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4211

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1 I N D E X

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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 25th day in the consolidated
5 Puget cases. We'll continue with direct and cross of
6 the Company rebuttal testimony. And this is July 20,
7 1993. This is part of the general case portion.

8 Appearances are the same as they were
9 yesterday morning with Mr. Trincherro and Mr. Furuta for
10 the intervenors.

11 In the way of preliminary matters, I asked
12 counsel to be sure and get familiar with Mr. Adams' two
13 motions, the one regarding transcript correction and
14 the one regarding subject to checks.

15 Because people said they weren't familiar
16 with them this morning, they won't do them this
17 portion. But your assignment is to get familiar with
18 them so we can do them tomorrow morning.

19 Also, we have the response to Commission
20 Bench Request No. 512, which I marked yesterday as 875
21 for identification. This is the one I mentioned in the
22 letter that I wrote that it was made of a public
23 witness at one of the public hearings. And I indicated
24 we would be dealing with its admissibility at the

25 hearing.

(COLLOQUY)

4215

1 Do you have any objection to the entry of
2 the document, Mr. Van Nostrand?

3 MR. VAN NOSTRAND: What document was that?

4 JUDGE HAENLE: Response to Bench Request
5 512.

6 MR. VAN NOSTRAND: No, your Honor.

7 JUDGE HAENLE: Ms. Brown?

8 MS. BROWN: Your Honor, I haven't had a
9 chance to look at did.

10 JUDGE HAENLE: Mr. Adams?

11 MR. ADAMS: I don't believe so. But I'm
12 iffy.

13 JUDGE HAENLE: We do need to get those taken
14 care of. Look at those and we'll look at those
15 tomorrow morning, also. We need to take care of those
16 procedural matters. We'll put that aside, as well.

17 Anything else of a procedural nature that we
18 need to do today?

19 Let's continue with Mr. Swofford.

20

21 GARY B. SWOFFORD,
22 witness herein, having been previously
23 duly sworn, was examined and testified
24 further as follows:

25

WITNESS: GARY B. SWOFFORD - Cross by Adams

4216

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

2 (continued)

3 BY MR. ADAMS:

4 Q. To pick up from where we were yesterday,
5 Page 5 of your testimony, approximately Line 3, where
6 you made a statement that "The campaign achieved its
7 short-term goal of increasing participation in the
8 Company's conservation programs."

9 Do you see that?

10 A. Yes.

11 Q. You identified in Exhibit 904 the single
12 passage in the Company's least-cost plan addressing
13 conservation advertising. Do you recall that?

14 A. I do recall that.

15 Q. That passage does not set out the short-term
16 and long-term goals of the Company's advertising
17 program; correct?

18 A. It sets out the goals of our conservation
19 programs, which is what the advertising program is
20 intended to support. So, what the integrated resource
21 plan indicates to us is what portion of that plan we
22 intend to be able to fulfill with the conservation
23 resources.

24 Q. Is there any document from the planning

25 stages of this campaign that established Puget's goals

WITNESS: GARY B. SWOFFORD - Cross by Adams 4217

1 for this campaign?

2 A. The goals for the campaign were --

3 JUDGE HAENLE: : First, perhaps you could
4 start with yes or no and then explain your answer. Are
5 there any documents?

6 THE WITNESS: There are several documents --

7 JUDGE HAENLE: : Go ahead.

8 THE WITNESS: -- that lay out the goals that
9 we were trying to achieve, which was to capture a
10 resource. The communications plan was a part of the
11 program that was to develop conservation as a resource.

12 When you say the goals of the communications
13 plan, the goals of the communications plan are directly
14 tied to the conservation program. What the ultimate
15 objective was was to deliver conservation as a
16 resource.

17 MR. ADAMS: Your Honor, I would like to have
18 two exhibits marked, two single pages.

19 JUDGE HAENLE: Okay.

20 MR. ADAMS: The first one is Response to
21 Public Counsel Data Request 3562. And the second one
22 is Response to Public Counsel Data Request 3582.

23 JUDGE HAENLE: The first will be 905 for
24 identification. And the second 906 for identification.

25

(Marked Exhibits 905 and 906)

WITNESS: GARY B. SWOFFORD - Cross by Adams

4218

1 BY MR. ADAMS:

2 Q. Mr. Swofford, do you have what has been
3 marked for identification as 905 and 906 before you?

4 A. Yes, I do.

5 Q. And just by way of background, are these
6 responses provided by Ms. O'Neill, but the request to
7 the Company asked for any similar information that the
8 Company had in its possession as well? Would you
9 accept that subject to check?

10 A. Yes, I would.

11 Q. And so this response is correct as far as
12 the Company is concerned as well as Miss O'Neill; is
13 that correct? I should say these responses.

14 A. Well, yes. The responses that Miss O'Neill
15 gave to these particular requests as she has described
16 them here or you could ask her specifically, but to my
17 knowledge they appear to be an accurate representation
18 of how we went about discussing and meeting to devise
19 the communication plan that would support our
20 conservation objectives.

21 Q. As to the reference asking for any notes,
22 transcripts, reports, summaries, minutes, agendas, and
23 so forth, since it was addressed to both the Company
24 and Miss O'Neill, I gather you would agree there were

25 no such documents?

WITNESS: GARY B. SWOFFORD - Cross by Adams 4219

1 A. Not that I'm aware of there weren't.

2 MR. ADAMS: Your Honor, I would move the
3 admission of Exhibits 905 and 906.

4 JUDGE HAENLE: Any objection, Mr. Van
5 Nostrand?

6 MR. VAN NOSTRAND: No.

7 JUDGE HAENLE: Ms. Brown?

8 MS. BROWN: No.

9 JUDGE HAENLE: Mr. Furuta?

10 MR. FURUTA: No.

11 JUDGE HAENLE: Mr. Trincherero?

12 MR. TRINCHERO: No.

13 JUDGE HAENLE: Exhibits 905 and 906 will be
14 entered into the record.

15 (Received Exhibits 905 and 906)

16 BY MR. ADAMS:

17 Q. Mr. Swofford, on the issue of conservation
18 advertising, I want to ask you a question about your
19 testimony Page 4, Line 20.

20 When you say the success of the campaign
21 cannot be measured through energy savings, my question
22 to you is: Did you try?

23 A. I think maybe we're getting caught up a
24 little bit here in how we talk about these things.

25 The campaign in and of itself was never

 WITNESS: GARY B. SWOFFORD - Cross by Adams 4220

1 intended to be the delivery of the energy savings, the
2 communications campaign. It was always our goal to
3 have the Company's conservation programs to be the way
4 that we were going to acquire conservation.

5 I think conservation as a resource is
6 something that maybe we're all getting a little bit
7 used to on how you use this as a resource. It's not
8 like any other resource. This is one our customers
9 have to participate in. Otherwise, we don't get this
10 resource.

11 We became concerned about two things: One
12 is to get initial support for our programs and then,
13 two, we wanted this resource to last just like any
14 other resource we developed.

15 So, we became very concerned about the
16 attitudes of our customers. Was it the kind of
17 attitude that when the lightbulb that needed to be
18 replaced was going to be replaced, would our customers
19 go purchase another compact florescent? Would they get
20 used to using low-flow shower heads? Would they
21 continue to do it?

22 So, those were the objectives of the
23 campaign and delivering this as a resource. I guess in
24 my mind part of the frustration we have with this

25 resource when we explore this is it's so different from

WITNESS: GARY B. SWOFFORD - Cross by Adams 4221

1 any other resource because it takes customer
2 involvement, participation, understanding, attitude, to
3 make sure this resource is developed.

4 The answer to your question is the delivery
5 of conservation kilowatt hours is part of our
6 integrated resource plan. If we don't do it, we have
7 to go get some other resource to fill it. That is our
8 objective, not the communications plan.

9 Q. Let me go back to the question: Did you
10 attempt to measure the specific energy savings from the
11 conservation advertising program?

12 A. I think -- well, if I didn't, I'm sorry.

13 JUDGE HAENLE: Yes or no?

14 THE WITNESS: No, we did not have that as an
15 objective to measure the energy savings as a part of
16 the communications plan.

17 BY MR. ADAMS:

18 Q. Is it correct that the people who
19 participated in the tracking surveys performed by Ms.
20 O'Neill's company were drawn from your database of
21 billing records?

22 A. Yes.

23 Q. Would it have been possible to match the
24 responses to the billing record data in your computers?

25 A. Try that again, Mr. Adams?

WITNESS: GARY B. SWOFFORD - Cross by Adams 4222

1 Q. Would it have been possible to match the
2 survey responses, the individuals who were responding
3 to the surveys, with their billing record data that you
4 have at the Company?

5 A. I assume that it would be.

6 Q. But you didn't do that; correct?

7 A. Not to my knowledge.

8 Q. Had you done so, would you agree that you
9 could have at least calculated whether customers who
10 say they saw your ads on TV and have reduced their
11 consumption would have actually done so?

12 A. Yes; had that have been our objective. It
13 simply wasn't our objective in conducting the research.
14 The research was attempting to determine from our
15 customers how they were feeling about our programs,
16 their attitudes.

17 Q. Turning to a little different area, but
18 still with conservation advertising: In Ms. O'Neill's
19 rebuttal testimony, she discusses her concern that if
20 the advertising program were to stop, customers would
21 relapse to their old non-conserving habits.

22 Do you recall that general testimony?

23 A. Yes, I do.

24 Q. Is that a concern that have been raised in

25 the Company's collaborative discussions?

WITNESS: GARY B. SWOFFORD - Cross by Adams 4223

1 A. I haven't participated directly myself, Mr.
2 Adams, in those collaborative discussions. So, I
3 really don't know if it was raised or not.

4 Q. Has the Company undertaken any studies to
5 estimate the loads that are at risk from potential
6 conservation relapse?

7 A. No. I think I indicated in a response to
8 one of your data requests that we have not undertaken
9 such a study.

10 Q. In your least-cost planning, do you include
11 future advertising costs for any of these conservation
12 measures that might be subject to relapse?

13 A. Not specifically, no. In our assessments of
14 the costs to what it will take to deliver conservation,
15 there is a component of that that would be -- include
16 our cost of communications plan, but not specifically
17 targeted to if customers were to relapse how much would
18 we have to include in there to account for that.

19 Q. What measures included in the residential
20 program are prone to relapse?

21 A. Well, off the top of my head I can think of
22 several: energy efficient appliance purchases;
23 lighting; water heat; shower; low-flow shower heads,
24 faucet in the bathroom and the kitchen areas; things of

25 that nature where customers typically if they didn't

WITNESS: GARY B. SWOFFORD - Cross by Adams 4224

1 like it could quickly go out and replace them if for
2 some reason they didn't like them.

3 Thermostats that control heat if people are
4 getting up and are used to a warm house and they put in
5 a thermostat that controls their heat to take advantage
6 of that. They can set it back at night and they get up
7 in the morning and they don't like that. Those are the
8 kinds of things that they could quickly change.

9 Q. You would agree, would you not, that the
10 strengthening of codes, however, makes some areas less
11 likely to relapse?

12 A. Absolutely. Things like insulation, glass,
13 built in permanently to a structure are the kinds of
14 things that once there we can pretty much rely on.

15 Q. I want to turn now briefly to some questions
16 concerning the conservation amortization period which
17 you discuss in your testimony.

18 A. Sure.

19 Q. It starts at Page 6 of your testimony.

20 Has the Company performed or had performed
21 any study or analysis that evaluates the appropriate
22 number of years over which to amortize conservation
23 expenditures?

24 A. No, we haven't. But, you know, when I read

25 your data request and our response to it, you go back

WITNESS: GARY B. SWOFFORD - Cross by Adams 4225

1 and look at what has been done across the country for
2 amortization.

3 The appropriate way this is dealt with is
4 if we take a look at what other utilities do. By and
5 large, a five to ten-year amortization period is
6 typically what most states use to amortize
7 conservation.

8 So, I think we can at least take a look to
9 that to get some measure of what others are doing in
10 this area as well as ourselves.

11 Q. I think you have stated and the Company has
12 stated that it is sort of a leader in the conservation
13 efforts nationally. Would you not agree with that?
14 You made the statements --

15 A. I would certainly agree with that.

16 Q. But you believe it's appropriate to compare
17 Puget with other companies in the area of conservation
18 on a national level?

19 A. While we have been a leader, we certainly
20 haven't been the only one. I would say over the last
21 ten years most states have included conservation in
22 their resources, and most states have chosen
23 amortization period all the way from expensing
24 immediately in the year in which conservation is

25 undertaken up to ten years, by and large.

WITNESS: GARY B. SWOFFORD - Cross by Adams 4226

1 Q. At Page 6, Line 18, you testify that a
2 twenty-year amortization period results in higher
3 conservation costs.

4 Do you see that testimony?

5 A. Yes, I do.

6 Q. Is that based on the total cost over twenty
7 years rather than the present value?

8 A. It's just based on the fact that we're going
9 to carry conservation an additional ten years beyond
10 what we do now. And overall, those costs to customers,
11 the total cost would be more.

12 Q. So, again, in answer to my question, it's
13 based on total costs not on present value?

14 A. That's correct, Mr. Adams.

15 Q. Is that how Puget evaluates life cycle costs
16 without discounting future amounts to reflect present
17 value?

18 A. There is a discount rate that is applied to
19 life cycle costs that I'm assuming includes the future
20 costs of capital as well as other resources.

21 Q. And the purpose of that is to bring it to
22 present value, is it not?

23 A. Yes, that would do that, have the effect of
24 doing that.

25 Q. On Page 7, Line 1, you testified that the

WITNESS: GARY B. SWOFFORD - Cross by Adams 4227

1 expected measure life of the Company's conservation
2 programs is expected to decrease.

3 Has the Company performed any forecasts or
4 projection of the average measure life of its
5 conservation programs in the future, such as over the
6 next five years?

7 A. No, we haven't performed a particular study.
8 Just that we have changed the mix already pretty
9 dramatically from residential to commercial/industrial.
10 That is continuing. We expect it to go further in that
11 direction. And the lives of commercial/industrial
12 measures have typically been shorter than residential,
13 which has been the focus of the program in the past.

14 Q. Why are the measure lives for commercial
15 conservation shorter than residential?

16 A. We're typically not dealing with the kinds
17 of things in the commercial/industrial -- they are
18 more related to lighting systems and the like as
19 opposed to insulation, glass, that get permanently
20 built into a structure that has been the focus of the
21 residential program. It's simply a focus of the types
22 of measures that are involved in the
23 commercial/industrial rather than residential.

24 Q. On one residential program, the shower head

25 aerater program that the Company has been involved in,

WITNESS: GARY B. SWOFFORD - Cross by Adams 4228

1 is it a fair statement to say I think that program
2 began on a large scale in 1991?

3 A. The shower head portion of that probably
4 began earlier than that, a little earlier than that.
5 The aerater certainly that's true.

6 Q. I think the major push of that program
7 started in '91 and has carried on through '92, has it
8 not?

9 A. I think that's a fair statement, Mr. Adams.

10 Q. Can you give us the number of participants
11 in that residential program over the years '90, '91,
12 and '92?

13 A. I can't give it to you off the top of my
14 head.

15 Q. What is the measure life of that program?
16 Would you agree it's twelve years?

17 A. I was going to say it's somewhere in that
18 neighborhood.

19 Q. And am I correct or would you agree that the
20 per-customer savings that's used to calculate the
21 amount of savings from that program is 132 kwh per
22 year?

23 A. I don't know that off the top of my head. I
24 could accept that subject to check.

25 I think when we're looking at any particular

WITNESS: GARY B. SWOFFORD - Cross by Adams 4229

1 measure such as that one, compared to the other
2 elements of our residential weatherization program, the
3 insulation and the glass, those are the long-life
4 measures that really drive the overall measure life of
5 that residential conservation program.

6 Q. I'm kind of getting back to your comments
7 about change in mix over time. That's an example of a
8 program, is it not, that is intended to basically more
9 or less saturate in about a three or four-year period?
10 That is, your residential shower head aerater program?

11 A. That's true. It's -- I was trying to put it
12 in contrast to the overall program of residential
13 contrasted to a commercial/industrial, which is
14 predominantly made up of measures with a shorter life
15 as compared to residential, which has measures with a
16 shorter life, but the majority of them have longer life
17 measures.

18 Q. But you agree with my comment that it is
19 intended as probably a three or four-year saturation
20 program and then it will more or less go away?

21 A. I don't know that I would agree with that,
22 Mr. Adams. I think we're going to have to track that
23 program as we do others and see if we can reach
24 saturation in three or four years. Then I think that's

25 certainly something that we would take into

WITNESS: GARY B. SWOFFORD - Cross by Adams 4230

1 consideration and probably discontinue. But I don't
2 know that we have reached that yet.

3 Q. Now, at Page 8, Line 1, you say that no
4 utility uses a twenty-year period to amortize
5 conservation.

6 By that statement, do you also mean that no
7 utility uses a period longer than twenty years or just
8 no utility uses a period of exactly twenty years?

9 A. The reference there to my knowledge that no
10 other utilities are currently using a twenty-year
11 amortization period was the twenty-year amortization
12 period which I believe was the recommendation. And
13 anything I have reviewed or anybody I have talked to,
14 there is no utility using that period, that long of a
15 period.

16 Q. Okay. Which then also indicates that to
17 your knowledge there is no utility that uses any longer
18 period to amortize it as well?

19 A. I don't know that for a fact because there
20 are a couple of states that use things like life of
21 measure, I think. Oregon in the report that was done
22 by NARUCC indicates in that report that they use life
23 of measure. And I think Vermont is the other one.

24 We have had conversations with both of the

25 Commission Staffs in both those states as well as the

WITNESS: GARY B. SWOFFORD - Cross by Adams 4231

1 utilities. And with the exception of Portland General,
2 which has a program whereby they use measure life.

3 But from the utility's perspective, they are
4 going to ask in their next proceeding that that be
5 changed because of the burden that it places on them on
6 a by-measure basis as opposed to a program basis to use
7 a measure life determination.

8 Q. Perhaps you could tell us: What is the
9 measure life of residential insulation?

10 A. I don't have that number off the top of my
11 head. It's over twenty years.

12 Q. When you testified that no utility uses a
13 twenty-year amortization period for conservation, did
14 you intend that statement to include Washington Water
15 Power Company?

16 A. I intended it to include all the utilities
17 that I have knowledge of as my statement says. To my
18 knowledge, no utilities. And, yes, that would include
19 Washington Water Power Company.

20 MR. ADAMS: Your Honor, I would like to have
21 two one-page exhibits marked.

22 JUDGE HAENLE: Why don't you go ahead and
23 distribute them. And then we'll give the numbers once
24 everyone has them.

25 MR. ADAMS: I should indicate on the record

WITNESS: GARY B. SWOFFORD - Cross by Adams 4232

1 and to the witness that each of these are the front
2 page of the Commission letter. We have the whole
3 document here if you wish to see the whole document.

4 The brackets are our brackets to identify
5 the location of the comment.

6 JUDGE HAENLE: This is a one-page document
7 on Commission letterhead dated October 18, 1989. I'll
8 mark this as 907 for identification.

9 (Marked Exhibit 907)

10 JUDGE HAENLE: The second document is a
11 one-page document on Commission letterhead dated March
12 14, 1991. I'll mark this as 908 for identification.

13 (Marked Exhibit 908)

14 BY MR. ADAMS:

15 Q. Have you had a chance to look at what have
16 been identified as Exhibits 907 and 908?

17 A. Yes, I have.

18 Q. And specifically on Exhibit 907 you'll note
19 that in about the third sentence of that letter it
20 describes what the docket is concerning.

21 A. Yes.

22 Q. And that specific one relates to new
23 construction expenditures. Do you see that?

24 A. That's correct.

25 Q. Do you note also, then, in the bracketed

WITNESS: GARY B. SWOFFORD - Cross by Adams 4233

1 Information C that the costs of this specific program
2 will be amortized over a thirty-year period?

3 A. Yes, I see that.

4 Q. And turning to the second Exhibit, 908,
5 again, this is a more general accounting order relating
6 to conservation costs and allows amortization over a
7 twenty-year period, is it not?

8 A. Yes. I see that. I understand from Water
9 Power they have not yet filed anything to require -- to
10 ask for a twenty-year amortization period at this time.

11 Q. They haven't been in for a general rate case
12 in that period; is that correct?

13 A. That's correct.

14 MR. ADAMS: Your Honor, I would move the
15 admission of Exhibits 907 and 908.

16 JUDGE HAENLE: Any objection, Mr. Van
17 Nostrand?

18 MR. VAN NOSTRAND: No.

19 JUDGE HAENLE: Ms. Brown?

20 MS. BROWN: No.

21 JUDGE HAENLE: Mr. Furuta?

22 MR. FURUTA: No.

23 JUDGE HAENLE: Mr. Trincherero?

24 MR. TRINCHERO: No.

25 JUDGE HAENLE: Exhibits 907 and 908 will be

WITNESS: GARY B. SWOFFORD - Cross by Adams 4234

1 entered into the record.

2 (Received Exhibits 907 and 908)

3 BY MR. ADAMS:

4 Q. I want to address a couple of questions that
5 you did not address in your testimony directly, Mr.
6 Swofford.

7 Would the Company object to direct expensing
8 of conservation costs?

9 A. Just off the top of my head, I think, Mr.
10 Adams, direct expensing of the costs would have an
11 extreme impact on our customers from a rate standpoint
12 if we took the costs that we were -- had been
13 amortizing over a ten-year period and decided we were
14 now going to expense them.

15 So, I think the initial shock would be
16 something that we would have to think about and deal
17 with.

18 I haven't really thought about it, and I
19 didn't address it in my direct testimony. That's my
20 initial reaction to the thought if we just immediately
21 took all those costs and expensed them.

22 There are utilities who do that. I don't
23 know to what extent -- what the extent of their
24 conservation programs are that they are expensing. I

25 think there are more effective ways to deal with the

WITNESS: GARY B. SWOFFORD - Cross by Adams 4235

1 costs as opposed to just expensing them all.

2 Q. Would it be cheaper for customers over time
3 to expense it in the year incurred?

4 A. Well, it would certainly reduce or eliminate
5 the carrying costs associated with carrying
6 conservation rate base.

7 Q. Let me ask you a sort of subset of the
8 conservation costs: Would the Company object to the
9 direct expensing of advertising costs relating to
10 conservation?

11 A. I think, again, our conservation program as
12 is presently developed -- in answer to your question,
13 yes, because I think it's an integral part of our
14 program, as integral as anything else we do as the
15 communications that we have to do with customers to get
16 them to participate in our program, and that is the
17 part of the program, you know, that is intended to do
18 that. So, we can't have a conservation program if we
19 don't communicate with customers.

20 So, I think this is a part of the program.
21 If we're going to have a program, this is part of it,
22 and we're capitalizing the program. This is part of
23 the program costs.

24 Q. I didn't say anything about eliminating the

25 program. I'm just asking about expensing those costs

WITNESS: GARY B. SWOFFORD - Cross by Adams 4236

1 so the Company is made whole for those expenditures.
2 Why would direct expensing of those expenses have any
3 impact on whether the Company did or did not do
4 conservation advertising?

5 A. My response I think gets more to the fact
6 that we need to take a look at conservation as a whole.
7 Why does it make any more sense to expense the
8 advertising costs than it does the cost of the
9 verification or the auditors? They are all part or the
10 contractor costs. They are all part of the program
11 that delivers conservation.

12 So, why we would take one component of that
13 program and say we're going to expense this piece of it
14 and leave all of this over here is something -- I don't
15 know how we would make that decision because it's all
16 part of the same program.

17 Q. So, from a cost recovery standpoint, the
18 Company is not indifferent to the manner in which it
19 recovers those expenses?

20 A. I guess, Mr. Adams, in answer to that
21 question, I would like to explore that in some depth to
22 see what it is that we are actually doing when we do
23 these kind of things.

24 I wouldn't want to do it without saying

25 we'll do this without taking a look at the program and

WITNESS: GARY B. SWOFFORD - Cross by Adams 4237

1 understanding what we're doing to it. That's my
2 hesitation on your first answer.

3 If we just chose to expense it, I guess I
4 would want to explore that in some more detail before I
5 just agree one way or the other that would make some
6 sense or wouldn't make any sense.

7 Q. I want to turn finally to just a brief
8 couple questions concerning the incentive mechanism
9 which you discuss at the end of your testimony.

10 Is it correct that Puget is not asking the
11 Commission to adopt the conservation incentive
12 mechanism in this proceeding?

13 A. That's correct, we are not asking for that.

14 Q. Has the Company performed or had performed
15 any study or analysis of the conservation incentive
16 mechanism that was in place for the Company in 1991?

17 A. We don't have a written study or perform
18 some analysis of that incentive program.

19 MR. ADAMS: Thank you. That's all I have,
20 your Honor.

21 JUDGE HAENLE: Commissioners, do you have
22 questions of the witness?

23 CHAIRMAN NELSON: I'll pass.

24 COMMISSIONER CASAD: I have no questions.

25 COMMISSIONER HEMSTAD: Just a couple.

WITNESS: GARY B. SWOFFORD - Cross by Adams 4238

1

2

E X A M I N A T I O N

3

BY COMMISSIONER HEMSTAD:

4

Q. I'm pursuing that last exchange with Mr.

5

Adams. You're suggesting some savings of the

6

difference between avoided costs and your conservation

7

program.

8

You don't attempt to further describe that.

9

What would you have in mind? A 50/50 split, for

10

example? Where does that take you?

11

A. Commissioner, there are several ways that

12

can be done. And when you look across the country,

13

that's been done all the way from as much as half down

14

to five or ten percent.

15

Without sitting down and trying to figure

16

out what would make some sense for us, I didn't want to

17

make a specific recommendation because I simply don't

18

know what would make sense.

19

But the idea as suggested in my testimony is

20

that there would be some sharing of the difference in

21

those two numbers.

22

Q. This is for I suppose my own personal

23

benefit:

24

How would that issue be brought before the

25 Commissioners?

WITNESS: GARY SWOFFORD - Examination by Hemstad 4239

1 A. As I suggested in here, one of the ways we
2 could do that if the Commission thought this was worth
3 pursuing is to call together a group called a technical
4 collaborative group that has addressed conservation
5 type issues, including the recent filing of Schedule
6 83, have them take a look and have them bring a
7 specific proposal that would be designed on, if this
8 was a good suggestion, on a shared savings basis, and
9 bring that to the Commission in the form of a filing
10 for your consideration as a type of incentive plan that
11 would meet your objectives.

12 But that would be the mechanism that I saw
13 in putting this suggestion forth.

14 Q. Just a question or two in the area of the
15 average life of the conservation programs:

16 I'm surprised at the or puzzled at the
17 substantial variation in the average life. Mr.
18 Blackmon apparently is recommending twenty years. Your
19 testimony says that the majority of states have five to
20 ten years as an average. And yours has been sixteen to
21 nineteen? Did I read your testimony correctly in that
22 regard in the last couple of years?

23 A. The actual measure life of the measures that
24 we are using, that's correct, are between sixteen and

25 nineteen years. States use five to ten years, but

WITNESS: GARY SWOFFORD - Examination by Hemstad 4240

1 there has been no attempt by and large in most of the
2 states, including this one, to tie measure lives to the
3 amortization period.

4 When we set up the ten-year amortization
5 period back in 1978, when this Commission did, there
6 was no attempt to tie that to the measure lives of the
7 measures we were using at that time. And there hasn't
8 been, at least in our case, any attempt to make that
9 tie between them.

10 And in most states, it's pretty clear to me
11 that when you take a look at how they treated
12 conservation, it hasn't been with the idea that there
13 is some relationship that's been tried to be made
14 between the actual measure lives and the amortization
15 periods that states are using.

16 Q. Why not?

17 A. I think it has to do with the type of asset
18 that we're dealing with, the resource. This is a
19 regulatory asset where it is in place. It's not an
20 asset that we own, that we could take back, that we
21 could sell. It's in other people's facilities, as I
22 think you know.

23 You can't go out and borrow against this
24 particular asset. It's not bondable.

25 Q. So, by some kind of magic, you come up with

WITNESS: GARY SWOFFORD - Examination by Hemstad 4241

1 a number of years that can vary substantially from
2 state to state or program to program?

3 A. I'm not sure I understood your question.
4 Would you try that again.

5 Q. I'm trying to get some handle on how one
6 decides the period of time over which it should be
7 amortized.

8 A. To some extent it may have to do with your
9 comfort level and your experience with the program
10 itself. Those utilities and with the support of their
11 commissions that feel that this is the type of asset
12 that should be recovered immediately, I guess, I assume
13 has discomfort with the fact that it is a regulatory
14 asset. So, they have chosen very obviously a very
15 short life.

16 This Commission has always supported
17 conservation very strongly. It's been a regulatory
18 asset, but it's been one that they have never
19 disallowed any of the costs that we have incurred.

20 So, I think we have a relative comfort with
21 this asset, as I hope the Commission does.

22 So, we have from day one started out with a
23 ten-year, but it has varied from one state to another.
24 And my only reading in that and in talking to others,

25 it has to do with the desires of the utilities and the

WITNESS: GARY SWOFFORD - Examination by Hemstad 4242

1 Commission, but it is not tied to the measure life that
2 underlie those programs.

3 COMMISSIONER HEMSTAD: Thank you.

4 CHAIRMAN NELSON: I have a follow-up to Mr.
5 Adams and Commissioner Hemstad's first question.

6

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

8 BY CHAIRMAN NELSON:

9 Q. Mr. Swofford, I was sort of puzzled at this
10 offer in the last pages of your testimony in this
11 rebuttal case. I guess I'm trying to figure out how
12 lukewarm or hot the Company is for positive incentive
13 programs for conservation.

14 Can you give me a reading of your
15 temperature on this?

16 A. I think we took a look at the incentive
17 program that was in place. I think it worked very
18 well. We responded, I think, to that incentive that
19 was in place. So, from just a standpoint of my own
20 personal feelings about incentives, I think they work.

21 I think I read the Commission's NOI when
22 they talked about incentives and the possibility that
23 if the parties got together and thought that it was a
24 good idea it would be something you wanted to explore.

25 Ralph Cavanaugh in his testimony before you

 WITNESS: GARY B. SWOFFORD - Examination by Nelson 4243

1 in this case suggested that incentives were something
2 that he felt were very important, and I felt strongly
3 enough about it as something that I believe is
4 worthwhile.

5 I wouldn't say that we are hot for it, but I
6 guess I would put it in the category, Chairman Nelson,
7 that it's something we believe can be an effective tool
8 if used appropriately.

9 Q. So, you're waiting for -- and there has been
10 a lot of talk about sending signals and messages and so
11 on. So, essentially, you're just trying to support
12 Cavanaugh's suggestion in the intervenor's case that
13 the Commission should continue to explore the positive
14 incentive and kick it over to the technical
15 collaborative if the three Commissioners want that
16 exploration to continue?

17 A. I think it's support for Cavanaugh and again
18 a reading of the original process that we went through
19 to set this whole new regulatory process in place of
20 some of the interests that the Commission had at that
21 time was incentives.

22 And while we had it for one year, it was
23 pretty clear after that first year that for any further
24 incentives we needed to have a plan that was brought

25 forward prior to the Commission wanting to go forward

WITNESS: GARY B. SWOFFORD - Examination by Nelson 4244

1 with it, that it was responding to both of those issues
2 as well as a desire to continue to explore it on our
3 own.

4 Q. Let me ask you then another follow-up:

5 This Commission has had some shared savings
6 mechanisms. Just reconsidering one in Telecom, or not
7 shared savings there, overearnings there, and they are
8 not easy to administer.

9 So, at Page 16 of your testimony, you say
10 there are mechanisms in operation around the country.

11 Off the top of your head, can you tell me
12 the most successful mechanisms you think exist around
13 the country for sharing savings in electric utility
14 operations?

15 A. I think the shared savings format has
16 demonstrated itself to be the most successful. It's
17 the one that's used most now around the country.

18 So, just from that perspective, I believe
19 it's the one that seems to be pursued the most because
20 it does have quantifiable elements to it like avoided
21 cost, like the comparison of the avoided costs, which
22 are filed in most states, with the costs of the
23 program.

24 So, we have those kinds of elements in

25 place. So, I believe that's why they have been adopted

WITNESS: GARY B. SWOFFORD - Examination by Nelson 4245

1 and seem to be the ones that are of most interest as
2 opposed to some of the ones like we had in place for
3 the one year, which was more of an incentive as was
4 described to certainly ensure that we went out and
5 pursued conservation. But it was more of an incentive
6 on spending the money as opposed to the shared savings,
7 which is ensuring that you spend the money efficiently,
8 which I think is what's making this one more
9 attractive.

10 Q. Exactly. I think you read our order very
11 well.

12 But my question was: Are there specific
13 State programs which you could identify right now that
14 you think are the most successful and easy to
15 administer? Or if you can't do that, could you cite me
16 to some academic literature where I could read about
17 shared savings approaches that might be the easiest to
18 administer?

19 A. I don't have any off the top of my head,
20 Chairman Nelson. We could look at that and see what
21 kind of literature is available that would hopefully
22 simply describe the way those programs are operated and
23 the way they are used, but not any off the top of my
24 head.

25 JUDGE HAENLE: Is that something you could

WITNESS: GARY B. SWOFFORD - Examination by Nelson 4246

1 check on or report back before the end of this series
2 of hearings?

3 THE WITNESS: We could certainly try and do
4 that, yes.

5 JUDGE HAENLE: If you're able to do that.

6 CHAIRMAN NELSON: Even if there is like an
7 NRRI or EEI discussion that might be useful.

8 Thank you.

9 JUDGE HAENLE: Commissioners, anything else?
10 What would be the Federal income tax effects
11 of going to a twenty-year life for conservation, if you
12 know?

13 THE WITNESS: I really don't know, but I'm
14 sure Mr. Story could answer that.

15 JUDGE HAENLE: I'll ask him the same
16 question. Thank you.

17 MS. BROWN: Excuse me, your Honor, I need to
18 finish up my cross before redirect.

19 JUDGE HAENLE: That's right.

20 MS. BROWN: Thank you.

21

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

23 (resumed)

24 BY MS. BROWN:

25 Q. Mr. Swofford, we were discussing late

WITNESS: GARY B. SWOFFORD - Cross by Brown 4247

1 yesterday afternoon the Company's filing of last
2 Friday, which has been admitted to the record as
3 Exhibit 887.

4 Do you recall that?

5 A. Yes, I do.

6 Q. Do you also recall the confusion?

7 A. Yes, I do.

8 Q. I would like to direct your attention to the
9 T and D system maintenance category which appears on
10 Line 8.

11 A. I don't have it before me. But I do recall
12 it from the discussion afterward yesterday.

13 MR. VAN NOSTRAND: Should I give him a copy?

14 MS. BROWN: Yes.

15 THE WITNESS: On Line --

16 BY MS. BROWN:

17 Q. Mr. Swofford, do you have Page 2.29, the
18 workpaper, before you?

19 A. Oh, boy, there is no page number on this.
20 It says Exhibit 887.

21 Q. I'm sorry.

22 (Discussion held off the record.)

23 THE WITNESS: I now have Page 2.29.

24 BY MS. BROWN:

25 Q. Great. Now on Line 8 under the description

WITNESS: GARY B. SWOFFORD - Cross by Brown 4248

1 T and D System Maintenance, under the Actual column,
2 does that \$12.187 million represent solely the amount
3 of the vegetation management or tree trimming in the
4 test year?

5 A. Yes, it does.

6 Q. Does the amount reported as the restated
7 amount, \$7.14 million, represent solely the expenses of
8 the vegetation management?

9 A. That is the projected rate year expenses for
10 the vegetation management program.

11 Q. And are there savings from other programs
12 that are included in the \$5 million decrease?

13 A. No. These are strictly the vegetation
14 management program. We looked at our other program
15 expenses. The confusion yesterday is that our
16 maintenance program now is about at the level of what
17 our vegetation management program used to be, around
18 the \$12 million amount. So, when I looked on here and
19 saw T and D maintenance, \$12 million being reduced by
20 \$5 million, that's why I was concerned that our entire
21 T and D maintenance program was somehow going to be
22 reduced by \$5 million and we were going to have to be
23 able to do that at \$7 million.

24 I have been assured by our accountant and

25 yours that that is not the case. This is strictly an

WITNESS: GARY B. SWOFFORD - Cross by Brown 4249

1 adjustment for vegetation management, and we agree with
2 it.

3 Q. Thank you.

4 MS. BROWN: Your Honor, I would like to have
5 this document marked for identification, please.

6 JUDGE HAENLE: You have handed me a two-page
7 document. At the top is the caption Response to Staff
8 Data Request 2549. I'll mark this as 909 for
9 identification.

10 (Marked Exhibit 909)

11 JUDGE HAENLE: And a document again in two
12 pages entitled Response to Staff Data Request 2462.
13 I'll mark this as 910 for identification.

14 (Marked Exhibit 910)

15 JUDGE HAENLE: A multi-page document
16 entitled Response to Staff Data Request 2548. I'll
17 mark this as 911 for identification.

18 (Marked Exhibit 911)

19 BY MS. BROWN:

20 Q. Mr. Swofford, can you identify Exhibits 909,
21 910, and 911?

22 A. Yes, I can identify these as responses to
23 Staff data requests that were prepared under my
24 direction by the Company.

25 MS. BROWN: Your Honor, I move the admission
WITNESS: GARY B. SWOFFORD - Cross by Brown 4250
1 of 909, 910, 911.

2 JUDGE HAENLE: Any objection, Mr. Van
3 Nostrand?

4 MR. VAN NOSTRAND: No.

5 JUDGE HAENLE: Mr. Adams?

6 MR. ADAMS: No.

7 JUDGE HAENLE: Mr. Furuta?

8 MR. FURUTA: No.

9 JUDGE HAENLE: 909, 910, and 911 be entered
10 into the record.

11 (Received Exhibits 909, 910 and 911)

12 BY MS. BROWN:

13 Q. I just have a few final questions for you,
14 Mr. Swofford.

15 Are you familiar with the tracking survey
16 dated 3 June through December of 1992 prepared for the
17 Company by O'Neill and Company?

18 A. You know, I have certainly over time
19 reviewed all of those documents. So, in general I
20 guess, yes, I have looked at all those tracking surveys
21 that have been prepared.

22 Q. This report is dated April of 1993. When
23 was it provided to the Company?

24 A. I assume if it was prepared in April it was

25 provided to the Company shortly thereafter.

WITNESS: GARY B. SWOFFORD - Cross by Brown 4251

1 Q. You testified during cross in the Company's
2 direct case in May, I think it was, that you would
3 provide this particular study to the Staff as soon as
4 it became available.

5 Do you recall that testimony?

6 A. Yes, I do.

7 Q. Are you aware that this particular study was
8 not provided to Staff until after July 1, after the
9 Company provided its rebuttal case?

10 A. I was made aware of this yesterday by Mr.
11 Adams.

12 MS. BROWN: I have nothing further.

13 JUDGE HAENLE: Commissioners, did that
14 prompt any additional questions?

15 CHAIRMAN NELSON: No.

16 JUDGE HAENLE: Any redirect?

17 MR. VAN NOSTRAND: Yes, your Honor.

18

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

20 BY MR. VAN NOSTRAND:

21 Q. Mr. Swofford, I refer you to Exhibit 902
22 which was introduced yesterday. This is the exhibit
23 which exists of NOAA reports of storm data and unusual
24 weather phenomena; is that correct?

25 A. That's correct.

 WITNESS: GARY SWOFFORD - Redirect by Van Nostrand 4252

1 Q. Can you tell us how this information relates
2 to the Company's procedures for recording amounts in
3 storm damage reserve?

4 A. This particular document really has no
5 relevance to the procedures and the guidelines that
6 Company uses for recording amounts into the storm
7 reserves and the practices that we have used for the
8 past ten years and the guidelines that we have used
9 that has been a part of cases before this Commission
10 for the last ten years. This does not provide any
11 relevance to that.

12 Q. What guidelines does the Company follow for
13 recording amounts in the storm damage reserve?

14 A. In our controller's manual, there is a
15 procedure of CTM-6 that provides -- and it's entitled
16 Storm Accounting. That particular procedure outlines
17 the guidelines that the Company uses and has used for
18 years for use in accounting for storms, both major and
19 minor, throughout our area.

20 And there is specifically a guideline that
21 relates to the parallel operation of that particular
22 guideline with the direction that the utilities and
23 transportation has given over years for accounting for
24 storm damage accruals.

25 Q. What is the direction that the Utilities and
WITNESS: GARY SWOFFORD - Redirect by Van Nostrand 4253

1 Transportation Commission has given on that issue over
2 the years?

3 A. Specifically what it states in the guideline
4 is paralleling storm damage provisions included in
5 general rates as approved by the Washington Utilities
6 and Transportation Commission's general accounting -- I
7 may say monthly accrual to T and D storm damage reserve
8 accounts.

9 Q. And what are the storm damage provisions
10 included in general rates approved by the Washington
11 Utilities and Transportation Commission? In other
12 words, how do you determine what the rate provisions
13 are that the controller manual is intended to parallel?

14 A. The Commission over the last several years
15 in the general rate cases before it has specifically
16 issued orders, and there is testimony included in those
17 proceedings that relate directly to the accrual and
18 recovery of costs associated with storm damage.

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

21 JUDGE HAENLE: All right. You have handed
22 me a multi-page document entitled Storm Damage Past
23 History. I will mark this as Exhibit 912 for
24 identification.

25

(Marked Exhibit 912)

WITNESS: GARY SWOFFORD - Redirect by Van Nostrand 4254

1 BY MR. VAN NOSTRAND:

2 Q. Mr. Swofford, do you recognize what's been
3 marked for identification as Exhibit 912?

4 A. Yes, I do.

5 Q. Can you describe what it is, please?

6 A. This is an exhibit that Mr. Story was asked
7 to prepare that represents the past history in both
8 directly in testimony and cross-examination of the
9 history of the storm damage and the way this Commission
10 has dealt with storm damage for the last six general
11 rate cases dating back to 1980.

12 Q. So, this exhibit sets forth a compilation of
13 the testimony and orders which represents the rate
14 provisions which in turn the controller's manual
15 indicates the Company is supposed to follow for
16 recording storm damage reserve?

17 A. That's correct.

18 MR. VAN NOSTRAND: Your Honor, I move the
19 admission of Exhibit 912.

20 JUDGE HAENLE: Any objection, Ms. Brown?

21 MS. BROWN: Yes, I have an objection.

22 JUDGE HAENLE: State it, please.

23 MS. BROWN: This is nothing more than
24 snippets of testimony, most of which is very difficult

25 to read because it appears that post-it notes were

WITNESS: GARY SWOFFORD - Redirect by Van Nostrand 4255

1 placed over the text of the testimony if you will look
2 at Page 10, Page 42, Page 46. I guess there are two --
3 Page 39, Page 19.

4 This is the Company spending time going
5 through its archives selectively incorporating snippets
6 of testimony or papers, excerpts of Commission's
7 decisions. It's clearly incomplete. Handwriting
8 appears on several of the pages.

9 For those reasons I object.

10 JUDGE HAENLE: I don't know that I
11 understand the reason for your objection. Part of the
12 text has been obliterated by post-it notes and there
13 are notes taken on the documents themselves.

14 What are the other bases for your objection,
15 please?

16 MS. BROWN: Other than that it is
17 incomplete, I think that it's improper, inappropriate
18 in the context of this docket to excerpt portions of
19 the testimony of apparently other witnesses in prior
20 dockets. Those excerpts are incomplete.

21 If we're going to have wholesale importation
22 of records in other proceedings, that's one thing. But
23 I do object to selectively pulling out certain
24 paragraphs that the Company believes supports its

25 position on storm damage in this docket.

WITNESS: GARY SWOFFORD - Redirect by Van Nostrand 4256

1 JUDGE HAENLE: Do you want to respond, Mr.
2 Van Nostrand?

3 MR. VAN NOSTRAND: I believe the document is
4 fairly complete in terms of everything contained in the
5 record in these prior proceedings with respect to the
6 issue of storm damages. There has been no attempt to
7 take snippets which are favorable to the Company.

8 We have included in many cases the testimony
9 of Staff witnesses. And where the Commission orders
10 have spoken directly on the issue of storm damage,
11 those excerpts are included as well.

12 With respect to where there might be so many
13 interlineations or writing, it appears only on pages
14 which do not relate to the storm damage. For example,
15 Page 42, there is marking on there which appears in the
16 discussion related to uncollectible accounts. There is
17 certainly notations in there, but they don't obscure or
18 obliterate the relevant portions of this exhibit.

19 It's highly relevant to the extensive
20 Commission precedent on the issue of storm damage, and
21 it's this precedent the Company follows.

22 MS. BROWN: By whose standard of relevance,
23 your Honor?

24 JUDGE HAENLE: Were you finished with your

25 comment?

WITNESS: GARY SWOFFORD - Redirect by Van Nostrand 4257

1 MR. VAN NOSTRAND: Yes, your Honor.

2 JUDGE HAENLE: And your response was?

3 MS. BROWN: I have already made my response.

4 JUDGE HAENLE: All right. Objection, Mr.

5 Adams?

6 MR. ADAMS: I take no position on it.

7 JUDGE HAENLE: Mr. Furuta?

8 MR. FURUTA: It seems to me that even
9 consistent with the Company's reasons for entering this
10 into evidence that we could agree at least to not
11 accept into evidence the portions of this exhibit which
12 are clearly not related to storm damage. I don't know
13 if the Company has any opinion on that.

14 JUDGE HAENLE: I assume that the Company's
15 purpose was to refer the Commission to those portions
16 which do deal with storm damage, Mr. Van Nostrand?

17 MR. VAN NOSTRAND: Yes. They would require
18 taking excerpts from pages. We have tried to limit it
19 to just the pages which relate to storm damage. There
20 are issues covered on some of those pages that we
21 thought wouldn't produce a very meaningful document.
22 We tried to eliminate stuff on a given page.

23 JUDGE HAENLE: Objection, Mr. Trinchero?

24 MR. TRINCHERO: Only a comment, your Honor:

25 If the Company's purpose is to show that its

 WITNESS: GARY SWOFFORD - Redirect by Van Nostrand 4258

1 treatment of storm damage in this case or its proposals
2 for the treatment of storm damage in this case are
3 consistent with past Commission orders, the Commission
4 can take official notice of its orders and it could be
5 argued on brief, and, therefore, this document would be
6 unnecessary as far as parties' positions in prior
7 cases. I don't see how these are terribly relevant.

8 JUDGE HAENLE: Okay. Any response, Mr. Van
9 Nostrand?

10 MR. VAN NOSTRAND: Yes, your Honor. To the
11 extent the Commission has specifically addressed storm
12 damage in its orders, what Mr. Trincherro says is true.
13 However, in a number of situations, it was not a
14 contested issue.

15 The Company put in a proposal, Staff put in
16 opposing testimony which adopted the proposal.
17 Therefore it's listed in the Commission's order as
18 being an uncontested judgment. That's why the
19 testimony from prior proceedings is relevant and needs
20 to be admitted in this record.

21 JUDGE HAENLE: I'm going to overrule the
22 objection and enter those portions of this document
23 that deal with storm damage. I think you can look at
24 them and ignore the pieces that do not deal directly

25 with storm damage.

WITNESS: GARY SWOFFORD - Redirect by Van Nostrand 4259

1 I agree with Mr. Trincherro that the
2 Commission could take official notice of its prior
3 orders. It seems to me so much simpler to have a
4 document in front of us that is the Company's reference
5 to those portions.

6 If there is any portion that someone feels
7 is necessary that has been obliterated by a post-it,
8 would you please contact the Company and let's try to
9 have that particular issue taken care of before we end
10 on Friday.

11 (Received Exhibit 912)

12 JUDGE HAENLE: Anything else, Mr. Van
13 Nostrand?

14 MR. VAN NOSTRAND: Yes, your Honor.

15 BY MR. VAN NOSTRAND:

16 Q. Mr. Swofford, were you present in the
17 hearing room when Commissioner Hemstad asked Mr.
18 Sonstelie questions about the public hearing on the
19 heat pump program?

20 A. Yes.

21 Q. Are you familiar with the circumstances of
22 that particular case?

23 A. I am.

24 Q. Will you please tell us.

25 A. Right after that hearing, we did contact the
 WITNESS: GARY SWOFFORD - Redirect by Van Nostrand 4260
1 customer who was involved in that particular
2 circumstance. And we went over and talked to him as
3 well as the other contractors that he had contacted by
4 phone to get an estimate after learning of his relative
5 who had had an installation.

6 His circumstances were such that he had a
7 house that was built, a slab on grade with no basement,
8 and he had baseboard heat in it, and it was a house
9 with a three-foot clearance in his attic. And to
10 retrofit a heat pump into that particular type of a
11 house is relatively expensive compared to putting a
12 heat pump into a house that has an existing electric
13 furnace.

14 After sitting down with him, anyway, to make
15 a long Story short, and talking to him about the
16 circumstances, his understanding, the contractor's
17 understanding of the particular circumstances that were
18 involved, I think we all had a lot better understanding
19 of what was involved both with the insulation installed
20 in an attic where you had four inches of clearance out
21 towards the edge of the roof and the maximum height of
22 three feet. That required unusual circumstances and
23 costs to retrofit into that particular type of
24 structure. And that's what generated those costs.

25 We are now working with that customer to

 WITNESS: GARY SWOFFORD - Redirect by Van Nostrand 4261

1 effect a completion of that if he chooses to proceed.

2 MR. VAN NOSTRAND: I have no further
3 questions, your Honor.

4 JUDGE HAENLE: Commissioner?

5 COMMISSIONER CASAD: May I please?

6

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

8 BY COMMISSIONER CASAD:

9 Q. Regarding the issue of storm damage, the
10 usually accepted treatment has been to establish a
11 four-year average of storm damage costs and then
12 include that amount prorated into rates; is that
13 correct?

14 A. That's my understanding, Commissioner.

15 Q. Has the Company explored the possibility of
16 obtaining insurance for storm damage? I know that the
17 Company maintains or I think that the Company has an
18 insurance program for exceptional storm damage. But I
19 think the deductible is quite high.

20 Has the Company explored the insurance
21 market to see if there is insurance available which
22 might be cost effective for storm damage?

23 A. We have, Commissioner. I think if you were
24 to direct your question to Mr. Russ Olson when he is

25 up here, he can specifically give you information as to

WITNESS: GARY B. SWOFFORD - Examination by Casad 4262

1 what the Company has done and is doing in this regard
2 of insurance for storm damage.

3 Q. I'll do that. Thank you.

4 JUDGE HAENLE: All right. Additional
5 questions? Ms. Brown?

6 MS. BROWN: I just have one.

7

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

9 BY MS. BROWN:

10 Q. Was the expense as approved by the
11 Commission in any of the Commission's order set to
12 represent future period storm damage?

13 A. I think that's a question that if you direct
14 it to Mr. Story, he could tell you specifically with
15 regard to these orders, specifically what the orders
16 provided for.

17 Q. Does that mean you don't know the answer?

18 A. I don't know the answer specifically. I
19 have gone over this document, but, you know, my
20 recollection specifically as to whether it's a future
21 expense, I can't answer the question, Ms. Brown.

22 MS. BROWN: That brings a question as to why
23 Exhibit 912 was offered and admitted to this witness,
24 doesn't it? I have nothing further.

25

JUDGE HAENLE: Is that some type of

WITNESS: GARY B. SWOFFORD - Recross by Brown 4263

1 objection, Ms. Brown?

2 MS. BROWN: It's late, isn't it.

3 JUDGE HAENLE: It would be a request for
4 reconsideration. And if the Commission does decide to
5 reconsider on that basis, it will certainly let you
6 know.

7 Additional questions, Mr. Adams?

8 MR. ADAMS: I did have a couple. One just
9 to flush out the record a little bit more on the issue
10 of incentives.

11

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

13 BY MR. ADAMS:

14 Q. Mr. Swofford, am I not correct that the
15 original incentive package is continuing in that there
16 is a ten percent bonus that will be paid to the Company
17 presumably if they show that the savings that were, if
18 you will, calculated in the first year of savings are
19 persistent; is that correct?

20 A. Yes, yes, that was a persistence provision
21 in that incentive package for going back and
22 determining if we were being able to be successful in
23 this program of ensuring that these conservation
24 measures do last over time. That's correct, Mr. Adams.

25 Q. Correct me if I'm wrong. But I believe that

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1 persistence period is through the end of '93, through
2 the first three years of the program, and therefore
3 there would be an evaluation and perhaps submittal by
4 the Company on that incentive, persistence incentive
5 piece of that incentive program in '94 or '95; is that
6 correct?

7 A. As a matter of fact, we are required -- I'm
8 going by memory now, as I recall, by the end of this
9 year, by December of this year, to provide this
10 Commission with a plan for evaluation of this
11 persistence part of that package.

12 Q. You would agree, then, in a sense that we
13 will be continuing to learn something about both the
14 incentive package and the nature of savings through
15 this analysis?

16 A. Yes, I would agree with that.

17 Q. Referring to the Ellensburg complaint,
18 perhaps each one of us heard something a little
19 different in the nature of that given complaint. But I
20 thought I heard part of the complaint being that where
21 Puget certifies or lists contractors to do in this case
22 heat pumps, that there may be an opportunity for these
23 listed or certified contractors to increase their
24 estimates because of that listing, and, therefore,

25 increase prices and costs to Puget and to the

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1 participating customer.

2 Has the Company made any effort, not so much
3 specifically to this particular complaint, but to
4 review that problem to find out whether its contractors
5 are using that opportunity to raise their estimates?

6 A. We have had -- we have certainly had
7 opportunities where we have pretty tight standards on
8 what we have contractors comply with who operate on our
9 program. And they have certainly indicated to us that
10 our standards are rigorous, if you will, and that it
11 doesn't surprise me that contractors who choose not to
12 participate in our programs would come up with costs
13 that they are not going to comply with those kinds of
14 standards that would be less than the contractors that
15 are on our program.

16 Q. Have you made any attempt to find out
17 whether those non-listed contractors are doing
18 something different than is required by your certified
19 contractor?

20 A. I'm not sure what you mean by doing
21 "something different," Mr. Adams.

22 Q. Not meeting the standards which you are
23 setting for your listed or certified contractors.

24 A. We provide our standards to those

25 contractors. They are the ones that choose whether or

WITNESS: GARY B. SWOFFORD - Recross by Adams 4266

1 not to participate in our programs. But to go back --

2 JUDGE HAENLE: The question I think was have
3 you made any study to see if they are complying?

4 THE WITNESS: They are not on our program.
5 That's why I don't understand. So, we don't study the
6 contractors who aren't on our program. We study the
7 ones who are, but we don't take a look at the others.

8 BY MR. ADAMS:

9 Q. So, the answer is no?

10 A. Yes, that's correct. I didn't understand
11 your question. I'm sorry.

12 Q. Finally -- and I want to go back and
13 apologize to you -- I received a fax just after I had
14 finished my questioning of you, and I asked you to
15 assume subject to check some savings for the water
16 aerater shower head program. I would be glad to show
17 you this document from Mr. Lazar to Kevin Winters from
18 our office but it indicates that per household the
19 shower heads would save 285 kwh per household and
20 aerates 143 kwh per household through September of that
21 year, and then they change that estimate to 150 kwh
22 savings. That was part of the technical collaborative
23 review.

24 Would you accept those subject to check?

25 A. I would.

 WITNESS: GARY B. SWOFFORD - Recross by Adams 4267

1 Q. In addition, it indicated for 1991, 190,850
2 households were serviced by that particular program.
3 Again, would you accept that --

4 A. I would accept that subject to check.

5 Q. Am I correct that this letter indicates as I
6 understand it that shower head program is targeted
7 really only to electric water heat customers? Gas or
8 other water heat customers are not targeted where they
9 are known; is that correct?

10 A. That's correct.

11 MR. ADAMS: Thank you.

12 JUDGE HAENLE: Anything else, Mr. Furuta?

13 MR. FURUTA: No, your Honor.

14 JUDGE HAENLE: Mr. Trincherero?

15 MR. TRINCHERO: No, your Honor.

16 JUDGE HAENLE: Anything more of the witness?

17 Thank you, sir. You may step down. Let's
18 take fifteen minutes at this time.

19 (Recess.)

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

22 Also during the recess a new witness has
23 assumed the stand. Would you raise your right hand,
24 please.

25

WITNESS: GARY B. SWOFFORD - Recross by Adams 4268

1 MAURA L. O'NEILL,
2 witness herein, being first duly
3 sworn, was examined and testified
4 as follows:

5 JUDGE HAENLE: Also during the time we were
6 off the record I marked for identification a 38-page
7 document. In the upper right-hand corner it has MLO-1.
8 I will mark this as Exhibit T-913 for identification.
9 (Marked Exhibit T-913)

10

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

12 BY MR. MARSHALL:

13 Q. Miss O'Neill, do you have before you what
14 has been marked for identification as Exhibit T-913?

15 A. I do.

16 Q. Do you recognize that as your prefiled
17 rebuttal testimony in this case?

18 A. I do.

19 Q. Do you have any additions or corrections to
20 make to Exhibit T-913 at this time?

21 A. I have a correction on Page 18, Line 6,
22 where it says, "Potential conservation activities to
23 include all tips," all should be struck and "many of
24 the tips" should be inserted. That's the only

25 correction I have to the testimony.

WITNESS: MAURA L. O'NEILL - Direct by Marshall 4269

1 I do have a correction to a data request. I
2 don't know if that's appropriate at this time or not.

3 Q. Those typically will only be made if the
4 data request is being marked for identification as an
5 exhibit.

6 A. Okay.

7 JUDGE HAENLE: If you have got a change, you
8 should have let counsel know, those counsel to whom the
9 information went. It's a little late now.

10 THE WITNESS: I just recognized this last
11 night when I was looking over it.

12 MS. BROWN: Is it a Staff Data Request?

13 THE WITNESS: It is a Public Counsel data
14 request. And it's just a one-word change.

15 JUDGE HAENLE: Let's not worry about it at
16 this point.

17 If this comes up in the future, if there are
18 revisions that you know of ahead of time, it is
19 considered good form to let people know ahead of time.

20 BY MR. MARSHALL:

21 Q. As corrected, if I asked you the questions
22 set forth in Exhibit T-913 today, would you give the
23 answers as set forth in that exhibit?

24 A. I would.

25 MR. MARSHALL: I move the admission of
WITNESS: MAURA L. O'NEILL - Direct by Marshall 4270
1 Exhibit T-913, and Ms. O'Neill is available for
2 cross-examination.

3 JUDGE HAENLE: Any objection to the entry
4 of the document, Ms. Brown?

5 MS. BROWN: No.

6 JUDGE HAENLE: Mr. Adams?

7 MR. ADAMS: No.

8 JUDGE HAENLE: Mr. Furuta?

9 MR. FURUTA: No, your Honor.

10 JUDGE HAENLE: T-913 be entered into the
11 record.

12 (Received Exhibit T-913)

13 JUDGE HAENLE: Go ahead, Ms. Brown.

14
15 C R O S S - E X A M I N A T I O N

16 BY MS. BROWN:

17 Q. Ms. O'Neill, in response to Staff Data
18 Request 2608 you provided a copy of the December 1992
19 tracking survey that you provided for the Company. The
20 study is dated April of 1993.

21 Do you recall that response and that date?

22 A. I do.

23 MS. BROWN: Your Honor, I would like to have
24 the survey marked as the next exhibit in line, please.

25 JUDGE HAENLE: The next exhibit in line is
WITNESS: MAURA L. O'NEILL - Cross by Brown 4271
1 914 for identification. It is entitled Response to
2 Staff Data Request 2608.
3 (Marked Exhibit 914)
4 BY MS. BROWN:
5 Q. Ms. O'Neill, can you identify Exhibit 914,
6 please?
7 A. It's a copy of a tracking survey, the Wave
8 III that we produced, based on a survey that we
9 conducted of Puget's customers in December of 1992.
10 MS. BROWN: Your Honor, I move the admission
11 of Exhibit 914, please.
12 JUDGE HAENLE: Any objection, Mr. Marshall?
13 MR. MARSHALL: No objection.
14 JUDGE HAENLE: Mr. Adams?
15 MR. ADAMS: No.
16 JUDGE HAENLE: Mr. Furuta?
17 MR. FURUTA: No, your Honor.
18 JUDGE HAENLE: Mr. Trincherro?
19 MR. TRINCHERO: No, your Honor.
20 JUDGE HAENLE: Exhibit 914 then will be
21 entered into the record.
22 (Received Exhibit 914)
23 JUDGE HAENLE: I might note that Mr.
24 Richardson is here for WICFUR.

25 BY MS. BROWN:

WITNESS: MAURA L. O'NEILL - Cross by Brown 4272

1 Q. When was the tracking survey provided to the
2 Company?

3 A. It's dated April 1993. To the best of my
4 recollection, that was the time at which it was
5 provided to the Company.

6 Q. Can you explain the preparation of this
7 particular survey, final report? By that I mean the
8 survey itself ended in December of 1992 when the
9 research was conducted. And it was provided to the
10 Company in April?

11 A. Well, it generally takes a few months to
12 actually do the cross tabs, do the analyses. As you
13 will note from the copy of this, this is Wave III. So,
14 we did some analysis comparing it to the others. We
15 didn't think this was an unnecessarily unusual delay.

16 Q. All of your focus groups and marketing
17 research for Puget Power included only residential
18 customers; is that right?

19 A. All of the focus groups that were -- that
20 examined the effectiveness of this ad campaign were
21 only done with residential customers. But we have
22 conducted in the past focus groups for Puget with
23 commercial/industrial customers as well as trade
24 allies.

25 Q. But for the purposes of your base line

WITNESS: MAURA L. O'NEILL - Cross by Brown 4273

1 survey which took place before the ad campaign in
2 January of 1991 and Wave I, which took place between
3 June of '91 and December of '91 and Wave II, which took
4 place between December '91 and May of '92, and then
5 finally this Wave III which you have before you now --

6 A. Those were all conducted with residential
7 customers. But those are surveys, not focus groups.

8 Q. You're correct. I'm sorry.

9 But you would agree, would you not, that the
10 commercial and industrial sectors represent an enormous
11 potential for conservation savings for the Company?

12 A. Absolutely.

13 Q. Mr. Swofford indicated in response to Data
14 Request 2543 that you conducted research studies to
15 determine the appropriate level of spending for the
16 conservation advertising campaign.

17 That is, for example, why the Company should
18 spend nearly \$5 million over the past two years as
19 opposed to spending 1, 2, or 10.

20 Did you conduct research studies with that
21 task in mind?

22 A. No. That was the responsibility of the
23 advertising agency, Hinton and Steel.

24 Q. To your knowledge, did the advertising

25 agency Hinton and Steel perform its duties under the

WITNESS: MAURA L. O'NEILL - Cross by Brown 4274

1 contract with that task in mind?

2 A. Yes. It is my understanding that they did.
3 I was party to some of the discussions about how you
4 construct an ad budget is to look at the reach and
5 frequency that you're interested in. And that's how
6 they determined the exact number.

7 Q. When the Company approached you to help
8 establish the conservation advertising campaign, what
9 cost constraints, if any, were you given?

10 A. Well, I think that they didn't give us --
11 they asked us for bids, both -- each year they have
12 asked us for bids to conduct the research and to make a
13 decision on how much was appropriate to afford.

14 I think in research as an evaluation of
15 conservation programs, you can spend a little amount of
16 money and you can spend more than it actually costs to
17 acquire the conservation.

18 So, there needs to be a judgment call in
19 each and every case as to what's an appropriate level
20 to spend on research and evaluation, and that was an
21 active discussion as part of this.

22 Q. Has the Company ever expressed that it
23 wanted the campaign to be run as cost efficiently as
24 possible?

25 A. Yes, they did.

 WITNESS: MAURA L. O'NEILL - Cross by Brown 4275

1 Q. How did the Company define cost efficiency
2 for you?

3 A. Well, I think there are two issues. One is
4 the ad campaign and its cost efficiency as well as the
5 research and evaluation that we performed and its cost
6 efficiency.

7 They indicated that they wanted to do enough
8 to actually change attitudes and behaviors and to
9 promote long-term persistence of savings and to spend
10 enough in the research and evaluation to give them a
11 confidence level that they were doing so.

12 Certainly there could have been -- you could
13 have justified spending more either on the research or
14 on the advertising. But they were looking for that
15 balance.

16 There are no -- since conservation
17 advertising particularly is part of a resource
18 acquisition program for a utility, it is not something
19 that we have fifty years worth of research like we do
20 for consumer products. This is an area for which no
21 particular benchmarks exists as to what the appropriate
22 level is to move the market in one way or another.

23 So, it was a professional judgment on the
24 part of those parties involved as to what was an

25 appropriate level.

WITNESS: MAURA L. O'NEILL - Cross by Brown 4276

1 Q. Would you agree that focus groups do not
2 provide an indication as to how widely distributed a
3 given attitude might be?

4 A. Focus groups are not intended -- are
5 qualitative research techniques that are not intended
6 to be statistically projectable to the entire
7 population, but, rather, are an important element to
8 any quantitative research you do -- what I like to say
9 is what surveys do is give you a two-dimensional look
10 at people, and focus groups give you a three
11 dimensional look at people.

12 In and of themselves you need to be careful
13 using them. But in conjunction with survey data, they
14 can be quite illustrative.

15 Q. So, that's a yes?

16 A. They are not -- well, they are not
17 statistically projectable to the entire population.
18 So, the simple answer is -- I think is yes. I forget
19 how your question was worded.

20 Q. Would you agree that focus groups do not
21 provide an indication as to how widely distributed a
22 given attitude might be?

23 A. Right. As I said, they are not
24 statistically projectable to an entire population.

25 JUDGE HAENLE: Could we ask you to begin

WITNESS: MAURA L. O'NEILL - Cross by Brown 4277

1 with a yes or no and then explain your answer?

2 THE WITNESS: That's fine.

3 JUDGE HAENLE: Go ahead.

4 BY MS. BROWN:

5 Q. On Page 27 of your testimony you indicate
6 there are differences between Puget's conservation
7 advertising and that of, for example, Coca Cola or
8 athletic shoes.

9 Would you agree that the ultimate goal of
10 these other products' advertising campaign is to get
11 people to buy their respective products?

12 A. Yes.

13 Q. Likewise, would you agree that the ultimate
14 goal of Puget's campaign is to get people to
15 participate in the Company's conservation program?

16 A. Yes. However, it differs from purchasing of
17 Coca Cola or athletic shoes because there is -- or the
18 case of tooth paste is probably a good example. We
19 have a cultural norm that says that we get up in the
20 morning and we brush our teeth, and so Proctor and
21 Gamble when they are messaging or advertising for you
22 to buy Crest tooth paste, they don't have to convince
23 you to get up in the morning and brush your teeth. In
24 fact, what they want you to do is choose between Crest

25 or Colgate or some other.

WITNESS: MAURA L. O'NEILL - Cross by Brown 4278

1 Whereas in conservation advertising, it's
2 very important to not only get the person to buy the
3 product, but get them to understand why they want the
4 product in the first place.

5 So, it is different in that way from product
6 advertising.

7 Q. But participation in Puget's conservation
8 programs is the ultimate goal, is it not?

9 A. Well, no, not exactly. It is one of the
10 goals. But we know that attitudes and behaviors play a
11 major role in whether people actually install
12 conservation measures and whether they practice
13 conservation behavior over a long term.

14 I'll give you an example: There is a
15 Princeton study in 1976 that showed that when you took
16 two identical households and you looked at what their
17 differences in electricity use for summer air
18 conditioning, that 55 percent of the variance could be
19 explained only by attitudinal differences between the
20 people that lived in one townhouse or another.

21 So, it isn't sufficient -- so, the goal of
22 the program was not just participation, but, rather,
23 changes in attitudes and behaviors.

24 Q. On Page 13, Lines 2 through 6, you state:

25 "The third research technique used was to track the

WITNESS: MAURA L. O'NEILL - Cross by Brown 4279

1 changes in customer calls to the Company's conservation
2 hotline before and after the advertising program."

3 Is that a correct quote?

4 A. Yes.

5 Q. So, you agree with the Company that it is
6 important to track not only the awareness of the
7 advertising campaign, but to track the actual response
8 to the advertising campaign. Is that true?

9 A. Yes.

10 Q. The tracking of the changes in customer
11 calls ceased to be reported in the tracking studies
12 after the sixth month of the campaign.

13 Is that also true?

14 A. Well, the reports that we provided to the
15 Company were specifically related to an admission of a
16 survey or a set of focus groups. We made presentations
17 to the officers of the Company as well as to members of
18 the conservation Staff on the entire results, which
19 included customer call information at about six months
20 to annual intervals.

21 Q. Is that a yes then, that the tracking of the
22 changes of customer calls ceased to be reported after
23 the sixth month?

24 A. No. They were, in fact, reported. Whether

25 they were still in this exhibit that you just referred

WITNESS: MAURA L. O'NEILL - Cross by Brown 4280

1 to, I doubt it because the survey -- it was just an
2 indication of the survey.

3 Q. So that information is not contained in the
4 tracking studies?

5 A. No. It is not contained in this report that
6 specifically delineates the results of the 1992
7 December telephone survey. But it is something on a
8 six-month basis during the last two and a half years
9 that we have asked the Company to provide us numbers
10 for and have entered into our analysis.

11 Q. Would you accept subject to check that this
12 information is not contained in Wave I?

13 A. Wave I? You mean the report that
14 delineates the questionnaire?

15 Q. I'm sorry. I misspoke. Would you accept
16 subject to check that this particular information
17 regarding the tracking of the changes in customer calls
18 is not reported in tracking studies Wave II and Wave
19 III, but is in Wave I?

20 A. Okay.

21 JUDGE HAENLE: First of all, is that
22 correct? If so, why or why not?

23 THE WITNESS: Yes, if you're referring to --
24 it depends on what you're referring to. If you're

25 referring to the documents named Wave II and Wave III

WITNESS: MAURA L. O'NEILL - Cross by Brown 4281

1 that are specifically discussions of the results of the
2 telephone survey, then subject to check I would agree
3 that the customer calls are probably not included in
4 that.

5 BY MS. BROWN:

6 Q. Thank you. Will you also accept subject to
7 check that that information is contained in Wave I?

8 A. Yes.

9 Q. Thank you. It's true, isn't it, that the
10 average number of calls to the Company after six months
11 of the campaign declined from an average of
12 approximately 3500 calls per month to 2900 calls per
13 month after twelve months and again to 2700 calls after
14 eighteen months?

15 A. I don't have that information in front of
16 me, nor do I recollect it off the top of my head. I
17 would note that in examining incoming calls, you really
18 want to look at a period and particularly a period in
19 which the advertising is in place to determine what the
20 impact would be.

21 So that primarily we looked at six-month
22 time periods rather than month by month.

23 Q. Would you accept subject to check that these
24 are, in fact, six-month time periods which I just

25 referred to in my last question?

WITNESS: MAURA L. O'NEILL - Cross by Brown 4282

1 A. Yes.

2 Q. Is it true that television was added to the
3 media mix after the first six months of the campaign?

4 A. Yes, it was.

5 Q. On Page 7, Lines 17 through 20 of your
6 testimony, you state: "After all, this campaign is one
7 that is being conducted to persuade people to change
8 both their attitudes and their behavior toward a
9 practice with which they have limited or no
10 experience."

11 Is that an accurate quotation?

12 A. What line?

13 Q. 17 through 20.

14 A. (Reading.) Yes.

15 Q. The practice to which you refer here is
16 conservation?

17 A. Yes. But specifically what I meant by
18 limited or no experience was items that perhaps they
19 had not practiced in the past, such as using low-flow
20 shower heads or aerators, not things that they may have
21 done since they were small children.

22 Q. On Page 19 of your base line survey under
23 the heading Energy Conservation Behavior, it reads: "A
24 large portion of Puget Power's customers say they

25 regularly do many of the conservation-related behaviors

WITNESS: MAURA L. O'NEILL - Cross by Brown 4283

1 included in our survey list."

2 Do you recall that?

3 A. Yes.

4 Q. In the first two surveys, you asked the
5 question: "In making any of these improvements, did
6 you receive any assistance from Puget Power?"

7 Do you recall that question?

8 A. Yes.

9 Q. And the survey results indicated that only
10 fifteen percent of those respondents who had undertaken
11 energy efficiency installations had received any
12 assistance from Puget.

13 A. Subject to check, I would accept that.

14 Q. Now, that particular question regarding the
15 level, if any, of assistance from Puget Power was not
16 asked in the subsequent two surveys, was it?

17 A. That's right.

18 Q. On Page 9 of your testimony, at Lines 17
19 through 22, you discuss the rationale behind the ad
20 entitled "Why We Advertise." And you state: "This ad
21 was specifically included because some people in the
22 earliest focus groups expressed skepticism as to why a
23 utility with a monopoly franchise would need to
24 advertise. Particularly, they were skeptical about why

25 a for-profit company would ask people to use less of

WITNESS: MAURA L. O'NEILL - Cross by Brown 4284

1 their product."

2 Is that an accurate reading?

3 A. Yes.

4 Q. If you could turn to Page 16 of your base
5 line survey.

6 A. What page was that?

7 Q. 16.

8 A. Okay.

9 Q. It states: "An overwhelming majority of
10 Puget Power's polled customers think that asking them
11 to use less electricity represents wise business
12 practice and an environmentally sound use of resources.
13 Less than five percent thought it was in some way
14 confusing or found it difficult to believe."

15 Do you see that?

16 A. Yes.

17 Q. And this customer skepticism has decreased
18 over time, has it not?

19 A. (Reading.) Yes.

20 Q. On Page 34, Lines 18 through 24, of your
21 testimony, you explained that it is your impression
22 that Puget's residential customers expect Puget to
23 continue with the so-called conservation advertising
24 campaign.

25 Is that true?

WITNESS: MAURA L. O'NEILL - Cross by Brown 4285

1 A. Yes, it is.

2 Q. Were these customers ever asked to quantify
3 how much they would be willing to pay for the
4 continuation of this campaign?

5 A. No. But I do have with me today excerpts
6 that speak directly to that issue where the Commission
7 -- you all can see where customers directly talk about
8 when they are asked the question about stopping
9 advertising.

10 Q. There has been concern raised over the other
11 issues that the conservation advertising campaign
12 addressed, such as the placement of power lines and
13 sales of power to California.

14 A. Right.

15 Q. Is that a fair statement?

16 A. Yes.

17 Q. Would you agree that the issues of EMF and
18 the sale of power to California are controversial
19 issues in the eyes of the public today?

20 A. Yes.

21 Q. Are you aware --

22 A. But I think that why we recommended that the
23 Puget message on them is because we think -- we believe
24 -- and I think the evidence shows in our research as

25 well as others -- that the decision to acquire

WITNESS: MAURA L. O'NEILL - Cross by Brown 4286

1 conservation by a customer and do it over the long
2 period of time has a lot to do with other issues that
3 if they don't understand they are not likely to.

4 Again, I have a videotape that has an
5 excerpt on this piece on California that's about a
6 minute and a half long that I think would be useful for
7 people to see that really speaks to this issue why
8 people said that -- why should I conserve if the
9 Company is just going to sell power to California?

10 So, we felt that it was really important to
11 get customers to conserve for the Company to message on
12 those issues.

13 Q. In the most recent tracking study, which is
14 now Exhibit 914, you note that there has been a
15 statistically significant decline in the overall
16 awareness of the campaign from 65 percent to 58
17 percent?

18 A. That is correct.

19 Q. One of the reasons you hypothesized this
20 occurred was because customers are becoming accustomed
21 to hearing the current campaign's conservation
22 message.

23 Is that true?

24 A. I hypothesized a couple things. Yes, that's

25 true. That's one of the reasons we hypothesized. The

WITNESS: MAURA L. O'NEILL - Cross by Brown 4287

1 other reason we hypothesized is that if Puget was out
2 of the market for quite an extended period of time,
3 that that might account for the drop in awareness.

4 Yes. You always worry about the wear-out of
5 campaigns; that people will begin to not remember or
6 pay attention to them if you don't freshen them in some
7 way. So, we were worried that that might be beginning
8 to happen.

9 Q. It's possible, isn't it, that customers have
10 reached their respective saturation points with regard
11 to Puget's advertising campaign regarding conservation?

12 A. There is no way of knowing that at this
13 time.

14 Q. In response to Staff's Data Request 2601,
15 you provided several notes and summaries of the various
16 focus groups which you have conducted. Do you recall
17 that?

18 A. Yes.

19 MS. BROWN: Your Honor, I distributed
20 yesterday what has been marked for identification as
21 Exhibit 898.

22 JUDGE HAENLE: Yes, ma'am.

23 BY MS. BROWN:

24 Q. Ms. O'Neill, do you have a copy of your

25 Summary of Focus Groups?

WITNESS: MAURA L. O'NEILL - Cross by Brown 4288

1 A. Is it the January 1993?

2 Q. Yes.

3 A. Yes, I do.

4 Q. Can you identify this document, please?

5 A. This is the document that we prepared that
6 summarized the results of the focus groups that we
7 conducted in January and February of this year in
8 Bellingham, Bellevue, and Olympia on behalf of the
9 Company.

10 MS. BROWN: Your Honor, I move the admission
11 of Exhibit 898.

12 JUDGE HAENLE: Any objection?

13 MR. MARSHALL: No.

14 JUDGE HAENLE: Mr. Adams?

15 MR. ADAMS: No.

16 JUDGE HAENLE: Mr. Furuta?

17 MR. FURUTA: No.

18 JUDGE HAENLE: Mr. Trincherero?

19 MR. TRINCHERO: No.

20 JUDGE HAENLE: Exhibit 898 will be entered
21 into the record.

22 (Received Exhibit 898)

23 BY MS. BROWN:

24 Q. Would you please turn to the heading

25 Reaction to Rates Notification Rewrites and Rate Fact

WITNESS: MAURA L. O'NEILL - Cross by Brown 4289

1 Sheet.

2 A. There is fax numbers on the top of there.

3 Can you note what the number of that page is?

4 Q. I think 15.

5 A. Pardon me? I think it's Page 9.

6 Q. Let's see. It's the sixth page from the
7 end.

8 A. Yes, I have got it.

9 Q. Does this particular page contain the
10 summary of the groups' reactions to exposure to these
11 rate notices?

12 A. It's a summary, yes.

13 Q. Were these particular customers handed a
14 copy of the rewrite and then asked their reaction?

15 A. Yes. One of the major concerns that
16 customers have raised to us and we know traditionally
17 is that customers are concerned that, if they conserve,
18 their rates will go up.

19 And so at a time in which the Company's
20 rates are going up, that interplay or that interface
21 between customers' attitudes about rates and what
22 information they are getting in conservation is very
23 important.

24 Q. And that same procedure, i.e., exposing the

25 customers to the rates facts sheets, exposure to the

WITNESS: MAURA L. O'NEILL - Cross by Brown 4290

1 notification rewrite was also used with regard to the
2 fact sheet?

3 A. Yes. Again, because we were concerned that
4 any of the companies messaging on rates might have an
5 adverse impact on customers' willingness to conserve
6 electricity.

7 Q. The customers' concerns about the
8 possibility that their rates would increase were
9 expressed with regard to the possible rate increase
10 which may flow from this particular case; is that
11 right?

12 A. No. I think that they were -- they weren't
13 specifically talking about this case. They were
14 talking about in general. There is not a good
15 knowledge on behalf of most residential customers about
16 the intricacies of proceedings like this.

17 But we do know from the survey, we have
18 asked two questions consistently related to this: One,
19 if I conserve, my bill will go up anyway? And, second,
20 my bill will go up less if or my rates will go up less
21 if I conserve.

22 And so those are two ways that we have
23 tracked on an ongoing basis this interplay between
24 rates and conservation.

25 Q. But it's true, isn't it, that the rates

WITNESS: MAURA L. O'NEILL - Cross by Brown 4291

1 notification rewrite and the rates fact sheet were
2 given to the customers pertained to this case?

3 A. I would have to check that, Ms. Brown. I
4 think that they actually related to the PRAM last year.
5 I don't think that they were related to this. But I
6 will check that.

7 Q. Now, this was billed to the Company as
8 conservation advertising; is that correct?

9 A. I wouldn't know. That's not my area of
10 expertise. I think you would have to ask the Company
11 that.

12 Q. What about your bill to the Company?

13 A. You would have to ask the Company.

14 Q. But the focus groups that you conducted,
15 which are summarized here in Exhibit 898, surely you
16 billed Puget Power for your time and your efforts in
17 conducting the focus groups?

18 A. We billed Puget for both the focus group
19 work as well as the survey. I thought your question
20 was whether Puget charged it to conservation. What I
21 said is I'm not in charge of the Company's accounts.
22 That question would be best directed to the Company
23 rather than to me, therefore.

24 Q. But the nature of your contract with the

25 Company pertained to conservation advertising, does it

WITNESS: MAURA L. O'NEILL - Cross by Brown 4292

1 not?

2 A. Right. That is our aim in this is to
3 maximize the number of customers that both install
4 conservation measures as well as practice conservation
5 behavior over the long-term.

6 Q. Is it your opinion that all of the issues
7 listed under "Issue-Oriented Advertising" should be
8 part of the Company's conservation ad campaign?

9 A. No, they aren't. No, it is not my opinion.

10 Q. Now, in this summary, Exhibit 898, it is
11 mentioned that there were a few participants who
12 criticized the approach of the advertising or
13 questioned the costs associated with the campaign.

14 Do you recall that?

15 A. Yes.

16 Q. And the participants who questioned costs
17 made the following statements: "They, advertising, are
18 not free. They are paying for it with my money. And
19 the TV ads, everybody is seeing them, not just Puget
20 Power customers."

21 Do you recall those statements?

22 A. Yes. And in all of our research we try to
23 paint as complete a picture as possible of what the
24 customers are saying even if there are misperceptions

25 or even if it's a minority opinion.

WITNESS: MAURA L. O'NEILL - Cross by Brown 4293

1 We try to, as I said, give a
2 three-dimensional look of what's happening with the
3 Company. We have told the Company we believe there is
4 about a quarter of its customers that are just tough to
5 get -- to convince, to convince that there is a
6 problem, to convince to do anything.

7 So, it's not surprising that in focus groups
8 we'll have people who scratch their head or are
9 skeptical otherwise of conservation advertising
10 expenditures.

11 Q. Is this quarter of customers figure that you
12 just mentioned based on the focus groups?

13 A. No. It's based on our looking at the survey
14 data. This is a hypothesis on our behalf. We look at
15 all the ways of the tracking and our assessment of how
16 the numbers are.

17 We don't believe -- we believe that it would
18 be prohibitively expensive for the Company to actually
19 get 95 percent or 100 percent awareness of their
20 campaign and conservation behavior.

21 So, our estimate is when you get up around
22 the 75 percent level in terms of awareness, you want to
23 be careful about how much more money is spent to get
24 those few last people on board.

25

JUDGE HAENLE: You have handed me a

WITNESS: MAURA L. O'NEILL - Cross by Brown 4294

1 multi-page document. At the top it says Memorandum and
2 the date is April 12, 1991. The subject is listed as
3 Recommendations For Ad Campaign.

4 I will mark this as Exhibit 915 for
5 identification.

6 (Marked Exhibit 915)

7 BY MS. BROWN:

8 Q. Miss O'Neill, can you identify what's been
9 marked as Exhibit 915 for identification?

10 A. Yes. Actually, two documents that have been
11 stapled together. One is a memo from myself to Mike
12 McDonald of Puget Power on recommendations for the ad
13 campaign. And the second is a series of typed-up notes
14 that one of our research assistants who actually viewed
15 the focus groups made.

16 And when you asked us for all of our notes
17 and transcripts, we looked through our files and this
18 is one of the things that we found.

19 But as I recall, these are from two
20 different time periods. Subject to check, I would -- I
21 think that the notes are actually from April '92 and
22 the memo is actually April '91. But I would have to
23 check that.

24 MS. BROWN: Your Honor, I move the admission

25 of Exhibit 915, please.

WITNESS: MAURA L. O'NEILL - Cross by Brown 4295

1 JUDGE HAENLE: Any objection?

2 MR. MARSHALL: I am concerned they are from
3 two different time periods. And they are also just two
4 portions of Response to Data Request 2601, which asked
5 for all transcripts, recordings, minutes, and notes
6 from the focus group sessions.

7 So, these are just excerpts. I don't know
8 why they are grouped, just these two, rather than
9 having the complete listing of those.

10 JUDGE HAENLE: Are there other portions
11 which you feel should be included?

12 MR. MARSHALL: I think the entire response
13 to the Data Request 2601 should be included for
14 completeness.

15 JUDGE HAENLE: Well, completeness isn't
16 always the goal that one would --

17 MR. MARSHALL: Then I would ask Staff to
18 express what the relevance of just these two are as
19 opposed to having a more complete set of notes. In
20 other words, if they are designed to show some thought
21 or some trend or something, then, perhaps it would be
22 better to have the more complete set.

23 JUDGE HAENLE: Ms. Brown?

24 MS. BROWN: I think it's odd that the

25 Company is objecting on the basis of completeness in

WITNESS: MAURA L. O'NEILL - Cross by Brown 4296

1 light of the fact of Exhibit 898 was admitted into the
2 record.

3 This is a portion to the Company's response
4 to Staff's data request. These are complete in
5 themselves. I think it's relevant. Clearly, if you
6 would just look at the subject section of the memo, it
7 reads Recommendations For Ad Campaign. And that's the
8 subject about which Miss O'Neill has filed testimony in
9 this docket.

10 JUDGE HAENLE: What are you attempting to
11 demonstrate by this document? I guess I should ask
12 that.

13 MS. BROWN: (Reading.) I'm trying to
14 demonstrate Ms. O'Neill's views regarding the ad
15 campaign that the Company is continuing with regard to
16 conservation.

17 The second section has a fax date of May of
18 1992. It pertains to focus groups about which there is
19 considerable testimony in this docket. And I think
20 it's relevant and helpful to the Bench in rendering its
21 decision with regard to the Staff's recommendations on
22 conservation advertising and the conservation
23 advertising campaign that Puget has undertaken. It's
24 relevant.

25

JUDGE HAENLE: Mr. Marshall?

WITNESS: MAURA L. O'NEILL - Cross by Brown 4297

1

MR. MARSHALL: Again, I'm not sure that your
2 question was answered. I suppose one of the things
3 that could be done would be just to have the two
4 exhibits separate so there is no confusion that one is
5 part of the other. I think that would be better.

6

Again, I don't know where it's going. My
7 objection is it's not complete.

8

MS. BROWN: They were provided this way,
9 stapled together, to Staff members.

10

JUDGE HAENLE: It isn't the complete
11 response to data request. Let's pull them apart and
12 mark them separately as pieces. First page of Exhibit
13 916 will be entitled Puget Focus Groups, Bellingham,
14 April 29.

15

(Marked Exhibit 916)

16

JUDGE HAENLE: Have you an objection to
17 the entry of the documents in that form, Mr. Marshall?

18

MR. MARSHALL: No. If we need to, we can
19 put other exhibits in.

20

JUDGE HAENLE: All right. Have you an
21 objection to the entry of the documents, Mr. Adams?

22

MR. ADAMS: No.

23

JUDGE HAENLE: Mr. Furuta?

24

MR. FURUTA: No objection.

25 JUDGE HAENLE: Mr. Trincherro?

WITNESS: MAURA L. O'NEILL - Cross by Brown 4298

1 MR. TRINCHERO: None, your Honor.

2 JUDGE HAENLE: I will enter the two
3 documents into the record.

4 (Received Exhibits 915 and 916.

5 JUDGE HAENLE: Why don't you look over the
6 remaining documents in the Response to Record
7 Requisition, and if you feel there are some other
8 portions that are absolutely necessary, you can offer
9 them on redirect, Mr. Marshall.

10 MR. MARSHALL: Fine.

11 JUDGE HAENLE: Go ahead, Ms. Brown.

12 BY MS. BROWN:

13 Q. This memo dated April 29, 1991, which is now
14 Exhibit --

15 JUDGE HAENLE: The memo is 915 and the focus
16 groups are 916.

17 BY MS. BROWN:

18 Q. Is this the set of focus groups, Exhibit
19 916, please back on 915, is this the set of focus
20 groups upon which the initial campaign was based?

21 A. No, it wasn't. It was a series of focus
22 groups done in the winter of 1990. This was done right
23 prior to the launch of the campaign that were primarily
24 aimed at copy testing and some more refinements.

25 Q. Do you have the report of the 1990 focus

WITNESS: MAURA L. O'NEILL - Cross by Brown 4299

1 group you just referred to?

2 A. I do.

3 Q. Is there some reason that they weren't
4 provided?

5 A. I think that they were provided, the
6 document dated December 1990.

7 MS. BROWN: Your Honor, I would like to make
8 a Record Requisition for those, please.

9 JUDGE HAENLE: That's 586 for
10 identification. Because we are as close to the end of
11 the case as we are, we need to figure out in what
12 manner those can be provided and how they would be
13 entered into the record if that request were made.
14 We're going to run out of time on Friday.

15 (Record Requisition No. 586).

16 JUDGE HAENLE: How would you propose that
17 those be handled?

18 Do you have them here?

19 THE WITNESS: I have a copy here.

20 JUDGE HAENLE: Why don't we go off the
21 record for a minute.

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 I

25 believe we found it was provided to one of your

WITNESS: MAURA L. O'NEILL - Cross by Brown 4300

1 requests, Mr. Adams?

2 MR. ADAMS: I'm not sure that that was the
3 case.

4 CHAIRMAN NELSON: It doesn't matter. Let's
5 just go on.

6 JUDGE HAENLE: Why don't you take a look at
7 that over the lunch hour, Ms. Brown. When we get back,
8 if there is something that needs to be done with it,
9 you can so indicate.

10 BY MS. BROWN:

11 Q. Miss O'Neill, would it be accurate to say
12 that these focus groups played a significant role in
13 the ad campaign development?

14 A. It would. I would also note, if you're
15 looking for results of that focus group, we did provide
16 a summary tape of those focus groups to both Public
17 Counsel and Staff that summarized the focus groups that
18 are the subject of that report. And I have the summary
19 -- focus group tape here today.

20 That's the one I referred to that I would be
21 happy to show with respect to why we recommended to the
22 Company that they message on the issue of California,
23 on the issue of rates, and some others.

24 Q. Exhibit 916, the first page there --

25 A. Can you help me? That's the memo; right?

WITNESS: MAURA L. O'NEILL - Cross by Brown 4301

1 Recommendations For Ad Campaign?

2 JUDGE HAENLE: 916 is the second part.

3 THE WITNESS: Okay.

4 BY MS. BROWN:

5 Q. This particular exhibit summarizes the
6 question, "What would you like to hear more about?"

7 A. No, it does not. This is one research
8 assistant's notes sitting in the room that she took
9 specifically. So, it would not summarize what all was
10 said in that focus group with respect to that question.

11 MS. BROWN: I have nothing further. Thank
12 you.

13 JUDGE HAENLE: All right. Do you have
14 questions, Mr. Furuta?

15 MR. FURUTA: No, your Honor.

16 JUDGE HAENLE: Do you have questions, Mr.
17 Trinchero.

18 MR. TRINCHERO: No, your Honor.

19 JUDGE HAENLE: Mr. Adams?

20 MR. ADAMS: Yes, I do.

21

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

23 BY MR. ADAMS:

24 Q. Miss O'Neill, I want to step back again and

25 start just very briefly with your background in terms

WITNESS: MAURA L. O'NEILL - Cross by Adams 4302

1 of Puget's programs.

2 A. Okay.

3 Q. Am I correct -- correct me if I am mistaken
4 here -- it appears that you first became involved in
5 working with Puget on its advertising programs in
6 approximately 1990. Is that correct?

7 A. That would be correct. We have been
8 involved with Puget prior to that in market research.
9 But directly related to the ad campaign, it was 1990.

10 Q. Just briefly, what kind of market research
11 were you involved with?

12 A. The original project was they had what
13 became their Comfort Plus program, but their Model
14 Energy Home program. And they sent out an RFP for
15 which we responded successfully to conduct a series of
16 focus groups in the development of the Comfort Plus
17 program.

18 Q. What time frame are we talking about?

19 A. Oh, I would have to check. But an educated
20 guess is about six years ago.

21 Q. And am I correct that as part of your
22 responsibilities you do not do specific advertisement
23 formatting or the placement of those ads; is that
24 correct? I assume that's Hinton and Steel's

25 responsibility?

WITNESS: MAURA L. O'NEILL - Cross by Adams 4303

1 A. Right.

2 Q. But am I correct that starting in about 1990
3 you did take part in focusing the ad campaign and its
4 general themes? Is that a fair statement?

5 A. Yes. We provided research that the
6 advertising agency used to focus the campaign.

7 I think it's important for you and the
8 Commissioners to understand that research is one input
9 into the development of a successful campaign. But
10 what we told the Company and the advertising agency is
11 that you need to take research and combine it with your
12 experience and your knowledge of the field in order to
13 produce the best ad campaign.

14 Q. Now I want to shift specifically to a couple
15 questions relating to Exhibit 914, which is the
16 tracking survey, Wave III.

17 A. Okay.

18 Q. Do you have that exhibit?

19 A. I do.

20 Q. Let me ask you one other preliminary
21 question:

22 You indicated that, for instance, this
23 particular document was prepared in April of '93, and
24 each of those other tracking studies have dates when

25 they were prepared.

WITNESS: MAURA L. O'NEILL - Cross by Adams

4304

1 A. Right.

2 Q. Is it standard practice -- do you send to
3 the Company before that -- the final document is
4 prepared after a preliminary report? Or is this the
5 only document that the Company will see?

6 A. Sometimes we do and sometimes we don't. It
7 depends on the interest of the Company and client. It
8 differs.

9 I would have to go check my records to
10 indicate which of these show a draft on and which there
11 was a final.

12 Q. Do you recall as to this specific document?

13 A. I think that this was the only one that we
14 submitted to the Company. But I would have to check
15 that.

16 Q. Okay. If you would turn to Page 39 of the
17 report, please, the page that's headed The Effect of
18 the Advertising Campaign on Customer Behavior. Do you
19 see that?

20 A. Yes.

21 Q. Is it accurate to say that the results
22 reported in this section measure the effect of the
23 advertising campaign? Or would it be more accurate to
24 say that they measure the change over time in customer

25 behavior?

WITNESS: MAURA L. O'NEILL - Cross by Adams 4305

1 A. The latter.

2 Q. Now, the results of this report are also the
3 sampling area; is that correct?

4 A. That's correct.

5 Q. And the report indicates that the sampling
6 error is plus or minus 1.4 percent at the 95 percent
7 confidence level?

8 A. That's correct.

9 Q. If the difference were to fall within that
10 sampling error range, would it be appropriate to say
11 that the difference was meaningful? Or would it be
12 appropriate to say that there was no measurable
13 difference in the percentage?

14 A. You would note the difference. You are
15 correct that you would say that there was no measurable
16 difference.

17 Q. Looking at the list of conservation
18 activities on Page 39 of this report, for each one,
19 more respondents in the third survey reported doing
20 these things than in the second survey; is that
21 correct?

22 A. Yes.

23 Q. The report does not state the size of the
24 gains. It just says that they are small. Do you

25 agree?

WITNESS: MAURA L. O'NEILL - Cross by Adams 4306

1 A. Right. I do have the actual statistics and
2 would be happy to provide you with them if you want to
3 know what any of these are.

4 Q. Let me just ask the question this way: Is
5 it safe to assume that these gains, even if they are
6 small, are statistically significant?

7 A. I don't know. We didn't run significance
8 tests on each of these. I would have to go back and
9 look. They may or may not be.

10 Q. Turning to Page 40 of the report, at the
11 bottom of the page there is a list of measures under
12 the heading First-Time Conservation Measures Performed
13 in the Past Six Months.

14 Do you see that?

15 A. Right.

16 Q. I would like to understand the source of the
17 information for these measures and percentages.

18 Can you show us the question on the survey
19 instrument that serves as the basis for the percentage
20 of customers performing these measures for the first
21 time in the last six months?

22 A. Okay. What the interviewer asks is they ask
23 each of these questions like: "Have you installed
24 low-flow shower head or aerator?" And then they ask

25 them, "Is this the first time?"

WITNESS: MAURA L. O'NEILL - Cross by Adams 4307

1 Q. Is this your Question 10?

2 A. (Reading.) Yes. What we do is we ask them
3 -- and let me read the Question 10 -- interview asks
4 the following: "I am going to read you a list of
5 energy saving activities. As I read that list, please
6 tell me which if any of these activities you or anyone
7 in your household did within the last year and a half.

8 "I would also like to know if you or anyone
9 in your household have done or have been doing any of
10 these energy saving activities for more than one and a
11 half years."

12 That's how we establish it.

13 Q. That sort of makes the point I wanted to ask
14 you about: The question is who has done this over the
15 last year and a half, not over the last six months.
16 Would you indicate how the information about activities
17 over the past year and a half tells you what customers
18 have done for the past six months?

19 A. Well, we looked at -- we asked this question
20 in a couple waves. So, this is the results of Wave
21 III. And so what we do is we took the difference
22 between the customers' responses in Wave II and Wave
23 III and said what's the actual increase?

24 Q. You basically subtracted the percentages

25 from Wave II from Wave III to come up with these

WITNESS: MAURA L. O'NEILL - Cross by Adams 4308

1 numbers?

2 A. I would have to check that. But subject to
3 check, yes, I think.

4 Q. One of the items shown on Page 40 -- the
5 highest number shown on 40 is under hot water low-flow
6 shower heads and aerators. Do you see that? 44
7 percent?

8 A. Yes.

9 Q. And I note up right above that chart the
10 sentence reads: "This result, however, is largely
11 based on water-related activities encouraged by Puget
12 Power and others during the drought."

13 Do you see that cite?

14 A. Right.

15 Q. Am I correct that the reference you're
16 making there is the combined programs of Puget as to
17 your Seattle City Light and various other municipal and
18 private utilities conducted during 1992?

19 A. Yes.

20 Q. That was accompanied with quite a bit of
21 information concerning the drought in the region. Is
22 that not correct?

23 A. Right.

24 Q. And the drought was more than just power; it

25 was drought as to waterfalls, as well?

WITNESS: MAURA L. O'NEILL - Cross by Adams 4309

1 A. Yes. What we were trying to do was caution
2 the reader that this high percentage was probably in
3 part related to what was a fairly massive educational
4 campaign and distribution by the area utilities.

5 Q. It was massive both in the sense of
6 education and in distribution; correct?

7 A. Yes. It's my understanding, subject to
8 check, when I asked Puget about this, I think they
9 distributed about 167,000 shower head and aerator kits.

10 Q. Was that in 1992? Or was that as part of
11 what I'll call sort of the King County joint program?

12 A. No. It was -- I'll have to look at my
13 notes. But it's my understanding over the course of
14 this ad campaign.

15 Q. Sorry. Again, the ad campaign being all of
16 1992 or a piece of '92? I don't understand the
17 reference.

18 A. Well, I would have to check it. But I think
19 it's from -- I asked the Company for how many shower
20 heads and aerators had been distributed to households
21 since June of 1991 when the ad campaign started. And
22 so that's the number that I was giving you.

23 Q. Whatever the number is, the program
24 continued through the 1992 time frame; correct?

25 A. Yes.

 WITNESS: MAURA L. O'NEILL - Cross by Adams 4310

1 Q. Now, let's turn if you would to Page 33 of
2 the document where you talked about Customer
3 Understanding of the Cost of Conservation. What I
4 would like to ask you about is a sentence in the second
5 paragraph, that is, the first paragraph with a bullet
6 next to it.

7 The sentence reads: "Apparently the
8 campaign has contributed to the education of
9 residential customers about certain of these elements
10 because two-thirds or more of customers interviewed
11 agree with the following statement."

12 The report then lists four statements.

13 Is it correct that customers were not asked
14 whether they agreed with those statements in earlier
15 tracking surveys?

16 A. That's correct. Not all of them. I can
17 check which of these were asked from the beginning.
18 But, yes. What we became concerned about was as Puget
19 was proposing to raise rates that we had better include
20 some questions about this in the survey because we
21 wanted to track what the impact of these rate increases
22 would be on conservation attitudes and behaviors.

23 Q. Do you disagree with the first four words of
24 that bullet, which is, "For the first time, customers

25 were queried"? This is the first time these questions

WITNESS: MAURA L. O'NEILL - Cross by Adams 4311

1 were asked?

2 A. Let me look just a minute. (Reading.)

3 Wave III was the first time we asked "I

4 understand why conservation can cause my electricity

5 rates to go up," and the first time we asked

6 "Electricity rates will go up less if we conserve."

7 Q. As to the two other?

8 A. I don't know. I can't readily see them. I

9 would have to check that.

10 Q. Just referring to that one sentence that you

11 just indicated, electric rates go up less if we

12 conserve, would you agree that in the short-term,

13 anyway, that electric rates would go up more if we

14 conserve?

15 A. Not necessarily.

16 Q. I'm talking about rates now, not bills.

17 A. Not necessarily. It depends on your cost of

18 conservation. If the cost of conservation is below the

19 rate impact test, then your rates would not necessarily

20 go up.

21 But, yes, if the cost of conservation is

22 above the rate impact test, and that is amortized over

23 a short period of time, it could cause electric rates

24 to go up.

25 Q. When you say the "rate impact test," are you

WITNESS: MAURA L. O'NEILL - Cross by Adams 4312

1 talking about the no losers test? What test are you
2 referring to?

3 A. It depends on what the cost of conservation
4 is. You asked me generally in the short run does
5 conservation cause electric rates to go up. And I said
6 it depends on the conservation that the utility is
7 acquiring.

8 Q. Do you know how this works as far as Puget
9 is concerned? Again, in the last year, '91/'92?

10 A. Electric rates for Puget have gone up as a
11 result of this conservation investment, it's my
12 understanding, yes.

13 Q. Now, turning to your testimony at Page 18,
14 approximately Line 22, basically the reference where
15 you discuss the issue of possible shifts in public
16 attitude over time.

17 A. Right.

18 Q. As a hypothetical, assume that consumers all
19 over the country become more interested or became more
20 interested in energy conservation and environmental
21 protection over time and began taking more steps to
22 conserve energy. Let's assume that the consumer in
23 Omaha and Bellevue and San Diego are all becoming more
24 energy conscious over time.

25 Would this general shift in attitude cause

 WITNESS: MAURA L. O'NEILL - Cross by Adams 4313

1 more consumers in your survey to say that they are
2 doing conservation?

3 A. Yes, it would, overall. But I would note
4 that as a result of Public Counsel Data Request 3575,
5 that we did run some numbers that compared what the
6 difference in conservation attitudes and behaviors were
7 against those who were aware of the ad campaign and
8 those who were not aware of the ad campaign. And those
9 who were aware of the campaign had substantial
10 differences in a positive sense in their changes in
11 attitudes and behavior.

12 Q. Going back to the hypothetical, you would
13 agree, would you not, that it could appear that
14 consumers were responding to utility ads that were
15 running during the same time period and the fact that
16 they are responding to the same forces that were
17 causing consumers in Omaha and San Diego to focus on
18 energy conservation?

19 A. Yes. We have said in our testimony, as well
20 as we have told the Company all along, the conservation
21 advertising is not done in a vacuum and that there are
22 a variety of things that can influence people's
23 conservation attitudes and behaviors, some of which are
24 external events that would impact people in Omaha as

25 well as people in the Northwest.

WITNESS: MAURA L. O'NEILL - Cross by Adams 4314

1 Although we do know from tracking Northwest
2 environmental attitudes that, not surprisingly, the
3 people here are much more environmentally sensitive
4 than they are in the rest of the country. And so the
5 shift, the likely impact on the Omaha person, is
6 probably likely to be greater percentagewise than the
7 Northwest because we're already pretty high in terms of
8 our value of the environment.

9 Q. That's why we live here?

10 A. That's right.

11 Q. Finally, an issue of rate increases: Would
12 you agree that the Company has passed through rate
13 increases to its customers in each of the last three
14 years: 1990, '91, and '92?

15 A. I think it has.

16 Q. And it is proposing substantial increases in
17 October of this year, both because of this part of the
18 case, that is, the general PRAM, and the PRAM 3 filing?

19 A. It's my understanding that they are
20 requesting an increase. I think that it's a judgment
21 call on whether it's substantial or not. Certainly we
22 have been concerned, as I have indicated both in the
23 testimony as well as here today in cross, about the
24 impacts on rate increases on customers' willingness to

25 continue to conserve electricity.

WITNESS: MAURA L. O'NEILL - Cross by Adams 4315

1 Q. Don't rate increases tend to make customers
2 more interested in conserving energy?

3 A. The answer to that question is yes and no.
4 The yes part of that question is there is price
5 elasticity that means as prices go up to customers they
6 tend to actually institute conservation measures.

7 The answer of no is that we know from the
8 focus groups that we're concerned about back lash
9 impact, which says as one of the focus group
10 participants says, Puget is tied to a bottom line. So,
11 if I conserve ten percent, my rates will just go up ten
12 percent. So, why bother.

13 That's the attitude that we're very
14 concerned about.

15 Q. Have your tracking studies -- I'm referring
16 now to the three different tracking studies --
17 specifically tried to break out the impact of rate
18 increases and the responsiveness of customers to
19 conservation advertising?

20 A. No, we haven't.

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

22 JUDGE HAENLE: Commissioners, do you have
23 questions?

24 CHAIRMAN NELSON: A few.

25

WITNESS: MAURA L. O'NEILL - Examination by Nelson 4316

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

2 BY CHAIRMAN NELSON:

3 Q. Miss O'Neill, last summer a Staff member of
4 yours called and asked me to get my picture taken for a
5 booklet that you and Puget were putting together. I
6 believe Mr. Adams also had his picture taken. I saw
7 the contact sheets of him. And there were other
8 policymakers from around the Northwest.

9 Whatever happened to that booklet? Do you
10 know?

11 A. It just got printed about two weeks ago.

12 COMMISSIONER CASAD: Why didn't you ask for
13 Mr. Hemstad's and my picture?

14 THE WITNESS: I knew that was a problem.
15 Everybody would want their picture in it.

16 BY CHAIRMAN NELSON:

17 Q. Okay. So, I assume that that's part of -- I
18 don't remember the purpose of the booklet. But it had
19 something to do with Puget's conservation programs.

20 A. Right. It was a history of their
21 conservation.

22 Q. I was going to ask if it hadn't been
23 printed, why. But I'll look forward to seeing it.

24 Do you happen to know if Puget allows third

25 parties to insert bill inserts into its billing

WITNESS: MAURA L. O'NEILL - Examination by Nelson 4317

1 envelope?

2 A. I don't know if they do.

3 Q. Do you know who I should ask that question
4 of? Probably Mr. Swofford. He just got off the stand.

5 CHAIRMAN NELSON: Mr. Marshall?

6 MR. MARSHALL: I think Mr. Weaver can answer
7 that question, too. But I believe it has been a
8 practice not to give third parties access to the bill
9 inserts just on the basis that it would be hard to
10 decide which third parties would and which ones would
11 not.

12 CHAIRMAN NELSON: Thank you.

13 BY CHAIRMAN NELSON:

14 Q. Questions have been raised about the
15 television program, and I note Commissioner Pardini,
16 when he was here, was anxious to ask this question.
17 So, I'm going to ask it now:

18 Given that the television markets are not
19 congruent with Puget's service territory, is there any
20 practical way to exact contribution from ratepayers in
21 Snohomish or Seattle City Light or Tacoma City Light
22 service territory for the advertising that Puget does
23 and presumably educates and benefits all television
24 watchers?

25 A. It's my understanding that that would have
 WITNESS: MAURA L. O'NEILL - Examination by Nelson 4318

1 to be voluntary on their part to participate.
2 Certainly we believe -- I know that this ad campaign
3 has been a subject of much controversy in this rate
4 case. But I will tell you that I think that the
5 results are profound, and I use that word judiciously.

6 I think that they are so impressive that I
7 would recommend that other agencies, whether it be the
8 Northwest Power Planning Council, Bonneville,
9 Snohomish, or Seattle, consider such an educational
10 program.

11 Q. You're anticipating my last question:

12 Governor Lowry's convening a study group to
13 try to step up to the challenge of the shortage of
14 water in western Washington, and not just for salmon
15 protection but just a common crisis. And in
16 discussions with his Staff and other agency directors,
17 at least it's the conventional wisdom that the
18 recycling message has really been successful. The
19 Metro Get Out of Your Car campaign much less so. And
20 energy conservation is perhaps in between.

21 I guess I would ask for your expert opinion
22 on why you think recycling is so wildly successful,
23 whereas other sort of energy conservation or resource
24 conservation strategies are less successful.

25 A. We did the original market research for the
 WITNESS: MAURA L. O'NEILL - Examination by Nelson 4319

1 City of Seattle's curbside program. We are actually
2 one of the experts on how you get people to recycle.
3 Let me give you my opinion on that. We haven't been
4 involved in Metro. So, I can't speak to that.

5 I think that the recycling is for two
6 reasons: One, that people wanted to be part of the
7 solution rather than part of the problem. And so they
8 saw there was a direct impact every day where they were
9 putting things in their garbage and it was fairly easy
10 for them to put it into a recycling bin. It didn't
11 require a change necessarily in their lifestyle. It
12 wasn't sort of a big deal, if you will.

13 I think on the scale of a big deal, energy
14 conservation is in the middle and getting out of your
15 car is at the end.

16 I think it goes to people's willingness to
17 make behavioral changes, and on that scale you were
18 asking customers to make much larger behavioral changes
19 as you moved from recycling to energy conservation to
20 transportation improvements. Therefore, the burden is
21 that much tougher.

22 CHAIRMAN NELSON: Thank you. That's all I
23 have.

24 COMMISSIONER CASAD: I have no questions

25

WITNESS: MAURA O'NEILL - Examination by Hemstad 4320

1 EXAMINATION

2 BY COMMISSIONER HEMSTAD:

3 Q. What is a foundation ad?

4 A. It's an ad that lays the groundwork for
5 customers to change an attitude or behavior. So, it's
6 a background or a building block, if you will.

7 Q. Give me an example of Puget's foundation
8 ad?

9 A. A foundation ad would be like Why We
10 Advertise. We are concerned about whether customers
11 will be turned off by the Company advertising
12 conservation. We wanted to be up front and lay the
13 groundwork ahead of time.

14 Q. That ad would be run first rather than
15 later?

16 A. Right. Although, you know, over time
17 messaging needs to change and adapt. It's not as if
18 you do the foundation ads in the first year of the
19 campaign and then you never have to do them again.

20 In fact, it's that groundwork that you lay
21 so that when you put an empowerment ad, which is the
22 specific conservation tip, that the customer will be
23 receptive to receiving that.

24 Q. As the ad program was both evolving and

25 being presented, were you involved in evaluating the

WITNESS: MAURA O'NEILL - Examination by Hemstad 4321

1 appropriateness of the specific ads?

2 A. Sometimes we were and sometimes we weren't.

3 Q. And did you find any of the ads not
4 appropriate?

5 A. No. We did express some concern in the ad
6 that had a long nose and it said what do you think when
7 a customer -- when a Company tells you to use less of
8 your product?

9 And in the first line it says, "They are
10 lying. Right?" And in focus groups, people raised
11 some concern about the use of the word "lying." That
12 was sort of a jarring note.

13 And so we recommended that the ad agency
14 consider changing that. They chose not to.

15 Q. It's your obvious position that the overall
16 program was quite successful?

17 A. Yes.

18 Q. But the measurements are soft?

19 A. Right. Any attitudinal behavior measures
20 are, in fact, soft. It's very interesting. Henry
21 Levenson, who is one of the leaders in the conservation
22 area, said the other day in a major presentation this
23 area is so complicated that maybe we need to hire
24 sociologists to design these programs rather than

25 engineers. I think there is an increasing notice --

WITNESS: MAURA O'NEILL - Examination by Hemstad 4322

1 Q. I heard Mr. Levenson make that kind of a
2 comment.

3 When would you in your professional judgment
4 conclude that a campaign such as Puget's or any
5 company's to impersonalize it is imprudent or
6 excessive? How would you come to such a conclusion?

7 A. Well, as I said earlier, I think that it
8 gets very expensive to get that last, in my
9 professional judgment, for this advertising campaign,
10 the last quarter. That gets very expensive.

11 So, as you begin to see awareness and
12 attitudes and behavior level off, you have to freshen
13 up the campaign and then ask yourself maybe we should
14 go into a maintenance mode rather than trying to push
15 the numbers up further.

16 Q. So, when you say a "maintenance mode," does
17 that imply that this kind of conservation advertising
18 is a permanent requirement at some level?

19 A. I believe it is, and I think that's what the
20 customers said.

21 I would like to show you the cut of the tape
22 where customers specifically talk about what the impact
23 would be or how they would feel if Puget stopped
24 advertising, if you would like.

25 Q. I'm not going to ask for it, no.

WITNESS: MAURA O'NEILL - Examination by Hemstad 4323

1 COMMISSIONER HEMSTAD: That's all I have.

2 Thank you.

3 JUDGE HAENLE: Any redirect?

4 MR. MARSHALL: I just have questions in one
5 area.

6

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

8 BY MR. MARSHALL:

9 Q. On the focus group costs that were
10 discussed, were the costs of the focus groups that you
11 conducted in your professional opinion necessary to
12 gain an understanding about what messages were needed
13 for the conservation behavior that we're seeking to
14 change?

15 A. Yes. As I said, I think that surveys done
16 by themselves give you an incomplete picture of
17 customers' attitudes and behaviors.

18 Q. Did you conduct any focus groups that were
19 unnecessary?

20 A. I don't believe we did. In fact, in my
21 professional judgment, you know, we always could have
22 added a few more to get a level of certainty that was
23 even greater than the one that we had.

24 MR. MARSHALL: Thank you. No further

25 questions.

WITNESS: MAURA L. O'NEILL - Direct by Marshall 4324

1 JUDGE HAENLE: Anything more of the witness?

2 Anyone?

3 MR. ADAMS: Just one question.

4

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

6 BY MR. ADAMS:

7 Q. Again, perhaps as a Seattle resident and
8 question related to recycling, recognizing that
9 probably customers didn't want to be part of the
10 solution, they also got hit with a very substantial
11 rate restructure as I recall on a per-can rate at the
12 same time which certainly got people's attention.
13 Wouldn't you agree?

14 A. Absolutely.

15 JUDGE HAENLE: Anything more of the witness?

16 All right. Thank you for your testimony.

17 You may step down.

18 Why don't we go off the record. We can mark
19 the documents for the next witness and all get ready to
20 go and then come back after that at 1:30.

21 (Discussion held off the record.)

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

23 During the time we were off the record,

24 Russel Olson has assumed the stand. I'll remind you,

25 sir, that you were sworn at the beginning of the

WITNESS: MAURA L. O'NEILL - Recross by Adams 4325

1 hearing and are still under oath.

2 I have marked for identification a number of
3 documents as follows: Marked as Exhibit T-917 for
4 identification is a multi-page document REO-4. REO-5
5 is 918. REO-6 is 919. REO-7 is 920, and REO-8 is
6 921.

7 (Marked Exhibits T-917, 918, 919, 920 and
8 921)

9

10 RUSSEL E. OLSON,
11 witness herein, having been previously
12 duly sworn, was examined and testified

13 further as follows:

14 JUDGE HAENLE: Go ahead, Mr. Marshall.

15 MR. MARSHALL: Thank you.

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

17 BY MR. MARSHALL:

18 Q. Mr. Olson, do you have before you what's
19 been marked for identification as Exhibit T-917?

20 A. Yes, I do.

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

23 A. Yes, I do.

24 Q. Do you have any additions or corrections to

25 make to Exhibit T-917 at this time?

WITNESS: RUSSEL E. OLSON - Direct by Marshall 4326

1 A. There is one correction that actually
2 affects two exhibits. On Page 13 of REO-5, which is
3 now T- -- excuse me -- 918 --

4 JUDGE HAENLE: Page which, please?

5 THE WITNESS: It's Page 13 of REO-5, which
6 is 918, on Line 26 --

7 MR. VAN NOSTRAND: I have a revised page on
8 that.

9 JUDGE HAENLE: Why don't you distribute
10 that.

11 THE WITNESS: The only change on that page.

12 JUDGE HAENLE: And substitute that page for
13 Page 13 then?

14 THE WITNESS: Yes. I want to point out the
15 change.

16 JUDGE HAENLE: All right.

17 THE WITNESS: On Line 26, in the far
18 right-hand column, there was a coupon rate under the
19 redemption side of 8 percent, which has been changed to
20 7.9, which is the correct number.

21 The total change is to 7.72, and that's down
22 from 7.73 in the original. And that change does carry
23 over onto Exhibit 917 on Page 20, where I refer to that
24 number on Line -- well, it's between Line 15 and 16 on

25 the left-hand side. You'll see a 7.73 percent which

WITNESS: RUSSEL E. OLSON - Direct by Marshall 4327

1 would then become 7.72 percent.

2 With that change, that completes the
3 correction.

4 BY MR. MARSHALL:

5 Q. As corrected, if I asked you the questions
6 set forth in Exhibit T-917 today, would you give the
7 answers as set forth in that exhibit?

8 A. Yes, I would.

9 Q. Do you have before you what has been marked
10 for identification as Exhibits 918 to 921?

11 A. Yes, I do.

12 Q. Were those exhibits prepared under your
13 direction and supervision?

14 A. Yes, they were.

15 Q. Apart from the one change that you have made
16 to Exhibit 918, do you have any other additions or
17 corrections to make to Exhibits 918 to 921 at this
18 time?

19 A. No, I do not.

20 Q. As corrected, are those exhibits true and
21 correct to the best of your knowledge?

22 A. Yes, they are.

23 MR. MARSHALL: We move the admission of
24 Exhibits T-917 and 918 to 921, and Mr. Olson is

25 available for cross-examination.

WITNESS: RUSSEL E. OLSON - Direct by Marshall 4328

1 JUDGE HAENLE: Any objection, Mr. Trotter?

2 MR. TROTTER: Yes, your Honor. Page 4 of
3 the testimony T-917, the statement going from Line 7
4 through 13 and Line 19 beginning with the phrase "They
5 all told us" through Line 22, the word "rating," we
6 have no objection to the restatement of Mr. Abram's now
7 Mr. Dell's testimony.

8 The basis for the objection is that the
9 cited portions of the testimony are hearsay and, other
10 than Mr. Dell, we do not have these people available to
11 cross-examine. And any question I would ask on this
12 would elicit hearsay and, therefore, we must object.

13 Again, we have no problem with the reference
14 on Line 22 to Mr. Abrams or Mr. Dell since he is
15 available. But the rest of it we just have no basis on
16 which to examine the witness on this other than to
17 elicit additional hearsay.

18 These statements are hearsay. So, we
19 object.

20 JUDGE HAENLE: Mr. Marshall?

21 MR. MARSHALL: These statements go to
22 establish the reasons behind the Company asking for
23 common equity ratio, which as requested it definitely
24 goes to the state of mind of the Company witnesses

25 testifying on this matter. It goes to the state of

WITNESS: RUSSEL E. OLSON - Direct by Marshall 4329

1 what the industry is saying to the Company at this
2 time.

3 I think, like anything else, information
4 comes from a variety of sources, including publications
5 that these agencies publish, which have always been
6 admitted without hearsay objection.

7 This is just a further specific supportive
8 evidence to the reasons why the Company has asked for
9 the common equity ratio it has asked for. The Company
10 witnesses who were there can be asked about why they
11 believe these statements, why their state of mind is
12 the way it is, why they have asked for a common equity
13 ratio.

14 But it does form the basis upon which, at
15 least in part, the Company has made the request it has.
16 To leave it out would be leaving an incomplete record
17 factually as to the reasons given by the Company for
18 that ratio.

19 JUDGE HAENLE: Your witness is asking the
20 Commission to believe the statements that are included
21 in those lines, is he not?

22 MR. MARSHALL: He is asking you to believe
23 that statements were made to the Company people, and
24 Company people have had as part of their thinking

25 behind those recommendations those admonitions in mind.

WITNESS: RUSSEL E. OLSON - Direct by Marshall 4330

1 It's like hearing a warning from people and
2 you act upon that warning. The fact a warning is given
3 is an important bit of evidence. It is not hearsay
4 because it goes to the state of mind of the people
5 acting on that.

6 MR. TROTTER: It's being offered for the
7 truth of the matter asserted. I'm reading from a
8 treatise on evidence. "The statements of the
9 declarants then existing in state of mind is not
10 admissible when given to prove the fact of the
11 statement."

12 We have not objected to the publication,
13 although it is hearsay. These publications have come
14 in from day one in this case. This is clearly
15 cumulative. It's also clearly hearsay.

16 I don't think it's -- it's clearly offered
17 for the truth of the matter asserted. We believe, as I
18 said, I can't ask a question because it will just
19 elicit more hearsay.

20 JUDGE HAENLE: Any objection, Mr. Adams?

21 MR. ADAMS: I would simply concur in the
22 objection. I think it is hearsay, and, again, Mr.
23 Abrams or Mr. Dell is available to back up their
24 opinion. But there is a whole group of people being

25 referred to here who are not before us and cannot be

WITNESS: RUSSEL E. OLSON - Direct by Marshall 4331

1 cross-examined.

2 JUDGE HAENLE: Mr. Furuta?

3 MR. FURUTA: I would agree with Staff's
4 objections for the reasons admitted.

5 JUDGE HAENLE: Mr. Trincherero?

6 MR. TRINCHERO: Your Honor, we have
7 switched. Clearly the statements objected to are
8 hearsay. The Company would not be prejudiced by
9 sustaining the objection because they have offered
10 witnesses from rating agencies who can testify as to
11 the issue at hand.

12 JUDGE HAENLE: Any brief response to the --
13 they seem to be a similar objection. So, I did not ask
14 for your response on each one. Did you want to add
15 anything to your previous response?

16 MR. MARSHALL: I think it's ironic that
17 Staff wants to exclude the costs of bringing Mr. Abrams
18 and Mr. Miller out here to testify. This is again
19 going to the state of the mind of the Company for
20 acting on an admonition by these people.

21 The reason for putting this in, of course,
22 is to show why the Company is acting the way it is in
23 response to these warnings.

24 Again, I think it's perfectly proper to show

25 why the Company has taken the actions that it has. The

WITNESS: RUSSEL E. OLSON - Direct by Marshall 4332

1 alternative is incredibly expensive and is not
2 practical as Staff has actually asked for in this case.
3 We couldn't bring them all in.

4 MR. TROTTER: According to Mr. Abrams, there
5 is no one from any other rating agency that are
6 qualified.

7 JUDGE HAENLE: Well, I'm going to sustain
8 the objection to those two portions of the testimony.
9 If the purpose of these is to demonstrate that the
10 statements were made to the Company, I don't feel that
11 they are appropriate.

12 I agree that other counsel cannot ask
13 questions that will elicit anything other than this
14 witness's view of that.

15 I don't believe this goes to show state of
16 mind, and I don't believe that that's --

17 MR. MARSHALL: Could we introduce them for
18 the limited purpose of showing that the people at the
19 Company have heard statements that were made rather
20 than showing the truth of the statements that were made
21 to them? That is, in fact, the fact that these
22 statements had been made to the witnesses as stated
23 here?

24 JUDGE HAENLE: I believe the danger of

25 misusing that is so great that I don't feel that's

WITNESS: RUSSEL E. OLSON - Direct by Marshall 4333

1 appropriate. But I will enter the rest of T-917, and I
2 will enter 918 through 921.

3 (Received Exhibits T-917, 918, 919, 920 and
4 921)

5 JUDGE HAENLE: Before we begin the
6 cross-examination, let's break for lunch and start the
7 cross-examination after lunch at 1:30, please.

8 (At 12:05 a.m. the above hearing was
9 recessed until 1:30 p.m. of the same day.)

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23 OLYMPIA, WASHINGTON; TUESDAY, JULY 20, 1993

24 1:30 P.M.

1

2 JUDGE HAENLE: Let's be back on the record
3 after our lunch recess.

4 We had marked and entered the documents and
5 were ready to begin with cross-examination then.

6 Mr. Trotter?

7 MR. MARSHALL: Before we begin with
8 cross-examination, the last ruling made on Exhibit
9 T-917, I believe it was over inclusive. And what we
10 would like to do is to have you take a look at the
11 lines that Mr. Trotter had objected to, beginning at
12 Line 7 --

13 JUDGE HAENLE: It was 7 through 13, I
14 believe, and half of 19 through the first word on 22.

15 MR. MARSHALL: Right. And he had indicated
16 that they had no trouble with the testimony as to Mr.
17 Abrams of Duff and Phelps. So, the basis for my --

18 JUDGE HAENLE: That's correct. That begins,
19 as I understand, with the second word on Line 22.

20 MR. MARSHALL: If we look up again to Line
21 7, for example, in fact, Mr. Olson can testify and
22 should be allowed to testify as to the first sentence
23 on Line 7.

24 And then the second sentence ought to be

25 modified in accordance with your ruling to indicate

4335

1 that they have been, in fact, told by at least one
2 major credit rating agency and they are waiting for the
3 Commission's decision on the request.

4 JUDGE HAENLE: That was not the motion that
5 was made, and that was not what I ruled on. I ruled to
6 include that line as well.

7 MR. MARSHALL: To allow it to stay in the
8 testimony?

9 JUDGE HAENLE: No. So that the stricken
10 portion would go from Line 7 through Line 13.

11 MR. MARSHALL: What I'm saying is that
12 ruling was over inclusive.

13 JUDGE HAENLE: If you're asking for
14 reconsideration of that, I guess you would have to
15 check with the Commission. There is only one
16 commissioner here. The ruling did include that line.

17 MR. MARSHALL: I'm not asking for
18 reconsideration. I'm asking that the testimony be
19 revised in accordance with the ruling so that it now
20 reads with the support that Duff and Phelps has as it
21 should.

22 JUDGE HAENLE: No.

23 MR. MARSHALL: In other words, the first
24 sentence is entirely correct.

25

JUDGE HAENLE: I suggest that you ask your

4336

1 witness from Duff and Phelps that question, if you
2 like, as an additional question on direct. But this
3 witness is not the witness to testify for Duff and
4 Phelps, and that is not part of the material that's
5 still in the record.

6 MR. MARSHALL: My motion, if you will, to
7 revise this testimony in accordance with your ruling
8 does depend on the Duff and Phelps testimony, which has
9 been allowed beginning at Line 22 and should be
10 sufficient support for the statements made at Lines 7
11 through 13.

12 JUDGE HAENLE: We have gone through this
13 several times. I understand your motion. I have
14 denied your motion. If you want to ask an additional
15 question of your other witness, you may do so. Let's
16 go on, please.

17 Mr. Trotter?

18

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

20 BY MR. TROTTER:

21 Q. Mr. Olson, in Puget's last base rate case,
22 89-2688, you recommended rates be set on a 42.5 common
23 equity ratio; is that correct?

24 A. I believe that's correct.

25 Q. Since that time, A rated bond yields have

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4337

1 fallen by about 200 basis points; is that right?

2 A. They have fallen, Mr. Trotter. I don't know
3 if the 200 basis points -- I'll accept that subject to
4 check. I just don't recall the magnitude.

5 Q. The question related to about 200 basis
6 points.

7 A. I'll accept that subject to check.

8 Q. And Puget's embedded cost of debt is lower
9 today than it was in the last rate case, isn't it?

10 A. Yes, it is.

11 Q. The Commission used a 41.5 common equity
12 ratio to set Puget's rates in the last rate base which
13 was then reduced to 39.3 percent in the decoupling
14 order; is that right?

15 A. The 41.5 I do recall as being factual. The
16 39.3, I'll accept that subject to check. I just don't
17 recall.

18 Q. Puget has never recommended a 45 percent
19 common equity ratio for Puget prior to this time, have
20 they?

21 A. No, it has not. But prior to this time we
22 weren't that concerned about a downgrade, either.

23 Q. Puget recently sold an additional 3.45
24 million shares of common, did it not?

25 A. Yes, that's correct. That was sold on the

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4338

1 24th of June, '93.

2 Q. And was the reason for selling that stock
3 your concerns about a downgrade?

4 A. Primarily, yes. We felt that we had to
5 increase our common stock ratio to at least 45 percent.
6 We discussed the concerns of the rating indices with
7 them, and we had a clear indication that that would be
8 required going forward.

9 In fact, I think there was some concern that
10 we wouldn't have been able to maintain the rating we
11 have had. We did not have a commitment and had the
12 rating indices not had a clear message from the
13 Company, that we were moving towards an increase in our
14 common stock equity ratio.

15 Q. Are there any other reasons you sold it?

16 A. That's the primary reason is to boost the
17 equity ratio. Also, I guess, timing. The market
18 happened to be receptive at this time, as well.

19 Q. Any other reason that comes to mind?

20 A. No, none.

21 Q. Now, Puget could achieve a lower common
22 equity ratio than 45 by financing it's financing
23 requirements with debt or preferred stock in the
24 future; is that correct?

25 A. That's possible. We don't intend to, but

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4339

1 it's possible.

2 Q. Turn to RE0-5, 918. And on Page 5 you show
3 the Staff's pretax interest coverages and debt ratios
4 adjusted for purchased power on Lines 10 and 11; is
5 that right?

6 A. Yes.

7 Q. And you show the same portrayal for Public
8 Counsel and intervenors through Page 8?

9 A. Yes, that's correct.

10 Q. Now, if we look at Line 31 in the Unadjusted
11 column -- and let's just use Page 5 as an example --
12 you show 2.79 times coverage?

13 A. Yes.

14 Q. Line 44, Debt Leverage, that's the debt to
15 total capital ratio; is that right?

16 A. Yes, it is. And those both are unadjusted
17 numbers.

18 Q. Right. And would I be correct that you, in
19 reaching the 52 percent on Line 44, you rounded 41.5
20 percent up to 52? Excuse me. You adjusted 51.5
21 percent up to 52?

22 I was looking at the long-term and
23 short-term debt on Lines 3 and 4. Totaling those gave
24 51.5. You just round that up?

25 A. The 52 is arrived at by dividing Line 38,

 WITNESS: RUSSEL E. OLSON - Cross by Trotter 4340

1 which is the \$1,056,824 number, by Line 42, which is
2 the \$2,052,085 number. It doesn't have anything to do
3 with Lines 3 or 4.

4 Q. Okay. Now, am I correct that if we look at
5 the unadjusted columns for the Staff and all intervenor
6 presentations, that each would satisfy the Standard and
7 Poor's criteria, benchmarks, for pretax interest and
8 debt leverage?

9 A. The unadjusted numbers would satisfy the
10 Standard and Poor's ranges, yes.

11 Q. In your testimony on Page 5 --

12 COMMISSIONER CASAD: I missed that last
13 question and answer.

14 MR. TROTTER: The question was I was just
15 focusing on the Unadjusted columns. This would be
16 before the debt imputation. If you look at Line 31 it
17 shows a coverage of 2.97 and a debt leverage, which is
18 debt to total capital, total debt to total capital, it
19 shows 52 percent.

20 And I asked him whether those were within
21 the S and P benchmarks for those two criteria and
22 whether his answer was the same for all of the
23 intervenors.

24 BY MR. TROTTER:

25 Q. Is that right, Mr. Olson?

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4341

1 A. That's correct.

2 Q. Now let's go back to Page 5 of your
3 testimony. On Line 21 you state: "The purchased power
4 adjustments to the debt protection ratios were not
5 created by the Company, as has been suggested, but
6 rather have been developed by the rating agencies as a
7 way to 'level the playing field' between utilities that
8 rely on purchased power and those that generate their
9 own power. I," meaning you, "am simply reporting to
10 the Commission how rating agencies, and bond investors
11 who rely on their expertise, view the imputed debt
12 related to purchased power contracts."

13 Is that right?

14 A. That's a correct reading of my testimony.

15 Q. When did the rating agencies create these
16 adjustments?

17 A. I'm not sure I can give you an exact time,
18 Mr. Trotter. But the rating agencies have been
19 increasingly concerned about the increasing purchased
20 power that utilities over the last several years
21 imputed debt to reflect the fixed obligation of those
22 utilities that purchase power.

23 A number of utilities do not purchase power,
24 Mr. Trotter. We happen to be one of the largest

25 purchasers at 68 percent.

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4342

1 MR. TROTTER: Your Honor, I object to this
2 answer. The question was when did they create the
3 adjustments.

4 THE WITNESS: I'm trying to explain the
5 answer to indicate why they made --

6 JUDGE HAENLE: I'm concerned as I indicated
7 earlier that we have so much to cover that I have asked
8 the witnesses to respond as briefly as possible and to
9 stay within the scope of the question.

10 It seems to me that that's one of those
11 times, Mr. Olson.

12 Go ahead.

13 BY MR. TROTTER:

14 Q. When you say that you are reporting to the
15 Commission how bond investors view the imputed debt
16 related to purchased power contracts, your testimony is
17 not based on a poll of Puget's bond investors and how
18 they view --

19 MR. MARSHALL: I object to the question
20 because it says bond investors who rely on the
21 expertise of the rating agencies. That was the actual
22 wording used in the testimony.

23 MR. TROTTER: Fine. I'll rephrase it.

24 MR. MARSHALL: So, it's basically by the

25 rating agencies.

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4343

1 MR. TROTTER: I withdraw the question.

2 BY MR. TROTTER:

3 Q. When you talk about bond investors who rely
4 on their expertise, did you conduct a poll of such bond
5 investors?

6 A. I didn't need to conduct a poll. The answer
7 is, no, I didn't. I don't need to conduct a poll
8 because as many years as I have been in the financial
9 markets I know that bond investors look to rating
10 agencies to establish the creditworthiness of the
11 company that they are about to invest in.

12 Q. Puget has indenture agreements with
13 investors who own its first mortgage debt; is that
14 right?

15 A. Yes, we do.

16 Q. And bondholders of Puget's first mortgage
17 bond indenture agreements do not require that Puget's
18 pretax interest coverage be computed like S and P is
19 suggesting to adjust for purchased power; is that
20 correct?

21 A. I'm sure they don't. But that's irrelevant.

22 Q. Your first mortgage bondholders request that
23 the indenture agreement be amended to take into account
24 the S and P imputed debt computation?

25 A. No. They just look to the rating agencies

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4344

1 to be the credit watchdog for the securities that they
2 intend to invest in.

3 Q. Now, Puget's booked interest expense doesn't
4 contain any interest related to purchased power, does
5 it?

6 A. No, it does not.

7 Q. Let's go back to Page 5 of Exhibit 918. And
8 on Line 15 there you show Standard and Poor's
9 adjustment to add some \$300 million of debt related to
10 purchased power; is that right?

11 A. That's correct.

12 Q. And you got that figure from Standard and
13 Poors?

14 A. Yes.

15 Q. And that figure in turn is based on the
16 assumption that fifty percent of Puget's purchased
17 power expense is related to on what Standard and Poors
18 considers to be capacity payments is that right?

19 A. Yes, that's my understanding.

20 Q. And that \$300 million was computed by
21 Standard and Poors under the assumption that fifty
22 percent of Puget's purchased power is capacity related;
23 is that right?

24 A. I believe that's correct. Page 10 of that

25 same exhibit shows a letter from Standard and Poors as

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4345

1 to how they got those numbers.

2 Q. Do you recall, I believe it was in response
3 to Staff Data Request 1254, that the \$300 million was
4 fifty percent of Puget's purchased power as related to
5 capacity?

6 A. I believe that's right. I don't have that
7 in front of me. So, I can't verify it. I'll accept
8 that subject to check.

9 Q. Do you know how Standard and Poors defines a
10 capacity payment?

11 A. I'm not sure I could give you an accurate
12 definition, Mr. Trotter.

13 Q. Standard and Poors applies the fifty percent
14 of the utility purchased power expense as capacity
15 related to all utilities; is that right?

16 A. That's my understanding.

17 Q. What percentage of Puget's purchased power
18 expense is, in fact, capacity related?

19 A. Again, I don't have that calculation in
20 front of me.

21 Q. Have you seen such a calculation?

22 A. I'm not sure that I have.

23 Q. Let's go to Page 10 of your testimony --
24 excuse me -- Page 10 of Exhibit 918. I'm sorry. And

25 here you show the risk factors that Standard and Poors

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4346

1 applies, the 25 percent and 15 percent? Do you see
2 that?

3 A. I don't show it. Standard and Poors in a
4 letter to us shows us what their risk factors are, and
5 it's reflected on that page, yes.

6 Q. When I said "you show," I meant it's your
7 exhibit.

8 A. Yes.

9 Q. Focusing on that 25 percent risk factor
10 applicable to take-or-pay contracts, does the 25
11 percent mean that there is a 25 percent chance that
12 Puget will have to pay for purchased power that it
13 doesn't take?

14 A. I don't think that it means that at all.
15 The methodology that Standard and Poors is using is
16 simply a way to reflect -- when they compare one
17 utility, A, that has no purchased power to Utility B
18 that has purchased power, they are trying to level the
19 playing field, as I used the term in my testimony, so
20 that they are comparing apples and apples and trying to
21 reflect the fixed obligation that the purchasing
22 utility has for the power that they are acquiring and
23 put them on the same playing field as a utility who
24 generates all their own power.

25 And it's simply -- they view leases the same

 WITNESS: RUSSEL E. OLSON - Cross by Trotter 4347

1 way, long-term fixed obligations, and this is a
2 methodology by which they apply the fixed obligation
3 into the Company's numbers to get them on a comparable
4 basis with other utilities who don't purchase power.

5 Q. So, the risk factor has nothing to do with
6 the probability that Puget will have to pay for power
7 it doesn't take?

8 A. I don't believe that it has to do with it at
9 all. As a matter of fact, in most cases for
10 take-or-pay contracts, Standard and Poors uses a risk
11 factor between forty and eighty percent.

12 They have used 25 percent for our hydro
13 contracts because they recognize they are much less
14 risky than a standard take or pay contract.

15 Q. That's the point. Does the fact that they
16 apply 25 percent instead of 40 percent mean that there
17 is a 15 percent less chance that Puget will be in a
18 position where it will not take power and still have to
19 pay?

20 A. I can't say that, Mr. Trotter. I don't know
21 that.

22 Q. Okay.

23 A. I think they are just using this as a
24 methodology for getting those comparables that I was

25 talking about between the purchasing utility and the

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4348

1 non-purchasing utility.

2 Q. Staying with Page 10 of the exhibit,
3 Standard and Poors applies a ten percent interest rate
4 to the \$300 million of what it calls debt equivalent to
5 reach an interest equivalent; is that right?

6 A. That's part of their methodology, yes.

7 Q. And the result there is shown as \$30
8 million?

9 A. Yes, that's correct.

10 Q. You brought that forward to Page 5 of this
11 exhibit?

12 A. Yes, I have. They have rounded the numbers
13 here, and I show the gross number on Page 5. But it's
14 the same number.

15 Q. That's fine.

16 Puget's current cost of debt is 7.79 percent
17 as you show on Page 2 of your Exhibit 919; is that
18 correct?

19 A. Yes, 7.79.

20 Q. And if you had used that 7.79 figure in your
21 computations, there would have been less interest
22 imputed for purchased power; is that correct?

23 A. That's mathematically correct, Mr. Trotter,
24 but I think it's irrelevant. This is just a shorthand

25 methodology. The rating agencies aren't making a

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4349

1 company-specific analysis. They are making a generic
2 analysis.

3 Q. Well, let's go back to Page 5 of Exhibit
4 918. You are making a specific analysis that the
5 Staff's coverages are out of the Standard and Poors
6 range, are you not?

7 A. I am showing that with the Staff recommended
8 ratios, the capital structure that's being recommended
9 in this case, and applying the Standard and Poors
10 methodology to it, the ratios that they would look at
11 in judging the creditworthiness of Puget are out of
12 their range. That's what this exhibit shows.

13 Q. But the out of range is something that you
14 have placed there, isn't it? This document, this page,
15 was prepared by you?

16 A. Well, I put the out of range just to
17 indicate to the reader. The ranges are shown in the
18 parentheses immediately to the left on Line 10 and Line
19 11.

20 And so what I'm saying here is that the
21 pretax coverage range that Standard and Poors requires
22 for an A-rated company is 2.5 to 4 times. And using
23 their methodology and bringing the figure up on the
24 Adjusted column from Line 31 shows 2.43.

25 And 2.43 times is below the range that's

 WITNESS: RUSSEL E. OLSON - Cross by Trotter 4350

1 acceptable for a single A-rated utility.

2 Similarly, the debt ratio on Line 11, the
3 range is 44 to 54 percent. And, again, picking up the
4 debt leverage range on the adjusted column from Line 44
5 shows 58 percent. And all I'm saying is that 58
6 percent is out of the 44 to 54 percent range on the
7 high side.

8 In other words, way too much leverage.
9 Hence, we need more equity.

10 Q. And if you had used the 7.79 percent cost of
11 debt that you have developed in this case as applicable
12 to Puget, would you have shown out of range for those
13 two items?

14 A. I don't know. I have not made the
15 calculation. It's an irrelevant calculation because
16 this is the way Standard and Poors looks at it. This
17 is their numbers as shown on Page 10, supplied by them,
18 and I am just showing the application of the way
19 Standard and Poors views the application of their
20 method to the Staff's recommended capital structure.
21 And I'm showing that that would be out of the range of
22 an A-rated utility.

23 Q. Let's go to Page 7 of your rebuttal
24 testimony. And you conclude on Line 22 -- you testify

25 on Line 22 that Doctor Lurito's recommendation relating

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4351

1 to equity ratio, would put Puget well below that of
2 other A-rated utilities.

3 Do you see that?

4 A. I do see that.

5 Q. You prepared Pages 11 and 12 of Exhibit 918,
6 which you reference in your testimony at that point?

7 A. Yes, that's correct.

8 Q. Turn to Page 11 of Exhibit 918. And here
9 you show the common equity ratio of the typical A-rated
10 utility in 1992 is 43.8 percent; is that right?

11 A. That's correct.

12 Q. And you also show on the Purchased Power
13 column the percent of each of those utilities, the
14 percent of their power that is provided by purchased
15 power?

16 A. Yes, I do. And I have also shown the same
17 numbers for Puget.

18 Q. Okay. Now, have you made any determination
19 as to -- let's just take Alabama power, for example --
20 what percent of that nine percent is recovered through
21 an adjustment clause of some variety, an ECAC, a PRAM,
22 or a fuel clause?

23 A. No. But as has been testified by others
24 in this proceeding, a very high percentage of utilities

25 in this country have some type of an energy clause.

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4352

1 So, I would assume most of these would probably have an
2 energy clause of some kind.

3 Q. And does Alabama Power have one?

4 A. I don't know specifically.

5 Q. And would it be correct that a fuel clause
6 for a particular utility may cover half of its
7 purchased power or all of it or ten percent of it? It
8 just depends on how the clause works; is that right?

9 A. It would. And I really have no knowledge of
10 that. I'm trying to look to see if I have any
11 information here. I don't seem to. I don't know.

12 Q. What about for Puget? What would be the
13 percentage of that 68 percent that is covered by the
14 PRAM?

15 A. I believe the PRAM would be covering all of
16 the purchased power of Puget in terms of increased
17 costs. I believe the answer is a hundred percent.

18 Q. Turn to Page 12 --

19 A. Mr. Lauckhart really would be the one that
20 really verifies that. That's just an off the top of my
21 head understanding. He is the power supply witness in
22 this case and better able to answer that question.

23 Q. Turn to Page 12 of the exhibit. And here
24 you have taken those utilities from the prior page that

25 have 25 percent or more purchased power --

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4353

1 A. Yes.

2 Q. -- and created a sub-group?

3 A. Yes, a sub-group of the same companies. And
4 the equity ratio is higher, and I do indicate in my
5 testimony -- I'm not sure you can draw any conclusions
6 as to an exact correlation between a higher purchased
7 power ratio and higher equity ratio. But the evidence
8 again speaks for itself.

9 JUDGE HAENLE: Again, Mr. Olson, we're
10 getting way beyond the scope of the question. Would
11 you please confine yourself to the question?

12 THE WITNESS: I'm sorry.

13 JUDGE HAENLE: Go ahead, sir.

14 BY MR. TROTTER:

15 Q. Would you accept subject to check that in
16 1992 these eleven listed electric utilities other than Puget had
17 an average total debt to total capital ratio of 48
18 percent?

19 A. Would you repeat that?

20 Q. Would you accept subject to check that in
21 1992 these eleven electric utilities had an average total debt
22 to total capital ratio of 48 percent?

23 A. I could accept that subject to check. If I
24 had time, I could verify it.

25 Q. Based on your data request, that chart you

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4354

1 were just looking at?

2 A. The Baird report you're referring to? I
3 have not made that analysis, Mr. Trotter.

4 Q. Puget's total debt to total capital ratio
5 was fifty percent at year-end '92, wasn't it?

6 A. I'll accept that subject to check.

7 Q. On Page 10 of your testimony, Line 18, you
8 characterize Doctor Lurito's capital structure
9 recommendation as hypothetical; is that correct?

10 A. That's correct.

11 Q. And you can now so characterize it because
12 Puget issued the 3.45 million shares after Doctor
13 Lurito testified in this case; is that right?

14 A. Well, it was hypothetical and still is
15 hypothetical in that he doesn't use actual numbers. He
16 just assumes what a capital structure for Puget would
17 be. It's not a calculated capital structure to my
18 understanding. It's a hypothetical capital structure.

19 Q. His recommendation was very close to the
20 Company's actual capital structure prior to the equity
21 financing, wasn't it?

22 A. Well, it was a little far away on the equity
23 component.

24 Q. Now, you're recommending a capital structure

25 containing two percent short-term debt; is that right?

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4355

1 A. That's correct.

2 Q. That's shown in Exhibit 919, among other
3 places? Exhibit 919, Page 16, in the notes; is that
4 right?

5 A. That's correct.

6 Q. You recommended more short-term debt in
7 Puget's last rate case than you did in this rate case;
8 is that right?

9 A. It was a little higher, I think. The
10 short-term debt, we have been keeping it down, and I'm
11 trying to suggest the capital structure that's closer
12 to the way we are currently operating the Company. And
13 we have lower short-term debt now than we did then,
14 yes.

15 Q. And short-term interest rates are much lower
16 in this case than the last case. Isn't that right?

17 A. All interest rates are lower, yes.

18 Q. Now, focusing on Page 16 of Exhibit 919,
19 this is the -- Line 12, 9.82 percent, that's the
20 weighted cost of capital that Puget is recommending to
21 whatever pro forma rate base the Commission accepts in
22 this case; is that right?

23 A. Yes. That's our recommended weighted cost
24 of capital.

25 Q. Turn back to Page 12 of this exhibit. And

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4356

1 here you are showing in development of your cost of
2 short-term debt a P-2 commercial paper amount of \$42
3 million; is that right?

4 A. Yes.

5 Q. Is that the average projected short-term
6 debt balance that you are projecting for the rate year?

7 A. That's the projection for the rate year.
8 Currently after the recent sale of common stock we're a
9 little less than that. But that's what we project.

10 Q. And this represents the two percent that we
11 have been talking about?

12 A. Yes, it does.

13 Q. Do you recall in your initial testimony in
14 this case you stated that you had treated the repayment
15 of the residential exchange balance as a use of funds?

16 A. I recall that, yes.

17 Q. Would you agree, then, that the exchange
18 balance itself represents a source of funds?

19 A. I don't look at it that way. I suppose one
20 could characterize it that way. It's not the way I
21 choose to look at it.

22 Q. Let's just take a hypothetical example:

23 If the average balance of the residential
24 exchange was \$42 million, which is your level of

25 short-term debt, the level of outside capital

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4357

1 represented by short-term debt borrowing would be zero;
2 is that correct?

3 A. If that hypothetical prevailed, I think that
4 would be the case.

5 Q. And, in fact, I think as of September the
6 balance was \$11 million; is that right? In that range?

7 A. That's approximately it. I recall that
8 number. That's very close to the right number. I'll
9 accept it subject to check.

10 Q. It wasn't subject to check. Just the
11 general range.

12 And your \$42 million projected level of
13 short-term debt is about half the average balance
14 during the test year; is that right?

15 A. How did you calculate the balance during the
16 test year? If you use the quarter end, as one of the
17 witnesses in the case did, and took the balance at the
18 end of each quarter in that year-end, you get a
19 misleading figure because we did some financings
20 immediately after the beginning of the next quarter
21 that took that balance down.

22 Q. Let's look at Page 10 of your rebuttal
23 testimony, Exhibit T-917. There you show short-term
24 debt of about \$81.5 million as of June 30, '93; is that

25 right?

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4358

1 A. Yes.

2 Q. The Company's recommendation is to reduce
3 that to the \$42 million range, which you show in the
4 exhibit we just referred to?

5 A. Yes. And it's actually a little bit less
6 than that now. In fact, the current balance
7 outstanding on short-term is around \$20 million.

8 Q. Now, I'm staying on Page 10, on the bottom
9 there you quote Doctor Legler; is that right?

10 A. Yes, I do.

11 Q. And I believe you have quotes also on Page 9
12 of your testimony from Doctor Legler?

13 A. Yes, I do.

14 Q. Isn't it true that he also testified that an
15 equity ratio of forty percent above or about would be
16 reasonable?

17 A. He was testifying, I thought, to a higher
18 ratio than that. But in any even, as his Exhibit 7, I
19 believe, showed, eight companies were in his view at 44
20 percent equity in their capital structure, and he had
21 indicated again, as I recall, that he could justify a
22 44 or 45 equity ratio even without purchased power.

23 Q. But you don't recall him testifying that an
24 equity ratio of forty percent or above would be

25 reasonable?

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4359

1 A. I don't recall that specific comment, Mr.
2 Trotter.

3 Q. Turn to Page 26 of your testimony on the
4 subject of directors and officers' insurance. And you
5 state on Line 21 that "The amount of D&O insurance
6 increases with the size of the company and its assets."

7 A. What line are you on, Mr. Trotter?

8 Q. 21 to 23.

9 A. Yes, that's correct.

10 Q. And you provide Exhibit 921, which is an
11 analysis of many companies on that issue?

12 A. Yes. That's Exhibit 921.

13 Q. When you refer to size of the company,
14 you're referring to gross revenues; is that right?

15 A. Yes.

16 Q. And referring you then to Exhibit 921, this
17 shows a listing of fifty utilities having 1992 gross
18 revenues exceeding \$1 billion?

19 A. That's correct.

20 Q. Together with the amount of their D and O
21 limits?

22 A. That's correct.

23 Q. And am I correct that Puget is No. 47 on
24 this list showing \$1,025,000,000 of gross revenues and

25 \$50 million of a D and O limit?

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4360

1 A. Yes, that's correct.

2 Q. Directing your attention to No. 5, Company
3 No. 5, this company has a gross revenue size about
4 double Puget's but its D and O coverage limit is just
5 half of Puget's. Isn't that rights?

6 A. That's right. You can always find
7 exceptions.

8 Q. Would you accept subject to check that Puget
9 ranks 49th out of 50 in terms of gross revenues as
10 developed on this exhibit?

11 A. I'll accept that subject to check.

12 Q. Would you accept subject to check that Puget
13 ranks eleventh in terms of coverage limit as a percent
14 of gross revenues based on the data you show here?

15 A. I didn't make the calculation. I'll accept
16 that subject to check.

17 Q. We would be glad to supply you a workpaper
18 if that would save you time. Just ask.

19 You also address the subject of insurance
20 beginning on Page 23 of your testimony.

21 A. Are you referring to a specific line?

22 Q. This is where it starts.

23 A. Okay.

24 Q. The deficits in the self-insurance reserves

25 and in storm damage reserves are posted to Account

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4361

1 182.21; is that correct?

2 A. It sounds right. I think the specific
3 account identification is better left to Mr. Story.
4 But that sounds about right.

5 Q. It's the extraordinary property loss
6 account?

7 A. Yes.

8 Q. And do you understand that that account
9 definition is defined as "When authorized or directed
10 by the Commission, this account shall include
11 extraordinary losses which could not reasonably have
12 been anticipated and which are not covered by insurance
13 or other provisions such as unforeseen damages to
14 property"?

15 A. That sounds about right.

16 Q. Now, on Page 24 of your testimony and going
17 on from there, you discuss the definition of
18 catastrophic storms which Mr. Schooley discussed as 25
19 percent or more of customers, and you refer to the
20 Arctic Express event; is that right?

21 MR. MARSHALL: I object to the question that
22 it may leave an impression that Mr. Olson has referred
23 to catastrophic storm when that's Mr. Schooley's
24 proposal.

25 BY MR. TROTTER:

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4362

1 Q. You refer to the 25 percent proposal
2 relating to weather events. And you refer them to the
3 Arctic Express event; is that correct?

4 A. Yes, I do. And frankly I was rather
5 surprised. That 25 percent, I don't know where he got
6 it. It seems to have no basis in fact or -- in fact,
7 if you look back at our recent storms from January of
8 '89 on, as I show in Exhibit 920, if you assumed --

9 JUDGE HAENLE: Once again, Mr. Olson, I
10 think you're getting way, way beyond the question.

11 THE WITNESS: I'm answering the question,
12 your Honor.

13 JUDGE HAENLE: The question was did you see
14 that? Answer the question, please.

15 BY MR. TROTTER:

16 Q. Let's go to Exhibit 920. And in the lower
17 chart you show the Arctic Express event per the
18 insurance company as being involved with three events?

19 A. Yes, that's correct. It's the lower half of
20 that exhibit.

21 Q. Right. And it was Puget's position that
22 that was a single event, wasn't it?

23 A. We took that position and argued that with
24 the insurance company. There is clear evidence -- the

25 insurance company, of course, supplied meteorological

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4363

1 data that identified three separate storm events. We
2 did settle that issue. So, it was never really
3 decided. But we were aggressive in pursuing recovery
4 under our policies.

5 If you count that as three events, there was
6 only one storm in that January '89 to April '92 period
7 that would have met the artificial criteria of 25
8 percent that Mr. Schooley is proposing, and it just
9 kind of -- it's surprising. There is no basis for it.

10 Q. Mr. Schooley's adjustment, in fact, allowed
11 for recovery of the Arctic Express event shown on the
12 top chart as well as the November '91 storm; is that
13 correct?

14 MR. MARSHALL: I object. I don't think Mr.
15 Schooley's definition goes to the Arctic Express. His
16 proposal doesn't have anything to do with treating the
17 Arctic Express expenses. I'm puzzled by the question.
18 I think it assumes something that perhaps you don't
19 intend.

20 MR. TROTTER: My question was whether Mr.
21 Schooley's adjustment provides for recovery of the
22 December '90 bar shown on the chart, top chart on this
23 page, as well as the November '91 bar shown on that
24 chart.

25 MR. MARSHALL: I have an objection there

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4364

1 because I don't know where Mr. Schooley got that
2 number. I don't think that that's a number that makes
3 any sense.

4 JUDGE HAENLE: Whether or not you agree
5 with the 25 percent, the question is whether, if you
6 look at it under that approach, that would happen.

7 MR. MARSHALL: My objection is to the lack
8 of foundation to get to the number that Mr. Schooley
9 has of the 342,000 customers. I don't think there is
10 any basis for that.

11 MR. TROTTER: Let me ask the question
12 another way:

13 BY MR. TROTTER:

14 Q. The costs that are represented by the bar
15 for December 1990, the long bar, and the costs
16 represented by the November '91 bar were identified as
17 costs that the Staff permitted recovery for; is that
18 correct?

19 A. Under Mr. Schooley's proposal of 25 percent,
20 those would have been the only two storms that would
21 have been recovered under his theory. In January of
22 '89, with 121,000 customers out, 15.4 percent of our
23 customers out of service, he wouldn't have allowed any
24 recovery. That's really incredible.

25 JUDGE HAENLE: The question, please. I want

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4365

1 to give you a full opportunity to answer the question.
2 But continuing beyond that to state your additional
3 views I think is properly brought up in redirect if you
4 have anything. Your counsel can certainly ask you
5 about it. But we're still going way beyond the
6 question in answering it.

7 Go ahead, Mr. Trotter.

8 BY MR. TROTTER:

9 Q. Do you believe the November 1991 storm was
10 extraordinary?

11 A. I think it was very extraordinary. We had
12 well over half of our customers out of service.
13 Clearly it was extraordinary. I guess my point is that
14 you don't have to have half your customers out to still
15 have a very serious storm event.

16 Q. The Company sustains storm damage every
17 year, doesn't it?

18 A. Yes, it does, to some degree or another.

19 Q. And if you sustained no storm damage in a
20 year, that would be virtually unbelievable, wouldn't
21 it?

22 A. It would be very unusual, yes.

23 Q. Do you consider any of the other weather
24 events on either of these two charts to be

25 extraordinary?

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4366

1 MR. MARSHALL: By what definition? The FRC
2 definition or some other definition?

3 MR. TROTTER: Whatever definition Mr. Olson
4 would apply.

5 THE WITNESS: I'm not sure how you can
6 define "extraordinary." When we have a large weather
7 occurrence with many customers out, it seems like
8 restoring the service to those customers that are out
9 is a prime responsibility of the Company, and it's an
10 operating cost that ought to be covered through rates.

11 BY MR. TROTTER:

12 Q. Let's take a look at the bottom chart. On
13 the left you have some dates and some customers
14 affected and you put a box around there.

15 A. Yes.

16 Q. And you show three December '90 items in the
17 box. Can you just give me the date that is associated
18 with the 91,781?

19 A. I believe so. Just a moment. I believe
20 that's 12/17 or 12/18, one of those dates. I'm not
21 sure if it's the 17th or 18th of 1990, December 1990.

22 Q. And the second one, was that December 28?

23 A. It's later the same month, and I don't have
24 the information here.

25 Q. Would you accept that subject to check?

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4367

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

2 Q. Would you accept that the Company's work
3 orders for the period December 17 through 22 in Exhibit
4 647 shows that 308,000 customers were affected by
5 outages due to trees and limbs?

6 MR. MARSHALL: For what period of time,
7 counsel?

8 MR. TROTTER: December 17 through 22, 1990.

9 MR. MARSHALL: That covers more than the
10 period of December 17 or 18.

11 JUDGE HAENLE: He has given the period that
12 that he is asking about.

13 THE WITNESS: I can accept that subject to
14 check.

15 BY MR. TROTTER:

16 Q. And you showed for just the one day, the
17 17th, 92,000 approximately?

18 A. Yes. These numbers were prepared by picking
19 the highest number of customers during the period.
20 Now, when a major storm hits, it may knock out
21 customers for several days before you get them all back
22 in. This was the highest during that period that were
23 out.

24 Q. That's fine. But the 91,781 refers to one

25 day?

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4368

1 A. Yes. And these three that are boxed as you
2 point out were simply to show what the insurance
3 company's contention was that that was three separate
4 weather events.

5 Q. That's fine. So, can we just call that
6 92,000 just to round it for purposes of discussion?

7 A. Sure.

8 Q. We have 92,000 out on the 17th, and you
9 agreed that, subject to check, that from the 17th
10 through the 22nd the Company's work order shows a total
11 of 308,000 customers out due to trees and limbs, and
12 that would leave 216,000 customers that were out of
13 service between the 18th and 22nd. Would that be
14 correct?

15 A. I'll accept that that's the mathematical
16 result of your hypothetical, yes.

17 Q. That amount of customers over a four-day
18 period would be extraordinary, wouldn't it?

19 A. It was a large storm, yes. I have no
20 quarrel with that. But, again, if the three weather
21 events close together and if it were, indeed, three,
22 none -- the criteria wouldn't have been met for his 25
23 percent arbitrary number.

24 Who is going to pay the cost of putting

25 those customers back in service under Mr. Schooley's

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4369

1 proposal? I guess that's what I have trouble with.

2 Q. Page 23 of your testimony, you talk about
3 the categories of storm damage, workers' compensation
4 self-insurance, liability self-insurance, and all-risk
5 property --

6 A. Excuse me. What page are you on?

7 Q. 23.

8 A. (Reading.)

9 Q. You refer to the four categories.

10 A. Yes.

11 Q. Are all of those in the category of
12 self-insurance, in your opinion?

13 A. Self-insurance up to the deductibles on
14 policies that may be in effect, yes.

15 Q. And you state on Lines 10 through 13 that
16 the Company would be forced to act as an insurance
17 company if Staff's proposal is adopted. Do you see
18 that?

19 A. Yes.

20 Q. By that do you mean the Company presently
21 does not bear the risk for possible claims because the
22 claims under the Company's recovery proposals are
23 accumulated in reserve accounts and later passed on to
24 ratepayers?

25 A. As I'm sure the Commission is aware and as
 WITNESS: RUSSEL E. OLSON - Cross by Trotter 4370

1 the exhibit that was introduced this morning shows, we
2 have had a four-year recovery period. And we do charge
3 storm damage -- an average of four years that fills in
4 the rates that gets credited to the reserves.

5 To the extent we have actual charges
6 resulting from these weather events, we charge the
7 reserve. In that way they are covered.

8 Q. So, the risk for possible claims or losses
9 for storms or other property damages or for liability
10 claims is currently borne by the ratepayers?

11 A. Yes; because we view and I think the
12 Commission has viewed that rapid restoration of storm
13 events is in the customers' best interests, and it
14 should be an operating cost of the Company to restore
15 its system when it's damaged.

16 Q. On Line 4 you state that "In general, these
17 changes" -- and you're referring to Staff -- "are
18 inconsistent with cost of service regulation." Do you
19 see that?

20 A. Yes.

21 MR. MARSHALL: It continues on: "And would,
22 as Mr. Story explains, disallow" --

23 MR. TROTTER: I just want to focus on the
24 cost of service point. Is that permissible, your

25 Honor?

WITNESS: RUSSEL E. OLSON - Cross by Trotter 4371

1 JUDGE HAENLE: Yes.

2 BY MR. TROTTER:

3 Q. Would you agree that the intent of an
4 historical test year adjusted for known and measurable
5 changes is not to recover past costs; it is used to
6 set the relationship between expenses and revenues to
7 recover future costs?

8 A. That's generally true. However, it's been
9 the past practice of this Commission to amortize into
10 the recovery the extraordinary events that exceed the
11 reserves in the past for these types of events.

12 Q. So, this would be an exception to the
13 general principle?

14 A. I'm not sure it's an exception. I think
15 it's sound regulatory practice. I think what's
16 extraordinary is to make a change or even propose a
17 change and then make it retroactive for one thing.

18 Any change to regulation should be
19 prospective in nature and not penalize and cause
20 write-offs because it's retroactive, for whatever
21 reason I don't know.

22 Q. The deficit balance in the Company's
23 self-insurance reserves reflect expenditures incurred
24 prior to the test year; is that right?

25 A. I think in some cases that's correct, due to
 WITNESS: RUSSEL E. OLSON - Cross by Trotter 4372

1 some of these extraordinary events like the storm we
2 were just discussing.

3 MR. TROTTER: Your Honor, I have one exhibit
4 on the D and O issue that I neglected to pass out.
5 I'll do that at this time. It's the Company's response
6 to Staff Data Request 2677.

7 JUDGE HAENLE: I'll mark that document as
8 922 for identification.

9 (Marked Exhibit 922)

10 BY MR. TROTTER:

11 Q. Do you recognize Exhibit 922 as your
12 response to Staff Data Request 2677?

13 A. Yes.

14 Q. And this asks for various information
15 regarding D and O insurance; is that right?

16 A. That's correct.

17 Q. You were asked on Item C to identify the
18 number of directors and officers covered by insurance
19 in the survey. And that information, as shown on Page
20 2, was not available?

21 A. No. We have no knowledge of that
22 information.

23 Q. And the same is true of the information
24 asked for in Part D, the number of claims?

25 A. That's correct. We have no information on
 WITNESS: RUSSEL E. OLSON - Cross by Trotter 4373

1 that.

2 MR. TROTTER: I would move Exhibit 922.

3 JUDGE HAENLE: Any objection, Mr. Marshall?

4 MR. MARSHALL: No objection.

5 JUDGE HAENLE: Mr. Adams?

6 MR. ADAMS: No objection.

7 JUDGE HAENLE: Mr. Furuta?

8 MR. FURUTA: No objection.

9 JUDGE HAENLE: Mr. Trincherero?

10 MR. TRINCHERO: No objection, your Honor.

11 JUDGE HAENLE: Exhibit 922 will be entered
12 into the record.

13 (Received Exhibit 922)

14 MR. TROTTER: Thank you very much, Mr.
15 Olson.

16 JUDGE HAENLE: All right. Have you
17 questions, Mr. Richardson?

18 MR. RICHARDSON: Thank you, your Honor, I
19 do.

20

21

22

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

24 BY MR. RICHARDSON:

25 Q. Mr. Olson, referencing Page 10 of your

WITNESS: RUSSEL E. OLSON - Cross by Richardson 4374

1 testimony, it's your testimony that Puget now has a 45
2 percent common equity position in its capital
3 structure?

4 A. Yes.

5 Q. Is it your understanding that by virtue of
6 the higher common equity ratio that Puget's financial
7 risk is reduced when compared to the 41.42 equity
8 position that the Company had at the beginning of this
9 case?

10 A. It's my view that it is. Mr. Dell who will
11 follow me on the stand can give you a rating agency's
12 perspective on that. It's my view that it is, yes.

13 Q. It's true that the 45 percent equity
14 position that the Company now has is the minimum level,
15 as far as you understand, that the rating agencies have
16 been requesting that Puget acquire in order to main
17 continue your single A rating?

18 A. That's my understanding. And we have been
19 informed that it's only the minimum in kind of a base
20 period. And then they would like to see that number go
21 higher in the future.

22 Q. It's fair to say that one of the reasons
23 that Puget sought to increase its equity position was
24 what may be termed as the excess debt position with

25 only 41 percent equity in your capital structure?

WITNESS: RUSSEL E. OLSON - Cross by Richardson 4375

1 A. That's one way to characterize it, yes.

2 Q. And excess debt is also known in the
3 business as excess leverage; correct?

4 A. Correct.

5 Q. And so Puget's increase in common stock to
6 45 percent has reduced its leverage by reducing debt in
7 its capital structure; correct?

8 A. That's true.

9 Q. And speaking generically, Mr. Olson, when a
10 utility with too much debt and rectifies that problem
11 by issuing more common stock, what is the effect, all
12 other things being equal, of that improvement in its
13 capital structure?

14 A. In what way are you asking the question?
15 It's effect on whom?

16 Q. On risk. Investors' perception of risk.

17 A. I don't think it's as much a risk issue as
18 it is a creditworthiness issue.

19 Q. You wouldn't agree that the elimination of
20 excess leverage reduces risk?

21 A. I didn't say I didn't agree. It may have
22 some effect. But it's primarily a creditworthiness
23 issue.

24 Q. Would you agree that the elimination of

25 excess leverage does, indeed, reduce risk?

WITNESS: RUSSEL E. OLSON - Cross by Richardson 4376

1 A. It reduces some financial risk.

2 Q. So, that's a yes?

3 A. That's a yes. And I think I did say that
4 about twice before.

5 Q. Okay. When the Company updated its return
6 on equity request in this case from the initial request
7 of 12.5 to 13 to 12.0 to 12.5, that was in concert with
8 the Company's position or policy to update its request
9 as more relevant information, more accurate
10 information, becomes available as the rate case
11 proceeds, wasn't it?

12 A. I made that or I testified we would do that
13 as the case proceeded as far as the cost of money
14 elements that I was responsible for in this case. I
15 thought you ought to ask Mr. Charles Olson the
16 specific reasons he had. But rates have come down. I
17 would suspect that that may be part of it.

18 Q. Isn't it the Company's policy to update your
19 requests to reflect more current and accurate
20 information as it becomes available?

21 A. Yes. That's always been our policy.

22 Q. You recall Doctor Peseau's testimony in this
23 case, don't you?

24 A. I wasn't present, but I did read the

25 transcript.

WITNESS: RUSSEL E. OLSON - Cross by Richardson 4377

1 MR. RICHARDSON: I would like to hand the
2 witness an exhibit from Doctor Peseau's testimony for
3 the purpose of refreshing his recollection.

4 JUDGE HAENLE: What exhibit is that?

5 MR. RICHARDSON: Exhibit 831.

6 BY MR. RICHARDSON:

7 Q. Do you recall Exhibit 831 from your reading
8 of Doctor Peseau's testimony?

9 A. I recall having seen it before, yes.

10 Q. And do you recall that Doctor Peseau
11 testified using his Exhibit No. 831 that as equity
12 increases, the Company's required return on that equity
13 actually decreases?

14 A. I recall that that was his theory.

15 Q. And do you recall that that's what Exhibit
16 831 purported to show?

17 A. I think that's what he was trying to
18 convince people of, yes. I don't agree with it, but --

19 Q. Puget hasn't reduced its requested return on
20 equity in this case to account for the increase in
21 common equity from 41 to 45 percent, has it?

22 A. I'm not the common equity witness in this
23 case. That's Doctor Charles Olson. I can't answer
24 that question.

25 Q. But to your knowledge, has Puget reduced its

WITNESS: RUSSEL E. OLSON - Cross by Richardson 4378

1 requested return on equity in this case to account for
2 the increase in common equity?

3 A. Again, we did reduce the requested cost of
4 common equity in this case. The reasons behind that
5 reduction are best left to Doctor Charles Olson.

6 Q. Didn't that reduction take place prior to
7 the issuance of additional common equity to increase
8 your common position to 45 percent?

9 A. He was quite aware of what we were about to
10 do. So, --

11 Q. I asked you the timing, Mr. Olson.

12 A. We sold common equity on June 24, and I
13 think he would have reduced that, but he knew what we
14 were doing when or about when. So, again, I'm not the
15 common equity -- cost of common equity witness in this
16 case.

17 Q. You testified about the revised range of
18 common equity on Page 21 of your testimony. Do you
19 know if that revised range of common equity took place
20 prior to or after the increase in common equity from 41
21 to 45 percent?

22 A. I just testified that I think it would have
23 occurred before that, but I don't know what was in
24 Doctor Charles Olson's mind when he made that

25 reduction.

WITNESS: RUSSEL E. OLSON - Cross by Richardson 4379

1 Q. Maybe I just misunderstood your answer. If
2 I can paraphrase it and make sure I understand it:

3 The revision to common equity return took
4 place before the increase in common equity to 45? Is
5 that what you testified?

6 A. We filed our --

7 JUDGE HAENLE: Start with a yes or no,
8 please.

9 THE WITNESS: Yes. We filed our rebuttal
10 testimony prior to the date that we issued the
11 additional common equity.

12 BY MR. RICHARDSON:

13 Q. And you testified also that, all other
14 things being equal, an investor requires less return
15 because of less risk when an equity position in the
16 Company is increased? That's correct?

17 A. I testified that that was one factor.

18 MR. RICHARDSON: Thank you, your Honor.
19 That's all I have.

20 JUDGE HAENLE: All right. Let's see. Do
21 you have questions, Mr. Furuta?

22 MR. FURUTA: No, your Honor.

23 JUDGE HAENLE: Mr. Adams?

24 MR. ADAMS: Yes, I do. I just have a few.

25 JUDGE HAENLE: Go ahead.

WITNESS: RUSSEL E. OLSON - Cross by Richardson 4380

1

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

3 BY MR. ADAMS:

4 Q. Mr. Olson, in your testimony you indicated
5 that you very recently issued 3.45 million common
6 shares. What was the sales price of those shares?

7 A. 27 7/8.

8 Q. What is your current book value? Do you
9 know?

10 A. The last one I saw was about 1866, as I
11 recall. That would be very close.

12 Q. What time frame is that?

13 A. I think that's June 30. Excuse me. That
14 would have been March 30. I don't have a June 30
15 number. March 31.

16 Q. Turn, if you would, to your Exhibit 918,
17 Page 13.

18 Do you have that reference?

19 A. Yes, I have it.

20 Q. There you show your changes since September
21 30, 1992. The top half are all long-term bonds; is
22 that correct?

23 A. There are intermediate-term notes. Some may
24 be long. I would classify most of them as intermediate

25 term bonds.

WITNESS: RUSSEL E. OLSON - Cross by Adams 4381

1 Q. How do you define "intermediate"?

2 A. Intermediate term in my way of thinking is
3 anywhere between seven and about twelve years.

4 Long-term would be beyond that, beyond twelve years.

5 Q. The first issuance there, I believe, if one
6 cross checks it with your Exhibit 919, Page 1, your
7 first issuance at four percent coupon rate is your
8 issuance of November 16, 1992. Would that be correct?
9 Would you accept that?

10 A. If you'll bear with me a minute, I can
11 probably answer it.

12 Q. Look at Page 1 of Exhibit 919.

13 A. The date of that is November 16, yes.

14 Q. Is that particular issuance a tax exempt
15 bond?

16 A. No, it is not.

17 Q. So, all of the coupon rates listed on Page
18 13 are taxable bonds; is that correct?

19 A. Yes. The difference between the 40 million
20 medium term note or bond on Line 7, the one with the
21 coupon rate of four percent, is that that was a
22 one-year issue. It was one of those cases where we had
23 -- I'm expanding. I had better not. It was a one-year
24 issue.

25 Q. What issuances do you expect between now and

WITNESS: RUSSEL E. OLSON - Cross by Adams 4382

1 the end of 1993? First of all, do you expect to issue
2 any more common stock?

3 A. No.

4 Q. What other bond issuances do you anticipate?

5 A. As shown on Page 2 of Exhibit 919 on Line
6 21, we're expecting one more issue, and we have set it
7 for late in the year. November is an assumed date
8 here.

9 Q. Is that the one issuance, though, that you
10 would expect in the remainder of 1993?

11 A. Yes. The timing may be a little different,
12 but that's about the amount.

13 Q. Okay. If you would turn to Page 1 of that
14 exhibit, that is Exhibit 919, looking at the issuances
15 you have made in 1993, which starts at your Line 33.

16 Do you see that?

17 A. Yes.

18 Q. By my calculations, the issuances that you
19 have made so far up and to this date are for lengths of
20 time of five years, seven years, ten years, three
21 years, and five years.

22 Why have you not gone to longer-term debt?

23 A. Some of these were specific refunding bonds
24 to meet maturities. And then in a couple of cases we

25 had an opportunity to achieve a particularly attractive

WITNESS: RUSSEL E. OLSON - Cross by Adams 4383

1 rate by having a short-term -- there is a lot of
2 reasons why one issues securities at various times for
3 various rates, Mr. Adams, and I don't recall
4 specifically.

5 I could -- I can tell you all the details of
6 the issuance. But what the market was doing on that
7 particular day or that particular week I would have to
8 go back through records to specifically answer that
9 question.

10 Q. One of the reasons I was asking is: Is the
11 company hoping or expecting that the differential
12 between short-term and long-term bonds will flatten
13 some more?

14 A. There seems to be a lot of feeling in the
15 capital markets that the yield curve is flattening,
16 which means that the short-term rate would rise a
17 little bit and long-term rates are sinking down a
18 little bit. So, it tends to be a flattening of the
19 yield curve.

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

21 JUDGE HAENLE: Commissioners, have you
22 questions?

23

24

E X A M I N A T I O N

25 BY COMMISSIONER CASAD:

WITNESS: RUSSEL E. OLSON - Examination by Casad 4384

1 Q. Good afternoon, Mr. Olson.

2 A. Good afternoon.

3 Q. I guess I could ask some of these questions
4 of either of the Olson boys or Mr. Weaver or Mr. Dell.
5 I'll start with you seeing as you're the first one that
6 has the testimony.

7 A. Okay.

8 Q. You indicate that you have been advised by
9 virtually all the rating agencies with whom you have
10 spoken that if the Staff's proposal of this capital
11 structure is adopted that your A rating will be
12 downgraded. Is that correct?

13 A. There is the serious -- the answer is yes.
14 They have told us that there is a serious threat of it.

15 Q. I recognize the weasel wording in there.
16 That's typical.

17 And you indicate in your testimony on Page 2
18 that Mr. Weaver has testified the Company will be
19 required to attract approximately \$1 billion in outside
20 capital over the next several years.

21 A. Yes. I can be more specific on that,
22 particularly the years '93 through '97, five-year
23 period. The outside financing of this company is \$1.5
24 billion.

25 Q. So, it's a billion and a half?

WITNESS: RUSSEL E. OLSON - Examination by Casad 4385

1 A. A billion and a half dollars.

2 Q. Is this the figure that you would use to
3 quantify the impact of a ratings lowering on the
4 Company?

5 A. No. I would use approximately half of that,
6 of the \$1.5 billion, approximately. It's in our
7 forecast which has been made part of this record
8 somewhere. About \$740 million would be the debt
9 component of that total outside capital.

10 If we took, say, an average -- and there is
11 -- if you go back over ten or fifteen years, you'll
12 find there is a spread between a BBB and an A-rated
13 utility bond. And that average has been approximately
14 sixty basis points.

15 If you take the 60 basis points and multiply
16 it by the \$740 million, you get \$2.25 million a year
17 roughly. If you figure that over a five-year time
18 frame or ten-year time frame, you're talking about a
19 fair amount of money.

20 That's as close as I can come to quantifying
21 the effect.

22 Q. Thank you. I would like to discuss storm
23 damage reserve a little bit. And first I'll ask you --
24 and if you would take the question in this context --

25 if one ignored the assertions regarding treatment of

WITNESS: RUSSEL E. OLSON - Examination by Casad 4386

1 insurance for storm damage -- and I know you disagree
2 with the Staff's position. You feel that the position
3 is actuarially incorrect, is not suitable for
4 utilities.

5 But if you ignore that, and the market were
6 to offer an insurance program which was utility
7 specific, developed by utilities or a mutual of
8 utilities, which would essentially spread the risk of
9 storm damage on an actuarially sound basis, would the
10 Company be interested in this type of an insurance
11 program?

12 A. The answer is yes. And such a program is
13 being proposed. I think I testified when I was here on
14 my direct testimony that we couldn't buy storm damage
15 insurance in the open market. The insurers have backed
16 away because of all of the loss experience that they
17 have had.

18 And the utilities are attempting to form a
19 utility-specific storm damage insurance company for
20 transmission and distribution line losses. They are
21 calling it LINE, insurance LINE, L-I-N-E, all caps.

22 And we have a proposal from them to obtain
23 coverage which would cover the catastrophic type
24 storms. The policy has been -- that's being proposed

25 around the industry at the moment has a \$5 million self

WITNESS: RUSSEL E. OLSON - Examination by Casad 4387

1 insured retention and would cover \$25 million in excess
2 of the \$5 million retention.

3 The premium is about \$1.1 million per year,
4 slightly over \$1.1 million a year.

5 The proposal requires a capital contribution
6 of approximately \$600,000. I think that's scaled
7 according to the size of the company. That's payable
8 in over about a three-year period.

9 In effect, you're investing in this company.
10 They need to have some capital from all of the
11 potential participants in this pool.

12 That seems to be the only game in town, if
13 you will, the only way we or any other utility would be
14 able to obtain storm damage insurance in the present
15 market environment that is out there today.

16 Q. Would the deductible limit be one which is
17 practical for you, the \$5 million deduction prior to
18 the insurance becoming effective? How would that
19 equate to your normal storm damage experience?

20 A. Well, if you go back a few years, our storm
21 damage losses -- I guess we have got some information
22 in the record -- were relatively small compared to more
23 recent years. 1990 and even January of '93, we had
24 some very, very serious storms.

25 Q. We have had three or four hundred year

WITNESS: RUSSEL E. OLSON - Examination by Casad 4388

1 storms in the base of two or three years?

2 A. I think in my experience with the Company,
3 we have had three hundred-year storms going back to the
4 '62 storm.

5 It doesn't make a lot of sense. Even if
6 you could buy it you can't because markets dictate --
7 loss experience dictates what insurers are willing to
8 cover. They want to cover the higher risk over some
9 deductible or self-insurance retention.

10 There is a lot of events, though, that occur
11 within that self-insured retention that are really
12 costs of restoring our system, which is just
13 maintenance costs, only we call them storm damage.
14 It's more maintenance. That is not just maintenance,
15 but large events occur where multiple customers are out
16 of service at a given time.

17 And we have had this practice here in this
18 state of covering that kind of a cost through the
19 self-insurance reserves that have been built up on the
20 books to take an average of loss experience over a
21 period of time, four years in this case, and allowing
22 that level in rates to build up a reserve and then
23 charging those losses against that reserve.

24 And that's worked well over a number of

25 years. It covers those costs.

WITNESS: RUSSEL E. OLSON - Examination by Casad 4389

1 If the Company were to try to buy insurance
2 to cover those losses below some reasonable, normal,
3 quote unquote, whatever that means, normal experience
4 level, and let's say that's \$4 million a year on an
5 average -- I think that's about what the average was
6 at the timing of the last rate case in this company --
7 if you try to buy coverage below that, the costs are
8 prohibitive.

9 It just doesn't make a lot of sense, and
10 you're also -- you have got to pay administrative costs
11 and profit to the insurance company.

12 But to go above -- at some level above that
13 to buy coverage that will cover the large costs, then
14 if you recall for a million dollars we recovered \$18
15 million here recently as a result of collection on
16 several events, including the Arctic storm that we have
17 just talked about a moment ago.

18 So, that's the way to give the Company some
19 flexibility to determine whether that -- at what level
20 we ought to insure above and what level we ought to try
21 to self-insure below.

22 That flexibility is really needed. And what
23 we try to do with very experienced insurance personnel
24 at the Company is to minimize the overall costs of the

25 program. And I think that's what we have done. We

WITNESS: RUSSEL E. OLSON - Examination by Casad 4390

1 have done it very successfully. I think we ought to
2 have the flexibility to continue that.

3 Q. It's your proposal, then, that, even if
4 there is an insurance program in the marketplace that
5 is tailored specifically to utilities, that it would be
6 your position that you would want to maintain the
7 current system of four-year averaging, the reserve fund
8 to handle amounts below the kick-in point for what I
9 guess would truly be catastrophic insurance?

10 A. Yes, exactly.

11 Q. You would add a catastrophic insurance
12 policy?

13 A. Yes, we would. As I say, this coverage is
14 available only above \$5 million. So, you can't get the
15 coverage below that.

16 Q. I think it's still formative. I'm not
17 certain that that \$5 million is a locked-in figure.

18 A. It may not be. That's the proposal that we
19 have had. And, in fact, we're being asked currently to
20 subscribe.

21 Q. Who issues your directors and officers'
22 insurance?

23 A. I had that, I thought.

24 Q. Maybe it would help if I try to place it in

25 context. I'm looking at your Exhibit 922 and the last

WITNESS: RUSSEL E. OLSON - Examination by Casad 4391

1 page. And you're responding to a question regarding D
2 and O insurance for companies with revenues over \$1
3 billion.

4 And you state: "We object to this request
5 as irrelevant because directors and officers insurance
6 excludes coverage for nuclear risks. Attached is
7 endorsement No. 3 of Puget's D and O policy which is
8 called nuclear energy policy exclusion endorsement.
9 Without waiving this objection, the attached list
10 referred to in Response 1-A above indicating which
11 companies have nuclear facilities and which do not."

12 Could you explain the relevance of that
13 answer to me?

14 THE WITNESS: Yes. The company for the
15 basic layer of directors and officers insurance is
16 National Union, and I believe the second company for
17 the second layer is Franklin.

18 As we got the request: "Please identify
19 among those companies surveyed those having nuclear
20 facilities of any kind." It seemed to us that the --
21 there was some thinking that somehow nuclear companies
22 would carry more coverage and somehow that comparison
23 wouldn't be meaningful. At least to us that seemed to
24 be what they were driving at.

25 We were just simply trying to point out that

 WITNESS: RUSSEL E. OLSON - Examination by Casad 4392

1 no directors and officers' insurance written by any
2 company as far as we're aware covers nuclear liability.
3 There is an exclusion generally for all directors and
4 officers' insurance throughout the country excluding
5 nuclear liability. That's one coverage that they just
6 don't cover.

7 So, it does put these companies on the same
8 footing in terms of the coverage that they carry
9 because it's --

10 Q. Are you familiar with Nuclear Electric
11 Insurance, Limited?

12 A. Yes. That's what covers the nuclear
13 exposure. Nuclear Insurance, I am aware of that. But
14 they may cover directors and officers, but the general
15 core companies that write D and O insurance in the
16 general market don't cover nuclear exposures. That's
17 all we were trying to show.

18 Q. Okay. In discussing the issue of storm
19 damage, you referred to Mr. Schooley's proposals. And
20 Mr. Schooley in his testimony indicates -- and I'll
21 quote it on Page 13 of his testimony -- the question in
22 the testimony says: "Since you are proposing an
23 amortization of \$11,086,660, what happens to the other
24 \$5 million?"

25 Answer: "The FERC memorandum states if

 WITNESS: RUSSEL E. OLSON - Examination by Casad 4393

1 recovery of any of the amounts is denied in any future
2 rate proceedings, such amounts shall be charged to
3 Account 426.5, Other Deductions, in the year of
4 disallowance."

5 Now, in regard to that testimony, you have
6 been discussing write-downs; is that correct?

7 A. Yes.

8 Q. How would you term the disposition of that
9 \$5 million? Would you term that a write-down?

10 A. Well, because the methodology for recovery
11 of storm damage in this jurisdiction has been
12 prescribed by the Commission and it's that approved
13 methodology that has allowed us to accrue these costs
14 that go beyond the self-insurance reserve, and, in
15 effect, becomes a regulatory promise to pay, that, if
16 there was a retroactive disallowance, it would require
17 us under Generally Accepted Accounting Principles to
18 write those costs off.

19 That's why I disagree with the premise that
20 Mr. Schooley makes.

21 Q. To additionally place that in context, Mr.
22 Elgin in his testimony -- as I recall, and I'm quite
23 certain -- indicated that in the Staff's case, no Staff
24 proposal would result in write-downs.

25 A. We don't agree with that at all.

 WITNESS: RUSSEL E. OLSON - Examination by Casad 4394

1 Q. You think this would be an example where the
2 Company would have to write down that \$5 million?

3 A. Not only the storm damage but also the all
4 risk would require write-down of about \$1.6 million.
5 There are substantial write-downs the Company would
6 face if any change in the way we handled the insurance
7 was done on a retroactive basis.

8 There wouldn't be any write-down if it was
9 prospectively because presumably then we would be
10 allowed to recover those costs that we have already
11 accrued.

12 Q. You mentioned you think there would be other
13 write-downs. What other write-downs do you think there
14 would be?

15 A. I'm not sure I can enumerate all of them
16 here. I know the witness that really has all those
17 numbers would be Mr. Story in terms of --

18 Q. Poor Mr. Story.

19 A. He gets all these things. But unfortunately
20 he has got all the numbers. But I know it's the
21 all-risk of \$1.6 million.

22 Q. Okay.

23 MR. TROTTER: If I could just clarify the
24 record. Mr. Elgin's testimony, I believe, is directed

25 toward the changes that the Staff is recommending for

WITNESS: RUSSEL E. OLSON - Examination by Casad 4395

1 the PRAM.

2 COMMISSIONER CASAD: Okay. That's an
3 important distinction, yes. Thank you.

4 JUDGE HAENLE: Commissioners, questions?

5

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

7 BY COMMISSIONER HEMSTAD:

8 Q. Interest rates have been falling. I assume
9 Puget Power has been refinancing its debt?

10 A. We have been very aggressively refinancing
11 debt as shown on the page we just went over with Mr.
12 Adams.

13 Q. The investment community tends to treat
14 utility stocks as more akin to debt than to equity as
15 an investment vehicle. Is that a fair statement?

16 A. Well, it's truly equity. But it does sort
17 of tend to trade like a bond because as interest rates
18 drop, equity prices go up. And the reverse is also
19 true.

20 Q. It would tend to track interest rates?

21 A. That's true.

22 Q. Is the expectation of the investment
23 community that dividend rates of utility stocks never
24 go down?

25 A. That's a tough question to answer,

 WITNESS: RUSSEL E. OLSON - Examination by Hemstad 4396

1 Commissioner. I think, by and large, investors don't

2 buy stocks expecting the dividend to go down.

3 Unfortunately, for various reasons, that does happen.

4 And there is an immediate reaction in the price when it
5 does happen.

6 But generally investors in utility stocks
7 are looking for a current yield with a prospect of an
8 increasing dividend. That's why they buy utility
9 stocks.

10 Q. But as interest rates come down -- well,
11 over time, as interest rates continue to decline, and
12 assuming that risks stay approximately the same, it is
13 axiomatic that the price for utility stocks would rise?

14 A. That's true.

15 Q. Even as the return on debt in the
16 marketplace is falling?

17 A. Yes. That does happen.

18 Q. Is that a logical assumption of an investor?

19 A. Well, as interest rates drop, the
20 opportunity to achieve yield in other instruments is,
21 of course, lower. So, it sort of lowers the expected
22 yield on the utility, and the price will adjust upward,
23 which lowers the yield to be kind of competitive in the
24 marketplace. Whether interest rates turn around and go

25 up again, those stock prices would tend to come down.

WITNESS: RUSSEL E. OLSON - Examination by Hemstad 4397

1 The interesting phenomenon is that so many
2 holders of utility stocks tend to be older, retired
3 people who are looking for income. And even though the
4 stock price changes, they still keep the stock because
5 they are looking for the yield.

6 So, they are not -- it's the institutional
7 investors or the more sophisticated investors that are
8 in and out of the market. But the dividend-seeking,
9 yield-seeking elderly people and retired people who
10 tend to be a substantial group of utility stockholders
11 tend to hold on regardless of what happens in the
12 marketplace.

13 COMMISSIONER HEMSTAD: Thank you, that's all
14 I have.

15 COMMISSIONER CASAD: I have just one more.

16

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

18 BY COMMISSIONER CASAD:

19 Q. All right. Much has been made of the rating
20 agencies' views of purchased power and that they view
21 it essentially as debt in that it places a utility at
22 risk. It seems that's kind of a generic view of the
23 rating agencies.

24 Doesn't the quality of those contracts of

25 the purchased power make a difference? For example, in

WITNESS: RUSSEL E. OLSON - Examination by Casad 4398

1 Puget's case, the Mid-Columbia contracts are purchased
2 power, but they are extraordinarily advantageous to
3 ratepayers, extraordinarily solid contracts, probably
4 superior to many generating resources that many
5 utilities have.

6 Isn't it somewhat short-sighted to make
7 generic views about purchased power with equal
8 application to all utilities?

9 A. The rating agencies in the case of Puget in
10 the way -- at least the way Standard and Poors applies
11 their risk factors has tended to try to lower the risk
12 factor for the take-or-pay contracts represented by the
13 Mid-Columbia.

14 But to say that they are not risky is really
15 kind of missing the point. Those contracts only run
16 another ten years or so, maybe slightly more, and they
17 start to mature, and they have to be renegotiated. So,
18 there is that kind of a risk.

19 There is also being viewed in the financial
20 community these days the concern about what happens
21 with the salmon mitigation measures and the ability of
22 those plants to generate the power at the levels they
23 were generating in the past.

24 So, there is not an elimination -- they are

25 not risk-free. There is some risk. And, again, they

WITNESS: RUSSEL E. OLSON - Examination by Casad 4399

1 represent a fixed obligation for payment by the
2 Company, and it's that fixed obligation that's being
3 attempted -- attempted to be measured by the rating
4 agencies as they try to compare one utility against the
5 other.

6 I think Mr. Dell who is the rating agency
7 witness --

8 Q. I'll raise that with Mr. Dell. There is
9 risk in coal plants and nuclear plants and all kinds of
10 generating facilities that one would have to take into
11 account. Thank you. That's all.

12 JUDGE HAENLE: Commissioners, anything else?

13 Do you have any redirect?

14 MR. MARSHALL: Just a few questions.

15 JUDGE HAENLE: Why don't we break now and
16 come back at 3:30. We'll take redirect and recross.

17 (Recess.)

18 JUDGE HAENLE: Let's be back on the record
19 after an afternoon recess.

20 You have indicated you have no redirect, Mr.
21 Marshall?

22 MR. MARSHALL: Correct.

23 JUDGE HAENLE: Mr. Trotter?

24 MR. TROTTER: Just one.

25

WITNESS: RUSSEL OLSON - Further Cross by Trotter 4400

1 FURTHER CROSS - EXAMINATION

2 BY MR. TROTTER:

3 Q. With respect to the spread between A and BBB
4 rated debt, what is that currently, Mr. Olson, if you
5 have that?

6 A. I don't have that currently. It's certainly
7 lower than the average that I had indicated currently,
8 but close to that number.

9 Q. Would you accept that on June 24 Alabama
10 Power issued 150 million of A-rated first mortgage
11 bonds for 23 years at 7.45 percent?

12 A. I'll accept that subject to check.

13 Q. And that on the same day Commonwealth
14 Edison, BBB by Standard and Poors, issued the same
15 amount of bonds for thirteen years at 7.5 percent?

16 A. I'll certainly accept that subject to check.

17 Q. That's taken from CORPORATE FINANCING WEEK
18 of June 28 of this year. Thank you.

19 JUDGE HAENLE: Anything more of the witness?

20 Mr. Furuta?

21 MR. FURUTA: Just one question, your Honor.

22

23 FURTHER CROSS - EXAMINATION

24 BY MR. FURUTA:

25 Q. Do you happen to know what percent of

WITNESS: RUSSEL OLSON - Further Cross by Furuta 4401

1 Puget's common stock is currently held by institutional
2 investors?

3 A. Well, I don't have an exact percent, Mr.
4 Furuta, but it's about seventeen percent.

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

6 JUDGE HAENLE: Anything else of the witness?

7 All right, thank you, sir. You may step
8 down.

9 Let's go off the record to change witnesses.

10 (Recess.)

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

12 During the time we were off the record a new witness
13 has assumed the stand.

14

15 JOHN C. DELL,

16 witness herein, being first duly
17 sworn, was examined and testified

18 as follows:

19 (Discussion held off the record.)

20 JUDGE HAENLE: Thank you.

21 Also during the time we were off the record,
22 I marked a document for identification as T-923. The
23 document has WAA-9 at the top in the upper right-hand
24 corner, and Mr. Marshall has distributed a two-page

25 document which reflects the change in witnesses that we

WITNESS: RUSSEL OLSON - Further Cross by Furuta 4402

1 discussed earlier. This, as I understand it, includes
2 Mr. Dell's identification and qualifications.

3 Is that right, Mr. Marshall?

4 MR. MARSHALL: That's correct.

5 JUDGE HAENLE: I suggest we put this at
6 the beginning of WAA-9, and you can ignore those
7 portions of WAA-9 that refer specifically to Mr.
8 Abrams, and we'll use this information on that instead.

9 (Marked Exhibit T-923)

10 JUDGE HAENLE: Go ahead, Mr. Marshall.

11

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

13 BY MR. MARSHALL:

14 Q. Mr. Dell, do you have before you what has
15 been marked for identification as Exhibit T-923?

16 A. T-923?

17 Q. WAA-9?

18 A. Yes.

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

21 A. It's Mr. Abram's testimony which I have
22 adopted.

23 Q. Do you have any additions or corrections to
24 make to Exhibit T-923 at this time?

25 A. Only one very, very minor correction. On

 WITNESS: JOHN C. DELL - Direct by Marshall 4403

1 Page 13, between Lines 22 and 23, and in that line the
2 word "is" is to be added between the words "it" and
3 "important." So, it would then read: "It is
4 important."

5 Q. Apart from that change and the change that
6 we referred to earlier with your qualifications, do you
7 have any other corrections or additions to make?

8 A. I do not.

9 Q. As corrected, if I asked you the questions
10 as set forth in Exhibit T-923 today, would you give the
11 answers as set forth in that exhibit?

12 A. I would.

13 MR. MARSHALL: I move the admission of
14 Exhibit T-923, and Mr. Dell is available for
15 cross-examination.

16 JUDGE HAENLE: Any objection to the entry
17 of the document, Mr. Trotter?

18 MR. TROTTER: No.

19 JUDGE HAENLE: Mr. Adams?

20 MR. ADAMS: No.

21 JUDGE HAENLE: Mr. Furuta?

22 MR. FURUTA: No objection.

23 JUDGE HAENLE: Mr. Richardson?

24 MR. RICHARDSON: No objection, your Honor.

25 JUDGE HAENLE: T-923 will be entered into

WITNESS: JOHN C. DELL - Direct by Marshall 4404

1 the record.

2 (Received Exhibit T-923)

3

4 C R O S S E X A M I N A T I O N

5 BY MR. TROTTER:

6 Q. Welcome, Mr. Dell.

7 A. Thank you.

8 Q. Turn to Page 6 of your testimony.

9 A. Okay.

10 Q. Beginning on Line 1, you indicate that if
11 one firm owns all of its assets and a second firm
12 leases most of its assets, a rating agency would need
13 to adjust reported financial statistics in order to
14 make a meaningful comparison between the two.

15 Is that the gist of your testimony?

16 A. Exactly.

17 Q. A lease is a contract to pay a certain
18 amount of money to the lessor for a given period of
19 time; is that right?

20 A. That's right.

21 Q. Under take and pay purchased power, payments
22 do not have to be made when power is not available; is
23 that correct?

24 A. Typically.

25 Q. Now, under your example, suppose the first

WITNESS: JOHN C. DELL - Direct by Trotter 4405

1 firm, the one that owns all of its assets, was allowed
2 to earn a rate of return which was subject to the
3 vagaries of attrition while the firm that leased its
4 assets was guaranteed the recovery of the leased
5 payment. Are those two firms alike?

6 A. No.

7 Q. What adjustments would have to be made to be
8 able to compare these two firms?

9 A. I don't know how you would do an adjustment
10 to account for and normalize attrition. That would be
11 an interesting thing. I haven't actually pondered
12 that.

13 JUDGE HAENLE: Could I get you to move the
14 microphone right up in front of you, sir, to be sure
15 that you're speaking directly into it?

16 THE WITNESS: Certainly.

17 JUDGE HAENLE: Thank you.

18 BY MR. TROTTER:

19 Q. Is it your testimony that an operating lease
20 poses the same risk as a purchased power contract?

21 A. It poses a similar consequence. I don't
22 know that risk itself is the right word in this
23 instance. But it certainly has a similar economic and
24 credit-related consequence.

25 Q. When Duff and Phelps computes coverages for

WITNESS: JOHN C. DELL - Direct by Trotter 4406

1 companies, it does not adjust quantitatively for the
2 fact that Puget is allowed to recover purchased power
3 expense on a timely basis through the PRAM; is that
4 correct?

5 A. It does not require an adjustment. Most
6 companies that we analyze in one form or another are
7 allowed to recover purchased power expense. So, for
8 the most part, we are comparing apples to apples.

9 The companies that have no recovery
10 mechanism and a minority of the approximate one hundred
11 electric utilities would follow, in essence show that
12 as a negative factor.

13 Q. You have not done any analysis to determine
14 whether other energy cost adjustment clauses are more
15 broad or more limited than the PRAM, have you?

16 A. I haven't done a specific study. But it
17 resembles, at least in a general sense, a number of
18 other, if not many other, recovery mechanisms.

19 Q. Many mechanisms permit recovery of fuel, but
20 not capacity; is that correct?

21 A. Many permit both, but a combination of
22 recovery mechanisms is what I'm referring to.

23 Incidentally, the characteristic of the PRAM
24 mechanism and the PRAM procedure that is unusual is the

25 insensitivity to sales volume, which really isn't part

WITNESS: JOHN C. DELL - Direct by Trotter 4407

1 of this argument. But the remainder of the provisions
2 and the characteristics are not really very unusual.
3 In fact, they are usual.

4 Q. But you haven't done any study to determine
5 which states have clauses that are broader than the
6 PRAM or as broad as PRAM?

7 A. I haven't done any studies. In the course
8 of a year, I review most of those one hundred electric
9 utilities that we follow. So, I have a pretty good
10 general familiarity with recovery clauses.

11 Q. What portion of Puget's purchased power
12 costs are not recovered through the PRAM?

13 A. As I understand it, that's principally a
14 Commission decision. It's not an automatic recovery
15 necessarily. It's a proceeding that occurs
16 periodically that decides exactly what and when it will
17 be recovered.

18 Q. Is there a specific category of costs that
19 are not recoverable through the PRAM?

20 A. At the moment I don't recall any.

21 Q. What percentage of Puget's take or pay and
22 take and pay purchased power contracts is capacity
23 payment related?

24 A. I don't know that percentage. I have spent

25 some time reviewing the purchased power contracts,

WITNESS: JOHN C. DELL - Direct by Trotter

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1 however.

2 A number of the upcoming contracts, those
3 that are either about to or soon to become effective
4 have no stated capacity payments, but upon analysis
5 have some fairly strong percentage of the so-called
6 energy payment stream. That is the economic
7 equivalent, to use our terminology, of a capacity
8 payment. I haven't gotten deeply enough into it,
9 however, to be able to break that out for you.

10 Q. So, Puget has not provided you with that
11 statistic?

12 A. That is correct. Some of the contracts
13 haven't yet become effective. So, we haven't had a
14 chance to review the payment stream.

15 Q. For the ones that are in existence?

16 A. I simply haven't gotten to that depth at
17 this point.

18 Q. On Page 8 of your testimony, Lines 6, you
19 state: "Most recently, the Company provided us with
20 its response to the Standard & Poor's
21 questionnaire."

22 Tell us what time period you're talking
23 about there.

24 A. I'm not sure. You mean when did I get the

25 questionnaire?

WITNESS: JOHN C. DELL - Direct by Trotter

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1 Q. Yes.

2 A. I don't remember exactly. I have reviewed
3 it within the last couple of days. I don't know
4 whether that's responsive to your question or not.

5 I don't know when Mr. Abrams got the
6 questionnaire. I personally got it several days ago.
7 It is not so long that you would need more than a
8 couple of hours to review it at most.

9 Q. Right. That is the difference between Mr.
10 Abrams and you here.

11 When did Duff and Phelps get it? Do you
12 know?

13 A. I do not know.

14 Q. On Page 10 of your testimony, you indicate
15 on Lines 7 through 10 that you do consider regulatory
16 treatment in your qualitative analysis; is that right?

17 A. Certainly.

18 Q. Now, Duff and Phelps had to make many
19 judgments to come up with its purchased power
20 methodology, it's quantitative methodology, didn't it?

21 A. It's a methodology that we have basically
22 employed for many years. Yes, a lot of work
23 undoubtedly went into it originally. That's before the
24 time that I was at Duff and Phelps.

25 Q. If you could quantify the purchased power

WITNESS: JOHN C. DELL - Direct by Trotter 4410

1 imputation adjustments, why don't you quantify the
2 impact of regulatory treatment?

3 A. It's a qualitative, non-quantitative issue,
4 if you will. It has quantitative implications. But
5 the quality of regulation would be hard to come up with
6 a mathematical factor on.

7 Q. You consider it to be an issue of quality of
8 regulation as opposed to the actual operation of the
9 mechanism?

10 A. The mechanisms that allow the recovery of
11 purchased power costs in this case and the
12 dependability of that recovery is a qualitative factor.
13 It clearly has quantitative implications to the extent
14 that it causes the revenue stream to vary.

15 Q. And the PRAM reduces the variability of the
16 Company's reported earnings, does it not?

17 A. Its reported earnings, yes.

18 Q. On Page 9 of your testimony you compare a
19 statement from Doctor Lurito with a statement of Mr.
20 Elgin.

21 Do you see that, Lines 4 through 14?

22 A. Let me read it. (Reading.) Yes.

23 Q. You did not include Doctor Lurito's
24 explanation of his testimony, did you?

25 A. I'm sorry. I didn't get the question.

 WITNESS: JOHN C. DELL - Direct by Trotter 4411

1 Q. You did not include Doctor Lurito's
2 explanation of his testimony, did you?

3 A. No.

4 Q. Turn to Page --

5 A. It's simply a quote.

6 Q. Turn to Page 13 of your testimony. And here
7 you refer to the Mid-Columbia contracts. And you note
8 that these contracts are coming to an end beginning in
9 the year 2005.

10 Do you see that, Lines 16 and 17?

11 A. Yes. They are set to expire.

12 Q. Would it also be true that re-licensing will
13 begin around that time period?

14 A. I would expect that would be the case. But
15 that doesn't tell us whether or not the renegotiation
16 of the contracts will be successful or, if it is, upon
17 what terms and conditions.

18 Q. It's possible that Puget could gain such a
19 license in that proceeding, isn't it?

20 A. I don't know whether that's actually
21 theoretically possible or not. I simply don't know the
22 answer to it.

23 Q. Turn to Page 3 of your testimony. And here,
24 on Lines 1 through 12, you refer to independent power

25 producers competing for capital with the investor-owned

WITNESS: JOHN C. DELL - Direct by Trotter 4412

1 utilities. Is that correct?

2 A. Competing for capital in general, I suppose,
3 would be the point in the capital markets.

4 Q. You're not suggesting that the independent
5 powers are of comparable risk to Puget or other
6 investor-owned utilities, are you?

7 A. We are not. That's correct.

8 Q. Would it follow that the returns awarded the
9 investors in these projects is commensurate with the
10 attendant risks?

11 A. Yes. I would think that it is.

12 Q. On Page 10 --

13 A. I would amend that to say expected risk, by
14 the way, as opposed to attendant.

15 Q. On Page 10 of your testimony, the last
16 question on that page, and going over to the next page,
17 you talk about the guarantee for recovery of purchased
18 power costs in the state; that no guarantee is possible
19 and the existing Commission cannot control the
20 decisions of future Commissions over the next ten to
21 fifteen years.

22 Do you see that?

23 A. Yes, I do.

24 Q. Puget got to a 45 percent equity ratio from

25 a 40 percent equity ratio in half a year, didn't it?

WITNESS: JOHN C. DELL - Direct by Trotter 4413

1 A. By selling common stock. That is correct.

2 Q. Now, if Puget stops paying for purchased
3 power resource, the owner could not force Puget into
4 bankruptcy; is that true?

5 A. I believe that may be untrue, in fact. That
6 would be breach of a contractual obligation, begging a
7 potential suit for damages. Whether or not other Puget
8 could pay the damages would determine whether
9 bankruptcy was threatened. It's certainly possible.

10 Q. Possible if they couldn't pay the damages?

11 A. Yes.

12 Q. If Puget fails to pay a mortgage bond
13 payment, the owner of that security under the indenture
14 could force Puget into bankruptcy, couldn't it?

15 A. If Puget was unable to retire the bond, yes.
16 Simple acceleration could have the bond simply paid off
17 or, if unable to pay, then bankruptcy would be
18 threatened.

19 Q. On Page 12 you talk about Puget being unique
20 and that it has a much higher percentage of purchased
21 power than other utilities. That's on Lines 19 and 20.

22 Would you agree that much of its purchased
23 power is low-cost power that could easily be resold?

24 A. At the present time, that's the case. The

25 Mid-Columbia power is, indeed, very attractive, very

WITNESS: JOHN C. DELL - Direct by Trotter 4414

1 inexpensive power that undoubtedly could be laid off in
2 the market.

3 The purchased power contracts that become
4 effective in the next couple of years for co-generation
5 power don't fall into that same category. They might
6 be able to lay that power off in the market, but they
7 would be laying it off at a loss.

8 Q. You're saying that the projects that Puget
9 is purchasing now, if Puget had to sell that power on
10 the market, they would take a loss?

11 A. If you're talking about the co-generation
12 projects, yes.

13 Q. Are you familiar with how the simplified
14 dispatch model treats Puget's purchased power for
15 secondary or off system sales?

16 A. I am not.

17 Q. On Page 14 on Line 3, you make an analogy
18 regarding a homeowner that would be considered by
19 bankers in the making of long-term personal loan even
20 if the house is a bargain.

21 Do you see that?

22 A. Yes.

23 Q. People commonly get eighty to ninety percent
24 financing with a thirty-year mortgage. Isn't that

25 true?

WITNESS: JOHN C. DELL - Direct by Trotter 4415

1 A. Yes, I believe that is true.

2 Q. And if that homeowners' mortgage debt, the
3 payment for that debt was guaranteed by another person
4 whose financial status was secure, the banker would
5 take that into account in determining whether or not to
6 make that loan and at what rate. Would that follow?

7 A. That would require conjecture. I don't
8 know. I'm not very familiar with the home mortgage
9 market.

10 Q. Did you read Mr. Abram's example of such a
11 loan in his --

12 A. Yes. I mean, it's certainly conceivable
13 would be my answer. It's hard to predict how lenders
14 would actually react.

15 Q. At the bottom of Page 14 you talk about the
16 comparison of gas companies to electric companies.

17 Do you see that?

18 A. Yes.

19 Q. Would you agree that the less a company has
20 owned generation, the more it requires a fuel clause of
21 some sort?

22 A. Do you mean an energy adjustment clause
23 perhaps or PRAM-like mechanism?

24 Q. Or PGA? I wasn't referring to any specific

25 industry.

WITNESS: JOHN C. DELL - Direct by Trotter 4416

1 A. PGA is a purchased gas -- are you referring
2 to gas companies now or electric companies? I'm not
3 quite sure.

4 Q. Would you agree that the higher percentage
5 of a Company's costs that are variable, the more it
6 needs a tracking mechanism to give more automatic
7 recovery to those variable costs?

8 A. Well, that certainly lowers risk, yes.

9 Q. Turn to the last page of your testimony.
10 And you indicate at Line 9: "No other witness in this
11 case is an expert in the field of rating fixed income
12 securities; therefore, as the one responsible for
13 establishing credit ratings, my testimony remains an
14 unassailable and unassailed statement of fact."

15 Do you see that?

16 A. Yes, I do.

17 Q. Are you saying that if a witness questioned
18 an assumption you made or offered other analyses, that
19 because they do not rate securities your testimony is
20 unassailed and unassailable?

21 A. No. We are simply saying that I am here
22 telling you how we rate securities and what methods we
23 use. And that stands as a fact. We're not questioning
24 others' integrity.

25 Q. Well, I didn't mean to suggest that. But

WITNESS: JOHN C. DELL - Direct by Trotter 4417

1 there was quantitative analysis done by other witnesses
2 in this case regarding the Duff and Phelps methodology,
3 wasn't there?

4 A. Well, there were computations done, yes.

5 Q. And is it your testimony that because those
6 computations were not done by a fixed income security
7 analyst, that the Duff and Phelps analysis is
8 unassailed or unassailable?

9 A. No. It's simply unassailable as to what the
10 Duff and Phelps analysis and conclusion and methodology
11 is. Others may or may not agree with our ratings and
12 may or may not use similar methodology.

13 We are simply testifying how we do it and
14 what our conclusions are. That simply is factual.

15 Q. And that's unassailable?

16 A. We're probably quibbling over words. I
17 wouldn't think so. It's a statement of fact. We're
18 telling you what we do, and we're telling you it
19 straight out. So, I suppose in a sense it is
20 unassailable.

21 MR. TROTTER: Nothing further. Thank you.

22 JUDGE HAENLE: Do you have questions, Mr.
23 Furuta?

24 MR. FURUTA: Yes, just a few, your Honor.

25

WITNESS: JOHN C. DELL - Cross by Furuta

4418

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

2 BY MR. FURUTA:

3 Q. Good afternoon, Mr. Dell. I'm Norman Furuta
4 for the Federal Executive Agencies. And I just had a
5 couple of questions of attribution, actually.

6 Page 10 of your testimony, at Line 5, you
7 make references to some witnesses who said the credit
8 rating agency treatment of purchased power does not
9 consider regulatory support for purchased power.

10 Do you know who those witnesses were in this
11 proceeding?

12 A. I don't offhand. I haven't had a chance to
13 read all the other testimony in the case. I don't have
14 the cites. I believe we could get them for you.

15 Q. Okay. And similarly, on Page 14, Line 16,
16 you refer to two witnesses there. Do you happen to
17 know those two witnesses?

18 A. I don't know offhand. Again, we could get
19 you the cites if you're interested.

20 MR. FURUTA: Thank you, your Honor. Perhaps
21 those witnesses could be identified at some point
22 during the hearing by counsel. That would be
23 sufficient for our purposes.

24 JUDGE HAENLE: Can you get that information

25 and relay it then to Mr. Marshall?

WITNESS: JOHN C. DELL - Cross by Furuta 4419

1 THE WITNESS: Sure.

2 JUDGE HAENLE: And we would take a
3 representation of counsel in that regard. Is that what
4 you're suggesting?

5 MR. MARSHALL: Mr. Peseau is one witness I
6 can recall offhand.

7 JUDGE HAENLE: Why don't we have the witness
8 check and get back. If that's all right with the rest
9 of counsel, that's fine with me.

10 Mr. Trotter, do you think that will require
11 additional questions?

12 MR. TROTTER: It may require another
13 representation of counsel.

14 MR. MARSHALL: The other may have been Mr.
15 Elgin.

16 JUDGE HAENLE: Can you folks look that up?

17 MR. TROTTER: Mr. Elgin did talk about the
18 gas issue. On the other issue, I'm not so sure. We
19 can work it out.

20 THE WITNESS: I would think we could pick it
21 out of the testimony.

22 JUDGE HAENLE: If you gentlemen will work on
23 that, I would appreciate it.

24 MR. FURUTA: Thank you.

25 JUDGE HAENLE: All right, Mr. Richardson.

WITNESS: JOHN C. DELL - Cross by Furuta 4420

1 MR. RICHARDSON: Just a couple, your Honor.

2

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

4 BY MR. RICHARDSON:

5 Q. Mr. Dell, how long have you been employed by
6 Duff and Phelps?

7 A. About one year.

8 Q. In that one year you have become the one at
9 Duff and Phelps for establishing credit ratings?

10 A. No. Mr. Abrams is the senior of the two of
11 us that are primarily responsible for electric utility
12 ratings.

13 Q. And in that one year you have become an
14 expert in rating fixed income securities?

15 A. I have spent about twenty years dealing with
16 credit matters and credit judgments that deal with
17 electric utilities.

18 Q. Have you spent twenty years establishing
19 fixed income security ratings for the electric utility
20 industry?

21 A. I have not.

22 MR. RICHARDSON: That's all I have, your
23 Honor.

24 JUDGE HAENLE: Mr. Adams?

25 MR. ADAMS: I have no questions.

WITNESS: JOHN C. DELL - Cross by Richardson 4421

1 JUDGE HAENLE: Commissioners, do you have
2 questions?

3 COMMISSIONER CASAD: Very briefly.
4

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

6 BY COMMISSIONER CASAD:

7 Q. Good afternoon, Mr. Dell.

8 A. Good afternoon.

9 Q. In my experience the only unassailable
10 person is my mother-in-law.

11 I want to discuss this very, very briefly.
12 I don't want to extend this discussion. It's probably
13 not the appropriate place.

14 But in discussing transition, would you
15 agree that the electric utility industry is in a
16 dynamic state of flux at the present time, the Energy
17 Policy Act of '92, access to transmission, the
18 emergence of exempt co-sell generators. The
19 traditional electric market, utility marketplace as we
20 have known in the past, would seem to be rapidly
21 changing.

22 Would you agree with that?

23 A. I would, indeed. I would add competition to
24 the equation.

25 Q. And you mentioned a statement that I made

WITNESS: JOHN C. DELL - Examination by Casad 4422

1 that under the Electric Policy Act of '92, that most
2 electric utilities may some day be purchasing most or
3 all of their power under contracts. I'm not sure
4 that's an exact quote, but it's close enough.

5 And you state in your answer that this may
6 be true sometime in the distant future, but at this
7 point it's speculative. And you also indicate that a
8 number of utilities are buying down their purchased
9 power contracts.

10 Then you say, for our purposes we must take
11 electric utilities as they are now and in the near
12 future and make comparisons where they differ from one
13 another.

14 Yet a minute ago I thought you indicated
15 that the Mid-Columbia contracts are going to expire in
16 2005, or beginning in 2005, and that we would have to
17 wait until 2005 to begin to get impact of the
18 renegotiation of those contracts.

19 Is there a difference there in your
20 approach?

21 A. I don't think so. We're simply saying that
22 we won't know the new provisions for either the
23 renegotiated Mid-Columbia contracts or replacement
24 sources that the Company may go for until the Company

25 has, in fact, negotiated those.

WITNESS: JOHN C. DELL - Examination by Casad 4423

1 In the meantime, we think it's doubtful that
2 the price will get better than it's been.

3 And so amongst other things, we view that as
4 a contributing factor as to why the Company should, in
5 facts, increase, as it has, its common equity component
6 to capital.

7 That risk, over time, we see pretty clearly
8 increasing. We don't know the magnitude yet to the
9 Mid-Columbia contracts. We see it increasing. We see
10 it consistent with the argument that the Company is
11 making.

12 Q. You would agree that pricing is relative.
13 One would not be very smart to disagree with you that
14 it's going to be hard to find two-cent power in the
15 future, one or two-cent power. Obviously those prices
16 are going to rise across the board and across the
17 industry.

18 Is it not possible that relative to the
19 contracts, that either Puget could renegotiate with the
20 Mid-Columbias, PUDs, or power which they could purchase
21 under a power contract from EWG or IPP, could be
22 relatively cheaper than investing in their own
23 generating facilities?

24 A. It's possible. It's probably equally

25 possible that investing -- we're out several years in

WITNESS: JOHN C. DELL - Examination by Casad 4424

1 the future, not the current arrangements -- it's
2 possible in the future it could cut either way.

3 Some of that will depend upon where the
4 wholesale power market is at that point in time. And
5 it appears to be tightening in this part of the
6 country.

7 There is other parts of the country, the
8 southwest comes to mind, and you can transmit power up
9 here from the southwest where the market may be long
10 for a very long period of time.

11 It depends on what the market prices are at
12 the time as to whether it would be more sensible to
13 build more generation or to purchase.

14 Q. Would you agree that most of the
15 construction projects that have taken place in the
16 desert southwest have been break-out construction
17 projects; that is, to get their excess capacity to the
18 marketplace?

19 A. I'm not sure I understand the term
20 "break-out."

21 Q. Most of the transmission construction
22 projects undertaken by desert southwest utilities have
23 been construction projects which are designed to wheel
24 their power out of their over-capacity area into

25 markets external to their area.

WITNESS: JOHN C. DELL - Examination by Casad 4425

1 A. They are two-way systems. In the summer in
2 Arizona, for example, they import power. And so, they
3 are two-way systems, but they are also used for export
4 and they are exporting power because they are long on
5 power.

6 Q. That would be true of Salt River, also, and
7 other utilities?

8 A. I don't know whether Salt River is exporting
9 power or not. I'm just not that familiar with SRP, but
10 the rest of the companies certainly are long. Tucson
11 is long, Arizona is long, New Mexico is long, so forth
12 and so on.

13 Q. Thank you.

14 You indicate that, regarding cost-of-service
15 regulation, that it has enabled electric utilities to
16 use far more debt than industrial firms. Would it not
17 be true IPPs and EWGs are generally more leveraged than
18 utilities, than regulated utilities?

19 A. Thus far that has been the case. I think it
20 remains to be seen what leverage factors we'll see
21 going forward in IPPs and EWGs. I think an awful lot
22 of people -- and I would be one of them -- see those
23 capital structures so far as what's demanded by the
24 market changing and becoming less leveraged than they

25 have been.

WITNESS: JOHN C. DELL - Examination by Casad 4426

1 What they will change to, I think, is
2 perhaps a little early to call. There is not that much
3 under construction right at the moment.

4 COMMISSIONER CASAD: Thank you. That's all
5 I have.

6 JUDGE HAENLE: Commissioner?

7 COMMISSIONER HEMSTAD: I don't have any
8 questions.

9 JUDGE HAENLE: Have you redirect?

10 MR. MARSHALL: No.

11 JUDGE HAENLE: Anything more of the witness?

12 MR. TROTTER: I had two questions that I
13 neglected to ask, if I might.

14 JUDGE HAENLE: Yes.

15

16 FURTHER CROSS - EXAMINATION

17 BY MR. TROTTER:

18 Q. Mr. Dell, you would not characterize Puget's
19 bonds as speculative at any time over the last two
20 years, would you?

21 A. No. They have been rated investment grade
22 single A, basically. In a rating context -- I assume
23 you're using or attempting to use a rating term.
24 Speculative would be well below industrial grade in our

25 lexicon.

WITNESS: JOHN C. DELL - Further Cross by Trotter 4427

1 Q. Puget doesn't have variability in the PRAM?

2 A. Is that a derivative question or second
3 question?

4 Q. Second question.

5 A. Expectations have varied. The purpose of
6 the PRAM is, and the result at the moment is, it has
7 leveled out reported earnings, not cash earnings.
8 There were periods last year when a lot of us in the
9 rating business weren't very sure how all that was
10 going to turn out.

11 So, expectations have varied quite a lot.
12 And perceptions of risk have as well.

13 Q. In terms of booked earnings, there has not
14 been considerable earnings variability?

15 A. That's essentially true. That isn't the
16 biggest component of credit quality, but it is a true
17 statement.

18 Q. And the concern is that those deferrals will
19 not be recovered?

20 A. Well, that is always a concern, yes.

21 MR. TROTTER: Nothing further. Thank you.

22 JUDGE HAENLE: Anything more of the witness?

23 All right, thank you, sir. You may step
24 down. Let's go off the record to change witnesses,

25 please.

WITNESS: JOHN C. DELL - Further Cross by Trotter 4428

1 (Discussion held off the record.)

2 (Marked Exhibit T-924)

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

4 During the time we were off the record,

5 another witness has assumed the stand.

6 I'll remind you, sir, that you were

7 previously sworn and remain under oath.

8

9 CHARLES E. OLSON,

10 witness herein, having been previously

11 duly sworn, was examined and testified

12 further as follows:

13 JUDGE HAENLE: During the time we were off

14 the record I marked for identification a forty-page

15 document that says CEO-3 in the upper right-hand

16 corner T-924 for identification.

17 Go ahead, Mr. Marshall.

18

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

20 BY MR. MARSHALL:

21 Q. Doctor Olson, do you have before you what

22 has been marked for identification as T-924?

23 A. Yes, I do.

24 Q. Do you recognize that as your prefiled

25 rebuttal testimony in this case?

WITNESS: CHARLES E. OLSON - Direct by Marshall 4429

1 A. Yes, I do.

2 Q. Do you have any additions or corrections to
3 make to Exhibit T-924 at this time?

4 A. I have a number of corrections. The first
5 one is at Page 3, Line 4, the second of the "thes" that
6 appears right before "witnesses" should be stricken.

7 The next one is at Page 8. That's Line 19.
8 And there, near the end of that line, between "there"
9 and "be" should be inserted the word "could."

10 Next one is at Page 12, Line 1. And after
11 the word "clauses" should be inserted a comma.

12 Next change is at Page 13 -- let's see --
13 that's Lines 5 to 6, the word "as" should be inserted
14 after "good."

15 COMMISSIONER HEMSTAD: What was that again?

16 THE WITNESS: Between Lines 5 and 6, "is not
17 as good the ECAC." Right after the word "good" should
18 be inserted "as." "As good as the ECAC."

19 Let's see. The next one is at Page 21, Line
20 7. The word "comparable" should have an S added to it
21 so it reads "comparables."

22 Next one is at Page 25, Line 13. The word
23 "way" should be replaced with the word "what."

24 Page 34 is the next one, line 14. We should

25 remove that parentheses.

WITNESS: CHARLES E. OLSON - Direct by Marshall 4430

1 Finally, at Page 38, Line 9, we should
2 insert the word "to" after the word "as."

3 JUDGE HAENLE: Next time you folks do this,
4 would you please do it by an errata sheet so we don't
5 have to spend the time on the record? Thank you.

6 BY MR. MARSHALL:

7 Q. As corrected, if I ask you the questions as
8 set forth on Exhibit T-924 today, would you give the
9 answers as set forth in that exhibit?

10 A. Yes, I would.

11 MR. MARSHALL: We move the admission of
12 Exhibit T-924, and Doctor Olson is available for
13 cross-examination.

14 JUDGE HAENLE: Any objection, Mr. Trotter?

15 MR. TROTTER: No.

16 JUDGE HAENLE: Objection, Mr. Adams?

17 MR. ADAMS: No objection, your Honor.

18 JUDGE HAENLE: Mr. Furuta?

19 MR. FURUTA: No, your Honor.

20 JUDGE HAENLE: Mr. Richardson?

21 MR. RICHARDSON: No.

22 JUDGE HAENLE: Exhibit T-924 will be
23 admitted into the record.

24 (Received Exhibit T-924)

25 JUDGE HAENLE: Go ahead, Mr. Trotter.

WITNESS: CHARLES E. OLSON - Direct by Marshall 4431

1

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

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BY MR. TROTTER:

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Q. Doctor Olson, do you recall during your cross-examination earlier you indicated that in your opinion Puget's common equity had fallen to 12.5 from the 12.5 to 13 percent area that you recommended in your prefiled testimony?

A. Yes.

Q. And we asked you in Data Request 2523 to provide all studies made by you since your prefiled testimony that estimate Puget's current cost of common equity and to indicate whether or not you were asked by Puget to make an update of that study.

And your response is that you monitor the cost of capital on an ongoing basis. No formal study was made and none was requested; that you did confer regularly with Puget on your views concerning the cost of capital; is that right?

A. Yes.

Q. So, Puget did not ask you to update your original common equity study?

A. No. They asked me what I thought it was, but they didn't ask me to update the study.

25 Q. In past cases when rates have increased

WITNESS: CHARLES E. OLSON - Cross by Trotter 4432

1 between the time you prepare your prefiled testimony
2 and the time that rebuttal testimony is due, did Puget
3 ever ask you to update your common equity study?

4 A. I don't believe so.

5 Q. In past cases, you have updated your study
6 at the time of rebuttal, haven't you?

7 A. I believe that's the case, yes.

8 Q. Would it be correct to say that the opinion
9 you expressed at the time of cross to the effect that
10 Puget's common equity had fallen into the 12/12.5
11 percent area is not based on a formal study?

12 A. Yes.

13 Q. You prepared your testimony in the
14 October/November 1992 time period; is that right?

15 A. That is correct.

16 Q. And would you accept that in October of '92
17 A-rated bonds were yielding about 8.6?

18 A. Yes.

19 Q. And A-rated bonds are currently yielding
20 about 7.5 or 7.56? Would you agree?

21 A. I think it's somewhere in there. I haven't
22 seen a number currently.

23 Q. Would you accept that subject to check?

24 A. Yes. And I assume you're giving me a

25 Moody's number?

WITNESS: CHARLES E. OLSON - Cross by Trotter 4433

1 Q. Yes.

2 A. That's fine. I can check that.

3 Q. I can get it for you.

4 A. I have it in the office. That's all right.

5 Q. So, A-rated public utility bond yields have
6 fallen about 100 basis points since you prepared your
7 prefiled testimony?

8 A. Well, accepting your number subject to check
9 on a spot basis to a spot basis, apparently that's what
10 it is, yes.

11 Q. On Page 1 of your testimony, you indicate
12 that -- Line 22 -- Puget is requesting a 45 percent
13 equity ratio, and you state on the next page that that
14 is the only ratio that is well within the range
15 required for a bond rating of A minus.

16 Do you see that?

17 A. Yes.

18 Q. Now, isn't it correct that Standard and
19 Poor's financial benchmark for capital structure is in
20 the terminology of a total debt to total capital ratio?

21 A. Yes.

22 Q. And do you agree with Mr. Olson that on an
23 unadjusted basis, all parties' debt to total equity
24 ratios are within the stops benchmark?

25 A. Yes, I do.

WITNESS: CHARLES E. OLSON - Cross by Trotter 4434

1 Q. So, here are you referring to the adjusted
2 result?

3 A. Well, rather than referring total debt to
4 total capital, I'm referring just to the common equity
5 ratio. You can have referred in there in varying
6 amounts that can confuse the --

7 Q. Let me just ask it this way: When you say
8 within the range on Line 2, you mean the Standard and
9 Poor's benchmark range? Or what do you mean by "within
10 the range"?

11 A. Given the debt costs, given the common
12 equity ratio, given the range of common equity costs,
13 that's the only number that's going to give you the
14 coverages that are required for an A bond rating.

15 And I think there is an exhibit in Mr. R. E.
16 Olson's testimony that shows that Puget is at about 2.8
17 something times coverage, which is within that range.
18 The Navy's recommendation is near the bottom of that,
19 and all the rest fall into the BBB category.

20 Q. Those are on the basis of after purchased
21 power is imputed?

22 A. It doesn't make any difference. The Company
23 has a 46 percent equity ratio now. If you look at the
24 numbers currently, presumably that's what the number

25 would be at June 30 when it becomes available. They

WITNESS: CHARLES E. OLSON - Cross by Trotter 4435

1 are asking for 45 percent. That's the actual number.

2 There is no imputation anymore.

3 Q. But would you accept, subject to check, that
4 the Standard and Poor's benchmark for A-rated electric
5 utilities for total debt to total capital is 44 to 54
6 percent?

7 A. Yes.

8 Q. Isn't it true that all parties' cost of
9 capital recommendations and capital structure are
10 within that benchmark on an unadjusted basis?

11 A. On debt, yes, because what you're talking
12 about -- if 54 is the maximum -- then what you're
13 talking about for equity would be 46 percent.

14 Q. Okay. Now, where in the Standard and Poor's
15 benchmarks is there an equity ratio standard?

16 A. There is not.

17 Q. Turn to Page 21 of your testimony. And here
18 you noted that the average common equity ratio for
19 Doctor Lurito's comparables was 44.4 percent. Do you
20 see that?

21 A. Yes.

22 Q. And Doctor Lurito's comparables are the same
23 as yours; is that right?

24 A. Yes.

25 Q. Would you accept subject to check that the

WITNESS: CHARLES E. OLSON - Cross by Trotter 4436

1 average total debt to total capital ratio for the
2 comparables at year-end 1992 was about 48.9 percent,
3 while it was about 50 percent for Puget?

4 A. Yes. But I would remind you that that
5 year-end number for Puget is misleading. I think
6 that's been testified to several times, and it's
7 clearly in the record.

8 But I would just remind you that of that
9 number, there was a debt refunding that took place
10 right at the end of the year that was included in the
11 debt capital, and the debt to be refunded was included
12 in there. And it was paid off sometime in the first
13 week in January.

14 Q. So, if you exclude that effect, what is the
15 total debt to total capital ratio for Puget?

16 A. I don't know. It's less. Mr. Weaver could
17 supply that, I'm sure.

18 Q. It's still within the 44 to 54 percent
19 benchmark for stops?

20 A. Yes, that's correct.

21 Q. On Page 3 of your testimony, you state: "In
22 the long run, customers know they come out ahead with a
23 cost recovery system such as PRAM."

24 Do you see that?

25 A. Yes.

WITNESS: CHARLES E. OLSON - Cross by Trotter 4437

1 Q. Do you believe that in the long run
2 investors know they come out ahead with a cost recovery
3 system such as PRAM?

4 A. I think investors are indifferent. They
5 look at the situation, and they judge the risks and set
6 the return accordingly. So, with this kind of system,
7 they are going to require less of a return than with a
8 system that produces more risk. Likewise, if there is
9 a system that produces less risk, they will require
10 less return.

11 Q. Your opinion regarding customers here is not
12 based on any poll that you have taken, is it?

13 A. It's not based on a poll. It's based on my
14 observations as an economist over the last 25 years.
15 And basically it goes to the effect that customers are
16 pretty smart, and they can figure things out.

17 Q. On Lines 7 through 9, you indicate it should
18 be obvious that long-term fixed payment obligations
19 have, in part, debt-like features that require equity
20 support.

21 Do you see that?

22 A. Yes.

23 Q. And by "obligations" in this context, you're
24 referring to Puget's purchased power?

25 A. Yes.

WITNESS: CHARLES E. OLSON - Cross by Trotter 4438

1 Q. Puget doesn't book interest obligations
2 related to that power, does it?

3 A. No.

4 Q. Now, Doctor Lurito never testified that
5 Puget's purchased power does not need equity support,
6 did he?

7 A. I think that's the effect of what he
8 testified to. He said it was a pass-through dollar for
9 dollar.

10 Q. Isn't that just a question of how much
11 support is necessary?

12 A. No, I don't think so. I think he said it
13 was a pass-through dollar for dollar. And I viewed
14 that as implicitly saying that it didn't require any
15 support.

16 Q. That's your interpretation of his testimony?

17 A. That's my interpretation. I don't think he
18 said the converse. I don't think he said specifically
19 that it does require support and then quantified the
20 amount of support.

21 Q. Was he asked that question? Do you recall?

22 A. By whom? I don't know. It wasn't in his
23 direct.

24 Q. On Lines 19 through 21 on this page, you

25 state that "The 12.25 percent that Puget is requesting

WITNESS: CHARLES E. OLSON - Cross by Trotter 4439

1 is well within the range of recently authorized
2 returns."

3 Then you cite us to a PUBLIC UTILITIES
4 FORTNIGHTLY article of June 15 of this year; is that
5 right?

6 A. Yes.

7 Q. Would you turn to that page.

8 You were asked to supply that.

9 A. Give me the interrogatory number.

10 Q. It's 2528.

11 JUDGE HAENLE: And the page of testimony to
12 which you're referring, Mr. Trotter?

13 MR. TROTTER: Page 3.

14 THE WITNESS: Yes, I have that.

15 BY MR. TROTTER:

16 Q. And you were referring to the authorized
17 return section of that page?

18 A. Yes.

19 Q. And am I correct that five utilities are
20 listed, two of which are telephone?

21 A. Yes.

22 Q. Of the three electrics, you show -- you
23 don't, but it is shown Wisconsin Electric Power,
24 Potomac Edison Company, and Delmarva Power and Light?

25 A. Yes.

WITNESS: CHARLES E. OLSON - Cross by Trotter 4440

1 Q. For Delmarva, no allowed return on equity is
2 shown; is that right?

3 A. That's correct.

4 Q. And Wisconsin Electric is a double A-rated
5 utility, isn't it?

6 A. Yes.

7 Q. The remaining electric, Potomac Edison, was
8 allowed 11.9 percent on equity in February of this
9 year; is that right?

10 A. Yes.

11 Q. Now, none of these companies are included in
12 your list of comparables, are they?

13 A. No, they are not.

14 Q. Puget's requested rate of return on equity
15 is above 11.9, isn't it?

16 A. Yes, it is.

17 Q. And the yield on A-rated utility debt has
18 fallen about thirty basis points since February, hasn't
19 it?

20 A. I would accept that.

21 Q. Did you do any checking to see if there were
22 any other authorized returns in the last six to eight
23 months?

24 A. I had looked one time at the numbers for the

25 first quarter, and I believe that number was around

WITNESS: CHARLES E. OLSON - Cross by Trotter 4441

1 11.75 or 12. I didn't think the numbers for 1992 were
2 going to be relevant at this point. That was going
3 back too far. Those numbers were around 12.

4 It just happened in the short period of time
5 that I had available to prepare this rebuttal testimony
6 that that most current issue of the PUBLIC UTILITIES
7 FORTNIGHTLY was on my desk, and that's why I took that
8 one. It was simply the most current issue.

9 Q. You wouldn't want to use the returns
10 authorized in 1992 because they would be too high?

11 A. Not too high. I think it would produce the
12 inference that the Commission in 1993 should be basing
13 its decision on decisions that were made in 1992.

14 Q. So, is it your testimony that the equity
15 capitalization rate for electric utilities has not
16 declined since 1992?

17 A. That's not my testimony.

18 Q. At the bottom of Page 3, Line 23, you state
19 that "The testimony that PRAM and decoupling reduce
20 risk is misleading. The question is, of course,
21 compared to what. Staff says the risk reduction is to
22 traditional regulation as if to imply that other
23 electric utilities are regulated using such a standard.
24 Other electric utilities have fuel clauses and future test

25 years."

WITNESS: CHARLES E. OLSON - Cross by Trotter 4442

1 Do you see that?

2 A. Yes.

3 Q. Are you telling the Commission that the PRAM
4 is no more than a fuel clause?

5 A. The PRAM is more than a fuel clause, but it
6 certainly has all of the features of a fuel clause
7 built into it, in addition to other things.

8 Q. Fuel clauses typically don't pick up all
9 costs associated with purchased power, do they?

10 A. Some of them do.

11 Q. Have you done any study to determine how
12 many, what proportion, allow pass-through of all costs
13 versus just fuel or just capacity?

14 A. No, I haven't.

15 Q. Are you suggesting here that a fuel clause
16 and a future test year is a substitute for PRAM?

17 A. A fuel clause and a future test year would
18 be good substitutes for PRAM, yes. You wouldn't need a
19 decoupling mechanism. But I think, as I have pointed
20 out elsewhere, you can do decoupling with a PRAM. You
21 don't have to do decoupling with a PRAM. And you could
22 do decoupling as a separate mechanism.

23 As a matter of fact, in California they just
24 call it something else. They call it an ERAM, and for

25 the fuel they call it an ECAC.

WITNESS: CHARLES E. OLSON - Cross by Trotter 4443

1 Q. Continuing with your testimony here, you
2 state that even Puget had an ECAC that reduced risk
3 more than the PRAM from 1982 to 1990. And we asked you
4 in Data Request 2529 to provide all studies made to
5 support that statement.

6 And your response was that you have prepared
7 no studies, in quotes, in support of this statement.
8 The statement is based on experience and knowledge of
9 the industry.

10 Is that correct?

11 A. Yes.

12 Q. Turn to Page 7, and at the bottom of the
13 page you begin a discussion about decoupling. And you
14 state on Line 1 and 2 that it should not be assumed
15 that decoupling reduces risk and, therefore, the
16 required rate of return.

17 Do you see that?

18 A. Yes.

19 Q. You state then on Line 8 that what
20 decoupling does is to reduce the variability in
21 earnings. And my question is:

22 Earnings volatility or variability is a
23 measure of risk. In other words, the less the earnings
24 variability, the lower the risk; is that correct?

25 A. I think to some it is a measure of risk. I

 WITNESS: CHARLES E. OLSON - Cross by Trotter 4444

1 don't look at it that way. In other words, I don't
2 think variability or volatility equals risk.

3 Q. So, a utility whose earnings could vary
4 between, say, \$2.16 a share and \$1.66 a share on an
5 annual basis would be of no difference in risk than a
6 company that would maintain a steady \$2.16 a share
7 earnings profile?

8 A. I don't think that's the case. I think
9 that's a lot of variability. But I think the numbers
10 show in the case of Puget that you don't have that kind
11 of reduction in variability related simply to
12 decoupling.

13 Q. On Page 16, you make the statement with
14 respect to Doctor Lurito's estimate that his 10.8
15 percent return is inconsistent with his return of 12.8
16 percent in the last rate case, U-89-2688.

17 Doctor Lurito's testimony in that docket was
18 dated September '89. Would you accept that?

19 A. Yes.

20 Q. Would you accept subject to check that in
21 that month the yield on A-rated utility debt was 9.58
22 and it is, according to a prior subject to check, 7.56
23 currently?

24 A. Well, that may be true. But it wasn't the

25 7.58 when he prepared his study. Also, he prepared his

WITNESS: CHARLES E. OLSON - Cross by Trotter 4445

1 study at that time, not using data from September of
2 '89 but data from an earlier period.

3 I think his testimony in this case indicates
4 that interest rates were down 155 basis points between
5 the time he prepared his testimony in that case and the
6 current case.

7 Q. So, 155 basis points difference?

8 A. I think that's his testimony, yes.

9 Q. And it's 200 basis points today?

10 A. Today it's 200 basis points, although I
11 don't think that is relevant to this rebuttal because
12 this rebuttal was aimed at his prefiled testimony, not
13 what he might have been testifying to if he were here
14 today testifying regarding the current level of
15 interest rates and what his view of the required return
16 would be.

17 Q. Now, you testified in the last rate case on
18 return on equity and its relationship to the ECAC, did
19 you not?

20 A. Yes, I did.

21 Q. And the Commission rejected the ECAC in part
22 because the utility could not show a measurable benefit
23 to ratepayers in the form of lower capital costs. Is
24 that true?

25 A. That's what they said, yes.

WITNESS: CHARLES E. OLSON - Cross by Trotter 4446

1 Q. And when you refer to traditional ratemaking
2 in your testimony with respect to fuel adjustment
3 clauses, are you referring to this Commission's
4 tradition regarding the viability of the ECAC?

5 A. Are you referring to my reference to
6 traditional regulation that appeared earlier --

7 Q. Page 6.

8 A. -- in the testimony?

9 What I have got in mind is Staff's
10 definition of traditional regulation. And I think what
11 Staff means by traditional regulation is an historical
12 test year approach with no adjustment mechanism for
13 fuel.

14 Q. Am I correct that under the PRAM, equity
15 investors may lose up side potential related to
16 increased energy sales, but they gain in that they are
17 no longer exposed to down side losses from changes in
18 economic activity and customer initiated DSM? Is that
19 correct?

20 A. Or anything else that would cause sales to
21 decline. That's correct.

22 Q. On Line 13, you're referring to the last
23 rate case, and you say the Commission found a return on
24 equity of 12.8 percent, which fully reflected the use

25 of an ECAC.

WITNESS: CHARLES E. OLSON - Cross by Trotter 4447

1 Do you see that?

2 A. Yes.

3 Q. In that order in the decoupling case, didn't
4 the Commission categorically reject that statement?

5 A. Which order do you have in mind?

6 Q. The third supplemental order in Docket
7 UE-981183-T and 981184-P.

8 A. That's a later order in a later case.

9 Q. Have you read that order?

10 A. I'm sure I have. But I don't have it with
11 me, and I certainly haven't read it in the last week or
12 month. But I do know that when Doctor Lurito did his
13 DCF, he came up with 12.8, and there was an ECAC in
14 effect with no expectation that that ECAC would be
15 eliminated. And that rate of return fully reflected
16 the use of an ECAC.

17 Q. Would you accept that on Page 16 of the
18 order that I cited, the Commission stated that the cost
19 of capital authorized in that docket a priori excludes
20 the hydro adjustment?

21 A. The Commission may have stated that. I
22 believe that's contrary to Doctor Lurito's testimony in
23 that case.

24 Q. I take it you do not agree with the

25 testimony of various witnesses in this docket that

WITNESS: CHARLES E. OLSON - Cross by Trotter 4448

1 suggest that last fall when the PRAM 2 order was issued
2 there was a market correction resulting from that?

3 A. There was some change in the stock price
4 that appeared to be related to that order. I don't
5 disagree with that.

6 Q. Turn to Page 17 of your testimony.

7 A. I have that.

8 Q. And here you critique Doctor Lurito for
9 using a 3.5 percent dividend growth rate for Puget
10 because that growth rate was based on an investor
11 expectation that Puget would earn about 13 percent on
12 equity.

13 Is that your testimony?

14 A. Yes.

15 Q. Had Doctor Lurito used an investor
16 expectation less than 13 percent, his growth rate would
17 have been even less than 3.5; correct?

18 A. That's correct.

19 Q. Turn to Page 21, and you were asked a
20 question on Line 16 regarding debt capital and
21 imputation in Doctor Lurito's testimony. You state
22 that you disagree with the quote that's mentioned in
23 the question.

24 A. (Reading.)

25 Q. Is that right?

WITNESS: CHARLES E. OLSON - Cross by Trotter 4449

1 A. I said I disagree with the statement, yes.

2 Q. And then you say there is no long-term
3 guarantee, and investors know that?

4 A. That's correct.

5 Q. Are you telling the Commission that because
6 it cannot provide a long-term guarantee that Puget's
7 purchased power will be recovered on a timely basis,
8 that the PRAM mechanism is of little consequence to
9 investors?

10 A. No, I'm not telling them that at all. What
11 I am telling them is that with that debt-like feature
12 being part of the cost of purchased power, that
13 investors are going to impute some debt to the Company.
14 There is going to be a risk factor there.

15 They know the Commission can't provide
16 guarantees. They don't expect it. But they do expect
17 compensation for the risk that's related to that.

18 Q. On Page 23 -- well, let me ask you this:
19 This proceeding is in part to reevaluate the PRAM
20 experience; is that correct?

21 A. Yes.

22 Q. To the extent that the Commission
23 reevaluates the PRAM and resolves that issue, that will
24 bring certainty to the market, won't it?

25 A. It depends on how it's done. It could go a
 WITNESS: CHARLES E. OLSON - Cross by Trotter 4450

1 long way in that direction.

2 Q. Turn to Page 23 of your testimony. And on
3 Line 15 you state that "Conservation investment is
4 clearly more risky than an investment in plant and
5 equipment. It should receive a higher rate of return
6 than the average for that reason."

7 Do you see that?

8 A. Yes.

9 Q. Puget did not ascribe a higher return than
10 average to its conservation investment in any IRP or
11 bidding document, did it?

12 A. I don't know.

13 Q. Well, we asked you in Data Request 2531 to
14 ask for the support for that statement. Your response
15 was there were no studies made to support the
16 statement.

17 Do you see that?

18 A. Yes.

19 Q. Is it your testimony that conservation is
20 more risky because there is no guarantee it will be
21 recovered?

22 A. I'll tell you the exact basis for my
23 statement: About eighteen or nineteen years ago, I was
24 a witness for the FCC Staff in the AT&T investigation,

25 and one of the things I was charged with looking at was

WITNESS: CHARLES E. OLSON - Cross by Trotter 4451

1 what should happen to the inside wire for the Bell
2 Telephone companies, how that should be treated for
3 ratemaking purposes.

4 And it became very clear from that
5 investigation, and I so testified, that that was not an
6 asset that really belonged to the companies. It was,
7 instead, an asset that belonged to the customers of the
8 telephone company.

9 And later on when that asset had to be
10 written off -- and I think it was written off to the
11 tune of something like \$9 billion or \$10 billion, which
12 at that time was a lot of money. I guess it still is
13 -- that left a real impression on me.

14 And when I saw electric utilities starting
15 up with this conservation investment, it immediately
16 brought to mind what the telephone companies had done
17 and how they wound up losing that investment.

18 And to this day I have to believe that when
19 you're making an investment on customer premises that
20 isn't bondable, that really has no salvage value
21 related to it as far as the utility is concerned,
22 that's a high-risk investment.

23 Q. So, it was your experience with telephone
24 inside wire that led you to this conclusion?

25 A. Yes. And I think the analogy is exactly on
 WITNESS: CHARLES E. OLSON - Cross by Trotter 4452

1 point.

2 Q. Do you know how this Commission treated
3 inside wire for intrastate telecommunications purposes?

4 A. No, I don't.

5 Q. So, you're not aware of whether any company
6 lost even one cent in inside wire investment recovery?

7 A. No, I'm not. But I know that AT&T had to
8 write off a lot. Of course, AT&T is different than
9 Pacific Northwest Bell.

10 Q. We hope they won't intervene.

11 Turn to Page 14 of your testimony. And you
12 respond to a question regarding gas distribution
13 companies and purchased gas cost recovery.

14 Do you see that?

15 A. Yes.

16 Q. And you refer to higher coverages required
17 for gas distribution companies?

18 A. Yes.

19 Q. Gas is a fuel of choice for a customer, is
20 it not?

21 A. You don't mean that in the AGA sense? You
22 mean that in the sense that a customer doesn't have to
23 have gas as a matter necessity, I assume?

24 Q. Yes.

25 A. You're correct.

 WITNESS: CHARLES E. OLSON - Cross by Trotter 4453

1 Q. Would that be another or a contributing
2 reason why gas local distribution companies may require
3 higher coverage ratios?

4 A. You're exactly on point. I have testified
5 any number of times that those two reasons are the
6 reasons that gas utilities -- gas distribution
7 utilities have somewhat more risk than electric
8 companies.

9 Q. On Page 5 of your testimony, you're
10 referring to Mr. Elgin's testimony regarding
11 variability of earnings, and you indicate that only a
12 cost of service tariff could eliminate the variability
13 in earnings.

14 A. Yes.

15 Q. And by cost of service tariff, you mean a
16 tariff that passes through all costs to customers; is
17 that correct?

18 A. Right. It's the kind of tariff that PGT had
19 for a long time and that Northern Border still has. In
20 other words, every month the costs are summed up, and
21 1/12 of the return in taxes is added to that, and those
22 are the costs that are billed to the customers.

23 Q. And municipal utilities have such tariffs,
24 too, don't they?

25 A. I don't know.

WITNESS: CHARLES E. OLSON - Cross by Trotter 4454

1 Q. A utility with such a tariff would have no
2 need for equity capital since they can cover their debt
3 costs through the tariff; is that right?

4 A. No. As far as I know, all of the utilities
5 that have cost of service tariffs -- and that includes
6 several electrics and several gas pipelines -- have
7 equity capital.

8 Q. What is their debt ratio?

9 A. Typically the equity ratios are, I believe,
10 in the mid thirties for the pipelines and in the
11 forties for the electric utilities.

12 Q. And what electric utilities are you
13 referring to?

14 A. I'm referring to Connecticut Yankee, Maine
15 Yankee, and Vermont Yankee.

16 Q. Turn to Page 14 of your testimony, 14 and
17 15, regarding the issue of rate of return consultants.

18 A. What page?

19 Q. 14 and 15.

20 A. All right.

21 I'm correct, am I not, that Mr. Russ Olson
22 testifies to cost of debt and preferred and capital
23 structure, and you're the witness on common equity; is
24 that right?

25 A. That's correct, although I do offer

 WITNESS: CHARLES E. OLSON - Cross by Trotter 4455

1 testimony on capital structure issues as well.

2 Q. And have you reviewed the practice of other
3 regulated utilities in this state with regard to
4 in-house common equity presentations?

5 A. Washington Natural in the current case had
6 in-house testimony. I believe Washington Water Power
7 has followed that practice. And I think the cases that
8 Pacific Power and Light files are so infrequent that
9 it's hard to characterize what they do.

10 Q. Are you aware that this Commission Staff has
11 produced common equity testimony in prior electric and
12 gas rate cases?

13 A. I am only familiar with one electric case in
14 which the Staff has done that.

15 MR. TROTTER: Your Honor, those are all my
16 questions.

17 Thank you, Doctor Olson.

18 JUDGE HAENLE: All right. Let's go off
19 the record for a minute to discuss scheduling, please.

20 (Discussion held off the record.)

21 JUDGE HAENLE: Let's be back on the record
22 after a brief scheduling discussion.

23 Go ahead, Commissioner.

24

25

E X A M I N A T I O N

WITNESS: CHARLES OLSON - Examination by Hemstad 4456

1 BY COMMISSIONER HEMSTAD:

2 Q. I'm interested in your observation that
3 conservation investments are high-risk. Would you
4 still hold that position if the PRAM or an equivalent
5 kind of device and decoupling were made permanent by
6 this Commission, insofar as permanency is possible in
7 this business?

8 A. I would still hold to that position. The
9 conservation investment is really independent of the
10 PRAM.

11 COMMISSIONER HEMSTAD: That's all I have.

12 JUDGE HAENLE: All right. We'll break for
13 the evening now, then. Tomorrow is the open meeting.
14 So, the estimate has been made that we'll be ready to
15 go around 9:30.

16 So, if the meeting isn't done, then we'll
17 need to wait quietly, please. Other than that, be
18 ready to go at 9:30.

19 COMMISSIONER CASAD: May I ask Doctor Olson
20 if it's a source of any comfort to him and his fellow
21 economists that he soon might be joined by sociologists
22 at the witness table? Reflect on that overnight.

23 (At 4:56 p.m. the above hearing was recessed
24 until Wednesday, July 21, 1993, at 9:30 a.m.)

