

Donna Davis, CSR, CM, Court Reporter

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WICFUR by MARK TRINCHERO, Attorney at Law,
1300 S.E. Fifth Avenue, Suite 2300, Portland, Oregon
97201.

FEDERAL EXECUTIVE AGENCIES by NORMAN FURUTA,
900 Commodore Drive, Building 107, San Bruno,
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The PUBLIC by CHARLES F. ADAMS, Assistant
Attorney General, 900 Fourth Avenue, Suite 2000,
Seattle, Washington 98164.

1
2 WITNESS: DIRECT CROSS REDIRECT RECROSS EXAM
3 RICHARD R. SONSTELIE
4 4,005 4,011 4,057
5 4,044 4,076
6 4,048
7 4,088
8 COREY A. KNUTSEN
9 4,090 4,092 4,117
10 4,115
11 ANDREW W. PATTERSON
12 4,120 4,128
13 GARY B. SWOFFORD
14 4,154 4,156
15 4,201
16
17 EXHIBIT MARKED ADMITTED
18 875 4,000
19 876 4,000 4,002
20 877 4,000 4,002
21 T-878 4,004 4,011
22 879 4,004 4,011
23 880 4,004

24 881 4,028 4,041

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3993

1 I N D E X
2 (continued)

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4	EXHIBIT	MARKED	ADMITTED
5	T-882	4,090	4,092
6	883	4,090	4,092
7	884	4,090	4,092
8	885	4,105	4,115
9	886	4,106	4,115
10	887	4,107	4,115
11	T-888	4,120	4,128
12	889	4,120	4,128
13	890	4,120	4,128
14	891	4,120	4,128
15	892	4,120	4,128
16	893	4,120	4,128
17	894	4,120	4,128
18	895	4,120	4,128
19	T-896	4,154	4,155
20	897	4,158	4,159
21	898	4,159	
22	899	4,168	4,169
23	900	4,182	4,183

24	901	4,185	4,185
25	902	4,188	4,193

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1 I N D E X
2 (continued)

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4	EXHIBIT	MARKED	ADMITTED
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6	903	4,205	4,206
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7	904	4,205	4,206
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(COLLOQUY)

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

2 JUDGE HAENLE: The hearing will come to
3 order.

4 This is the 24th day of hearing in these
5 consolidated Puget cases. The hearing is taking place
6 on July 19, 1993, at Olympia, Washington, before the
7 commissioners. The purpose of the hearing today is to
8 take direct and cross-examination of company rebuttal
9 testimony in the general case.

10 I would like to take appearances just in
11 terms of your stating your name and your client's name,
12 please, beginning with Puget Power.

13 MR. MARSHALL: Steve Marshall and James Van
14 Nostrand, 411 108th Avenue N.E., Bellevue, Washington,
15 appearing for Puget Power.

16 MR. TROTTER: Donald T. Trotter and Sally
17 G. Brown, Assistants Attorney General, 1400 South
18 Evergreen Park Drive, S.W., Olympia, appearing for the
19 staff.

20 JUDGE HAENLE: Mr. Adams?

21 MR. ADAMS: Charles Adams, Assistant
22 Attorney General, 900 Fourth Avenue, Seattle, appearing
23 for the public.

24 MR. FURUTA: Norman Furuta, 900 Commodore
25 Drive, Building 107, San Bruno, California, appearing
(COLLOQUY) 3996

1 for the Federal Executive Agencies.

2 MR. TRINCHERO: WICFUR, Mark Trincherro and
3 Peter Richardson, 1300 S.W. Fifth Avenue, Portland,
4 appearing for WICFUR.

5 JUDGE HAENLE: Miss Arnold will be examining
6 only some of the latter witnesses and will not be here
7 today apparently.

8 We have a number of procedural things to do
9 before we begin with the witnesses. Commissioner
10 Hemstad, you said you had something you wanted to state
11 first?

12 COMMISSIONER HEMSTAD: Thank you. In
13 reviewing the testimony that has been filed in the rate
14 design portion of the consolidated proceeding, I became
15 aware that Barry Salieba is a witness for the Building
16 Owners and Managers Association. Mr. Salieba
17 is employed by Economic and Engineering Services,
18 Inc., where he is a vice-president and I know of my own
19 knowledge a shareholder.

20 In my private practice I have represented
21 for the past several years Economic and Engineering
22 Services which has offices in Olympia and Bellevue. He
23 is from the Bellevue portion of the company.

24 comments?

25 MR. MARSHALL: No. We don't have an

(COLLOQUY)

3998

1 objection on the basis of the statements or any of the
2 proposed issues. It seems fine. We're not making any
3 objection.

4 JUDGE HAENLE: Mr. Trotter?

5 MR. TROTTER: I note for the record that
6 whatever counsel Commissioner Hemstad referred to was
7 not counsel here. I was unaware of this matter and
8 will, of course, stand on whatever advice was received
9 by our division.

10 JUDGE HAENLE: Mr. Adams?

11 MR. ADAMS: I appreciate the disclosure of
12 the Commissioner. I have no objection.

13 MR. FURUTA: Federal Executive Agencies have
14 no objection.

15 JUDGE HAENLE: Mr. Trincherero?

16 MR. TRINCHERO: No objections.

17 JUDGE HAENLE: Thank you.

18 We have a letter that I received by fax
19 indicating that you have a substitution of witnesses,
20 Mr. Marshall?

21 MR. MARSHALL: Yes, we do. Unfortunately
22 Bill Abrams of Duff and Phelps had a medical condition
23 that required him not to testify. Mr. John Dell who is

24 with Duff and Phelps and has been working with Mr.
25 Abrams on this matter is willing to adopt the rebuttal

(COLLOQUY)

3999

1 testimony of Mr. Abrams, in fact, worked on the
2 documents for Mr. Abrams due to Mr. Abrams medical
3 condition.

4 I did send letters to counsel and asked them
5 if they had objections to that. I spoke to Mr.
6 Trotter. This is something that occurs every now and
7 then. It does occur, and substitutions have been made.
8 This seems particularly easy to do because they are
9 both in the same firm, and they both are going to be
10 asserting the same testimony.

11 We have given the background of Mr. Dell to
12 the parties, a brief biography. He has not testified
13 in prior cases. So, there is no testimony that we can
14 provide. But that was a problem that we didn't
15 anticipate coming up. It did, and we are grateful to
16 counsel for helping to accommodate us on that.

17 JUDGE HAENLE: Do I understand that he will
18 be adopting the testimony that was prefiled, but with
19 the addition of a brief description of his background?

20 MR. MARSHALL: Exactly.

21 JUDGE HAENLE: Is that your understanding,
22 Mr. Trotter?

23 MR. TROTTER: Yes.

24 JUDGE HAENLE: Mr. Adams?

25 MR. ADAMS: Yes.

(COLLOQUY)

4000

1 JUDGE HAENLE: Mr. Furuta?

2 MR. FURUTA: No problem.

3 JUDGE HAENLE: Mr. Trincherero?

4 MR. TRINCHERO: No problem.

5 JUDGE HAENLE: Thank you. We have one set
6 of time estimates. The order of witnesses will be the
7 following:

8 Sonstelie, Knutsen, Patterson, Swofford,
9 O'Neill, Russel Olson, Charles Olson, Dell,
10 Rittenhouse, Weaver, Lauckhart, Story, Lynch, and Hoff.

11 Also in the way of preliminary matters, we
12 have responses to three bench requests, two of which
13 were made of the Commission Staff and one which was
14 made of a witness at the public hearing.

15 Those were given the numbers Responses to
16 Bench Requests 512, 513, and 514. The answers were
17 contributed last week. Let's mark them for
18 identification as follows.

19 875 is the next exhibit in line. Let's make
20 that the response to Bench Request 512.

21 876, response to Bench Request 513.

22 And 877, a response to Bench Request 714.

23 (Marked Exhibits 875 through 877)

24 JUDGE HAENLE: Are counsel ready to address
25 the admissibility of those documents at this point?

(COLLOQUY)

4001

1 Will I be addressing Mr. Marshall or Mr. Van
2 Nostrad.

3 MR. MARSHALL: We have no objections.

4 JUDGE HAENLE: Mr. Trotter?

5 MR. TROTTER: I don't believe I have seen
6 the response from the public witness, which I believe
7 is 877.

8 JUDGE HAENLE: All right.

9 MR. TROTTER: I may have. I just don't have
10 it with me. Is it just extra letters?

11 MR. ADAMS: 877 as far as all of the letters
12 that have come in since the last --

13 JUDGE HAENLE: That isn't what we're dealing
14 with right at this point yet. We'll get to that in
15 just a minute.

16 The response to Bench Request 512 was a
17 request made by Commissioners, from the gentleman from
18 the energy office to provide a paper and response to a
19 paper.

20 MR. ADAMS: I had not seen that. That just
21 came in to me. But I assume it was mailed separately
22 to the Commission and to all the various parties.

23 JUDGE HAENLE: They told me they had mailed

24 it on Tuesday. Why don't we leave that aside until you
25 have all had a chance to look at it. Let's deal with

(COLLOQUY)

4002

1 the admissibility of the other two. If you do not have
2 a copy of it, please see me during the break and we'll
3 get a copy.

4 Have you an objection to 513 and 514?

5 MR. TROTTER: No.

6 MR. ADAMS: No.

7 MR. FURUTA: No.

8 MR. MARSHALL: No.

9 JUDGE HAENLE: 513 will be entered as 876
10 and 514 will be entered as 877.

11 (Received Exhibits 876 and 877)

12 JUDGE HAENLE: We were also going to get an
13 exhibit of public letters that had come in since the
14 9th of July when the last set was due. Do you have any
15 such letters, Mr. Adams?

16 MR. ADAMS: Your Honor, we have received
17 one. I was hoping to be able to put that in about the
18 last day of the hearings. We're still getting a few
19 trickling in.

20 JUDGE HAENLE: You will have to be sure
21 copies are made for counsel and give them time to look
22 them over. I want to deal with their admissibility
23 before we break on Friday.

24 MR. ADAMS: The prior exhibit, I think 872,
25 if I'm not mistaken, was submitted in time for the

(COLLOQUY)

4003

1 briefing on the rate design. I'm assuming that's also
2 an exhibit in this proceeding, as well? Most of the
3 letters really dealt with the rate request rather than
4 rate design.

5 JUDGE HAENLE: That's correct. We were not
6 trying to sort them out according to rate design or the
7 general case. What I was trying to do was get them in
8 by a deadline so people could look through all of them.

9 MR. ADAMS: Again, it is part of this
10 proceeding as well?

11 JUDGE HAENLE: Yes. All of these exhibits
12 are part of the whole thing, although some of the
13 hearings had more to do with rate design than the
14 general case.

15 MR. ADAMS: Fine.

16 JUDGE HAENLE: Exhibit 872 was entered when
17 received on July 2. Unless someone wanted to make a
18 motion that that be reconsidered, they will remain
19 entered.

20 Anyone? Okay.

21 I think we can deal with the rest of these
22 things later on in the process then.

23 Is there anything else of a procedural

24 nature before we proceed with the witnesses, counsel?

25 MR. MARSHALL: I don't believe so.

(COLLOQUY)

4004

1 JUDGE HAENLE: The first witness is going to
2 be Mr. Sonstelie. Let's mark these documents. The
3 prefiled testimony, which is RRS-3, 17 pages, will be
4 T-878 for identification.

5 RRS-4, 16 pages, will be 879 for
6 identification. And please note this is also the
7 response to Bench Request 501.

8 And RRS-5 then will be 880.

9 (Marked Exhibits T-878, 879 and 880)

10 JUDGE HAENLE: Because the response to bench
11 request is going to be marked with Mr. Sonstelie's
12 testimony, you can go back to your exhibit list and
13 indicate that the number we previously gave it, which
14 is 683 for identification, isn't going to have any
15 separate response. The response we'll leave marked
16 together with this witness's testimony. So, there
17 won't be any separate document that is Exhibit 683.

18 I'll remind you that you were sworn
19 previously in this matter and remain under oath, Mr.
20 Sonstelie.

21

22 RICHARD R. SONSTELIE,
23 witness herein, having been previously

24 duly sworn, was examined and testified
25 further as follows:

(COLLOQUY)

4005

1 JUDGE HAENLE: Go ahead, Mr. Marshall.

2

3 D I R E C T E X A M I N A T I O N

4 BY MR. MARSHALL:

5 Q. Mr. Sonstelie, do you have before you what
6 has been marked for identification as Exhibit T-878?

7 A. Yes, I do.

8 Q. Do you recognize that document as your
9 prefiled rebuttal testimony in this case?

10 A. Yes.

11 Q. Do you have any additions or corrections to
12 make to Exhibit T-878 at this time?

13 A. No.

14 Q. If I asked you the questions today would you
15 give the answers as set forth in that exhibit?

16 A. Yes, I would.

17 Q. Do you have before you what has been marked
18 for identification as Exhibits 879 and 880?

19 A. Yes, I do.

20 Q. Were those exhibits prepared under your
21 direction and supervision?

22 A. The 879 was. 880 was originally prepared in
23 another case. And when it was originally prepared, it

24 was not under my direction or supervision because it's
25 the testimony of Mr. Moskovitz from a previous case.

WITNESS: RICHARD SONSTELIE - Direct by Marshall 4006

1 Q. You have indicated that you have agreed with
2 the testimony that he has made in this case?

3 A. Yes, that's correct.

4 Q. Do you have any additions or corrections to
5 make to Exhibits 879 or 880 at this time?

6 A. No, I have not.

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

9 A. Yes, they are.

10 MR. MARSHALL: I move the admission of
11 Exhibit T-878 and Exhibits 879 and 880. Mr. Sonstelie
12 is available for cross-examination.

13 JUDGE HAENLE: Any objection to the entry of
14 the documents, Mr. Trotter?

15 MR. TROTTER: Your Honor, Exhibit 880 is
16 testimony from a prior proceeding. It's obviously
17 hearsay. But I think also it's quite extensive. It
18 contains quite extensive discussion on issues that
19 aren't even before the Commission here. The testimony
20 is rebutting witnesses and positions that aren't being
21 presented or taken in this docket.

22 So, it's very difficult to tell what portion
23 of this is rebuttal and what portion of this is

24 surplus. We'll object on that basis.

25 JUDGE HAENLE: Mr. Marshall?

WITNESS: RICHARD SONSTELIE - Direct by Marshall 4007

1 MR. MARSHALL: As Mr. Sonstelie's testimony
2 indicates with reference to this exhibit, this was Mr.
3 Markovitz's response to allocation of base versus
4 resource in the PRAM decoupling.

5 Since this has taken the identical position
6 as they did in 1990, Mr. Moskovitz's testimony does go
7 to that and Mr. Sonstelie is stating that he is
8 adopting that part of Mr. Moskovitz's testimony as his
9 own.

10 Staff has said that this is identical to the
11 matter which they proposed in 1990. That testimony,
12 rather than have it repeated, rather than have a
13 separate witness put in, it seems to be most
14 efficiently handled in that same fashion.

15 Plus, this is an exhibit that is on file
16 with the Commission. No objection was made at that
17 time.

18 JUDGE HAENLE: Have you finished or wish to
19 make other response?

20 MR. TROTTER: I'll let other parties speak
21 their objections.

22 JUDGE HAENLE: Mr. Adams, do you have
23 objection?

24 MR. ADAMS: Yes, I do. But perhaps I could
25 suggest a way of handling it. And it seems to me this

WITNESS: RICHARD SONSTELIE - Direct by Marshall 4008
1 is pulling testimony out of a prior case. And I have
2 no objection if we were to incorporate into the record
3 the other portion of that case that relates to the same
4 specific issue; that is, base/resource split.

5 Other witnesses addressed it and critiqued
6 the specific testimony incorporated here. It seems to
7 me if we're going to bring it in, we ought to bring it
8 all in or not at all. I have no objection if we bring
9 it all in on that issue. Then it seems appropriate.

10 JUDGE HAENLE: Mr. Marshall?

11 MR. MARSHALL: Mr. Sonstelie is here to
12 respond to those issues. He has adopted that testimony
13 on base versus resource as his own. This was a
14 shorthand way of making reference to that without
15 duplicating all the testimony we did in response to the
16 Staff's position.

17 There is no other witness who has adopted,
18 as Mr. Adams has suggested, the testimony he would
19 offer. There would be no one to cross-examine. Mr.
20 Sonstelie is available for cross-examination on the
21 base versus resource.

22 Mr. Sonstelie has adopted this part of base
23 versus resource on his own. No other witness has done

24 that. I'm not sure what testimony it is that Mr. Adams
25 does have reference to.

WITNESS: RICHARD SONSTELIE - Direct by Marshall 4009

1 MR. ADAMS: I would be happy to try to
2 isolate the specific portions of that transcript that
3 relate to this. Various parties responded to this
4 testimony, were cross-examined on that as part of that
5 case. All I'm saying is I think we ought to have the
6 whole picture versus just a piece of that picture.

7 JUDGE HAENLE: Mr. Furuta?

8 MR. FURUTA: Just a comment on Mr. Adams'
9 proposal. My concern is, if other documents are going
10 to be made a part of this record, that we be able to
11 work out somehow receiving a copy of the documents in
12 question. If that's possible, we would have no
13 objection.

14 JUDGE HAENLE: All right. Mr. Trincherro?

15 MR. TRINCHERO: Your Honor, I also support
16 Staff's objection. There are obvious hearsay problems
17 with this document.

18 In addition, I might suggest one other
19 alternative. Mr. Sonstelie has adopted this testimony
20 for the purposes of rebutting Staff's case on the
21 base/resource cost split.

22 This document, however, addresses a number
23 of other positions that were taken by the parties in

24 that case, which are not taken by those same parties in
25 this case. And really the only portion of this

WITNESS: RICHARD SONSTELIE - Direct by Marshall 4010

1 testimony that relates to the allocation of cost
2 between base and resource starts at the bottom of Page
3 11 at Line 21 and continues through the bottom of Page
4 20.

5 Once again, I support Staff's objection and
6 would recommend that the entire document not be
7 introduced into evidence in this proceeding. However,
8 if any portion of the document were to be introduced in
9 this proceeding, it should only be that portion from
10 the bottom of Page 11 through the bottom of Page 20.

11 JUDGE HAENLE: Mr. Marshall?

12 MR. MARSHALL: I believe, again, what we
13 have said is that the base versus resource allocation
14 issue, Mr. Sonstelie has adopted the prior testimony of
15 Mr. Moskovitz. He is available for cross-examination.
16 It is an exhibit to his testimony, and, therefore, it
17 should be admitted in that light.

18 MR. TROTTER: Your Honor, the shorthand
19 rationale here, Mr. Sonstelie could simply have put in
20 his own testimony on this issue. There seems to be
21 some need to bring Mr. Moskovitz into this. I think
22 that's improper.

23 JUDGE HAENLE: I'm going to enter into the

24 record T-878 and 879. I do not feel it is appropriate
25 to enter 880 for identification into the record. So,

WITNESS: RICHARD SONSTELIE - Direct by Marshall 4011

1 that will be rejected.

2 (Received Exhibits T-878 and 879)

3 JUDGE HAENLE: If your witness wants to
4 state his views on decoupling, he is certainly welcome
5 to do that. But I don't think it's appropriate for him
6 to take testimony from a prior case and adopt it in
7 this manner, Mr. Marshall.

8 Anything else, Mr. Marshall?

9 MR. MARSHALL: No, nothing further.

10 JUDGE HAENLE: Mr. Trotter?

11 MR. TROTTER: Thank you.

12

13 C R O S S - E X A M I N A T I O N

14 BY MR. TROTTER:

15 Q. Mr. Sonstelie, with respect to your
16 recommendation that the Commission continue PRAM as
17 modified in the PRAM 2 order, would I be correct that
18 the Commission could accept your recommendation as well
19 as accept the recommendations from other parties on
20 issues such as rate base and various other accounting
21 adjustments in this case?

22 In other words, there is no linkage between
23 whatever rate base the Commission might select and the

24 PRAM mechanism recommendation?

25 A. I think conceptually I agree with you, Mr.

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4012

1 Trotter. I'm not sure I could agree totally with the
2 statement. For instance, there are, you know, some
3 ideas of some changes to PRAM decoupling that, you
4 know, we may not be able to support. I'm referring to
5 the PRAM decoupling as we know it.

6 But in terms of other potential costs,
7 disallowances or changes in definition of what's in
8 rate base or what are allowable costs, most of those I
9 believe are quite independent of the issue of whether
10 or not to continue PRAM decoupling.

11 So, I think to that extent I would agree
12 with your statement. I don't propose that the
13 Commission -- believe me, I'm not on the record to say
14 the Commission should approve any of those. But I do
15 believe that's fairly independent.

16 Q. My question did relate to your
17 recommendation to continue PRAM as modified in the PRAM
18 2 order, which is the Company's position?

19 A. Yes, that is the Company's position.

20 Q. On Page 4 of your testimony, you note the
21 severe impact of two years of poor hydro has
22 complicated the perception of the PRAM experiment. Do
23 you see that?

24 A. Yes, I do.

25 Q. Would you agree that those two years of poor

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4013

1 hydro and the deferrals that resulted from it have
2 shown a significant impact that adverse hydro can have
3 on Puget's financial results?

4 A. Yes, they do show it. And they show it to
5 my mind in a very extreme case because the two years
6 we're talking about here, according to what Mr. Hardy
7 told me from BPA, those are the worst two-year
8 combination, at least from BPA's numbers, that they
9 have ever seen in fifty years of history. So, it does
10 show it.

11 I think my point that I'm trying to make,
12 Mr. Trotter, on the testimony is I believe what we're
13 looking at is a very rare occurrence here; as a matter
14 of fact, the worst two-year combination in fifty years.

15 So, yes, it does portray it in a dramatic
16 and hopefully rare fashion.

17 Q. Turn to Page 5 of your testimony. On Lines
18 5 to 6 you note that the Staff has not done a financial
19 analysis to determine if it -- you're referring to the
20 base/resource split -- would have a negative impact or
21 not. Is that right?

22 A. Yes.

23 Q. Didn't Mr. Elgin and Mr. Martin testify that

24 the classification should be a principal one, and if a
25 multiplier is needed Puget should demonstrate the need

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4014

1 for it?

2 A. I'm not aware that they testified to that.

3 Q. On Page 6 of your testimony, Line 22, you
4 refer to the prompt recovery of costs, and you're
5 referring there to resource costs; is that right?

6 A. Yes. When I'm referring to resource costs
7 there, I'm referring to both the supply side and demand
8 side resources.

9 Q. You're referring to cost recovery for DSM,
10 purchased power, and cost recovery for fluctuating
11 weather and hydro conditions?

12 A. Yes. I'm generally referring to all the
13 costs that are associated with the PRAM mechanism. And
14 the ones you just listed are included in that.

15 Q. Can you think of any others? I thought we
16 covered them all. But there are others other than DSM,
17 purchased power, and cost recovery for fluctuating
18 weather and hydro?

19 A. I guess the one addition I would make is
20 there are also changes in fuel costs within that. So,
21 to the extent that purchased power also would talk
22 about -- and there are fuel cost issues. So, there are
23 sort of classic fuel adjustment clause kinds of issues

24 that also enter in.

25 Q. Now, Washington Water Power and Pacific

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4015

1 Power and Light have no PRAM-like mechanism in
2 Washington, do they?

3 A. That's correct.

4 Q. Page 7, I believe it's your second point
5 beginning on Line 12, you were talking about the
6 treatment of temperature-induced weather fluctuations.
7 And you talk about, on Line 21, decoupling takes away a
8 tool traditionally available to management, the
9 marketing of additional electric usage. Is that right?

10 A. Yes.

11 Q. Stabilizing earnings has a salient benefit
12 for the Company, doesn't it?

13 A. Yes.

14 Q. Is it your testimony that Puget should be
15 protected against lower earnings exposure but have an
16 upside potential at the same time?

17 A. No. I think a mechanism should be a
18 balanced mechanism, and this mechanism is. That's
19 appropriate that it be balanced.

20 Q. Now, isn't it true in the Commission's order
21 desolving the ECAC, that was docket U-86-41, the
22 Commission stated if a cost/benefit could not be
23 demonstrated the ECAC should be abolished?

24 A. Give me just a minute, Mr. Trotter. I have
25 that document somewhere.

 WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4016

1 Q. I can't find it, but I did review that and
2 that was one of the issues cited by the Commission,
3 yes.

4 Q. On Page 8 of your testimony you talk about
5 the prudence of new resources. And you indicated that
6 recognizing Mr. Lauckhart will fill us in on more
7 details. But Puget acquired new resources just at a
8 time when the regional surplus disappeared; is that
9 right?

10 A. Yes.

11 Q. And is that a factor of prudence in your
12 mind?

13 A. Yes, it is. The recognition by the Company
14 of what was in the process of happening in the region
15 and the seeking out of cost effective resources and
16 successfully bringing them in was, I believe, one
17 aspect of prudent management.

18 Beyond prudent management, I think it was
19 very wise and good management in that case.

20 Q. There have been more recent resource
21 opportunities at a lower price than those that Puget
22 acquired; is that correct?

23 A. Not that I'm aware of, no. If there were,

24 I'm not sure how relevant that would be. But I'm not
25 aware of any specifically, no.

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4017

1 Q. And the relevance point that you're making
2 is that we should look at the factors that were facing
3 Puget and the decisions it made at the time and not
4 post hoc rationalizations.

5 Is that what you had in mind in that comment
6 about relevance?

7 A. Yes. I think that's a generally appropriate
8 and fair approach by regulation is to look at the
9 decisions made at the time they were made. I think the
10 decisions you have been referring to, Mr. Trotter, were
11 certainly good decisions at the time, and I believe in
12 this case they have also -- will pass the test of time.
13 I believe they are good decisions still today.

14 Q. Are you proposing that we should evaluate
15 your decisions to acquire these new resources based on
16 data available today or data available at the time you
17 made the decision?

18 A. I guess I would have to -- I'm not sure what
19 you mean by "evaluate." If we're talking about a
20 prudency test, --

21 Q. Yes.

22 A. -- I think a prudency test should be made by
23 looking at the decision at the time it's made with the

24 facts that can be known at the time it's made.

25 Evaluating a decision later and seeing

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4018

1 historically whether it was a good decision or not is
2 still an appropriate evaluation. I just don't believe
3 it's an appropriate basis for a prudency decision.

4 Q. My question was focusing on prudency.

5 A. It should be looked at at the time the
6 decision was made, focusing on prudency.

7 Q. At the bottom of Page 8, last line, you say
8 that these projects or resources were acquired under
9 the competitive bidding framework.

10 Many of the projects were, in fact, acquired
11 outside the competitive bidding process, weren't they?

12 A. Yes, that's correct. But they did use I
13 think as among the criteria for evaluation of the
14 project, they used some of the numbers and some of the
15 considerations that developed as a result of the
16 competitive bidding framework that this Commission
17 adopted.

18 I think, therefore, that framework had great
19 value to the Company and its customers beyond the
20 specific bids that were accepted under that competitive
21 -- that's why I used the term "competitive bidding
22 framework." I believe it's more than just those
23 specific bids.

24 Q. On Page 9, Line 5, you say that you have no
25 motive to buy anything but cost-effective resources.

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4019

1 Do you see that?

2 A. Yes, I do.

3 Q. Would your testimony be the same if you were
4 testifying during the nuclear construction era?

5 A. I think it would be. I got asked that
6 question back during that era by students from
7 Evergreen College who had a thesis that somehow there
8 was a built-in incentive for a utility to seek out
9 resources that were high rate base impact and
10 relatively low operating cost impact. In other words,
11 that there was a built-in bias in the regulatory system
12 for incentives toward a nuclear investment versus some
13 other kind of investment.

14 And I believe that that argument is
15 generally a fallacious one because, as I explored with
16 the students that idea, the fact that ultimately both
17 return and capital structure are regulated, I really
18 don't believe that kind of theoretical model really
19 applied.

20 And so I guess I believe that even
21 traditional regulation prior to this didn't create a
22 motive to buy anything but cost-effective resources
23 except to the extent that it created some disincentives

24 relative to demand side.

25 And so I guess I have come a full circle

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4020

1 there to say I guess there were some disincentives on
2 the demand-side resources, particularly at that point,
3 and potentially on contracting, if you couldn't find a
4 way to recover those contract costs without a general
5 rate case. That was a potential disincentive because
6 of regulatory lag.

7 Q. Is your answer yes?

8 A. I guess my answer now is yes. It started
9 off kind of as a no because I was thinking of the
10 incentive side. But I think recognizing the
11 disincentive part, the messages we were being sent, not
12 so much to go get one kind of resource, but to perhaps
13 turn our back on another kind of resource.

14 I guess with that long winded answer I
15 probably should have just said yes.

16 Q. Now, Puget was fully decoupled in 1992,
17 wasn't it?

18 A. Yes.

19 Q. And it earned \$2.16 a share that year?

20 A. That's correct.

21 Q. And would you accept that the Company's 1992
22 annual report showed the PRAM deferral to be
23 approximately \$43 million, \$42.8 million?

24 A. That sounds about right.

25 Q. Would you accept that that's approximately

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4021

1 \$.50 per share?

2 A. I obviously would have to calculate after
3 tax basis. But that sounds about right, yes.

4 Q. And that \$42.8 million is included in the
5 computation of the \$2.16 a share, isn't it?

6 A. Yes, it is.

7 Q. Turn to Page 13 of your testimony. And
8 actually it starts on Page 12, compensation philosophy.
9 You talk about the Energy Plus program. And on Page 13
10 you address what you perceive as Ms. Kelly's criticism
11 that goals addressed to service, not cost control, are
12 a negative.

13 Are we together?

14 A. Yes, I'm there.

15 Q. You recall that Mr. Knutsen put the Energy
16 Plus program in the category of cost control based
17 employee compensation; is that right?

18 A. Well, I don't know whether he put it in that
19 category or not. But it's certainly far more than
20 that.

21 Q. Okay. He put it under that heading in his
22 testimony. Would you accept that?

23 A. It may well be. There are a limited number

24 of headings we generally group things under. It's
25 quite possible.

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4022

1 Q. I'm just referring to Exhibit T-539, Page 6,
2 if you'll accept my representation.

3 A. I certainly will.

4 Q. And you stated that it's much more than
5 that.

6 Do you mean that the Energy Plus program is
7 much more than cost control? It has service goals and
8 other items?

9 A. That's correct.

10 Q. Wasn't Miss Kelly's point that placing it
11 under a purely cost control category, as she perceived
12 it, was not correctly categorizing it, that it did have
13 service implications as well?

14 MR. MARSHALL: I object to the question.
15 It's argumentative. It tries to characterize testimony
16 that speaks for itself, and I disagree with the
17 characterization of counsel.

18 MR. TROTTER: The witness is characterizing
19 the testimony. I want to ask cross-examination
20 questions about that.

21 MR. MARSHALL: The question itself
22 characterized the witness Miss Kelly's testimony, and I
23 think in an incorrect way. It's also argumentative

24 because it was trying to characterize the witness's
25 testimony.

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4023

1 JUDGE HAENLE: I'm going to overrule the
2 question and the witness can speak to the
3 mischaracterization of the testimony if any.

4 THE WITNESS: Mr. Trotter, if I had
5 interpreted Miss Kelly's testimony the way you had laid
6 it out, I would not have made this comment. I did not
7 interpret it that way.

8 It clearly to me said that the Staff had a
9 concern that, in fact, the Energy Plus meant service --
10 addressed service issues as well as cost issues.

11 I interpreted the idea of the Staff's
12 concern not as being it was grouped under a different
13 heading, but that, in fact, that was somehow seen as a
14 negative.

15 BY MR. TROTTER:

16 Q. You refer to the Bellingham hearings on Line
17 10, indicating improvements in reliability and
18 responsiveness of service.

19 Do you recall the witness from Georgia
20 Pacific who testified?

21 A. Yes, I do.

22 Q. He reported 39 or so outages in 1991 and
23 then that was improved over the next couple years?

24 A. Yes, that's correct.

25 Q. Was that improvement part of the

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4024

1 transmission and distribution improvements that were
2 done in Whatcom County generally with respect to the
3 bringing on line of the co-generation project?

4 A. It was and it wasn't. Let me explain.

5 There were some very specific issues at the
6 Georgia Pacific plant in Bellingham. And so I think
7 the improvement that Mr. Franklin saw there was a
8 combination of the general work in areas like
9 vegetation management that were going on and some very
10 specific work we were doing with the people at that
11 Georgia Pacific plant to address some problems they
12 were having.

13 Frankly, they were having some outages in
14 situations where the service interruption was of such
15 short duration, Mr. Trotter, that they really should
16 not have caused outages. They weren't causing outages
17 to other customers.

18 So, sometimes you have reliability concerns
19 that are general system ones, and sometimes you have
20 some that are very customer specific. I believe this
21 was a little bit of each.

22 That was a bad time in Whatcom County,
23 period.

24 Q. At the bottom of Page 13, you indicate 1991
25 was a very good water year, and shareholders were able

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4025

1 to benefit from higher revenues and lower power costs
2 caused by that.

3 And then over on the next page you modified
4 the approved budget to spend some of that revenue on
5 programs to benefit customers. Is that right?

6 A. Yes.

7 Q. And this is in relation to the concern about
8 the 1991 budget target being missed but paid; is that
9 right?

10 A. That's what Miss Kelly was addressing, yes.
11 And that's what my rebuttal testimony was referring to.

12 Q. So, because of 1991 being a good water year,
13 the Company made these additional expenditures that
14 they might have otherwise made over -- they probably
15 would have made the expenditures, but they would have
16 been delayed to a different period or done over a
17 different period of time?

18 A. Maybe I could put that in perspective for a
19 minute rather than answering just yes or no because
20 it's more complicated than that.

21 When you set a budget as we did in 1991, you
22 make a set of revenue assumptions as well as setting an
23 expense side of the budget.

24 We expected in the fall of 1990 -- you may
25 remember that's when we submitted our PRAM decoupling

 WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4026

1 proposal in October -- we expected that revenues would
2 be largely decoupled during 1991. So, we expected
3 basically that the revenue side of the equation would
4 be fairly predictable, which it is under PRAM
5 decoupling.

6 As it turned out, it was not adopted until
7 October 1 of '91. And as a result, during those first
8 nine months there was significantly more revenue and
9 lower power cost expense, which under PRAM decoupling
10 would not have impacted the bottom line. That is, it
11 would have been credits to customers.

12 But, in fact, it was in the process
13 obviously of ending up with earnings that were going to
14 be, you know, higher than they would have been on a
15 normalized basis, if you will.

16 And so we made the decision in that fourth
17 quarter that, given that situation, we ought to relook
18 at the budget. That is, one side of the budget was
19 changed, the revenue side, clearly changed, was going
20 to be higher than expected.

21 And it's logical to then take a look at the
22 expense side and say is this an opportunity? One thing
23 you could do is not re-examine the expense side. You

24 just accept the fact that more flows to the bottom
25 line.

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4027

1 It seemed to us it was more appropriate to
2 take a look at it from the standpoint of seeing whether
3 we ought to adjust the expense side.

4 The items that we took into the fourth
5 quarter, which I think is getting at the last part of
6 your question, were generally an acceleration of some
7 projects, most of which probably would have been done
8 in early '92 in any event.

9 But the ability to go ahead and get that
10 work done more quickly -- you always have uncertainty
11 about other-year expenses anyway. It seemed to us to
12 be an excellent opportunity.

13 So, we did, in fact, accelerate expenditures
14 before that fourth quarter, producing somewhat lower
15 earnings, but I think again it was a good decision in
16 retrospect.

17 Q. This will be an example of senior
18 management's discretion to modify the budgets and
19 expenditures of the Company under certain
20 circumstances?

21 A. Yes. I think senior management was
22 involved. I was personally involved in that decision
23 in presenting it to the Board of Directors as well.

24 And it is an appropriate role for senior management to
25 get involved.

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4028

1 MR. TROTTER: Your Honor, I would like to
2 mark for identification Puget's response to Data
3 Request 2535.

4 JUDGE HAENLE: This three-page document will
5 be marked as Exhibit 881 for identification.

6 (Marked Exhibit 881)

7 BY MR. TROTTER:

8 Q. Mr. Sonstelie, Exhibit 881 is the Company's
9 response to the Staff Data Request which asked you to
10 identify the programs that you instituted in this
11 general area that we have been discussing and to
12 identify the benefits involved.

13 A. Yes.

14 Q. Page 1 is your first response, and then
15 Pages 2 and 3 are the supplement, the last page being a
16 more detailed description of the project.

17 A. That's correct.

18 Q. Turn to Page 3. And were all of these
19 projects approved in the fourth quarter of '91, to the
20 best of your knowledge?

21 A. To the best of my knowledge they were.

22 Q. Now, Mr. Knutsen testified earlier that it
23 was two projects that caused the Company to go over

24 budget. We see several here. Can you reconcile those
25 statements?

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4029

1 A. Yes, I can.

2 There were two different points identified
3 in that fourth-quarter budget. When we recognized that
4 we were going to have higher revenues than budgeted,
5 which I described to you, Mr. Trotter, we specifically
6 decided to accelerate -- and I think this list largely
7 represents -- to accelerate some projects that had been
8 planned for later and get to those during this fourth
9 quarter.

10 Those were site identified, if you will,
11 outside the regular budget and called out separately
12 because we knew they would -- clearly they were a
13 revised fourth-quarter budget I think is probably the
14 best way to say it.

15 Mr. Knutsen's reference to the two
16 particular projects during his cross-examination, that
17 was taking a look at not the fourth quarter revision
18 budget, but, in fact, the final reporting for Energy
19 Plus purposes of the 1991 budget results. All right?

20 So, these are addressing a quite separate
21 issue about management needing to have the flexibility
22 to take a look at items that come up and, in this
23 particular case, accelerate some items because of

24 higher than expected revenue.

25 Mr. Knutsen in the previous was referring

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4030

1 to, as I remember, the number that witness Kelly had
2 identified was \$383,000 -- I don't know if you have it.
3 But I think that's right -- out of \$145 million 1991
4 budget. This was the original budget, the one
5 established in January, that that had been overrun by
6 \$383,000.

7 And there Mr. Knutsen was addressing
8 management's analysis of that and decision that, in
9 fact, the budget would have been met except for the
10 fact that we authorized a couple of additional
11 projects.

12 Remember, the Energy Plus program is
13 targeted very much at creating incentives for our
14 managers and employees to manage to their tough
15 budgets.

16 And so we felt that, in fact, that Energy
17 Plus pay-out was still very appropriate because, with
18 just those couple of projects, I think Mr. Knutsen
19 testified, that more than explained that difference.

20 Given the changing nature of the budget in
21 the fourth quarter of '91, I thought it was imperative
22 that, as we sat down and analyzed whether, in fact, the
23 team had performed according to the Energy Plus target,

24 that we had to look very hard at it because of the fact
25 that there were a number of additional projects being

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4031

1 authorized.

2 Q. Let me try to wade through that answer.

3 The dollar values shown here, I haven't
4 added them up, they would be well over a million
5 dollars?

6 A. They are several million dollars, yes.

7 Q. Does that mean that the Company was under
8 budget by that several million dollars and then, when
9 these are added in, they were just over it by 300?

10 A. No. These were in a very separate category.
11 So, when Witness Kelly was reviewing that, Mr. Trotter,
12 she wasn't looking at these numbers.

13 The point of presenting these is to indicate
14 that it is not unusual for us when circumstances change
15 to take a look at top management authorizing certain
16 projects, given changed circumstances and that that's
17 an appropriate thing. So, this is an illustration of
18 those.

19 Q. Fine.

20 Now, Mr. Knutsen, with respect to the
21 asbestos removal, testified that that was a choice that
22 was not prompted by a regulatory requirement. And here
23 it says "met regulatory mandate."

24 Is that a timing issue?

25 A. I think on that one, on these specific

 WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4032

1 projects, we put Mr. Knutsen's name down as the
2 response on these, and I believe he has the specifics
3 on these, Mr. Trotter. So, I believe you ought to
4 continue to ask him on that particular project.

5 Q. Now, you testified that 1991 showed
6 significantly higher revenue and lower power costs. I
7 was looking at Page 18 of your 1991 annual report. And
8 it states there that revenues from the PRAM rate
9 adjustment and continuing load growth contributed to
10 higher revenues in 1991.

11 There is a reference to extremely cold
12 temperatures, but that refers to 1990.

13 Do you have any specific reference to your
14 annual report?

15 A. I don't have it with me. But you would have
16 to go to the expense side, too. What we're talking
17 about here was the ultimate bottom line. I think if
18 you look -- again, I don't remember the detail -- but
19 I'm sure in our discussion of the expense side -- and I
20 can remember presenting to the analyst community the
21 '91 results and emphasizing that to a great extent they
22 weren't repeatable because they represented nine months
23 of us not being under PRAM decoupling.

24 And it just happened that those nine months
25 were very wet. And as a result the bottom line looks a

 WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4033

1 lot better from that standpoint. Under PRAM
2 decoupling, of course, those adjustments go either way,
3 go to customers, not shareholders.

4 Q. Now, also, on that page it says ECAC and
5 sales to other utilities ultimately did not affect net
6 income because the energy adjustment -- energy cost
7 adjustment established under the ECAC in the Company's
8 1992 general rate order provided for recovery of actual
9 variable power costs that were determined by the
10 Commission to be prudently incurred net of sales to
11 other utilities.

12 A. What's the title on that?

13 Q. This is the 1991 Annual Report to
14 Shareholders.

15 A. That reports the results of 1990. That's
16 why we're having trouble here connecting. Are you
17 talking about reporting the results in '91?

18 Q. Yes.

19 A. Give me your ECAC thing again. I didn't
20 follow that.

21 Q. Why don't we do this. Since you don't have
22 a copy of it, maybe at the break you could review it?

23 A. I would be glad to.

24 JUDGE HAENLE: You have a copy in front of
25 you that you would be able to share with the witness

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4034
1 during the break?

2 MR. VAN NOSTRAND: Yes.

3 BY MR. TROTTER:

4 Q. At the bottom of Page 14 you say under
5 decoupling there are only two ways Puget can meet
6 higher earnings per share targets, and the first is
7 reduce levels of service, and the second is to control
8 costs. Is that right?

9 A. Yes.

10 Q. Wouldn't it be true that if the number of
11 shares outstanding were to increase or decrease, all
12 else equal, earnings per share would decrease or
13 increase correspondingly?

14 A. Yes, that's true. It wouldn't affect total
15 earnings, but it would affect them calculated on a
16 per-share basis.

17 Q. That's what you're referring to here on Line
18 2 of Page 15, earnings per share?

19 A. Let me get to the page first.

20 You're on Page 15, the top?

21 Q. Yes. Lines 1 and 2.

22 A. (Reading.) What I'm referring to here is
23 how we could affect earnings per share targets. And I

24 guess I still believe that testimony is valid. The
25 earnings per share are affected by the number of

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4035

1 shares, but managing an earnings per share target by
2 issuing or taking away shares or something like that
3 isn't really, you know, a way to target earnings per
4 share.

5 The issuance of stock is done to, you know,
6 maintain certain capital structure, but it's not a way
7 that almost twenty years I have been with the Company
8 you ever sit there and try to hit earnings per share
9 targets by changing the number of shares.

10 Q. If the Company were to add items to rate
11 base and was able to earn a return on those, would that
12 have an effect of increasing revenues and ultimately
13 earnings and earnings per share, all else equal?

14 A. Well, this doesn't assume there is a general
15 rate case happening in the middle of this. So, to the
16 extent that you have a rate case, clearly the results
17 of that case, which the Company has some influence
18 over, there are a lot of things in the results of that
19 case, disallowing expenditures, other things.

20 Q. I'm talking about a rate base addition
21 during a year when we don't have a rate case. If that
22 starts generating revenues, won't that --

23 A. I guess if the rate base addition --

24 remember, when you're adding something to rate base,
25 you're then -- the base from which you compute will

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4036

1 change.

2 For instance, let's use conservation as an
3 example. All right? We are booking allowance for
4 funds used to conserve energy for conservation during
5 the time before we ask for recovery of those
6 expenditures, to use that as an example.

7 In theory, that amount is keeping there from
8 being any earnings attrition associated with the
9 conservation expenditure. When you bring it into rate
10 base, all you're doing at that point is changing that
11 return, in effect, to a cash return.

12 So, there is a case where I don't
13 necessarily think the addition to rate base
14 automatically produces a change in earnings. It
15 depends on what was happening before you put it into
16 rate base, Mr. Trotter.

17 Q. Let's talk about bringing on line a new
18 small hydro project. And to the extent that that
19 project is able to generate additional revenues, could
20 that have the effect of increasing earnings and
21 ultimately earnings per share?

22 A. Again, with that illustration, it would
23 depend on what had happened -- in other words, if you

24 were accumulating AFUDC in that example, prior to -- it
25 depends on the -- that's a timing question. Yes, there

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4037

1 is a scenario you could create where you had already
2 brought it into service. You had stopped any AFUDC and
3 had, therefore, a shortfall for awhile until you could
4 get it into rate base.

5 There would be an example where your point
6 would be true where, say, you had regulatory lag
7 because you brought it into service. You weren't able
8 to get it into rate base. You had stopped AFUDC. And,
9 therefore, in that example you would be right, Mr.
10 Trotter.

11 You would then get an improvement in the
12 earnings relative to that period when you weren't
13 accumulating AFUDC or anything.

14 Q. Your point on Page 14 of your testimony,
15 Line 21, is that under decoupling you can't increase
16 earnings by increasing demand for electricity?

17 A. Yes.

18 Q. Let's turn to incentive compensation. And
19 on Page 17 you indicate that performance based pay is
20 common in the utility industry. Over seventy percent
21 of electric utilities nationwide have such programs.

22 Do you see that?

23 A. Yes.

24 Q. The Company has not determined the
25 regulatory treatment of these programs industry-wide,

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4038

1 has it?

2 A. No. I have asked that question. We haven't
3 -- there doesn't seem to be -- at least we haven't
4 found a source. I know there is a mixed bag. I know
5 enough to know that there is a variation in that
6 treatment, Mr. Trotter.

7 But I have asked a number of times, you
8 know, is there some definitive study that indicates how
9 this is treated? I have not been able to find any.

10 Q. You also assert that the officers and
11 directors, which I believe is what you mean by
12 executive compensation, are not above market.

13 Do you see that?

14 A. Yes, I do see it.

15 Q. And the market level was determined by the
16 Company in two ways, and you may want to refer to your
17 response to Data Request 2537, Supplemental.

18 For the officers, the company relies on an
19 EEI, Edison Electric Institute, executive compensation
20 survey where the average of all companies with revenues
21 between \$660 million and \$2 billion is defined as the
22 market; is that right?

23 A. Yes.

24 Q. And for directors, the market level is
25 defined using the EEI report, a special report from

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4039

1 Towers Perrin and some non-utility sources which used
2 regression analyses and averaging; is that right?

3 A. Yes. What I'm pointing out here, Mr.
4 Trotter, your characterization of what these are, these
5 are not the only ways the Company looks at the
6 competitiveness of its compensation. These are the
7 basis for what we tried to put together here in this
8 exhibit.

9 But, you know, in the time I have been with
10 the Company, there are salary surveys that are done
11 just constantly. And I know the Company participates
12 in a number of those.

13 Q. We can put this data request in the record.
14 But have I accurately --

15 A. You have accurately described the basis for
16 that data request, that's right.

17 Q. Please also provide the source for
18 determination of this market rate base salary.

19 A. That is the source for this determination in
20 this exhibit. That's correct.

21 Q. Am I correct the Company cannot provide a
22 copy of the surveys and the special report from Towers
23 Perrin and the regression analyses under even

24 confidentiality order because of the highly sensitive
25 nature of these documents?

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4040

1 A. I guess I can't generalize on that. I know
2 from Mr. Gates, who I believe -- who has been working
3 with the Staff, that a number of these surveys we
4 participate in, we in effect sign off that we can't
5 share copies with anybody.

6 They are definitely available at our offices
7 for review, and I believe that review has been going
8 on.

9 I think, you know, it may vary from survey
10 to survey. Some of these things are just sent out in
11 the mail.

12 Q. Would you just accept subject to check that
13 the surveys that we have itemized in our discussions
14 here by name were ones that could not be provided on
15 the record?

16 A. Yes, I would accept that.

17 MR. TROTTER: I would move the admission of
18 Exhibit 881, your Honor.

19 JUDGE HAENLE: Any objection, Mr. Marshall?

20 MR. MARSHALL: No objection.

21 JUDGE HAENLE: Mr. Adams?

22 MR. ADAMS: No.

23 JUDGE HAENLE: Mr. Furuta?

24 MR. FURUTA: No.

25 JUDGE HAENLE: Mr. Trincherero?

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4041

1 MR. TRINCHERO: No.

2 JUDGE HAENLE: Exhibit 881 will be entered
3 into the record.

4 (Received Exhibit 881)

5 MR. TROTTER: Nothing further.

6 JUDGE HAENLE: Why don't we take our morning
7 recess at this time. Let's take fifteen minutes, which
8 gets us back just a few minutes before five minutes to.

9 (Recess.)

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

12 It's my understanding that during the break
13 the witness had the chance to look over the report.

14 Did you want to ask your questions, Mr. Trotter?

15 BY MR. TROTTER:

16 Q. Mr. Sonstelie, did you have a chance to
17 review the annual report?

18 A. I did review the area you were referring to
19 in any event, Mr. Trotter.

20 Q. All right.

21 A. Referring specifically to a paragraph that
22 talks about, you know, reference to the ECAC, ECAC and
23 sales to other utilities ultimately did not affect net

24 income.

25 What that refers to is, when we're

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4042

1 describing '91, you describe it in reference to other
2 years. You can see that the table on the next page
3 actually shows three years, '89, '90, and '91.

4 It was a reminder to the reader that under
5 the ECAC sales to other utilities didn't impact the
6 bottom line at all. Of course, in '89 and all the way
7 through '82, going back in time, there was an ECAC in
8 effect.

9 So, you really have '90 and '91 both
10 represented here. '90 had no ECAC at all or any kind
11 of adjustor.

12 '91 had PRAM decoupling only in effect for
13 one quarter. So, the point of that discussion -- and I
14 think it is a little confusing to read -- is that in
15 '90 and '91 you were able to keep the sales to other
16 utilities, which in '89 and you notice it does refer to
17 the '82 general case, in all those other years, that
18 would not have had an impact on the bottom line.

19 That's what that's trying to say. And it
20 did have an impact in '90 and '91.

21 Q. You did agree that the paragraph just above
22 that states that the revenues from PRAM and continuing
23 load growth contributed to higher revenues in '91?

24 A. Yes, that's correct. The fourth quarter of
25 '91, you know, there were PRAM revenues in that fourth

 WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4043

1 quarter. Of course, it wouldn't be true in the first
2 three.

3 Q. There is no direct statement under the
4 section that talks about favorable hydro affecting
5 revenues, does it? Except maybe by reference to the
6 ECAC?

7 A. I think it is a little bit more by
8 inference. And also, you know, if -- the problem is
9 you have got to look -- it's tough when you're looking
10 at any given paragraph in isolation from the others.

11 For instance, if you look at the first page,
12 you know, just inside the front cover, you see that
13 total operating revenues in '91 were up over '90 and
14 that total energy usage per customer was up, which is
15 really indicating despite that reference that you
16 indicated to a cold December of 1990 that had a
17 favorable impact on '90, in fact, the average usage was
18 higher in '91, even on a per-customer basis, than it
19 was in '90.

20 So, there are a lot of different factors
21 going on between the two years.

22 MR. TROTTER: Thank you.

23 JUDGE HAENLE: All right. Have you

24 questions, Mr. Trincherro?

25 MR. TRINCHERO: If I might have one moment.

WITNESS: RICHARD R. SONSTELIE - Cross by Trotter 4044

1 I may not have any questions due to counsel's very
2 comprehensive questioning.

3 Yes, I do have just a few questions.

4

5 C R O S S - E X A M I N A T I O N

6 BY MR. TRINCHERO:

7 Q. Good morning, Mr. Sonstelie.

8 A. Good morning, Mr. Trincherro.

9 Q. On Page 6 of your testimony, beginning with
10 the question at Line 4, you discuss Mr. Lauckhart's
11 proposal for a hydro adjuster. You state that it would
12 be appropriate to discuss and evaluate that proposal in
13 a collaborative setting.

14 Is it the Company's position that that hydro
15 adjuster is being proposed in this case or not?

16 A. No, it isn't. I think it would be rather
17 hypocritical of us to say, you know, here is a new hydro
18 adjuster you ought to adopt when we're saying that
19 adjustments like that to the structure of PRAM
20 decoupling are the sorts of things that ought to be
21 taken up in a collaborative -- I think the point Mr.
22 Lauckhart is trying to do there is to say, you know,
23 you could come up with a hydro adjuster that limits the

24 amount of adjustment, which, you know, I think is a
25 genuine concern of all the parties in this case, the

WITNESS: RICHARD SONSTELIE - Cross by Trincherro 4045

1 amount of the adjustment.

2 As I tried to indicate, I think it's very
3 rare given the water years, but it has been a big
4 adjustment.

5 I think what Mr. Lauckhart is saying is, for
6 instance, you could limit that. Here is a way you
7 could do that. But it is our position that adopting
8 that change or other changes to that adjuster which
9 might be appropriate would best be done through a
10 collaborative process, not through us proposing it
11 here.

12 So, it's illustrative, Mr. Trincherro, I
13 guess would be what I would say.

14 Q. Would it be accurate to state that the
15 Company is proposing that the Commission in its order
16 in this case order some sort of collaborative process
17 to explore these issues?

18 A. Two parts of the answer. I think the answer
19 is basically yes, but there are two aspects to it:

20 First, I believe the Commission should in
21 this order send a message to all of the parties about
22 continuing to try to work in a collaborative manner on
23 the complex issues we're facing.

24 Not to sound too critical on this, but I do
25 think there have been mixed signals in the past

 WITNESS: RICHARD SONSTELIE - Cross by Trinchero 4046

1 relative to the Commission's filings about working on,
2 you know, collaboratively on particularly the details
3 of how you work out things.

4 So, yes, I think that would be very valuable
5 if the Commission sent that message.

6 A second aspect of it that's more specific
7 to the issues in this case: I think to the extent that
8 the Commission were interested in exploring
9 alternatives to, for instance, alternatives to the
10 current hydro adjuster or, if they said we would like
11 the issue of the base/resource cost allocation further
12 explored, it is my recommendation and the Company's
13 recommendation that the Commission again would say, you
14 know, we want ideas from the parties on a collaborative
15 basis, maybe set a deadline for when some ideas should
16 be brought back to them.

17 I think that is the best way to work on
18 those kinds of issues. After all, it is the
19 Commission's challenge in May of 1991 in their notice
20 of Rider I where they challenged the parties in this
21 state to come up with new ideas that have produced what
22 I think are outstanding regulatory changes in this
23 state and have put this state, I think, in a real

24 leadership position in terms of regulation that's
25 really in the public interest.

WITNESS: RICHARD SONSTELIE - Cross by Trinchero 4047

1 So, I do believe that kind of Commission
2 challenge produces good ideas, and I would urge the
3 Commission to do that.

4 Q. On the bottom of Page 9 and continuing on to
5 the top of Page 10, you discuss the return on equity
6 that the Company should be allowed.

7 Would you generally agree with the statement
8 that the Commission's goal in setting return on equity
9 should be to allow the Company an opportunity to earn a
10 fair return on its investment?

11 A. Yes.

12 Q. Turning to Exhibit 879, on Page 2, the third
13 full paragraph, starting, "First, we will see continued
14 growth in our service territory" --

15 A. Yes?

16 Q. -- is that both growth in customers, number
17 of customers, and growth in kilowatt hours?

18 A. Yes, it's both.

19 MR. TRINCHERO: Thank you, Mr. Sonstelie.

20 That's all.

21 JUDGE HAENLE: Have you questions, Mr.

22 Furuta?

23 MR. FURUTA: No, your Honor.

24 JUDGE HAENLE: Mr. Adams?

25 MR. ADAMS: Yes, a few.

WITNESS: RICHARD SONSTELIE - Cross by Trinchero 4048

1

2 C R O S S - E X A M I N A T I O N

3 BY MR. ADAMS:

4 Q. Good morning, Mr. Sonstelie.

5 A. Good morning, Mr. Adams.

6 Q. Would you turn to Page 8 of your testimony.

7 Line 24 is the sentence that starts at the bottom of
8 the page where you say, "They were acquired under the
9 competitive bidding framework."

10 Do you see that?

11 A. Yes, I do.

12 Q. Just as a clarification question: Is it not
13 true that only one of the new resources in this case,
14 that being the ENCOGEN contract, is the result of a
15 competitive bidding process?

16 A. No, I don't think that's true. I think only
17 one was awarded directly out of the competitive bid.
18 My point I'm trying to make here is I believe the
19 competitive bidding process that this Commission
20 established pays off in ways beyond just the bids
21 awarded directly out of that bidding process.

22 Mostly, I think it creates a much greater
23 validation of avoided costs and administratively

24 determine to avoid the costs. Mr. Lauckhart testifies
25 to that in his testimony.

WITNESS: RICHARD R. SONSTELIE - Cross by Adams 4049

1 That has value in helping the Company
2 evaluate other proposals. And I think it's wise, for
3 instance, that this Commission has set up competitive
4 bidding in this state.

5 In a way, it becomes one of the options the
6 Company can look to. Although we are required to
7 competitively bid every two years I believe is the
8 requirement, we are not required to take resources
9 under that bid.

10 I think that's a good way to do it. Also,
11 the Commission has left a significant amount of
12 flexibility in terms of how we evaluate if you will the
13 goodness of the bids. This didn't happen in other
14 states. There were bad situations created early in the
15 framework of competitive bidding.

16 That framework itself very much has
17 influenced the resources we're talking about,
18 supply-side resources we're talking about in this case.

19 Q. This was not a challenge to the bidding
20 process. That was not implicit in my question.

21 Is it correct, though, that ENCOGEN was the
22 only one that flowed directly out of the bid process as
23 opposed to the subsequent negotiations that might have

24 gone on in other cases?

25 A. Understanding my differentiations between

WITNESS: RICHARD R. SONSTELIE - Cross by Adams 4050

1 coming out of the process, yes, it is the only one that
2 was a direct competitive bid awarded in that 1989
3 bidding.

4 But the others, to my mind, you know, with
5 the distinction, came out of the process, but not
6 directly from that bid.

7 Q. Continuing over to Page 9, if you would,
8 Lines 2 and 3, you talk about extensive briefing to
9 the Commission Staff concerning particular projects you
10 have been referencing in that paragraph.

11 How does this process provide detailed
12 information to other parties other than the Staff?

13 A. I don't know who, if anybody, sat in on any
14 of those briefings, Mr. Adams. I wasn't in on
15 presenting any of them, I must say. And I don't know,
16 you know, who all was involved in that.

17 I do know that we have had a lot of the
18 parties, you know, involved and getting copies of our
19 bid evaluations and a lot of other pieces. And I can't
20 know to what extent public counsel got any of those,
21 obviously, Mr. Adams. I'm not sure.

22 I guess I would ask you to ask the question
23 of Mr. Lauckhart. He specifically knows. He was in

24 charge of making sure that we got input.

25 Q. Okay. Going back to Page 7 of your

WITNESS: RICHARD R. SONSTELIE - Cross by Adams 4051

1 testimony, approximately Line 12, I believe the
2 relative risks and benefits of decoupling should be
3 clarified.

4 Do you see that?

5 A. Yes, I do.

6 Q. Public counsel asked you through Data
7 Request No. 3530 a question specifically related to
8 that part of your testimony. And that response was
9 responded to by Mr. Weaver, who indicated the question
10 was not proper discovery and we should ask it on cross.

11 Do you have that particular response?

12 A. No, I don't.

13 Q. Let me ask you, then, the question directly:
14 If Utility A -- this is a hypothetical -- if Utility A
15 has a rate mechanism in place which automatically
16 without a rate proceeding allows it to smooth out
17 revenues and net income fluctuations due to weather
18 conditions as well as fuel fluctuations while Utility B
19 does not have that and operates without rate of return
20 without a fuel adjustment clause, which of those two
21 utilities has more investment equity risk, Utility A
22 or Utility B?

23 A. Some assumptions you didn't give me are

24 making it hard to respond to. I don't know what kind
25 of environment Utility A and B are operating in. Are

WITNESS: RICHARD R. SONSTELIE - Cross by Adams 4052

1 they in identically the same environment with the same
2 resource choices?

3 Q. Everything else is equal.

4 A. Everything else is the same except that?

5 Q. Yes.

6 A. In the first place, I guess I would quarrel
7 with the definition of traditional ratemaking as not
8 having an ECAC or some sort of adjustment clause.

9 Q. Let's just assume it isn't there.

10 A. So, we won't call it traditional. If there
11 is ratemaking without any adjustment clause, nothing
12 but general rate cases and no ability to adjust for
13 those changes, then I would certainly say that the
14 utility that has some sort of adjustment, you know,
15 between general cases, adjustment clause and some sort
16 of ability to true up for situations over which it has
17 little or no control would have a less risky situation.

18 Q. Under that hypothetical, A would be the less
19 risky of the two?

20 A. Yes.

21 Q. Finally, I wanted to ask you a very general
22 question because I want to make sure I understand what
23 the Company's overall proposal is in this case:

24 Could you state exactly what is the revenue
25 requirement that Puget is seeking through both the

 WITNESS: RICHARD R. SONSTELIE - Cross by Adams 4053

1 general rate case here and the PRAM 3, which has now
2 been filed?

3 Obviously we have not had hearings on that.
4 Could you indicate what the total amounts are and the
5 amounts for each year? I want to make sure I
6 understand what you're requesting.

7 A. Let me give it to you as best I know it and
8 request that if you really want to get the official
9 Company number thing, you also do it with Mr. Story who
10 knows the numbers a lot better than I do.

11 I just want to keep out of trouble with Mr.
12 Story in this thing.

13 Q. All right.

14 A. Our modified rebuttal filing, the total
15 dollar amount -- remember, we have tried to indicate to
16 the Commission the total dollar amount in addition to
17 then saying, however, we request that you do that
18 through a rate moderation plan.

19 Let me start with the total dollar amount,
20 okay?

21 Q. Okay.

22 A. Recognizing that that's not what we're
23 asking for this October.

24 I believe the rebuttal filing number was
25 \$104.8 million. But Mr. Knutsen in his testimony that

WITNESS: RICHARD R. SONSTELIE - Cross by Adams 4054

1 is filed indicated that we were still looking at some
2 additional adjustments that we felt could reduce the
3 request.

4 Remember this cost reduction examination is
5 an ongoing thing at the Company as you're well aware.
6 And in response to an update of Data Request 1085, Mr.
7 Adams, on the I believe it's the 16th of this month --
8 so, just in the last few days -- we have provided
9 additional adjustments downward due to, again, savings
10 we have identified under our cost reduction program
11 that would bring the total updated filing number down
12 to about call it \$96.97 million. So, there is an
13 additional --

14 What does that come up with? About \$8
15 million?

16 Q. Okay.

17 A. Identified and, again, the specific sources
18 of those, the biggest of which is a reduction in some
19 -- and some improvements that we believe we can make in
20 the efficiency of our maintenance programs.

21 That's the biggest single number in there.
22 That detail is in 1085 which I believe had Mr.
23 Knutsen's name on it.

24 Q. So, that would be basically what the request
25 is currently?

WITNESS: RICHARD R. SONSTELIE - Cross by Adams 4055

1 A. And in that request, of course, we have said
2 that we would like to recommend to the Commission that
3 our preferred alternative is to have a rate moderation
4 plan that subtracts from that number, if you will, \$48
5 million and spreads that recovery over the next three
6 years.

7 Don't worry, Mr. Adams, I didn't bring my
8 famous chart with me this time.

9 Q. I was waiting for it.

10 A. But envision the chart and the way we were
11 doing that.

12 So, that \$48 million, if you will, subtracts
13 from the number I just presented to you here. And that
14 difference is what we're requesting as of October 1,
15 1993.

16 Q. So, the amount that you had sought deferral
17 of on your direct case you're saying you're still
18 seeking deferral of that amount. So, you're
19 subtracting \$48 million from a lower amount?

20 A. So far as I know, subject to perhaps some
21 accounting adjustment Mr. Story could talk about that
22 has to do with some changed assumption there, basically
23 the moderation part, the deferral part, is unchanged.

24 What we have been looking at is the other numbers.

25 Q. Then I mean if I just take that number, then

WITNESS: RICHARD R. SONSTELIE - Cross by Adams 4056

1 approximately \$48 million, \$49 million is what you're
2 seeking under your rate moderation plan in this year,
3 if you will?

4 A. Correct.

5 Q. And then we add to that, is that correct,
6 half of the \$76-plus million?

7 A. We have asked that the PRAM 3 number,
8 basically following sort of the approach taken by the
9 Commission in their final order last fall, that that be
10 split basically into two equal parts.

11 Again, knowing that it's the first in/first
12 out, all the right way to do it sort of things that Mr.
13 Story always cautions me on. But that would be \$38
14 million, yes.

15 Q. Again, I'm not trying to tie you to the
16 exact number. But approximately \$49 million due to the
17 general rate case and approximately \$38 million for
18 PRAM 3 is what you're seeking to be effective on
19 October 1; is that correct?

20 A. That's correct.

21 MR. ADAMS: Thank you very much.

22 JUDGE HAENLE: Commissioners, have you
23 questions?

24 CHAIRMAN NELSON: Yes.

25

RICHARD R. SONSTELIE - Examination by Nelson 4057

1

2

E X A M I N A T I O N

3

BY CHAIRMAN NELSON:

4

Q. Good morning, Mr. Sonstelie.

5

A. Good morning, Chairman Nelson.

6

Q. A few specific questions and then maybe a
7 more global one:

8

In your exhibit responding to my bench
9 request, at Page 2 you mention competition in the
10 business and specifically mentioned public power
11 entities.

12

I was struck there wasn't any mention of
13 natural gas. Do you view the natural gas local
14 distribution company, Washington Natural Gas, as a
15 competitor? Or what is the significance of that
16 omission?

17

A. That's a good question. I didn't mention
18 them here because I think in the time period we're
19 talking about here certainly other fuels are
20 competitive from the standpoint of people making
21 choices.

22

So, the classic definition of competitor,
23 they are certainly a competitor. I guess that begs the

24 question, you know, is that a good competitor or a bad
25 competitor? Does it scare us or encourage us?

RICHARD R. SONSTELIE - Examination by Nelson 4058

1 And I think to a great extent right now, if
2 it were not for the fact that so many of the current
3 homes being built are going with natural gas heating,
4 our customers and our shareholders would be worse off
5 than they are right now.

6 So, you know, there are competitors that
7 threaten the business. In this case, many aspects of
8 what is now happening with natural gas as a heating
9 fuel is in my opinion -- it is certainly competition.
10 It is certainly something that customers can choose.

11 They certainly still have the option for
12 electric heat. I believe the very fact that they are
13 in significant percentages, and Mr. Swofford knows the
14 latest, but it was up in the ninety percent vicinity as
15 I remember the last time I looked at it, where natural
16 gas is available single family homes are going with
17 natural gas for heating. And I believe in most cases,
18 and I think we have made this clear -- they are not
19 making a bad economic choice currently in doing that.

20 Yes, it is a competitor. And, again, I'm
21 sort of speaking of the threats and opportunities
22 thing. I think that's one that right now may be more
23 of an opportunity for our customers and shareholders

24 than it is a threat.

25 That may, incidentally, not be true forever.

RICHARD R. SONSTELIE - Examination by Nelson 4059

1 It's not one I will say and, therefore, forevermore, I
2 do believe right now that is a plus.

3 Q. We're fortunate, perhaps, in having both
4 Puget and Washington Natural Gas before us for rate
5 cases this spring and summer. It's interesting to get
6 a flavor -- I said "perhaps." The court reporter should
7 put ironic quotes around that -- in having both
8 managements before us this spring and summer just to
9 sort of compare and contrast.

10 And the flavor I get from both companies is
11 that the growth of the Puget Sound region has been a
12 short-term demand that is very demanding for the
13 managements of both companies.

14 Would you agree with that?

15 A. I certainly agree with that. It's not only
16 influenced us from the standpoint, you know -- my
17 comparison to the gas company had to do with the issue
18 of the resource choices that, you know, the fuel choice
19 that customers are making.

20 The fact that many of them are making the
21 natural gas choice is imposing some burdens on the gas
22 company and is, frankly, relieving some degree of the
23 burden on us, which again I think is both a customer

24 and shareholder benefit in our case.

25 But there is another aspect of growth that I

RICHARD R. SONSTELIE - Examination by Nelson 4060

1 talk about, that Mr. Knutsen talks about, and it's
2 challenging us in the whole area of general cost
3 control. And that is that managing a growth
4 environment while trying to control -- I'm not just
5 talking about the resource costs now, but the other
6 aspects of costs, is a very significant challenge.
7 And, you know, I mean, one we ought to appropriately be
8 given.

9 I'm not complaining about the challenge.
10 It's part of sort of the fun of coming to work, but
11 it's a real challenge when you have got the continuance
12 of growth because you're talking about things that do
13 cause upward cost pressures. And you just can't sit
14 there -- I hope this Company and I believe this Company
15 has rejected any mentality that may have been part of
16 this electric business in the past that we are somehow
17 cost pass-through businesses.

18 I believe any utilities that think of
19 themselves that way are rapidly in the process of
20 putting themselves out of business. And, you know, I
21 believe Puget Power cannot think that way. I believe
22 Puget does not think that way. But there are remnants
23 of that thinking, probably still in high company,

24 Chairman Nelson, and there are aspects of that thinking
25 in many parts of this industry.

RICHARD R. SONSTELIE - Examination by Nelson 4061

1 I think it's -- the retail wheeling scare,
2 which I hope will be headed off. I think retail
3 wheeling would be a terrible imposition on our
4 customers.

5 However, the very threat of that kind of
6 competition has one advantage: It certainly creates a
7 much, I think, greater sensitivity of utility
8 managements to the nature of their costs and to
9 controlling those costs.

10 And that combination of the pressure that
11 the regulatory commission and the Staff and others
12 appropriately put on us and the ones imposed by
13 competition is a pretty strong set of incentives.

14 JUDGE HAENLE: And I think I'm going to ask
15 you a question a little bit later about how we start
16 evaluating the various experiments that the Commission
17 has established in the last few years. But it seems to
18 me that just the very demographic and geographical
19 facts of where Puget and Washington Natural Gas are
20 located make them very unique and very hard to compare
21 to their sister utilities in other parts of even
22 Washington state.

23 THE WITNESS: I think that's true. Could I

24 give you one example of that?

25 I mentioned in my discussion of the risks

RICHARD R. SONSTELIE - Examination by Nelson 4062

1 around decoupling the question of if it were so
2 wonderful why aren't other people jumping at it sort of
3 question.

4 But I want to explore another aspect of
5 that, not the risk aspect. I can remember -- and I
6 think it was Commissioner Casad, asking me a question
7 back in '91, when we were looking at regulatory changes
8 in the state, about whether Puget would have as much of
9 an interest in decoupling if, in fact, we didn't have
10 growth in customers, if there were no basis at all for
11 us growing earnings and revenues, if we were facing a
12 stable customer base and the only way we could grow was
13 by virtue of stimulating usage per customer.

14 You know, I can't put myself in that
15 situation because in the time I have been with the
16 Company we have always had a fair amount of customer
17 growth.

18 But the answer to the question is probably
19 in that utility situation, given that CEO's
20 responsibility to his or her shareholders, you would
21 not be enthusiastic about giving up the opportunity to
22 market and by marketing increase revenues and,
23 therefore, ultimately grow earnings.

24 So, yes, I mean, you know, we are different.

25 We and the gas company from that standpoint, have seen

 RICHARD R. SONSTELIE - Examination by Nelson 4063

1 continuing growth. While you have just presented the
2 challenges, I guess I just presented the opportunity
3 side of that growth.

4 Yes, it's different.

5 BY CHAIRMAN NELSON:

6 Q. There would be other utilities in other
7 parts of the country that envy your growth rates.

8 A. That's true. And also there are some of
9 them that are worried about whether or not they should
10 really stay in the electric utility business and
11 whether that is, in fact, a dying business ultimately.

12 I think you have seen from my attempt to
13 respond to your challenge on a vision statement that we
14 see our business continuing to be the electric utility
15 business. We think the challenges, financial
16 challenges, of serving that growth, even with the gas
17 company's help, are very significant challenges.

18 Mr. Weaver would tell you as we look forward
19 we're looking at only about seventy percent internal
20 cash generation. We're going to continue to be in that
21 area. That's a significant and appropriate challenge
22 to this management.

23 That tells us we had better stick to what

24 we're doing here and not look for other things.

25 Q. You have anticipated my next question. I

RICHARD R. SONSTELIE - Examination by Nelson 4064

1 saw no diversification plans in any of this. Is that
2 correct?

3 A. That's right. A couple of reasons: Number
4 one, the one I just cited. We have a significant
5 challenge in meeting the continuing growth; financial
6 challenge, management challenge, and other things.

7 Frankly, one of the reasons I would urge you
8 to issue suggestions or commands to all of us to
9 continue and perhaps push further in working together
10 in meeting these is because we have a lot in common
11 with a lot of people in this room.

12 Another reason is, even if we had the excess
13 cash, the track record of the electric utility industry
14 in diversification is just above abominable and perhaps
15 between miserable and abominable.

16 I have seen a statistic that say that fewer
17 than a quarter of the electric utilities with
18 significant diversification have ever earned their
19 allowed utility return on that diversification.

20 Well, you know, if you're in a business
21 that's outside your core business that you obviously
22 don't have as much expertise in, I would think if you
23 were to embark on that business since you know it's

24 probably a higher risk because you haven't tried it
25 before, you would want at least a good shot on a higher

RICHARD R. SONSTELIE - Examination by Nelson 4065

1 return than your utility return.

2 That hasn't been happening. And I don't
3 have any reason despite my pride in the Puget people
4 that are over here to my left to think that we have
5 discovered some magic formula that says we'll be a lot
6 better at that than a lot of them have been.

7 Those opportunities may present themselves
8 in the future. Something may come to us that seems
9 like such a great opportunity. But it would be quite a
10 change to do that.

11 Q. Turning then to another question: Page 17
12 of your testimony discusses the performance-based pay
13 program rebuttal to the Staff's recommendation.

14 I just wanted to know how you knew that over
15 seventy percent of electric utilities nationally have
16 an annual performance base pay as part of their
17 executive compensation program.

18 A. We have the EEI executive compensation
19 survey, which I believe is one of the ones that Mr.
20 Trotter was referring to that the Staff has been able
21 to see that basically talks about companies of various
22 sizes in the industry.

23 For instance, there is a category of \$600

24 million to \$1 billion -- that is total revenues for the
25 company -- the next category of \$1 billion to \$2

RICHARD R. SONSTELIE - Examination by Nelson 4066

1 billion.

2 We clearly are barely out of the one
3 category into the next higher category. And 78 percent
4 of those smaller companies and 95 percent of the larger
5 companies have programs like that.

6 That's a big change over as recently as six
7 or seven years ago. I can remember in the late I think
8 it was probably '87 or '88 that that number was in the
9 thirties as opposed to seventies.

10 This has been I think the direction that
11 frankly the Boards of Directors have demanded that
12 their utilities moved rather than having it all be, if
13 you will, guaranteed compensation. And I personally
14 think it's very healthy.

15 Q. Thank you. So that the EEI survey is the
16 source of the seventy percent figure?

17 A. Yes, it is.

18 Q. Have you extended this to your bargaining
19 unit employees?

20 A. Well, they participate -- our philosophy has
21 been that every Puget employee should have a degree of
22 opportunity to, if you will, share -- to have their
23 performance -- their personal performance and the

24 performance of their unit and their company affect
25 their compensation.

RICHARD R. SONSTELIE - Examination by Nelson 4067

1 The what do you do it for for bargaining
2 unit employees because you have to pay them what the
3 contract says is the Energy Plus Program and the Ideas
4 Plus program. So, those have been the two ways that
5 the bargaining unit employees have participated in
6 this.

7 And we have felt very strongly that we don't
8 want to have a system where, you know, where everybody
9 can't participate to some degree or another.

10 The percent of compensation at risk
11 opportunity for bargaining unit employees is certainly
12 not the percent that it is for executive. And
13 appropriately so. I do not believe they ought to have
14 a tremendous amount of compensation at risk. But they
15 do have plans that they participate in.

16 We have done one other thing with those: We
17 have set the threshold for whether those plans fund --
18 we have set the threshold such that the threshold for
19 the executive plan is a higher threshold than for the
20 Energy Plus plan.

21 I don't want to see a situation where the
22 one threshold is met, the one for executives is met and
23 the other one is not.

24 able to evaluate our experiments given that the
25 observer -- that's the Commission -- as we have gone

RICHARD R. SONSTELIE - Examination by Nelson 4069

1 through time has now made some adjustments to this work
2 in progress.

3 Mr. Cavanaugh tried to help the Company out
4 in his testimony by just saying, "Commission, relax.
5 We can measure some things. The Company is doing well.
6 And we can benchmark the Company against its
7 counterparts in the region or on the West Coast."

8 Do you have an opinion to offer to the
9 Commissioners on how we can evaluate our program so far?
10 And I would say that's both a planning role, a
11 competitive bidding role, and when we get to this
12 evaluation process which we're in right now, which I
13 had assumed we would be in every rate case, looking at
14 the least-cost doing, what has been acquired, what is
15 the result, and maybe we have to have another
16 three-year cycle before we can fully evaluate Puget
17 compared to its counterparts in our state or even in
18 the region or even on the West Coast.

19 Do you have an opinion on any of that?

20 A. I certainly do. Let me see if I can
21 condense the opinion into something that's an
22 understandable answer.

23 First, I would suggest to the Commissioners,

24 if I could do that, in making your decision, I hope I
25 -- don't get frustrated by the lack of some absolutely

RICHARD R. SONSTELIE - Examination by Nelson 4070

1 clear criterion for evaluation.

2 In other words, don't get frustrated by the
3 fact that nobody -- I think any of us in this room and
4 certainly nobody in my company -- can walk in and give
5 you a statement or a formula or a set of statistics
6 that so overwhelmingly prove things -- you know, "Thank
7 heaven so and so finally presented that because now we
8 know." That's a first.

9 It is very subjective. I think we will try
10 and maybe we need to do a better job of giving you as
11 many comparisons as we can. But I think ultimately it
12 is going to be very judgmental and is going to be based
13 partly on statistics and partly on your feel of what
14 the public interest is and that the degree to which
15 the public interest has been met, which needless to say
16 is your ultimate test.

17 If I could refer to each of the areas you
18 mentioned, planning, competitive bidding, evaluation:

19 On the planning front, -- actually, on all
20 three of those, I think we need to remind ourselves
21 that as we entered this process -- and I would talk
22 about entering it in the late 1980s as we sat there
23 after the last general rate case and the Commission did

24 away with the old energy cost adjustment clause but
25 simultaneously said we would like to see the parties

RICHARD R. SONSTELIE - Examination by Nelson 4071

1 produce some alternative ideas. And by May you had
2 issued the notice of inquiry. So, it's that time
3 period I'm talking about.

4 We were faced with a very significant
5 challenge of a region that was going out of a surplus
6 situation that had frankly made it relatively easy to
7 manage the resource side since the early 1980s. We
8 were the only buyer in a buyer's market. And it's a
9 pretty darned easy situation. We were able to do a
10 combination of some long-term contracts for people's
11 surpluses and also sit there and work, if you will, the
12 spot market, which was full of surplus, in a way that
13 had relatively little upward rate pressure and was, you
14 know, a fairly easy environment in which to manage.

15 We -- I don't just mean Puget Power -- all
16 of us that are working on the issue of serving our
17 customers were faced with a situation where this
18 company that had been deficit -- I have been with the
19 Company nineteen years. It's always been deficit on
20 paper, but it was able again to draw on other resources
21 -- suddenly that was going to disappear.

22 That's not unlike the challenge the Regional
23 Power Council is facing right now. They have had ten

24 years of life to manage the excess situation. They are
25 going to find out with pressure on endangered species,

RICHARD R. SONSTELIE - Examination by Nelson 4072

1 et cetera, they are going to go into deficit.

2 I think you should evaluate on the basis
3 that we, working together, have successfully gotten to
4 a situation that in the next couple years we get into
5 load/resource balance and we have done that through, I
6 think, a very environmentally sensitive as well as cost
7 effective set of choices.

8 What do I have to prove that? Well, I think
9 the observations of a lot of outside parties who have
10 been, I think, holding up this state and particularly
11 what you're doing relative to this company as examples
12 of where regulation should be heading in terms of
13 removing disincentives to least-cost planning.

14 So, the evaluation of others is important in
15 I think a second aspect is we do have some benchmarks
16 against which to judge the cost effectiveness of our
17 resources.

18 They are clearly caught up in determination
19 of avoided costs, which are initially administratively
20 determined from the standpoint of our best estimate of
21 our options, but increasingly in a competitive bid
22 world I believe those numbers gain more validity
23 because you really are testing it.

24 This is a very competitive generation market
25 right now. I think that's terrific. We're not

RICHARD R. SONSTELIE - Examination by Nelson 4073

1 threatened by it because we have never been much of a
2 competitor in that market.

3 I think that's really good, and I think it
4 gives you more valid tests for what it is Puget has
5 done relative to those bids.

6 Another aspect of the experiment that I
7 would urge you to think about as you make the decision
8 in this case: You characterized it when you initially
9 launched it as an experiment. And it's had some bumps
10 along the way with, you know, concerns about some
11 statements out of the Commission, very frankly, and
12 whether you were backing off this or that or whether
13 you really believed in it.

14 I believe -- and I testify to this -- that
15 it continues to be strongly in the public interest.
16 And I think a little stability -- that doesn't mean you
17 implement it as permanent. Nothing is permanent in
18 regulation clearly or should be -- but that you need to
19 send signals that you do plan to continue this. Even
20 if it means that you don't absolutely know for sure
21 that you have absolute proof as to whether this
22 experiment is totally successful.

23 But I would suggest to you that you have a

24 lot of indicators that relative to previous regulatory
25 messages, the messages you're sending are far better

RICHARD R. SONSTELIE - Examination by Nelson 4074

1 messages than have traditionally been sent in
2 regulation.

3 You're sending messages relative to us not
4 pursuing higher kilowatt hour sales, and we are
5 following those messages. You are sending messages
6 that we should pursue demand side management and other
7 resource options that frankly under your old -- not
8 your old system, but the old system, were punished
9 rather than rewarded or at least made equal.

10 The message you have sent relative to the
11 first one, for example, not pursuing kilowatt hour
12 sales, I tried to indicate in my testimony of my vision
13 how fundamentally in my opinion the Company has changed
14 in terms of the issue of competing for new sales.

15 I don't think you realize, perhaps, what a
16 fundamental turnaround that is in a company that has
17 long service employees, many of whom fondly remember
18 the gold medallion days and the beating the gas company
19 days and being the first one to contact the new
20 customer days.

21 We really have turned that around in the
22 Company, and I think that's an extraordinary
23 achievement, and it would not have been turned around

24 unless, in my opinion, unless the incentives had been
25 changed.

RICHARD R. SONSTELIE - Examination by Nelson 4075

1 As much as I or someone else in the Company
2 might have believed it, those incentives had to be
3 changed to have that happen. And I think it has
4 fundamentally transformed the Puget Power that I came
5 into in 1974.

6 I believe it is a very different company,
7 and more of that change from that fundamental
8 standpoint that has occurred in the last few years that
9 occurred in the first fifteen, again in my opinion.

10 Again, there is no way I guess you can prove
11 that except by watching our actions, by asking for
12 examples from a number of witnesses who will be
13 appearing in front of you this week. But I believe
14 that feeling is felt very strongly and perhaps
15 uniformly in the management ranks of Puget Power.

16 I think the witness from Towers Perrin will
17 tell you that. One of the things he said to me was how
18 surprised he was relative to other utility reviews of
19 how consistently the set of values and strategies were
20 shared with sort of the top fifty or sixty. I think he
21 could tell you how many people he interviewed. But he
22 basically interviewed everybody that is thought of as
23 upper middle management and upper management, and he

24 came back to me with a sense of you may or may not be
25 on the right track. But whatever track you're on there

RICHARD R. SONSTELIE - Examination by Nelson 4076

1 seems to be a very strong belief or very strong
2 consistency in belief that that is the track, that that
3 is the direction the Company is going.

4 And I think that's, again, that's
5 encouraging to me. That may have been the single
6 greatest piece of feedback he gave me in terms of --
7 probably the most important were the things he told us
8 we weren't doing well, but that was probably the most
9 important one we were doing well.

10 CHAIRMAN NELSON: Thank you.

11 COMMISSIONER CASAD: I have no questions.

12 JUDGE HAENLE: Commissioner?

13

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

15 BY COMMISSIONER HEMSTAD:

16 Q. Good morning.

17 A. Good morning, Commissioner.

18 Q. I have a couple much more particular
19 questions, and a couple of these are responsive to the
20 testimony at the public hearing, the one in Renton and
21 the one here.

22 You have opted for -- under the demand side
23 management using the general donation program, or at

24 least that's my descriptive term, I guess, rather than
25 a discriminate customer loan program. One of the

RICHARD R. SONSTELIE - Examination by Hemstad 4077

1 persons testifying in Renton -- and maybe you received
2 a report on it -- was describing enthusiastically how
3 that benefitted their business.

4 What I found a bit troubling about it,
5 however, is it would seem to me that, if it was cost
6 effective for a business customer to pursue this, why
7 wouldn't the customer do it anyway?

8 To phrase it another way: How do you
9 measure the effectiveness of the program in this
10 environment where you're providing donations
11 particularly to business customers that in their own
12 self interest could well be making those same
13 decisions?

14 A. I think that's a very critical question.
15 Let me give you -- we have spent a lot of time talking
16 about that. And the industry right now is frankly
17 re-examining it to some extent. I was just at a
18 meeting this weekend talking about that same issue.

19 What you're describing has the label on it
20 of the free rider issue, the free rider issue being
21 there are a lot of people who would take this in their
22 own interests, not just business customers, but
23 potentially homeowners, too.

24 And the strong conservation advocates, their
25 answer to that -- because it's been asked for many

RICHARD R. SONSTELIE - Examination by Hemstad 4078

1 years -- was that there are some market imperfections
2 out there that are keeping this from happening and that
3 it's the utility's role to break down, to overcome
4 those market imperfections, and, therefore, it must, in
5 fact, participate perhaps to a greater extent than the
6 classic market models would say it should.

7 There also was something that is sort of a
8 first cousin to the free rider test that again is about
9 fifteen years old because it's when I was working in
10 the Conservation Department called the no losers test,
11 and it's a favorite of everybody in the room because we
12 have gone over it many times.

13 That has to do with is there any
14 non-participating customer who has no conservation
15 opportunity at all and gets nothing out of the program?
16 Should there be a test to say there is no loser
17 anywhere in this? And that was widely discussed.

18 And I would suggest this is one of these
19 that is subject to re-examination on a periodic basis
20 because I think some of the circumstances -- and I'll
21 explain one circumstance I think is changing -- do
22 change, and as a result it ought to be reexamined.

23 I think a decision was made in this state

24 that given, particularly for this Company, we had a
25 significant challenge in this continuing load growth

RICHARD R. SONSTELIE - Examination by Hemstad 4079

1 and this deficit, that we probably had pretty good
2 reasons to try to have a very strong and aggressive
3 demand side management program. That is, to under
4 achieve in that area would, in fact, be much more
5 harmful here than in a company that had very little
6 load growth.

7 And, therefore, we opted for I think
8 together a very aggressive approach to it that said,
9 look, the only test -- initially the only test. We
10 have modified the test now -- initially the only test
11 was one that said, look, as long as Puget's
12 contribution is less than what it is going to have to
13 pay for another source of kilowatt hours, then Puget
14 ought to be willing to pay to you that and we won't sit
15 here and worry about free riders.

16 Now we have gone, I think, and made a change
17 that I don't think is inappropriate at all, and it was
18 suggested by public counsel witness initially -- we
19 ought to go to a total resource cost test that said in
20 addition to imposing that Puget can't pay more than
21 that, we ought to look at what "society" is
22 contributing, that is, the participant, and also have a
23 test for that.

24 And I don't think that -- again, in
25 retrospect, that is not at all an inappropriate change

RICHARD R. SONSTELIE - Examination by Hemstad 4080

1 to make.

2 Other states that have had very aggressive
3 conservation programs -- here is where we get to the
4 issue of changes that are happening -- the California
5 utilities -- and I was invited in February down to
6 present our conservation program and our regulatory
7 incentives in front of an en banc hearing at the
8 California Commission, and there were two
9 non-California utilities presented, us and New England
10 Electric, to present this.

11 I stayed for the presentations by the three
12 CEOs of the three California monopolies, Southern Cal,
13 Southern California and Pacific Gas and Electric. All
14 three of them said that they were going to push in the
15 direction of more contribution by the participant and
16 less by the utility, not because of concerns about free
17 riders, et cetera, but because of concerns about
18 competition.

19 And they felt -- remember, they have
20 significantly different rates, particularly, you know,
21 if you -- they have industrial rates right now where
22 there is the potential for those industrial customers
23 to actually go get incremental -- I mean, where that

24 rate is above the incremental cost of new power
25 resources. And obviously that is a very real threat in

RICHARD R. SONSTELIE - Examination by Hemstad 4081

1 terms of industrial customers leaving their system.

2 Those utilities are getting -- and I think
3 others in the country -- increasingly concerned about
4 the burden on their costs that these regulatory assets,
5 if you will, that those conservation investments are
6 imposed on them.

7 And so it is a trend that is happening in
8 the state of California. We had a discussion here, you
9 may remember, Commissioner -- actually, it was before
10 you were here. But there was a discussion if you look
11 in the transcripts from the earlier -- early spring
12 hearings, there was a discussion about the degree to
13 which conservation asset has risk associated with it,
14 associated with the fact that it is in a deregulated
15 environment. It potentially has no value to the
16 utility because it's in customers' houses, and it has
17 value only to the extent that this Commission says it
18 has value.

19 In a deregulated situation or a partially
20 deregulated situation, that becomes an issue. The
21 approach that the New England Electric system has taken
22 who, like Puget, has a very large conservation program,
23 they don't capitalize any of them. They expense it all

24 as incurred, and that's how it's treated for ratemaking
25 purposes.

RICHARD R. SONSTELIE - Examination by Hemstad 4082

1 That's a very expensive proposition from the
2 standpoint of impact on customer rates and yet is one
3 that that CEO, Mr. John Roe, says is the only one
4 acceptable to his company because they are not going to
5 allow this regulatory asset to build up on their books.

6 Again, their industrial rate and the
7 incremental cost of power are very close together. And
8 they are starting now to have to make separate bargains
9 with certain customers by virtue of that.

10 Q. Do you see Puget moving more in that
11 direction?

12 A. Not unilaterally. I think that is exactly
13 the kind of issue -- back to my suggestions on working
14 collaboratively. If, in fact, we in this state decide
15 that we want to push more in that direction, I think we
16 ought to decide that together.

17 We worked up the current program -- I mean,
18 there is very little, you know, criticism from any of
19 the parties in this case relative to a strong demand
20 side management program.

21 We have had strong allies from the
22 environmental community. I don't want to see that
23 strong support group disappear or start splitting off

24 in different directions.

25 But the idea of working together with that

RICHARD R. SONSTELIE - Examination by Hemstad 4083

1 group on whether or not we ought to be relooking at
2 some of these aspects, we have worked together on other
3 changes to Schedule 83 this last time, which is the
4 conservation tariff. And I think we ought to
5 continually look at that as circumstances change.

6 I don't think we have an "emergency"
7 situation here which in some of those high cost high
8 rate states they do have. It is upon them right now.
9 And the specter of retail wheeling is one that
10 exacerbates that very dramatically.

11 And I think the jury is still out on retail
12 wheeling because individual states have the ability to
13 experiment with retail wheeling and there is a little
14 bit of that going on in a couple of states right now.

15 So, anyway, I guess I would again suggest
16 that that's -- to the extent that the Commission has
17 interest there or concerns there, that the right way to
18 address it is to challenge the group that I think
19 produced a plan that resulted in one of the strongest
20 and most cost effective conservation programs in the
21 United States to relook at some of the assumptions on
22 that and maybe the result is we come back jointly and
23 say, you know, it's not broken and it's working very

24 well.

25 But I don't know that conclusion. And I

RICHARD R. SONSTELIE - Examination by Hemstad 4084

1 don't think it ought to be Puget's unilateral proposal
2 either. I think we have gained too much ground in
3 collaboration also to lose it.

4 Q. My second question relates to testimony that
5 was given at the Olympia hearing by a person from
6 Ellensburg who I thought was really quite credible and
7 was really complaining about the supplier arrangements.

8 His circumstance was, among others, the
9 subsidy or the donation for the purchase of the heat
10 pump. But the burden of it was that the heat pump
11 through the certified suppliers would appear to have
12 been very substantially overpriced. And he said by the
13 time it was done, even with the subsidy, he was still
14 paying more for the heat pump than his relative in
15 Renton was paying for it up here on the west side.

16 I was struck by the fact that -- and this
17 also translates into conservation savings, but at
18 inflated prices. Why?

19 A. Let me offer three observations if I could
20 on the heat pump program and the concerns. That's the
21 one hearing unfortunately I didn't make. I didn't hear
22 those particular comments. I made the other two.

23 In the first place, the heat pump program,

24 as you probably know, is now basically gone. When we
25 went to the -- maybe you didn't know -- when we went to

RICHARD R. SONSTELIE - Examination by Hemstad 4085

1 the total resource cost test, the amount that Puget has
2 financed there has always, at least to the best of my
3 knowledge and maybe there are situations -- individual
4 situations this man is pointing out where he feels we
5 weren't applying it right. But at least it was set up
6 such that the contribution we made again was below our
7 avoided costs. So, it had to pass that same test.

8 With the advent of the total resource cost
9 test, because heat pumps are generally relatively
10 expensive compared to other things in the program, the
11 amount of the customer's contribution is also factored
12 in.

13 And as a result, the heat pump program is
14 basically being phased out or basically out at this
15 point. There may be some remaining customers who were
16 already signed up, et cetera. But basically that
17 program is over.

18 I asked Mr. Swofford -- because I heard some
19 concerns both from public counsel and Staff relative to
20 the heat pump program. And putting him on the -- I
21 have asked him to be prepared in this case to talk
22 specifically about the heat pump program because I
23 heard there was concerns about it. And I know he is

24 ready to do that because it was something that in
25 preparing for this we felt there were certain specific

RICHARD R. SONSTELIE - Examination by Hemstad 4086

1 kinds of issues that we thought there might be some
2 questions on that weren't really addressed in this rate
3 filing. And that is one of them.

4 So, I would encourage you, perhaps,
5 Commissioner, to follow up with Mr. Swofford when he is
6 here. It has changed significantly. It was, again,
7 cost effective.

8 One of the challenges with the heat pump
9 program, if I could just finish with this point, under
10 the total resource cost test, there is no -- as
11 proposed and worked out here, if there are no energy
12 benefits, the customer is allowed to pay those without
13 violating the test. But that's really hard to
14 determine.

15 In other words, you have got a customer who
16 says, "Look, I know it will save me electricity. But
17 one of the big things I'm interested in is just having
18 air conditioning, and that's worth something to me."

19 Should the customer be able to pay that
20 difference without violating the total resource cost
21 test? Well, the feeling is those are tough enough to
22 determine that. Basically that program is on its way
23 out or basically out right now.

24 COMMISSIONER HEMSTAD: Thank you. That's
25 all I have.

RICHARD R. SONSTELIE - Examination by Hemstad 4087

1 JUDGE HAENLE: Will you have redirect?

2 MR. MARSHALL: Yes. Some.

3 JUDGE HAENLE: Can you estimate how much?

4 MR. MARSHALL: Probably a little more than
5 five minutes worth.

6 JUDGE HAENLE: Let's break at this point
7 then and be back at 1:30, please.

8 (At 12:00 noon the above hearing was
9 recessed until 1:30 p.m. of the same day.)

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21 OLYMPIA, WASHINGTON; MONDAY, JULY 19, 1993

22 1:30 P.M.

23 --oo0oo--

24

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

4088

1 after our lunch recess.

2 Did you have redirect, Mr. Marshall?

3 MR. MARSHALL: We were able to discuss this
4 during the break, and there was one question that
5 Commissioner Hemstad had raised about a witness in
6 Ellensburg regarding the heat pump issue, and we would
7 like to address that with the Company witness who is
8 familiar with the details. That is Mr. Swofford. With
9 that comment, we have no further questions of Mr.
10 Sonsteliie.

11 JUDGE HAENLE: Anything else?

12 MR. TROTTER: I have a follow up from
13 questions from the bench.

14 JUDGE HAENLE: Go ahead.

15

16 FURTHER CROSS - EXAMINATION

17 BY MR. TROTTER:

18 Q. On the Energy Plus plan, am I correct that
19 all eligible employees get the bonus or none do,
20 depending on whether the goals are met or not, and the
21 amount they get is the same per employ?

22 A. Yes, you are correct on both those.

23 Q. You made a comment about utility expensing

24 conservation in the year incurred. Is it your point
25 that it's preferable to rate base conservation in that

RICHARD R. SONSTELIE - Further Cross by Trotter 4089

1 circumstance?

2 A. No. I really wasn't trying to make the
3 point at all. The purpose in saying that, Mr. Trotter,
4 was to indicate that there are concerns around
5 different parts of the industry about the issue of the
6 build-up of conservation investments, and that one
7 particular utility had taken the approach of expensing
8 it to keep that build-up from occurring.

9 And it wasn't really to offer that one or
10 the other was better. I think Mr. Weaver, you know, is
11 prepared to discuss the idea around conservation bonds,
12 which is kind of an alternative approach to deal with
13 some of those issues.

14 Q. Finally, am I correct that you referred to
15 the Company's avoided cost has decreased since '89; is
16 that correct?

17 A. I believe that's correct.

18 Q. And likewise the need for additional
19 resources has declined because of the additions that
20 you have?

21 A. The gap we have had has decreased as we
22 brought new resources in. That's correct.

23 MR. TROTTER: That's all I have.

24 JUDGE HAENLE: Anything more of the witness?

25 Thank you, sir. You may step down. Let's

RICHARD R. SONSTELIE - Further Cross by Trotter 4090

1 go off the record to change witnesses, please.

2 (Recess.)

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

4 During the time we were off the record we have switched

5 witnesses to Mr. Knutsen. I have marked a number of

6 documents for identification as follows, T-882 is a

7 sixteen-page document that in the upper right-hand has

8 CAK-17. 883 for identification is fourteen pages.

9 That is CAK-18. And 884 is CAK-19.

10 (Marked Exhibits T-882, 883 and 884)

11 JUDGE HAENLE: I'll remind you that you were

12 previously sworn in this matter and remain under oath.

13 Go ahead.

14

15 COREY A. KNUITSEN,

16 witness herein, having been previously

17 duly sworn, was examined and testified

18 further as follows:

19 D I R E C T E X A M I N A T I O N

20 BY MR. MARSHALL:

21 Q. Mr. Knutsen, do you have what's been marked

22 as Exhibit T-882?

23 A. Yes.

24 Q. Do you recognize that document as your
25 prefiled rebuttal testimony in this case?

WITNESS: COREY A. KNUTSEN - Direct by Marshall 4091

1 A. Yes.

2 Q. Do you have any additions or corrections to
3 make to Exhibit T-882 at this time?

4 A. Yes, I have one. It's on Page 5, Line 5.
5 And that line reads: "Average for the 3-year period
6 1990-92 was over 24,000." That should be 23,000.
7 That's the only correction.

8 Q. As corrected, if I asked you the questions
9 set forth in Exhibit T-882 today, would you give the
10 answers as set forth in that exhibit?

11 A. Yes.

12 Q. Do you have before you what have been marked
13 for identification as Exhibits 883 and 884?

14 A. Yes.

15 Q. Were those exhibits prepared under your
16 direction and supervision?

17 A. Yes.

18 Q. Do you have any additions or corrections to
19 make to Exhibits 883 and 884?

20 A. No.

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

23 A. Yes.

24 MR. MARSHALL: We move for the admission of
25 T-882 and 883 and 884 at this time. And Mr. Knutsen is

WITNESS: COREY A. KNUTSEN - Direct by Marshall 4092
1 available for cross-examination.

2 JUDGE HAENLE: Any objection?

3 MR. TROTTER: No.

4 JUDGE HAENLE: Mr. Adams?

5 MR. ADAMS: No.

6 JUDGE HAENLE: Intervenors?

7 MR. FURUTA: No.

8 JUDGE HAENLE: Exhibits T-882, 883 and 884
9 will be entered into the record.

10 (Received Exhibits T-882, 883 and 884)

11

12 C R O S S - E X A M I N A T I O N

13 BY MR. TROTTER:

14 Q. Good afternoon. Turn to Page 2 of your
15 testimony regarding your revised sales forecast. You
16 identify a major economic event taken into account was
17 the Boeing's plans to lay off a number of people in
18 western Washington. And then you also note the
19 Washington State forecast for employment has lowered.

20 Do you see that?

21 A. Yes.

22 Q. Those are two major events?

23 A. Yes. The lower forecast for employment in

24 Washington state was driven primarily because of the
25 lay-offs at Boeing.

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4093

1 Q. There were some other minor modifications,
2 one of which was higher than anticipated conservation;
3 is that right?

4 A. Yes.

5 Q. But we're talking here the real driver of
6 the change on your testimony here was Boeing?

7 A. That's the principal outside event. The
8 adjustment in the conservation forecast was something
9 that we controlled inside. There was a change in
10 assumptions between the time we filed the general case
11 in October and when we filed our rebuttal forecast.

12 Q. No changes were made to any other
13 assumptions other than the ones we have talked about?

14 A. That's not correct. There were some other
15 minor adjustments. We updated our estimate for the
16 manufactured housing energy consumption that had a
17 minor impact on the forecast.

18 In addition, we updated our forecast for
19 employment for the Puget Sound Naval Shipyard and added
20 1500 jobs in the forecast beginning in 1994. Neither
21 of those had nearly as large an impact as the Boeing
22 lay-offs.

23 Q. So, you have identified the principal

24 adjustments?

25 A. Yes.

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4094

1 Q. Now, did Puget reevaluate all inputs to the
2 forecast or are you focusing on these changes?

3 A. We looked at the other assumptions and
4 determined whether or not there was enough change in
5 any of those to make any significant difference. And
6 other than the ones connected with the ones we have
7 already mentioned, we did not make any changes.

8 For example, real income growth in the
9 forecast, which is an input to the residential model,
10 was lower primarily because of the change in the
11 make-up of the jobs in the service territory related to
12 the Boeing lay-offs.

13 Q. Now, no party challenged your initial
14 forecast, did they?

15 A. Not that I know of.

16 Q. Now, the March 1993 State of Washington
17 Economic and Revenue Forecast was the source of the
18 employment information for the rebuttal filing; is that
19 right?

20 A. Yes.

21 Q. And this is a State level forecast which
22 Puget uses to estimate how much growth is going on in
23 counties in its service area?

24 A. Yes.

25 Q. And the forecast is used as a basis for

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4095

1 projecting not only your service area of employment but
2 also your new residential customer growth; correct?

3 A. Yes.

4 Q. And so you take the State of Washington
5 numbers and then through various formulae will winnow
6 it down to your service territory?

7 A. It's probably not formulae. It's probably
8 some judgment as well as whatever quantitative analysis
9 we can employ.

10 In addition to those State numbers, we use
11 any locally produced forecasts. For example, I'm not
12 sure what it's called now, but it used to be called
13 Puget Sound Council of Governments made a forecast for
14 a number of the counties that we serve. We factor that
15 in, as well.

16 Q. Would you accept that the March 1993 State
17 forecast for the period fourth quarter '93 to fourth
18 quarter '94 was an increase in 18,500 employees?

19 A. For the state?

20 Q. Yes.

21 A. Subject to check. I don't know that
22 specific number.

23 Q. Are you aware that the State has updated the

24 March forecast?

25 A. No, I'm not, except that it's published

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4096

1 quarterly. So, I guess -- I believe it's published
2 quarterly -- if they would be producing one near the
3 end of June. So, I can imagine they probably have
4 updated it.

5 Q. These are data that are available to you?

6 A. Yes.

7 Q. Would you accept subject to check that the
8 June 1993 forecast projects employment for the fourth
9 quarter '93 to the fourth quarter '94 to be 31,000
10 employees, again a State number?

11 A. Subject to check.

12 One other factor might be influencing what's
13 going on with the State forecast, although these are
14 the growth numbers. There was what my Staff refers to
15 as a rebenchmarking.

16 The Department of Employment Security
17 increases or changes the actuals, the actual number of
18 jobs, periodically. And that was also going on during
19 the time when we were updating our forecast.

20 The numbers you quoted, however, were
21 forecasts. That department doesn't deal with
22 forecasts.

23 Q. Would you also accept based on the same June

24 forecast that the aerospace lay-offs forecast to occur
25 are forecast to occur at a slower rate than you use?

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4097

1 A. Yes. I'll accept that subject to check.

2 Q. Another source that Puget uses is the
3 Washington State Labor area summaries; is that right?

4 A. Yes.

5 Q. And that's an economic and demographic
6 reference source that Puget uses?

7 A. Yes, although I'm not familiar with the
8 document myself. But I believe that's on the list,
9 yes.

10 Q. And that reports summaries of labor data for
11 various parts of the state; is that right?

12 A. I believe that's the case.

13 Q. And one such area is the Seattle PMSA; is
14 that correct?

15 A. I would have to accept that subject to
16 check.

17 Q. These are reports that Puget receives, but
18 you have not reviewed personally?

19 A. That's correct.

20 Q. Would you accept subject to check that the
21 Seattle PMSA refers to King and Snohomish Counties?

22 A. Yes, I'll accept that subject to check.

23 Q. Would you accept subject to check that the

24 1993 labor area summary states that "The Seattle PMSA
25 employment situation continues to hold up better than

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4098

1 expected when Boeing first announced a 1993 work force
2 reduction of 15,000. As of April, the aircraft
3 industry as a whole has dropped 3,000 jobs since the
4 new year, but those job losses have been more than
5 out-balanced by job gains in other parts of the
6 economy"?

7 A. Yes, I'll accept that subject to check that
8 it was in there.

9 Q. Let's turn to Page 4 of your testimony. And
10 the question on Line 20 asks whether Staff witness
11 Kelly noted a slight increase in the number of
12 employees since 1990.

13 Do you see that?

14 A. Yes.

15 Q. And the characterization as "slight" was
16 made by the Company, not Miss Kelly; is that right?

17 A. Correct.

18 Q. And the increase was 248 employees from
19 year-end 1990 to year-end 1992; is that right?

20 A. It was in that range. I don't know the
21 exact number. It was around 249, 250, something like
22 that.

23 Q. Would you accept that that's an increase of

24 about 9.8 percent?

25 A. Yes.

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4099

1 Q. And would you accept that Puget's customer
2 growth was about 5.5 percent during that same time
3 period subject to check?

4 A. I think it might have been a little bit
5 higher than that, but it was between 5.5 and 6, I
6 believe.

7 Q. We'll say subject to check 5.5. We believe
8 that's the correct value based on the evidence.

9 A. Okay.

10 Q. On Page 5 you state on Line 4 that the
11 Company has added customers at a high rate recently.

12 Do you see that?

13 A. Yes.

14 Q. And you're referring to the 1990 to '92
15 period.

16 The growth rate in number of customers in
17 1991 and 1992 has declined compared to the growth rate
18 since '84; is that correct?

19 A. It started coming down right after 1989.
20 That's correct.

21 Q. Would you accept that the growth rate for
22 '91 was 2.96 percent and for '92 .54 percent?

23 A. Yes, I'll accept that subject to check. It

24 was in that range.

25 Q. The average for the preceding nine years was

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4100

1 3.2 percent?

2 A. Roughly.

3 Q. And based on your rebuttal testimony, the
4 Company anticipates that growth in customers will
5 decline still further?

6 A. Decline in the rate of growth will probably
7 be lower in the -- for the balance or we're expecting
8 it to be lower for the balance of this decade compared
9 to the years you were describing, yes.

10 Q. On Page 4, Lines 9 through 12, you refer to
11 Staff testimony that the Company salaries and benefits
12 are lower per employ than they were ten years ago in
13 1981.

14 Based on more recent data, would you agree
15 that employee pay per employee at year-end 1992 is
16 higher than it was in 1991 than it was on an
17 inflation-adjusted basis?

18 A. Employee pay per customer?

19 Q. Yes, I'm sorry.

20 A. Was higher than when?

21 Q. I'll refer you to your response to DR 2588.

22 A. I'm looking at that.

23 Q. Comparing it to 1981.

24 A. The figure for 1992 is 156 on this curve,
25 and 197 for 1981. So, the 1992 number is still quite a

 WITNESS: COREY A. KNUTSEN - Cross by Trotter 4101

1 bit lower than the '81 number.

2 Q. Just a second.

3 A. I think we're looking at the wrong
4 statistic. Let me just check.

5 If it's average employee pay per employee,
6 that number is higher in '92 than it is in '81. That's
7 the previous exhibit. I was looking at 546 when I was
8 talking earlier, and this is 545, updated versions of
9 those.

10 Q. Okay. Just so we're clear, the average
11 employee pay per employee is higher in 1992 than it was
12 in 1981 on an inflation-adjusted basis?

13 A. On an inflation-adjusted basis on a
14 per-employee basis, yes.

15 Q. You state on Line 13 that no one has
16 suggested that the Company has not managed their
17 employee compensation well.

18 Based on your review of employee opinion
19 surveys, was there any dissatisfaction from employees
20 regarding compensation?

21 A. There may have been a response on that
22 point. But it did not surface as a major theme in the
23 survey that I'm aware of. And I'm not aware of the

24 specific response that you might be referring to.

25 Q. Would you refer to your response to Data

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4102

1 Request 2459, Page 54 and 55.

2 A. Is that a data request in the rebuttal case?

3 Or is it --

4 Q. No. I can just ask you subject to check if
5 you would like.

6 A. Response to 2459?

7 Q. Yes.

8 A. I have it.

9 Q. Page 54.

10 A. (Reading.) I do not have the complete text
11 of the response.

12 Q. Would you accept subject to check that at
13 Page 54 it is stated that "The results show moderate
14 satisfaction with pay rates and company-provided
15 benefits, and few of us feel that pay increases are
16 closely tied to performance"?

17 A. I'll accept that subject to check, yes.

18 Q. Would you accept, subject to check, on Page
19 55 of the survey, the answer to a question regarding
20 internal equity of pay, two percent gave the Company a
21 favorable rating and fifty percent gave the Company an
22 unfavorable rating?

23 A. Yes. I'll need to see that, but I'll accept

24 it.

25 Q. On Page 6 of your testimony, you indicate a

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4103

1 Company goal is to continue its ten-year trend of
2 decreasing the number of employees per thousand
3 customers.

4 Do you see that?

5 A. Yes.

6 Q. You're referring to the 1981 to 1990 period?

7 A. Yes.

8 Q. The number of employees per thousand
9 customers has increased in the past two years; is that
10 right?

11 A. Yes. And it's decreasing again. The
12 statistics that we provided in response to data
13 requests, although we didn't provide that calculation,
14 we provide an employee number for the end of May and an
15 estimated customer number at the end of May.

16 When you make that calculation at that
17 point, it's back down to something closer to the 1990
18 level or ratio of 3.4.

19 Q. And that's the most recent data you have?

20 A. Yes; the end of May.

21 Q. On Page 4 you refer to the Towers Perrin
22 study. On the next page you give an exhibit of the
23 elimination of the officer and director cars.

24 Do you see that?

25 A. Yes.

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4104

1 Q. And that wasn't a recommendation by Towers
2 Perrin; that was something the Company decided, wasn't
3 it?

4 A. Yes, that's correct. Although it's roughly
5 related to that because Towers Perrin was making a
6 comment on our -- making some recommendations in the
7 area of fleet. So, it's not exactly outside of the
8 scope of their work.

9 This particular initiative was something
10 that the Company did, not in direct response to a
11 recommendation made by Towers Perrin.

12 Q. In your Exhibit 883, you address the subject
13 of corporate dues; is that correct?

14 A. Yes. Corporate memberships.

15 Q. And one of the memberships is the
16 Association of Washington Businesses; is that right?

17 A. Yes.

18 Q. Am I correct that that group has been active
19 in lobbying legislation on health care and other
20 budgetary issues?

21 A. I don't know for certain. I believe that's
22 possible.

23 Q. You haven't been following the debate on

24 Initiative 601 and 602?

25 A. I have been following it. But I'm not sure

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4105

1 that that relates to health care, does it?

2 Q. I said health care and budgetary issues.

3 A. Budgetary, yes.

4 MR. TROTTER: I would like to have marked
5 for identification the Company's response to Staff Data
6 Request 2598.

7 JUDGE HAENLE: A multi-page document with
8 that heading on it will be Exhibit 885 for
9 identification.

10 (Marked Exhibit 885)

11 BY MR. TROTTER:

12 Q. Do you recognize your Exhibit 885 to be your
13 response to Staff Data Request 2598?

14 A. Yes.

15 Q. We can go to the third page of the exhibit.
16 This is the survey form for the Association of
17 Washington Businesses.

18 A. It's their response dated November '92.

19 Q. And the form is something you supply and
20 then they fill it out?

21 A. Yes.

22 Q. And the association identified zero spent
23 lobbying energy issues?

24 A. Yes.

25 Q. And so, if the association lobbied other

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4106

1 issues, this questionnaire would not reflect that?

2 A. Correct.

3 Q. Is it the intent of this questionnaire to
4 ask for lobbying and influencing legislation and so on
5 with reference to energy?

6 A. Yes, that's the question that we asked in
7 the questionnaire.

8 Q. Are you familiar with the Commission's rule
9 regarding lobbying expense?

10 A. No.

11 Q. You also in your testimony talk about
12 decoupling collaborative?

13 A. Yes.

14 MR. TROTTER: I would like to have marked
15 for identification the response to Staff Data Request
16 2576.

17 JUDGE HAENLE: This multi-page document will
18 be marked as Exhibit 886 for identification.

19 (Marked Exhibit 886)

20 BY MR. TROTTER:

21 Q. Mr. Knutsen, Exhibit 886 is the minutes of
22 the decoupling discussion group for which minutes were
23 created?

24 A. Yes; although I would say that minutes might
25 be a bit of a stretch. They were sort of my notes and

 WITNESS: COREY A. KNUTSEN - Cross by Trotter 4107

1 recollections, and I passed them on to the group. They
2 were the only notes that were published about those
3 meetings, though.

4 Q. Now, Mr. Sonstelie referred to certain
5 adjustments that the Company has offered to its
6 rebuttal filing as a result of the Towers Perrin study
7 and other reasons. And you're able to stand cross on
8 some of that, although you may defer to later
9 witnesses. Is that a fair statement?

10 A. That's my understanding of it, as well.

11 MR. TROTTER: I would like a one-page
12 document marked for identification; Puget Sound Power
13 and Light Company, Adjustments Made to the UE-921262
14 Rebuttal Plan Filing.

15 JUDGE HAENLE: The one-page document will be
16 marked as Exhibit 887 for identification.

17 (Marked Exhibit 887)

18 BY MR. TROTTER:

19 Q. Mr. Knutsen, do you recognize Exhibit 887 as
20 a summary of the changes to which Mr. Sonstelie had
21 reference?

22 A. Yes.

23 Q. And he referred to a reduction in the

24 revenue requirement from Puget's viewpoint from \$104
25 million to \$96.9 million?

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4108

1 A. Yes.

2 Q. And that's comparing Line 1 and Line 12 of
3 this exhibit?

4 A. Yes.

5 Q. And then the Company has added an additional
6 adjustment assuming a 35 percent Federal income tax
7 rate goes into effect. And that would bring the
8 Company back to \$101.2 million as shown on Line 16?

9 A. Yes.

10 Q. Which of the adjustments on Lines 3 through
11 9 are related to the Towers Perrin study?

12 A. Line 3, Other Fleet Vehicles; Line 4, T and
13 D System Maintenance.

14 I believe you said Towers Perrin, didn't
15 you?

16 Q. Yes.

17 A. And this I think -- we sort of have this
18 broad cost effectiveness activity going on in the
19 Company influenced by Towers Perrin being there. This
20 particular item was not one within the scope that they
21 were working on directly.

22 No. 6, Kirkland Project Center, with the
23 same qualification, although it was a little more

24 directly connected to the Towers Perrin work.

25 And I'm not familiar with what the tree

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4109

1 trimming sales tax expense was, but I don't believe
2 that was a cost effectiveness improvement as much as an
3 adjustment to be made.

4 Q. With respect to Line 4, that includes a
5 reduction from the Company's initial proposal for tree
6 trimming expense; is that right?

7 A. More than tree trimming expense.

8 Q. In part?

9 A. Yes, that's correct.

10 Q. Does that move tree trimming to the budget
11 level that Staff was using or to a different level?

12 A. Yes, it does. And actually, my earlier
13 qualification was probably not necessary. This is
14 largely for tree trimming. It moves tree trimming now
15 to a revised level that is closer to what Staff had
16 seen in its case earlier. And this actually is a
17 little further of an adjustment than proposed by Staff.

18 Q. Now, with respect to the fleet vehicle item,
19 Towers Perrin recommended that a five to fifteen
20 percent recommendation in reduction in fleet would
21 yield annual sales of \$660,000 and \$1.98 million; is
22 that correct?

23 A. What were the numbers?

24 Q. \$660,000 to \$1.98 million.

25 A. If you combined their estimates for O and M

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4110

1 and Capital, you could get to that number. Their
2 estimate for O and M, which is what this number is, is
3 between \$350,000 and \$390,000 on an annual basis. And
4 when you combine the reductions for the
5 officer/director cars with this number, you get to a
6 combined total of about \$440,000 on an annual basis for
7 O and M.

8 Q. So, does this adjustment also have capital
9 adjustments related to it?

10 A. The adjustment that we made to fleet did
11 have an impact on the capital, as well. I don't have
12 that number for you. But there is a capital adjustment
13 as well for this, maybe being the changes in the fleet.

14 Q. Am I correct that the details of the T and D
15 system maintenance is Mr. Swofford's job? You gave us
16 an overview.

17 A. He will be able to say more about that.

18 Q. Now, am I correct in April of this year the
19 Company issued a press release which listed six
20 efficiency initiatives that the Company had begun?

21 A. (Reading.) Could you point me to the
22 reference? I believe we had that as a response to the
23 -- one data request.

24 Q. I'm not sure I have it.

25 A. It's 2571, I think. Nope. That's the

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4111

1 articles. Here it is. 2570. (Reading.)

2 Yes. It was a news release issued on April

3 28.

4 Q. And that identified on I have six
5 initiatives. And one was reducing fleet vehicles; is
6 that right?

7 A. Yes.

8 Q. The third item was streamlining the
9 administration of employee benefits; is that right?

10 A. Yes.

11 Q. Towers Perrin estimated that the Company
12 could save about \$200,000 annually if the efficiency of
13 benefits administration was improved; is that right?

14 A. I believe their recommendation was that for
15 O and M \$90,000 to \$110,000 could be saved annually.
16 The \$200,000, up to \$200,000, included \$90,000 for
17 capital accounting.

18 Q. Okay. And has that savings been included in
19 the Company's filing?

20 A. The streamlining, that has primarily
21 affected the number of people in the Human Resources
22 Department. The number of positions that we dropped
23 since the beginning of the year includes these

24 reductions.

25 The savings that Towers Perrin had

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4112

1 identified in its report was for a different way of --
2 primarily through contracting for some of the benefits
3 administration. That change is still under evaluation,
4 and those savings aren't available for making any
5 adjustment.

6 Q. The next item in the release was vacating a
7 floor of highrise leased office space in Bellevue.

8 Has that occurred?

9 A. I'm just trying to think of the timing for
10 that. I believe it has occurred, and we're still in
11 the process of moving the other people -- the people
12 off of that floor into the other floors.

13 There is no savings adjustment in this
14 rebuttal filing for that primarily because the costs of
15 the move will be paid back by the fleet -- the lease
16 savings over a couple-year period. So, we haven't
17 included any change in the numbers in this filing for
18 that.

19 Q. The next item was reducing computer hardware
20 and software support services.

21 A. Yes. That's a way that we in our
22 information systems area have been addressing cost
23 increases that are occurring there. It's primarily in

24 two areas.

25 One was stretching out the time of leasing

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4113

1 the existing central processing unit, you know, staying
2 with that configuration for a nine-month period to help
3 us stretch out the costs of that.

4 Another was in the reduction in the
5 acquiring certain PC software.

6 So, it's reducing in that sense.

7 Q. Now, has there been a quantification of that
8 savings anticipated?

9 A. I don't have it with me. It was in the form
10 of trying to offset other cost increases that were
11 occurring. The information system there in particular
12 has a fairly high fixed-cost component. What I mean by
13 that is various maintenance contracts and lease
14 agreements.

15 Those were going up during this period.
16 This helped us address that cost increase in the other
17 areas by making these changes. So, there wasn't any
18 net savings to report here.

19 Q. The sixth item listed was centralization and
20 consolidation of billing and collection activities.

21 Am I correct that that has resulted in a
22 reduction of 41.25 full-time employees?

23 A. That's the number that I'm familiar with.

24 And that also was included in the reductions in staff
25 that have taken place since the beginning of the year

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4114

1 to help us bring the staff levels back down closer to
2 what they were during the test year.

3 Q. It's our understanding that Towers Perrin
4 estimated this will save about \$659,000 annually?

5 A. Towers Perrin in its report identified
6 \$500,000 to \$700,000 in annual savings for O and M
7 related to business office function changes. This was
8 part of that. And those kinds of figures of 41
9 employees could represent a good part of that, yes.

10 Q. Have these savings been reflected in the
11 rate filing?

12 A. They haven't changed the rate filing because
13 they are primarily -- well, they are in two areas. And
14 one of those two areas has not changed the rate filing.
15 That is in the staffing reductions.

16 The reason that we haven't changed the rate
17 filing for that is because, with these and other
18 related reductions, we now have our staffing levels
19 back down to what they were in the test year.

20 The other place where this kind of savings
21 does affect the rate filing was that there were about
22 fifteen vehicles associated with these functions out in
23 the business offices. Those vehicles have been

24 eliminated. Those savings are reflected in the rate
25 case.

WITNESS: COREY A. KNUTSEN - Cross by Trotter 4115

1 MR. TROTTER: Your Honor, I would move for
2 the admission of Exhibits 885, 886, and 887.

3 JUDGE HAENLE: Any objection, Mr. Marshall?

4 MR. MARSHALL: No objection.

5 JUDGE HAENLE: Mr. Adams, any objection?

6 MR. ADAMS: No objection.

7 JUDGE HAENLE: Mr. Furuta?

8 MR. FURUTA: No, your Honor.

9 JUDGE HAENLE: I will enter 885, 886, and
10 887 into the record.

11 (Received Exhibits 885, 886 and 887)

12 MR. TROTTER: Nothing further.

13 JUDGE HAENLE: Have you questions, Mr.
14 Furuta?

15 MR. FURUTA: No, your Honor.

16 JUDGE HAENLE: Mr. Adams?

17 MR. ADAMS: Just a couple of questions.

18

19 C R O S S - E X A M I N A T I O N

20 BY MR. ADAMS:

21 Q. Turning to your testimony at Page 15 where
22 you briefly discuss the collaborative meetings, what is
23 the purpose of that testimony?

24 A. What is the what?

25 Q. Purpose of that testimony.

WITNESS: COREY A. KNUTSEN - Cross by Adams 4116

1 A. To report on what took place in response to
2 Mr. Sonstelie's suggestion that the collaborative
3 explore decoupling.

4 Q. Would I be correct that no results came out
5 of that collaborative set of meetings?

6 A. I think that would be a correct assessment
7 of the meetings' product.

8 Q. Wouldn't you agree that attempting to hold
9 meaningful collaborative meetings during the context of
10 a major rate case like this would be very difficult at
11 best?

12 A. I believe it is difficult. I believe we
13 knew it was going to be awkward when we were proposing
14 it. But we also felt as though that was the best way
15 to address the issues around decoupling.

16 We thought that we had -- that this was
17 about the only way to do that, even though the timing
18 was kind of bad. We would have perhaps been able to
19 use that time to develop a decoupling issue if the
20 timing of the case had been different.

21 Q. Are you, sir, through this testimony making
22 any kind of assertion as to what might have resulted
23 from a collaborative process had the Staff been in

24 attendance?

25 A. I don't think that it would be fair for

WITNESS: COREY A. KNUTSEN - Cross by Adams 4117

1 anybody to assert that that was -- you know, but for
2 their absence, we would have made progress that isn't
3 showing here.

4 So, no, that isn't what I'm trying to say
5 here.

6 MR. ADAMS: Thank you. That's all I have.

7 JUDGE HAENLE: Commissioners, have you
8 questions?

9 CHAIRMAN NELSON: No.

10 COMMISSIONER CASAD: I have no questions.

11 COMMISSIONER HEMSTAD: I have no questions.

12

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

14 BY JUDGE HAENLE:

15 Q. Referring to Page 6 of your testimony, you
16 indicate that most of the increased use of overtime and
17 contractors are due to increased capital construction
18 programs.

19 Could you compare the current construction
20 budget to those of the early 1980s?

21 A. I don't have those data available, but I
22 believe the construction budgets may very well have
23 been as high or higher during those late '70s or early

24 '80s period. But the reason for that was because there
25 was a higher element of power plant generation in the

WITNESS: COREY A. KNUTSEN - Examination by Haenle 4118

1 construction budgets.

2 The construction budgets I'm referring to as
3 it being higher during this period are the transmission
4 and distribution system construction. These are higher
5 in this period that we're referring to.

6 Q. Would that make a difference, what it was
7 based on? I'm sorry, whether it was for plant
8 construction or whether it was for transmission and
9 distribution? Why would that make a difference?

10 A. Well, the statistic that we bring up the
11 construction budget around is the use of contract
12 labor. The principal place where we use contractors is
13 in transmission and distribution work. Power plant
14 generation, you know, power plant, excuse me,
15 construction, during that period of time was a payment
16 made to the architect/engineer, constructor of the
17 power plant, and in most of those cases we were not the
18 sponsor of the power plant.

19 So, it would not have affected the contract
20 labor or wouldn't have affected it in any case whether
21 or not we were the sponsor.

22 Q. Were you not also during that time
23 constructing transmission and distribution facilities?

24 A. Yes, but less.

25 Q. Can you quantify how much less?

WITNESS: COREY A. KNUTSEN - Examination by Haenle 4119

1 A. I do not have those numbers with me.

2 Roughly it's on the order of -- well, the rough
3 comparison has just left me, as well.

4 I'm sorry. I don't have those.

5 Q. Okay. That's all right. Thank you.

6 JUDGE HAENLE: Did you have any redirect?

7 MR. MARSHALL: No redirect.

8 JUDGE HAENLE: Anything more of the witness?

9 All right, thank you, sir. You may step
10 down. Let's go off the record to change witnesses.

11 (Discussion held off the record.)

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

13 During the time we were off the record, Mr.
14 Patterson assumed the stand.

15

16 ANDREW W. PATTERSON,
17 witness herein, being first duly sworn

18 was examined and testified as follows:

19 JUDGE HAENLE: Thank you.

20 During the time we were off the record I
21 also marked for identification a number of documents as
22 follows: Marked as Exhibit T-888 for identification is
23 a multi-page document AWP-1, which is 24 pages of

24 testimony; 889 for identification, AWP-2; 890 for
25 identification, AWP-3; 891 for identification, AWP-4;

WITNESS: COREY A. KNUTSEN - Examination by Haenle 4120
1 892 for identification, AWP-5; 893 for identification
2 AWP-6; 894 for identification AWP-7; and 895 for
3 identification AWP-8.

4 (Marked Exhibits T-888, 889, 890, 891, 892,
5 893, 894 and 895)

6 JUDGE HAENLE: Your witness has been sworn,
7 Mr. Marshall.

8 MR. MARSHALL: Thank you.

9

10 D I R E C T E X A M I N A T I O N

11 BY MR. MARSHALL:

12 Q. Mr. Patterson, do you have before you what's
13 been marked for identification as Exhibit T-888?

14 A. Yes, I do.

15 Q. Do you recognize that document as your
16 prefiled rebuttal testimony in this case?

17 A. That's correct.

18 Q. Do you have any additions or corrections to
19 make to Exhibit T-888 at this time?

20 A. There are a few minor corrections.

21 On Page 5, I believe it's Line 7, the date
22 that's stated there is not correct. It indicates that
23 we were retained in July of '93. In fact, we were

24 retained in July of 1992.

25 And there are a couple other corrections if

WITNESS: ANDREW W. PATTERSON - Direct by Marshall 4121

1 I can continue. Exhibit AWP-7 --

2 Q. We'll get to the exhibits in just a moment.

3 A. Okay.

4 Q. Does that complete your corrections to

5 Exhibit T-888 at this time?

6 A. Yes, it does.

7 Q. As corrected, if I asked you the questions

8 set forth in Exhibit T-888 today, would you give the

9 answers as set forth in that exhibit?

10 A. Yes, I would.

11 Q. And now do you have before you what's been

12 marked for identification as Exhibits 889 to 895?

13 A. Yes.

14 Q. Were those exhibits prepared under your

15 direction and supervision?

16 A. Yes, they were.

17 Q. Do you have any additions or corrections to

18 make to those exhibits, 889 to 895 at this time?

19 A. Yes, a few corrections again.

20 Q. Could you go through those, please.

21 A. Certainly. Exhibit No. AWP-7 --

22 Q. That would be Exhibit 894?

23 A. Right. Exhibit 894 on the first page, the

24 last line of that paragraph indicates that the survey
25 used in the survey results are part of this exhibit.

WITNESS: ANDREW W. PATTERSON - Direct by Marshall 4122

1 In fact, they were part of AWP-5 and AWP-6.

2 JUDGE HAENLE: Sorry. I don't see where you
3 are. You're sure you're in AWP-7?

4 THE WITNESS: Yes.

5 JUDGE HAENLE: You're on which page?

6 THE WITNESS: The top of the page reads
7 Comparison Analysis.

8 BY MR. MARSHALL:

9 Q. Which line is it on that page?

10 A. There are no line numbers on my copy. But
11 if you go down to the bottom of the first paragraph --

12 JUDGE HAENLE: I still don't get it. Off
13 the record.

14 (Discussion held off the record.)

15 JUDGE HAENLE: Let's go back on the record.

16 During the time we were off the record, I believe we
17 established that in AWP-7 the end of the first full
18 paragraph beginning "Third, to provide," that the
19 remainder of that sentence would be stricken.

20 Go ahead, Mr. Marshall.

21 BY MR. MARSHALL:

22 Q. Do you have further corrections or
23 additions?

24 A. Yes. But mercifully there is just one more.
25 The indication given by -- let me get the exhibit

 WITNESS: ANDREW W. PATTERSON - Direct by Marshall 4123
1 number right -- AWP-8, that lists the study team
2 biographies for Phase II of the work, there is a fellow
3 there included by the name of Stephen Bloom, B-l-o-o-m.
4 He was not part of Phase II. He was a study team
5 member for Phase I. It's the last biography contained
6 in the exhibit.

7 JUDGE HAENLE: Which number?

8 MR. MARSHALL: I think the last page of 894
9 ought to be now the last page of 895.

10 BY MR. MARSHALL:

11 Q. Is that correct? The last Page of AWP-4
12 should be the last page of AWP-8?

13 A. Right. The last page of AWP-8 should be
14 the last page of AWP-4. Bloom was with us on Phase I.
15 He did not participate in the review as part of Phase
16 II.

17 JUDGE HAENLE: I still don't have it. Let's
18 go off the record and get it.

19 (Discussion held off the record.)

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

21 During the time we were off the record, I
22 believe we established there was no correction to be
23 made there, that the official copies were, indeed, as

24 they were supposed to be.

25 MR. MARSHALL: That's correct.

WITNESS: ANDREW W. PATTERSON - Direct by Marshall 4124

1 JUDGE HAENLE: Anything else, Mr. Marshall?

2 BY MR. MARSHALL:

3 Q. As corrected, are those exhibits true and
4 correct to the best of your knowledge?

5 A. Yes, they are.

6 MR. MARSHALL: I move the admission of
7 Exhibit T-888 and Exhibits 889 to 895, and Mr.
8 Patterson is available for cross-examination.

9 JUDGE HAENLE: Any objection to the entry of
10 the documents, Ms. Brown?

11 MS. BROWN: I have an objection and motion
12 to strike a portion of Exhibit T-888. I direct your
13 attention to Page 12, Lines 7 through 9. There the
14 witness states: "Interestingly, and not surprisingly,
15 the investment community views the Company in a similar
16 fashion."

17 I believe that's nothing other than rank
18 hearsay within no exception. And my belief is
19 confirmed when the Staff requested through Staff Data
20 Request No. 2628 for any supporting documentation or
21 evidence to support that particular statement, which
22 pertains to the investment community's views, and we
23 received a response by Mr. Patterson indicating that

24 there is no single document or documents that he can
25 point to to support that particular statement and that

WITNESS: ANDREW W. PATTERSON - Direct by Marshall 4125

1 that statement is based primarily on interviews of
2 company personnel.

3 Because it is hearsay, I move to strike
4 that.

5 JUDGE HAENLE: Mr. Marshall?

6 MR. MARSHALL: Well, again, this is asserted
7 for state of mind of the people, which is an exception
8 to the hearsay rule. What Mr. Patterson is saying is
9 the Company is viewed by members of the financial
10 community in a favorable way.

11 The response to Data Request 2628 is a
12 little more lengthy than counsel has indicated. It was
13 based on Mr. Patterson's interviews with Company
14 personnel, their consulting experience, their review of
15 materials during the course of work, and he says,
16 "Although there is no single document or series of
17 documents I can point to, there is a clear perception
18 that the Company works hard to keep the financial
19 community informed." And it goes on.

20 But, again, the purpose of the testimony is
21 to reflect state of mind and perception, and that's an
22 exception for the hearsay rule.

23 JUDGE HAENLE: That's not state of mind or

24 someone else's perception, is it, the exception to the
25 hearsay rule?

WITNESS: ANDREW W. PATTERSON - Direct by Marshall 4126

1 MR. MARSHALL: Yes.

2 JUDGE HAENLE: Ms. Brown, go ahead.

3 MS. BROWN: I disagree with Mr. Marshall's
4 assertions. This particular witness, while I recognize
5 that he is intending to rebut Mr. Elgin's testimony, I
6 think his intention fails through this witness.

7 It's pretty clear that in response to our
8 Request 2628 the witness was nonresponsive, could
9 provide no supporting documentation or evidence for
10 that statement. So, I think it should be stricken.

11 JUDGE HAENLE: Anything else, Mr. Marshall?
12 Or have we covered it?

13 MR. MARSHALL: I think the witness has
14 disclosed responsive data request and can further
15 testify as to the source of his beliefs in that area.

16 JUDGE HAENLE: Any objection to the entry of
17 the documents, Mr. Adams?

18 MR. ADAMS: Again, it was not my motion, but
19 I think the rationale objected to by the Staff is
20 correct.

21 JUDGE HAENLE: Okay. Any objection to the
22 entry of the documents, Mr. Furuta?

23 MR. FURUTA: I'm inclined to agree with

24 Staff on this point.

25 JUDGE HAENLE: One of the things that this

WITNESS: ANDREW W. PATTERSON - Direct by Marshall 4127
1 witness did investigate is different aspects of the
2 Company's financing, resource planning, and
3 acquisition, isn't, Mr. Marshall?

4 MR. MARSHALL: Yes, it is. And that
5 testimony refers to the strengths of the Company that
6 he saw as reflected at Page 12 of his testimony. It's
7 an indication of what areas were looked into and which
8 were not. And the testimony is fairly brief in that
9 area.

10 But I think the basis for the statement is
11 inherent therein in the responsive data request.

12 MS. BROWN: I believe the statement is brief
13 in the area because it's nothing more than a
14 self-serving sentence regarding the investment
15 community views.

16 He is not even stating that Towers Perrin as
17 a result of its investigation concluded that X was so
18 or in his opinion X was so. He is stating what he
19 believes the investment community's views are regarding
20 the Company's finances.

21 JUDGE HAENLE: I'm going to enter the entire
22 document into the record, although the Commission may
23 ultimately determine that there is no support for the

24 statement.

25 I believe that goes to the weight that the

WITNESS: ANDREW W. PATTERSON - Direct by Marshall 4128

1 Commission should give the statement, and, again, I
2 caution the Company, if there is nothing behind it, the
3 Commission can give it no weight.

4 I will enter then Exhibit T-888 and the
5 others through 895.

6 (Received Exhibits T-888, 889, 890, 891,
7 892, 893, 894 and 895)

8 JUDGE HAENLE: You can cover to the extent
9 you feel necessary on cross-examination, Ms. Brown, the
10 backup for the statement that you objected to.

11 Anything else, Mr. Marshall?

12 MR. MARSHALL: No.

13 JUDGE HAENLE: Okay, Ms. Brown.

14 MS. BROWN: Thank you.

15

16 C R O S S - E X A M I N A T I O N

17 BY MS. BROWN:

18 Q. Mr. Patterson, just to clarify, there has
19 been some mention of Towers Perrin as a compensation
20 consultant for Puget. That is a different section than
21 the section you work for; is that right?

22 A. That's correct.

23 Q. You are not a compensation specialist; is

24 that right?

25 A. I am not a compensation specialist. I have

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4129

1 been involved in compensation studies, specifically
2 with respect to performance measurement.

3 Q. On Page 2 of your testimony, which is
4 Exhibit T-888, you state that your rebuttal testimony
5 will, one, present your general conclusions about the
6 management of Puget and, two, briefly comment on the
7 testimony of Staff related to your study.

8 Is that a fair reading?

9 A. That's a fair reading.

10 Q. This study was completed in April of this
11 year; is that right?

12 A. Yes, it was, Phase II of the effort was
13 completed in April.

14 Q. And other than this particular testimony
15 today in this proceeding, has your organizational
16 evaluation continued in any way?

17 A. Not that I'm aware of. There may be
18 practitioners in something other than general
19 management involved. But the project team that I was
20 leading is disengaged.

21 Q. In your rebuttal testimony, you explained
22 that the organizational review that Towers Perrin
23 undertook consisted of two phases; is that right?

24 Phase I and Phase II?

25 A. That's right.

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4130

1 Q. When was Phase I completed?

2 A. Phase I was completed about mid September of
3 1992.

4 Q. So, Phase II then lasted from October of
5 1992 through April '93?

6 A. Phase II commenced towards the latter part
7 of November and was wrapped up in April. That would be
8 November of '92 through April of '93.

9 Q. Okay. On Page 10 of Exhibit 888, you state:
10 "Our Phase I results can be divided into three general
11 categories of findings: summary level strengths, macro
12 performance measurements and relative improvement
13 areas.

14 Do you see those statements on Lines 11
15 through 14?

16 A. Yes, I do.

17 Q. These findings were also presented to the
18 Company in the presentation of August 11, 1992. Is
19 that true?

20 A. Elements of those findings were presented on
21 that date, yes.

22 Q. On Page 6 of your rebuttal testimony, you
23 state that "Instead of spending more time and resources

24 documenting Puget's strengths, of which there are many,
25 we focused on developing our analysis of areas for

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4131

1 improvement."

2 Is that true?

3 A. That's correct.

4 Q. And on Page 10, Lines 9 through 11, you
5 state: "Early in the process (after about four weeks
6 of study) we focused our efforts exclusively on the
7 development of opportunity areas."

8 Is that accurate?

9 A. That's an accurate reading of the testimony
10 I found.

11 Q. The conclusions that you reached regarding
12 the Company's strengths were based on interviews with
13 the Company's more senior management and some
14 documentation that the Company provided to you; is that
15 right?

16 A. That's correct.

17 Q. Is it also correct that the only interview
18 that you held outside the Company was with WUTC Staff?

19 A. Well, in a sense very narrowly defined with
20 respect to this client, we assess Company strengths as
21 part of our living. So, I would offer that we held
22 literally many, many interviews over the years leading
23 up to this study that would give us an ability to form

24 an opinion.

25 But specifically with respect to the work

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4132

1 performed for Puget, I can't think of another interview
2 outside the confines of the Company during that period.

3 Q. On Page 10 of your August 11, 1992, report,
4 which was earlier admitted as Exhibit 619, in this
5 document you state that you were in the process of
6 gaining a meeting with public counsel.

7 Was that meeting ever held? Or perhaps I
8 should restate that question and say: What sorts of
9 efforts did you make at scheduling a meeting with
10 public counsel?

11 A. Public counsel and I traded a series of
12 phone calls over I would guess about a week and a half
13 to two-week period. During that time we were speaking
14 to each other's voice mail.

15 The net results of that exchange was a
16 question that I posed to him generally about the desire
17 we had for the meeting, which was to gain his
18 perceptions of the Company. And I did get a voice mail
19 back where he summarized his perceptions.

20 So, although we did not meet directly, we
21 did exchange voice mails on the topic.

22 Q. Okay. Page 15, beginning on Line 9, the
23 rebuttal testimony, you discuss macro performance

24 measures that were developed for the Company.

25 Do you recall that?

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4133

1 A. Yes, I do.

2 Q. And those particular performance measures
3 that were recommended by you to management appear in
4 Exhibit 893. Is that true?

5 A. If 893 is the same as AWP-6, that's true. I
6 apologize for not keeping up with exhibit numbers.

7 Q. It is.

8 A. Fine.

9 Q. When were these performance measures
10 recommended to management?

11 A. During the course of the Phase I work, which
12 would have been sometime towards the latter part of
13 August or into September.

14 Q. These performance measures are a result of
15 the paired comparison survey which appears in 894?

16 A. The paired comparison survey was one element
17 of the input. We also spent a fair amount of time
18 interviewing Company management with respect to those
19 measures.

20 We also brought into play some relevant
21 comparative insight that we had gained from other
22 comparable work.

23 So, what we were doing essentially is

24 triangulate, if you will, between interviews, the
25 paired comparison survey, and the work that we

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4134

1 performed that was relevant for other clients.

2 Q. On April 20, 1993, you wrote a letter to the
3 Commission in which you stated that these paired
4 comparison surveys were proprietary and could only be
5 reviewed at Puget.

6 Do you recall that letter?

7 A. I'm looking for it. (Reading.) Can you be
8 a little more precise as to where in that letter the
9 statement occurs?

10 Q. Do you see the second block under the
11 heading Data Request?

12 A. Right.

13 We were referring to three surveys if you
14 read the statement. The conjoint analysis, the
15 activity analysis, and the user survey. We regarded
16 them collectively as proprietary. And rather than get
17 into a long winded discussion as to which element of
18 which survey was proprietary, in the interest of time I
19 kind of grouped them all that way.

20 JUDGE HAENLE: If you would use other terms
21 of art, it would be helpful if you could spell them,
22 please.

23 BY MS. BROWN:

24 Q. And the conjoint analysis that you referred
25 to is the same as the compared comparison survey, is it

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4135

1 not?

2 A. I'm glad you raised that. They are one and
3 the same, conjoint and paired comparison.

4 Q. And now that, quote unquote, proprietary
5 study appears as Exhibit 892; is that right?

6 A. I believe that's right.

7 Q. What employees at Puget were involved in the
8 paired comparison survey or, as you say, conjoint
9 analysis?

10 A. We basically surveyed the top fifty or sixty
11 managers in the firm. And we did not get complete
12 participation owing to vacations. But we got a fairly
13 high participation rate.

14 Q. Would you briefly explain how Towers Perrin
15 came up with the paired performance areas. I'm
16 interested in why these five measurements were chosen,
17 what the number in parentheses signifies and why these
18 performance areas were selected by Towers Perrin.

19 MR. MARSHALL: AWP-6.

20 THE WITNESS: Thank you. I'm sorry. Could
21 you give me a page reference one more time?

22 THE WITNESS: Are you on Page 4 of that?

23 BY MS. BROWN:

24 Q. Four, yes.

25 A. Could you repeat the question?

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4136

1 Q. How is it that Towers Perrin came up with
2 the comparison method shown on this exhibit, more
3 specifically why these five areas were chosen, what
4 these numbers in parentheses over on the right-hand
5 side of the page signify, and why the performance
6 measurements were selected by Towers Perrin in the
7 first place.

8 A. There is a lot of questions in there. I'll
9 do my best.

10 In terms of how we arrived at the
11 measurement areas, we arrived at it basically three
12 ways: We reviewed the Company's existing mission and
13 value and summarized strategy statement; secondly,
14 over the course of interviews we engaged in
15 conversation with senior management about what the
16 Company was trying to accomplish; and, lastly, we have
17 on file strategic planning documents maintained by
18 other investor-owned utilities.

19 I should properly characterize them as
20 mission and value statements from other electric
21 utilities. And through those three inputs we arrived
22 at the list that you're referring to.

23 Q. And what are these numbers over to the right

24 in parentheses?

25 A. It's an index or a scale. And what it

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4137

1 basically is defined as is a raw attribute score, which
2 is an index of preference or choice, if you will. It's
3 an output from the paired comparison survey.

4 Q. And would 56 be the lowest score and 70 be
5 the highest score?

6 A. Fifty-six would indicate a relatively lower
7 preference and seventy would indicate a relatively
8 higher preference. And what you're doing with a paired
9 comparison survey is understanding people's choices
10 around what are some difficult items to quantify.

11 As an example, if you asked people to trade
12 off shareholder value versus customer service, that's a
13 difficult thing to do. Clearly both are important.
14 And we use the paired comparison survey to gain insight
15 into people's views through the survey process itself,
16 which forces people to make choices in a random way.
17 And through patterns in their thinking you can get a
18 view by the way they trade off the attributes. It's a
19 consumer research tool that we found very helpful.

20 Q. These represent the Company's officers'
21 preferences or choices?

22 A. These represent the preferences expressed by
23 the top fifty or sixty managers that I indicated

24 earlier that we had surveyed.

25 Q. During the visit at Puget with Staff to

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4138

1 discuss these particular surveys that you conducted,
2 Staff requested copies of the information now shown as
3 Exhibit 893. Do you recall that?

4 A. Is 893 the survey itself or is it the
5 results?

6 Q. I'm sorry. The results. Exhibit 6.

7 A. Okay. Staff made many requests during that
8 session. They could have requested this documentation.
9 Frankly, memory fades. We spent about five hours.
10 That's a number of months ago.

11 Q. In fact, whether you recall whether it was
12 requested or not, it was not provided to Staff at that
13 time. Isn't that right?

14 A. No, it was not. At that time we provided
15 Staff with everything that we felt was practical. Many
16 of the information that Staff was requesting goes
17 directly to the types of services that we offer to our
18 clients. And as a partner in an ongoing concern, it's
19 one of my responsibilities to make sure that publicly
20 available documentation does not impinge upon our
21 ability to compete.

22 So, if we didn't offer it up at that time,
23 it was more my concern over any loss of our ability to

24 compete. These are tools and analytical techniques
25 that we have invested a lot in learning how to provide

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4139

1 to our clients. It's a very competitive situation for
2 us.

3 Q. Have you finished?

4 A. Yes.

5 Q. What was it that changed your mind so that
6 now the survey results can be denominated public?

7 A. In reflection and in working with some of
8 the other partners in the firm, we felt that releasing
9 this data was not going to be something that would hurt
10 us in the marketplace.

11 Q. On Page 16 of Exhibit T-888, you begin to
12 discuss improvement areas for the Company that were
13 identified by Towers Perrin in Phase I of the
14 organizational review.

15 Do you see that?

16 JUDGE HAENLE: What page are you on?

17 MS. BROWN: 16.

18 JUDGE HAENLE: Thank you.

19 THE WITNESS: What was the line number on
20 that?

21 BY MS. BROWN:

22 Q. 1.

23 A. Okay.

24 Q. Yes?

25 A. Yes.

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4140

1 Q. You state on Lines 14 through 17 of that
2 page: "We made recommendations in five areas:
3 external customer services, internal customer services,
4 managerial roles and responsibilities, complex work
5 processes and performance measurement."

6 Is that a correct recitation?

7 A. That's correct.

8 Q. Would you please turn to Page 7 of Exhibit
9 619, which is your August 11, 1992, report.

10 Do you have that?

11 A. Page 7 of the August 11 report?

12 Q. That's correct.

13 A. I have Page 6 and I have Page 8. Curiously
14 Page 7 is out of my witness book.

15 Q. I'll be happy to give you a copy.

16 JUDGE HAENLE: The record should reflect
17 that Mr. Van Nostrand is handing the witness a copy of
18 that page.

19 Thank you, Mr. Van Nostrand.

20 Do you have that now, sir?

21 THE WITNESS: Yes.

22 BY MS. BROWN:

23 Q. Here you provide an executive summary of the

24 strengths and weaknesses that you discussed throughout
25 your testimony; is that right?

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4141

1 A. That's right.

2 Q. You would agree, would you not, that the
3 illustration indicate the weaknesses outweigh the
4 strengths? The scale is lower on the weaknesses side;
5 is that right?

6 A. That's correct. The scale is lower,
7 although the scale certainly has been the subject of a
8 rather robust discussion.

9 If I may, the scale is tilted the way it is
10 more because of the graphics people that we were
11 working with as opposed to showing anything
12 quantitative there.

13 What I mean by that is we did not assign
14 some numerical value against the weaknesses and
15 strengths and determine that the weaknesses outweighed
16 the strengths.

17 Q. You don't believe that now, at least, this
18 is a fair depiction of the relative balance between
19 strengths and weaknesses following your Towers Perrin
20 review of the Company?

21 A. It's not fair to the extent that it seems to
22 portray that weaknesses far outweigh strengths. When
23 we delivered the presentation, frankly, this process

24 was not underway. So, we were less sensitive to all of
25 those types of interpretations that could be drawn.

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4142

1 Q. I see.

2 A. Basically, this is an icon that's a standard
3 format that we use in presentations when we're trying
4 to show things juxtaposed against each other. And we
5 did not use it to convey a meaning other than there are
6 strengths and there are weaknesses.

7 Q. The first area identified is External
8 Services. You state on Page 16, Lines 22 through 23 of
9 your testimony: "We suggest some potential
10 improvements."

11 Do you recall that testimony?

12 A. That was Page 16, Lines --

13 Q. Lines 22 through 23.

14 A. (Reading.) I have Page 16. You're going
15 awfully quickly. Could you reread what you're asking
16 me to look for?

17 Q. Sure. The first area that you identified as
18 possible for improvement was entitled External
19 Services. And in your rebuttal testimony at Page 16,
20 Lines 22 through 23, you indicate that "We," meaning
21 Towers Perrin, "suggested some potential improvements."

22 Is that correct?

23 A. That's correct.

24 Q. Please turn now to Page 24 of your August
25 11, 1992, report, which you just referred to and is

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4143

1 marked in this docket as Exhibit 619. Here you state:
2 "Capability for serving external customers, ratepayers,
3 do not appear to be closely matched to demand."

4 Do you see that?

5 A. Yes, I do.

6 Q. On Pages 25 and 26 of this document, you
7 stress that "Customer service delivery strategies for
8 business office operations are expensive."

9 Do you see that?

10 A. Yes, I do.

11 Q. On Page 27 you identify at least five
12 additional concerns pertaining to Puget Power. Is that
13 true?

14 A. That's correct.

15 Q. You did not look at external customer
16 relations in the Phase II portion of your study, did
17 you?

18 A. Actually, we did. We looked at them to the
19 extent that they were services most influenced by
20 internal interest to the Company. By that I mean we
21 excluded those services performed directly for
22 customers.

23 Our thinking there was that since the

24 Company was going to undertake a review such as ours
25 and knowing that it would cause some internal

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4144

1 commotion, it would be wise not to get too aggressive
2 with services delivered for customers, the thinking
3 there being that there would be moral issues that
4 companies typically face when they undertake a review
5 such as the one we were proposing.

6 So, we drew a bit of a line of demarcation,
7 if you will. As an example, customer surveys and the
8 interpretation of customer surveys is something that
9 can be done entirely within the head office without
10 getting in front of customers.

11 Whereas there are some other customer
12 services such as responding to phone calls that would
13 be performed by employees directly interfacing with
14 customers.

15 The former we were interested in; the latter
16 we were not.

17 Q. The next area for improvement that you
18 identify on Page 16 of your testimony and continue to
19 discuss on Page 17, Lines 2 through 6, is internal
20 customer services. And again you state: "We also" --

21 A. Are you back on my testimony or on the
22 August 11 document?

23 Q. I'm back on your testimony.

24 A. If you give me a moment I'll get there.

25 Q. Page 17.

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4145

1 A. Okay. Right.

2 Q. Lines 2 through 6.

3 A. Thank you.

4 Q. You identified internal customer services as
5 an area for potential improvement.

6 A. Right.

7 Q. Is that true? Now I'm going to direct your
8 attention again to your August 11 report at Page 30.

9 A. (Reading.) Okay.

10 Q. There you state: "Internal customer service
11 levels do not appear to most effectively match
12 requirements with service needs."

13 Do you see that?

14 A. Yes, I do.

15 Q. Also on Page 30 you state that "These
16 problems are evidenced by, one, communications
17 difficulties; two, lack of [0] collegial environment
18 and insufficient recognition of the importance of line
19 elements; three, insufficient attention to work load
20 planning and integration; and, four, absence of
21 strategic value-added concepts."

22 Do you see those?

23 A. Yes, I see those although I think it's

24 important to point out that in this particular area as
25 we got into greater depth of study our opinions changed

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4146

1 quite dramatically. But at that point in time those
2 were our feelings.

3 Q. When precisely did your opinions change?

4 A. Subsequent to the user survey. And this is
5 a survey that we used to gain input from people using
6 services provided by internal employees. And what the
7 users basically told us was that the service levels
8 being provided, frankly, were quite acceptable.

9 Q. It's true, is it not, that this user survey,
10 which apparently changed your mind, was not provided to
11 Staff?

12 A. That's not entirely true, although a copy
13 was not provided to Staff. Staff reviewed the survey
14 results and reviewed the survey itself over a period of
15 several hours.

16 Now, this again is a document that we have
17 as a firm invested a tremendous amount, and we regard
18 it as something that allows us to compete in our
19 market. There are certainly other consulting firms
20 that would be delighted to get a copy of it. So, we
21 are careful with its circulation.

22 Q. It's of the nature that you would object to
23 its being admitted into the record in a proceeding such

24 as this; is that right?

25 A. A set of summary results indicating what the

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4147

1 survey told us I think would be quite appropriate.

2 Q. The internal customer services area was one
3 of two areas which Towers Perrin focused in Phase II of
4 its analysis; is that right?

5 A. That's correct.

6 Q. On Page 17 -- I'm back to your rebuttal
7 testimony -- Lines 7 through 9, you state with
8 reference to identified areas of improvement: "Our
9 thinking in the areas of roles and responsibilities and
10 complex work processes related principally to the
11 Company's transmission and distribution operations."

12 Do you see that?

13 A. Yes, I do see that.

14 Q. Well, I'm confused because on Page 34 of
15 your August 11, 1992, report you state: "With regard
16 to roles and responsibilities that improvements would
17 benefit literally the entire organization, with the
18 exception of the divisions and controllers, especially
19 with regard to managerial scope of control."

20 Now, do you see that?

21 A. Yes, I do see that.

22 Q. Is this another example of this being an
23 accurate representation of Towers Perrin's view of the

24 Company as of August 11, 1992, but that subsequently
25 your mind was changed?

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4148

1 A. Subsequently we were able to discover, to
2 assess, and to work with the Company over a much longer
3 period of time the difference between August of '92 and
4 April of '93. And during the course of gaining a much
5 better understanding of the Company's operations, our
6 opinions did change.

7 JUDGE HAENLE: Could we take in here some
8 time, Ms. Brown, an afternoon recess?

9 MS. BROWN: Now is fine.

10 JUDGE HAENLE: Why don't we take fifteen
11 minutes. Be back at twenty minutes after, please.

12 (Recess.)

13 JUDGE HAENLE: Let's be back on the record
14 after our afternoon recess.

15 Go ahead, Ms. Brown.

16 BY MS. BROWN:

17 Q. Do you still have your August 11, 1992,
18 report before you?

19 A. Yes, I do.

20 Q. On Page 33 of that report you list the
21 following observations, among others: "Overly complex
22 organizational design, narrow managerial scope of
23 control, instances of fragmentation and duplication,

24 tendency for turf battles."

25 Do you see that?

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4149

1 A. Yes.

2 Q. With respect to complex work processes on
3 Page 37 of the same document, you identify eight areas
4 that could benefit from improvement of work processes.
5 In addition to those related to T and D you identified
6 employee training, corporate projects, information,
7 systems development, materials fleet facilities,
8 planning and acquisition, and rate case filings."

9 Is that an accurate reading?

10 MR. MARSHALL: Your Honor, I object. It
11 isn't an accurate reading. At the very top she left
12 out the heading "There may be additions and
13 subtractions from our list as our understanding grows."

14 The document speaks for itself. I think we
15 would expedite things if we could just ask the question
16 rather than reading in portions of the document.

17 JUDGE HAENLE: The question is not going to
18 make sense without referring to the portion of the
19 document anyway, Mr. Marshall. I'll let it continue.

20 MR. MARSHALL: She asked is this an accurate
21 statement. It wasn't. I object.

22 JUDGE HAENLE: She didn't read the entire
23 document. I don't think her question may have required

24 that. If she is referring to a place on the document,
25 we can all find it.

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4150

1 MS. BROWN: Not only that, it is in the
2 record as Exhibit 619. I believe the witness answered
3 my question affirmatively.

4 JUDGE HAENLE: Did you, sir?

5 THE WITNESS: No, I did not answer the
6 question.

7 The list that you're reading off of, you
8 read part of it. But it is contained on Page 37, and I
9 guess it is here for everyone to read.

10 MS. BROWN: But you correctly identified
11 parts of what's on Page 37.

12 BY MS. BROWN:

13 Q. Page 18 of your testimony, Lines 10 through
14 16, you addressed the final improvement area identified
15 in Phase I of your study, that being performance
16 measurement capabilities.

17 You state at Line 14, "The Company could
18 benefit from prioritizing what it tracks to focus on
19 those activities that add the most value."

20 Is that correct?

21 MR. MARSHALL: I object again. Only part of
22 that was read. She left off the "however" and it's
23 related to the prior sentence. And I guess just having

24 the witness say did I read this correctly when it's not
25 being read correctly, I have to continue to object to.

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4151

1 MS. BROWN: I apologize, your Honor, I don't
2 mean to be reading incorrectly. I can amend that one
3 sentence by adding the word "however" in front of it.
4 This is cross-examination, and this witness has offered
5 rebuttal testimony, and I think I'm entitled to go to
6 the Towers Perrin August report and find out what was
7 true at the time it was written.

8 JUDGE HAENLE: I agree, Mr. Marshall. Let's
9 continue.

10 BY MS. BROWN:

11 Q. Is that correct, Mr. Patterson, that at Line
12 14 you state, "However, the Company could benefit from
13 prioritizing what it tracks to focus on those
14 activities that add the most value"?

15 A. Clearly you're reading my testimony
16 correctly. You're quite capable of that. I guess I'm
17 also getting anxious about the way you're selectively
18 reading and asking me if what I wrote is true.

19 If you would like, I can elaborate on that
20 statement and offer up what was meant by it. Again,
21 yes, that is properly done. That is what I wrote on
22 that page and those line numbers.

23 JUDGE HAENLE: Your counsel will take care

24 of whatever objections are necessary. We have
25 discussed objections at this point, and I have

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4152

1 overruled his latest one if you would answer the
2 question as opposed to explaining.

3 MS. BROWN: Thank you, your Honor. I have a
4 few more correct quotes for you, Mr. Patterson.

5 BY MS. BROWN:

6 Q. Page 39, back to your August 11, 1992,
7 report, you assert that at least some of the
8 performance measurement processes are inadequate, and
9 that much of the performance reporting takes the form
10 of advertising.

11 Did I read those correctly?

12 A. Yes, the last -- yes.

13 Q. Now, it's true, isn't it, that you did not
14 analyze and evaluate the Company's incentive
15 compensation program in any of the three Towers Perrin
16 reports, isn't it?

17 A. That's correct.

18 Q. With regard to the Company's Energy Plus
19 program, are you aware that since 1987 the Company has
20 not budgeted for the Energy Plus pay-out?

21 A. No, I don't believe I was aware of that.

22 MS. BROWN: Thank you. I have no further
23 questions.

24 JUDGE HAENLE: Do you have questions, Mr.
25 Furuta?

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4153

1 MR. FURUTA: No, your Honor.

2 JUDGE HAENLE: Mr. Adams?

3 MR. ADAMS: No, I do not, although I would
4 like to say hello to the witness since we corresponded
5 by voice mail.

6 THE WITNESS: It's delightful to meet you in
7 person.

8 JUDGE HAENLE: And apparently made quite an
9 impression on each other?

10 THE WITNESS: You look distinguished in
11 person.

12 JUDGE HAENLE: I don't know whether the
13 Commissioners will have questions or not. If so, I
14 would ask that the witness not leave the hearing room
15 for the next ten minutes just in case.

16 Do you have any redirect, sir?

17 MR. MARSHALL: No, I do not.

18 JUDGE HAENLE: We can call him back if the
19 Commissioners have questions. I would appreciate that.
20 Other than that you may step down, and let's go off the
21 record to change witnesses.

22 (Discussion held off the record.)

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

24 During the time we were off the record, Mr. Swofford
25 assumed the stand. I remind you that you were sworn at

WITNESS: ANDREW W. PATTERSON - Cross by Brown 4154

1 the beginning of the hearing and you remain under oath.

2

3

GARY B. SWOFFORD,

4

witness herein, having been previously

5

duly sworn, was examined and testified

6

further as follows:

7

(Marked Exhibit T-896)

8

JUDGE HAENLE: I have marked for

9

identification as Exhibit T-896 a multi-page document.

10 In the upper right-hand corner it has GBS-5.

11

Go ahead, Mr. Van Nostrand.

12

13

D I R E C T E X A M I N A T I O N

14

BY MR. VAN NOSTRAND:

15

Q. Do you have before you what's been marked

16

for identification as Exhibit T-896?

17

A. I do.

18

Q. Do you recognize that as your prefiled

19

rebuttal testimony in this case?

20

A. Yes, I do.

21

Q. Do you have any additions or corrections to

22

make to Exhibit T-896?

23

A. I have one minor correction. On Page 13,

24 Line 18, it says, "We have hired 12 engineers." That
25 should be "We have hired 10." Twelve should be changed

WITNESS: GARY SWOFFORD - Direct by Van Nostrand 4155

1 to ten.

2 Q. Does that complete your corrections?

3 A. Yes, it does.

4 Q. And as corrected, if I asked you the
5 questions set forth in Exhibit T-896 today, would you
6 give the answers as set forth in that exhibit?

7 A. I would.

8 MR. VAN NOSTRAND: Your Honor, I move the
9 admission of Exhibits T-896, and Mr. Swofford is
10 available for cross-examination.

11 JUDGE HAENLE: Any objection, Ms. Brown?

12 MS. BROWN: No objection.

13 JUDGE HAENLE: Mr. Adams?

14 MR. ADAMS: No objection.

15 JUDGE HAENLE: Mr. Furuta?

16 MR. FURUTA: No objection.

17 JUDGE HAENLE: T-896 will be entered into
18 the record. Go ahead, Ms. Brown.

19 (Received Exhibit T-896)

20

21 C R O S S - E X A M I N A T I O N.

22 BY MS. BROWN:

23 Q. Mr. Swofford, on Page 3 of your testimony,

24 at Lines 22 through 24, --

25 A. Yes?

WITNESS: GARY B. SWOFFORD - Cross by Brown 4156

1 Q. -- you state that "Promoting the Company's
2 image was not the intent of the campaign. At the same
3 time, however, our message had to address the issues
4 and provide the answers demanded by our customers."

5 Do you see that?

6 A. Yes, I do.

7 Q. Do you agree that the campaign addressed
8 issues that one could reasonably conclude were not
9 directly related to conservation?

10 A. They were related to conservation in the
11 context that our customers told us: That in order for
12 them to pursue conservation, there were certain issues
13 that they identified that they wanted answers to.

14 So, I guess I would have to qualify it and
15 say, yes, they are related to conservation and that our
16 customers are the ones that requested that we address
17 those issues in order for them to pursue conservation.

18 Q. But during the focus groups, participants
19 were asked simply, "What would you like to hear more
20 about" rather than "What would you like to hear more
21 about related to Puget's conservation programs?" Isn't
22 that true?

23 A. I wasn't present at the focus groups. Ms.

24 O'Neill, who will follow me, was present at focus
25 groups. I believe she can probably answer that

WITNESS: GARY B. SWOFFORD - Cross by Brown 4157

1 question a lot better than I could.

2 Q. You would agree, would you not, that it
3 would not be readily apparent necessarily that concern
4 over power lines located near a person's home would
5 somehow prevent that person from installing a low flow
6 shower head that was left on that person's doorstep,
7 would you?

8 A. No. I think there could be a tie. As a
9 matter of fact, I think there is a tie. I think any
10 time that I do business with somebody or any of us do
11 business with other people, one of the things that we
12 want to know is if they were the kind of people we want
13 to do business with.

14 If our customers have concerns about the
15 kind of company we are and the kinds of things that we
16 do, we may very well try to do a lot of things through
17 them, and they may not choose to do them.

18 Q. In response to Staff Data Request 2545, you
19 provided a breakdown of the expenses associated with
20 the research conducted by consultants regarding the
21 conservation advertising campaign for the period from
22 January 1991 through May of 1993.

23 Do you recall that response?

24 A. Yes, I have it before me.

25 MS. BROWN: Your Honor, I would like to have

WITNESS: GARY B. SWOFFORD - Cross by Brown 4158

1 this marked as the next exhibit in line, please.

2 JUDGE HAENLE: The next exhibit in line is

3 897 for identification.

4 (Marked Exhibit 897)

5 BY MS. BROWN:

6 Q. Mr. Swofford, this response to Staff Data

7 Request 2545 was prepared by you?

8 A. It was prepared under my direction.

9 MS. BROWN: Your Honor, I move the admission
10 of Exhibit 897, please.

11 MR. VAN NOSTRAND: No objection.

12 JUDGE HAENLE: Mr. Adams?

13 MR. ADAMS: No.

14 JUDGE HAENLE: Mr. Furuta?

15 MR. FURUTA: No, your Honor.

16 JUDGE HAENLE: 897 will be entered into the
17 record.

18 (Received Exhibit 897)

19 BY MS. BROWN:

20 Q. Do these figures represent the total cost of

21 the focus groups or just that portion that was

22 allocated to conservation advertising?

23 A. To my knowledge, they are both. The

24 organization that we received these figures from,
25 O'Neill and Company, these are the charges that we

WITNESS: GARY B. SWOFFORD - Cross by Brown 4159

1 received from them for the focus groups that was for
2 the purpose of the research and the survey done for our
3 communications plan for our conservation programs.

4 JUDGE HAENLE: The next exhibit in line is
5 898 for identification.

6 (Marked Exhibit 898)

7 BY MS. BROWN:

8 Q. Mr. Swofford, can you identify this, please.

9 A. I can identify what it says on the front of
10 it. It's the summary of focus groups conducted for
11 Puget Power January 1993, Bellevue, Bellingham, and
12 Olympia, six groups.

13 Q. Other than that, you have never seen this
14 document before?

15 A. I have seen the document. It was not
16 prepared by us is my only thing I'm trying to indicate.

17 Q. I understand that. Now, this was provided
18 in response to Staff Data Request 2601. In the summary
19 for the January 1993 focus group on the fifteenth page,
20 it --

21 Are you there?

22 A. The page numbers are blurred on this.

23 Q. I understand that.

24 A. I can't get to the page because I can't see
25 the page numbers. Could you tell me the top of the

 WITNESS: GARY B. SWOFFORD - Cross by Brown 4160

1 page?

2 Q. The top heading reads Reaction to Rates
3 Notification Rewrite and Rates Fact Sheet.

4 A. (Reading.) I have it.

5 Q. Would it be fair to say that this relates to
6 the manner in which the Company notifies its customers
7 of rate increases?

8 A. Again, while I have reviewed this document
9 sometime past, I'm really not familiar enough
10 specifically to know off the top of my head what this
11 related to.

12 Again, Ms. O'Neill's company is the one that
13 conducted these focus groups. And I think she could
14 probably address the questions specifically.

15 Q. Given that the title of this document reads
16 Summary of Focus Groups Conducted for Puget Power,
17 January 1993, and Page 15 indicates that Reaction to
18 Rates Notification Rewrite and Rates Fact Sheet, you
19 would agree that at least to your knowledge the issue
20 of rate notification and rates fact sheets was
21 discussed and became an issue in these focus groups,
22 wouldn't you?

23 A. If you'll give me a minute to read it, I can

24 answer you specifically.

25 Q. Certainly.

WITNESS: GARY B. SWOFFORD - Cross by Brown 4161

1 A. (Reading.) What's your specific question
2 again?

3 Q. I don't know. I can't remember.

4 JUDGE HAENLE: The question was whether
5 these issues were treated in the focus groups.

6 THE WITNESS: I assume so since this is a
7 document that resulted from those focus groups and it's
8 indicated in these focus groups that it was discussed
9 at the focus groups. I would agree with that.

10 BY MS. BROWN:

11 Q. And the focus group costs related to this --
12 by "this" I mean consumer reaction to rate notices --
13 were charged to the conservation advertising campaign,
14 were they not?

15 A. They were. But let me indicate that any
16 time we get a group of customers together and ask them
17 their opinions on things, they can bring up a lot of
18 different issues that may or may not relate
19 specifically to the subject matter.

20 I think the intent of the focus group is to
21 find out what is on customers' minds so that the
22 Company can handle those questions.

23 I think that's the category under which this

24 falls. It was not the intent of the focus group to
25 discuss rate notifications. The intent of the focus

WITNESS: GARY B. SWOFFORD - Cross by Brown 4162

1 group was to discuss with these customers the things
2 that were on their minds and of concern to them.

3 Q. Do you know that the customers that
4 participated in the focus groups at least on this issue
5 were provided the rate notifications prepared by Puget
6 and asked for their reactions?

7 A. I don't know the answer to that specifically
8 other than that all of our customers through our bill
9 stuffers are provided with rate notifications as we are
10 required to provide them.

11 Q. Also the summary of the January 1993 focus
12 groups, we see five pages dedicated to Issue-Oriented
13 Advertising. They begin about the seventh page into
14 the document.

15 A. Yes, I have that.

16 Q. These three pages list issues that the
17 participants of the focus group identified they want to
18 know something more about which you have alluded to
19 here today.

20 Is it the Company's position that all of
21 these issues are conservation-related and within the
22 scope of the conservation advertising campaign solely
23 by virtue of the fact that they are issues that

24 consumers have identified as issues about which they
25 want to know more?

WITNESS: GARY B. SWOFFORD - Cross by Brown 4163

1 A. I think it's the Company's position to take
2 a look at all of the focus groups, the opinions that
3 you receive from focus groups is what is on our
4 customers' minds that might indicate their willingness
5 to participate in our conservation programs or just
6 embrace conservation as we want them to do.

7 So, to the extent we need to make the
8 judgments based upon the input that we get from them
9 about the impacts that some of these may have, I
10 wouldn't state that every one of them is. But I would
11 state it's an evaluation that we do have to make about
12 the issues that are brought up as to what impact it
13 could have.

14 Q. What sort of criteria did you propose that
15 the Commission use to determine which of these issues
16 fall within the realm of the conservation advertising
17 campaign?

18 A. When we put this campaign together, one of
19 the things we recognized early on, we were trying to
20 ramp up conservation, was that we needed help from
21 experts.

22 So, one of the ways that we went about doing
23 that was to go out and find that kind of help and

24 assistance. And we got the counsel from them that we
25 needed to go out and talk to our customers, find out

WITNESS: GARY B. SWOFFORD - Cross by Brown 4164

1 what's on their minds, determine what impact that could
2 have on our programs, and to use their expertise in
3 order to design a program.

4 I think any time that we are in an area
5 where we have to rely -- where we're outside our
6 expertise, I think whether it's us or anybody else,
7 there are experts in these areas, which is what we went
8 out and did to find out what is the best way we could
9 ramp up conservation, which is what we were trying to
10 do from the levels we were at to significantly higher
11 levels.

12 JUDGE HAENLE: I think the question had to
13 do with what criteria would you have the Commission use
14 in evaluating whether these are related to conservation
15 or not?

16 THE WITNESS: My answer is it is more
17 subjective than that. There is not specific criteria.
18 That's why we used experts to gain the information we
19 needed.

20 JUDGE HAENLE: Is your proposal anything
21 these experts came up with is therefore related to
22 conservation?

23 THE WITNESS: No. We have people in our

24 company who we would sit down and discuss this with and
25 talk to them about it. My only comment is we don't

WITNESS: GARY B. SWOFFORD - Cross by Brown 4165

1 have specific criteria that we used in which to say
2 that we knew enough about this ahead of time that these
3 were the -- that the criteria should be used. We had
4 the objectives of what we were trying to accomplish
5 with our conservation programs.

6 JUDGE HAENLE: Go ahead, Ms. Brown.

7 MS. BROWN: Thank you.

8 JUDGE HAENLE: Incidentally, the
9 Commissioners have indicated they do not need to
10 question the last witness. He is free to go as far as
11 we're concerned. Thank you.

12 BY MS. BROWN:

13 Q. Can you conceive of circumstances where
14 information regarding storm losses or information
15 regarding the Company's allowed rate of return could
16 possibly be construed as connected somehow to the
17 conservation advertising campaign?

18 A. Well, I think we have to take a look at the
19 advertising campaign and see what we specifically do.

20 Again, at a focus group, our customers are
21 likely to talk about a lot of things that are on their
22 mind. Some of them may or may not relate to
23 conservation.

24 Q. In what accounts does the Company place the
25 costs associated with addressing electric service

WITNESS: GARY B. SWOFFORD - Cross by Brown 4166

1 issues that are of general interest to the public that
2 have not been identified in the conservation
3 advertising focus groups?

4 A. I don't know the specific account number. I
5 think Mr. Story could probably tell you the account
6 numbers which we charge specific items to.

7 Q. If one were to assume that the Company had
8 no conservation advertising campaign and its customers
9 were demanding to know more about why we need more
10 power lines or EMF related issues, to what account
11 would the Company allocate those costs associated with
12 responding to customers' questions?

13 A. And the assumption was that we had no
14 conservation program?

15 Q. That's correct.

16 A. And we chose --

17 Q. Excuse me. Conservation advertising, which
18 as you know is a facet of the overall program.

19 A. But the question you asked me was to assume
20 that we had no conservation program and then what would
21 we charge this kind of communications if we were just
22 deciding we wanted to make it?

23 If it's related to operations of the

24 Company, then it would go to an expense account.

25 Again, I'm not familiar with account numbers. So, I

WITNESS: GARY B. SWOFFORD - Cross by Brown 4167

1 can't specifically give you an account number.

2 Q. So, it would be charged to some expense
3 account? Is that what you said?

4 A. I would assume that those charges would be
5 expensed.

6 Q. Absent a conservation program, would that
7 also be true absent a conservation advertising
8 campaign?

9 A. Well, again, if we believe that they are
10 tied to our ability to be able to produce the kinds of
11 conservation results that we were trying to and are
12 trying to achieve and that it's impacting our ability
13 to do that and deliver conservation as a resource, then
14 I think it's appropriately -- it's a part of that
15 program. We did not choose to undertake it for other
16 reasons. We chose to undertake these because of our
17 conservation program and a desire to achieve high
18 results.

19 Q. But I believe my question was based upon the
20 assumption that the Company had no conservation
21 advertising campaign.

22 A. I guess I'm a little frustrated on how to
23 answer it. I guess the way to put that is if we felt

24 we could achieve the conservation objectives we were
25 trying to achieve without advertising and we didn't

WITNESS: GARY B. SWOFFORD - Cross by Brown 4168

1 have a campaign and we simply wanted to address this
2 issue? Would that be the right context?

3 Q. Can you answer that question?

4 A. If there are issues that the Company feels
5 are important to address that are of our customers'
6 interests and they are not tied to our conservation
7 program, those then are charged to the appropriate
8 expense account that those go to.

9 Again, I think Mr. Story could probably give
10 you the specific accounts.

11 Q. On Page 5 of the testimony, Lines 5 through
12 11, you state that "A useful measure is the number of
13 calls the Company received in response to our
14 advertising message."

15 Do you see that?

16 A. Yes, I do.

17 Q. In response to Staff Data Request 2546, you
18 provided a breakdown of the calls associated with that
19 800 or those 800 numbers dedicated to conservation
20 inquiries. Is that true?

21 A. Yes, it is.

22 JUDGE HAENLE: The next in line is 899.

23 (Marked Exhibit 899)

24 BY MS. BROWN:

25 Q. Mr. Swofford, do you recognize this

WITNESS: GARY B. SWOFFORD - Cross by Brown 4169

1 document?

2 A. Yes, I do.

3 Q. It was prepared by you or under your
4 direction and supervision?

5 A. Yes, it was.

6 MS. BROWN: I move the admission of Exhibit
7 899.

8 JUDGE HAENLE: Any objection to the entry of
9 Exhibit 899, Mr. Van Nostrand?

10 MR. VAN NOSTRAND: No.

11 JUDGE HAENLE: Mr. Adams?

12 MR. ADAMS: No objection.

13 JUDGE HAENLE: Mr. Furuta?

14 MR. FURUTA: No objection.

15 JUDGE HAENLE: 899 will be entered into the
16 record.

17 (Received Exhibit 899)

18 BY MS. BROWN:

19 Q. As shown on Attachment A to this response
20 and explained in the text of your answer, approximately
21 fifty percent of the calls that the Company has
22 received in the two years since the campaign began were
23 a result of the campaign, and the other fifty percent

24 were related to water heater efficiency programs. Is
25 that right?

WITNESS: GARY B. SWOFFORD - Cross by Brown 4170

1 A. Yes, that is correct.

2 Q. It's true, isn't it, that the Company has
3 spent more than \$5 million over the past two years on
4 an advertising campaign that has generated 75,791 calls
5 for an average advertising cost per call of \$65.97?
6 Would you accept that subject to check?

7 A. Well, I don't know the numbers at all. I
8 think it's important to note from this particular
9 exhibit that under the subtotal column that our calls
10 for our actual response from customers for our
11 conservation programs actually went from -- in the two
12 years prior to running this campaign -- from 19,000 to
13 75,000. That's about 250 percent for those specific
14 calls related to our programs and that the water heater
15 calls actually went down from 85,000 or 84,800 down to
16 75,000 during the same two-year period.

17 I think it's an indication that the
18 communications campaign did result in significantly
19 more calls for our conservation programs.

20 Q. Would you accept subject to check that
21 during the test year the cost per call was \$84.90?

22 A. Well, I guess I would accept that subject to
23 check. I guess I would add to that that the intent of

24 the campaign was certainly to generate calls because it
25 is what ultimately gets people to participate in our

WITNESS: GARY B. SWOFFORD - Cross by Brown 4171

1 programs. But it also gets people involved in the
2 conservation, in doing conservation on their own, to
3 change an attitude, which was another major objective
4 of the campaign.

5 Q. You mentioned briefly about the numbers of
6 calls. I would like to direct your attention to
7 Attachment A, halfway down the page where it begins
8 June 1991.

9 A. Yes.

10 Q. You would agree, would you not, that during
11 the month of June '91 through November '91 the average
12 number of calls received was 3500, subject to check?

13 A. On a per-month basis?

14 Q. Yes.

15 A. Yes, I would agree with that.

16 Q. Then for the time period beginning December
17 1991 and running through May of 1992, the average
18 number of calls dropped to 2900? Would you accept that
19 subject to check?

20 A. I would accept the numbers. I need to point
21 out the number of calls is directly related to when we
22 ran the advertising campaigns, and during the campaign
23 is when we actually received the calls.

24 So, there is a spill-over effect into other
25 times of the year which calls still continue to come

 WITNESS: GARY B. SWOFFORD - Cross by Brown 4172

1 in. But it's during the campaigns that I think we can
2 see from here is when the majority of calls come in.

3 Q. Would you also accept subject to check that
4 for the time period beginning June of 1992 and running
5 through November of '92 that figure dropped again to
6 2700?

7 A. Yes. Again, I would just point out that
8 during that period we weren't in the market at all.

9 Q. Do you know what percentage of these callers
10 actually go on to participate in Puget Power's
11 conservation program?

12 A. You can get some indication of that from the
13 last page of this, which gives you a summary of
14 specific actions that were taken on the part of our
15 customers, and those calls generated 110,000 various
16 kinds of information or specific products or materials
17 that were sent out.

18 I can't tell you if it resulted in a
19 commercial or a residential audit because that isn't
20 tracked as a part of this. We know that many of them
21 did, but it's not here.

22 But in addition to these numbers that you
23 see on here, there were the actual audits that were

24 performed both in the commercial and residential and
25 industrial areas.

WITNESS: GARY B. SWOFFORD - Cross by Brown 4173

1 Q. Do you have that figure for us?

2 A. No, I do not. As I mentioned to you, we do
3 not track that specifically. When it gets handed off
4 to our residential program or our commercial program,
5 it isn't recorded as such.

6 Q. Don't you think that that would be something
7 that you would be interested in knowing?

8 A. But we know it to the extent that we know
9 how many of them we do each year. But as a result of
10 this campaign we haven't tracked it specifically.

11 Q. Why is that?

12 A. It wasn't set up as part of the tracking
13 mechanism. We were tracking the specific products that
14 were part of the empowerment campaign and the THIRTY
15 WAYS booklet and those kinds of things.

16 But those that have been part of our ongoing
17 program, home energy audit, commercial audit, those
18 kinds of things, we didn't have the program to track
19 those.

20 Q. And are these callers asked what advertising
21 medium prompted their call, whether it would be TV,
22 bill insert, newspaper advertising, magazine?

23 A. They are more prompted to -- because when

24 they call in they ask about specific products or things
25 that they are interested in that are included in our

WITNESS: GARY B. SWOFFORD - Cross by Brown 4174

1 advertising package at that time. So, we track that.

2 So, for example, if we're promoting our
3 THIRTY WAYS booklet and we are getting a number of
4 calls for THIRTY WAYS, we actually track the number of
5 booklets that are sent out.

6 But we don't ask the question "Did you hear
7 about this on a particular TV or radio or newspaper."

8 Q. Don't you think that that would be something
9 that you would be interested in knowing?

10 A. Again, I would go back to the -- what we
11 were interested in knowing was is the campaign being
12 successful in getting our customers to contact us. And
13 when they contact us, we have the opportunity to then
14 engage them in all of our programs, which is what our
15 ultimate goal was to do.

16 To the extent that we were successful doing
17 that, that's what we were trying to do.

18 Q. There is a fair amount of controversy, is
19 there not, surrounding what exactly is the appropriate
20 advertising medium that the Company should be engaging
21 in to communicate with its consumers?

22 A. There certainly is now.

23 Q. On Page 5, Lines 15 through 16, you state:

24 "It is important to ensure that our conservation
25 program, taken as a whole, is cost-effective."

WITNESS: GARY B. SWOFFORD - Cross by Brown 4175

1 Do you recall that testimony?

2 A. Yes. I have it here. I do recall it.

3 Q. Wouldn't you agree that it is also equally
4 important or perhaps more important to ensure that the
5 parts of the whole are also cost effective
6 independently?

7 A. I don't know how we could judge that. I do
8 know that we can judge our conservation program as a
9 whole. And I do know that we can go out and get the
10 advice of experts on how to achieve certain goals using
11 in this particular case the kind of communications that
12 they suggested we needed to use.

13 And our ultimate objective is to both survey
14 -- is to get the program results and to survey our
15 customers to see if we're having any impact. Those
16 were the objectives.

17 When we started out, clearly one of them was
18 to deliver a cost-effective conservation program. And
19 I think the results clearly do that. About half of our
20 avoided costs.

21 So, we can have a difference on, you know,
22 how to do that. But I think the results clearly
23 demonstrate that we do have a cost effective

24 conservation program, and this was a very important
25 part of that happening.

WITNESS: GARY B. SWOFFORD - Cross by Brown 4176

1 Q. Isn't it true that the heat pump program
2 would be a good example of a program that was
3 discontinued because it was not cost effective as a
4 stand-alone measure?

5 A. It was not cost effective under the new test
6 that the Commission adopted, the total resource cost
7 test. Under the old test, which was the utility cost
8 test, it was a cost-effective measure.

9 Q. But it is also an example of a
10 discontinuance of a part, if you will, of a larger
11 program, is it not?

12 A. Well, it was. But we also changed the rules
13 under which we were going to evaluate measures. We
14 also discontinued some other measures that under the
15 new test don't qualify under this, but were cost
16 effective under the old program.

17 Any time we make modifications and changes,
18 it's going to have an impact. In this particular case,
19 it had the impact of doing away with some specific
20 measures.

21 Q. You mentioned avoided costs. Would you
22 agree that even if the Company was below avoided costs,
23 the Company should be able to demonstrate why it was

24 not further below avoided costs?

25 A. I think the Company clearly always has to

WITNESS: GARY B. SWOFFORD - Cross by Brown 4177

1 demonstrate that it's operating its programs or
2 anything else it's doing in a prudent manner. I would
3 certainly agree with that.

4 Q. That includes operating below avoided costs?

5 A. That includes operating below avoided costs.

6 Q. I would like to switch gears now to the
7 customer outreach program. I would like to direct your
8 attention to Page 8 of your rebuttal testimony.

9 Are you there?

10 A. Yes, I am.

11 Q. On Line 16 of that page you state: "The
12 cost of developing such a tracking program and
13 inputting information in many cases would far outweigh
14 the relatively minor costs the Company incurs on behalf
15 of its customers for these programs."

16 Is that a correct quote?

17 A. Yes, it is.

18 Q. In Staff Data Request No. 2547, you were
19 asked to provide the quantitative evidence to support
20 your claim that these, indeed, are relatively minor
21 costs, and you responded that it was merely based upon
22 your "knowledge of the management of these programs."

23 So, it's true, isn't it, that from that we

24 can infer that there is no quantitative evidence to
25 support your statement?

WITNESS: GARY B. SWOFFORD - Cross by Brown 4178

1 A. You can certainly infer that because that's
2 pretty much what I said. But what I was, you know,
3 trying to also suggest is that, in being a part of
4 those programs and understanding what they are and how
5 they operate, that the relatively minor cost, as I
6 referred to them in here, to operate those programs, it
7 is my belief that to set up a tracking system to input
8 that system and track it, there would be more costs
9 incurred in that than any value we could possibly
10 receive in tracking those particular programs.

11 Q. But you have no numbers to back up that
12 assertion; is that right?

13 A. I have no numbers to back up that. I have
14 25 years of experience in the utility industry.

15 Q. In response to Staff Data Requests 2549 and
16 2462, you provided the call log for the language bank
17 program for the years 1992 and '93.

18 Do you recall that?

19 A. I recall it for '93, the first five months.
20 That is the only thing I recall.

21 Q. Do you have your response to the Data
22 Request 2462 with you?

23 A. Was that in the direct case?

24 Q. Rebuttal. Excuse me. Direct.

25 A. I don't have the direct. I have the

WITNESS: GARY B. SWOFFORD - Cross by Brown 4179

1 rebuttal data request and the response to that, which
2 was Staff 2549, which shows the volume for the first
3 five months of 1993.

4 MR. VAN NOSTRAND: I have 2462. Would you
5 like me to provide it?

6 MS. BROWN: Please.

7 BY MS. BROWN:

8 Q. By May of 1993, this language bank program
9 had yielded 171 more calls for approximately 1,000 more
10 minutes than what was handled in all of 1992.

11 Will you accept that subject to check?

12 A. Yes, I can see that by comparing the two.

13 Q. In response to Data Request 2548, you
14 provided the 1993 Speakers' Bureau presentation log
15 that indicates who the employee is, the date of the
16 presentation, the topic, the group to which the
17 presentation was made.

18 Do you recall that?

19 A. Yes, I do.

20 Q. So, the Company has developed a system to
21 track the activities in these two programs, but not the
22 costs; is that right?

23 A. Let me see if I can draw the distinction

24 between the two. Yes. Let me answer your question
25 first. Yes, that is true.

WITNESS: GARY B. SWOFFORD - Cross by Brown 4180

1 In the first instance of the language bank,
2 the increase, as you point out, in 1993 is correct.
3 But if you compare how much time is actually being
4 spent by any employee to participate in this language
5 bank when foreign speaking customers call, it's less
6 than half a percent of their time on average. And it's
7 true that one employee in the Company spends three
8 percent of their time.

9 But on average this is just not a
10 significant part of their activities within the
11 Company.

12 On the Speakers' Bureau, the majority of the
13 time that we are out speaking -- by that it's somewhere
14 -- when I asked the question -- in the neighborhood of
15 75 percent of those presentations are made to groups
16 that meet either before work hours, at lunch, or after
17 work. And many, if not, again, the majority of those
18 presentations are made outside normal work hours.

19 Q. Back in August of 1992, Towers Perrin
20 identified the customer outreach programs as an area of
21 concern stating: "The strategic value-added
22 contribution made by the existing compliment of
23 customer outreach programs and the extent to which they

24 are periodically reshaped to reflect changing community
25 presence need and further the extent to which scarce

WITNESS: GARY B. SWOFFORD - Cross by Brown 4181

1 resources expended on maintaining vital customer
2 contacts have been systematically evaluated,
3 prioritized, and rationed across all company service
4 providers."

5 Do you recall those concerns?

6 A. Yes, I do. But I think as Mr. Patterson
7 pointed out in his testimony, as they spent more time
8 with us, they began to get a better feel for the value
9 that the Company receives from those kinds of contacts
10 as we go about our business and our duty of providing
11 services to customers from building lines to
12 substations to responding to storms. I think they
13 begin to get an appreciation as they indicated of the
14 value that we receive and the importance of that value
15 to provide service.

16 Q. On Page 12 of your rebuttal testimony,
17 beginning with Line 5, you state that "Staff witness
18 Schooley claims that the Company is charging all
19 weather-related expenses to the storm damage reserve."

20 Do you see that?

21 A. Yes. I go on to point out that as Mr. Story
22 describes in his rebuttal testimony that Staff member
23 Schooley makes that assertion.

24 Q. Have you finished?

25 A. Yes.

WITNESS: GARY B. SWOFFORD - Cross by Brown 4182

1 Q. Are you aware that in the transcript
2 testimony at Page 2573 Mr. Schooley states that minor
3 occurrences are expensed?

4 A. I'm not aware of that. I did take a look at
5 Mr. Schooley's testimony in a couple of places where
6 both the -- on cross-examination and his testimony
7 there is the, at least, the inference that all -- that
8 the Company does charge all storm damage -- all
9 storm-related costs to the reserve account.

10 JUDGE HAENLE: You have handed me a two-page
11 document, Staff Data Request 2579. This will be marked
12 as Exhibit 900 for identification.

13 (Marked Exhibit 900)

14 BY MS. BROWN:

15 Q. Mr. Swofford, can you identify this, please?

16 A. This is my response to Staff Data Request
17 2579.

18 MS. BROWN: Your Honor, I would move the
19 admission of Exhibit 900, please.

20 JUDGE HAENLE: Any objection, Mr. Van
21 Nostrand?

22 MR. VAN NOSTRAND: No. But I would like to
23 note for the record that the marks on the second page

24 are not the Company's.

25 JUDGE HAENLE: There is a little bit of

WITNESS: GARY B. SWOFFORD - Cross by Brown 4183

1 blur. I don't show any numbers or anything.

2 MS. BROWN: It's completely illegible on
3 mine.

4 JUDGE HAENLE: Okay. With the understanding
5 there is nothing to be read on mine, either, Mr. Adams,
6 any objection to the entry?

7 MR. ADAMS: No.

8 JUDGE HAENLE: Mr. Furuta.

9 MR. FURUTA: No, your Honor.

10 JUDGE HAENLE: 900 will be entered into the
11 record.

12 (Received Exhibit 900)

13 BY MS. BROWN:

14 Q. Will you please turn to Attachment A.
15 Attachment A lists the amounts expensed for minor
16 occurrences; is that correct?

17 A. That's correct; for things that are not
18 charged to the reserve account, these are the summary
19 by month of those costs that don't go into the reserve.

20 Q. These occurrences you state in your rebuttal
21 testimony are for isolated weather-related damage?

22 A. Yes, it is.

23 Q. And the storm damage reserve account is used

24 when "our system is damaged in multiple locations" as
25 you state on Page 12 of your testimony? Is that true?

WITNESS: GARY B. SWOFFORD - Cross by Brown 4184

1 A. Yes, it is.

2 Q. Does your use of the phrase "multiple
3 locations" mean if the outage affects more than one
4 customer?

5 A. Typically that would be true. That's true.
6 But it could all be the same circuit. But at several
7 places on a circuit, there could be several places
8 where there is damage that has been incurred. But
9 there would be multiple customers in those
10 circumstances.

11 But also we could have minor damage when
12 there is more than one customer affected. If it's a
13 tree through a line in one location that takes out an
14 entire circuit, we could have a lot of customers out,
15 but it could be a single location, in which case the
16 repair costs would be charged to the -- would not be
17 charged to the storm reserve account.

18 JUDGE HAENLE: You have handed me a one-page
19 document entitled Response to Staff Data Request 2578.
20 I'll mark this as 901 for identification.

21 (Marked Exhibit 901)

22 BY MS. BROWN:

23 Q. Mr. Swofford, can you identify this?

24 A. This is Company's Response to Staff Data
25 Request 2578.

 WITNESS: GARY B. SWOFFORD - Cross by Brown 4185

1 Q. And the response was prepared by you or
2 under your supervision?

3 A. Yes, it was.

4 MS. BROWN: Your Honor, I move the admission
5 of Exhibit 901, please.

6 JUDGE HAENLE: Any objection, Mr. Van
7 Nostrand?.

8 MR. VAN NOSTRAND: No, your Honor.

9 JUDGE HAENLE: Mr. Adams?

10 MR. ADAMS: No.

11 JUDGE HAENLE: Mr. Furuta?

12 MR. FURUTA: No.

13 JUDGE HAENLE: Exhibit 901 will be entered
14 into the record.

15 (Received Exhibit 901)

16 BY MS. BROWN:

17 Q. This particular data request repeats earlier
18 data request for the Company to provide evidence that
19 accrual to the storm damage reserve was caused by
20 specific weather events.

21 This particular response refers to an
22 earlier Request 1087-F, which has now been admitted
23 into the record as 647. Exhibit 901 indicates that the

24 Company maintains no record of the weather events which
25 caused damage to its system; is that right?

WITNESS: GARY B. SWOFFORD - Cross by Brown 4186

1 A. Well, it specifically states that we don't
2 maintain published or unpublished government
3 meteorological evidence, which is what the specific
4 evidence asked for. We don't maintain that.

5 Q. Your response also indicates that the
6 Company does not maintain records describing specific
7 weather events. Do you see that?

8 A. Yes, you're correct.

9 Q. Do you have Exhibit 647 available to you?

10 A. I believe I do. Again, did you say that was
11 Staff Informal Data Request 1087-F?

12 Q. That's correct.

13 A. I do have that. Yes, I do.

14 Q. Would you please turn to the third page,
15 Section H. There you see a list of work orders for
16 what the Company calls major storms.

17 A. Could you give me the section designation
18 again, please?

19 Q. H.

20 A. H? (Reading.) Yes, I have that.

21 Q. I would like to direct your attention to the
22 last three items, those occurring in 1992.

23 A. The last three, did you say?

24 Q. Yes.

25 A. Would that be starting with Work Order

WITNESS: GARY B. SWOFFORD - Cross by Brown 4187

1 9110572? Am I in the right spot?

2 Q. 9200429.

3 A. I'm not in the right spot.

4 Q. 1992.

5 A. 1992. Okay. (Reading.) I think I'm there.

6 Q. Okay. So, you have turned to the sheet of
7 paper at the top of which is January 31, 1992?

8 A. It's a little hard to read, but I believe
9 that's 1/31/92 and 920004, and then the paper hole
10 punch got the last two numbers.

11 MS. BROWN: Your Honor, may I approach the
12 witness?

13 JUDGE HAENLE: Yes.

14 THE WITNESS: I'm sorry.

15 MS. BROWN: That's fine. Right here.

16 THE WITNESS: I'm way off base. (Reading.)

17 MS. BROWN: Great.

18 BY MS. BROWN:

19 Q. Will you take a moment, please, to look at
20 these particular reports dated 1/31/92, 4/16/92, and
21 4/24/92.

22 A. (Reading.)

23 Q. Were the weather events which caused these

24 particular outages unusual or extraordinary?

25 A. I would have to assume -- and it's hard for

WITNESS: GARY B. SWOFFORD - Cross by Brown 4188

1 me to tell from here -- that they probably were. They
2 were by the fact that we -- these reports come out of
3 our emergency operations center, and they typically
4 are generated when we assign a work order number to an
5 event. So, I guess I would have to assume that they
6 probably were, you know, more than just minor.

7 You can also get some sense of the severity
8 of the storm by looking at the total customers
9 involved. And in the first event it was almost 12,000.
10 The second one was 6,000. And the third event 8,500.

11 So, -- and then there are other customer
12 numbers involved depending upon the problems that we
13 were having at the time.

14 Q. Thank you.

15 JUDGE HAENLE: This is a multi-page
16 document. The caption at the top is Storm Data and
17 Unusual Weather Phenomena. I will mark this as 902 for
18 identification.

19 (Marked Exhibit 902)

20 BY MS. BROWN:

21 Q. Mr. Swofford, I have just handed to you
22 reports prepared monthly by the National Oceanic and
23 Atmospheric Administration of the Federal Government,

24 commonly known as NOAA.

25 The books published by NOAA contain listings

WITNESS: GARY B. SWOFFORD - Cross by Brown 4189

1 of all of the storms and other unusual weather events
2 that occur in a given month throughout the United
3 States. Are you familiar with these publications?

4 A. I'm not personally familiar with them.

5 Q. Excerpted here are the portions referring to
6 Washington for the months of January through May of
7 1992. Please review the first two pages. Those
8 contain the weather events for January 1992. February
9 1992 should follow January 1992.

10 A. (Reading.) Yes, I read them.

11 Q. Would you agree that the January 31 storm
12 which was referred to in Exhibit 647, which you just
13 looked at, is one of several days with high winds in
14 this particular month?

15 A. I'm trying to get a date. Oh, date. Okay.
16 (Reading.)

17 Q. Do you see it?

18 A. Yes, it would suggest that there were
19 several days of high winds.

20 Q. A review of these reports for the first five
21 months of the year 1992 show days of high winds in each
22 month excepting March. Would you accept that subject
23 to check?

24 A. Yes, I would accept that subject to check.

25 Q. The last report is for November 1991. Could

WITNESS: GARY B. SWOFFORD - Cross by Brown 4190

1 you please turn to that, the very last sheet marked
2 Page 48 at the bottom.

3 A. (Reading.)

4 Q. I misspoke. Could you turn to Page 47,
5 please. The storm defined as extraordinary by Mr.
6 Schooley is the third item for Washington on the 16th
7 and 17th of that month.

8 Do you see these dates?

9 A. Yes, I do.

10 Q. Halfway through the text it reads: "400,000
11 customers were without power." And it states "The last
12 storm to cause such a large amount of power outages was
13 the Thanksgiving storm of 1983."

14 Do you see that?

15 A. Yes, I do.

16 MS. BROWN: Your Honor, I move the admission
17 of Exhibit 902, please.

18 JUDGE HAENLE: Any objection, Mr. Van
19 Nostrand?

20 MR. VAN NOSTRAND: Yes, your Honor. I don't
21 see how it's relevant. There has been no
22 recommendation that we would define accruals of storm
23 damage according to what NOAA determines to be unusual

24 weather phenomena.

25 MS. BROWN: There has been significant

WITNESS: GARY B. SWOFFORD - Cross by Brown 4191

1 testimony, your Honor, regarding storm damage and
2 specifically the definition or appropriate definition
3 of weather event and what is normal weather in this
4 region.

5 Furthermore, these NOAA publications are
6 official government documents, public records, are self
7 authenticating. I would ask that they be admitted.

8 JUDGE HAENLE: Any brief response, Mr. Van
9 Nostrand?

10 MR. VAN NOSTRAND: If they are official
11 government publications, they don't need to be part of
12 the record, your Honor. This witness is not familiar
13 with this document.

14 I'm not quite sure what the purpose is for
15 which it's being offered. We have established that
16 there are a number of high wind occurrences reported
17 here which coincide with the couple of dates in
18 response to Staff Data Request 1087-F. We have
19 established that some storm here on Page 47
20 corresponded with Mr. Schooley's definition of an
21 extraordinary event. I don't understand the relevance
22 of this document.

23 JUDGE HAENLE: Ms. Brown, the objection is

24 relevance. Do you have any brief response?

25 MS. BROWN: I think it's extremely relevant

WITNESS: GARY B. SWOFFORD - Cross by Brown 4192

1 to show the regulator of weather events in this region.
2 There was substantial testimony, both written and oral,
3 on this particular issue. I think it's highly
4 relevant. And I think that the Company's claim that
5 the witness is not familiar with NOAA publications
6 pertaining to weather events should be rejected.

7 JUDGE HAENLE: Any objection to the entry of
8 the document, Mr. Adams?

9 MR. ADAMS: I have nothing.

10 JUDGE HAENLE: Mr. Furuta?

11 MR. FURUTA: No, your Honor.

12 JUDGE HAENLE: I'm going to overrule the
13 objection and enter the document into the record.
14 There has been substantial testimony about various
15 parties' suggestions as to how these events should be
16 defined. And I think having a report from NOAA that
17 describes the events that happened during the test year
18 is relevant and useful to the record.

19 (Received Exhibit 902)

20 BY MS. BROWN:

21 Q. Could you turn now to Page 12, Line 23, of
22 your testimony.

23 A. Could you please repeat the cite?

24 Q. Sure. Page 12, Line 23.

25 A. Yes, I'm there.

WITNESS: GARY B. SWOFFORD - Cross by Brown 4193

1 Q. Thank you. You disagreed with Staff's
2 \$21,500 adjustment associated with a consultant hired
3 by the Company to help the fourth quarter development
4 group. Isn't that true?

5 A. Yes.

6 Q. Staff Request 2678 asked other areas where
7 significant growth occurred similar to the growth that
8 occurred in Whatcom and Skagit Counties and whether or
9 not consultants were hired.

10 Do you recall that request?

11 A. Yes, I do.

12 Q. In your response you stated that Kitsap and
13 Pierce County have experienced similar significant
14 commercial growth over the past five years. Is that
15 true?

16 A. The two counties again? I don't have it
17 right in front of me.

18 Q. Kitsap and Pierce.

19 A. Yes, I believe that's correct.

20 Q. Is it also true that in your response you
21 stated that the Company did not employ any outside
22 consultants to provide any consulting services to the
23 economic development groups in these areas during the

24 past five years?

25 A. That is true. But I did go on to state that

WITNESS: GARY B. SWOFFORD - Cross by Brown 4194

1 in Kitsap we did assign an employee of the Company to
2 the Kitsap Economic Development Association to assist
3 them during that period of time.

4 I also went on to point out several examples
5 in years past when under periods of high growth we had
6 not only assigned a consultant, but we had at other
7 times assigned employees on a full-time basis to assist
8 under those circumstances.

9 Q. Including in Puget's filing last Friday that
10 has been identified as Exhibit 887 today, could you
11 explain why vegetation management has now been renamed
12 T and D system maintenance?

13 A. It hasn't. But let me explain what has
14 happened.

15 We took a look at the entire preventive
16 maintenance program in the Company and, while the
17 vegetation management we knew was coming down because
18 when we put this program in place five years ago it was
19 anticipated after the first cycle that we would be
20 seeing a reduction in the amount of dollars we would
21 have to expend to continue that program in the future,
22 our preventive maintenance program has several other
23 components, several of which were going up and some of

24 which were also coming down.

25 It was important as we worked through this

WITNESS: GARY B. SWOFFORD - Cross by Brown 4195

1 period while we were looking at all of our programs,
2 including our preventive maintenance programs, that we
3 ensure that we were having the, you know, proper
4 dollars, if you will, to be able to provide maintenance
5 to us.

6 And while there was a significant reduction
7 in our vegetation management program, there were
8 increases in others and decreases in others. And the
9 net effect of all of those things are what are reported
10 as you indicated on there as our T and D maintenance
11 program. That includes vegetation management, but also
12 includes construction, T and D maintenance, underground
13 maintenance, distribution overload, all of our
14 distribution programs.

15 Q. What amount of the \$7,138,434 is vegetation
16 management?

17 A. I don't know that I know the specific answer
18 off the top of my head. I know that the total for the
19 T and D maintenance is \$5.3 million, I believe. But
20 the specific amount that the vegetation management
21 changed, I just don't have that off the top of my head.

22 Q. The total is actually \$7 million. Isn't
23 that right?

24 A. Before? Maybe I could clear it up.

25 It is around \$7 million. I'm just not

WITNESS: GARY B. SWOFFORD - Cross by Brown 4196

1 specifically -- I think it's more like \$7.5 if we
2 include both the danger tree patrol in addition to the
3 vegetation management I believe was about \$7.5 million.

4 JUDGE HAENLE: Can you estimate how much
5 more you have, Ms. Brown?

6 MS. BROWN: Ten minutes.

7 BY MS. BROWN:

8 Q. Mr. Swofford, do you have Page 2.29 of the
9 adjustment available to you?

10 A. No, I don't.

11 Let me correct that. I don't have it here
12 with me. It may be available to me. I see somebody
13 looking for it.

14 Q. Well, I'll tell you why I'm having trouble
15 here. I'm looking at the Company's response to Staff
16 Data Request 1085, and the response prepared by Mr.
17 Story. However, you are referenced in it as being the
18 witness to seek information regarding the reduction in
19 T and D system maintenance cost. That's why I'm asking
20 you these questions. Should I be asking these
21 questions of someone else?

22 A. No. I am familiar with the changes to the T
23 and D maintenance budget. As you indicated before

24 there are some that went up and some went down. The
25 net effect is as reported on that I think \$5.3 million

WITNESS: GARY B. SWOFFORD - Cross by Brown 4197

1 reduction as I recall it.

2 Q. \$5.0 million reduction. Okay.

3 Now, the restated amount of T and D system
4 maintenance according to last Friday's filing is \$7.1
5 million. Would you accept that subject to check? Or
6 does that sound correct to you?

7 A. That is the amount that has been reduced?
8 Or that is the amount remaining in the T and D system
9 maintenance?

10 Q. Remaining.

11 A. That does not sound right to me. That
12 doesn't sound like it's enough for our entire T and D
13 budget. That may be the amount for vegetation
14 management. That sounds close to vegetation
15 management, \$7 million. That sounds about right.

16 But for our total preventive maintenance
17 budget, that's not the number.

18 MS. BROWN: Your Honor, it would expedite
19 things considerably if Mr. Van Nostrand would provide
20 Mr. Swofford with Page 2.29 of the adjustment. Would
21 that be possible?

22 MR. VAN NOSTRAND: Yes.

23 MS. BROWN: Thank you.

24 BY MS. BROWN:

25 Q. Now, Mr. Swofford, of that \$7.1 million

WITNESS: GARY B. SWOFFORD - Cross by Brown 4198

1 which we referred to several times here, what amount of
2 that is vegetation management?

3 A. (Reading.) Our vegetation management budget
4 for 1994, which is what I'm familiar with, or at least
5 a projection for '94, is around \$7 million. But there
6 is a substantial portion of our T and D system
7 maintenance budget that's not included in that number.
8 I'm confused, too, by the way.

9 Q. Would you accept subject to check that that
10 entire amount is vegetation management?

11 A. I would accept that that looks like about
12 the right number. I would also indicate that that does
13 not reflect the Company's needs for T and D
14 maintenance.

15 Q. But that particular amount was initially
16 shown as vegetation management, was it not?

17 A. Which one are you referring to?

18 Q. Do you see the column headed Actual there?

19 A. Yes, I do.

20 Q. Do you see a Line 8, T and D system
21 maintenance?

22 A. I'm looking right at it.

23 Q. \$12,187,300?

24 A. That's correct.

25 Q. That figure represents the Company's initial

WITNESS: GARY B. SWOFFORD - Cross by Brown 4199

1 filing for vegetation management, does it not? Will
2 you accept that subject to check?

3 A. I'll accept that subject to check. I just
4 don't recall. I believe the confusion maybe is the
5 designation on this as T and D system maintenance. If
6 that was, in fact, the original amount of vegetation
7 management, then that looks like the amount that would
8 be necessary for our vegetation management program
9 going forward.

10 My confusion is where it says T and D system
11 maintenance. I know that for TAD system maintenance,
12 the \$7 million reflected on here is not adequate to
13 cover the TAD system maintenance that's necessary for
14 the Company.

15 Q. I think we're equally confused.

16 Is this figure, the \$7.1 million, based on
17 1993 and 1994 budget estimates? It is, isn't it?

18 A. Yes, that would be correct.

19 JUDGE HAENLE: Is there a way you can clear
20 up any confusion over the evening and look at it
21 tonight and figure out tomorrow what your numbers are?

22 THE WITNESS: I'm sure we can.

23 JUDGE HAENLE: Do you want to try that? I

24 would like the record to reflect proper numbers. If
25 you can't agree, Mr. Swofford, I'm concerned that the

WITNESS: GARY B. SWOFFORD - Cross by Brown 4200

1 record might reflect something that's incorrect.

2 BY MS. BROWN:

3 Q. This particular adjustment is the precise
4 adjustment that was recommended by Staff witness
5 Schooley in this document, is it not?

6 A. I don't recall exactly, but we did reflect
7 our vegetation management budget that we are going
8 forward with as the one that we had provided, you know,
9 sometime in the past, which is I believe the basis for
10 Mr. Schooley's recommendation.

11 MS. BROWN: Your Honor, I have five
12 additional questions to ask Mr. Swofford. However, I
13 think that we should probably get correct numbers
14 before I proceed with those questions.

15 JUDGE HAENLE: Shall we take the remainder
16 of the cross-examination and try to finish up and bring
17 him back -- will he be here tomorrow, Mr. Van Nostrand?

18 MR. VAN NOSTRAND: Yes.

19 JUDGE HAENLE: Perhaps we can bring him back
20 and clean those up tomorrow.

21 Mr. Furuta?

22 MR. FURUTA: No.

23 JUDGE HAENLE: Mr. Adams?

24 MR. ADAMS: Do you want to go to completion
25 because we estimated we would go beyond the 5:00 break.

WITNESS: GARY B. SWOFFORD - Cross by Brown 4201

1 Do you want me to try to break around 5:00? Whatever
2 your pleasure is.

3 COMMISSIONER CASAD: How much do you have?

4 MR. ADAMS: I estimated around 45 minutes.

5 COMMISSIONER CASAD: Break around 5:00.

6

7 C R O S S - E X A M I N A T I O N

8 BY MR. ADAMS:

9 Q. Mr. Swofford, I want to start off with
10 several questions relating generally to the
11 conservation tracking reports prepared by Ms. O'Neill.
12 You're looking at me blankly.

13 A. You can ask questions of me. I was just
14 wondering whether or not they might be better asked of
15 Ms. O'Neill.

16 JUDGE HAENLE: The problem we run into is
17 with you as the first witness, if he asks, we may have
18 to bring you back then on things she establishes. I
19 assume he would rather try the question the first time?

20 THE WITNESS: Ask me.

21 BY MR. ADAMS:

22 Q. The questions are general, they do not
23 require specific detail.

24 A. That's fine.

25 Q. You may recall in your supplemental direct

WITNESS: GARY B. SWOFFORD - Cross by Adams 4202

1 testimony, which is Exhibit T-538, you address the
2 issue of whether the Company's advertising campaign had
3 been effective.

4 Do you generally recall that?

5 A. Yes, generally.

6 Q. And you made reference in your testimony to
7 two tracking studies which had been conducted at that
8 time which measured customer response to the Company's
9 advertising campaign. I believe they are both in the
10 record now.

11 Do you recall that? Again, generally?

12 A. Yes, generally.

13 Q. And during your cross-examination on that
14 part of your testimony, you had indicated a third
15 tracking study based on more recent data was being
16 prepared and would be provided as soon as it was
17 available.

18 A. I do recall that.

19 Q. Would you agree that the tracking study that
20 you were referring to has now been prepared and is
21 dated April 1993?

22 A. Yes, I would agree to that.

23 Q. And am I correct that that report was based

24 on the result of a survey of customers in December of
25 1992?

WITNESS: GARY B. SWOFFORD - Cross by Adams 4203

1 A. Yes.

2 Q. Would you agree or accept subject to check
3 that that document was provided to public counsel --
4 and I guess I presume to other parties -- by a letter
5 dated July 6, 1993?

6 A. I would agree subject to check. I'm not
7 familiar with when exactly it was provided.

8 Q. Now, am I correct that these tracking
9 reports are not prepared by Puget?

10 A. That's correct, they are not.

11 Q. Is it correct that they are prepared by
12 O'Neill and Company?

13 A. Yes, that's correct.

14 Q. Would you agree that the third tracking
15 report shows a reduction or a change, negative change,
16 in the response of customers to your advertising?

17 A. I don't think I would agree that it shows a
18 negative response to our advertising if by your
19 question you mean that they somehow don't like the
20 advertising.

21 I would agree that there is an indication
22 that there isn't as much recall to the advertising as
23 we had seen in the past. But I don't recall seeing

24 anything in that report that suggested that for some
25 reason our customers didn't like the advertising.

WITNESS: GARY B. SWOFFORD - Cross by Adams 4204

1 Q. I didn't mean the word negative to be as to
2 the contents, but simply as an awareness of the
3 Company's advertising.

4 A. Yes. As I recall there was some reduction
5 in the awareness.

6 Q. Let me just read you from two sentences of
7 the summary of that report: "There has been a
8 noticeable decline in residential customer awareness of
9 Puget Power's conservation campaign since May 1992.
10 Twelve months after the campaign began, the advertising
11 awareness level has decreased from 65 percent to 58
12 percent."

13 That's on Page 2 of that report.

14 A. I recall reading that and I think Ms.
15 O'Neill or the report goes on to give some explanation
16 as to why that could be occurring.

17 Q. Is it also true that the report indicates
18 that the number of customers who rate Puget as very
19 serious about conservation has gone down?

20 A. Yes, I believe there was also some change in
21 that number, also.

22 Q. I believe the report itself will be put in
23 through Ms. O'Neill tomorrow. I'm not going to do that

24 right now.

25 Let me move onto some general discussion of

WITNESS: GARY B. SWOFFORD - Cross by Adams 4205

1 conservation advertisement.

2 MR. ADAMS: Your Honor, could I have two
3 single paged documents marked as the next two exhibits
4 in line?

5 JUDGE HAENLE: Sure. You handed me a
6 one-page document, Response to Public Counsel Document
7 3592. I'll mark this as Exhibit 903 for
8 identification.

9 (Marked Exhibit 903)

10 JUDGE HAENLE: And a one-page document. In
11 the upper right-hand corner it says Chapter 7 Resource
12 Strategy in 1992 through 1993 Action Plan. I'll mark
13 this as 904 for identification.

14 (Marked Exhibit 904)

15 BY MR. ADAMS:

16 Q. Mr. Swofford, do you recognize first of all
17 what has been identified as Exhibit 903 as the
18 Company's response to Public Counsel Request 3592?

19 A. Yes, I do.

20 Q. And, further, do you recognize or would you
21 accept subject to check that what has been identified
22 as 904 is the page which you have cited in your
23 response to Exhibit 903?

24 A. I recognize it as such.

25 MR. ADAMS: Your Honor, I would move the

WITNESS: GARY B. SWOFFORD - Cross by Adams 4206

1 admission of Exhibits 903 and 904.

2 JUDGE HAENLE: Mr. Van Nostrand?

3 MR. VAN NOSTRAND: No objection.

4 JUDGE HAENLE: Any objection, Ms. Brown?

5 MS. BROWN: No.

6 JUDGE HAENLE: Mr. Furuta?

7 MR. FURUTA: No, your Honor.

8 JUDGE HAENLE: 903 and 904 will be entered
9 into the record.

10 (Received Exhibits 903 and 904)

11 BY MR. ADAMS:

12 Q. Mr. Swofford, looking at Exhibit 903, there
13 you indicate that a discussion of the role of
14 advertising and the acquisition of conservation
15 resources is contained on Page 78 of the Company's IRP;
16 correct?

17 A. That's correct.

18 Q. I think you have already indicated 904 is
19 that page.

20 A. Yes, that's correct.

21 Q. Where on this page is the role of
22 advertising discussed?

23 A. I think you could define role in several

24 different ways. At the top of the page it indicates
25 that the Company should continue the conservation and

WITNESS: GARY B. SWOFFORD - Cross by Adams 4207

1 communications plan to increase customer awareness of
2 programs.

3 You know, I guess I could make the
4 distinction that that is, in fact, its role and its
5 programs to do that.

6 Q. Is the conservation communications plan the
7 Company's advertising that it relates to conservation?

8 A. Yes, it is. To answer the question, our
9 communications plan was designed to be that plan to
10 provide that function for our conservation programs.

11 Q. Does it include more than advertising?

12 A. As long as you and I define advertising the
13 same. It is a complete communication plan that
14 includes things that goes into our customers' bills and
15 the whole communications plan that was devised for this
16 program.

17 Q. Am I correct that this is the only reference
18 to advertising, that is, Page 78 is the only reference
19 to advertising for conservation in the IRP?

20 A. When we looked at the plan, this is what we
21 found in the plan that relates to this. So, I believe
22 that's correct.

23 Q. Now, if I could cite you to Page 5 of your

24 testimony. Starting basically at Line 2 through the
25 end of the sentence, "It should be noted that the

WITNESS: GARY B. SWOFFORD - Cross by Adams 4208

1 campaign achieved its short-term goal of increasing
2 participation in the Company's conservation programs."

3 A. Could you give me the line cite?

4 Q. Line 2, Page 5, through the beginning of
5 Line 5 on Page 5.

6 A. Yes, I see that.

7 Q. By "campaign" are you referring here to the
8 conservation communications plan or something else?

9 A. I'm referring to the communications plan
10 that was put together to do that.

11 Q. How do you define the term "participation"?
12 Is that number of customers?

13 A. Primarily that would be the number of
14 customers that are participating in all the different
15 programs that we are offering, yes.

16 Q. In other words, if one customer participates
17 in several different programs of the Company, is that
18 customer counted a multiple number of times?

19 A. I believe they would be, yes, that's
20 correct, Mr. Adams. But it would include things like
21 our THIRTY WAYS book which we felt was something
22 important to get in customers' hands; the lighting
23 programs, all the different programs that we used to

24 promote conservation.

25 THE COURT: This a good time to break, Mr.

WITNESS: GARY B. SWOFFORD - Cross by Adams 4209

1 Adams, if you're about to distribute a whole bunch of
2 documents.

3 MR. ADAMS: It probably is.

4 THE COURT: Why don't we break at this
5 point. We'll begin at 9:00 in the morning and will
6 continue then with Mr. Swofford.

7 (At 5:00 p.m. the above hearing was recessed
8 until Tuesday, July 20, 1993, at 9:00 a.m.)

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