

Docket Nos. UE-170033 and UG-170034
(Consolidated) - Vol. III

Washington Utilities and Transportation
Commission v. Puget Sound Energy

August 30, 2017



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1 BEFORE THE WASHINGTON
 2 UTILITIES AND TRANSPORTATION COMMISSION

3 WASHINGTON UTILITIES AND)
 4 TRANSPORTATION COMMISSION,)
 5 Complainant,)
 6 vs.) DOCKETS UE-170033
 7 PUGET SOUND ENERGY,) and UG-170034
 8 Respondent.) (Consolidated)

9 HEARING, Volume III
 10 Pages 146 to 367
 11 ADMINISTRATIVE LAW JUDGE DENNIS MOSS
 12 and
 13 ADMINISTRATIVE LAW JUDGE RAYNE PEARSON

14 9:00 a.m.
 15 August 30, 2017
 16 Washington Utilities and Transportation Commission
 17 1300 South Evergreen Park Drive Southwest
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1	A P P E A R A N C E S (Continued)		
2	FOR NWIGU:		
3	CHAD M. STOKES	1	MICHAEL GORMAN
4	Cable Huston	2	Direct Examination By Mr. Pepple
5	Suite 2000	3	Cross-Examination By Mr. O'Connell
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8	FOR THE KROGER CO:	8	Cross-Examination By Mr. Pepple
9	KURT J. BOEHM	9	Cross-Examination By Mr. Stokes
10	Boehm, Kurtz & Lowry	10	Cross-Examination By Ms. Liotta
11	36 East Seventh Street, Suite 1510	11	Cross-Examination By Ms. Gafken
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13		15	Cross-Examination By Ms. Boyles
14		16	Direct Examination By Mr. Stokes
15		17	
16		18	
17		19	
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1	HEARING	1	OLYMPIA, WASHINGTON, AUGUST 30, 2017
2	Volume III: INDEX	2	9:00 A.M.
3	WITNESSES:	3	-oOo-
4	PAGE	4	P R O C E E D I N G S
5	AMANDA LEVIN	5	
6	Direct Examination By Ms. Boyles	6	JUDGE MOSS: Parties are ready? Good
7	Cross-Examination By Mr. O'Connell	7	morning everybody. My name is Dennis Moss; I'm an
8	KEVIN HIGGINS	8	Administrative Law Judge with the Washington Utilities
9	Direct Examination By Mr. Boehm	9	and Transmission Commission. Seated to my left is Judge
10	Cross-Examination By Mr. O'Connell	10	Rayne Pearson who is co-presiding in this proceeding.
11	DANIEL DOYLE	11	We will be sharing the duties at the bench today.
12	Direct Examination By Ms. Carson	12	I have previously alerted those of you who
13	Cross-Examination By Mr. Bryant	13	got here a little bit early as to exactly the format
14	ALI AL-JABIR	14	that we'll follow. But just quickly again, I'll do the
15	Direct Examination By Ms. Liotta	15	opening, and then we have several, we have three
16	Cross-Examination By Mr. O'Connell	16	telephone witnesses appearing first, thanks to PSE's
17	BOOGA GILBERTSON	17	agreement to that. And Judge Pearson will handle that
18	Direct Examination By Ms. Carson	18	part of the hearing, and then we'll take up live witness
19	Cross-Examination By Mr. Oshie	19	Mr. Doyle and then Gilbertson. So that will probably
20	Cross-Examination By Mr. Bryant	20	take care of the morning. Or maybe not, it depends.
21	Redirect Examination By Ms. Carson	21	Those of you on the conference bridge line,
22	KATHERINE BARNARD	22	please mute your phones; you're interfering with our
23	Direct Examination By Ms. Carson	23	hearing room. That was effective.
24	Cross-Examination By Ms. Gafken	24	So I've talked to the parties informally off
25	Cross-Examination By Mr. Oshie	25	the record about a few items this morning. I've alerted

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<p>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.</p> <p>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.</p> <p>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.</p> <p>20 MS. CARSON: That's correct.</p> <p>21 JUDGE MOSS: Now, Ms. Gafken, do you have 22 any update from the Attorney General?</p> <p>23 MS. GAFKEN: I have no update to provide.</p> <p>24 JUDGE MOSS: Okay. So we don't know about 25 the status of the Public Counsel and the settlement at</p>	<p>1 MR. STOKES: Good morning. Chad Stokes from 2 the Cable Huston Law Firm representing Northwest 3 Industrial Gas Users.</p> <p>4 MR. PEPPLER: Tyler Pepple on behalf of the 5 Industrial Customers of Northwest Utilities. And with 6 me is --</p> <p>7 MR. OSHIE: Pat Oshie also on behalf of 8 ICNU.</p> <p>9 MR. FFITCH: Your Honor, Simon ffitch on 10 behalf of The Energy Project.</p> <p>11 MS. GAFKEN: Good morning. Lisa Gafken of 12 Public Counsel.</p> <p>13 MR. BRYANT: Armikka Bryant, Assistant 14 Attorney General for Public Counsel.</p> <p>15 MR. O'CONNELL: Andrew O'Connell, Assistant 16 Attorney General with Commission Staff.</p> <p>17 MR. SHEARER: Brett Shearer here on behalf 18 of Commission Staff.</p> <p>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.</p>
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<p>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.</p> <p>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.</p> <p>13 MS. CARSON: Good morning. Sheree Strom 14 Carson with Perkins Coie representing Puget Sound 15 Energy.</p> <p>16 MR. STEELE: Good morning. David Steele 17 with Perkins Coie also representing PSE.</p> <p>18 JUDGE MOSS: Why don't we go with you, Mr. 19 Boehm.</p> <p>20 MR. BOEHM: Good morning. Kurt Boehm 21 representing The Kroger Company.</p> <p>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.</p>	<p>1 MS. LIOTTA: I'm sorry, Your Honor. I'm 2 Rita Liotta for FEA.</p> <p>3 JUDGE MOSS: Maybe you could move up closer 4 to the front and somebody can make a chair available to 5 you.</p> <p>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.)</p> <p>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?</p> <p>20 MS. CARSON: PSE has no objections.</p> <p>21 MR. STOKES: No objections, Your Honor.</p> <p>22 MR. PEPPLER: No objections.</p> <p>23 MS. GAFKEN: Public Counsel has no 24 objections to the prefiled testimony and exhibits. 25 MR. SHEARER: And no objections from Staff,</p>

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1 Your Honor.	1 being withdrawn completely.
2 MR. BOEHM: No objections, Your Honor.	2 JUDGE MOSS: Okay. We'll have another
3 MS. BOYLES: No objections.	3 opportunity at the time of the settlement hearing to
4 JUDGE MOSS: What a morning; we're batting a	4 talk about any other documents that need to be in or out
5 thousand.	5 of the record. So not all is lost if we got something
6 Okay, so all the prefiled exhibits and	6 in that shouldn't be or left something out that should
7 testimony will be stipulated into the record. You will	7 be in. At the time of the settlement hearing the
8 have an exhibit list, and so that exhibit list will be	8 parties will have another opportunity to make
9 the one for the hearing.	9 objections.
10 Now, about the cross exhibits, can we	10 (Discussion off the record.)
11 similarly stipulate in the cross exhibits that have been	11 (A break was taken from
12 designated for the witnesses today? We don't need to	12 9:12 a.m. to 9:18 a.m.)
13 worry about any cross exhibits that have been submitted	13 JUDGE PEARSON: Let's be back on the record
14 for witnesses who aren't appearing today if there are	14 following a short recess. Judge Moss and I are joined
15 such things. But for those witnesses who will appear	15 on the bench now by Chairman Danner, Commissioner
16 today, can we stipulate in the exhibits?	16 Rendahl and Commissioner Balasbas. For their benefit,
17 Mr. Steele? Ms. Carson?	17 why don't we just go around the room and do brief
18 MR. STEELE: Your Honor, the only objection	18 introductions again. And we'll just begin with Staff
19 that PSE has is to JAP-60X. We believe it's an ICNU	19 and go around the room.
20 cross-examination exhibit.	20 MR. SHEARER: Brett Shearer, Assistant
21 JUDGE MOSS: Well, that one exhibit, then,	21 Attorney General on behalf of Staff.
22 there will be an objection when Mr. Piliaris is on the	22 MR. O'CONNELL: Andrew O'Connell, Assistant
23 stand?	23 Attorney General on behalf of Commission Staff.
24 MR. STEELE: Yes, Your Honor.	24 MR. BRYANT: Armikka Bryant, Assistant
25 JUDGE MOSS: That's good, all right. We	25 Attorney General on behalf of Public Counsel.
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1 wouldn't want Mr. Piliaris to get out of here unscathed.	1 MS. GAFKEN: Lisa Gafken, Assistant Attorney
2 I appreciate the parties' efforts in this regard. I	2 General on behalf of Public Counsel. And also on the
3 know you spent a lot of time looking at all this stuff	3 line is Glenn Watkins and Mike Brosch who can address
4 to make sure everything is copacetic.	4 issues that are being addressed today but do not have
5 All the cross exhibits submitted for the	5 cross. But they're on the line available for questions
6 witnesses who are appearing today will be stipulated or	6 should the bench have them.
7 are being stipulated into the record except for JAP-60X.	7 MR. FFITCH: Good morning, commissioners.
8 And we'll take up the objection to that when we have	8 Simon ffitch on behalf of The Energy Project.
9 Mr. Piliaris on the stand, all right? Good.	9 MR. OSHIE: Waiting for a break in the
10 Anything else we need to do first? All	10 conversation. Pat Oshie representing ICNU. And also my
11 right.	11 colleague Tyler Pepple will also be representing ICNU in
12 (Discussion off the record.)	12 this case.
13 MR. STEELE: Your Honor, I just sent Judge	13 MR. STOKES: Good morning. Chad Stokes for
14 Pearson an exhibit list showing the exhibits that	14 the Cable Huston Law Firm representing the Northwest
15 were -- after consulting with the parties that have been	15 Industrial Gas Users.
16 removed. As far as the stipulations go, we believe	16 MS. CARSON: Good morning, commissioners.
17 those are out for hearing today.	17 Sheree Strom Carson with Perkins Coie representing Puget
18 JUDGE PEARSON: Have each of the parties	18 Sound Energy.
19 withdrawn those exhibits?	19 MR. STEELE: Good morning. David Steele
20 MR. STEELE: Yes, yes. Public Counsel --	20 with Perkins Coie also on behalf of PSE.
21 I'll let Ms. Gafken speak for that.	21 MS. LIOTTA: Good morning. Rita Liotta
22 MS. GAFKEN: So they're not withdrawn for	22 representing the Federal Executive Agencies.
23 the proceeding but they're being held for the settlement	23 MS. BOYLES: Good morning. Kristen Boyles
24 hearing. So they're exhibits that don't pertain to the	24 with Earthjustice representing Northwest Energy
25 issues that are being discussed today, but they're not	25 Coalition, et. al. Also on the phone I believe is my

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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 you on 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 ///

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O'CONNELL/LEVIN

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 style="text-align: center;">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.

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BOYLES/LEVIN

1 MS. BOYLES: Thank you.
 2
 3 style="text-align: center;">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.

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O'CONNELL/LEVIN

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**

<p>Page 166</p> <p>O'CONNELL/LEVIN</p> <p>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?</p>	<p>Page 168</p> <p>O'CONNELL/HIGGINS</p> <p>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</p>
<p>Page 167</p> <p>BOEHM/HIGGINS</p> <p>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 prefilled 25 response testimony filed on June 30, 2017, with attached</p>	<p>Page 169</p> <p>O'CONNELL/HIGGINS</p> <p>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</p>

<p>Page 170</p> <p>CARSON/DOYLE</p> <p>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?</p>	<p>Page 172</p> <p>BRYANT/DOYLE</p> <p>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</p>
<p>Page 171</p> <p>CARSON/DOYLE</p> <p>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 ///</p>	<p>Page 173</p> <p>BRYANT/DOYLE</p> <p>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.</p>

<p>Page 174</p> <p>BRYANT/DOYLE</p> <p>1 Q. Could you please open that up to Page 22.</p> <p>2 A. I'm at Page 22.</p> <p>3 Q. Okay. I am at Line 7. And that's where you</p> <p>4 begin your discussion about the ECRM; correct?</p> <p>5 A. Yes, sir.</p> <p>6 Q. Okay. So on Lines 8 through 9, you claim that</p> <p>7 the ECRM is based -- and just for the record I'm going</p> <p>8 to called it ECRM. I know it's not technically an</p> <p>9 acronym but it works better than ECRM. But on Lines 8</p> <p>10 and 9, you say that the framework is set forth by the</p> <p>11 Commission in the Natural Gas Accelerated Replacement</p> <p>12 Policy; is that correct?</p> <p>13 A. Yes, that's correct.</p> <p>14 Q. Okay. Is the importance of the ECRM to the</p> <p>15 Company simply that PSE would elect to spend more and</p> <p>16 faster with additional cost recovery through this new</p> <p>17 mechanism than without the ECRM?</p> <p>18 A. Well, I think it's a couple of issues. The</p> <p>19 first thing is, at the current level of spending, if I</p> <p>20 remember correctly we have about, on the cable side of</p> <p>21 the equation, about 1,800 miles of underground cable</p> <p>22 that need to be replaced. Under our current capital</p> <p>23 budgeting, as we've optimized it, we'll get that cable</p> <p>24 out of the ground I think in the next 25 to 30 years,</p> <p>25 something like that.</p>	<p>Page 176</p> <p>BRYANT/DOYLE</p> <p>1 get that problem eradicated without undermining the</p> <p>2 optimal allocation of the remaining capital budget</p> <p>3 categorically.</p> <p>4 Q. So would you agree that PSE continuously</p> <p>5 recovers depreciation on its existing plant in service</p> <p>6 investments through base rates providing internally</p> <p>7 generated cash to help fund new construction while</p> <p>8 reducing net plant in service in the amount of recorded</p> <p>9 depreciation accruals?</p> <p>10 A. Can I ask you to try that one more time?</p> <p>11 Q. Sure, absolutely.</p> <p>12 Would you agree that PSE continuously recovers</p> <p>13 depreciation on its existing plant in service</p> <p>14 investments through its base rates providing internally</p> <p>15 generated cash flows to help fund new construction while</p> <p>16 reducing net plant in service in the amount of recorded</p> <p>17 depreciation accruals?</p> <p>18 In other words, does PSE receive bonus</p> <p>19 depreciation that it could spend elsewhere?</p> <p>20 A. I'm aware of bonus depreciation in the context</p> <p>21 of the income tax side of the equation. I'm not sure I</p> <p>22 understand the reference to rate making depreciation.</p> <p>23 Q. Sure. Bonus depreciation with respect to</p> <p>24 current plant in service.</p> <p>25 A. I'm not aware of any bonus depreciation from a</p>
<p>Page 175</p> <p>BRYANT/DOYLE</p> <p>1 The problem that we have right now is that, as</p> <p>2 Ms. Koch can explain in extraordinary detail, we're</p> <p>3 starting to see increased failures of that underground</p> <p>4 cable as it reaches the end of its useful life. So we</p> <p>5 have a confluence of end of useful life accelerating</p> <p>6 failure, which in my view make it very reasonable to</p> <p>7 consider accelerating this spending, putting it through</p> <p>8 a tracker such as the ECRM -- I really like that, ECRM,</p> <p>9 that's good -- and eliminate the regulatory lag that</p> <p>10 would otherwise exist without that tracker.</p> <p>11 So that's basically our position on that.</p> <p>12 Q. Okay. So if I understand you correctly, the</p> <p>13 Company intends to spend more if the Commission grants</p> <p>14 the ECRM -- or spend the funds from the ECRM but not</p> <p>15 replace the cable if the ECRM is not granted; is that</p> <p>16 correct?</p> <p>17 A. No. Again, over the past couple of decades</p> <p>18 we've taken care of 60 percent of the problem, and we</p> <p>19 have not sat still on this. What we're basically saying</p> <p>20 is that there is an elevated urgency with the confluence</p> <p>21 of increasing outages with respect to that asset and the</p> <p>22 fact that they're actually getting to the end of their</p> <p>23 useful life. We believe that it's better to get that</p> <p>24 problem out of the ground. And with the ECRM, it would</p> <p>25 eliminate any issues of regulatory lag and allow us to</p>	<p>Page 177</p> <p>BRYANT/DOYLE</p> <p>1 rate making perspective. I believe that we did a</p> <p>2 depreciation study recently and presented that evidence</p> <p>3 in this case. It's based on the normal mortality rates</p> <p>4 and the analysis that's normally done. I am not aware</p> <p>5 of any bonus depreciation whatsoever in that context.</p> <p>6 Q. Okay. So it's your position that PSE does not</p> <p>7 receive bonus depreciation?</p> <p>8 MS. CARSON: Object to the question. I</p> <p>9 think it misstates what Mr. Doyle said.</p> <p>10 JUDGE MOSS: I think it's a form of question</p> <p>11 problem that we have here. I believe, if I understand</p> <p>12 Mr. Doyle and perhaps this subject matter, bonus</p> <p>13 depreciation is a matter of tax accounting, whereas,</p> <p>14 you're asking about rate accounting, which is different.</p> <p>15 With that clarification is your question the</p> <p>16 same?</p> <p>17 MR. BRYANT: Yes, it is, because</p> <p>18 depreciation relates -- the depreciation that Public</p> <p>19 Counsel understands PSE receives is on its plant in</p> <p>20 service, the current high molecular cable underground</p> <p>21 that the ECRM would go towards funding removal or</p> <p>22 replacement.</p> <p>23 JUDGE MOSS: Well, Mr. Doyle, if there's any</p> <p>24 further answer you can give to this question, please do</p> <p>25 so. If not, just tell us.</p>

<p>BRYANT/DOYLE</p> <p>Page 178</p> <p>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</p>	<p>DANNER/DOYLE</p> <p>Page 180</p> <p>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</p>
<p>DANNER/DOYLE</p> <p>Page 179</p> <p>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</p>	<p>DANNER/DOYLE</p> <p>Page 181</p> <p>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</p>

<p>Page 182</p> <p>DANNER/DOYLE</p> <p>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</p>	<p>Page 184</p> <p>BALASBAS/DOYLE</p> <p>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?</p>
<p>Page 183</p> <p>RENDAHL/DOYLE</p> <p>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</p>	<p>Page 185</p> <p>BALASBAS/DOYLE</p> <p>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 ///</p>

<p>LIOTTA/AL-JABIR</p> <p>Page 186</p> <p>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 ///</p>	<p>O'CONNELL/AL-JABIR</p> <p>Page 188</p> <p>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.</p>
<p>O'CONNELL/AL-JABIR</p> <p>Page 187</p> <p>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</p>	<p>O'CONNELL/AL-JABIR</p> <p>Page 189</p> <p>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</p>

<p>Page 190</p> <p>O'CONNELL/AL-JABIR</p> <p>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.)</p>	<p>Page 192</p> <p>CARSON/GILBERTSON</p> <p>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</p>
<p>Page 191</p> <p>CARSON/GILBERTSON</p> <p>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.</p>	<p>Page 193</p> <p>CARSON/GILBERTSON</p> <p>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</p>

<p>Page 194</p> <p>CARSON/KOCH</p> <p>1 -o0o-</p> <p>2 JUDGE PEARSON: Please be seated.</p> <p>3 Ms. Carson, go ahead.</p> <p>4 EXAMINATION</p> <p>5 BY MS. CARSON:</p> <p>6 Q. Good morning, Ms. Koch.</p> <p>7 A. Good morning.</p> <p>8 Q. Could you please state your name and title for</p> <p>9 the record and spell your name for the court reporter.</p> <p>10 A. Catherine A. Koch, Director of Planning for</p> <p>11 Puget Sound Energy. Catherine, C-a-t-h-e-r-i-n-e, A.,</p> <p>12 Koch, K-o-c-h.</p> <p>13 Q. (BY MS. CARSON) Ms. Koch, do you have before</p> <p>14 you what has been marked for identification as Exhibit</p> <p>15 Numbers that CAK-1CT through CAK-8 in these dockets?</p> <p>16 A. Yes.</p> <p>17 Q. Do these constitute your prefiled direct and</p> <p>18 rebuttal testimony in this proceeding?</p> <p>19 A. Yes.</p> <p>20 Q. These exhibits have been stipulated into the</p> <p>21 record. Do you have any corrections to them at this</p> <p>22 time?</p> <p>23 A. I do not.</p> <p>24 MS. CARSON: Thank you.</p> <p>25 Your Honor, Ms. Koch is available for</p>	<p>Page 196</p> <p>OSHIE/KOCH</p> <p>1 has moved forward without that approval.</p> <p>2 Q. So if the Commission approves the plan, does</p> <p>3 that mean that the Commission's pre-approving, then, all</p> <p>4 the projects that are listed in the electric reliability</p> <p>5 plan for the two-year period?</p> <p>6 A. No. It means that the Commission agrees that</p> <p>7 that is the right approach to addressing reliability and</p> <p>8 that the projects in place will deliver the benefits of</p> <p>9 the objectives that are set forward. The prudence</p> <p>10 always comes once you've completed that work and prior</p> <p>11 to putting it into rates.</p> <p>12 Q. So are you the proper witness to talk about</p> <p>13 prudence, or would that be Ms. Barnard?</p> <p>14 A. I would tend to refer to Ms. Barnard. I don't</p> <p>15 know the nature of your questions.</p> <p>16 Q. Well, I will perhaps ask a couple when the time</p> <p>17 comes and then you can respond. And we can move to</p> <p>18 Ms. Barnard if that's what you'd like to do.</p> <p>19 A. Okay.</p> <p>20 Q. So let's walk through the pre-approval process.</p> <p>21 It begins with the filing. What happens next?</p> <p>22 MS. CARSON: I'm going to object to the</p> <p>23 question in terms of "pre-approval." I think there's</p> <p>24 not a pre-approval is what I heard the witness say.</p> <p>25 JUDGE PEARSON: Okay. I think you mean the</p>
<p>Page 195</p> <p>OSHIE/KOCH</p> <p>1 cross-examination.</p> <p>2 JUDGE PEARSON: Okay, thank you. It's</p> <p>3 Public Counsel first.</p> <p>4 MR. BRYANT: I will defer to ICNU given the</p> <p>5 efficiencies that Mr. Oshie has articulated.</p> <p>6 JUDGE PEARSON: Okay, sounds good.</p> <p>7 Mr. Oshie?</p> <p>8 MR. OSHIE: Well, I can't guarantee that but</p> <p>9 I'm happy to proceed.</p> <p>10</p> <p>11 DIRECT EXAMINATION</p> <p>12 BY MR. OSHIE:</p> <p>13 Q. Good morning, Ms. Koch.</p> <p>14 A. Good morning.</p> <p>15 Q. So let's first talk about the work plan that's</p> <p>16 envisioned by the ECRM. And you expect that there would</p> <p>17 be a work plan filed every two years or annually</p> <p>18 covering the two-year period?</p> <p>19 A. It would be filed every two years representing</p> <p>20 the two forward-looking years.</p> <p>21 Q. So does PSE expect the Commission to approve the</p> <p>22 work plans before PSE implements them?</p> <p>23 A. PSE has put forth a proposal that follows the</p> <p>24 gas CRM policy -- the accelerated pipeline policy that</p> <p>25 has the Commission approving the plan. In this year PSE</p>	<p>Page 197</p> <p>OSHIE/KOCH</p> <p>1 approval process for the work plan?</p> <p>2 Q. (BY MR. OSHIE) Yes, the approval process,</p> <p>3 sorry. That might have been one of those slips, I</p> <p>4 suppose. But yes, the approval process; that's exactly</p> <p>5 what I meant.</p> <p>6 A. So if we follow the process that's in place here</p> <p>7 in Washington relative to the Gas Cost Recovery</p> <p>8 Mechanism or the Accelerated Pipeline Replacement</p> <p>9 Policy -- I think I have the right ones here -- PSE</p> <p>10 submits their plan. The Staff reviews that plan</p> <p>11 relative to the projects, that it meets the objectives</p> <p>12 of, in that case, the policy, that they agree that those</p> <p>13 projects will deliver the benefits that are outlined</p> <p>14 there. They then take that recommendation of what they</p> <p>15 believe relative to that plan, and they take it forward</p> <p>16 in a hearing or an open public meeting relative to the</p> <p>17 Commissioners.</p> <p>18 Q. How much time will Staff have to review the work</p> <p>19 plan?</p> <p>20 A. We would submit that with adequate time. I</p> <p>21 think in the gas side we submit it six months in advance</p> <p>22 of starting that plan.</p> <p>23 Q. And you expect, then, that the Electric Work</p> <p>24 Reliability Plan would then be filed six months ahead of</p> <p>25 the date in which construction would begin on new</p>

<p>Page 198</p> <p>OSHIE/KOCH</p> <p>1 projects?</p> <p>2 A. If we follow the gas process, that would be what</p> <p>3 we would do.</p> <p>4 Q. Well, I guess that's my question. Are you</p> <p>5 following the gas process or are you not? Or has that</p> <p>6 not been discussed by the Company as to when you're</p> <p>7 actually going to submit the plan for review by Staff?</p> <p>8 A. PSE's proposed this, to follow that process. I</p> <p>9 think part of this discussion is whether there's</p> <p>10 agreement to that from the Commission, that PSE proposed</p> <p>11 that we would follow that same model. It seems to work</p> <p>12 very well here.</p> <p>13 Q. So the proposal is six months prior to the</p> <p>14 proposed construction date of the projects that are</p> <p>15 included in the work plan?</p> <p>16 A. I don't have the exact dates that we do that.</p> <p>17 That's what my memory serves from the gas side of what</p> <p>18 we do.</p> <p>19 Q. So would the Company seek any input of other</p> <p>20 parties other than Staff in the review of the work plan?</p> <p>21 A. I think in developing the work plan, as far as</p> <p>22 the project specifics, the Company does seek input from</p> <p>23 jurisdictions, from stakeholders, from customers to</p> <p>24 develop the rights of the projects. And that's in</p> <p>25 developing that set of projects.</p>	<p>Page 200</p> <p>OSHIE/KOCH</p> <p>1 really the role of the management of the Company or the</p> <p>2 board of directors to decide what capital projects are</p> <p>3 needed by the Company, and isn't it really -- I mean,</p> <p>4 that's how I personally envision the role of the board</p> <p>5 of directors, as an example. Wouldn't that be true? I</p> <p>6 mean, aren't the capital projects approved by the board?</p> <p>7 A. PSE would still follow its internal processes,</p> <p>8 and PSE determines what we think the rights of the</p> <p>9 projects are. We still own that responsibility,</p> <p>10 absolutely.</p> <p>11 Q. So isn't the Commission, then, acting as sort of</p> <p>12 a super board of directors in that kind of a</p> <p>13 circumstance where you come to the Commission with your</p> <p>14 proposed projects and you ask the Commission to approve</p> <p>15 them prior to going forward under -- and I think later</p> <p>16 on in your testimony in part you say and if the</p> <p>17 Commission doesn't approve it you'll -- you're not going</p> <p>18 to go forward with it?</p> <p>19 A. So I think the way it works on the gas side is</p> <p>20 that the Commission isn't approving a specific project,</p> <p>21 they're approving that the work plan meets the</p> <p>22 objectives set forth by, in that case, the policy</p> <p>23 relative to addressing elevated pipeline risks in that</p> <p>24 case. So it's that the work plan meets the objectives</p> <p>25 that are trying to be accomplished.</p>
<p>Page 199</p> <p>OSHIE/KOCH</p> <p>1 Q. And before -- and then after the work plan has</p> <p>2 been prepared, will other parties after the filing --</p> <p>3 how much review or how much input do other parties have</p> <p>4 in the process of approval, if you will?</p> <p>5 A. Well, given that -- our proposal is follow the</p> <p>6 gas process. I'm not specifically familiar with what</p> <p>7 other stakeholders' engagement is in that process</p> <p>8 outside of Staff.</p> <p>9 Q. So you're saying that -- well, let me make this</p> <p>10 more clear.</p> <p>11 It's your understanding, then, that any other</p> <p>12 party that will have access to the work plan will be</p> <p>13 able to comment and prepare their comments, if you will,</p> <p>14 to the Commission with regard to the work plan prior to</p> <p>15 approval?</p> <p>16 A. I'm not super familiar with the regulatory</p> <p>17 process on that, but again, it would follow the gas</p> <p>18 process. And if that's part of that process it would</p> <p>19 follow the same process.</p> <p>20 Q. And I imagine that PSE expects the Commission to</p> <p>21 actually sign off on the projects that are included in</p> <p>22 the work plan?</p> <p>23 A. I believe the process is the Commission approves</p> <p>24 the plan.</p> <p>25 Q. Now, in that circumstance, I mean, isn't it</p>	<p>Page 201</p> <p>OSHIE/KOCH</p> <p>1 Q. So the Commission would not be signing off on</p> <p>2 specific projects?</p> <p>3 A. I don't believe that's the process in place with</p> <p>4 the gas CRM.</p> <p>5 Q. But the work plan would contain projects;</p> <p>6 correct?</p> <p>7 A. The work plan has transparency to all of the</p> <p>8 work so that all of those interested understand the</p> <p>9 benefits that are being achieved. And that's really</p> <p>10 what is being evaluated: Does it deliver the benefits</p> <p>11 to the objectives that we're trying to accomplish.</p> <p>12 Q. And it will have a budget; correct?</p> <p>13 A. It does have a budget.</p> <p>14 Q. And you can't get to a budget without a project</p> <p>15 or a group of projects, can you?</p> <p>16 A. No.</p> <p>17 Q. Okay, thank you.</p> <p>18 So how would work plan disagreements between PSE</p> <p>19 and Staff or other parties be handled by the company?</p> <p>20 A. I think in the process of the gas CRM today,</p> <p>21 Staff receives the work plan and then asks questions,</p> <p>22 and through conversation greater understanding or</p> <p>23 disagreements are resolved. It's an informal process</p> <p>24 that goes back and forth between the Staff and PSE</p> <p>25 engineers that are familiar with the work and the</p>

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<p>1 objectives. And I would suspect that we would have that</p> <p>2 same engagement with Staff in this process as well.</p> <p>3 Q. How many electrical engineers are on Commission</p> <p>4 Staff?</p> <p>5 A. I can't answer that.</p> <p>6 Q. Have you worked on the gas side?</p> <p>7 A. I have worked on the gas side.</p> <p>8 Q. Do you know how many electrical engineers work</p> <p>9 on the Commission's gas side?</p> <p>10 A. I can't answer that.</p> <p>11 Q. More than one?</p> <p>12 A. I can't answer that. I don't know that.</p> <p>13 Q. That's fine. Sorry.</p> <p>14 So if there is -- you know, and I'm going to</p> <p>15 just call it a significant disagreement between PSE and</p> <p>16 Staff or another party on the work plan, would it ever</p> <p>17 come back to the -- do you envision that coming back to</p> <p>18 the Commission for some resolution?</p> <p>19 A. I think we're speculating on the process that we</p> <p>20 haven't actually talked through the details yet. But I</p> <p>21 don't think so, because at the end of the day we want to</p> <p>22 make sure that we are meeting the objectives, and if</p> <p>23 there's disagreement then we have a discussion and we</p> <p>24 resolve that. If there's not support for the work plan,</p> <p>25 then PSE would not move forward with that work plan.</p>	<p>1 PSE to address.</p> <p>2 Q. And so what if the Commission did nothing in</p> <p>3 response to PSE's work plan filing? What does that</p> <p>4 mean?</p> <p>5 A. In part of the -- from a process outside of</p> <p>6 this --</p> <p>7 Q. From a process perspective, yes.</p> <p>8 MS. CARSON: Objection; calls for</p> <p>9 speculation. And to the extent this is seeking</p> <p>10 regulatory expertise, Ms. Koch probably isn't the best</p> <p>11 witness for this.</p> <p>12 JUDGE PEARSON: Mr. Oshie?</p> <p>13 MR. OSHIE: I'd be happy to rephrase the</p> <p>14 question, Your Honor.</p> <p>15 JUDGE PEARSON: Okay.</p> <p>16 Q. (BY MR. OSHIE) Have you been involved in</p> <p>17 discussions over the process that is followed on either</p> <p>18 the gas side or this new process under the ECRM?</p> <p>19 A. Can you -- discussions with, about?</p> <p>20 Q. Internally, excuse me, at the Company.</p> <p>21 A. Yes. We're familiar with the gas process and</p> <p>22 that's what we've discussed.</p> <p>23 Q. So the question of whether the -- how ultimately</p> <p>24 these disputes that may occur over the work plan may get</p> <p>25 resolved has never come up?</p>
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<p>1 Q. So if Staff disagreed with some component of the</p> <p>2 work plan, then PSE would not go forward with it?</p> <p>3 A. Correct.</p> <p>4 Q. If ICNU disagrees with some component in the</p> <p>5 work plan, then PSE would not go forward with it?</p> <p>6 A. I think we've yet to talk about how stakeholders</p> <p>7 other than the Commission Staff engage in that, and</p> <p>8 again, what the disagreements are and how we resolved</p> <p>9 that. But at the end of the day it's about support and</p> <p>10 agreement that the work plan meets the objectives, and</p> <p>11 we would work through those issues. There's beauty in</p> <p>12 the transparency that we've provided here.</p> <p>13 Q. Well, and sometimes without -- and I understand</p> <p>14 your comment, and it's -- but there's always a part of</p> <p>15 being sort of -- from a legal perspective, there's</p> <p>16 always the opportunity for risks and arguments,</p> <p>17 otherwise lawyers wouldn't have a job. And so it is</p> <p>18 really -- my question is, what if it comes down to</p> <p>19 there's a significant disagreement? How is the</p> <p>20 Commission going to resolve that? Do you see it going</p> <p>21 to hearing, as an example?</p> <p>22 A. I would not hope that it goes to the Commission.</p> <p>23 I don't think that's the point of this. The point is to</p> <p>24 have agreement that the work plan is meeting the</p> <p>25 objectives that various parties agree are important for</p>	<p>1 A. We haven't experienced that.</p> <p>2 Q. Well, I'm asking if there were discussions at</p> <p>3 the Company where you were present and perhaps where</p> <p>4 that subject was addressed in preparation for hearing.</p> <p>5 A. I haven't been involved in discussions of that.</p> <p>6 And again, we haven't experienced that. It's been very</p> <p>7 successful.</p> <p>8 Q. So let me ask one more question and I'll get off</p> <p>9 this line if it's not -- if you're not comfortable with</p> <p>10 it. And I'm sure a lawyer will object.</p> <p>11 If the Commission did nothing in response to</p> <p>12 PSE's work plan, would PSE then assume that the</p> <p>13 Commission tacitly approved it?</p> <p>14 A. I don't know the answer to that.</p> <p>15 Q. Okay. Do you think the Company would ever</p> <p>16 represent in a rate case or other proceeding, for</p> <p>17 example a prudence proceeding dealing with any project</p> <p>18 in the work plan, that silence by a party meant approval</p> <p>19 of the work plan?</p> <p>20 MS. CARSON: Objection; calls for</p> <p>21 speculation.</p> <p>22 MR. OSHIE: I'll withdraw the question, Your</p> <p>23 Honor.</p> <p>24 JUDGE PEARSON: Okay.</p> <p>25 MR. OSHIE: I have some questions about the</p>

<p>Page 206</p> <p>OSHIE/KOCH</p> <p>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</p>	<p>Page 208</p> <p>OSHIE/KOCH</p> <p>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</p>
<p>Page 207</p> <p>OSHIE/KOCH</p> <p>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</p>	<p>Page 209</p> <p>OSHIE/KOCH</p> <p>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</p>

<p>Page 210</p> <p>OSHIE/KOCH</p> <p>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</p>	<p>Page 212</p> <p>OSHIE/KOCH</p> <p>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?</p>
<p>Page 211</p> <p>OSHIE/KOCH</p> <p>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</p>	<p>Page 213</p> <p>OSHIE/KOCH</p> <p>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</p>

<p>Page 214</p> <p>BRYANT/KOCH</p> <p>1 rest of the questions I'll save for Ms. Barnard. Thank 2 you.</p> <p>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.</p> <p>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</p>	<p>Page 216</p> <p>BRYANT/KOCH</p> <p>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</p>
<p>Page 215</p> <p>BRYANT/KOCH</p> <p>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</p>	<p>Page 217</p> <p>BRYANT/KOCH</p> <p>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</p>

<p>Page 218</p> <p>BRYANT/KOCH</p> <p>1 recovery, PSE will optimize within the portfolio that it</p> <p>2 can make the best choices about how it drives</p> <p>3 reliability to impact the greatest number of customers.</p> <p>4 Q. But not at the expense of shareholders?</p> <p>5 A. Again, you're outside my expertise from a</p> <p>6 shareholder discussion.</p> <p>7 Q. Do you know if PSE has traditionally limited its</p> <p>8 distribution of capital investments to be tied to its</p> <p>9 customer growth rate?</p> <p>10 A. I think from my understanding, that's</p> <p>11 generally -- and from what we've discussed, we generally</p> <p>12 align our investments in non-revenue-generating plant to</p> <p>13 customer revenue. I think that in reviewing the Avista</p> <p>14 rate order, it appeared to be a discussion that the</p> <p>15 Commissioners shared as well that that is generally the</p> <p>16 expectation, and that is generally how we decide how</p> <p>17 much investment to make in that non-revenue-generating</p> <p>18 plant.</p> <p>19 Q. I'm glad you brought up the Avista rate because</p> <p>20 that's my next question. On Page 4 on Line 3, that's</p> <p>21 where you mentioned Avista GRC. And you claim the</p> <p>22 Commission expressed a general expectation that</p> <p>23 utilities would not increase capital investment in</p> <p>24 non-revenue generation distribution plans beyond</p> <p>25 customer growth rates.</p>	<p>Page 220</p> <p>RENDAHL/KOCH</p> <p>1 not choosing to address these risks, meaning the high</p> <p>2 molecular weight cable and the worst-performing</p> <p>3 circuits. Has PSE been addressing these risks?</p> <p>4 A. Yes. PSE has been addressing the cable issues</p> <p>5 since 1990. And as Mr. Doyle pointed out, we've</p> <p>6 replaced 2,500 miles thus far, we have 1,800 left, so</p> <p>7 significant level of effort already. And worst-</p> <p>8 performing circuits, we address those on an annual basis</p> <p>9 as well. This mechanism just takes it beyond historic</p> <p>10 levels.</p> <p>11 MS. CARSON: Thank you. I have no further</p> <p>12 questions.</p> <p>13 JUDGE PEARSON: Thank you.</p> <p>14 Any questions from the bench?</p> <p>15 COMMISSIONER RENDAHL: Good morning,</p> <p>16 Ms. Koch.</p> <p>17 THE WITNESS: Good morning.</p> <p>18 COMMISSIONER RENDAHL: So the first question</p> <p>19 that I asked Mr. Doyle about, who is involved in the</p> <p>20 prioritization process? Are you responsible for -- is</p> <p>21 it part of your responsibility to work on establishing</p> <p>22 what those capital budgeting priorities are?</p> <p>23 THE WITNESS: Within the constraints, the</p> <p>24 financial constraints that Mr. Doyle talked about, yes,</p> <p>25 that's my job.</p>
<p>Page 219</p> <p>CARSON/KOCH</p> <p>1 Did you state that in your testimony?</p> <p>2 A. I did.</p> <p>3 Q. So is it your testimony, then, that the</p> <p>4 Commission would rather see service quality deteriorate</p> <p>5 rather than face future rate cases by capital spending</p> <p>6 due to customer growth rate?</p> <p>7 A. I can't speak for what the Commissioners would</p> <p>8 rather see or not.</p> <p>9 Q. Okay, thank you.</p> <p>10 I had a little success with this question</p> <p>11 earlier so I will pose it to you. Do you know if PSE</p> <p>12 continuously recovers depreciation through its base rate</p> <p>13 that provides internally generated funds to help pay for</p> <p>14 new plant investment?</p> <p>15 A. That's beyond my expertise.</p> <p>16 MR. BRYANT: So Mr. Oshie actually stole a</p> <p>17 lot of my glory this morning so I'll conclude my cross</p> <p>18 questions.</p> <p>19 JUDGE PEARSON: Okay, thank you.</p> <p>20 Ms. Carson, did you have any redirect?</p> <p>21 MS. CARSON: Just one.</p> <p>22</p> <p>23 REDIRECT EXAMINATION</p> <p>24 BY MS. CARSON:</p> <p>25 Q. Mr. Oshie asked the question why is management</p>	<p>Page 221</p> <p>RENDAHL/KOCH</p> <p>1 COMMISSIONER RENDAHL: So -- right, but are</p> <p>2 you responsible for helping to develop those priorities?</p> <p>3 Who develops those priorities in the Company, the</p> <p>4 optimization priorities?</p> <p>5 THE WITNESS: My team develops the</p> <p>6 optimization, but the optimization process is within</p> <p>7 the -- bound by the financial constraint of the dollars</p> <p>8 that we can -- we should be optimizing to.</p> <p>9 COMMISSIONER RENDAHL: Let me ask it a</p> <p>10 different way. If somebody wanted to make a change to</p> <p>11 the optimization model, the priorities of what the</p> <p>12 capital budget spending is -- what is spent, what's the</p> <p>13 process for reviewing the optimization model?</p> <p>14 THE WITNESS: So can I talk a little bit</p> <p>15 about that model?</p> <p>16 COMMISSIONER RENDAHL: Yes, please.</p> <p>17 THE WITNESS: Because I think that might</p> <p>18 help.</p> <p>19 So it is an optimization model, it's not a</p> <p>20 prioritization model. And so planners, again, look at</p> <p>21 the system performance, customer growth, other projects</p> <p>22 that are going on, and issues that are going on with the</p> <p>23 system. They propose solutions. And what goes into the</p> <p>24 tool are all of the benefits associated with a specific</p> <p>25 project, so there's some 13 or 14 benefits that are for</p>

<p>Page 222</p> <p>RENDAHL/KOCH</p> <p>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</p>	<p>Page 224</p> <p>RENDAHL/KOCH</p> <p>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 prudence and 23 recovery? 24 THE WITNESS: Potentially. 25 COMMISSIONER RENDAHL: Okay. And I did want</p>
<p>Page 223</p> <p>RENDAHL/KOCH</p> <p>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.</p>	<p>Page 225</p> <p>BALASBAS/KOCH</p> <p>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</p>

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<p>1 one of the responses to Commissioner Rendahl about maybe</p> <p>2 periodically reviewing the optimization process. When</p> <p>3 do you anticipate your next review for the processes</p> <p>4 that you have oversight over would take place?</p> <p>5 THE WITNESS: I'm not sure we had one</p> <p>6 scheduled as of now.</p> <p>7 COMMISSIONER BALASBAS: That's all.</p> <p>8 JUDGE PEARSON: Okay, thank you. So at this</p> <p>9 point you may step down, however, subject to recall</p> <p>10 after we hear from Ms. Barnard.</p> <p>11 THE WITNESS: Thank you.</p> <p>12 JUDGE MOSS: Ms. Barnard, you are next.</p> <p>13</p> <p>14 KATHERINE BARNARD, witness herein, having been</p> <p>15 first duly sworn on oath,</p> <p>16 was examined and testified</p> <p>17 as follows:</p> <p>18</p> <p>19 -o0o</p> <p>20 DIRECT EXAMINATION</p> <p>21 BY MS. CARSON:</p> <p>22 Q. Good morning, Ms. Barnard.</p> <p>23 A. Good morning.</p> <p>24 Q. Could you please state your name for the court</p> <p>25 reporter and spell out your name, and also give your</p>	<p>1 JUDGE MOSS: Three parties have designated</p> <p>2 time; Public Counsel, ICNU, and FEA. The last time we</p> <p>3 had more than one, there was some preference among the</p> <p>4 parties as to who would proceed first in an effort to</p> <p>5 gain efficiency.</p> <p>6 Is there such preference this time?</p> <p>7 MS. LIOTTA: Your Honor, FEA has waived</p> <p>8 cross for Ms. Barnard as of yesterday late.</p> <p>9 JUDGE MOSS: Okay. Thank you very much, Ms.</p> <p>10 Liotta. I must have missed the e-mail, but that's good</p> <p>11 news to hear. That gives us exactly enough time to</p> <p>12 finish Ms. Barnard.</p> <p>13 So if there's no preference between ICNU and</p> <p>14 Public Counsel? No? All right, go ahead, Public</p> <p>15 Counsel.</p> <p>16 CROSS-EXAMINATION</p> <p>17 BY MS. GAFKEN:</p> <p>18 Q. Good morning, Ms. Barnard.</p> <p>19 A. Good morning.</p> <p>20 Q. Would you please turn to your rebuttal</p> <p>21 testimony, Exhibit KJB-17T, Page 6, Line 7 through 15.</p> <p>22 A. I'm there.</p> <p>23 JUDGE MOSS: I'm sorry, which page?</p> <p>24 MS. GAFKEN: Page 6, Line 7 through 15.</p> <p>25 JUDGE MOSS: Thank you.</p>
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<p>1 title.</p> <p>2 A. Yes. My name is Katherine J. Barnard;</p> <p>3 K-a-t-h-e-r-i-n-e, middle initial J., last name</p> <p>4 B-a-r-n-a-r-d. And my role is Director of Revenue</p> <p>5 Requirements and Regulatory Compliance at Puget Sound</p> <p>6 Energy.</p> <p>7 Q. Ms. Barnard, do you have before you what has</p> <p>8 been marked for identification as Exhibit Numbers KJB-1T</p> <p>9 through KJB-40 in these dockets?</p> <p>10 A. I do.</p> <p>11 Q. Do these exhibits constitute your prefiled</p> <p>12 direct supplemental and rebuttal testimony and related</p> <p>13 exhibits?</p> <p>14 A. They are.</p> <p>15 Q. These have been stipulated into the record.</p> <p>16 Do you have any corrections to your exhibits at this</p> <p>17 time?</p> <p>18 A. I do have one minor correction. In my original</p> <p>19 direct testimony, KJB-1T, on Page 77 on Line 16, I</p> <p>20 referenced making the update filing by November 30th.</p> <p>21 And that should actually be November 15th, to be</p> <p>22 consistent with the 45 days I outlined earlier in my</p> <p>23 testimony.</p> <p>24 MS. CARSON: Thank you. Ms. Barnard is</p> <p>25 available for cross-examination.</p>	<p>1 Q. (BY MS. GAFKEN) There you take issue with</p> <p>2 Public Counsel's testimony questioning your expense</p> <p>3 trend analysis that was prepared on a per customer</p> <p>4 basis; correct?</p> <p>5 A. That is correct.</p> <p>6 Q. You compare Public Counsel's advocacy in this</p> <p>7 case with our advocacy in PSE's 2013 rate plan case;</p> <p>8 correct?</p> <p>9 A. Correct.</p> <p>10 Q. Would you please turn to Cross Exhibit KJB-47X.</p> <p>11 A. Yes. That's our response to their Request 473;</p> <p>12 is that correct?</p> <p>13 Q. You anticipated my question.</p> <p>14 A. I just wanted to make sure I had the right</p> <p>15 place.</p> <p>16 Q. Yes, that's the document.</p> <p>17 A. Okay.</p> <p>18 Q. So you do recognize that Exhibit KJB-47X is</p> <p>19 PSE's response to Public Counsel's Data Request 473?</p> <p>20 A. Yes.</p> <p>21 Q. In Subsection A, PSE confirms that the K factor</p> <p>22 requested in the 2013 case was applied to the authorized</p> <p>23 revenue per customer figures used in PSE's decoupling</p> <p>24 mechanism; correct?</p> <p>25 A. Yes.</p>

<p>Page 230</p> <p>GAFKEN/BARNARD</p> <p>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</p>	<p>Page 232</p> <p>GAFKEN/BARNARD</p> <p>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.</p>
<p>Page 231</p> <p>GAFKEN/BARNARD</p> <p>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</p>	<p>Page 233</p> <p>GAFKEN/BARNARD</p> <p>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</p>

<p>Page 234</p> <p>GAFKEN/BARNARD</p> <p>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</p>	<p>Page 236</p> <p>GAFKEN/BARNARD</p> <p>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.</p>
<p>Page 235</p> <p>GAFKEN/BARNARD</p> <p>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</p>	<p>Page 237</p> <p>GAFKEN/BARNARD</p> <p>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.</p>

<p>Page 238</p> <p>GAFKEN/BARNARD</p> <p>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?</p>	<p>Page 240</p> <p>OSHIE/BARNARD</p> <p>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.</p>
<p>Page 239</p> <p>GAFKEN/BARNARD</p> <p>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.</p>	<p>Page 241</p> <p>OSHIE/BARNARD</p> <p>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.</p>

<p>Page 242</p> <p>OSHIE/BARNARD</p> <p>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</p>	<p>Page 244</p> <p>OSHIE/BARNARD</p> <p>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.</p>
<p>Page 243</p> <p>OSHIE/BARNARD</p> <p>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</p>	<p>Page 245</p> <p>OSHIE/BARNARD</p> <p>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 --</p>

<p>Page 246</p> <p>OSHIE/BARNARD</p> <p>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</p>	<p>Page 248</p> <p>OSHIE/BARNARD</p> <p>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 prudence 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 prudence 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 prudence 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 prudence on any capital</p>
<p>Page 247</p> <p>OSHIE/BARNARD</p> <p>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</p>	<p>Page 249</p> <p>OSHIE/BARNARD</p> <p>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 prudence 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 prudence. I hate to 24 ask it, but it's used and useful but not prudent? 25 MS. CARSON: Objection; asked and answered</p>

<p>RENDAHL/BARNARD</p> <p style="text-align: right;">Page 250</p> <p>1 on the prudence issue.</p> <p>2 Q. (BY MR. OSHIE) I have one more question, maybe</p> <p>3 two.</p> <p>4 So I think you would agree that facility</p> <p>5 replacement costs such as the kind that are covered by</p> <p>6 the ECRM would normally be addressed in general rate</p> <p>7 case proceedings; is that correct?</p> <p>8 A. Yes, I mean, but there is a similar mechanism on</p> <p>9 the gas side.</p> <p>10 Q. And if the Company carries its burden of proof</p> <p>11 as to used and useful and prudence, then do you see any</p> <p>12 reason why cost recovery would not be allowed by the</p> <p>13 Commission in a general rate case?</p> <p>14 A. Yes, cost recovery would be allowed in a general</p> <p>15 rate case, but the completion of a general rate case is</p> <p>16 close to 27 months and so there's a significant amount</p> <p>17 of lag associated with this type of spending.</p> <p>18 MR. OSHIE: I have no other questions, Your</p> <p>19 Honor.</p> <p>20 JUDGE MOSS: Thank you very much.</p> <p>21 So do we have any redirect?</p> <p>22 MS. CARSON: No, Your Honor.</p> <p>23 JUDGE MOSS: Questions from the bench?</p> <p>24 COMMISSIONER RENDAHL: Good morning,</p> <p>25 Ms. Barnard.</p>	<p>RENDAHL/BARNARD</p> <p style="text-align: right;">Page 252</p> <p>1 End-of-period certainly reduces that down. But then you</p> <p>2 still have the preparation time and the adjudication, so</p> <p>3 there's typically 15 months associated with that.</p> <p>4 COMMISSIONER RENDAHL: So Mr. Schooley for</p> <p>5 Staff and his testimony on the ECRM identified that the</p> <p>6 Commission is developing or looking to develop</p> <p>7 distribution planning rules in its IRP rule making;</p> <p>8 correct?</p> <p>9 THE WITNESS: I believe it is.</p> <p>10 COMMISSIONER RENDAHL: Okay. So if the</p> <p>11 Commission were to approve the ECRM, would PSE be able</p> <p>12 to adapt that to work with different distribution</p> <p>13 planning procedures if the Commission were to adopt them</p> <p>14 in the rule making?</p> <p>15 THE WITNESS: I think so, but can you --</p> <p>16 COMMISSIONER RENDAHL: So, example. If the</p> <p>17 Commission approved the ECRM and then later adopted a</p> <p>18 process for distribution planning -- a distribution</p> <p>19 planning process that was different than the ECRM, would</p> <p>20 PSE be able to adapt the ECRM to those new processes?</p> <p>21 I know it's fairly hypothetical, but.</p> <p>22 THE WITNESS: I'm going to answer that and</p> <p>23 just try to phrase it to make sure I'm understanding.</p> <p>24 So the question is if the Commission adopts</p> <p>25 different rules for IRP for distribution planning, would</p>
<p>RENDAHL/BARNARD</p> <p style="text-align: right;">Page 251</p> <p>1 THE WITNESS: Good morning.</p> <p>2 COMMISSIONER RENDAHL: So on that last</p> <p>3 point, you discussed this issue of the 27 months of</p> <p>4 regulatory lag in your rebuttal testimony but also just</p> <p>5 in your response to Mr. Oshie.</p> <p>6 Are you assuming that the Commission would</p> <p>7 use the average of monthly averages for rate making and</p> <p>8 no pro forma adjustments in that assumption of 27 months</p> <p>9 of regulatory lag?</p> <p>10 THE WITNESS: That's correct.</p> <p>11 COMMISSIONER RENDAHL: So could you reduce</p> <p>12 that time amount if there were different methods of</p> <p>13 looking at recovery, for example end-of-period rate</p> <p>14 making and pro forma adjustments?</p> <p>15 THE WITNESS: Certainly end-of-period helps</p> <p>16 a bit. But you still have a far longer adjudicatory</p> <p>17 process associated with a general rate case, so there's</p> <p>18 still going to be additional lag beyond that that the</p> <p>19 ECRM is mitigating.</p> <p>20 COMMISSIONER RENDAHL: And it depends on</p> <p>21 when those investments were made?</p> <p>22 THE WITNESS: Correct. So partially when we</p> <p>23 say 27 months, it could actually be as much as 30,</p> <p>24 because AMA, as you mentioned, it takes a full 12 months</p> <p>25 for an investment to be reflected in an AMA rate base.</p>	<p>RENDAHL/BARNARD</p> <p style="text-align: right;">Page 253</p> <p>1 we be able to modify the ECRM. I'm thinking it's maybe</p> <p>2 more modifying the electric reliability plan that</p> <p>3 Ms. Koch testified to. Is that answering the question?</p> <p>4 And I would say more than likely yes.</p> <p>5 COMMISSIONER RENDAHL: So, for example, if</p> <p>6 the Commission were to adopt some kind of distribution</p> <p>7 planning process that also included performance measures</p> <p>8 and that sort of thing, the Commission could go back and</p> <p>9 look at the ECRM and look at whether it needs to be</p> <p>10 modified?</p> <p>11 THE WITNESS: Certainly. I think so.</p> <p>12 COMMISSIONER RENDAHL: Okay. That's all I</p> <p>13 have.</p> <p>14 JUDGE MOSS: That appears to complete our</p> <p>15 questions from the bench. Ms. Barnard, thank you very</p> <p>16 much for being with us today and giving us your</p> <p>17 testimony.</p> <p>18 We still have 20 minutes before the noon</p> <p>19 hour. Let me just ask if the Staff still intend to ask</p> <p>20 questions of Mr. Gorman for about ten minutes.</p> <p>21 MR. O'CONNELL: Yes, Your Honor.</p> <p>22 JUDGE MOSS: Okay. And then we have</p> <p>23 165 minutes indicated for Mr. Piliaris and for Mr. Ball,</p> <p>24 35. So we could either get Mr. Gorman up now and off</p> <p>25 the stand, and I understand he has a flight to catch</p>

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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 ///

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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?

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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

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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

<p>Page 258</p> <p>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</p>	<p>Page 260</p> <p>CARSON/PILIARIS</p> <p>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,</p>
<p>Page 259</p> <p>CARSON/PILIARIS</p> <p>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. PEPPLER: 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-</p>	<p>Page 261</p> <p>CASEY/PILIARIS</p> <p>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. ffitich'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?</p>

<p>Page 262</p> <p>CASEY/PILIARIS</p> <p>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</p>	<p>Page 264</p> <p>CASEY/PILIARIS</p> <p>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?</p>
<p>Page 263</p> <p>CASEY/PILIARIS</p> <p>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</p>	<p>Page 265</p> <p>CASEY/PILIARIS</p> <p>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</p>

<p>Page 266</p> <p>CASEY/PILIARIS</p> <p>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</p>	<p>Page 268</p> <p>CASEY/PILIARIS</p> <p>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</p>
<p>Page 267</p> <p>CASEY/PILIARIS</p> <p>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</p>	<p>Page 269</p> <p>CASEY/PILIARIS</p> <p>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</p>

<p>Page 270</p> <p>CASEY/PILIARIS</p> <p>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</p>	<p>Page 272</p> <p>CASEY/PILIARIS</p> <p>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</p>
<p>Page 271</p> <p>CASEY/PILIARIS</p> <p>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</p>	<p>Page 273</p> <p>CASEY/PILIARIS</p> <p>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</p>

<p>Page 274</p> <p>CASEY/PILIARIS</p> <p>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</p>	<p>Page 276</p> <p>CASEY/PILIARIS</p> <p>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.</p>
<p>Page 275</p> <p>CASEY/PILIARIS</p> <p>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</p>	<p>Page 277</p> <p>CASEY/PILIARIS</p> <p>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</p>

<p style="text-align: right;">Page 278</p> <p style="text-align: center;">CASEY/PILIARIS</p> <p>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.</p>	<p style="text-align: right;">Page 280</p> <p style="text-align: center;">CASEY/PILIARIS</p> <p>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</p>
<p style="text-align: right;">Page 279</p> <p style="text-align: center;">CASEY/PILIARIS</p> <p>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?</p>	<p style="text-align: right;">Page 281</p> <p style="text-align: center;">CASEY/PILIARIS</p> <p>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</p>

<p>Page 282</p> <p>CASEY/PILIARIS</p> <p>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</p>	<p>Page 284</p> <p>CASEY/PILIARIS</p> <p>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</p>
<p>Page 283</p> <p>CASEY/PILIARIS</p> <p>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.</p>	<p>Page 285</p> <p>CASEY/PILIARIS</p> <p>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.</p>

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<p style="text-align: center;">CASEY/PILIARIS</p> <p>1 MR. CASEY: I'll give everybody a second to 2 read that.</p> <p>3 JUDGE MOSS: We're the only ones that 4 matter, Mr. Casey.</p> <p>5 MR. CASEY: Agreed.</p> <p>6 COMMISSIONER RENDAHL: So what --</p> <p>7 MR. CASEY: The last sentence of Page 14 8 that goes into Page 15.</p> <p>9 COMMISSIONER RENDAHL: Thank you.</p> <p>10 Q. (BY MR. CASEY) That sentence provides a price 11 floor; correct?</p> <p>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.</p> <p>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.</p>	<p style="text-align: center;">OSHIE/PILIARIS</p> <p>1 All right, Mr. Oshie, it appears you will be 2 able to proceed as you planned.</p> <p>3</p> <p>4 CROSS-EXAMINATION</p> <p>5 BY MR. OSHIE:</p> <p>6 Q. Good afternoon, Mr. Piliaris.</p> <p>7 A. Good afternoon, Mr. Oshie.</p> <p>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.</p> <p>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?</p> <p>15 A. Do you happen to know what page that was on?</p> <p>16 Q. I don't recall.</p> <p>17 JUDGE MOSS: What was the table number?</p> <p>18 MR. OSHIE: Table 13.</p> <p>19 CHAIRMAN DANNER: Table 13 is on Page 119.</p> <p>20 JUDGE MOSS: Thank you.</p> <p>21 THE WITNESS: Can you repeat the question? 22 I apologize.</p> <p>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</p>
<p style="text-align: center;">Page 287</p> <p style="text-align: center;">CASEY/PILIARIS</p> <p>1 MR. CASEY: I have no more questions.</p> <p>2 JUDGE MOSS: Thank you very much, Mr. Casey. 3 You stayed seven minutes within your allotted 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.</p> <p>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.</p> <p>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.</p> <p>20 JUDGE MOSS: Does anyone have an objection 21 to the tag team approach?</p> <p>22 MS. CARSON: We did not object to the tag 23 team approach.</p> <p>24 JUDGE MOSS: All right. It's your witness 25 so that's good enough for me.</p>	<p style="text-align: center;">Page 289</p> <p style="text-align: center;">OSHIE/PILIARIS</p> <p>1 18.1 percent respectively. Is that correct?</p> <p>2 A. Between the ERF test year and the period ending 3 June 2016, that's correct.</p> <p>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?</p> <p>7 A. I have no knowledge as to what the basis for the 8 reductions are.</p> <p>9 Q. Turning back to Table 13 -- excuse me. So let 10 me -- strike that, please.</p> <p>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?</p> <p>14 A. That's one way of putting it. Generally 15 speaking, the Commission has referred to that as a 16 throughput incentive.</p> <p>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?</p> <p>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.</p> <p>25 Q. Now, in operation, the decoupling mechanism is</p>

<p>Page 290</p> <p>OSHIE/PILIARIS</p> <p>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</p>	<p>Page 292</p> <p>OSHIE/PILIARIS</p> <p>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</p>
<p>Page 291</p> <p>OSHIE/PILIARIS</p> <p>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.</p>	<p>Page 293</p> <p>OSHIE/PILIARIS</p> <p>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.</p>

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PEPPLE/PILIARIS

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.

CROSS-EXAMINATION

10
 11 BY MR. PEPPLE:
 12 Q. Mr. Piliaris, PSE is proposing to keep Schedules
 13 40, 46 and 49 in the decoupling mechanism and to
 14 separate them into their own decoupling group; is that
 15 correct?
 16 **A. That's correct.**
 17 Q. In this proceeding, Staff has recommended
 18 eliminating Schedule 40 over time. Do you agree with
 19 that?
 20 **A. Yes.**
 21 Q. So if Staff's proposal is approved, would
 22 Schedules 46 and 49 then comprise their own decoupling
 23 group?
 24 **A. Yes.**

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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**

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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

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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

<p style="text-align: right;">Page 298</p> <p style="text-align: center;">PEPPLE/PILIARIS</p> <p>1 hours last year; correct?</p> <p>2 A. In the test year, correct.</p> <p>3 Q. Okay. So if that customer -- and again, we're</p> <p>4 operating under the assumption now that 46 and 49 are</p> <p>5 their own group and no one else. So if that customer</p> <p>6 drastically cut its usage, Customer 1 under Schedule 46</p> <p>7 who only used 1.4 million kilowatt hours would see a</p> <p>8 fairly large impact under decoupling, wouldn't it?</p> <p>9 A. Not really. Since its load was so small it</p> <p>10 would pick up a very small share of whatever differences</p> <p>11 there were in cost. It's not a per customer -- in other</p> <p>12 words, you're not going to spread whatever costs that</p> <p>13 needs to be allocated from each of the six customers</p> <p>14 within Schedule 46 pro rata; they would get their</p> <p>15 proportionate share relative to the size of their load.</p> <p>16 The size of their load relative to the rest of the</p> <p>17 customers within 46 is small. They'd pick up a smaller</p> <p>18 share.</p> <p>19 Q. Well, you would acknowledge that there's a</p> <p>20 fairly wide variation in usage levels among the</p> <p>21 customers within Schedules 46 and 49?</p> <p>22 A. Yes. Generally speaking, 46 is smaller than 49.</p> <p>23 Q. I guess just even within Schedule 49, there's a</p> <p>24 fairly wide range of usage, would you say?</p> <p>25 A. Relatively speaking. I mean, the smallest</p>	<p style="text-align: right;">Page 300</p> <p style="text-align: center;">PEPPLE/PILIARIS</p> <p>1 as directly impacted by, for example, conservation, but</p> <p>2 it clearly is impacted by conservation. In fact, our</p> <p>3 conservation avoided costs that are used to support our</p> <p>4 conservation program included in that calculation, as</p> <p>5 you saw in my derivation of the third block rate for</p> <p>6 residential customers, there's a substantial component</p> <p>7 that's capacity-related, which traditionally is</p> <p>8 demand-related. So I think generally speaking, we have</p> <p>9 to remember that there's as much -- maybe not as great,</p> <p>10 but a significant throughput incentive that is present</p> <p>11 through demand charges despite what I think other</p> <p>12 witnesses have said earlier today.</p> <p>13 The Company's position is that the Company does</p> <p>14 have some -- I don't want to say it has influence over</p> <p>15 demand charges, but it does. We're talking about demand</p> <p>16 response. Clearly the demand response program requires</p> <p>17 some influence over customers' demands which has a</p> <p>18 consequence on revenue. So the notion that demand</p> <p>19 charges are an appropriate or sufficient substitute for</p> <p>20 decoupling, the company disagrees with that.</p> <p>21 Q. So I think my question was really whether you</p> <p>22 agree that it mitigates the throughput incentive.</p> <p>23 A. Marginally. Very marginally.</p> <p>24 Q. Okay. Can you turn to Exhibit JAP-41. This is</p> <p>25 the decoupling calculations that you provided as an</p>
<p style="text-align: right;">Page 299</p> <p style="text-align: center;">PEPPLE/PILIARIS</p> <p>1 customer there is just over 9 million kilowatt hours</p> <p>2 versus the 69 that you're referring to. But most are in</p> <p>3 the 20, 30, 40.</p> <p>4 Q. Well, do you see that variation in usage among</p> <p>5 the residential customer class?</p> <p>6 A. Probably greater. Actually, substantially</p> <p>7 greater.</p> <p>8 Q. On a kilowatt hour basis?</p> <p>9 A. Per customer basis, relative -- as a percentage</p> <p>10 of the average, yes. We have some very large</p> <p>11 residential customers in our service area.</p> <p>12 Q. New laws affecting that? I'll move on.</p> <p>13 Do you agree that Staff's proposal to increase</p> <p>14 demand charges for customers that they are proposing to</p> <p>15 exclude from the decoupling mechanism would mitigate the</p> <p>16 Company's throughput incentive relative to these</p> <p>17 customers?</p> <p>18 A. Not very much. And I think generally speaking,</p> <p>19 there's a misunderstanding about the -- well, two</p> <p>20 things. One is the differences between what is</p> <p>21 demand-related cost and what is a fixed cost. So, for</p> <p>22 example, transmission costs, they're all fixed, but</p> <p>23 they're treated as being 75 percent energy-related. So</p> <p>24 there's a significant disconnect there already.</p> <p>25 As far as demand costs go, demand is maybe not</p>	<p style="text-align: right;">Page 301</p> <p style="text-align: center;">PEPPLE/PILIARIS</p> <p>1 exhibit to your supplemental testimony that was filed.</p> <p>2 A. JAP-41?</p> <p>3 Q. Yes.</p> <p>4 A. I'm there.</p> <p>5 Q. I'm looking at Page 1 and Line Number 8 on Page</p> <p>6 1 which shows the net pro forma delivery revenue. Do</p> <p>7 you see that?</p> <p>8 A. I do.</p> <p>9 Q. Now, I'll represent to you that if you sum each</p> <p>10 column's net pro forma delivery revenue going from</p> <p>11 Column C to Column H, you get a total net pro forma</p> <p>12 delivery revenue of approximately \$623.5 million.</p> <p>13 Would you accept that, subject to check?</p> <p>14 A. Yes.</p> <p>15 Q. Now, if you look at Column M, that shows a net</p> <p>16 pro forma delivery revenue for Schedules 46 and 49 of</p> <p>17 about 9 million; is that correct?</p> <p>18 A. For delivery revenue, that's correct.</p> <p>19 Q. Okay. Would you accept that this is</p> <p>20 approximately 1 percent of the total net pro forma</p> <p>21 delivery revenue?</p> <p>22 A. So 9 versus the 600?</p> <p>23 Q. Yeah.</p> <p>24 A. One and a half, okay.</p> <p>25 Q. Maybe 1.4 if you round it out.</p>

<p>PEPPLE/PILIARIS</p> <p>Page 302</p> <p>1 So I guess another way of saying this is that if</p> <p>2 Schedules 46 and 49 were excluded entirely from the</p> <p>3 decoupling mechanism, approximately 1 percent of PSE's</p> <p>4 delivery revenue would be subject to the throughput</p> <p>5 incentive; is that correct?</p> <p>6 A. No, that would be incorrect.</p> <p>7 Q. What am I missing then?</p> <p>8 A. You're missing -- those are just the delivery</p> <p>9 costs. There's also fixed production costs.</p> <p>10 Q. Well, correct. I'm simply saying 1 percent of</p> <p>11 PSE's delivery revenue.</p> <p>12 A. Oh, of delivery revenue, yes.</p> <p>13 Q. Now, I think you just discussed how the demand</p> <p>14 charge does not eliminate the throughput incentive,</p> <p>15 because under the peak credit methodology, 25 percent of</p> <p>16 costs are demand-related, essentially. Fairly</p> <p>17 simplistic way of stating what you said.</p> <p>18 So could we assume, then, that if the demand</p> <p>19 charge were approved, a higher demand charge were</p> <p>20 approved as Staff proposed, that the delivery revenue of</p> <p>21 approximately \$9 million in Schedules 46 and 49,</p> <p>22 25 percent of that would no longer be subject to the</p> <p>23 throughput incentive? Would that be a high level way of</p> <p>24 saying that?</p> <p>25 A. I'm not sure. Can you repeat it one more time?</p>	<p>PEPPLE/PILIARIS</p> <p>Page 304</p> <p>1 you're --</p> <p>2 A. It doesn't have to but it does in our case.</p> <p>3 Q. And do customers under Schedules 46 and 49, does</p> <p>4 weather have any impact on their loads?</p> <p>5 A. Minimal. Generally speaking, industrial loads,</p> <p>6 weather isn't a great -- much of a factor. If you have</p> <p>7 a very large commercial load under one of those</p> <p>8 schedules then it could be probably more of a cooling</p> <p>9 load issue rather than a heating load issue. But again,</p> <p>10 overall it's pretty small.</p> <p>11 Q. Can you turn to your rebuttal testimony,</p> <p>12 Page 21. It's 46CT.</p> <p>13 A. You said 21?</p> <p>14 Q. 21.</p> <p>15 A. I'm there.</p> <p>16 Q. So at the top of the page, this Q&A, you are</p> <p>17 commenting on Mr. Gorman and other witnesses' proposals</p> <p>18 to remove customers from a decoupling mechanism. On</p> <p>19 Line 3 you say that their proposals lack actionable</p> <p>20 detail on how any remaining deferral balance will be</p> <p>21 handled once the customers are removed from the</p> <p>22 mechanisms. Do you see that?</p> <p>23 A. I do.</p> <p>24 Q. Can you now turn to Exhibit JAP-60X.</p> <p>25 MR. PEPPLE: And just to refresh the Court's</p>
<p>PEPPLE/PILIARIS</p> <p>Page 303</p> <p>1 Q. Sure. You have approximately \$9 million of net</p> <p>2 pro forma delivery revenue for 46 and 49. If a higher</p> <p>3 demand charge were applied to these customers and</p> <p>4 decoupling were eliminated, would 25 percent of that 9</p> <p>5 million no longer be subject to the throughput</p> <p>6 incentive, approximately, give or take a few?</p> <p>7 A. I don't believe so.</p> <p>8 Q. Why?</p> <p>9 A. These are delivery. This is not fixed</p> <p>10 production. So 75-25 is a fixed production. These</p> <p>11 delivery are all fixed. So all of that amount is</p> <p>12 subject to the throughput incentive.</p> <p>13 Q. Would demand charges recover any of those costs?</p> <p>14 A. They would recover some of the costs, but again,</p> <p>15 as I said earlier, I don't believe that the demand</p> <p>16 charges will flow with usage.</p> <p>17 JUDGE MOSS: Mr. Pepple, I don't know if the</p> <p>18 court reporter is having any trouble with it, but your</p> <p>19 voice is trailing off at the end to some of your</p> <p>20 questions, and I'm losing it, but I'm an old guy. Maybe</p> <p>21 you can do it for my benefit.</p> <p>22 MR. PEPPLE: It's clear in my head.</p> <p>23 JUDGE MOSS: As a bell, no doubt.</p> <p>24 Q. (BY MR. PEPPLE) Decoupling accounts for</p> <p>25 variations in weather; correct? For instance, if</p>	<p>PEPPLE/PILIARIS</p> <p>Page 305</p> <p>1 memory, this is the one exhibit that has not been</p> <p>2 admitted.</p> <p>3 JUDGE MOSS: All right, thank you for that</p> <p>4 reminder. Therefore, PSE may have some objection or</p> <p>5 they may not. Let's hear the question.</p> <p>6 MR. STEELE: No, Your Honor. We still</p> <p>7 object. Our concern with this exhibit is this appears</p> <p>8 to be a PSE data request that ICNU has responded to and,</p> <p>9 therefore, we're not sure why Mr. Piliaris is being</p> <p>10 asked questions about a response by what appears to be</p> <p>11 an ICNU witness, which I believe is Mr. Gorman.</p> <p>12 That's our concern, Your Honor.</p> <p>13 JUDGE MOSS: Well, he can ask the question</p> <p>14 with or without the exhibit, I suppose. Does it</p> <p>15 facilitate things to have the exhibit? I don't really</p> <p>16 see the problem here. From an evidentiary perspective,</p> <p>17 I don't understand how this harms you in any way.</p> <p>18 MR. STEELE: Well, it's a response that</p> <p>19 Mr. Piliaris didn't -- so that's our concern.</p> <p>20 JUDGE MOSS: I understand your objection</p> <p>21 from a technical perspective. It's not Mr. Piliaris or</p> <p>22 the PSE answering the question that was posed to PSE.</p> <p>23 So he's not sponsoring the exhibit for the truth of what</p> <p>24 it asserts, we're just using it as a reference, if you</p> <p>25 will, an illustrative exhibit perhaps would be the way</p>

<p>Page 306</p> <p>PEPPLE/PILIARIS</p> <p>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</p>	<p>Page 308</p> <p>STOKES/PILIARIS</p> <p>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.</p>
<p>Page 307</p> <p>PEPPLE/PILIARIS</p> <p>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</p>	<p>Page 309</p> <p>STOKES/PILIARIS</p> <p>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?</p>

<p>Page 310</p> <p>STOKES/PILIARIS</p> <p>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.</p> <p>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.</p> <p>15 Q. Based on this, does it appear that perhaps your 16 testimony regarding your criticism on his -- about 17 his -- sorry.</p> <p>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?</p> <p>21 A. In his response he says he doesn't agree with 22 Staff's proposal, so I would say that would be accurate.</p> <p>23 Q. Okay. So let's move on. If you can turn to 24 JAP-46CT at Page 78.</p> <p>25 A. I'm there.</p>	<p>Page 312</p> <p>STOKES/PILIARIS</p> <p>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.</p> <p>5 Q. Okay. If you can turn to Page 73 of the same 6 exhibit.</p> <p>7 A. I'm there.</p> <p>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?</p> <p>11 A. Can you point me to the specific testimony 12 you're referring to?</p> <p>13 Q. The last Q&A. I'm sorry, it's the middle Q&A, 14 Line 6.</p> <p>15 MS. CARSON: Can you repeat the question?</p> <p>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?</p> <p>19 A. In the way Mr. Collins is describing the double 20 counting, I would say yes, it is including it.</p> <p>21 Q. Okay. And under Mr. Collins' proposal, is the 22 average load counted once or twice?</p> <p>23 A. Once.</p> <p>24 Q. And under the peak and average methodology used 25 by PSE and Staff, is the average load counted once or</p>
<p>Page 311</p> <p>STOKES/PILIARIS</p> <p>1 Q. So in your testimony you call Mr. Collins' 2 proposal a revenue allocation extreme; is that correct?</p> <p>3 A. That's correct.</p> <p>4 Q. Are you aware of other state jurisdictions that 5 use the cost of service methodology proposed by 6 Mr. Collins?</p> <p>7 A. I'm not.</p> <p>8 Q. You're not aware of any?</p> <p>9 A. I haven't done a thorough review.</p> <p>10 Q. Okay. Are you aware of how interstate pipelines 11 allocate their costs?</p> <p>12 A. Generally, no.</p> <p>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?</p> <p>16 A. And I accepted that as being a far more 17 reasonable proposal.</p> <p>18 Q. Okay, thank you. Has PSE agreed to participate 19 in a cost of service generic proceeding to discuss 20 customer service issues?</p> <p>21 A. It has.</p> <p>22 Q. Okay. What is the purpose of a cost of service 23 generic proceeding?</p> <p>24 A. From the Company's perspective, it's an 25 opportunity to have a robust and thoughtful discussion</p>	<p>Page 313</p> <p>STOKES/PILIARIS</p> <p>1 twice?</p> <p>2 A. Twice.</p> <p>3 Q. If you can turn to Page 74 of your testimony.</p> <p>4 A. I'm there.</p> <p>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?</p> <p>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.</p>

<p>Page 314</p> <p>STOKES/PILIARIS</p> <p>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</p>	<p>Page 316</p> <p>STOKES/PILIARIS</p> <p>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</p>
<p>Page 315</p> <p>STOKES/PILIARIS</p> <p>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.</p>	<p>Page 317</p> <p>STOKES/PILIARIS</p> <p>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?</p>

<p>Page 318</p> <p>STOKES/PILIARIS</p> <p>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</p>	<p>Page 320</p> <p>STOKES/PILIARIS</p> <p>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</p>
<p>Page 319</p> <p>STOKES/PILIARIS</p> <p>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</p>	<p>Page 321</p> <p>LIOTTA/PILIARIS</p> <p>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?</p>

<p style="text-align: center;">LIOTTA/PILIARIS Page 322</p> <p>1 A. That's correct.</p> <p>2 Q. Can you see Page 18 of that statement? I have</p> <p>3 it as FEA Exhibit JAP-61X.</p> <p>4 A. I have it in front of me.</p> <p>5 Q. Great, thank you. I'm going to ask if you</p> <p>6 could -- and you can read it to yourself, just the first</p> <p>7 criteria for approval listed on Page 18 of the policy</p> <p>8 statement entitled Application to Customer Classes.</p> <p>9 A. Uh-huh. Yes, I've read it.</p> <p>10 Q. Would it be correct to state that this passage</p> <p>11 from the policy statement states that the Commission</p> <p>12 will consider a decoupling proposal that would apply to</p> <p>13 fewer than all customer classes where it is in the</p> <p>14 public interest and not unlawfully discriminatory or</p> <p>15 preferential?</p> <p>16 A. Yes, that is correct.</p> <p>17 Q. Would you agree that an electric decoupling</p> <p>18 mechanism that excludes Schedules 40, 46 and 49 would</p> <p>19 not violate the Commission's decoupling policy statement</p> <p>20 if the Commission finds that the mechanism is in the</p> <p>21 public interest and is not unlawfully discriminatory or</p> <p>22 preferential?</p> <p>23 A. The way you worded it sort of tripped me up a</p> <p>24 little bit. Can you restate the question?</p> <p>25 Q. Sure. If the electric decoupling mechanism</p>	<p style="text-align: center;">LIOTTA/PILIARIS Page 324</p> <p>1 performed for the years 2014 through 2017; correct?</p> <p>2 A. Correct.</p> <p>3 Q. And did the back cast you performed incorporate</p> <p>4 fixed production costs into your calculation?</p> <p>5 A. An estimate of them.</p> <p>6 Q. So for the years 2014 through 2017, can you tell</p> <p>7 me what the maximum annual rate impact was that you</p> <p>8 calculated for nonresidential electric decoupling group?</p> <p>9 A. So that one nonresidential group?</p> <p>10 Q. Right, just that group.</p> <p>11 A. It's listed as 2.74 percent.</p> <p>12 Q. Right. And what is the existing annual rate</p> <p>13 test cap under the electric decoupling mechanism?</p> <p>14 A. Three percent.</p> <p>15 Q. Okay. Last question.</p> <p>16 Would you agree that based on the results of</p> <p>17 your back cast, that that existing 3 percent rate test</p> <p>18 cap would not have been triggered for electric</p> <p>19 nonresidential customers in any year over that period</p> <p>20 between 2014 to 2017?</p> <p>21 A. For that particular group, the way it is</p> <p>22 currently constructed. What it doesn't really show is</p> <p>23 based on the new more disaggregated groups, whether in</p> <p>24 fact that 2.74 percent would necessarily hold. In my</p> <p>25 testimony I discussed sort of the tradeoffs between</p>
<p style="text-align: center;">LIOTTA/PILIARIS Page 323</p> <p>1 excluded -- if there was an electric decoupling</p> <p>2 mechanism that excluded the Schedules 40, 46 and 49,</p> <p>3 would you agree that that would not violate the</p> <p>4 Commission's decoupling policy if the Commission were to</p> <p>5 find that that mechanism was in the public interest, it</p> <p>6 wasn't unlawfully discriminatory?</p> <p>7 A. When you say "that mechanism," that's generally</p> <p>8 where I get tripped up. If the question is, as long as</p> <p>9 the basis for which those customers are removed</p> <p>10 addresses whatever the Commission is attempting to</p> <p>11 address through decoupling sufficiently in their mind</p> <p>12 that there is a public interest, then yes, the</p> <p>13 Commission clearly has that -- well, number one, it has</p> <p>14 that authority because this is a policy statement, not a</p> <p>15 rule. So there's some flexibility there.</p> <p>16 But moreover, if the Commission is convinced,</p> <p>17 for example, that demand charges are in fact a</p> <p>18 sufficient surrogate, then they could find that that</p> <p>19 would be in the public interest. Of course, the Company</p> <p>20 disagrees with that notion, but be that as it may.</p> <p>21 Q. Thank you. I'm going to actually refer you now</p> <p>22 to Page 13 of your rebuttal testimony.</p> <p>23 A. I'm there.</p> <p>24 Q. On this page you discuss the results of a back</p> <p>25 cast of an electric decoupling rate test impact that you</p>	<p style="text-align: center;">LIOTTA/PILIARIS Page 325</p> <p>1 lumping a bunch of customers together and disaggregating</p> <p>2 them. And the tradeoff there is the more you</p> <p>3 disaggregate the more volatility you'll introduce into</p> <p>4 the deferrals that would result in then rate changes,</p> <p>5 downstream rate changes.</p> <p>6 So we were discussing earlier breaking out 46</p> <p>7 and 49 as perhaps standalone groups. Well, that</p> <p>8 introduces potentially a lot more volatility that was</p> <p>9 otherwise embedded within a much larger group of</p> <p>10 customers where some may be high, some may be low,</p> <p>11 offsetting each other, sort of dampening the overall</p> <p>12 effect.</p> <p>13 So specifically to your question, yes, if the</p> <p>14 Company continued with the existing nonresidential rate</p> <p>15 group, there would be no need for anything in excess of</p> <p>16 3 percent.</p> <p>17 Q. Even if fixed production costs have been</p> <p>18 incorporated?</p> <p>19 A. Correct. But the disaggregation of that group</p> <p>20 gives the Company a little bit more concern about the</p> <p>21 potential for increasing deferrals. Obviously there's</p> <p>22 no black or white answer here. It's more a matter of</p> <p>23 how willing are we to sustain some year-over-year</p> <p>24 deferrals that carry over from one year to the next,</p> <p>25 introducing intergenerational questions and whatnot.</p>

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<p>1 So it's a balance. The Company doesn't have a</p> <p>2 very strong position on the nonresidential electric. I</p> <p>3 think it's appropriate, but I understand that there's</p> <p>4 varying degrees of risk tolerance.</p> <p>5 MS. LIOTTA: Thank you. That's all I have</p> <p>6 for you.</p> <p>7 JUDGE MOSS: Thank you, Ms. Liotta.</p> <p>8 Let's see, we have now Public Counsel.</p> <p>9</p> <p>10 CROSS-EXAMINATION</p> <p>11 BY MS. GAFKEN:</p> <p>12 Q. Good afternoon.</p> <p>13 A. Good afternoon.</p> <p>14 Q. Peak day demand and annual throughput are two</p> <p>15 different concepts; is that correct?</p> <p>16 A. That is correct.</p> <p>17 Q. And so there would be no double counting because</p> <p>18 they are two different concepts; is that correct?</p> <p>19 A. It depends on how they're used. The way we use</p> <p>20 it in our peak and average, a portion of the costs are</p> <p>21 allocated on peak day and a portion of the costs are</p> <p>22 allocated on volume. So in that regard, yes, there's no</p> <p>23 double count.</p> <p>24 Q. Would you please turn to your rebuttal</p> <p>25 testimony, Exhibit JAP-46CT, and go to Page 3, line 13?</p>	<p>1 simultaneously eliminate the production factoring of</p> <p>2 these costs in the determination of allowed revenue;</p> <p>3 correct?</p> <p>4 A. Correct.</p> <p>5 Q. Would you please turn to Exhibit JAP-47.</p> <p>6 A. I'm there.</p> <p>7 Q. Does Exhibit JAP-47 represent PSE's view of how</p> <p>8 to implement complete decoupling for fixed power costs?</p> <p>9 A. Yes.</p> <p>10 Q. And under this approach, PSE would not receive</p> <p>11 growing revenues caused by customer growth or recovery</p> <p>12 of its future fixed power costs; correct?</p> <p>13 A. That's correct.</p> <p>14 Q. So turning back to your rebuttal testimony,</p> <p>15 Exhibit JAP-46CT, beginning at Page 6, Line 19, you</p> <p>16 state that Mr. Brosch would take this a step further and</p> <p>17 also apply fixed or complete decoupling to all costs</p> <p>18 within PSE's decoupling mechanisms; correct?</p> <p>19 A. Correct.</p> <p>20 Q. By this do you mean that Public Counsel would</p> <p>21 fix and limit future revenue recoveries for both</p> <p>22 delivery cost and fixed production costs?</p> <p>23 A. That's my understanding of Mr. Brosch's</p> <p>24 proposal.</p> <p>25 Q. So staying with your rebuttal testimony, would</p>
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<p>1 A. I'm there.</p> <p>2 Q. There you testified that Public Counsel witness</p> <p>3 Mr. Brosch provides implicit support for continuing</p> <p>4 decoupling for PSE; is that correct?</p> <p>5 A. Correct.</p> <p>6 Q. Do you understand Public Counsel's position to</p> <p>7 support the continuation of decoupling conditioned upon</p> <p>8 certain modifications including fixing revenue recovery</p> <p>9 between rate cases at Commission-approved revenue</p> <p>10 requirement dollar levels rather than allowing revenues</p> <p>11 to grow in proportion to customer growth?</p> <p>12 A. That's why I used the term "implicit" rather</p> <p>13 than "explicit." It was conditional.</p> <p>14 Q. Would you please turn to Page 6, Lines 17</p> <p>15 through 19 of your rebuttal testimony.</p> <p>16 A. I'm there.</p> <p>17 Q. There you refer to Staff witness Ms. Liu who</p> <p>18 also proposes fixed or complete decoupling but only with</p> <p>19 respect to fixed production costs; correct?</p> <p>20 A. That's correct.</p> <p>21 Q. Would you turn to Page 8, Lines 2 through 4.</p> <p>22 A. I'm there.</p> <p>23 Q. There you state that adoption of Staff and</p> <p>24 Public Counsel's recommendation regarding fixed</p> <p>25 production costs require adoption of the proposal to</p>	<p>1 you please turn to Page 23, Line 7 through 14.</p> <p>2 A. I'm there.</p> <p>3 Q. With respect to delivery costs, you criticize</p> <p>4 Public Counsel's approach because Ms. Barnard's</p> <p>5 testimony indicates that delivery costs have grown per</p> <p>6 customer by 1.2 percent per year; correct?</p> <p>7 A. Correct.</p> <p>8 Q. Your reference to the 1.2 percent expense growth</p> <p>9 rates is entirely hindsight and not a projection of</p> <p>10 PSE's future growth trends; correct?</p> <p>11 A. That's correct.</p> <p>12 Q. Would you please turn to Cross Exhibit JAP-68X.</p> <p>13 A. I have it.</p> <p>14 Q. Under Section B, PSE did not provide any support</p> <p>15 or analysis to show that the expense growth rate would</p> <p>16 carry forward into the future at the same rate causing</p> <p>17 future earnings attrition, did it?</p> <p>18 A. Correct, we did not.</p> <p>19 Q. Is PSE seeking to lock in growing delivery</p> <p>20 service revenues through continuing future decoupling on</p> <p>21 a per customer basis because its historical actual costs</p> <p>22 per customer grew modestly?</p> <p>23 A. Can you just repeat the question?</p> <p>24 Q. Sure. Is PSE seeking to lock in growing</p> <p>25 delivery service revenues through continuing future</p>

<p>Page 330</p> <p>GAFKEN/PILIARIS</p> <p>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</p>	<p>Page 332</p> <p>GAFKEN/PILIARIS</p> <p>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?</p>
<p>Page 331</p> <p>GAFKEN/PILIARIS</p> <p>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.</p>	<p>Page 333</p> <p>GAFKEN/PILIARIS</p> <p>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</p>

<p>Page 334</p> <p>GAFKEN/PILIARIS</p> <p>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</p>	<p>Page 336</p> <p>GAFKEN/PILIARIS</p> <p>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.</p>
<p>Page 335</p> <p>GAFKEN/PILIARIS</p> <p>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?</p>	<p>Page 337</p> <p>GAFKEN/PILIARIS</p> <p>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.</p>

<p>Page 338</p> <p>GAFKEN/PILIARIS</p> <p>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. ffitich, 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</p>	<p>Page 340</p> <p>FFITCH/PILIARIS</p> <p>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</p>
<p>Page 339</p> <p>FFITCH/PILIARIS</p> <p>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. ffitich. 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</p>	<p>Page 341</p> <p>FFITCH/PILIARIS</p> <p>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</p>

<p>Page 342</p> <p>FFITCH/PILIARIS</p> <p>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</p>	<p>Page 344</p> <p>FFITCH/PILIARIS</p> <p>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. ffitc.</p>
<p>Page 343</p> <p>FFITCH/PILIARIS</p> <p>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</p>	<p>Page 345</p> <p>SHEARER/BALL</p> <p>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 ///</p>

<p>BOYLES/BALL</p> <p>Page 346</p> <p>1 DIRECT EXAMINATION</p> <p>2 BY MR. SHEARER:</p> <p>3 Q. Mr. Ball, can you please state and say your name</p> <p>4 for the record. Or spell your name, I'm sorry.</p> <p>5 A. My name is Jason Ball, J-a-s-o-n, B-a-l-l.</p> <p>6 Q. And do you have the exhibits that have been</p> <p>7 entered and stipulated to as JLB-1T through JLB-12T with</p> <p>8 you?</p> <p>9 A. Yes.</p> <p>10 Q. And do you have any corrections to those</p> <p>11 exhibits?</p> <p>12 A. I do not.</p> <p>13 MR. SHEARER: Your Honor, the witness is</p> <p>14 available for cross.</p> <p>15 JUDGE MOSS: All right. Well, I was just</p> <p>16 saying to Ms. Boyles we haven't had a chance to hear</p> <p>17 from her all day so we'll let her go first.</p> <p>18 MS. BOYLES: Thank you, Your Honor.</p> <p>19</p> <p>20 CROSS-EXAMINATION</p> <p>21 BY MS. BOYLES:</p> <p>22 Q. Good afternoon, Mr. Ball.</p> <p>23 A. Good afternoon.</p> <p>24 Q. In your initial and cross-answering testimony,</p> <p>25 you propose including line transformers in the basic</p>	<p>STOKES/BALL</p> <p>Page 348</p> <p>1 A. Page 4 as it's labeled on the top?</p> <p>2 Q. I'm sorry, Page 4 on the bottom.</p> <p>3 A. Page 4 on the bottom. It says Cost of Service</p> <p>4 at the top?</p> <p>5 Q. Correct. Starting at Line 11, can you read the</p> <p>6 recommendation to the Commission?</p> <p>7 JUDGE MOSS: Mr. Stokes, I don't normally</p> <p>8 like to have witnesses read into the record what's</p> <p>9 already in the record, so if you have a question about</p> <p>10 this testimony that you want to ask him, go ahead. But</p> <p>11 there's no reason for him to read it in.</p> <p>12 MR. STOKES: Okay, very well.</p> <p>13 Q. (BY MR. STOKES) In the Avista 2016 rate case,</p> <p>14 you recommended to start a generic cost of service</p> <p>15 proceeding; is that correct?</p> <p>16 A. That's correct.</p> <p>17 Q. And what was the purpose of the generic cost of</p> <p>18 service proceeding?</p> <p>19 A. Well, a generic cost of service proceeding is</p> <p>20 designed to look at various cost of service</p> <p>21 methodologies and figure out using both a collaborative</p> <p>22 and possibly an adjudicative process what the most</p> <p>23 reasonable form for cost of service methodologies is.</p> <p>24 And in this particular case this is where Staff</p> <p>25 set it up. And Staff, I believe the line you're</p>
<p>STOKES/BALL</p> <p>Page 347</p> <p>1 charge; is that correct?</p> <p>2 A. That's correct.</p> <p>3 Q. Are you aware of any state commission that has</p> <p>4 approved or affirmed the classification of transformers</p> <p>5 as a customer-related cost?</p> <p>6 A. I'm not.</p> <p>7 MS. BOYLES: Thank you, Your Honor.</p> <p>8 JUDGE MOSS: Thank you, Ms. Boyles. I</p> <p>9 expect to see that point thoroughly briefed.</p> <p>10 MS. BOYLES: Yes, sir.</p> <p>11 JUDGE MOSS: Mr. Stokes, I believe you have</p> <p>12 a few questions for Mr. Ball?</p> <p>13 MR. STOKES: Yes, Your Honor.</p> <p>14 JUDGE MOSS: Go ahead, please.</p> <p>15</p> <p>16 DIRECT EXAMINATION</p> <p>17 BY MR. STOKES:</p> <p>18 Q. Good afternoon, Mr. Ball.</p> <p>19 A. Good afternoon.</p> <p>20 Q. If you look at Exhibit JLB-13X.</p> <p>21 A. Okay.</p> <p>22 Q. Does this appear to be your testimony from the</p> <p>23 Avista 2016 rate case?</p> <p>24 A. Yes.</p> <p>25 Q. Can you please turn to Page 4 of that exhibit.</p>	<p>STOKES/BALL</p> <p>Page 349</p> <p>1 referring to is Line 11 said, Staff recommends</p> <p>2 maintaining the status quo for Avista. In Avista's case</p> <p>3 the status quo is the exact same methodology we've</p> <p>4 proposed in this current case, which is the peak and</p> <p>5 average method using five peaks from each of the last</p> <p>6 three years.</p> <p>7 Q. So can you -- in the Avista case, didn't you</p> <p>8 argue for equal percent of margin basis on the gas side?</p> <p>9 A. That's a rate spread, not a cost of service</p> <p>10 portion.</p> <p>11 Q. All right. In this case, as opposed to the</p> <p>12 generic proceeding, we only have the litigation</p> <p>13 positions of Puget and Staff from the gas users with</p> <p>14 respect to the cost of service; is that correct?</p> <p>15 A. That's correct.</p> <p>16 Q. Are you aware of how other jurisdictions use</p> <p>17 methods to allocate costs?</p> <p>18 A. I'm aware in general that there are different</p> <p>19 allocation methodologies across the entire country, yes.</p> <p>20 Q. Can you provide some examples?</p> <p>21 A. Certainly. So there's a wide range of cost of</p> <p>22 service methodologies. On one end you have a cost of</p> <p>23 service methodology that relies solely on throughput.</p> <p>24 Now, arguably that methodology would be the most</p> <p>25 beneficial you can get to residential ratepayers. And</p>

<p>Page 350</p> <p>STOKES/BALL</p> <p>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</p>	<p>Page 352</p> <p>STOKES/BALL</p> <p>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</p>
<p>Page 351</p> <p>STOKES/BALL</p> <p>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</p>	<p>Page 353</p> <p>STOKES/BALL</p> <p>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</p>

<p>Page 354</p> <p>STOKES/BALL</p> <p>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</p>	<p>Page 356</p> <p>STOKES/BALL</p> <p>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</p>
<p>Page 355</p> <p>STOKES/BALL</p> <p>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</p>	<p>Page 357</p> <p>STOKES/BALL</p> <p>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.</p>

<p>Page 358</p> <p>STOKES/BALL</p> <p>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.</p>	<p>Page 360</p> <p>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?</p>
<p>Page 359</p> <p>STOKES/BALL</p> <p>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</p>	<p>Page 361</p> <p>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?</p>

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<p>1 JUDGE MOSS: We're briefing the issues that</p> <p>2 we heard today; just these issues, just these witnesses,</p> <p>3 just this part of the evidence. And then we're going to</p> <p>4 have the settlement come in at some point in time.</p> <p>5 Public Counsel is going to let us know whether or not</p> <p>6 they support it or oppose it, and then we're going to</p> <p>7 have a settlement hearing. And we know one party is</p> <p>8 opposing it so we're going to have to have a contested</p> <p>9 hearing on the settlement, unless that changes between</p> <p>10 now and the time we set for that hearing, which can</p> <p>11 always happen, of course.</p> <p>12 So, and then we'll have another opportunity,</p> <p>13 I suspect we'll probably have to have briefs after the</p> <p>14 settlement hearing as well. But we will of course talk</p> <p>15 about scheduling that at the appropriate time.</p> <p>16 MR. FFITCH: Your Honor, just a plea for</p> <p>17 mercy, I guess. October 2nd is the Monday after the</p> <p>18 settlement hearing, so as a practical matter, preparing</p> <p>19 briefs during the lead-up to that time to the settlement</p> <p>20 hearings might be a challenge that people hadn't thought</p> <p>21 about. So I was going to suggest that perhaps at least</p> <p>22 having that October 2nd be slipped a few days, maybe the</p> <p>23 end of the week, the 6th.</p> <p>24 JUDGE MOSS: How about slipping it in the</p> <p>25 other direction?</p>	<p>1 So that's what we'll do.</p> <p>2 So we will look forward to receiving some</p> <p>3 additional paperwork in terms of a fully articulated</p> <p>4 settlement agreement and the supporting documentation</p> <p>5 that goes with that. We may have a prehearing</p> <p>6 conference at the time that is submitted or we may do</p> <p>7 something telephonically, I'm not really sure. We'll</p> <p>8 have to decide on some process and a procedural schedule</p> <p>9 to get through that and get to the hearing.</p> <p>10 As I said, I've got some dates reserved</p> <p>11 toward the end of September so timing is everything.</p> <p>12 And we'll have to take it one step at a time as we see</p> <p>13 how things unfold. So I don't want to try to set a</p> <p>14 schedule today, but I encourage you all to, and I know</p> <p>15 you will, work diligently to get everything prepared.</p> <p>16 I'm afraid I'm forgetting something. Does</p> <p>17 anybody have anything for me?</p> <p>18 Ms. Gafken, you're leaning forward with</p> <p>19 expectancy. What is it you wish to say?</p> <p>20 MS. GAFKEN: There's one other item that I</p> <p>21 wanted to bring up, and that's the public comment</p> <p>22 exhibit. And I'm looking for a due date for that, and</p> <p>23 typically it's one week after the end of the proceeding.</p> <p>24 I don't know exactly when the end of the proceeding is</p> <p>25 at this point.</p>
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<p>1 MR. CASEY: I would note that we have a</p> <p>2 settlement -- a lot of the people in this room have a</p> <p>3 settlement hearing on the 6th for the Avista GRC. Not a</p> <p>4 hearing but a settlement conference.</p> <p>5 JUDGE MOSS: A negotiation session, not a</p> <p>6 hearing, unless something has happened that I don't know</p> <p>7 about.</p> <p>8 MR. CASEY: No, I'm sorry. A settlement</p> <p>9 conference, but it is part of the procedural schedule.</p> <p>10 JUDGE MOSS: Well, October 2nd is more than</p> <p>11 a month away, and this is a fairly narrow matter that</p> <p>12 we've got here that we've litigated. It seems to me you</p> <p>13 could probably -- I don't want to push you too hard</p> <p>14 here, but why can't we do the briefs by the middle of</p> <p>15 September and then the reply briefs towards the end of</p> <p>16 September?</p> <p>17 MR. STOKES: I would rather keep the</p> <p>18 schedule as it is, Your Honor, from a personal</p> <p>19 standpoint.</p> <p>20 MS. CARSON: Yeah, I agree. I would not</p> <p>21 want it middle of September. I mean, maybe if we just</p> <p>22 moved it to October 3rd, even give us one extra day.</p> <p>23 JUDGE MOSS: Let's move it to October 4th</p> <p>24 and then keep the reply briefs on the 13th. That will</p> <p>25 ensure they're brief, or help that way, I should say.</p>	<p>1 JUDGE MOSS: Well, I'm torn, because the</p> <p>2 bigger part of this whole proceeding, which is to say</p> <p>3 the revenue requirement, is subject to the settlement</p> <p>4 and it will be a subject of that whole process. And</p> <p>5 speaking to Mr. Roberts on our staff who handles this</p> <p>6 exhibit for the staff, he asked me the other day what</p> <p>7 the deadline would be. And I started out with an early</p> <p>8 date and ended up with a date that would follow the</p> <p>9 hearing, the settlement hearing. So I'm still inclined</p> <p>10 to leave that opportunity open for written comments</p> <p>11 until that time. Does that work for you?</p> <p>12 MS. GAFKEN: That certainly works for me. I</p> <p>13 would prefer leaving the time open for the public to</p> <p>14 comment and then preparing the exhibit after that time.</p> <p>15 JUDGE MOSS: The public may wish to comment</p> <p>16 on the settlement.</p> <p>17 MS. GAFKEN: They very well may.</p> <p>18 JUDGE MOSS: So let's leave it open for now.</p> <p>19 And I can't give you a firm date again because we don't</p> <p>20 know what the other dates are. Same thing I told</p> <p>21 Mr. Roberts. That seems to me the way to proceed.</p> <p>22 MS. GAFKEN: Perhaps we'll revisit it when</p> <p>23 we get together again for the settlement hearing.</p> <p>24 JUDGE MOSS: Sure. And I'm always available</p> <p>25 if you all need to take up some process or procedural</p>

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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 CERTIFICATE
 2
 3 STATE OF WASHINGTON)
 4)^{ss}
 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
 25

DIANE RUGH, RPR, RMR, CRR, CCR
 CCR NO. 2399