 to adapt that to work with different distribution

13 planning procedures if the Commission were to adopt them

14 in the rule making?

15 THE WITNESS: I think so, but can you --

16 COMMISSIONER RENDAHL: So, example. If the

17 Commission approved the ECRM and then later adopted a

18 process for distribution planning -- a distribution

19 planning process that was different than the ECRM, would

20 PSE be able to adapt the ECRM to those new processes?

21 I know it's fairly hypothetical, but.

22 THE WITNESS: I'm going to answer that and

23 just try to phrase it to make sure I'm understanding.

24 So the question is if the Commission adopts

25 different rules for IRP for distribution planning, would

0253

 1 we be able to modify the ECRM. I'm thinking it's maybe

 2 more modifying the electric reliability plan that

 3 Ms. Koch testified to. Is that answering the question?

 4 And I would say more than likely yes.

 5 COMMISSIONER RENDAHL: So, for example, if

 6 the Commission were to adopt some kind of distribution

 7 planning process that also included performance measures

 8 and that sort of thing, the Commission could go back and

 9 look at the ECRM and look at whether it needs to be

10 modified?

11 THE WITNESS: Certainly. I think so.

12 COMMISSIONER RENDAHL: Okay. That's all I

13 have.

14 JUDGE MOSS: That appears to complete our

15 questions from the bench. Ms. Barnard, thank you very

16 much for being with us today and giving us your

17 testimony.

18 We still have 20 minutes before the noon

19 hour. Let me just ask if the Staff still intend to ask

20 questions of Mr. Gorman for about ten minutes.

21 MR. O'CONNELL: Yes, Your Honor.

22 JUDGE MOSS: Okay. And then we have

23 165 minutes indicated for Mr. Piliaris and for Mr. Ball,

24 35. So we could either get Mr. Gorman up now and off

25 the stand, and I understand he has a flight to catch

0254

 1 this afternoon, if that would be convenient to PSE and

 2 there's no objection, and then we can have Mr. Piliaris

 3 and Mr. Ball after lunch.

 4 MS. CARSON: That's fine with PSE.

 5 JUDGE MOSS: All right. We appreciate that

 6 accommodation. Is Mr. Gorman still with us?

 7 JUDGE PEARSON: Commissioner Danner was

 8 saying that Ms. Gilbertson and Ms. Koch are not needed

 9 up here by the bench for any further questions. What

10 about the parties, though, based on -- no?

11 CHAIRMAN DANNER: They were excused subject

12 to recall and I don't think they need to be recalled.

13 JUDGE PEARSON: Okay. Then they can be

14 permanently excused.

15 All right, Mr. Gorman, would you please

16 stand and raise your right hand.

17 MICHAEL GORMAN, witness herein, having been

18 first duly sworn on oath,

19 was examined and testified

20 as follows:

21

22 -o0o-

23 JUDGE PEARSON: Mr. Pepple?

24

25 ///

0255

 1 DIRECT EXAMINATION

 2 BY MR. PEPPLE:

 3 Q. Good morning, Mr. Gorman.

 4 A. Good morning.

 5 Q. Do you have MTG-1T through MTG-6 and MTG-7T as

 6 revised?

 7 A. Yes.

 8 Q. These exhibits have been stipulated into the

 9 record. Do you have any additions or corrections to

10 your testimony?

11 A. I do not.

12 MR. PEPPLE: Mr. Gorman is available for

13 cross-examination.

14 JUDGE PEARSON: Okay. Mr. O'Connell?

15 MR. O'CONNELL: Thank you, Your Honor.

16

17 CROSS-EXAMINATION

18 BY MR. O'CONNELL:

19 Q. Good morning, Mr. Gorman.

20 A. Good morning.

21 Q. I want to ask you about your position as

22 decoupling as you presented it in your testimony.

23 A. Okay.

24 Q. Am I correct that your primary position is that

25 decoupling should be discontinued entirely?

0256

 1 A. Yes.

 2 Q. And in your testimony is it correct that you

 3 presented a secondary position in the event that the

 4 Commission continues decoupling that Schedules 40, 46

 5 and 49 be excluded?

 6 A. That's correct.

 7 Q. And I want to make sure that you're aware that

 8 Staff's proposal would discontinue PSE's decoupling

 9 mechanism for certain schedules including those that you

10 supported secondarily removing from decoupling as well

11 as others. Are you aware of Staff's proposal?

12 A. I am.

13 MS. CARSON: And I'm going to object to the

14 extent this is friendly cross where the parties agree on

15 removal of decoupling for certain of these groups.

16 JUDGE PEARSON: Mr. O'Connell?

17 MR. O'CONNELL: Your Honor, I have one more

18 question to confirm Mr. Gorman's position as it regards

19 Staff proposal. It will not get into friendly cross as

20 I believe Ms. Carson has stated. And then my further

21 questions relate to an issue that has not yet been

22 brought up regarding those proposals.

23 JUDGE PEARSON: I'll allow the one more

24 question.

25 Q. (BY MR. O'CONNELL) In your cross-answer

0257

 1 testimony, Mr. Gorman, you stated that you supported

 2 Staff's proposal to exclude certain schedules; correct?

 3 A. That's correct.

 4 MS. CARSON: Objection; friendly cross.

 5 MR. O'CONNELL: Your Honor, I believe I'm

 6 just trying to provide some context for my next

 7 question, setting up what Mr. Gorman has agreed to in

 8 his testimony so that I can ask these next questions.

 9 JUDGE PEARSON: If it's in his testimony

10 there's no need to confirm it. So that was your one

11 question.

12 MR. O'CONNELL: Okay, thank you.

13 Q. (BY MR. O'CONNELL) Mr. Gorman, my question is,

14 does that mean that you're abandoning your primary

15 position that decoupling should be eliminated in its

16 entirety?

17 A. It does not. The objective of decoupling is to

18 provide a greater fixed-cost recovery assurance to the

19 Company if additional regulatory mechanism is needed to

20 accomplish that objective. If that is the objective

21 then there's no justification for imposing a decoupling

22 mechanism, Schedules 40, 46 and 49, because those

23 revenue stability can be accomplished through rate

24 designs on those schedules.

25 I haven't specifically reviewed whether or not

0258

 1 it would be appropriate for the other schedules other

 2 than to review the success of the Company earning its

 3 authorized return over the last few years. Since it's

 4 been able to do that, that's an indication that the

 5 additional regulatory mechanisms may not be necessary to

 6 support that.

 7 Q. Okay. I'm also curious about the priority of

 8 your positions.

 9 Does your recommendation that decoupling be

10 discontinued entirely, does that remain your primary

11 position? Or has your secondary position, that of

12 excluding only certain schedules, is that now your

13 primary position?

14 A. My primary position is that the Company hasn't

15 demonstrated that decoupling is necessary to impose

16 rates on customers to provide a likelihood that they're

17 able to recover their fixed costs. So I believe more

18 simplified and transparent pricing structure is

19 appropriate.

20 But if the Commission finds that decoupling is

21 appropriate for weather-sensitive customers, then I

22 would encourage it to exclude Schedules 40, 46 and 49,

23 because those rate schedules do not price fixed-cost

24 recovery on volumetric charges but, rather, they're more

25 demand charges. And the demand charges are not impacted

0259

 1 by load characteristics which can place the Company at

 2 risk of not fully recovering its fixed costs.

 3 MR. O'CONNELL: Thank you, Mr. Gorman.

 4 Your Honor, I don't believe I have any more

 5 questions.

 6 JUDGE PEARSON: Mr. Pepple, do you have any

 7 redirect?

 8 MR. PEPPLE: No, I do not.

 9 JUDGE PEARSON: Okay. Anything from the

10 bench for Mr. Gorman? Okay, then you are excused, thank

11 you.

12 So we are going to take a lunch break now.

13 We will come back and reconvene at 1:00. So we are in

14 recess until then.

15 (Lunch break.)

16 JUDGE MOSS: Let's go ahead and come to

17 order.

18 Mr. Piliaris, I'm going to go ahead and

19 swear you in to gain a moment of efficiency.

20 JON PILIARIS, witness herein, having been

21 first duly sworn on oath,

22 was examined and testified

23 as follows:

24

25 -o0o-

0260

 1 DIRECT EXAMINATION

 2 BY MS. CARSON:

 3 Q. Good afternoon, Mr. Piliaris. Could you please

 4 state your name and title for the record and spell your

 5 name for the court reporter.

 6 A. My name is Jon Piliaris. That's J-o-n,

 7 P-i-l-i-a-r-i-s. I'm Manager of Pricing and Cost of

 8 Service for Puget Sound Energy.

 9 Q. Do you have before you what has been marked for

10 identification as Exhibit Numbers JAP-1T through JAP-54T

11 in this docket?

12 A. I do.

13 Q. Do these exhibits constitute your prefiled

14 direct, supplemental, rebuttal, and supplemental

15 rebuttal testimony?

16 A. They do.

17 Q. These exhibits have been stipulated into the

18 record. Do you have any corrections?

19 A. I don't.

20 MS. CARSON: Mr. Piliaris is available for

21 cross-examination.

22 JUDGE MOSS: Thank you, very much. I

23 believe we'll be able to begin cross-examination

24 momentarily. We have six parties that have designated

25 cross for you, Mr. Piliaris. And so I'm going to ask,

0261

 1 is anybody going to waive cross or do we still have all

 2 six?

 3 MR. FFITCH: Your Honor, I can report that

 4 I'm prepared to come in sequence after the parties that

 5 have long cross. In the event they cover my topic then

 6 I wouldn't have to ask my questions.

 7 JUDGE MOSS: All right. Thank you for that.

 8 MS. BOYLES: Judge Moss, we will not have

 9 any cross for Mr. Piliaris.

10 JUDGE MOSS: All right. That saves us a

11 little bit of time. Indeed I was planning to sort of go

12 from left to right, which conforms with Mr. ffitch's

13 suggestion in one way, and that is to say we'll ask for

14 Staff first, and they've designated 50 minutes.

15 MR. CASEY: Your Honor, just so you're

16 aware, towards the end of my cross we might get into

17 some highly confidential material and may need to go

18 into an executive session. I'm going to leave it up to

19 the other parties to determine if we are getting into

20 information that they do not want disclosed.

21 JUDGE MOSS: Okay. Did you discuss this

22 previously with PSE?

23 MR. CASEY: Yes.

24 JUDGE MOSS: Okay. Is it going to be a

25 problem?

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 1 MS. CARSON: Well, I guess it depends on

 2 what questions are asked. I think Mr. Casey said that

 3 he would try to avoid getting into what is highly

 4 confidential.

 5 JUDGE MOSS: So the idea is you will alert

 6 us if there's something that comes up that needs to be

 7 held in confidence?

 8 MS. CARSON: Yes. And I think part of this

 9 goes to the NWIGU as well, as it is one of their

10 clients' confidential information.

11 JUDGE MOSS: Okay. Well, I'm going to

12 encourage, as I always do, that we try to avoid getting

13 into that sort of thing. Because as you can see, we

14 have a full room and I do not wish to have clear

15 three-fourths of the people in here out and make them

16 stand around cooling their heels. So let's try avoid

17 it. And if it's impossible, then we'll do what we need

18 to do.

19 But let's go ahead with your questions,

20 Mr. Casey.

21

22 CROSS-EXAMINATION

23 BY MR. CASEY:

24 Q. Good afternoon. I want to start with just some

25 basics about cost of service before discussing the

0263

 1 design day methodology.

 2 So the cost of service study identifies the

 3 costs that are incurred to serve a particular customer

 4 class; correct?

 5 A. Correct.

 6 Q. Generally speaking, there are three primary

 7 components to the cost of service study; the demand for

 8 capacity component, the energy component, and the

 9 customer-related component; correct?

10 A. Generally speaking, correct.

11 Q. Can we please turn to Page 21 of JAP-1T. I'll

12 be looking at Lines 14 and 15.

13 A. I'm there.

14 Q. So the capacity-related component of the cost of

15 service study is intended to capture costs associated

16 with designing, installing, and operating the system to

17 meet peak demand; correct?

18 A. Traditionally, that's correct.

19 Q. Why is it appropriate to capture the cost of

20 operating the system to meet peak demand?

21 A. The way you design the system has implications

22 on the operating costs themselves. Sort of an easier

23 example, I think more people are probably familiar with

24 electric operations. You compare a base load generating

25 resource to a peaking resource. You obviously don't run

0264

 1 a peaking resource full out because it's very costly to

 2 do so. Similarly, you don't use base load resources to

 3 meet peaking needs, otherwise your operating costs would

 4 be very high.

 5 So it's sort of in that light that operating

 6 costs are relevant.

 7 Q. For the natural gas cost of service study, you

 8 used the design day methodology to identify the

 9 capacity-related costs in the cost of service study;

10 correct?

11 A. Correct.

12 Q. And the design day methodology uses the

13 estimated peak load from the most recent IRP to identify

14 the demand-related costs; correct?

15 A. It uses the methodology from the most recent PSE

16 IRP, that's correct.

17 Q. When using the design day methodology, each

18 customer class is allocated demand-related costs based

19 on the class's contribution to the estimated system peak

20 load from the most recent IRP; correct?

21 A. Can you restate that, please?

22 Q. So when applying the design day methodology,

23 each customer class is allocated demand-related costs

24 based on the class's contribution to the estimated

25 system peak load from the most recent IRP; correct?

0265

 1 A. Again, I don't believe it's tied directly to the

 2 load that's used in the IRP. For example, the current

 3 IRP in effect is the 2015 IRP, and that relied on a load

 4 forecast that was I believe the F13 forecast, so it was

 5 a pretty old forecast. As I said before, we use that

 6 methodology but we update for more current load

 7 forecasts.

 8 Q. But you are using the estimated system peak

 9 load; correct?

10 A. Can you finish the question?

11 Q. When using the design day methodology, you're

12 using the estimated system peak load, so the estimated

13 highest peak load that the system will have; correct?

14 A. We are using the design criteria used to size

15 the system. So based on the -- under the planning

16 parameters, in other words under very, very cold

17 scenario what is the maximum operating -- maximum

18 throughput that needs to be accommodated within the

19 system.

20 Q. And does the design day methodology account for

21 the costs of operating the system to meet peak load?

22 A. In a sense it does. Again, it goes back to what

23 I said earlier. The system has to be planned to meet as

24 cost effectively as it can the peak load, and so there

25 may be design criteria that would influence the

0266

 1 associated operating cost with the capacity itself.

 2 Probably not a great amount, but I'm sure there is

 3 some -- there's some, I guess, feedback through the

 4 operating cost.

 5 Q. The peak load in the test year is lower than the

 6 design day system peak load; correct?

 7 A. I don't know off the top of my head what the

 8 peak load was in the test year. I know that Staff had

 9 used actual load. Sort of what had been used before is

10 the highest five-year peaks, actual peaks. And the

11 average of those was somewhere in the vicinity of about

12 6 million therms and our design day is 9 million therms.

13 So as a consequence of the pretty warm winters we've had

14 over the past several winters, the actual peaks have

15 been quite a bit below the design criteria. So 6 versus

16 9, so roughly 50 percent.

17 Q. Has PSE's natural gas distribution system ever

18 experienced a load equivalent to the design day load?

19 A. I can't -- I don't know. But I would say that

20 we're required to -- in other words, to meet our

21 reliability and our operating standards, we need to be

22 capable of meeting that load.

23 The consequences on the gas side are quite a bit

24 more dire when you lose pressure on the gas system

25 relative to the electric side where you open up a

0267

 1 breaker, you close the breaker. On the gas side, the

 2 pilot light goes out, the gas stops flowing, and then if

 3 it restarts, that's a real problem from a safety

 4 perspective. So I believe that the standards on the gas

 5 side are probably a little bit more conservative in that

 6 regard.

 7 Q. Do you know if PSE's actual experience peak load

 8 in the last several years has been equivalent to the

 9 design day load?

10 A. I don't believe it has.

11 Q. Do you agree, subject to check, that

12 interruptible gas customers comprise approximately --

13 make up approximately 25 percent of the Company's total

14 annual load?

15 MS. CARSON: I'm going to object to that use

16 of "subject to check." "Subject to check" is meant for

17 extensive calculations on the stand, and I think that's

18 just a factual question.

19 JUDGE MOSS: Do you have a source of

20 information to which you can tie your question,

21 Mr. Casey?

22 MR. CASEY: Well, can I ask the witness if

23 he knows offhand?

24 JUDGE MOSS: That's a good idea.

25 Q. (BY MR. CASEY) So do you agree that

0268

 1 interruptible gas customers comprise approximately

 2 25 percent of the Company's total annual load?

 3 A. I would refer the Commission and counsel to

 4 JAP-4, Page 1 of 2. There you'll see the normalized

 5 volume by schedule including the interruptible

 6 customers. The total volume is roughly 1.1 billion

 7 therm. Eyeballing, the interruptible customers' load

 8 looks to be around 300 million. So I think your math is

 9 roughly right.

10 Q. Under the design day methodology, these

11 interruptible customers are assigned virtually no

12 demand-related costs because they are assumed to be

13 interrupted to serve the system's design day peak;

14 correct?

15 A. That's incorrect.

16 Q. So how does the design day methodology assign

17 demand-related costs to interruptible customers?

18 A. We use their contract demand. So just because

19 the label on the schedule says "interruptible" for all

20 of these schedules, there's a firm and an interruptible

21 component. So the customers that get served under these

22 schedules get to nominate how much firm they want in the

23 schedule, and in many cases it's more than half of their

24 load can be firm.

25 So we would use their contract demand because

0269

 1 that is what we're required to be able to serve as the

 2 basis for our planning and as the basis for the design

 3 day calculations.

 4 Q. Did interruptible customers contribute to the

 5 peak load in the test year?

 6 A. May I clarify? The actual peak loads?

 7 Q. Yes, the actual peak loads.

 8 A. I would -- to the extent that they weren't

 9 curtailed, they might have been or some of them might

10 have been. Probably not many, because as I said, it was

11 fairly warm. I'd say most of their load was probably on

12 the system at the time of the peak. But I don't have

13 the specific details in front of me.

14 Q. To your knowledge, has PSE ever actually

15 interrupted service to interruptible customers to meet

16 the actual peak load?

17 A. Generally speaking, when we curtail

18 interruptible customers, more often than not it's a

19 function of localized constraints on the system rather

20 than overall system constraints, in other words, getting

21 gas through our system in certain constrained areas, not

22 necessarily making sure that we can actually get it off

23 the pipeline and into our system.

24 So to your question about whether or not we've

25 interrupted during a -- was your question during a peak

0270

 1 or during design day?

 2 Q. During the peak.

 3 A. During the peak?

 4 Q. The actual peak load.

 5 A. As I said, I can't speak directly to the

 6 actual which customers have been curtailed when. I'd

 7 say the chances are good that some of them may have been

 8 curtailed. But generally speaking, when the system is

 9 peaking the localized constraints will become apparent

10 and emerge.

11 Q. I'm going to switch now to special contracts.

12 Can you please turn to JAP-54T, Page 3.

13 A. I'm there.

14 Q. You and Staff witness Mr. Ball do not agree on

15 the minimum portion of the identified cost of service

16 that a special contract is intended to recover; correct?

17 A. If by "minimum portion" you're referring to

18 essentially the incremental costs of serving the

19 customers, yeah, I would agree with that.

20 Q. So another way of asking that question is, you

21 and Mr. Ball do not agree on the level of discount from

22 the tariff service that a special contract may provide;

23 correct?

24 A. I think what we ultimately disagreed upon is how

25 much cost should be attributed to the customer primarily

0271

 1 on fixed costs or the incremental cost for service under

 2 the special contract.

 3 My understanding of Mr. Ball's testimony is that

 4 he was including all fully allocated costs regardless of

 5 whether or not that load is on the system or not. My

 6 testimony was that that's in excess of what should be

 7 considered the minimum to provide service under a

 8 contract.

 9 Q. So I want to get into the differences between

10 you and Mr. Ball in a second. But first looking at

11 Page 3, Lines 8 through 12, the Commission special

12 contract rule intends for special contracts to recover

13 at a minimum all costs resulting from providing service

14 during the contract term in addition to provide a

15 contribution to the Company's fixed costs. Correct?

16 A. That's what it states there.

17 Q. Now, looking at Lines 19 and 20 of that page and

18 it continues on to the next page, you note that Staff

19 failed to note or quote the preamble to this rule which

20 reads that each application filed for commission

21 approval of the contract must, and then kind of lists

22 the requirements; correct?

23 A. That's my testimony.

24 Q. Do you agree that the rule intends for the

25 Company to demonstrate that the contract will recover

0272

 1 the minimum costs over the entire term of the contract?

 2 A. I believe that's the intent when the contract is

 3 approved. The contract is approved over a period of

 4 time. In this case it was initially approved over a

 5 20-year period. And I think based on the projections

 6 that were provided at the time the contract was

 7 originally approved, there was an expectation as to what

 8 level of cost recovery there would be associated with

 9 the contract.

10 So speaking specifically to this WAC rule, my

11 understanding of the WAC rule is that this really is

12 forward-looking, sort of a, this is what we expect, hope

13 it's true. By the end of the term we'll look back, see

14 what happened. And if it turned out not to be true then

15 when the contract is up for renewal, we'll need to make

16 the appropriate corrections.

17 Q. So is it your testimony that it does not matter

18 whether the Company performs on the commitments that it

19 makes in the application for the special contract?

20 A. What -- I'm not sure what commitments you're

21 specifically referring to.

22 Q. The demonstration that the contract charges will

23 cover the minimum amount described in the rule.

24 A. My interpretation of that WAC rule, again, as I

25 said, the preamble has to do with the application, not

0273

 1 the ongoing administration. At least that's my

 2 understanding of it, my interpretation of it.

 3 Q. And so my question is, is it without consequence

 4 if the Company does not perform on the demonstration

 5 that it made in its application?

 6 MS. CARSON: Objection; calls for

 7 speculation and argumentative.

 8 JUDGE MOSS: Well, it may be a proper

 9 subject for argument later on, but I think it's an

10 appropriate question in this line and I'll allow it, if

11 the witness can answer it.

12 THE WITNESS: Whether or not it's required,

13 I can't say for sure. As I noted in my testimony, the

14 Company's mindful of it. And through rate cases we

15 specifically call out the special contract as a

16 standalone class within the cost of service study, so we

17 have an ability to monitor that.

18 And so as just a presentation, I would say

19 just a presentation of that information in each rate

20 case provides the basis for that determination whether

21 or not it's explicitly called out as such.

22 JUDGE MOSS: Thank you.

23 Q. (BY MR. CASEY) Staff believes the special

24 contract rule intends for special contracts to recover

25 all variable expenses, the return of fixed costs, and

0274

 1 also contribute to the Company's return on fixed costs;

 2 correct?

 3 MS. CARSON: Object to the form of the

 4 question. It's a statement or argument of Staff.

 5 Q. (BY MR. CASEY) As you did earlier, I want to

 6 kind of pin down the differences between your

 7 understanding of what the minimum amount of the rule,

 8 the minimum charges the rule intends for special

 9 contracts to recover and to contracts that were Staff.

10 That's where I'm trying to go.

11 JUDGE MOSS: Are we still talking about the

12 same WAC?

13 MR. CASEY: Yes.

14 JUDGE MOSS: And I think the witness

15 testified that in his view, the WAC only applies at the

16 time of application and may be revisited at the time of

17 renewal, or in between if there's an opportunity for the

18 Commission to look at it.

19 Is that basically your testimony,

20 Mr. Piliaris?

21 THE WITNESS: That's correct.

22 JUDGE MOSS: So I'm not sure he can answer

23 the question as framed.

24 MR. CASEY: I want to get at -- regardless

25 of when the rule would apply, I want to drill down on

0275

 1 the amount that the rule is trying to cover and the

 2 differences between Staff and the Company in what that

 3 amount is.

 4 JUDGE MOSS: So subject to the idea that you

 5 have enunciated in terms of when you think the rule is

 6 applicable, what does it require at that time in terms

 7 of the costs? What costs must need to be recovered?

 8 THE WITNESS: I think if we look at the WAC,

 9 the language in the WAC itself, I think the terminology

10 that we're grappling with here is one that says recover

11 all costs resulting from providing the service during

12 the term. So what does it mean? What costs should be

13 included in that analysis?

14 And my interpretation of that particular

15 language is it's the incremental costs. So there are

16 already fixed costs on the system, there's already pipes

17 in the ground. The special contract will very likely

18 use a lot of that excess capacity which is in the

19 system. And in the cost of service study, they're going

20 to bear, at least based on the way we allocate costs, a

21 significant allocation of those costs.

22 But that is not what -- I don't believe

23 that's what the WAC rule contemplated. It contemplated

24 that there would be some incremental cost, and as long

25 as the contract recovered that incremental cost and then

0276

 1 some, in other words contributed to maybe not all of the

 2 allocated excess capacity, let's call it, but at least a

 3 portion of it, then the existing customers would be

 4 better off as a result of that. Of course, subject to

 5 the bypass threats and whatnot that would justify

 6 support for a special contract in and of itself.

 7 JUDGE MOSS: So now you understand how PSE

 8 regards it. If you disagree in terms of the

 9 interpretation of the WAC, of course that is a matter

10 for argument, legal argument.

11 Q. (BY MR. CASEY) I just want to clarify.

12 So you and Mr. Ball both agree that the special

13 contract charges should cover the variable expenses to

14 serve the special contract customer; correct?

15 A. The incremental variable expenses, I would

16 clarify. Because again, the variable expenses, some

17 could interpret that to mean a fully allocated share of

18 operating expenses. Again, many of those operating

19 expenses and allocation of overheads and allocation of

20 crews that are maintaining the pipeline, those would be

21 there regardless of the presence or absence of that

22 load. And so in my testimony where I was providing the

23 examples, I included all of this. But I noted that it

24 was very conservative to even do so, because many of

25 those costs would persist.

0277

 1 So I just want to make sure we're clear that

 2 there's a distinction between the operating expenses and

 3 variable. Because I'm not exactly sure how you're

 4 defining "variable" in your question.

 5 Q. That's helpful, thank you.

 6 And with respect to the fixed cost portion that

 7 it's intended to recover, would it be fair to

 8 characterize the difference between you and Mr. Ball is

 9 that Mr. Ball believes it should recover the return of

10 the fixed cost and contribute to the return on the fixed

11 cost, whereas you think it should just contribute to the

12 fixed cost?

13 A. Again, you need to be more specific as to what

14 you mean by "fixed cost." Which fixed cost?

15 Q. The fixed cost to serve the special contract

16 customer as defined in the cost of service study for the

17 special contract class.

18 A. This is where Staff and I depart on

19 understanding. I don't believe that the contract

20 requires that the special contract support the full -- a

21 full return on and of allocated fixed costs that would

22 be there regardless of the presence or absence of the

23 special contract.

24 My interpretation is that it only needs to

25 recover the incremental fixed cost. In other words, if

0278

 1 there is just a little bit of a lateral that's required

 2 to get to the grid, to the mains that are already in

 3 service, it should certainly recover those to the extent

 4 that the Company is paying for those costs at the

 5 initial time of the hookup or the service. Or if it's a

 6 facility that only -- a lateral that only serves the

 7 special contract facility itself and can't really be

 8 used by anybody else.

 9 Q. Would you agree that the price floor for a

10 special contract, Staff believes that floor is higher

11 than you believe the floor is?

12 A. Significantly.

13 Q. You considered income tax a fixed cost; correct?

14 A. I assumed or I believe that any costs that are

15 based on or derived from essentially the rate base,

16 which traditionally includes taxes, depreciation, and

17 return, those are the three main components of a revenue

18 requirement that in rate making is traditionally

19 considered to be fixed. They're there regardless of

20 whether or not there's actually usage or not. The plant

21 is in the ground, the costs have to be recovered. All

22 of those costs need to be recovered.

23 Q. Do PSE's income tax expenses change from year to

24 year?

25 A. I believe they do.

0279

 1 Q. If the Company stopped providing gas service to

 2 customers and thus stopped generating revenue, would it

 3 continue to incur income tax?

 4 A. From a tax perspective, I believe the answer

 5 would be no. But I'm not necessarily the tax expert for

 6 the Company.

 7 Q. If the Company stopped providing gas service to

 8 customers and thus stopped generating revenue, would it

 9 still have to service its outstanding debt?

10 A. That may or may not be true. Under that

11 hypothesis, if there is no load and there is no

12 customers and there is no revenue, there's debt, I have

13 a feeling that not all of that debt would be repaid.

14 Q. Fair enough.

15 Please turn to JAP-54T, Page 9.

16 A. I'm there.

17 Q. PSE has not recovered its full cost of service

18 from the special contract class in over a decade;

19 correct?

20 A. It hasn't recovered fully allocated costs within

21 its cost of service studies over the past decade, that's

22 correct.

23 Q. The special contract customers' contribution to

24 their fully allocated cost of service has declined over

25 the last decade; correct?

0280

 1 A. Based on the approved rates, that's correct.

 2 Q. And over that time, that revenue shortfall has

 3 been made up by PSE's other customers; correct?

 4 A. I would say that is correct by design. They

 5 would pay probably even more in the absence of the

 6 special contract.

 7 Q. At any time has the special contract charges

 8 decreased to a point at which the revenue produced by

 9 the contract would fall below the Company's authorized

10 rate of return?

11 A. Based on the Company's interpretation of the WAC

12 and which costs would need to be -- fixed costs would

13 need to be recovered, I would say the answer is no.

14 It's always been well in excess of the incremental fixed

15 cost that's serving those customers.

16 Q. So you're saying that it hasn't fallen below the

17 Company's rate of return?

18 A. I'm saying that the revenues generated from the

19 special contract are well in excess of the amount

20 necessary to recover the return on the incremental plant

21 that's required to serve the load, not necessarily all

22 of its allocated fixed costs within a cost of service

23 study. Because clearly based on the parity ratios on

24 the page that we're talking about, a parity ratio below

25 one would mean that they're paying less than their fully

0281

 1 allocated costs and, therefore, not contributing to the

 2 full rate of return.

 3 Q. Yes. I guess my question is, has the revenue

 4 fallen below the rate of return so it could still be

 5 contributing to the return of the fixed cost but not the

 6 return on? Has it kind of fallen below what would be

 7 considered the return on?

 8 A. Again, based on incremental fixed costs, no, not

 9 even close. It's well in excess of the return of and

10 on. But I mean, again, if you're asking whether it's

11 below the return of and on fully allocated costs, the

12 answer is yes.

13 Q. Could you repeat the last portion of your

14 answer? I was distracted.

15 A. I'm trying to again clarify the difference

16 between the incremental fixed cost and the fully

17 allocated fixed cost. Based on incremental fixed cost,

18 the contracts are recovering well in excess of the

19 return of and on the incremental fixed cost. But it is

20 recovering less than the fully allocated return of and

21 on the fully allocated plant.

22 Q. And in terms of the fully allocated fixed cost,

23 is the contract currently below what would be the return

24 on the fixed cost?

25 A. Again, just by virtue of the parity ratios, that

0282

 1 represents the fact that it's below. If it's below one

 2 it's below the fully authorized rate of return on fully

 3 allocated costs.

 4 Q. Is it currently below contributing to the return

 5 at all, to the return on?

 6 A. Return on fully allocated fixed cost, I don't

 7 know off the top of my head. Although I don't have

 8 enough detail in front of me to answer that.

 9 Q. Can we please turn to Page 15, Lines 4 through

10 7.

11 A. Page 15, Lines 4 through 7?

12 Q. Yes.

13 A. I'm there.

14 Q. So I understand your testimony in this Q&A, are

15 you testifying here that the Commission cannot amend the

16 special contract once it's approved?

17 A. I think that's probably more of a legal question

18 as to whether or not it can or cannot. I would say from

19 my perspective it would be a -- it would not be a good

20 public policy decision to do so unless the situation

21 definitely warranted it.

22 Q. All right. Now I want to move on to the highly

23 confidential special contract, Page 12.

24 JUDGE MOSS: And this is an exhibit?

25 MR. CASEY: Yes. What is the exhibit number

0283

 1 on this? Can you help me out?

 2 JUDGE MOSS: Perhaps 66?

 3 MS. CARSON: It is 66.

 4 JUDGE MOSS: 66. JAP-66.

 5 THE WITNESS: Did you say page 12?

 6 Q. (BY MR. CASEY) Yes.

 7 A. And there would be Section 8 and 9?

 8 Q. Yes.

 9 A. I'm there.

10 Q. So the special contract acknowledges that the

11 special contract charges may change during the term of

12 the agreement; correct?

13 A. Certain elements of it can, correct.

14 Q. So Paragraph Section 8 describes how changes to

15 the customer charge will occur; correct?

16 A. Correct.

17 Q. Paragraph 9 describes how changes to the firm

18 demand charge will occur; correct?

19 A. Correct.

20 Q. Flipping on to the next page, Paragraph 10

21 describes how changes to the commodity charge will

22 occur; correct?

23 A. How they can or cannot occur, that's correct.

24 Q. I'll let you take a look at the first paragraph

25 of Section 10. I have a couple questions about that.

0284

 1 A. I'm ready.

 2 Q. So here the commodity charge is subject to

 3 change whenever the Company's tariffed rate schedule for

 4 gas transportation service changes; correct?

 5 A. Only in specific circumstances. In other words,

 6 in very simple terms, if the rates for Schedule 87T,

 7 which is sort of the -- and I don't know how much I

 8 should be able to get into this description, so I will

 9 look to counsel to make sure I'm not treading on too

10 thin of ice.

11 MR. STOKES: I think if we speak in general

12 terms it's okay, but as to the specifics of the

13 contract --

14 THE WITNESS: Okay. So in general terms, if

15 the rates go up for 87T, there would be no increase to

16 the energy charges for the special contract. If rates

17 go down then they would go down proportionately.

18 And later in this section, every five years

19 there's an analysis as to whether or not a comparison of

20 the actual rates under the contract currently versus

21 87T, and if 87T is higher than that amount then the

22 rates can increase but only up to a certain point. And

23 it's historically been not anywhere close to that full

24 difference.

25 Q. (BY MR. CASEY) So essentially Section 10

0285

 1 describes some calculations that occur when a tariff

 2 change happens on that anniversary to determine whether

 3 or not the special contract commodity charge will

 4 change; correct?

 5 A. That's correct.

 6 Q. And the intent of any change to the commodity

 7 charge is to preserve the relative economic benefit of

 8 the special contract compared to tariff service;

 9 correct?

10 A. That's what that section says.

11 Q. I want to turn to page -- please turn to Page

12 14.

13 A. I'm there.

14 Q. I don't know if this is -- looking to counsel

15 now. I want to talk about the specifics of the last

16 sentence on Page 14 that goes on to Page 15.

17 MR. STOKES: Well, if we're going to read

18 from the contract, that's a problem.

19 MR. CASEY: I have about probably just a

20 couple minutes of cross left, but -- well, I think I can

21 do it without going into executive session. But for

22 those of us who have the contract out, I would like them

23 to read silently.

24 JUDGE MOSS: We can read it to ourselves,

25 that's fine. We've got it right here in front of us.

0286

 1 MR. CASEY: I'll give everybody a second to

 2 read that.

 3 JUDGE MOSS: We're the only ones that

 4 matter, Mr. Casey.

 5 MR. CASEY: Agreed.

 6 COMMISSIONER RENDAHL: So what --

 7 MR. CASEY: The last sentence of Page 14

 8 that goes into Page 15.

 9 COMMISSIONER RENDAHL: Thank you.

10 Q. (BY MR. CASEY) That sentence provides a price

11 floor; correct?

12 A. Under the special contract, correct. I probably

13 should clarify, because I've actually looked at this

14 section in preparation for today as well and I initially

15 had some questions about it.

16 What is meant by this section, and it goes back

17 to the discussion we were just having earlier about what

18 fixed costs should really be included in that analysis,

19 and my understanding from people within the Company who

20 have been around longer than I have that are more

21 familiar with the contract, is that it's relative to,

22 again -- it's an amount relative to the incremental

23 cost. So it's a return relative to incremental costs,

24 not -- it's not guaranteeing a return relative to fully

25 allocated cost.

0287

 1 MR. CASEY: I have no more questions.

 2 JUDGE MOSS: Thank you very much, Mr. Casey.

 3 You stayed seven minutes within your alotted time. I

 4 appreciate it very much. The beauty of having these

 5 modern electronics is I can do things that I wasn't able

 6 to do before.

 7 All right. So keeping in mind The Energy

 8 Project's suggestion earlier, ICNU has the next longest

 9 set of cross so I'm prepared to have you do that. And

10 perhaps we will minimize or eliminate other parties'

11 cross by the combined effect of yours and Mr. Casey's

12 cross. So please go ahead.

13 MR. OSHIE: Thank you, Your Honor. With the

14 Court's permission, I would lead off on the

15 cross-examination of Mr. Piliaris and then Mr. Pepple

16 will then take the place and he will then have a group

17 of questions. They're related but they're not so

18 closely related. If that is a problem then Mr. Pepple

19 will conduct the cross-examination.

20 JUDGE MOSS: Does anyone have an objection

21 to the tag team approach?

22 MS. CARSON: We did not object to the tag

23 team approach.

24 JUDGE MOSS: All right. It's your witness

25 so that's good enough for me.

0288

 1 All right, Mr. Oshie, it appears you will be

 2 able to proceed as you planned.

 3

 4 CROSS-EXAMINATION

 5 BY MR. OSHIE:

 6 Q. Good afternoon, Mr. Piliaris.

 7 A. Good afternoon, Mr. Oshie.

 8 Q. I would like to talk to you about some of

 9 the perhaps little bit higher level of decoupling

10 related to your testimony.

11 So on Table 13 of your direct testimony, you

12 show that Schedules 40, 46 and 49 reduced consumption by

13 22.5 percent and 18.1 percent respectively. I believe

14 that was an aggregate number. Am I correct?

15 A. Do you happen to know what page that was on?

16 Q. I don't recall.

17 JUDGE MOSS: What was the table number?

18 MR. OSHIE: Table 13.

19 CHAIRMAN DANNER: Table 13 is on Page 119.

20 JUDGE MOSS: Thank you.

21 THE WITNESS: Can you repeat the question?

22 I apologize.

23 Q. (BY MR. OSHIE) The question is, just to lay a

24 foundation, which is that you show that Schedules 40, 46

25 and 49 reduce consumption by 22.5 percent and

0289

 1 18.1 percent respectively. Is that correct?

 2 A. Between the ERF test year and the period ending

 3 June 2016, that's correct.

 4 Q. Now, you testified here in the hearing room

 5 today that all of the sales reductions were all the

 6 result of conservation measures?

 7 A. I have no knowledge as to what the basis for the

 8 reductions are.

 9 Q. Turning back to Table 13 -- excuse me. So let

10 me -- strike that, please.

11 The purpose of decoupling, is it not, is to

12 reduce the Company's resistance to the implementation of

13 conservation resources; is that correct?

14 A. That's one way of putting it. Generally

15 speaking, the Commission has referred to that as a

16 throughput incentive.

17 Q. So said another way, the purpose of decoupling

18 is to suppress -- or reduce the Company's resistance to

19 the implementation -- or excuse me, to suppress the

20 Company's natural objective to increase throughput, also

21 known as sales?

22 A. The Company would generally prefer to refer to

23 it as the removal of a disincentive to do what you're

24 describing.

25 Q. Now, in operation, the decoupling mechanism is

0290

 1 as it's designed and implemented by PSE is really

 2 agnostic to why demand is reduced -- (Court reporter

 3 interruption.) I'll repeat the question.

 4 As PSE implements its decoupling mechanism, it

 5 is agnostic to why demand is reduced by customer class;

 6 is that correct?

 7 A. On a per customer basis, that's correct.

 8 Q. So in other words, the Company receives revenue

 9 from its decoupling mechanism for any reduction in

10 kilowatt sales whether due to conservation or not?

11 A. The flip side is that they also would return any

12 excess revenue above a baseline amount. But that's

13 correct, it is agnostic as to what the driver of that

14 deviation from the baseline level is.

15 Q. You would agree, then, that decoupling casts a

16 rather wide net around whatever the cause may be of

17 reduced consumption by customers?

18 A. Yes. And I would say that's probably partly by

19 design. There's challenges in trying to isolate various

20 drivers or factors.

21 You might recall the Company proposed in the

22 last general rate case a mechanism that isolated the

23 effects of conservation specifically, and that was

24 rejected because the Commission did not believe that the

25 estimates being used to calculate that amount were

0291

 1 suitable for rate making purposes. So it sort of left

 2 us in a position where a full decoupling was more the

 3 preferred approach by the Commission, particularly for

 4 electric utilities.

 5 Q. Personally I don't recall that, but I'm not sure

 6 I was here then at the Commission. So, but going back

 7 to it, and I'll just say it a little bit different way,

 8 and I don't want to be repetitive here.

 9 The level of demand by a customer can be reduced

10 by many factors including changes to customer sales, to

11 its business practices, to the shutdown of its

12 production facilities, or for any reason unrelated to

13 the impact of conservation.

14 MS. CARSON: Object to the form of the

15 question. I'm not sure it was a question, actually.

16 JUDGE MOSS: Could you help us out, Counsel?

17 Maybe either restate it or rephrase it so counsel can

18 understand it.

19 MR. OSHIE: Certainly.

20 JUDGE MOSS: If she can't understand it I

21 can't understand it.

22 Q. (BY MR. OSHIE) The level of demand for -- and

23 let's use buying customers. Can it be reduced by

24 changes in the customers' sales? Yes or no.

25 A. Yes. It can be increased or decreased.

0292

 1 Q. And it can also be affected by its business

 2 practices? Yes or no.

 3 A. Yes.

 4 Q. Or the shutdown of production facilities that it

 5 may have been operating? Yes or no.

 6 A. Yes. Or the expansion.

 7 Q. And for other similar reasons that cause a

 8 reduction in usage that are unrelated to conservation?

 9 Yes or no.

10 A. Yes.

11 Q. Essentially the decoupling mechanism that was

12 approved by the Commission for PSE guarantees that PSE's

13 fixed cost recovery will be largely unaffected by

14 reduced demand for the Company's services. Is that

15 generally correct?

16 A. I would not put it necessarily that way. Fixed

17 cost recovery is somewhat independent of the allowed

18 revenue. We will be more assured of the revenue per

19 customer that we receive. But whether or not it's true

20 that we get fixed cost recovery, you need to also look

21 at the cost side of things which is not present within

22 the mechanism itself.

23 Q. So by saying it differently, would you say that

24 what decoupling does for PSE is guarantee a certain

25 level of revenue for the Company that is as a result of

0293

 1 the reduced demand for the Company's services through

 2 operation of the decoupling mechanism?

 3 MS. CARSON: Object to the form of the

 4 question.

 5 JUDGE MOSS: I think the witness can answer

 6 that question.

 7 THE WITNESS: On a per customer basis,

 8 that's correct.

 9 Q. (BY MR. OSHIE) Now, in response to an ICNU DR,

10 I believe you stated that the Commission does not

11 guarantee PSE's throughput; is that correct? Do you

12 recall that?

13 A. Is this one of my cross exhibits?

14 Q. No, it's not a cross exhibit.

15 A. Oh.

16 Q. It's in the 158, 159 or 160. I do not recall.

17 MS. CARSON: I'm going to object to this.

18 It's not in evidence in this case. It could have been

19 made a cross exhibit.

20 MR. OSHIE: Well, I can ask the question.

21 And, Your Honor --

22 JUDGE MOSS: Just ask him if he recalls.

23 MR. OSHIE: Thank you. So I can rephrase

24 the question, Your Honor.

25 JUDGE MOSS: All right.

0294

 1 Q. (BY MR. OSHIE) So Mr. Piliaris, does the

 2 Commission guarantee PSE's throughput via the decoupling

 3 mechanism?

 4 A. It does not guarantee throughput. It guarantees

 5 an allowed revenue per customer.

 6 MR. OSHIE: Thank you. No more questions

 7 from me.

 8 JUDGE MOSS: Mr. Pepple, you're up.

 9 MR. PEPPLE: Thank you, Your Honor.

10

11 CROSS-EXAMINATION

12 BY MR. PEPPLE:

13 Q. Mr. Piliaris, PSE is proposing to keep Schedules

14 40, 46 and 49 in the decoupling mechanism and to

15 separate them into their own decoupling group; is that

16 correct?

17 A. That's correct.

18 Q. In this proceeding, Staff has recommended

19 eliminating Schedule 40 over time. Do you agree with

20 that?

21 A. Yes.

22 Q. So if Staff's proposal is approved, would

23 Schedules 46 and 49 then comprise their own decoupling

24 group?

25 A. Yes.

0295

 1 Q. Does the fact that Schedule 46 is an

 2 interruptible schedule have any impact on how decoupling

 3 applies?

 4 A. Not as currently proposed. But the Company is

 5 open to, if the Commission thought it preferable, to

 6 breaking up 46 from 49 as standalone decoupling groups.

 7 Q. Would you agree that separating Schedules 46 and

 8 49 into their own group is likely to increase the level

 9 of cost shifting among customers within this new

10 decoupling group?

11 A. Can you just repeat the question so I make sure

12 I understood what you said?

13 Q. Sure. If Schedules 46 and 49 comprise their own

14 decoupling group as opposed to where they are now as

15 part of an aggregate nonresidential group, would you

16 agree that there is likely to be more cost shifting

17 among the customers within Schedule 46 and 49 in this

18 decoupling group as compared to what it is today?

19 MS. CARSON: I'm going to object. It's not

20 clear if we're talking about 46 and 49 together as one

21 group or separate as two different groups.

22 MR. PEPPLE: I'm talking about them together

23 as one group.

24 THE WITNESS: I share my counsel's confusion

25 here. Are we going from the current, which includes

0296

 1 schedules, for example, 24 and 25 and then 40, 46 and 49

 2 as a group, moving from that paradigm to what we've

 3 proposed, which is to break those up, create a new group

 4 with only 40, 46 and 49?

 5 Q. (BY MR. PEPPLE) But ignore 40 for now. Assume

 6 that 40 is gone.

 7 A. Okay.

 8 Q. So yes, compared to currently --

 9 A. Pulling them apart, is there cost shifting, is

10 your question?

11 Q. Correct.

12 A. No, because you're resetting the baseline when

13 you do this. So you're actually setting an allowed

14 revenue per customer for the new groups based on their

15 cost of service.

16 Q. Correct. I guess my question is going forward

17 from then. So would you agree -- I'll back up.

18 Would you agree that there's some level of cost

19 shifting among different rate classes currently going on

20 in the nonresidential customer class?

21 A. I would say generally speaking, yes,

22 unfortunately. And that was one of the principal

23 drivers for why the Company proposed the new groupings

24 that it did. It was the existing groupings groups

25 together customers that are weather-sensitive with

0297

 1 customers that are not weather-sensitive. And so a

 2 consequence of that is the weather-sensitive group will

 3 have deferrals that go up and down and the non-weather-

 4 sensitive group that's in the same group end up having

 5 to bear some of that volatility.

 6 So under PSE's proposal, we moved all the

 7 weather-sensitive customers into their own standalone

 8 group so that they're no longer impacted by what

 9 Mr. Pepple is describing as the cost shifting.

10 Q. So maybe to get at this question another way,

11 can you turn to Exhibit JAP-56X. I believe this exhibit

12 was supplemented by PSE with the actual data response.

13 I'm interested in looking at Attachment A.

14 MS. CARSON: Yes, we did provide paper

15 copies supplementing this cross-exam exhibit.

16 JUDGE MOSS: So we have it at the bench.

17 THE WITNESS: Can you describe what it looks

18 like, because I'm not sure I have it.

19 Q. (BY MR. PEPPLE) Yeah. It's a list of customers

20 on Schedules 40, 46 and 49. It's titled Puget Sound

21 Energy Kilowatt Hour by Customer for the Twelve Months

22 ended September 2016.

23 A. Okay, I believe I have it.

24 Q. So if you look at Customer 7 on Schedule 49,

25 that customer used approximately 69 million kilowatt

0298

 1 hours last year; correct?

 2 A. In the test year, correct.

 3 Q. Okay. So if that customer -- and again, we're

 4 operating under the assumption now that 46 and 49 are

 5 their own group and no one else. So if that customer

 6 drastically cut its usage, Customer 1 under Schedule 46

 7 who only used 1.4 million kilowatt hours would see a

 8 fairly large impact under decoupling, wouldn't it?

 9 A. Not really. Since its load was so small it

10 would pick up a very small share of whatever differences

11 there were in cost. It's not a per customer -- in other

12 words, you're not going to spread whatever costs that

13 needs to be allocated from each of the six customers

14 within Schedule 46 pro rata; they would get their

15 proportionate share relative to the size of their load.

16 The size of their load relative to the rest of the

17 customers within 46 is small. They'd pick up a smaller

18 share.

19 Q. Well, you would acknowledge that there's a

20 fairly wide variation in usage levels among the

21 customers within Schedules 46 and 49?

22 A. Yes. Generally speaking, 46 is smaller than 49.

23 Q. I guess just even within Schedule 49, there's a

24 fairly wide range of usage, would you say?

25 A. Relatively speaking. I mean, the smallest

0299

 1 customer there is just over 9 million kilowatt hours

 2 versus the 69 that you're referring to. But most are in

 3 the 20, 30, 40.

 4 Q. Well, do you see that variation in usage among

 5 the residential customer class?

 6 A. Probably greater. Actually, substantially

 7 greater.

 8 Q. On a kilowatt hour basis?

 9 A. Per customer basis, relative -- as a percentage

10 of the average, yes. We have some very large

11 residential customers in our service area.

12 Q. New laws affecting that? I'll move on.

13 Do you agree that Staff's proposal to increase

14 demand charges for customers that they are proposing to

15 exclude from the decoupling mechanism would mitigate the

16 Company's throughput incentive relative to these

17 customers?

18 A. Not very much. And I think generally speaking,

19 there's a misunderstanding about the -- well, two

20 things. One is the differences between what is

21 demand-related cost and what is a fixed cost. So, for

22 example, transmission costs, they're all fixed, but

23 they're treated as being 75 percent energy-related. So

24 there's a significant disconnect there already.

25 As far as demand costs go, demand is maybe not

0300

 1 as directly impacted by, for example, conservation, but

 2 it clearly is impacted by conservation. In fact, our

 3 conservation avoided costs that are used to support our

 4 conservation program included in that calculation, as

 5 you saw in my derivation of the third block rate for

 6 residential customers, there's a substantial component

 7 that's capacity-related, which traditionally is

 8 demand-related. So I think generally speaking, we have

 9 to remember that there's as much -- maybe not as great,

10 but a significant throughput incentive that is present

11 through demand charges despite what I think other

12 witnesses have said earlier today.

13 The Company's position is that the Company does

14 have some -- I don't want to say it has influence over

15 demand charges, but it does. We're talking about demand

16 response. Clearly the demand response program requires

17 some influence over customers' demands which has a

18 consequence on revenue. So the notion that demand

19 charges are an appropriate or sufficient substitute for

20 decoupling, the company disagrees with that.

21 Q. So I think my question was really whether you

22 agree that it mitigates the throughput incentive.

23 A. Marginally. Very marginally.

24 Q. Okay. Can you turn to Exhibit JAP-41. This is

25 the decoupling calculations that you provided as an

0301

 1 exhibit to your supplemental testimony that was filed.

 2 A. JAP-41?

 3 Q. Yes.

 4 A. I'm there.

 5 Q. I'm looking at Page 1 and Line Number 8 on Page

 6 1 which shows the net pro forma delivery revenue. Do

 7 you see that?

 8 A. I do.

 9 Q. Now, I'll represent to you that if you sum each

10 column's net pro forma delivery revenue going from

11 Column C to Column H, you get a total net pro forma

12 delivery revenue of approximately $623.5 million.

13 Would you accept that, subject to check?

14 A. Yes.

15 Q. Now, if you look at Column M, that shows a net

16 pro forma delivery revenue for Schedules 46 and 49 of

17 about 9 million; is that correct?

18 A. For delivery revenue, that's correct.

19 Q. Okay. Would you accept that this is

20 approximately 1 percent of the total net pro forma

21 delivery revenue?

22 A. So 9 versus the 600?

23 Q. Yeah.

24 A. One and a half, okay.

25 Q. Maybe 1.4 if you round it out.

0302

 1 So I guess another way of saying this is that if

 2 Schedules 46 and 49 were excluded entirely from the

 3 decoupling mechanism, approximately 1 percent of PSE's

 4 delivery revenue would be subject to the throughput

 5 incentive; is that correct?

 6 A. No, that would be incorrect.

 7 Q. What am I missing then?

 8 A. You're missing -- those are just the delivery

 9 costs. There's also fixed production costs.

10 Q. Well, correct. I'm simply saying 1 percent of

11 PSE's delivery revenue.

12 A. Oh, of delivery revenue, yes.

13 Q. Now, I think you just discussed how the demand

14 charge does not eliminate the throughput incentive,

15 because under the peak credit methodology, 25 percent of

16 costs are demand-related, essentially. Fairly

17 simplistic way of stating what you said.

18 So could we assume, then, that if the demand

19 charge were approved, a higher demand charge were

20 approved as Staff proposed, that the delivery revenue of

21 approximately $9 million in Schedules 46 and 49,

22 25 percent of that would no longer be subject to the

23 throughput incentive? Would that be a high level way of

24 saying that?

25 A. I'm not sure. Can you repeat it one more time?

0303

 1 Q. Sure. You have approximately $9 million of net

 2 pro forma delivery revenue for 46 and 49. If a higher

 3 demand charge were applied to these customers and

 4 decoupling were eliminated, would 25 percent of that 9

 5 million no longer be subject to the throughput

 6 incentive, approximately, give or take a few?

 7 A. I don't believe so.

 8 Q. Why?

 9 A. These are delivery. This is not fixed

10 production. So 75-25 is a fixed production. These

11 delivery are all fixed. So all of that amount is

12 subject to the throughput incentive.

13 Q. Would demand charges recover any of those costs?

14 A. They would recover some of the costs, but again,

15 as I said earlier, I don't believe that the demand

16 charges will flow with usage.

17 JUDGE MOSS: Mr. Pepple, I don't know if the

18 court reporter is having any trouble with it, but your

19 voice is trailing off at the end to some of your

20 questions, and I'm losing it, but I'm an old guy. Maybe

21 you can do it for my benefit.

22 MR. PEPPLE: It's clear in my head.

23 JUDGE MOSS: As a bell, no doubt.

24 Q. (BY MR. PEPPLE) Decoupling accounts for

25 variations in weather; correct? For instance, if

0304

 1 you're --

 2 A. It doesn't have to but it does in our case.

 3 Q. And do customers under Schedules 46 and 49, does

 4 weather have any impact on their loads?

 5 A. Minimal. Generally speaking, industrial loads,

 6 weather isn't a great -- much of a factor. If you have

 7 a very large commercial load under one of those

 8 schedules then it could be probably more of a cooling

 9 load issue rather than a heating load issue. But again,

10 overall it's pretty small.

11 Q. Can you turn to your rebuttal testimony,

12 Page 21. It's 46CT.

13 A. You said 21?

14 Q. 21.

15 A. I'm there.

16 Q. So at the top of the page, this Q&A, you are

17 commenting on Mr. Gorman and other witnesses' proposals

18 to remove customers from a decoupling mechanism. On

19 Line 3 you say that their proposals lack actionable

20 detail on how any remaining deferral balance will be

21 handled once the customers are removed from the

22 mechanisms. Do you see that?

23 A. I do.

24 Q. Can you now turn to Exhibit JAP-60X.

25 MR. PEPPLE: And just to refresh the Court's

0305

 1 memory, this is the one exhibit that has not been

 2 admitted.

 3 JUDGE MOSS: All right, thank you for that

 4 reminder. Therefore, PSE may have some objection or

 5 they may not. Let's hear the question.

 6 MR. STEELE: No, Your Honor. We still

 7 object. Our concern with this exhibit is this appears

 8 to be a PSE data request that ICNU has responded to and,

 9 therefore, we're not sure why Mr. Piliaris is being

10 asked questions about a response by what appears to be

11 an ICNU witness, which I believe is Mr. Gorman.

12 That's our concern, Your Honor.

13 JUDGE MOSS: Well, he can ask the question

14 with or without the exhibit, I suppose. Does it

15 facilitate things to have the exhibit? I don't really

16 see the problem here. From an evidentiary perspective,

17 I don't understand how this harms you in any way.

18 MR. STEELE: Well, it's a response that

19 Mr. Piliaris didn't -- so that's our concern.

20 JUDGE MOSS: I understand your objection

21 from a technical perspective. It's not Mr. Piliaris or

22 the PSE answering the question that was posed to PSE.

23 So he's not sponsoring the exhibit for the truth of what

24 it asserts, we're just using it as a reference, if you

25 will, an illustrative exhibit perhaps would be the way

0306

 1 to characterize it. That's how I would regard it under

 2 these circumstances.

 3 Does that address your concern to some

 4 extent?

 5 MR. STEELE: Yes, Your Honor.

 6 JUDGE MOSS: Let's go ahead and use it for

 7 the convenience of all assembled. Go ahead.

 8 MR. PEPPLE: Thank you, Your Honor.

 9 Q. (BY MR. PEPPLE) So as was just discussed, this

10 is a data request that PSE issued to ICNU asking ICNU to

11 clarify exactly what you've testified to, how the

12 transition of these customers out of the decoupling

13 mechanism would be handled in Mr. Gorman's proposal.

14 Do you agree with that?

15 A. Yes.

16 Q. Did you review this response before you prepared

17 your rebuttal testimony?

18 MS. CARSON: I believe this response is

19 dated after the rebuttal testimony. Oh, sorry, looking

20 at the wrong one.

21 JUDGE MOSS: It was July 19th, apparently.

22 MS. CARSON: Okay.

23 THE WITNESS: I believe I probably did. I

24 don't recall specifically, but I would imagine if it

25 came in on the 19th of July, I probably looked at it

0307

 1 before I filed testimony.

 2 Q. (BY MR. PEPPLE) So maybe I could just ask you

 3 to review it and identify whether this provides enough

 4 information to -- what other information would PSE need?

 5 A. Again, the request asks specifically for a

 6 spreadsheet, and there's a lot of details underneath.

 7 For example, how to allocate when you remove a schedule

 8 from -- or schedules from decoupling, there are lots of

 9 different ways to allocate whatever residual amounts or

10 deferrals or earnings or whatnot. And there may not be

11 necessarily agreement as to how best do that.

12 So our request is for ICNU to provide their

13 proposal as to how best to do that. And what we got

14 back was fairly generic, not particularly helpful, at

15 least from my standpoint. I couldn't take this and turn

16 around and say exactly that I -- well, unless I was

17 100 percent confident that this was what ICNU or any

18 other party for that matter would agree to.

19 Q. So could you turn to Page 8 of your rebuttal

20 testimony.

21 A. I'm there.

22 Q. So in the middle of this page on Line 9, you

23 note that Staff and Public Counsel did not provide

24 exhibits showing exactly how their alternative

25 decoupling proposal would work in practice. And then in

0308

 1 the next Q&A you note that PSE attempted to address the

 2 gap in the record; correct?

 3 A. Yes, for this particular issue we did.

 4 Q. Okay. Is it your position that it would be

 5 impossible to eliminate -- to remove Schedules 46 and 49

 6 from the decoupling mechanism?

 7 A. No, that isn't my position.

 8 MR. PEPPLE: Okay. I have no more

 9 questions.

10 JUDGE MOSS: All right, thank you very much.

11 That concludes ICNU's questions.

12 Do we have any redirect?

13 MS. CARSON: No, we don't.

14 JUDGE MOSS: Apparently not.

15 Do we have any questions from the bench?

16 Oh, I'm sorry, we have additional people crossing, don't

17 we? I was getting so excited. Oh, well. We'll commend

18 both of you for coming in under your estimated times.

19 Let's see, who's next longest? Mr. Stokes,

20 it appears you are on deck here, so please take the bat.

21

22 CROSS-EXAMINATION

23 BY MR. STOKES:

24 Q. Good afternoon.

25 A. Good afternoon.

0309

 1 Q. Could you please turn to JAP-46CT, please.

 2 A. Which page?

 3 Q. Page 76. Let me know when you get there.

 4 A. I'm there.

 5 Q. So in your rebuttal testimony you argue that

 6 Mr. Collins' cost of service proposal is improper in

 7 part because he supports Staff's proposal to use

 8 historic peak loads per the allocation of gas mains.

 9 Is that correct?

10 A. Which line specifically are you referring to?

11 Q. I'm looking at the Q&A, the first Q&A there.

12 I'm sorry, the second Q&A.

13 A. I thought I heard something about it being

14 improper?

15 Q. You criticized Mr. Collins' testimony because he

16 supports Staff's proposal here; is that correct?

17 A. I wouldn't use that term, but okay, sure, yes.

18 Q. Okay. Can you please turn to BCC-5T at Page 4.

19 That Mr. Collins' testimony.

20 A. I'm there.

21 Q. So the first Q&A on Page 4, Mr. Collins talks

22 about Mr. Ball's testimony for allocating the capacity

23 costs for the peak component of the P&A allocator.

24 A. That's correct.

25 Q. Does Mr. Collins agree with Staff's proposal?

0310

 1 A. Honestly, I'm a little confused as to whether --

 2 to what Mr. Collins' proposal really is, because he

 3 flips back and forth between a term of coincident demand

 4 and design day demand. And to the extent that

 5 Mr. Collins supports design day demand, then I guess

 6 we're in alignment on that issue. If his position is

 7 that we should be using coincident demand based on

 8 actual loads, then that would be -- the Company would

 9 not agree with that, if that helps.

10 But I'm not exactly sure, because he goes back

11 and forth in his testimony between the use of the two

12 terms. So I was somewhat conservative in my testimony

13 just assuming that he did, that he was assuming one over

14 the other to have my bases covered, I guess.

15 Q. Based on this, does it appear that perhaps your

16 testimony regarding your criticism on his -- about

17 his -- sorry.

18 Based on the answers that you just gave, would

19 you say that Mr. Collins supports using peak and average

20 actuals is still accurate?

21 A. In his response he says he doesn't agree with

22 Staff's proposal, so I would say that would be accurate.

23 Q. Okay. So let's move on. If you can turn to

24 JAP-46CT at Page 78.

25 A. I'm there.

0311

 1 Q. So in your testimony you call Mr. Collins'

 2 proposal a revenue allocation extreme; is that correct?

 3 A. That's correct.

 4 Q. Are you aware of other state jurisdictions that

 5 use the cost of service methodology proposed by

 6 Mr. Collins?

 7 A. I'm not.

 8 Q. You're not aware of any?

 9 A. I haven't done a thorough review.

10 Q. Okay. Are you aware of how interstate pipelines

11 allocate their costs?

12 A. Generally, no.

13 Q. Okay. Are you aware that Mr. Collins also

14 proposed an equal percent of margin of increase for

15 classes as an alternative to class revenue allocation?

16 A. And I accepted that as being a far more

17 reasonable proposal.

18 Q. Okay, thank you. Has PSE agreed to participate

19 in a cost of service generic proceeding to discuss

20 customer service issues?

21 A. It has.

22 Q. Okay. What is the purpose of a cost of service

23 generic proceeding?

24 A. From the Company's perspective, it's an

25 opportunity to have a robust and thoughtful discussion

0312

 1 around how best to allocate -- or treat the allocation

 2 of costs both on the gas and the electric side outside

 3 of a litigated proceeding where obviously the positions

 4 could be more positional and less collaborative.

 5 Q. Okay. If you can turn to Page 73 of the same

 6 exhibit.

 7 A. I'm there.

 8 Q. So does Mr. Collins' cost of service study

 9 include the average load as a subcomponent of the

10 overall coincident peak load?

11 A. Can you point me to the specific testimony

12 you're referring to?

13 Q. The last Q&A. I'm sorry, it's the middle Q&A,

14 Line 6.

15 MS. CARSON: Can you repeat the question?

16 Q. (BY MR. STOKES) Does Mr. Collins' cost of

17 service study include average load as a subcomponent of

18 the overall coincident peak load?

19 A. In the way Mr. Collins is describing the double

20 counting, I would say yes, it is including it.

21 Q. Okay. And under Mr. Collins' proposal, is the

22 average load counted once or twice?

23 A. Once.

24 Q. And under the peak and average methodology used

25 by PSE and Staff, is the average load counted once or

0313

 1 twice?

 2 A. Twice.

 3 Q. If you can turn to Page 74 of your testimony.

 4 A. I'm there.

 5 Q. So in Line 8 you talk about the free rider

 6 problem. What is the free rider problem you're talking

 7 about?

 8 A. Generally speaking, if one were to allocate

 9 costs entirely on contribution to peak and the customer

10 or customers didn't actually have any physical load at

11 that specific time on the system, they would get zero

12 allocation of fixed cost or allocated fixed cost. But

13 it may also be true that they're using the system

14 liberally throughout the rest of the year. And so to

15 allocate on the basis that doesn't recognize the overall

16 use of the system, not just at the time of the peak but

17 also over the course of the year, presents an

18 opportunity or possibility that customers may not be

19 paying a fair share of their fixed cost. And this is in

20 line with what the Commission has held for quite a while

21 when similar proposals have been brought forth before

22 the Commission to allocate mains, in particular

23 exclusively on demand. The Commission has recognized

24 and stated that it wants to reflect both the design of

25 the system as well as the use of the system.

0314

 1 And so that is my understanding, the principal

 2 reason why a portion of the costs are allocated on

 3 volume and not entirely on capacity.

 4 Q. So could the free rider issue be addressed by

 5 classifying a portion of the main cost as

 6 customer-related costs?

 7 A. That would be highly unusual. I haven't really

 8 thought of that as a possibility.

 9 Q. But I thought you said before you hadn't

10 explored other -- how other jurisdictions do it,

11 allocate costs.

12 A. Right. But allocating any capacity cost on a

13 customer basis, I would not -- I've never heard of

14 anything on the electric side, or the gas side for that

15 matter.

16 Q. Have you explored other jurisdictions and how

17 they allocate costs on the gas side?

18 A. I have, but I can't really recite from the top

19 of my head who does what and how. Obviously we look at

20 every time Avista or Cascade or somebody files, we'll

21 look at how they do that. We've shared, actually, in

22 some of the preliminary work on the cost of service

23 collaborative, we have a matrix that is intended to sort

24 of summarize for each utility how they address each of

25 those. So I've looked at various things like that and

0315

 1 haven't committed it to memory.

 2 But generally speaking, allocating any kind of

 3 capacity cost on a customer basis would be something a

 4 little bit unusual. I'm not saying it's impossible.

 5 Q. Was that one of the issues that could be

 6 explored in the cost of service generic proceeding?

 7 A. It could.

 8 Q. I'd like to switch gears and talk about the

 9 system expansion that will be done to integrate the

10 recently approved LNG peaker.

11 What is the function of a peaker?

12 A. To meet peak demand needs.

13 Q. And which customers benefit from a peaker?

14 A. Generally speaking, the customers that -- well,

15 all the customers really. Both the customers that are

16 being served by the peaking -- the intended customer,

17 customers for whom the peaking resource was originally

18 built and potentially customers who have not.

19 So let me explain. Kind of what we were talking

20 about earlier relative to mains, you design the size of

21 the peaking resource based on design day criteria, but

22 you're not always in that -- at that peak level, and so

23 there would be excess capacity and, therefore, customers

24 for whom you didn't plan that capacity need could be on

25 the system, in other words, interruptible customers.

0316

 1 And they would not, therefore, be curtailed as a result

 2 because there would be actual -- a resource in place to

 3 maintain the pressure on the system and allow the gas to

 4 continue to flow, particularly in the Tacoma area where

 5 the LNG is sited.

 6 MS. CARSON: I want to object to any further

 7 questions about the LNG facility which is not in this

 8 case.

 9 MR. STOKES: I think it illustrates the cost

10 of service we're talking about, because it talks about

11 if the costs follow the benefits of a system upgrade

12 expansion. It's an example of how you apply cost of

13 service to a real project.

14 JUDGE MOSS: It serves as a hypothetical, I

15 suppose.

16 MR. STOKES: I just have a few more

17 questions on it, so.

18 JUDGE MOSS: Your point is taken,

19 Ms. Carson. That's not a facility that's in service but

20 it does serve as a hypothetical example of a peaking

21 type of a facility and serves as a good illustration for

22 purposes of his questions. I think that's all right.

23 MR. STOKES: Thank you, Your Honor.

24 Q. (BY MR. STOKES) So I want to be clear here. So

25 a peaker, what service does it provide? It's providing

0317

 1 gas; correct?

 2 A. It's providing the capacity to provide gas when

 3 it's needed during peak times.

 4 Q. Do transportation customers get served from that

 5 peaking facility?

 6 A. Not directly. But as I mentioned before, the

 7 resource could be used to maintain pressure in the area

 8 even though we might not need it from a system

 9 perspective. It does provide an ability, particularly

10 in that more constrained Tacoma area, to maintain

11 pressure for interruptible customers that are served in

12 that area that may not otherwise be able to be served

13 given the lack of the capacity off of the pipeline in

14 that area.

15 Q. So under the peak and average methodology

16 proposed by Staff, how would transportation customers be

17 impacted?

18 A. They'll be impacted -- generally speaking, as

19 the methodology ascribed, they get an allocation based

20 in part on their contract demand for the firm component

21 and they'll get an allocation on volume, roughly

22 one-third-two-thirds.

23 Q. So the high volume transportation customers will

24 end up picking up a large share of the costs even though

25 they're not getting natural gas commodity from Puget?

0318

 1 You guys just provide transportation services?

 2 A. For -- well, it remains to be seen, actually.

 3 I mean, going back to my counsel's point, we haven't

 4 actually even introduced the LNG project into the

 5 facility so we don't know exactly how it's going to

 6 ultimately be allocated.

 7 The way it was presented in the LNG case, that

 8 particular facility, we allocated it -- actually, we

 9 allocated it completely on peak. We allocated it to

10 interruptible sales customers. We specifically excluded

11 the allocation to transportation customers.

12 So there was no allocation in what we presented

13 to the Commission in terms of the cost of service,

14 representative cost of service results in Docket 151663,

15 I think, how it would impact the various customers.

16 Transportation customers picked up nothing.

17 Q. But those costs haven't been included in the

18 rates yet?

19 A. Not yet.

20 JUDGE MOSS: Let's don't take this too far,

21 Mr. Stokes. As an example it's one thing, but asking

22 him about actual operations and allocation of costs, not

23 yet. We'll have that in a future case.

24 MR. STOKES: Okay.

25 Q. (BY MR. STOKES) I just have a few questions

0319

 1 about the special contract line of questions. Big

 2 picture, why are special contracts allowed?

 3 A. Because they serve the public interest. The

 4 customers have -- traditionally either have special need

 5 for special type of service or they have an ability to

 6 bypass the utility entirely. Recognizing that fact, if

 7 the utility is allowed the flexibility in pricing to

 8 provide service at a discount but yet above the

 9 incremental cost of providing the service, they serve to

10 contribute to fixed costs that would otherwise be borne

11 by remaining ratepayers, customers.

12 Q. And so once a customer bypasses an LDC, what

13 happens to that load?

14 A. It's no longer on the utility system.

15 Q. And they don't contribute anything to the

16 system?

17 A. Zero.

18 Q. So if the customer is paying one dollar above

19 the variable costs to serve it, there's no benefit to

20 the system?

21 MR. CASEY: Your Honor, I'm going to object

22 on the grounds that this is friendly cross.

23 MR. STOKES: Your Honor, Staff's proposal is

24 based on the cost of service studies presented in this

25 case. We have three contested cost of service studies

0320

 1 in this case. We're not on the same page. And there's

 2 a line of costs about income taxes that is there, so --

 3 JUDGE MOSS: But this isn't Staff's witness.

 4 MR. STOKES: It's not Staff's witness,

 5 that's correct.

 6 JUDGE MOSS: So why are we asking questions

 7 about Staff's case of this witness?

 8 MR. STOKES: Because the special contract

 9 proposals and the testimony of all three parties

10 reflects the three different cost of service proposals.

11 JUDGE MOSS: I'm not going to let you go

12 down this path, I'm sorry. Go ahead.

13 MR. STOKES: Okay. That's all I have.

14 JUDGE MOSS: Thank you very much.

15 Well, let's go -- let's see. Ms. Liotta,

16 you've been sitting there politely all day long and it

17 seems like you have 15 minutes of cross.

18 MS. LIOTTA: I think I have less, Your

19 Honor.

20 JUDGE MOSS: Okay. But do you have some?

21 MS. LIOTTA: I do have just a couple of

22 questions.

23 JUDGE MOSS: All right, fine. Could you

24 pull the microphone a bit closer to yourself? I often

25 tell people to swallow the mic. It's not a very

0321

 1 effective system, I'm afraid.

 2

 3 CROSS-EXAMINATION

 4 BY MS. LIOTTA:

 5 Q. Good afternoon, Mr. Piliaris. I only have a few

 6 questions.

 7 A. Good afternoon.

 8 Q. I'd like to refer you to your rebuttal

 9 testimony. Do you have that? It's Exhibit 46CT.

10 A. I do.

11 Q. Okay. If you could turn to Page 18,

12 specifically Line 7 through 9.

13 A. I'm there.

14 Q. There you assert that the Commission's policy

15 statement on decoupling expected that all customers

16 would be included in the decoupling mechanism; correct?

17 A. I wouldn't -- that's a bit stronger than what I

18 intended, if that's the way it came across. What I

19 intended to say or communicate is that the general

20 preference of the Commission was that all customers

21 would be included, but they were open to other

22 possibilities on a case by case basis.

23 Q. Okay. And can you confirm that you were

24 referring to the Commission's policy statement from

25 Docket UE-100522?

0322

 1 A. That's correct.

 2 Q. Can you see Page 18 of that statement? I have

 3 it as FEA Exhibit JAP-61X.

 4 A. I have it in front of me.

 5 Q. Great, thank you. I'm going to ask if you

 6 could -- and you can read it to yourself, just the first

 7 criteria for approval listed on Page 18 of the policy

 8 statement entitled Application to Customer Classes.

 9 A. Uh-huh. Yes, I've read it.

10 Q. Would it be correct to state that this passage

11 from the policy statement states that the Commission

12 will consider a decoupling proposal that would apply to

13 fewer than all customer classes where it is in the

14 public interest and not unlawfully discriminatory or

15 preferential?

16 A. Yes, that is correct.

17 Q. Would you agree that an electric decoupling

18 mechanism that excludes Schedules 40, 46 and 49 would

19 not violate the Commission's decoupling policy statement

20 if the Commission finds that the mechanism is in the

21 public interest and is not unlawfully discriminatory or

22 preferential?

23 A. The way you worded it sort of tripped me up a

24 little bit. Can you restate the question?

25 Q. Sure. If the electric decoupling mechanism

0323

 1 excluded -- if there was an electric decoupling

 2 mechanism that excluded the Schedules 40, 46 and 49,

 3 would you agree that that would not violate the

 4 Commission's decoupling policy if the Commission were to

 5 find that that mechanism was in the public interest, it

 6 wasn't unlawfully discriminatory?

 7 A. When you say "that mechanism," that's generally

 8 where I get tripped up. If the question is, as long as

 9 the basis for which those customers are removed

10 addresses whatever the Commission is attempting to

11 address through decoupling sufficiently in their mind

12 that there is a public interest, then yes, the

13 Commission clearly has that -- well, number one, it has

14 that authority because this is a policy statement, not a

15 rule. So there's some flexibility there.

16 But moreover, if the Commission is convinced,

17 for example, that demand charges are in fact a

18 sufficient surrogate, then they could find that that

19 would be in the public interest. Of course, the Company

20 disagrees with that notion, but be that as it may.

21 Q. Thank you. I'm going to actually refer you now

22 to Page 13 of your rebuttal testimony.

23 A. I'm there.

24 Q. On this page you discuss the results of a back

25 cast of an electric decoupling rate test impact that you

0324

 1 performed for the years 2014 through 2017; correct?

 2 A. Correct.

 3 Q. And did the back cast you performed incorporate

 4 fixed production costs into your calculation?

 5 A. An estimate of them.

 6 Q. So for the years 2014 through 2017, can you tell

 7 me what the maximum annual rate impact was that you

 8 calculated for nonresidential electric decoupling group?

 9 A. So that one nonresidential group?

10 Q. Right, just that group.

11 A. It's listed as 2.74 percent.

12 Q. Right. And what is the existing annual rate

13 test cap under the electric decoupling mechanism?

14 A. Three percent.

15 Q. Okay. Last question.

16 Would you agree that based on the results of

17 your back cast, that that existing 3 percent rate test

18 cap would not have been triggered for electric

19 nonresidential customers in any year over that period

20 between 2014 to 2017?

21 A. For that particular group, the way it is

22 currently constructed. What it doesn't really show is

23 based on the new more disaggregated groups, whether in

24 fact that 2.74 percent would necessarily hold. In my

25 testimony I discussed sort of the tradeoffs between

0325

 1 lumping a bunch of customers together and disaggregating

 2 them. And the tradeoff there is the more you

 3 disaggregate the more volatility you'll introduce into

 4 the deferrals that would result in then rate changes,

 5 downstream rate changes.

 6 So we were discussing earlier breaking out 46

 7 and 49 as perhaps standalone groups. Well, that

 8 introduces potentially a lot more volatility that was

 9 otherwise embedded within a much larger group of

10 customers where some may be high, some may be low,

11 offsetting each other, sort of dampening the overall

12 effect.

13 So specifically to your question, yes, if the

14 Company continued with the existing nonresidential rate

15 group, there would be no need for anything in excess of

16 3 percent.

17 Q. Even if fixed production costs have been

18 incorporated?

19 A. Correct. But the disaggregation of that group

20 gives the Company a little bit more concern about the

21 potential for increasing deferrals. Obviously there's

22 no black or white answer here. It's more a matter of

23 how willing are we to sustain some year-over-year

24 deferrals that carry over from one year to the next,

25 introducing intergenerational questions and whatnot.

0326

 1 So it's a balance. The Company doesn't have a

 2 very strong position on the nonresidential electric. I

 3 think it's appropriate, but I understand that there's

 4 varying degrees of risk tolerance.

 5 MS. LIOTTA: Thank you. That's all I have

 6 for you.

 7 JUDGE MOSS: Thank you, Ms. Liotta.

 8 Let's see, we have now Public Counsel.

 9

10 CROSS-EXAMINATION

11 BY MS. GAFKEN:

12 Q. Good afternoon.

13 A. Good afternoon.

14 Q. Peak day demand and annual throughput are two

15 different concepts; is that correct?

16 A. That is correct.

17 Q. And so there would be no double counting because

18 they are two different concepts; is that correct?

19 A. It depends on how they're used. The way we use

20 it in our peak and average, a portion of the costs are

21 allocated on peak day and a portion of the costs are

22 allocated on volume. So in that regard, yes, there's no

23 double count.

24 Q. Would you please turn to your rebuttal

25 testimony, Exhibit JAP-46CT, and go to Page 3, line 13?

0327

 1 A. I'm there.

 2 Q. There you testified that Public Counsel witness

 3 Mr. Brosch provides implicit support for continuing

 4 decoupling for PSE; is that correct?

 5 A. Correct.

 6 Q. Do you understand Public Counsel's position to

 7 support the continuation of decoupling conditioned upon

 8 certain modifications including fixing revenue recovery

 9 between rate cases at Commission-approved revenue

10 requirement dollar levels rather than allowing revenues

11 to grow in proportion to customer growth?

12 A. That's why I used the term "implicit" rather

13 than "explicit." It was conditional.

14 Q. Would you please turn to Page 6, Lines 17

15 through 19 of your rebuttal testimony.

16 A. I'm there.

17 Q. There you refer to Staff witness Ms. Liu who

18 also proposes fixed or complete decoupling but only with

19 respect to fixed production costs; correct?

20 A. That's correct.

21 Q. Would you turn to Page 8, Lines 2 through 4.

22 A. I'm there.

23 Q. There you state that adoption of Staff and

24 Public Counsel's recommendation regarding fixed

25 production costs require adoption of the proposal to

0328

 1 simultaneously eliminate the production factoring of

 2 these costs in the determination of allowed revenue;

 3 correct?

 4 A. Correct.

 5 Q. Would you please turn to Exhibit JAP-47.

 6 A. I'm there.

 7 Q. Does Exhibit JAP-47 represent PSE's view of how

 8 to implement complete decoupling for fixed power costs?

 9 A. Yes.

10 Q. And under this approach, PSE would not receive

11 growing revenues caused by customer growth or recovery

12 of its future fixed power costs; correct?

13 A. That's correct.

14 Q. So turning back to your rebuttal testimony,

15 Exhibit JAP-46CT, beginning at Page 6, Line 19, you

16 state that Mr. Brosch would take this a step further and

17 also apply fixed or complete decoupling to all costs

18 within PSE's decoupling mechanisms; correct?

19 A. Correct.

20 Q. By this do you mean that Public Counsel would

21 fix and limit future revenue recoveries for both

22 delivery cost and fixed production costs?

23 A. That's my understanding of Mr. Brosch's

24 proposal.

25 Q. So staying with your rebuttal testimony, would

0329

 1 you please turn to Page 23, Line 7 through 14.

 2 A. I'm there.

 3 Q. With respect to delivery costs, you criticize

 4 Public Counsel's approach because Ms. Barnard's

 5 testimony indicates that delivery costs have grown per

 6 customer by 1.2 percent per year; correct?

 7 A. Correct.

 8 Q. Your reference to the 1.2 percent expense growth

 9 rates is entirely hindsight and not a projection of

10 PSE's future growth trends; correct?

11 A. That's correct.

12 Q. Would you please turn to Cross Exhibit JAP-68X.

13 A. I have it.

14 Q. Under Section B, PSE did not provide any support

15 or analysis to show that the expense growth rate would

16 carry forward into the future at the same rate causing

17 future earnings attrition, did it?

18 A. Correct, we did not.

19 Q. Is PSE seeking to lock in growing delivery

20 service revenues through continuing future decoupling on

21 a per customer basis because its historical actual costs

22 per customer grew modestly?

23 A. Can you just repeat the question?

24 Q. Sure. Is PSE seeking to lock in growing

25 delivery service revenues through continuing future

0330

 1 decoupling on a per customer basis because its

 2 historical actual costs per customer grew modestly?

 3 A. It lends support to that, to the proposal, yes.

 4 Q. PSE has not addressed, proven, or quantified an

 5 actual financial need for automatic growth in its

 6 delivery revenues tied to future customer growth, has

 7 it?

 8 A. I'm not aware of the full record on that

 9 particular issue. That sounds like attrition-like

10 study, and I don't believe the Company has performed

11 such a study.

12 Q. And PSE is not proposing any general rate case

13 moratorium or stay-out period associated with

14 continuation of revenue per customer decoupling and the

15 future growth and revenue that that method produces;

16 correct?

17 A. I'm not aware of such a proposal.

18 Q. I want to switch topics now and talk about the

19 rate cap. Would you please turn to your rebuttal

20 testimony, Exhibit JAP-46CT, and go to Page 9, Lines 9

21 through 13.

22 A. Okay, I'm there.

23 Q. There you describe the purpose behind raising

24 the decoupling soft cap between -- I'm sorry, raising

25 the decoupling soft cap from 3 percent to 5 percent as

0331

 1 addressing concerns about the growing deferral balance;

 2 correct?

 3 A. Perhaps I misheard the reference. Is it Page 9,

 4 you said?

 5 Q. That's what I have written down. Is the purpose

 6 behind raising the decoupling soft cap from 3 percent to

 7 5 percent to address concerns about the growing deferral

 8 balances?

 9 A. For which customer groups specifically are you

10 referring to?

11 Q. Let me back up then.

12 So PSE's proposal is to raise the soft cap, is

13 it not, from 3 percent to 5 percent?

14 A. For certain customers.

15 Q. For certain customers.

16 A. So, but the rationale for increasing it varies

17 depending on the customer group. For gas residential

18 customers, we already have a huge deferral that will

19 take quite a while to unwind without a larger rate cap.

20 For the electric customers, we proposed a higher

21 rate cap for both residential and nonresidential, again

22 in recognition of the fact that we're now including

23 fixed production costs into the mechanism which is

24 significantly increasing the costs that flow through

25 that mechanism.

0332

 1 Q. So focusing on the rationale that there's

 2 growing deferral balances, that is one of the reasons

 3 why Puget is saying that increasing the cap is

 4 appropriate. You've also indicated in your testimony,

 5 and I apologize for having apparently a typo in my

 6 notes, but you've also indicated in your testimony that

 7 there's no clear-cut answer to this particular issue; is

 8 that correct?

 9 A. On the electric side, I'd say that's more

10 correct. This is what I was referencing earlier where

11 it's not exactly black and white, particularly for the

12 nonresidential. It's unclear with electric

13 nonresidential customers the extent to which we should

14 increase the rate cap. I think for the gas residential

15 it's quite clear that we should, and I think there's

16 pretty broad support for doing so.

17 Electric residential, based on the table that we

18 were discussing earlier, it showed based on the back

19 cast that a 5 percent rate cap would be appropriate,

20 would be sufficiently high to prevent rollovers of

21 deferrals. But for the electric nonresidential, there's

22 a little bit more probably subjectivity involved.

23 Q. Would you agree that the existing rate caps were

24 implemented to insulate customers from large bill

25 impacts due to decoupling?

0333

 1 A. Correct. And that's relative. I mean, the

 2 3 percent we picked because that seemed to be a number

 3 that was out there. On the gas side, the PGA, the

 4 purchase gas adjustment rates, they can increase by

 5 five-fold that amount in any given year. So raising a

 6 cap on the gas residential customers from 3 to 5 percent

 7 I don't think would constitute rate shock given what

 8 they have experienced, both going up and going down

 9 through their PGA-related component of their bills.

10 Q. Would you please turn to page -- I'm really

11 hoping this is the right page number. Would you please

12 turn to Page 14 of your rebuttal testimony, JAP-46CT.

13 And beginning at Line 5, you refer to FEA's proposal to

14 replace the current soft caps with hard caps. And you

15 indicate that such a change would dilute the efficacy of

16 the decoupling mechanism; correct?

17 A. Correct.

18 Q. From PSE's perspective, is it fair to say that a

19 hard cap would result in potential permanent loss of

20 revenue when it comes to the utility?

21 A. Not necessarily. That's kind of the point. I

22 think when we had discussed in prior proceedings about

23 the value or the tradeoffs between a soft and a hard

24 cap, I think the Commission noted that with a hard cap

25 the utility, the throughput incentive, actually gets

0334

 1 revived again once you hit a certain threshold. There's

 2 also been mention of the fact that perhaps you would be

 3 spending more so that you wouldn't go over it or

 4 whatnot.

 5 But I think generally speaking -- I'll just

 6 leave it at that.

 7 Q. But the difference between a hard cap and a soft

 8 cap is that with the soft cap, the utility would have

 9 the opportunity to recover all of the deferrals,

10 correct, but with a hard cap you wouldn't be able to

11 recover all of the deferrals?

12 A. That's correct.

13 Q. And with a soft cap, where the utility would be

14 able to eventually recover all of the deferrals, it just

15 may take a little bit longer if it's set lower as

16 compared to if it's set higher; is that correct?

17 A. The response to this isn't that straightforward.

18 From a very high level, generally speaking, yes, you

19 will recover the dollars later. One unintended

20 consequence of the significant deferrals that we've

21 accrued to date has been that based on the way we report

22 our financial statements more broadly outside of the

23 company, if we can't actually collect this revenue

24 within a 24-month period or show that we will, we can't

25 actually recognize it as current revenue. And so that

0335

 1 presents complications from the utilities perspective,

 2 from Mr. Doyle's perspective in financing things because

 3 he can't prove that there's actually revenue coming in

 4 the door. It's just another balance sheet item.

 5 So while it's true to your point that you will

 6 collect it eventually, it does create some unintended

 7 consequences for the utility, that could anyway, in the

 8 intervening period.

 9 Q. I don't know if you know the answer to this, and

10 this may be a question more for Mr. Doyle and of course

11 now he's been released. But does the utility have to

12 take that as a loss or how is that reported?

13 A. As I said, it stays -- it's an amount that

14 continues to be on the Company's balance sheet, but it

15 cannot be recognized as current revenue. It can't be

16 recognized as current year revenues. It does not -- it

17 basically represents a reduction in earnings, operating

18 income and whatnot. So the financial metrics suffer as

19 a consequence.

20 Q. Would you agree that if the Commission adopts

21 Public Counsel's recommendation to use complete

22 decoupling rather than revenue per customer decoupling,

23 the amounts being recovered from ratepayers through

24 decoupling would be somewhat lower, all else being held

25 constant?

0336

 1 A. Could be fairly significantly lower.

 2 Q. And this lower amount being collected through

 3 decoupling would take some pressure off the rate caps,

 4 wouldn't it?

 5 A. But it would also frustrate the utility's

 6 ability to actually earn a return. And the reason being

 7 is that we were taking -- for our production costs we

 8 look out into the rate year and we proform amounts to

 9 represent what we think we're going to need to collect

10 in the rate affected period.

11 The way the Company has proposed the mechanism

12 on a per customer basis, we brought that dollar amount,

13 the whole dollar amount down based on the difference in

14 customer counts between the test year and the rate year

15 with the expectation that when you brought the revenues

16 down to the test year levels, that they would grow back

17 out to the rate year levels, assuming your forecasts

18 were accurate.

19 What we understand Public Counsel's position is,

20 or perhaps not, it could be clarified if not, is that if

21 you bring it back down to test year levels and you hold

22 it fixed, you have no ability to get back to the rate

23 year amount that you already agreed was the amount

24 necessary in the rate affected period to recover your

25 costs.

0337

 1 So that's the concern the Company has with any

 2 proposals that would hold fixed production costs

 3 constant. We're reluctantly willing to go along with

 4 that so long as we don't reduce that amount from rate

 5 year levels so that we have no ability to recover that

 6 cost in the rate affected period.

 7 Q. I'm not quite sure that I understood your answer

 8 either. So if decoupling provides the Company with

 9 revenue stability, and I guess this goes to a

10 clarification question from an answer that you gave

11 earlier too, because you clarified your answer by saying

12 that it was revenue per customer instead of just saying

13 that it was revenue stability. And I'm not sure if

14 there's a distinction there.

15 So I guess there's my first question. Is there

16 a distinction between just saying that it's revenue

17 stabilization versus revenue stabilization per customer?

18 A. Yes, there is a distinction. Depending on how

19 customers grow, revenues will grow accordingly under our

20 revenue per customer approach.

21 Q. Okay. So it's one dollar versus one dollar

22 times ten customers?

23 A. It's either ten dollars or one dollar times ten

24 customers. Or potentially times eleven customers or

25 nine.

0338

 1 Q. So if the Commission says that the Company is

 2 allowed to get a certain level of revenue and the

 3 decoupling mechanism is supposed to give you that level

 4 of revenue, how does that harm the Company's ability to

 5 earn its return?

 6 A. It harms the utility's -- very simple example.

 7 Let's say power costs in the rate year were $110, and

 8 bringing that back down to test year levels based on

 9 customer growth in between the two periods, it brought

10 it down to $100 in the test year. If you're stuck at

11 $100, you're never going to make it back to 110 in the

12 rate year.

13 So we're saying if you're going to hold 110 at

14 110 regardless of the number of customers you serve,

15 then you need to have 110, not 100 from the test year

16 amount, or you're ten short. And so that frustrates

17 your ability to actually recover your costs and earn

18 your authorized rate of return. Which is why we're

19 supportive of Staff's proposal because it does both.

20 MS. GAFKEN: Thank you. That concludes my

21 questioning.

22 JUDGE MOSS: Thank you very much.

23 Mr. ffitch, it is the moment of truth.

24 We've had 145 minutes of cross-examination of

25 Mr. Piliaris. Did it eliminate your 15 minutes or a

0339

 1 portion of it?

 2 MR. FFITCH: Maybe a little bit, Your Honor.

 3 There was some overlap with Public Counsel. I'll try to

 4 edit on the fly.

 5 JUDGE MOSS: Thank you very much.

 6 MR. FFITCH: Sort of an ominous introduction

 7 from the bench.

 8 JUDGE MOSS: You're the one who made the

 9 suggestion.

10 MR. FFITCH: There's not very many numbers

11 in this, I will assure you.

12

13 CROSS-EXAMINATION

14 BY MR. FFITCH:

15 Q. Good afternoon, Mr. Piliaris.

16 A. Good afternoon, Mr. ffitch.

17 Q. You were a witness in the 2013 Puget dockets

18 that led to the approval of the first decoupling

19 mechanism and the other elements of the rate plan;

20 correct?

21 A. Correct.

22 Q. And so you're aware that ultimately the

23 Commission in that case or those dockets approved the

24 rate plan in part because it included important customer

25 protections, in particular the earnings test and the

0340

 1 rate 3 percent rate cap; correct?

 2 A. I'm not sure that the Commission necessarily

 3 tied those particular customer protections to their rate

 4 plan. I think that they tied them directly to the

 5 decoupling mechanism itself, which was distinct from the

 6 rate plan.

 7 Q. Fair enough. If I wasn't clear that's what I

 8 was saying. My questions relate to decoupling.

 9 You've testified that in this case, and I think

10 perhaps just again recently, that the intent of the

11 3 percent cap was to mitigate rate volatility for

12 customers; correct?

13 A. Correct.

14 Q. So it would follow logically that increasing the

15 rate cap from 3 percent to 5 percent would increase rate

16 volatility for customers on the electric side and on the

17 gas side; correct?

18 A. Potentially.

19 Q. And the problem with rate volatility, frequent

20 relatively large rate increases, is that it's really

21 inconsistent with one of the basic sort of design goals

22 of regulatory rate making which is rate stability; isn't

23 that a fair statement?

24 A. The Commission and the Company are constantly

25 balancing the various competing interests, and rate

0341

 1 stability is one of the interests that are considered.

 2 Q. Okay. So in a nutshell, increasing the rate cap

 3 from 3 to 5 percent would increase customer volatility

 4 and also weaken and identify customer protection that

 5 the Commission appointed to when it first approved

 6 Puget's decoupling; isn't that accurate?

 7 A. I'm not sure that I would necessarily

 8 characterize it that way. If we had perfect foresight

 9 and the Commission had perfect foresight and understood

10 going in the level of deferrals that have accrued

11 historically over the period, I don't know whether or

12 not the Commission would have been satisfied with the

13 3 percent. It may have found that 4 percent or maybe

14 even higher would have been appropriate, particularly

15 for the gas residential customers.

16 And obviously it's hindsight, but I mean, based

17 on what they knew at the time, they thought that that

18 was an appropriate level. They may reconsider in this

19 case.

20 Q. Well, in fact, and you may recall, do you recall

21 that in that docket Puget Sound Energy reassured the

22 Commission that it was unlikely that the 3 percent cap

23 would ever be reached on either the electric or the gas

24 side; correct?

25 A. The Company was surprised at the level of the

0342

 1 deferrals, particularly on the gas side. Then again, it

 2 didn't contemplate back-to-back historically warm, and

 3 by historic I mean very historic terms, that the warmth

 4 of the winters and the reduction in loads that we

 5 actually experienced.

 6 Q. And isn't it true that the reassurance in that

 7 case was given to the Commission and all the parties to

 8 address a desire really to design a mechanism that would

 9 have modest rate increases and to address a concern that

10 the lack of regulatory review of the rate increases

11 would otherwise be kind of worrisome, but again, the

12 representation was, is there going to be modest size

13 small rate increases?

14 MS. CARSON: Object to the form of the

15 question. It's argument or speech making.

16 JUDGE MOSS: I think you can answer that

17 question.

18 THE WITNESS: Again, the Company did not

19 expect the size of the deferrals. They were larger than

20 we had anticipated.

21 Q. (BY MR. FFITCH) Why shouldn't the Commission

22 view this problem of larger than expected deferrals as

23 evidence that this particular form of decoupling is

24 problematic and that it might want to consider looking

25 at alternatives as opposed to simply increasing the

0343

 1 caps?

 2 A. I think if we had a mechanism that didn't

 3 actually have a rate plan component to it in addition,

 4 perhaps that would be more valid. But right now the

 5 rate plan actually was a contributing factor to our

 6 inability to flow through costs, because we had step

 7 rate increases in allowed revenue per customer each year

 8 which ate into our capacity to deal with the deferrals

 9 that we ultimately experienced.

10 So absent the rate plan increases, the issues

11 would not be as great, I don't think.

12 Q. Well, except that you're now predicting that

13 it's in fact likely or highly likely that rate

14 increases, the deferral amounts will exceed 3 percent --

15 A. Not necessarily.

16 Q. -- are you not?

17 A. Well, the point is, particularly on the gas

18 residential, is we have an existing balance, and we need

19 to do something with that balance. My understanding in

20 my conversations with the Commissioners in previous

21 Schedule 142 filings is they've been growing concerned

22 about the magnitude of those deferrals. And so we could

23 continue on with 3 percent and unwind those deferrals

24 over a much longer period of time and introduce

25 potentially intergenerational concerns, or we could step

0344

 1 up the rate increases to bring them down.

 2 That being said, once we got to a point where

 3 those deferrals were exhausted, I would not foreclose

 4 the possibility that maybe we go back down to 3 percent

 5 for gas residential having swallowed the proverbial pig

 6 and taken care of the deferral balance. It may no

 7 longer be needed. So this is not a forever more; this

 8 is for the current period for the current issues facing

 9 us in this case.

10 Q. And the third-party evaluator in the case does

11 not recommend an increase to the rate cap on the

12 electric side, isn't that correct?

13 A. I don't believe that the third-party evaluator

14 necessarily did, no. But I'm not sure, I can't recall

15 off the top of my head whether they addressed it at all.

16 They were clearly focused on the gas side because that

17 was clearly an issue given the deferrals that they were

18 looking at.

19 But I don't believe that they contemplated

20 necessarily the introduction of fixed production costs

21 into their evaluation of the electric decoupling

22 mechanism.

23 MR. FFITCH: Thank you. Those are all the

24 questions I have. Thank you, Mr. Piliaris.

25 JUDGE MOSS: Thank you, Mr. ffitch.

0345

 1 Now, I don't think I'm premature this time

 2 in asking if there's any redirect.

 3 MS. CARSON: No, I don't have any redirect.

 4 JUDGE MOSS: All right. So I wasn't

 5 premature before, as it turns out.

 6 Any questions from the bench, however? No?

 7 No questions from the bench.

 8 Very well. Mr. Piliaris, thank you very

 9 much for being here today and giving us your testimony.

10 You are released from the witness stand.

11 And I do believe that -- no, we have

12 Mr. Ball. We still have Mr. Ball. Here he comes.

13 (A break was taken from

14 3:12 p.m. to 3:19 p.m.)

15 JUDGE MOSS: Let's please come back to

16 order.

17 JASON BALL, witness herein, having been

18 first duly sworn on oath,

19 was examined and testified

20 as follows:

21

22 -o0o-

23 JUDGE MOSS: Staff's witness.

24

25 ///

0346

 1 DIRECT EXAMINATION

 2 BY MR. SHEARER:

 3 Q. Mr. Ball, can you please state and say your name

 4 for the record. Or spell your name, I'm sorry.

 5 A. My name is Jason Ball, J-a-s-o-n, B-a-l-l.

 6 Q. And do you have the exhibits that have been

 7 entered and stipulated to as JLB-1T through JLB-12T with

 8 you?

 9 A. Yes.

10 Q. And do you have any corrections to those

11 exhibits?

12 A. I do not.

13 MR. SHEARER: Your Honor, the witness is

14 available for cross.

15 JUDGE MOSS: All right. Well, I was just

16 saying to Ms. Boyles we haven't had a chance to hear

17 from her all day so we'll let her go first.

18 MS. BOYLES: Thank you, Your Honor.

19

20 CROSS-EXAMINATION

21 BY MS. BOYLES:

22 Q. Good afternoon, Mr. Ball.

23 A. Good afternoon.

24 Q. In your initial and cross-answering testimony,

25 you propose including line transformers in the basic

0347

 1 charge; is that correct?

 2 A. That's correct.

 3 Q. Are you aware of any state commission that has

 4 approved or affirmed the classification of transformers

 5 as a customer-related cost?

 6 A. I'm not.

 7 MS. BOYLES: Thank you, Your Honor.

 8 JUDGE MOSS: Thank you, Ms. Boyles. I

 9 expect to see that point thoroughly briefed.

10 MS. BOYLES: Yes, sir.

11 JUDGE MOSS: Mr. Stokes, I believe you have

12 a few questions for Mr. Ball?

13 MR. STOKES: Yes, Your Honor.

14 JUDGE MOSS: Go ahead, please.

15

16 DIRECT EXAMINATION

17 BY MR. STOKES:

18 Q. Good afternoon, Mr. Ball.

19 A. Good afternoon.

20 Q. If you look at Exhibit JLB-13X.

21 A. Okay.

22 Q. Does this appear to be your testimony from the

23 Avista 2016 rate case?

24 A. Yes.

25 Q. Can you please turn to Page 4 of that exhibit.

0348

 1 A. Page 4 as it's labeled on the top?

 2 Q. I'm sorry, Page 4 on the bottom.

 3 A. Page 4 on the bottom. It says Cost of Service

 4 at the top?

 5 Q. Correct. Starting at Line 11, can you read the

 6 recommendation to the Commission?

 7 JUDGE MOSS: Mr. Stokes, I don't normally

 8 like to have witnesses read into the record what's

 9 already in the record, so if you have a question about

10 this testimony that you want to ask him, go ahead. But

11 there's no reason for him to read it in.

12 MR. STOKES: Okay, very well.

13 Q. (BY MR. STOKES) In the Avista 2016 rate case,

14 you recommended to start a generic cost of service

15 proceeding; is that correct?

16 A. That's correct.

17 Q. And what was the purpose of the generic cost of

18 service proceeding?

19 A. Well, a generic cost of service proceeding is

20 designed to look at various cost of service

21 methodologies and figure out using both a collaborative

22 and possibly an adjudicative process what the most

23 reasonable form for cost of service methodologies is.

24 And in this particular case this is where Staff

25 set it up. And Staff, I believe the line you're

0349

 1 referring to is Line 11 said, Staff recommends

 2 maintaining the status quo for Avista. In Avista's case

 3 the status quo is the exact same methodology we've

 4 proposed in this current case, which is the peak and

 5 average method using five peaks from each of the last

 6 three years.

 7 Q. So can you -- in the Avista case, didn't you

 8 argue for equal percent of margin basis on the gas side?

 9 A. That's a rate spread, not a cost of service

10 portion.

11 Q. All right. In this case, as opposed to the

12 generic proceeding, we only have the litigation

13 positions of Puget and Staff from the gas users with

14 respect to the cost of service; is that correct?

15 A. That's correct.

16 Q. Are you aware of how other jurisdictions use

17 methods to allocate costs?

18 A. I'm aware in general that there are different

19 allocation methodologies across the entire country, yes.

20 Q. Can you provide some examples?

21 A. Certainly. So there's a wide range of cost of

22 service methodologies. On one end you have a cost of

23 service methodology that relies solely on throughput.

24 Now, arguably that methodology would be the most

25 beneficial you can get to residential ratepayers. And

0350

 1 basically what it looks at is what was the total amount

 2 of throughput that occurred all 365 days of last year,

 3 and that's how we're going to allocate costs.

 4 And on the other end, arguably the most

 5 beneficial to industrial advocates would be the 1CP

 6 method which is what is the most -- or what is the most

 7 gas you used any day of last year, one data point from

 8 365, what was the most gas that you used. And then

 9 there's a lot of options along the way in between.

10 Staff's proposal, kind of halfway, it uses 15

11 data points out of 365, or more accurately uses five

12 data points from each of the last three years and

13 averages them together, taking the five top peaks from

14 each of those last three years to get an average

15 representative peak.

16 So you've got this range of options, and now

17 what you're asking about is the three cost of service

18 methodologies presented in this case. Staff's, as I've

19 described, kind of lies in the middle. The other two

20 rely on design day, and design day isn't in that range

21 at all. Design day is well beyond the 1CP. And the

22 reason for that is because design day is based on a

23 theoretical number that's completely hypothetical and

24 has never occurred.

25 Q. Are you aware that the peak and average

0351

 1 methodology that you use is not in the AGA gas rate

 2 fundamental annual?

 3 A. I'm aware of that. I'm also aware that there's

 4 a lot of various methodologies that occur across the

 5 entire country. The way we assign costs in Washington

 6 is not dictated by the fundamentals workbook. The way

 7 we assign costs in Washington is dictated by the

 8 Commission.

 9 Q. Can you summarize your proposal for the special

10 contract class of customers?

11 A. Certainly. Sorry, bit of a change of topic.

12 Q. Sorry. Switch gears.

13 A. Yeah, that's okay.

14 So for the special contract class, what Staff is

15 recommending to the Commission is that the revenues for

16 that class be imputed as if they were equal to the

17 current allocated costs from the cost of service study.

18 In the alternative, Staff is recommending that

19 if you don't want to go that route then at a minimum the

20 rate charged and the revenue collected under that

21 contract should be increased such that it achieves a

22 2 percent rate of return.

23 Q. And your proposal for the special contract class

24 is based on Staff's cost of service study; correct?

25 A. Correct. The primary proposal, as is my

0352

 1 alternative proposal, is based upon the embedded cost of

 2 service to provide service to that class, and the

 3 imputed revenues is just a math function. The 2 percent

 4 number comes from, well, it's about halfway from where

 5 we are now, and it also is the point at which bypass

 6 becomes economically viable based upon the information

 7 provided in the special contract.

 8 Q. Would you agree that the amount of rate base

 9 allocated to a particular customer class will vary based

10 on the cost of service study or a cost of service method

11 used?

12 A. Yes.

13 Q. Would you agree that the amount of income taxes

14 allocated to a particular class of customers will vary

15 based on the cost of service methodology used?

16 A. Again, yes.

17 Q. So why are special contracts allowed?

18 A. Special contracts are allowed under the WAC to

19 recognize special circumstances, service that otherwise

20 couldn't be provided under the tariffs as they exist

21 today.

22 Q. Is it normally when a customer has a bypass

23 opportunity?

24 A. That is one of the conditions. Yeah, that's one

25 of the conditions is when a customer has the potential

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 1 to bypass, and in order to avoid that situation the

 2 Company provides a special service contract that

 3 includes some sort of discount in order to retain that

 4 customer on the system.

 5 Q. If you can turn to Page 2 and 3 of JLB-8T. So

 6 at the bottom of Page 2 and the top of Page 3, you cite

 7 WAC Rule 480-180-143(5)(c); correct?

 8 A. Say that again.

 9 Q. At the top of Page 3 you cite the WAC Rule

10 480-180-143(5)(c); correct?

11 A. Yes.

12 Q. And in that rule there are, it says that the

13 contract charges recover all costs resulting from

14 providing the service; correct?

15 A. Correct. That's what it says.

16 Q. So when we're talking about all costs resulting

17 from providing the service, what sort of costs are we

18 talking about?

19 A. That's an excellent question. And I think

20 Mr. Piliaris started addressing that this morning or,

21 excuse me, this afternoon. And he was right about one

22 thing; we disagree.

23 Incremental costs is what he was talking about

24 versus embedded costs. And so you've got to ask, what

25 is incremental costs. Well, if we have a distribution

0354

 1 system and we overbuilt it a little bit, we've got some

 2 excess capacity, and we can go out and resell that

 3 excess capacity, get a little bit of the money back.

 4 And so what would happen is PSE goes out and says, hey,

 5 we've got some excess capacity, somebody wants to come

 6 along and buy it and they pay for it and everybody's

 7 happy. Works; that's great.

 8 The same thing we do with pipeline capacity,

 9 same thing that goes on with generation and excess power

10 generation and transmission. It occurs regularly in

11 those markets because there's markets. Distribution,

12 not so much of a market but still it could happen. But

13 what that's referring to is a customer who doesn't exist

14 yet coming along and saying, hey, I'll take some of your

15 incremental excess capacity.

16 That's not what we're talking about here. We're

17 talking about a customer who already exists threatening

18 bypass, a customer who's already part of that embedded

19 cost study. And so when you start saying the

20 incremental cost needs to be -- is what the rule is

21 talking about, but it's implied, but we're referring to

22 a customer related to bypass who is already part of the

23 embedded cost study that informed the incremental cost

24 that's now being subject to the embedded -- my head

25 starts going in circles. And so that's the first part

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 1 of that issue.

 2 The second part is we don't actually know what

 3 that incremental cost is. There's nothing that I've

 4 found in the record or off the record or in DRs that

 5 shows that. We don't have any detailed engineering

 6 study of what the incremental cost to providing service

 7 to this customer is. All we have is the embedded cost

 8 study. Or, theoretically what you could do is take the

 9 bypass information included in the special contract and

10 calculate a number from that. If you do, you

11 incidentally get a 2 percent rate of return, which is

12 what Staff's proposal was.

13 But in getting back to the demonstrating costs,

14 essentially my arguing that it should be only that one

15 little piece of incremental cost, you're talking about a

16 customer that doesn't exist for costs we don't have.

17 And I don't know how to -- I don't know how to do that.

18 I think the only way to do it is to use the embedded

19 cost study as it stands.

20 Q. So if that special contract customer decided to

21 exercise its right and bypass, assuming the contract

22 didn't prevent them from doing that, what costs would

23 still be on the system that would have to be absorbed by

24 other customers?

25 A. Also a very good question. My response to that

0356

 1 is three-fold. One, I'm not sure, because we don't have

 2 a detailed engineering study that shows it. If a

 3 customer chose to leave the system, there's a

 4 possibility they could be paying a stranded cost fee.

 5 That's happened, that's occurred before, so that could

 6 offset some of those costs.

 7 In terms of what rate base remains, what O&M

 8 remains, what income tax remains, some of it would still

 9 be there, some of it would ostensibly retire because

10 it's no longer in use, some of it would be reallocated,

11 reused, resold, some of it might go with the customer.

12 So that all would happen with the rate base. And then

13 what's left would get picked up.

14 Now, arguably, the amount of revenue that's

15 being subsidized to the special contract right now is so

16 significant that I'm not sure that it actually would

17 harm ratepayers if they left. It is a possibility

18 because of the extreme level of subsidization that other

19 ratepayers would be better off and that enough rate base

20 would disappear and enough O&M would disappear that

21 their revenue allocation would go down. I don't know

22 that for certain because we don't have a detailed

23 engineering study.

24 Q. How exactly would the rate base go down?

25 A. Some of the rate base would be sold off, some of

0357

 1 the rate base would go with the customer. I mean, they

 2 have to have some kind of service or ability to serve,

 3 otherwise they're going to be laying pipe right along

 4 the same trench.

 5 Q. Isn't that what normally happens when a customer

 6 bypasses? They bypass and they build their own line and

 7 they interconnect with interstate pipelines --

 8 A. It depends --

 9 (Court reporter interruption.)

10 Q. (BY MR. STOKES) So typically in a bypass

11 situation, doesn't the customer build their own

12 facilities from their complex and they interconnect with

13 the interstate pipeline under federal law, and they

14 bypass, that's why it's called a bypass, they bypass the

15 LDC completely, they use none of their facilities?

16 A. Yes, they could do that. However, it depends

17 upon how they're hooked up. They could buy the LDC's

18 facilities, assuming that there was nothing else

19 attached to them, to bypass directly to the pipeline.

20 The likelihood of that in my opinion is

21 extremely low, because like I said, there's a bypass

22 analysis included in the special contract. And that

23 bypass analysis indicates that as long as the rate of

24 return is below 2 percent, they're not going to bypass.

25 There's no economic reason to do so.

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 1 Q. Would you agree that fixed costs include more

 2 than just return on rate base?

 3 A. Yes. And this is part of the problem with

 4 accounting versus economics. Fixed costs means things

 5 that are sunk, things that you've paid out and you're

 6 never going to get it back, in the sense that if you

 7 shut down operations tomorrow you can't get that money

 8 back, you've paid it, it's gone. You could sell

 9 something but it's paid. And expense is, if I stop

10 operating tomorrow I don't have to pay anything, that

11 expense doesn't exist anymore for me.

12 So yes, depreciation expense is an expense but

13 it's also a fixed cost. And it's really a question of

14 how you look at it. If you look at it from a

15 shareholder perspective, depreciation expense is a

16 return of capital which is a fixed cost. It's a return

17 of money to the shareholder who outlaid cash to build

18 something so that people could use it.

19 From a ratepayer perspective, depreciation

20 expense also represents the use of an asset. If us as a

21 class are taking service, we're using up that asset and

22 diminishing its useful life just a little bit. And we

23 compensate and pay for that use of life with

24 depreciation expense. So in that way it's also an

25 expense.

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 1 So it's hard to strike that balance between

 2 fixed and not fixed because it depends on whether you're

 3 talking to the accounting world or economic world.

 4 Q. Well, I have the same question about income

 5 taxes. Is that a fixed cost?

 6 A. I don't agree that income taxes are a fixed

 7 cost, no. Income taxes are variable. If you shut down

 8 your operations tomorrow, you have no income tax.

 9 Q. So you think that the income from the special

10 contracts class is not connected to rate base? Is that

11 your position?

12 A. Income is a revenue minus expenses calculation.

13 To the extent that your revenue is based upon a

14 calculated percentage on rate base, yes. But it still

15 stands to the truth that if you shut down tomorrow you'd

16 have no revenue. You'd still have rate base and you'd

17 have no expenses and still have rate base. You'd have

18 no income tax.

19 Q. From a rate base standpoint, is income tax

20 related to rate base?

21 A. Income tax has a relationship to rate base, yes.

22 Is it a fixed cost? No.

23 MR. STOKES: I think that's all I have, Your

24 Honor.

25 JUDGE MOSS: Thank you very much. Any

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 1 redirect?

 2 MR. CASEY: No, Your Honor.

 3 JUDGE MOSS: Thank you very much.

 4 Any questions from the bench for Mr. Ball?

 5 Mr. Ball, thank you for being here today and

 6 giving your testimony. You are released from the

 7 witness stand.

 8 And I believe that completes our witnesses.

 9 Is there anything else that the Commissioners need to

10 hear today? I will release them from the hearing. If

11 there isn't, I have a few words for all of you.

12 COMMISSIONER BALASBAS: Are we invited to

13 stay?

14 JUDGE MOSS: You are invited to stay, of

15 course, always.

16 I just wanted to talk to you all about the

17 procedural schedule. We have initial post-hearing

18 briefs currently scheduled for October 2nd. I'm

19 assuming everyone is going to want to file a brief even

20 though this is a narrow set of issues we've heard.

21 Is October 2nd still a good day?

22 MS. CARSON: From the Company's perspective

23 I think that works. I guess the only question is do we

24 wait until the settlement hearing and file one brief

25 addressing all that?

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 1 JUDGE MOSS: That works for me. What do

 2 other parties think about that?

 3 MS. CARSON: Well, they're thinking out

 4 loud.

 5 JUDGE MOSS: There's a "but."

 6 MS. CARSON: I guess my concern there is

 7 because the settlement hearing has been moved back so

 8 far to the end of September that, you know, then we're

 9 talking about briefs, I would guess, at the end of

10 October. And I don't know how that works for the

11 Commission. We would want to have a chance for reply

12 briefs, but that's usually a week to ten days.

13 JUDGE MOSS: Let's go ahead and get them

14 sooner rather than later on this segment of the case.

15 Okay, so we'll go ahead with October 2nd

16 then.

17 MS. CARSON: That's fine.

18 JUDGE MOSS: And I would like to think that

19 one round would be sufficient. Do we need reply briefs?

20 MS. CARSON: We do need reply briefs.

21 JUDGE MOSS: All right. Let's keep them

22 short, shall we? Those are scheduled for October 13th.

23 MS. GAFKEN: Just to clarify, so are we

24 bifurcating the briefs or just briefing the narrow

25 issues?

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 1 JUDGE MOSS: We're briefing the issues that

 2 we heard today; just these issues, just these witnesses,

 3 just this part of the evidence. And then we're going to

 4 have the settlement come in at some point in time.

 5 Public Counsel is going to let us know whether or not

 6 they support it or oppose it, and then we're going to

 7 have a settlement hearing. And we know one party is

 8 opposing it so we're going to have to have a contested

 9 hearing on the settlement, unless that changes between

10 now and the time we set for that hearing, which can

11 always happen, of course.

12 So, and then we'll have another opportunity,

13 I suspect we'll probably have to have briefs after the

14 settlement hearing as well. But we will of course talk

15 about scheduling that at the appropriate time.

16 MR. FFITCH: Your Honor, just a plea for

17 mercy, I guess. October 2nd is the Monday after the

18 settlement hearing, so as a practical matter, preparing

19 briefs during the lead-up to that time to the settlement

20 hearings might be a challenge that people hadn't thought

21 about. So I was going to suggest that perhaps at least

22 having that October 2nd be slipped a few days, maybe the

23 end of the week, the 6th.

24 JUDGE MOSS: How about slipping it in the

25 other direction?

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 1 MR. CASEY: I would note that we have a

 2 settlement -- a lot of the people in this room have a

 3 settlement hearing on the 6th for the Avista GRC. Not a

 4 hearing but a settlement conference.

 5 JUDGE MOSS: A negotiation session, not a

 6 hearing, unless something has happened that I don't know

 7 about.

 8 MR. CASEY: No, I'm sorry. A settlement

 9 conference, but it is part of the procedural schedule.

10 JUDGE MOSS: Well, October 2nd is more than

11 a month away, and this is a fairly narrow matter that

12 we've got here that we've litigated. It seems to me you

13 could probably -- I don't want to push you too hard

14 here, but why can't we do the briefs by the middle of

15 September and then the reply briefs towards the end of

16 September?

17 MR. STOKES: I would rather keep the

18 schedule as it is, Your Honor, from a personal

19 standpoint.

20 MS. CARSON: Yeah, I agree. I would not

21 want it middle of September. I mean, maybe if we just

22 moved it to October 3rd, even give us one extra day.

23 JUDGE MOSS: Let's move it to October 4th

24 and then keep the reply briefs on the 13th. That will

25 ensure they're brief, or help that way, I should say.

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 1 So that's what we'll do.

 2 So we will look forward to receiving some

 3 additional paperwork in terms of a fully articulated

 4 settlement agreement and the supporting documentation

 5 that goes with that. We may have a prehearing

 6 conference at the time that is submitted or we may do

 7 something telephonically, I'm not really sure. We'll

 8 have to decide on some process and a procedural schedule

 9 to get through that and get to the hearing.

10 As I said, I've got some dates reserved

11 toward the end of September so timing is everything.

12 And we'll have to take it one step at a time as we see

13 how things unfold. So I don't want to try to set a

14 schedule today, but I encourage you all to, and I know

15 you will, work diligently to get everything prepared.

16 I'm afraid I'm forgetting something. Does

17 anybody have anything for me?

18 Ms. Gafken, you're leaning forward with

19 expectancy. What is it you wish to say?

20 MS. GAFKEN: There's one other item that I

21 wanted to bring up, and that's the public comment

22 exhibit. And I'm looking for a due date for that, and

23 typically it's one week after the end of the proceeding.

24 I don't know exactly when the end of the proceeding is

25 at this point.

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 1 JUDGE MOSS: Well, I'm torn, because the

 2 bigger part of this whole proceeding, which is to say

 3 the revenue requirement, is subject to the settlement

 4 and it will be a subject of that whole process. And

 5 speaking to Mr. Roberts on our staff who handles this

 6 exhibit for the staff, he asked me the other day what

 7 the deadline would be. And I started out with an early

 8 date and ended up with a date that would follow the

 9 hearing, the settlement hearing. So I'm still inclined

10 to leave that opportunity open for written comments

11 until that time. Does that work for you?

12 MS. GAFKEN: That certainly works for me. I

13 would prefer leaving the time open for the public to

14 comment and then preparing the exhibit after that time.

15 JUDGE MOSS: The public may wish to comment

16 on the settlement.

17 MS. GAFKEN: They very well may.

18 JUDGE MOSS: So let's leave it open for now.

19 And I can't give you a firm date again because we don't

20 know what the other dates are. Same thing I told

21 Mr. Roberts. That seems to me the way to proceed.

22 MS. GAFKEN: Perhaps we'll revisit it when

23 we get together again for the settlement hearing.

24 JUDGE MOSS: Sure. And I'm always available

25 if you all need to take up some process or procedural

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 1 issues with me or what have you. You can always get

 2 ahold of me or Judge Pearson, or hopefully both of us if

 3 you're e-mailing, and we can take care of what needs to

 4 be taken care of.

 5 MS. GAFKEN: I know my office has been in

 6 contact with Mr. Roberts with coordination in place.

 7 JUDGE MOSS: All right, good. Well, I will

 8 certainly get that exhibit in the record at an

 9 appropriate time and it will be considered along with

10 everything else as we deliberate over the issues in the

11 case.

12 MS. GAFKEN: Thank you.

13 JUDGE MOSS: Just to clarify, the

14 Commissioners were in the room when we discussed and

15 clarified that the 18th is just too soon to expect

16 everything to be in place, and so we're just kind of

17 putting that date off to one side. And maybe I'll take

18 the day off.

19 Anything else? Mr. Casey is anxious to go,

20 so is the chairman. So let's be adjourned. Thank you

21 all very much; I do appreciate it. It was a good

22 hearing and you all did a great job, as always.

23 (Hearing concluded at 3:48 p.m.)

24

25

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 1 C E R T I F I C A T E

 2

 3 STATE OF WASHINGTON )

 ) ss.

 4 COUNTY OF SNOHOMISH )

 5

 6 THIS IS TO CERTIFY that I, Diane Rugh, Certified

 7 Court Reporter in and for the State of Washington,

 8 residing at Snohomish, reported the within and foregoing

 9 testimony; said testimony being taken before me as a

10 Certified Court Reporter on the date herein set forth;

11 that the witness was first by me duly sworn; that said

12 examination was taken by me in shorthand and thereafter

13 under my supervision transcribed, and that same is a

14 full, true and correct record of the testimony of said

15 witness, including all questions, answers and

16 objections, if any, of counsel, to the best of my

17 ability.

18 I further certify that I am not a relative,

19 employee, attorney, counsel of any of the parties; nor

20 am I financially interested in the outcome of the cause.

21 IN WITNESS WHEREOF I have set my hand this 10th

22 day of October, 2017.

23

24

 DIANE RUGH, RPR, RMR, CRR, CCR

25 CCR NO. 2399