1	BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2	COMMISSION
3	PETITION OF PUGET SOUND POWER &)
4	LIGHT COMPANY FOR AN ORDER) DOCKET NO. UE-920433 REGARDING THE ACCOUNTING) VOLUME XXVI TREATMENT OF RESIDENTIAL) (Pages 4,457 - 4,645)
5	EXCHANGE BENEFITS) GENERAL RATE CASE
6	WASHINGTON UTILITIES AND) TRANSPORTATION COMMISSION,)
7	Complainant,) vs.) DOCKET NO. UE-920499
8	PUGET SOUND POWER & LIGHT) COMPANY,)
9	Respondent.)
10	WASHINGTON UTILITIES AND) TRANSPORTATION COMMISSION,)
11	Complainant,) vs.) DOCKET NO. UE-921262
12	PUGET SOUND POWER & LIGHT) COMPANY,)
13	Respondent.)
14	
15	A hearing in the above matter was held on
16	July 21, 1993, at 10:00 a.m., at 1400 South Evergreen
17	Park Drive S.W., Olympia, Washington, before Chairman
18	SHARON NELSON, Commissioners RICHARD CASAD, RICHARD
19	HEMSTAD, and Administrative Law Judge ALICE HAENLE.
20	The parties were present as follows:
21	PUGET SOUND POWER & LIGHT COMPANY, by STEVEN C. MARSHALL and JAMES M. VAN NOSTRAND, Attorneys at
22	Law, 411 108th Avenue N.E., Suite 1800, Bellevue, Washington 98004-5584.
23	WASHINGTON UTILITIES AND TRANSPORTATION
24	COMMISSION by DONALD T. TROTTER and SALLY G. BROWN, Assistant Attorneys General, 1400 South Evergreen Park
25	Drive S.W., Olympia, Washington 98104-0128.

Donna M. Davis, CSR, CM, Court Reporter

Τ.	
2	FEDERAL EXECUTIVE AGENCIES by NORMAN FURUTA 900 Commodore Drive, Building 107, San Bruno, California 94131.
3	The PUBLIC by CHARLES F. ADAMS, Assistant
4	Attorney General, 900 Fourth Avenue, Suite 2000, Seattle, Washington 98164.
5	
6	WICFUR by PETER J. RICHARDSON, Attorney at Law, 702 West Idaho, Boise, Idaho 83702.
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1	I N D E X					
2	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS	EXAM
3	CHARLES E	. OLSON				
4			4,464	ŀ		
5			4,470)		
6			4,481	4,503	4,512	4,496
7						4,499
8	LAURA L.	RITTENHO	USE			
9		4,516	4,521	4,571	4,579	4,559
10						4,568
11						4,570
12	WILLIAM S	. WEAVER				
13		4,581	4,584			
14			4,610)		
15			4,615	;		
16	J. RICHARD LAUCKHART					
17		4,621	4,631			
18	EXHIBIT	MARK	ED	ADMITTED		
19	785			4,464		
20	925	4,48	1	4,483		
21	926	4,48	6	4,489		
22	927	4,49	2	4,496		
23	928	4,50	5			
24	T-929	4,51	5	4,521		

25	930	4,515	4,521
1			INDEX
2			(continued)
3			
4	EXHIBIT	MARKED	ADMITTED
5	931	4,515	4,521
6	932	4,515	4,521
7	933	4,556	4,557
8	934	4,557	4,558
9	T-935	4,581	4,583
10	936	4,581	4,583
11	937	4,611	4,615
12	T-938	4,620	4,628
13	939	4,620	4,628
14	940	4,620	4,628
15	941	4,620	4,628
16	942	4,620	4,628
17	943	4,620	4,628
18	944	4,620	4,628
19	945	4,620	4,628
20	946	4,620	
21	947	4,620	4,628
22	948	4,630	4,641
23	949	4,639	4,641

24 950 4,640 4,641

25

(COLLOQUY) 4461

- 1 PROCEEDINGS
- 2 JUDGE HAENLE: The hearing will come to
- 3 order.
- 4 This is the 26th day of hearing in the
- 5 consolidated Puget cases. We are continuing with
- 6 direct and cross-examination of Company rebuttal
- 7 testimony on the general case issues.
- 8 This hearing is taking place on July 21,
- 9 1993.
- 10 So far this morning we started after the
- 11 open meeting. We have the Company represented. We
- 12 have Mr. Trotter for the Commission, and we have Mr.
- 13 Furuta for the Federal Executive Agencies, and Mr.
- 14 Richardson for WICFUR.
- In the way of preliminary matters, we have
- 16 got a couple of things I told you we're going to take
- 17 up. I also need to give all of you a heads-up, the
- 18 Company in particular, that I have reviewed the
- 19 testimony that was prefiled in the case that's going to
- 20 be heard next Friday, UE-93037.
- 21 And I have cautioned the Commissioners that
- 22 an extensive discussion in this case might be
- 23 considered an improper ex parte contact. I am

- 24 concerned that they not discuss the issues in this
- 25 particular case outside of the framework of this case

(COLLOQUY) 4462

- 1 without all of the parties present.
- 2 So, I would like to suggest to the Company
- 3 that when you file additional testimony, you might want
- 4 to avoid discussing the issues in this case and that
- 5 your currently filed testimony might be not included in
- 6 the record for that reason.
- 7 MR. MARSHALL: Again, our position in that
- 8 proceeding is that the question by the Commission is
- 9 what forum would it be proper in which to take these
- 10 issues into account? And our position, of course, is
- 11 that, rather than have a generic proceeding to take
- 12 some of these issues into account, they ought to be
- 13 done in the setting of a specific rate case.
- 14 JUDGE HAENLE: I thoroughly agree that you
- 15 may present your position. My position is you may not
- 16 present your position through the testimony in this
- 17 case. I made my position clear. That's all I intended
- 18 to do.
- 19 We also have the issues of Mr. Adams' two
- 20 motions. One of them has to do with a subject to
- 21 check. One of them has to do with two transcript
- 22 corrections.
- 23 Does anyone have an objection to those

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24 corrections and the subject to check responses being
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25 included in the record?

(COLLOQUY) 4463

- 1 MR. MARSHALL: No, your Honor.
- JUDGE HAENLE: Mr. Trotter?
- 3 MR. TROTTER: No.
- 4 JUDGE HAENLE: Mr. Furuta?
- 5 MR. FURUTA: No objection.
- JUDGE HAENLE: Mr. Richardson?
- 7 MR. RICHARDSON: No objection, your Honor.
- 8 JUDGE HAENLE: The transcript corrections
- 9 will be made and the subject to check responses will be
- 10 made part of the record.
- 11 We also have the document that is the
- 12 response to Commission Bench Request 512, which was
- 13 distributed July 13. It was a Bench Request made at
- 14 the Olympia public hearings and should have been
- 15 distributed and everyone should have had the chance, I
- 16 hope by now, to look it over.
- 17 Do you have any objection to its entry into
- 18 the record, Mr. Marshall?
- MR. MARSHALL: No.
- JUDGE HAENLE: Mr. Trotter?
- MR. TROTTER: No.
- JUDGE HAENLE: Mr. Furuta?
- MR. FURUTA: No, your Honor.

24	JUDGE HAENLE: Mr. Richardson?
25	MR. RICHARDSON: No objection, your Honor.
	(COLLOQUY) 4464
1	JUDGE HAENLE: Exhibit 785, the response to
2	Bench Request 512, will be entered into the record.
3	(Received Exhibit 785)
4	JUDGE HAENLE: Are there any other
5	procedural matters we needed to discuss this morning
6	before we continue the cross?
7	Had you finished your cross, Mr. Trotter?
8	MR. TROTTER: Yes.
9	JUDGE HAENLE: So, Mr. Richardson, do you
10	want to go ahead?
11	MR. RICHARDSON: Thank you, your Honor.
12	
13	CHARLES E. OLSON,
14	witness herein previously sworn, resumed
15	the stand and testified further
16	as follows:
17	
18	CROSS-EXAMINATION
19	BY MR. RICHARDSON:
20	Q. Good morning, Doctor Olson. You testified
21	that you are concerned with the rate of return
22	testimony of Doctor Peseau; is that correct?
23	A. Yes.

- Q. Do you recall that Doctor Peseau testified
- 25 that he used a DCF calculation that is identical to

- 1 yours with only one difference excepting for data
- 2 updates such as the dividend yield, and that difference
- 3 is the growth rate?
- 4 A. I think that's almost correct. I think he
- 5 developed a range, and one part of his range took into
- 6 account my dividend yield, his growth rate, and the
- 7 financing costs adjustment I made.
- 8 And the other part of his range did two
- 9 things: It updated the dividend yield, and it put in
- 10 the substitute growth rate.
- 11 So, I think my answer is that it's somewhat
- 12 more the same than even you were suggesting.
- 13 Q. Have you updated or had an opportunity to
- 14 update the dividend yield you used in your original
- 15 recommendation?
- 16 A. My testimony contains my current
- 17 recommendation.
- 18 Q. And what is the dividend yield in your
- 19 current recommendation?
- 20 A. I didn't do it that way. I updated using
- 21 changes in interest rates.
- Q. So, you haven't had an opportunity to
- 23 recalculate the dividend yield figure?

- 24 A. That wouldn't be accurate because I
- 25 certainly had the opportunity. What I'm saying is I

- 1 didn't do it that way.
- 2 Q. If you were to do that using current or most
- 3 recent stock price data that you're aware of, do you
- 4 have an idea what that figure would be for dividend
- 5 yield?
- 6 A. I wouldn't do it that way because, if I were
- 7 going to update the dividend yield, I would have to
- 8 update the growth rate. It was just a lot simpler to
- 9 do this by looking at the change in interest rates.
- 10 And that, in fact, was what Doctor Legler
- 11 suggested was appropriate, and I merely picked up on
- 12 that suggestion.
- 13 Q. So, is it fair for me to conclude that the
- 14 primary reason for the difference in the value of G or
- 15 growth rate in your DCF results? Is that the method
- 16 you used versus the method Doctor Peseau uses to
- 17 estimate G?
- 18 A. That's correct. That's really the only
- 19 difference.
- 20 Q. And you don't use any of the three typical
- 21 or accepted methods for estimating growth, do you?
- 22 A. Well, there have been three methods that
- 23 have been suggested for a long time. And those are,

- 24 number one, review of historical growth rates and using
- 25 those historical growth rates as a proxy for what

- 1 investors expect.
- 2 Secondly, the retention growth methodology,
- 3 which includes internal retention plus external
- 4 retention as a proxy for what investors use.
- 5 And the third one is consensus growth rates.
- 6 And in the past, what's typically happened is that rate
- 7 of return analysts have either taken some average of
- 8 those or they have looked at them and arrived at a
- 9 judgment from that information regarding what investors
- 10 are expecting at this time.
- I did that, and I added a fourth method,
- 12 which entails looking at the growth rate in the price
- 13 -- market price for common share as another proxy for
- 14 what investors expect.
- 15 I looked at those four rather than the three
- 16 methods in arriving at my view as to what investors
- 17 expect.
- 18 Q. The question, Doctor Olson, was you didn't
- 19 use any of the three typical methods for estimating
- 20 growth in your DCF model; is that correct?
- 21 MR. MARSHALL: I object as argumentative.
- 22 The witness has testified that he took those into
- 23 consideration and added a fourth.

- MR. RICHARDSON: He didn't answer the
- 25 question either way. I asked him if he used any of the

- 1 three typical methods, and he didn't answer the
- 2 question.
- JUDGE HAENLE: I'll allow the question.
- 4 BY MR. RICHARDSON:
- 5 Q. Did you use any of the three typical
- 6 methods, Doctor Olson, for estimating growth in your
- 7 DCF study?
- 8 A. Yes, I did; along with a fourth.
- 9 Q. Do you remember testifying in the direct
- 10 phase of this case that there are three typical methods
- 11 for estimating growth?
- 12 A. Could you give me a transcript reference?
- 13 Q. Your direct testimony at Page 26. It's not
- 14 a DR reference.
- 15 A. I have that. And I have those methods.
- 16 Q. There is only three there, is that correct,
- 17 that you identify in your direct testimony?
- 18 A. There are only three at that point. The
- 19 other one I believe is in the direct testimony at
- 20 another point.
- 21 Q. Do you recall answering a question regarding
- 22 how you derived your estimated growth wait with the
- 23 response: "In estimating my dividend growth rate for

- 24 Puget, I have reviewed the data that are available to
- 25 the typical investor. The investor essentially has WITNESS: CHARLES E. OLSON - Cross by Richardson 4469
 - 1 three sources available to estimate expected future
 - 2 growth in dividends."
- 3 A. That's my testimony.
- 4 Q. And you didn't use any one of those three
- 5 typical methods in estimating growth in your DCF study,
- 6 did you?
- 7 A. I used all three.
- 8 Q. What method did you use to estimate growth
- 9 in your DCF study, Doctor Olson?
- 10 A. I already answered that. I used four
- 11 methods. And I looked at all of them and I arrived at
- 12 a judgment.
- Q. Was your judgment that the estimated
- 14 appreciation of stock price was the best method for
- 15 estimating investor expectations of growth in your DCF
- 16 study?
- 17 A. It was one of the four.
- 18 Q. Is that the one you used?
- 19 A. No.
- 20 Q. What method of growth estimation did you use
- 21 in your DCF study in your last testimony in Puget's
- 22 last general rate case?
- 23 A. I think at that time I used the three

- 24 methods.
- Q. Did you add a fourth method last time?

 WITNESS: CHARLES E. OLSON Cross by Richardson 4470
 - 1 A. Last time, no.
- 2 MR. RICHARDSON: Thank you, your Honor.
- 3 That's all I have.
- 4 JUDGE HAENLE: Mr. Furuta?

- 6 CROSS-EXAMINATION
- 7 BY MR. FURUTA:
- 8 Q. Good morning, Doctor Olson.
- 9 A. Good morning, Mr. Furuta.
- 10 Q. I would like to turn to Page 14 of your
- 11 rebuttal testimony.
- 12 A. All right.
- 13 Q. And I believe on that page you note the
- 14 difference in S and P's pretax coverage ratio criteria
- 15 for electric and gas utilities. And you infer that the
- 16 difference is caused by risk associated with purchased
- 17 gas; is that correct?
- 18 A. I believe that's a major factor. I think in
- 19 response to a question from Mr. Trotter yesterday, I
- 20 agreed with him that it's due to the contract risk from
- 21 purchasing gas and the fact that gas is not as
- 22 essential a service as is electricity.
- Q. And would you say that those are the only

- 24 factors causing a difference in the rating criteria?
- 25 A. I wouldn't say they are the only ones, but
 WITNESS: CHARLES E. OLSON Cross by Furuta 4471
- 1 there aren't any others I could identify at this point.
- 2 Q. And on Page 15, you remark that there were
- 3 several hours of friendly cross-examination of the
- 4 witnesses in opposition to Puget in this proceeding.
- 5 Would you characterize the Company's
- 6 cross-examination of Doctor Legler as friendly?
- 7 A. No.
- 8 Q. Can you state what was friendly about the
- 9 cross-examination of Doctor Legler by any other party
- 10 in this proceeding?
- 11 A. Can I characterize it? Typically, in
- 12 proceedings across the country, you wouldn't find a
- 13 situation in which Mr. Adams, for example, would be
- 14 allowed to cross-examine Mr. Trotter's witness. And
- 15 you wouldn't find a situation in which Mr. Trotter
- 16 would be allowed to cross-examine Mr. Adams' witness.
- 17 It just isn't allowed.
- 18 Q. So, your reference to friendly
- 19 cross-examination referred to witnesses other than
- 20 FEA's, I take it?
- 21 A. Yes.
- Q. Pages 17 to 18 of your rebuttal, I think
- 23 there you're critical of Doctor Lurito's method of

- 24 estimating the growth rate for the DCF analysis.
- 25 Are you also critical of Doctor Legler's use
 WITNESS: CHARLES E. OLSON Cross by Furuta 4472
 - 1 of the retention growth rate?
- 2 A. Well, I would have to say that Doctor Legler
- 3 didn't use it because, when Doctor Legler did that kind
- 4 of analysis, it seems to me that he came up with a
- 5 number of about 9.5 percent or so. And he wound up
- 6 recommending 11.25. I would say that implicitly he
- 7 rejected it.
- 8 He would say, I suppose, well, I looked at
- 9 that and I looked at a number of other things, and I
- 10 arrived at a judgment. But the fact of the matter is
- 11 he did not religiously adhere to the retention growth
- 12 growth rate as did Doctor Lurito and Mr. Hill.
- 13 Q. Now, as I understand it, both you and Doctor
- 14 Legler used what's considered the conventional constant
- 15 growth annual version of the DCF model. Is that
- 16 correct, to your knowledge?
- 17 A. I would say that's generally correct, yes.
- 18 It's not incorrect.
- 19 Q. That model essentially assumes that the
- 20 stock is held over; is that correct?
- 21 A. Yes.
- Q. If the stock is held forever, the only
- 23 return to the investor would be in the form of

- 24 dividends, wouldn't it?
- 25 A. That's true.

- 1 Q. And also if the model assumes the stock will
- 2 never be sold, it also assumes that the investor should
- 3 only be interested in dividend growth; is that correct?
- 4 A. If you look at any terminal payment that
- 5 would be there when the Company ceased to be in
- 6 business as a dividend, that would be correct.
- 7 Q. And, likewise, if the stock is held forever,
- 8 would the price of the stock in the future be relevant
- 9 at all?
- 10 A. If you're using the model under the
- 11 assumption that the stock is held forever, it would not
- 12 be.
- Q. Okay. Now, in your own analysis,
- 14 realistically, your growth rate was based on the
- 15 appreciation in the price of the stock, though, wasn't
- 16 it?
- 17 A. In part, yes. That's accurate.
- 18 Q. Doesn't your own application of the DCF
- 19 method argue that the basic assumption that dividends,
- 20 earnings, and price all grow at the same rate has been
- 21 violated?
- 22 A. I would say that's correct.
- Q. Now, according to the testimony that we have

- 24 heard from Mr. Russel Olson, the Company has achieved
- 25 an equity ratio of 45 percent. Is that true?

- 1 A. That is my understanding, yes. I have not
- 2 seen the quarterly results at June 30. As far as I
- 3 know at this point, they have not been reported.
- 4 But I would fully expect that when that
- 5 information comes out, that the balance sheet will show
- 6 that the common equity ratio at June 30, 1993, exceeds
- 7 45 percent.
- 8 Q. Is it your opinion that the rating agencies
- 9 would ignore the Company's actual ratio and substitute
- 10 the Commission's adopted ratio in their evaluation of
- 11 Puget Sound?
- 12 A. Well, they see 45 or so as being the actual
- 13 number now, and they have not raised the Company's bond
- 14 rating based on that. It would be my opinion, if the
- 15 rates are based on a 41 percent equity ratio, which is
- 16 roughly what we're talking about as far as Doctor
- 17 Lurito's recommendation and Mr. Hill's recommendation,
- 18 we would see a situation in which the Company couldn't
- 19 earn on the actual capital structure. And the result
- 20 would be a downgrade.
- 21 Q. If you could turn to Page 25 of your
- 22 testimony. Around Lines 15 and 16, they are referring
- 23 to Doctor Legler, you state here that his estimated

- 24 return of 11.25 percent is close to what investors
- 25 require; is that correct?

- 1 A. Yes.
- 2 Q. It appears then that the major difference
- 3 between your recommendation and Doctor Legler's must be
- 4 attributable to your higher financing cost adjustment?
- 5 Would that be a fair assumption?
- 6 A. It would be very accurate.
- 7 Q. And your financing cost adjustment is 90 to
- 8 100 basis points based on a target market-to-book ratio
- 9 of 1.08?
- 10 A. That's correct.
- 11 Q. And would you agree that roughly half of the
- 12 adjustment is for issuance expense, and the other half
- 13 is to avoid market pressure which would cause the
- 14 Company to issue stock below book value?
- 15 A. Yes.
- 16 Q. And to your knowledge, has the Company
- 17 recently issued common stock?
- 18 A. Yes.
- 19 Q. And during the last year, do you know if it
- 20 issued common stock below book value?
- 21 A. It did not.
- 22 Q. Doctor Olson, do you know or can you tell us
- 23 what the Company's current market-to-book ratio is?

- 24 A. Oh, I would say that it is approximately 1.5
- 25 to 1.
 - WITNESS: CHARLES E. OLSON Cross by Furuta 4476
- 1 Q. And I take it that's based on current stock
- 2 price of about --
- 3 A. That's based on a current stock price of
- 4 between \$27.5 and \$28. And it is based on my
- 5 expectation that the book value will come in at
- 6 approximately \$19 a share at June 30.
- 7 Q. And you're also aware that Russel Olson
- 8 testified either yesterday or earlier as to the book
- 9 value being about \$18.66? Do you recall?
- 10 A. I heard that. It sounded to me as if that
- 11 wasn't a number that was necessarily firm at that
- 12 point, and I was rounding that number. It might be
- 13 slightly more than 1.5 to 1. It's clearly under 1.6.
- 14 And at the level that it's at, it's in the bottom third
- 15 for the utility industry.
- 16 Q. Okay.
- 17 A. The electric utility industry.
- 18 Q. So, if the Commission set the return based
- 19 on a target market-to-book ratio of 1.08, the price of
- 20 the Company's stock should drop from its present level
- 21 to slightly over \$20 a share? Would you agree with
- 22 that?
- 23 A. It would be over \$20, yes.

- Q. Significantly over \$20?
- 25 A. No, no. I was just thinking five percent
 WITNESS: CHARLES E. OLSON Cross by Furuta 4477
 - 1 over \$20 would be another \$1. If you add that over
- 2 \$19, it would be a little bit more than that using
- 3 eight percent.
- 4 Q. Are you predicting that the price of the
- 5 Company's stock will decline to about \$20 a share if
- 6 the Commission accepts your recommendation?
- 7 A. If the theory of the DCF model is correct,
- 8 that should happen. It was never my expectation that
- 9 utility stock prices would rise as high as they have.
- 10 It's somewhat confounding to anyone that believes that
- 11 markets are rational.
- 12 It is my firm belief that what we are
- 13 dealing with is a book value industry and that these
- 14 stocks are going to get back to book value.
- What the triggering event or events will be,
- 16 I don't know. I do know that if this Commission is
- 17 conventional and comes in with a return on equity of,
- 18 say, 11.5, 11.75, which is right about where other
- 19 commissions seem to be coming in these days, and base
- 20 the rate of return on the actual capital structure,
- 21 which is what most commissions do, probably nothing is
- 22 going to happen for awhile. And certainly this Company
- 23 won't get singled out.

- I think if the Commission comes in with a
- 25 number like Mr. Hill or Doctor Lurito is recommending,

- 1 there is more likely to be a case of the Company being
- 2 singled out. I think if the Commission does what's in
- 3 the main stream of other commissions, there may be some
- 4 reaction, but you're not going to see the Company down
- 5 at market-to-book ratio of 1.1 and a stock price of,
- 6 say, \$21 a share.
- 7 Q. Do you happen to know what the closing stock
- 8 price was yesterday of the Company?
- 9 A. I can find that for you. (Reading.)
- The closing stock price was \$28.25.
- JUDGE HAENLE: You got that from the WALL
- 12 STREET JOURNAL?
- 13 THE WITNESS: I got that from the WALL
- 14 STREET JOURNAL, July 21, 1993, Page C-5.
- JUDGE HAENLE: Thank you.
- 16 BY MR. FURUTA:
- 17 Q. I'm correct that you testified for the
- 18 Company in its last rate case; is that correct?
- 19 A. You are correct.
- 20 Q. In that case, was your approach to the
- 21 financing cost adjustment the same as in this case?
- 22 A. I believe so.
- Q. And to your recollection, did the Commission

- 24 authorize a return as high as you recommended in the
- 25 last case?

- 1 A. Well, I don't know. I know my original
- 2 recommendation was higher than the 12.8. I also know
- 3 that at the time that we were in rebuttal, that we had
- 4 a similar situation where the stock price had gone up,
- 5 interest rates had gone down, and, therefore, any
- 6 updated number would have been lower than the original
- 7 number.
- 8 How close it was to the 12.8, I just don't
- 9 remember. But I think it was quite close.
- 10 Q. Do you know if the market-to-book ratio fell
- 11 to below 1.8 as a result of that case?
- 12 A. I believe you mean 1.0.
- 13 Q. I'm sorry. 1.0?
- 14 A. It did not.
- 15 Q. If we can take a look at the Company's last
- 16 stock issue, even if we reduced the price for issuance
- 17 expenses and allow for market pressure, the Company
- 18 still realized proceeds greater than book value, didn't
- 19 it?
- 20 A. Right, they did. The issuance was at a
- 21 level that's lower than the current price. And there
- 22 were some financing costs related to the issue. But I
- 23 would expect that they had net proceeds somewhere in

- 24 excess of \$27 a share.
- Q. And this means that existing shareholders
 WITNESS: CHARLES E. OLSON Cross by Furuta 4480
 - were not made worse off by the recent stock sale?
- 2 A. Existing shareholders were not made worse
- 3 off. In fact, they were made better off because now
- 4 they have a higher book value than they did before.
- 5 Q. So, despite the fact that the Company's
- 6 market-to-book ratio is about 1.5, and despite the fact
- 7 that shareholders have been made better off rather than
- 8 worse off as a result of recent stock sales, is it
- 9 still your opinion that ratepayers should be called
- 10 upon to pay rates based on protecting shareholders from
- 11 what appears to be the unlikely event that the Company
- 12 will be forced to sell shares below book?
- 13 A. Well, it is because implicitly, when we're
- 14 basing a return on equity on any market method, we are
- 15 saying that the market price is going to equal book
- 16 value.
- 17 The fact that it hasn't happened before
- 18 doesn't mean that it won't happen this time. It's
- 19 going to happen sometime. It's just hard to tell when.
- 20 And, as I said before, it's hard to know what the
- 21 triggering event or events will be.
- 22 Hopefully they will not be events that are
- 23 related to this Company and this jurisdiction.

- 24 Hopefully it will be some company in Iowa or the New
- 25 York Commission or somebody else, but not this one.

- 1 MR. FURUTA: Thank you Doctor Olson. No
- 2 further questions.
- JUDGE HAENLE: Thank you.
- 4 Mr. Adams?

- 6 CROSS-EXAMINATION
- 7 BY MR. ADAMS:
- 8 Q. Good morning, Doctor Olson.
- 9 A. Good morning, Mr. Adams.
- 10 Q. I will try to short-circuit my questioning
- 11 here due to the questions of others. Let me just start
- 12 off and seek clarification on your original testimony.
- 13 Am I correct that your DCF common equity
- 14 analysis was based on market data from the six-month
- 15 period April through September 1992?
- 16 A. You're correct.
- 17 Q. I think you have already agreed to questions
- 18 from Mr. Trotter and others that costs of capital have
- 19 come down over the last year. Wouldn't you agree?
- 20 A. I have agreed to that.
- 21 MR. ADAMS: Your Honor, I would like to have
- 22 marked as the next identification a line of two-page
- 23 documents, Moodys Corporate Bond Yields for A and BB

- 24 utilities, corporate bonds.
- 25 (Marked Exhibit 925)

- 1 JUDGE HAENLE: The two-page document will be
- 2 marked as Exhibit 925 for identification.
- 3 BY MR. ADAMS:
- Q. Doctor Olson, do you recognize what has been
- 5 handed to you as the Compuserve print-out of Moody's
- 6 corporate bond yields for A utility and BAA utility
- 7 for the period 4/30/92 through the most current data
- 8 they have which is 7/15/93?
- 9 A. I don't recognize it as being that. But I
- 10 fully accept these numbers subject to check.
- 11 Q. That would be fine, thank you. They show
- 12 this approximate reduction of about 100 basis points
- 13 over the time frame of October to the current time, do
- 14 they not?
- 15 A. Yes, they do.
- MR. ADAMS: Your Honor, I would move the
- 17 admission of what has been identified as Exhibit 925.
- JUDGE HAENLE: Any objection, Mr. Marshall?
- 19 MR. MARSHALL: Subject to check, no.
- JUDGE HAENLE: Please let us know
- 21 immediately if they aren't so we can still make some
- 22 kind of correction while these cases are still going
- 23 on.

- MR. MARSHALL: Sure, this is again just not
- 25 a format we're familiar with.

- 1 JUDGE HAENLE: Thank you. Any objection,
- 2 Mr. Trotter?
- 3 MR. TROTTER: No.
- 4 JUDGE HAENLE: Mr. Furuta?
- 5 MR. FURUTA: No.
- JUDGE HAENLE: Mr. Richardson?
- 7 MR. RICHARDSON: No objection, your Honor.
- 8 JUDGE HAENLE: 925 will be entered into the
- 9 record.
- 10 (Received Exhibit 925)
- 11 BY MR. ADAMS:
- 12 Q. I believe you also subscribe to the same
- 13 Compuserve database, don't you?
- 14 A. We get IBES reports off of Compuserve. We
- 15 don't get the Moody's information off of that. I
- 16 subscribe to MOODY'S BOND SURVEY, which is a weekly
- 17 publication, and I get the information from there.
- 18 But I fully recognize Compuserve as being a
- 19 well accepted source of financial information. It's
- 20 just that I don't see anything that says Compuserve on
- 21 this piece of paper, and so of my own knowledge I can't
- 22 verify that that's where it's from.
- Q. But you accept it subject to check, and we

- 24 would be happy to provide you any additional
- 25 information you need?

- 1 A. I'm sure the numbers are fine.
- 2 Q. What does IBES stand for?
- 3 A. Institutional Brokers' Estimate System.
- 4 Q. Looking at Page 3 of your testimony, the
- 5 very top two lines, we say in the long run customers
- 6 know they come out ahead with a cost recovery system
- 7 such as PRAM.
- 8 In a data request, you indicated that you
- 9 had not done any studies, but I believe your support
- 10 for that was that it was based on the concept that
- 11 customers are rational; is that correct?
- 12 A. Yes.
- Q. Are investors rational?
- 14 A. They are supposed to be. I wouldn't pay 1.5
- 15 times book value for this Company's stock, but -- so, I
- 16 don't think they are being completely rational at this
- 17 point.
- 18 Q. Is the market efficient?
- 19 A. It's supposed to be. I am firmly convinced
- 20 of any number of things, and one of them is that this
- 21 is a book value industry and it is a cost recovery kind
- of industry, and that's what it's supposed to be, and
- 23 that's what it's going to continue to be.

- 24 Why these stock prices should be so high,
- 25 why some electric utilities have market prices that are WITNESS: CHARLES E. OLSON - Cross by Adams

- twice book value and others 1.5 times, I just don't
- know. But it shouldn't be working that way.
- 3 Q. Your analysis is based on theoretical
- principles that assume rationality and efficiency in
- 5 the market?
- 6 Α. Well, that's right. And, in addition, when
- 7 we're talking about consumers, it's based on
- observations over a long period of time. We have 8
- observed, for example, that when gasoline prices go up
- 10 or meat prices go up, people buy less. They figure it
- 11 out.
- 12 Would you agree that the common equity
- capital to a firm is based on the return required by 13
- the investor for that type of stock? 14
- 15 Α. Yes.
- 16 Ο. And that return requirement is embodied in
- 17 the market price investors are willing to provide for a
- particular stock, is it not? 18
- 19 Α. Yes.
- 20 Q. When an investor wishes to purchase a stock,
- 21 he or she must purchase that stock at prevailing market
- 22 prices; correct?
- That's correct. 23 Α.

- Q. If the market price is different from the
- 25 book value per share, the investors cannot purchase the

- 1 stock at a price equal to the book value; is that
- 2 correct?
- 3 A. Well, if it's below, I suppose they could
- 4 put in a bid at a higher price. But I don't see why
- 5 they would.
- 6 Q. So, generally you would agree?
- 7 A. I would agree with that.
- 8 Q. Now, would you turn to Page 32 of your
- 9 testimony, Lines 4 through 6. There you testify that
- 10 "Professor Myron Gordon, who he credits with developing
- 11 the DCF, recommends the use of the retention growth, or
- 12 br + sv technique."
- 13 Is that correct?
- 14 A. Yes.
- 15 Q. Now, when asked to support that statement in
- 16 Data Request 3543, you reference a spring 1989 JOURNAL
- 17 OF PORTFOLIO MANAGEMENT article by Doctor Gordon; is
- 18 that correct?
- 19 A. Right.
- 20 MR. ADAMS: Your Honor, I would like to have
- 21 marked as the next exhibit in line that article. It's
- 22 a six-page article.
- JUDGE HAENLE: Fine. The multi-page

- 24 document as described will be marked as Exhibit 926 for
- 25 identification.

- 1 (Marked Exhibit 926)
- 2 BY MR. ADAMS:
- 3 Q. Do you recognize this article which has been
- 4 identified as 926 as the article that you referred to
- 5 in the data request?
- 6 A. Yes.
- 7 Q. Now, I would like to refer you to the second
- 8 to the last page, the caption that says Conclusion.
- 9 Since the document is before you, I won't have you read
- 10 it.
- 11 Would you look at the first two paragraphs
- 12 following the word Conclusion. Just let me know when
- 13 you have had an opportunity to look at it.
- 14 A. (Reading.)
- MR. ADAMS: Your Honor, while the witness is
- 16 looking at it, perhaps I could move its admission.
- 17 JUDGE HAENLE: Have you any objection to the
- 18 entry of the document, Mr. Marshall?
- 19 MR. MARSHALL: I would not object if it's
- 20 introduced for the limited purpose of showing what was
- 21 referred to in the data request. The people who wrote
- 22 the article, of course, are not available for
- 23 cross-examination. So, it wouldn't be proper to admit

- 24 it for all purposes. But for the limited purpose of
- 25 showing the reference in the data request, I have no

- 1 objection.
- 2 JUDGE HAENLE: I think that Mr. Adams is
- 3 probably going to use it, also, to test the witness's
- 4 testimony at Page 32 about whether that's what the
- 5 article actually says.
- 6 MR. MARSHALL: For that limited purpose
- 7 again, that would be fine, too, but I have not been
- 8 able to read the article. It wouldn't be wise to let
- 9 it in for all purposes, but for those two limited
- 10 purposes, I have no objection.
- JUDGE HAENLE: Mr. Adams?
- MR. ADAMS: Your Honor, I'm not offering it
- 13 for such limited purposes. The witness has referred to
- 14 the article and attempted to refute something that Mr.
- 15 Hill has said.
- 16 I think it is admissible for the purposes of
- 17 what that article represents and the theoretical
- 18 underpinnings of Mr. Hill's and presumably Doctor
- 19 Olson's testimony.
- JUDGE HAENLE: Mr. Marshall?
- 21 MR. MARSHALL: For the limited purpose of
- 22 what this witness referred to and for
- 23 cross-examination, I have no objection. But to allow

- 24 it in wholesale for everything it says, I do object.
- 25 JUDGE HAENLE: Any objection to the entry of

- 1 the document?
- 2 MR. TROTTER: I think we concur with the
- 3 Company that this should be entered for the purpose of
- 4 contesting the testimony of Mr. Olson. We don't have
- 5 any objection for that purpose.
- JUDGE HAENLE: Mr. Adams?
- 7 MR. ADAMS: I'll leave it to you.
- JUDGE HAENLE: Mr. Furuta?
- 9 MR. FURUTA: No objection.
- JUDGE HAENLE: Mr. Richardson?
- MR. RICHARDSON: No objection, your Honor.
- JUDGE HAENLE: I'm going to enter the
- 13 document into the record. I believe that it could be
- 14 used for the purpose of testing the witness's
- 15 testimony. But I do have some concern about it being
- 16 produced today and whether the Commission should rely
- 17 on it as a source for what the article tends to
- 18 indicate.
- 19 (Received Exhibit 926)
- JUDGE HAENLE: We do have a number of other
- 21 similar articles in the record already, Mr. Marshall.
- 22 I think the Commission is going to use it primarily for
- 23 the purpose which Mr. Adams described as testing the

- 24 witness's testimony. I'm not going to limit its use.
- 25 We do have several other similar articles in the

- 1 record. I'm not limiting the purpose for which it can
- 2 be used.
- 3 Let's go on.
- 4 BY MR. ADAMS:
- 5 Q. Doctor Olson, after looking at the
- 6 conclusions, I have basically three questions for you.
- 7 Would you agree that Professor Gordon does say that if
- 8 they had used past growth in price in addition to the
- 9 other four growth rates, I quote, "It would have been
- 10 an even more distant fifth"?
- 11 That's towards the end of the first
- 12 paragraph of the Conclusion.
- 13 A. I do agree with that.
- 14 Q. He also says if they had not used only
- 15 historical retention growth estimates and had adjusted
- 16 the retention growth estimates as analysts do when
- 17 making their estimates, they would have had as good or
- 18 better results than the analysts' estimates. Isn't
- 19 that correct?
- 20 A. That's true. But then they wouldn't have
- 21 been retention growth estimates anymore.
- Q. Are you familiar with Mr. Hill's equity cost
- 23 analysis?

- A. I hope so.
- Q. Isn't it true that in addition to retention
 WITNESS: CHARLES E. OLSON Cross by Adams 4491
 - 1 growth, Mr. Hill considered analysts' growth rate
 - 2 forecasts in a DCF growth rate analysis?
 - 3 A. Yes. But he was fairly dogmatic in saying
 - 4 that V times R plus SV was the correct way to go.
 - 5 Q. Now, would you turn to your testimony at
 - 6 Page 27. Line 1, you refer to the Fama and French
 - 7 article. Do you see that?
 - 8 A. Yes.
 - 9 Q. And to what Fama and French article do you
- 10 refer? Is this the JOURNAL OF FINANCE June 1992
- 11 article?
- 12 A. Yes.
- 13 Q. Since you're familiar with that article, you
- 14 must also be familiar with the fact that Fama and
- 15 French found the market-to-book ratios and
- 16 earnings/price ratios were an acceptable measure of
- 17 risk, did they not?
- 18 A. Yes.
- 19 Q. Would you please turn to Page 38 of your
- 20 testimony, where you state that Mr. Hill recommended
- 21 certain equity ratios in the 1992 equity cost
- 22 proceeding in which you were both involved.
- 23 You were also involved in that California

- 24 proceeding?
- 25 A. Yes, I was.

- 1 Q. Do you have a copy of Mr. Hill's testimony
- 2 in that proceeding?
- 3 A. No, I don't. I think I furnished in
- 4 response to someone's interrogatory a page from Mr.
- 5 Hill's exhibit that showed what the equity ratios were
- 6 that his analysis was based on. But that's all I have.
- 7 MR. ADAMS: Your Honor, I would like to have
- 8 a four-page document marked for identification which is
- 9 a copy of the cover sheet and index of Mr. Hill's
- 10 testimony in that proceeding plus his page dealing with
- 11 capital structure. Would that be 927?
- JUDGE HAENLE: Yes.
- 13 The multi-page document as described will be
- 14 marked as Exhibit 927 for identification.
- 15 (Marked Exhibit 927)
- 16 BY MR. ADAMS:
- 17 Q. If you would turn to Page 59, which is the
- 18 last page of that document. If you would look at the
- 19 question and the response at the top of that page.
- 20 A. All right.
- Q. Would you agree that Mr. Hill did not accept
- 22 the capital structures in that proceeding as
- 23 reasonable? It was beyond the scope of his analysis in

- 24 that proceeding? He simply used the existing capital
- 25 structures for purposes of this examination?

WITNESS: CHARLES E. OLSON - Cross by Adams 4493

- 1 A. Well, I agree that that's what he did. But
- that's the cause of my concern because I don't know how
- 3 he could go to California and because of an agreement
- 4 with counsel or whatever decide that he is not going to
- 5 look at capital structures and recommend coverages for
- 6 those California companies as indicated on the previous
- 7 page of 3.65 times for San Diego Gas and Electric, and
- 8 I think Southern California Edison 3.32 times and so
- 9 on, and then turn around in this case, presumably
- 10 because you told him you wanted him to look at capital
- 11 structure issues, and come in at coverages of 2.3/2.4
- 12 times. I find that incredible that he would do that.
- 13 Q. So, was Public Counsel a participant in the
- 14 California proceeding?
- 15 A. Well, he was testifying --
- 16 Q. The answer is yes or no, and then if you
- 17 want to explain. But it was a question. Was Public
- 18 Counsel a participant in that proceeding?
- 19 MR. ADAMS: Your Honor, I think that's a
- 20 fairly straightforward question.
- JUDGE HAENLE: I agree.
- 22 THE WITNESS: I don't know what you mean by
- 23 Public Counsel. Do you mean you?

- 24 BY MR. ADAMS:
- 25 Q. Yes. Public Counsel from Washington.

WITNESS: CHARLES E. OLSON - Cross by Adams 4494

- 1 A. No.
- Q. He was hired in that proceeding by another
- 3 party; is that correct?
- 4 A. He was hired by another party.
- 5 Q. Do not parties typically give assignments to
- 6 their consultants?
- 7 A. Well, if a party gives you an assignment to
- 8 cover something in such a way that leads to a total
- 9 inconsistency with what you normally do, I think you
- 10 should turn down the assignment.
- 11 MR. ADAMS: Thank you. I have no further
- 12 questions.
- JUDGE HAENLE: Did you wish to move the
- 14 document?
- MR. ADAMS: Yes, please.
- JUDGE HAENLE: Any objection, Mr. Marshall?
- 17 MR. MARSHALL: The exhibit does refer to
- 18 Exhibit 11, which is provided in Data Request 3548. I
- 19 think, for completeness, that Schedule 11 from that
- 20 Data Request 3548 should be attached to this as well.
- 21 With that attached addition to make the exhibit
- 22 complete, I would have no objection.
- JUDGE HAENLE: Do you have any problem with

- 24 that?
- 25 MR. ADAMS: I would be happy to attach it if
 WITNESS: CHARLES E. OLSON Cross by Adams 4495
 - 1 the Company wants to put in all of the testimony of
 - 2 this witness. This witness has picked one particular
- 3 schedule out and represents it characterized Mr. Hill's
- 4 testimony in California.
- I presented this exhibit to show that, in
- 6 fact, he did not address that issue and assumed it only
- 7 for purposes of the rest of his analysis. If the
- 8 Company wants to put in the whole exhibit, I have no
- 9 objection to it. But to put in that one sheet and try
- 10 $\,$ to characterize Mr. Hill's testimony from that basis I
- 11 think is objectionable.
- 12 JUDGE HAENLE: Mr. Marshall?
- 13 MR. MARSHALL: My only point is there is
- 14 only one schedule referred to in this proposed exhibit.
- 15 It's mentioned three times. That schedule is Schedule
- 16 11. I think Schedule 11 needs to be attached for
- 17 purposes of being complete for the exhibit.
- 18 JUDGE HAENLE: Any objection to the
- 19 document, Mr. Trotter?
- MR. ADAMS: No.
- JUDGE HAENLE: Mr. Trotter?
- MR. TROTTER: No, it does seem to me the
- 23 purpose of this exhibit is to deal with whether or not

- 24 Mr. Hill recommended a common equity ratio, and I think
- 25 this exhibit does that. So, I have no objection to it.

WITNESS: CHARLES E. OLSON - Cross by Adams 4496

- 1 JUDGE HAENLE: Any objection, Mr. Furuta?
- 2 MR. FURUTA: No, your Honor.
- JUDGE HAENLE: Mr. Richardson?
- 4 MR. RICHARDSON: No objection, your Honor.
- 5 JUDGE HAENLE: I'm going to enter the
- 6 document as it is and overrule the objection. It looks
- 7 to me like it's a proper way to question your witness's
- 8 testimony on the point, Mr. Marshall, and I don't find
- 9 it objectionable.
- 10 (Received Exhibit 927)
- 11 MR. ADAMS: Thank you. That's all the
- 12 questions I have.
- JUDGE HAENLE: Commissioners, questions?
- 14 CHAIRMAN NELSON: Yes.

- 16 EXAMINATION
- 17 BY CHAIRMAN NELSON:
- 18 Q. Doctor Olson, the statement at the bottom of
- 19 Page 35 of your testimony I found just astonishing.
- 20 Saying that we don't have rational investors is to me
- 21 like saying we should get rid of the reasonable man
- 22 standard in the legal system.
- What are we going to do about this? Why is

- 24 it we, as regulators, continue to go through this
- 25 analysis if there is no rationality? Should we begin

WITNESS: CHARLES E. OLSON - Examination by Nelson 4497

- 1 to employ psychologists rather than people such as
- 2 yourself if we're to assume there is no rationality?
- 3 COMMISSIONER CASAD: Sociologists were
- 4 recommended yesterday.
- 5 CHAIRMAN NELSON: Psychologist today.
- 6 THE WITNESS: What I see happening is your
- 7 job is a lot tougher because, if you look at what's
- 8 gone on, you probably could make a case for the return
- 9 on equity being nine percent if you really want to dig
- 10 through these numbers. Yet, if you do that, it would
- 11 probably be an overreaction and it would make it very
- 12 difficult for the Company to attract capital.
- I think you really have to be careful when
- 14 you're looking at this. What I tried to point out in
- 15 my rebuttal testimony is that Doctor Lurito, in saying
- 16 that investors are rational, really had to stretch his
- 17 DCF to get a high growth rate using that conventional
- 18 standard in order to come in with a number that made
- 19 any sense.
- 20 And I'm just trying to be very frank with
- 21 you and tell you that it doesn't appear that things are
- 22 working. You come in time after time with this DCF
- 23 approach, and you get numbers that are 1.5 to 1.

- 24 I would think that would be a cause of great
- 25 concern for a lot of commissions and, that when you go
 - WITNESS: CHARLES E. OLSON Examination by Nelson 4498
- 1 to your annual and regional meetings, that that would
- 2 be a hot topic of conversation. Why is this happening?
- 3 Are we doing something wrong? What's going on?
- 4 I just don't see how investors in an
- 5 industry that we all in this room know is a book value
- 6 industry are paying such phenomenal prices for these
- 7 stocks. They can't be doing the right thing.
- 8 BY CHAIRMAN NELSON:
- 9 Q. And you said you just don't know
- 10 essentially. I mean, do you have any advice for what
- 11 we should do? Trust you and take your advice at this
- 12 point as opposed to some of the other witnesses in this
- 13 case?
- 14 A. No. If I were in your position rather than
- 15 being a witness, what I would do is come in with a
- 16 number that's in the middle of the pack. What the
- 17 other commissions are doing, and what I see commissions
- 18 doing is more or less searching for the bottom here.
- 19 I think what you see is a pattern of these
- 20 numbers going down a little bit every quarter or every
- 21 six months. And everybody is waiting to see what's
- 22 going to happen as these return numbers drop, and
- 23 everyone thinks that the book-to-book ratio is going to

- 24 go down some in response to that. I think everyone is
- 25 hoping it will be gradual.

WITNESS: CHARLES E. OLSON - Examination by Nelson 4499

- 1 But what's happened is these authorized
- 2 return numbers have skipped from 12.5, 12, 11.75.
- 3 Stock prices keep going up. There is going to be a
- 4 collision somewhere.
- 5 But if I were in your position, I think what
- 6 I would be doing is looking at all these numbers that
- 7 are in the record, looking at what the other
- 8 commissions are doing.
- 9 I would recognize that it's pretty typical
- 10 to grant a rate of return based on the actual capital
- 11 structure. And then I would pick an ROE number that's
- 12 fairly typical of the A-rated utilities.
- 13 Q. Thank you.
- 14 A. That's not what I'm recommending. That's
- 15 what I'm saying I would do if I were you.
- 16 CHAIRMAN NELSON: Thank you.

- 18 EXAMINATION
- 19 BY COMMISSIONER CASAD:
- 20 Q. Maybe this is an example of the herd
- 21 mentality. I guess regulators are tending to zero in
- 22 on the same thing. Your comments on the rational
- 23 investor also caught my attention. And you might be

- 24 surprised that oftentimes at our conventions and
- 25 meetings we wile away the hours discussing the fact

WITNESS: CHARLES E. OLSON - Examination by Casad 4500

- 1 that we have a 1.5 market-to-book ratio and why is this
- 2 happening and try to come up with some rational reason.
- 3 There we get the same response from
- 4 regulators as we do from economists. We have 15,000
- 5 reasons why this phenomenon occurs and exists. And the
- 6 challenge is to find which is the most rational or try
- 7 to find which is the most rational or reasonable.
- I was struck by the reasonable man, rational
- 9 investor, only because it assumes such proportions in
- 10 the jargon of the trade. All the cost of capital
- 11 witnesses, all the rating analysts depend heavily on
- 12 the rational investor theory to support their views.
- 13 Either the rational investor theory is a
- 14 refuge for incorrect science or it has some meaning
- 15 that is worth capturing. And so, it assumes
- 16 proportions more than just, you know, some nebulous
- 17 kind of a term.
- 18 For example, on Page 17 of your testimony at
- 19 the bottom of the page, you say rational investors
- 20 would also not be expecting a 25 to 30 percent
- 21 retention ratio as Doctor Lurito suggests. And as the
- 22 Chairman just quoted, on the bottom of Page 35, you say
- 23 that is true if we assume that we have rational

- 24 investors. However, the evidence indicates that this
- 25 is not the case.

WITNESS: CHARLES E. OLSON - Examination by Casad 4501

- 1 So, if there aren't rational investors, why
- 2 would they not take Doctor Lurito's 25 to 30 percent
- 3 retention ratio if this is what we're dealing with?
- 4 There is a contradiction. And maybe you
- 5 were being humorous.
- 6 A. No, I wasn't being humorous. They might do
- 7 that. But the other thing they might be doing is they
- 8 might be seeing these low yields on CDs, and they might
- 9 say, "I can't live with a return of three percent. I
- 10 have got to have something better than that."
- 11 And maybe two years ago or three years ago
- 12 they said, "I want to put some of that CD money into a
- 13 utility stock." And so they stepped out and took more
- 14 risk and got more of a return in the way of a yield.
- 15 Since then, what have they seen happen?
- 16 They have gotten dividend increases, and they have seen
- 17 the price go up a lot. Well, pretty soon they start
- 18 talking to each other and saying, "Look, these prices
- 19 just keep going up. They go up the way our housing
- 20 prices used to go up. Just up, up, up, up, up. " Maybe
- 21 that's what they are looking at.
- 22 That's why I suggested in my direct
- 23 testimony that maybe that's what they are keying in on,

- 24 this market price per share. And I know that that
- Doctor Gordon article that Mr. Adams handed me says
 WITNESS: CHARLES E. OLSON Examination by Casad 4502
- 1 that that was a poor predictor. But that study
- 2 terminated in 1986. Today it's 1993. Maybe that is
- 3 what they are looking at.
- 4 Maybe it's Doctor Lurito's numbers. But I
- 5 don't see if an investor can figure out that the
- 6 pay-out ratio is 80 percent or 85 percent roughly in
- 7 the case of Puget and he is basing his analysis on 25
- 8 to 30, he is clearly stretching it. And he is
- 9 stretching it because he wants to stay within the
- 10 bounds of this concept that investors are rational.
- 11 But I don't see why, if they know the
- 12 pay-out ratio is eighty, they would assume it's
- 13 seventy.
- 14 Q. I guess what goes around comes around and
- 15 what's good for the goose is good for the gander and
- 16 all of those truisms?
- 17 A. I keep telling my clients that on the DCF
- 18 because, when I first started out in this business,
- 19 what my job was was to get the stock price up to book
- 20 value. Come in with rates of return that will do that.
- Now we're beyond that. Frankly, there are a
- 22 lot of people that say, "Olson, the DCF is no good. We
- 23 have got to go to something other than the DCF." And

- 24 my response is what are you complaining about?
- Q. I would guess your response would be much as WITNESS: CHARLES E. OLSON Examination by Casad 4503
- 1 other witnesses that there is a good bit more or there
- 2 is not more -- perhaps not more, but there is a good
- 3 bit of art involved in this process, as there is some
- 4 science?
- 5 A. By the way, Puget is not one of those
- 6 companies because they have stuck with me and have not
- 7 made a single complaint about using the DCF. Whereas I
- 8 can tell you there are some other situations in which I
- 9 have been thrown out.
- 10 COMMISSIONER CASAD: Thank you Doctor Olson.
- 11 JUDGE HAENLE: Redirect, Mr. Marshall?

- 13 REDIRECT EXAMINATION
- 14 BY MR. MARSHALL:
- 15 Q. Yes. You were asked questions by Mr.
- 16 Trotter about the PUBLIC UTILITY FORTNIGHTLY of June 15
- 17 referred to at Page 3 of your testimony, which was the
- 18 subject of a data request, 2528?
- 19 A. Yes, that's correct.
- Q. Do you remember that testimony?
- 21 A. Yes.
- Q. Mr. Trotter touched on a couple of the rates
- 23 of return that were published in that.

- Would you just run through those so we have
- 25 in one place the complete returns allowed as you

- 1 referred to in that citation to the PUBLIC UTILITY
- 2 FORTNIGHTLY.
- 3 A. What's the interrogatory number, please?
- 4 Q. 2528.
- 5 A. Chesapeake and Potomac Telephone Company of
- 6 Maryland was authorized return on equity of 12.2
- 7 percent in January of '93. Wisconsin Electric Power in
- 8 February was authorized 12.3. Potomac Edison in a
- 9 Maryland case was authorized 11.9. And GTE North in a
- 10 Wisconsin case was authorized 12.75 in April.
- JUDGE HAENLE: Mr. Marshall, I should have
- 12 asked you how much redirect you have.
- MR. MARSHALL: Just one further question.
- 14 JUDGE HAENLE: Okay. We need to take a
- 15 recess at some point.
- 16 MR. MARSHALL: It might be better if we took
- one because it [STROFZ] passing out an exhibit.
- 18 JUDGE HAENLE: Why don't we take ten minutes
- 19 and be back at five minutes after 11:00, please. Thank
- 20 you.
- 21 (Recess.)
- JUDGE HAENLE: Let's be back on the record
- 23 after a morning recess.

- Go ahead, Mr. Marshall.
- 25 BY MR. MARSHALL:

- 1 Q. Mr. Olson, Mr. Adams asked you about Page 38
- 2 of your testimony with regard to testimony by Mr. Hill
- 3 in California.
- 4 MR. TROTTER: Excuse me, your Honor. Mr.
- 5 Adams isn't even here.
- JUDGE HAENLE: He knows what time we were
- 7 starting.
- 8 MR. TROTTER: Sorry to interrupt.
- 9 JUDGE HAENLE: I went out and looked for him
- 10 in the hall and didn't see him. Go ahead, Mr.
- 11 Marshall.
- 12 BY MR. MARSHALL:
- 13 Q. You mentioned you had responded in response
- 14 to Data Request 3548 with a Schedule 11 in that
- 15 proceeding. Do you have that before you?
- 16 A. Yes.
- 17 MR. MARSHALL: Has this been marked for
- 18 identification yet?
- 19 JUDGE HAENLE: It has not. Two-page
- 20 document entitled Response to Public Counsel Data
- 21 Request 3548. I'll mark this as 928 for
- 22 identification.
- 23 (Marked Exhibit 928)

- 24 BY MR. MARSHALL:
- Q. Is Exhibit 928 what you had referred to in WITNESS: CHARLES E. OLSON Redirect by Marshall 4506
- 1 your testimony on cross by Mr. Adams?
- 2 A. Yes, it is.
- 3 MR. MARSHALL: We move for the admission of
- 4 Exhibit 928.
- 5 JUDGE HAENLE: Any objection, Mr. Trotter?
- 6 MR. TROTTER: I would ask that the
- 7 Commission reserve judgment until Mr. Adams is here.
- JUDGE HAENLE: I believe this does affect
- 9 Mr. Adams, and I would like to hear any comment he
- 10 might have on it. I balance that against him knowing
- 11 what time this started, and I will reserve ruling on
- 12 this.
- 13 Anything further, Mr. Marshall?
- MR. MARSHALL: Yes.
- 15 BY MR. MARSHALL:
- 16 Q. You mentioned in your testimony that if the
- 17 Commission accepted the recommendations of Mr. Hill and
- 18 Mr. Lurito, the Company would be singled out. What do
- 19 you mean by that?
- 20 A. Well, at those capital structure levels and
- 21 those return levels, the Company would be effectively
- 22 authorized a return on equity of ten percent or less.
- 23 At that level it couldn't maintain its dividend.

- It would be in obvious financial trouble.
- 25 And in that respect it would wind up being

- 1 differentiated from the other electric utilities. Its
- 2 stock price would take a considerable hit.
- 3 It's already in the bottom third of other --
- 4 of utilities as far as market-to-book ratio. It would
- 5 sink considerably further and would probably be among
- 6 the very lowest, if not the lowest of the investment
- 7 grade electric utilities as far as market-to-book
- 8 ratio.
- 9 MR. MARSHALL: I have no further questions
- 10 at this time.
- JUDGE HAENLE: All right. And Mr. Adams is
- 12 here. Mr. Adams, the document which you have in front
- 13 of you has been marked as 928 for identification. We
- 14 waited to rule on it until I found out if you had an
- objection to its entry at Mr. Trotter's request.
- 16 Did you have any objection, Mr. Trotter?
- 17 MR. TROTTER: I would wait for Public
- 18 Counsel.
- 19 MR. ADAMS: Yes, I would object to it. It's
- 20 the same document as I understand that counsel
- 21 attempted to attach to 727.
- 22 And the testimony is very direct and
- 23 explicit. It says he didn't address that issue. That

- 24 was the purpose of 727 in his testimony Doctor Olson
- 25 says by his silence in this 928. The witness was not

- 1 silent. He specifically stated he did not address the
- 2 issue. It is a misrepresentation of the testimony, in
- 3 addition.
- 4 JUDGE HAENLE: In addition to --
- 5 MR. ADAMS: As I indicated before, if the
- 6 Company wants to put in the whole bunch of his
- 7 testimony with all the exhibits, fine, I have no
- 8 objection to that.
- 9 But this again is trying to get in the exact
- 10 same document that a few minutes ago counsel tried to
- 11 get in and could not. It's objectionable now and was
- 12 objectionable then.
- JUDGE HAENLE: Mr. Trotter?
- 14 MR. TROTTER: At this point it may be
- 15 helpful to have the entire document in. I'm not sure
- 16 of the purpose at this point. The purpose of the prior
- 17 exhibit was to show what Mr. Hill did or did not do
- 18 with respect to capital structure. I'm not sure how
- 19 relevant this table is and for what purpose it would be
- 20 offered.
- 21 He referred on that prior exhibit to other
- 22 schedules as well, and they are not offering those.
- 23 Association I guess it's simply relevance at this

- 24 point. And I'm not sure the rest of the exhibit
- 25 testimony would be relevant either.

- JUDGE HAENLE: Mr. Marshall?
- 2 MR. MARSHALL: This schedule was referred to
- 3 by Mr. Olson, by Doctor Olson. It is the only schedule
- 4 that's mentioned in the two pages of testimony. While
- 5 the ruling was that it shouldn't be attached to that
- 6 exhibit, it certainly should be made an exhibit for
- 7 completeness of the record if for no other purpose.
- 8 This is what Doctor Olson did refer to. Mr.
- 9 Adams asked him specifically what supported his view in
- 10 this regard. And what the Commission does to try to
- 11 analyze the arguments and the points made, I think
- 12 requires that this be made as part of the record so
- 13 that we have the whole record in front of us.
- 14 MR. TROTTER: There is a Schedule 12
- 15 referred to in Exhibit 927.
- 16 MR. MARSHALL: Schedule 11 is the focus of
- 17 the issue.
- 18 JUDGE HAENLE: Any objection to the
- 19 document, Mr. Furuta.
- 20 MR. FURUTA: No objection, your Honor.
- JUDGE HAENLE: Any objection, Mr.
- 22 Richardson?
- MR. RICHARDSON: No objection, your Honor.

- JUDGE HAENLE: I'm not going to enter this
- 25 document into the record. We have got your witness's

- 1 testimony about what inferences he drew from the
- 2 witness's testimony and the manner in which he drew
- 3 them. I don't see that this adds to the record at all
- 4 and will not prevent you from arguing that on brief
- 5 certainly. I don't think this is necessary at all to
- 6 complete the record. So, I will not enter 928 into the
- 7 record.
- 8 MR. MARSHALL: Then what we would like to do
- 9 is follow up with Mr. Adams' suggestion and have the
- 10 entire testimony of Mr. Hill with the attached
- 11 schedules made an exhibit so that we do have a complete
- 12 record of what was presented by Mr. Hill in the
- 13 California proceeding.
- 14 JUDGE HAENLE: I don't see at this point how
- 15 that would add to the record, either, Mr. Marshall.
- 16 I'm concerned with balancing a complete record against
- 17 a lot of paper that may not be relevant. And unless
- 18 you can indicate how that would be more relevant, I
- 19 don't see that that's necessary for any of you to argue
- 20 this issue on brief. And I think it might be
- 21 superfluous at best and not relevant except for these
- 22 portions.
- 23 MR. MARSHALL: Again, I would respectfully

- 24 suggest that the relevance would be established and
- 25 would be for the Commission to take into account. This

 WITNESS: CHARLES E. OLSON Redirect by Marshall 4511
 - 1 is an essential part to make the record complete. And
 - 2 we are willing to go along with Mr. Adams' suggestion
- 3 to have that record be made in its entirety so that any
- 4 party can refer to any part of that record that they
- 5 choose to.
- 6 I'm sure the parties will not make undue
- 7 reference to it in their briefs because the briefs
- 8 haven't covered any other issues.
- 9 JUDGE HAENLE: Mr. Adams?
- 10 MR. ADAMS: I did not object to it. I
- 11 didn't agree that it was relevant. I indicated if
- 12 something was going to go in, the whole thing ought to
- 13 go in. I leave it to your Honor whether it is
- 14 relevant. It doesn't appear to me any of this is
- 15 terribly relevant. But if something is going to go in,
- 16 then the whole document ought to go in.
- 17 JUDGE HAENLE: I don't think there has been
- 18 a demonstration that it's relevant or necessary to be
- 19 able for you to make your argument. Your witness has
- 20 already given his testimony about the inference and the
- 21 reason that he drew that inference.
- 22 So, I don't think that that's going to be
- 23 relevant.

- 24 Anything else, Mr. Marshall?
- MR. MARSHALL: Not at this time.

- 1 JUDGE HAENLE: Did you have additional
- 2 questions, Mr. Trotter?
- 3 MR. TROTTER: Just a couple.

- 5 RECROSS-EXAMINATION
- 6 BY MR. TROTTER:
- 7 Q. With respect to your comments about
- 8 recommending this Commission do what the main stream is
- 9 doing with respect to cost of capital, you're referring
- 10 to your source of the main stream as the response to
- 11 2528?
- 12 A. I think they have more information available
- 13 than that. And that isn't my recommendation. It's
- 14 what I said I would do if I were Chairman Nelson.
- 15 Q. I was focusing on what other commissions are
- 16 doing, and we asked you to supply the data of what
- 17 other commissions are doing. And you gave us this
- 18 PUBLIC UTILITIES FORTNIGHTLY article, which was asked
- 19 questions of by your counsel.
- 20 MR. MARSHALL: Actually, I object. The data
- 21 request asked to provide a copy of Page 47 of the
- 22 PUBLIC UTILITY FORTNIGHTLY referred to at Page 3, Lines
- 23 21 through 22. It didn't ask for anything more than

- 24 that. That's Data Request 2528.
- 25 I object that the question mischaracterizes
 WITNESS: CHARLES E. OLSON Recross by Trotter 4513
 - 1 the purpose for which the exhibit was requested by
- 2 Staff.
- JUDGE HAENLE: Mr. Trotter?
- 4 MR. TROTTER: Just a minute.
- JUDGE HAENLE: Thank you.
- 6 MR. MARSHALL: And the testimony at that
- 7 page does speak for itself.
- 8 BY MR. TROTTER:
- 9 Q. When you were talking about the main stream
- 10 of what commissions are authorizing, what information
- 11 in addition to your response to 2528 did you have in
- 12 mind?
- 13 A. Well, I assumed that the Commission can get
- 14 its hands on the reports from Regulatory Research
- 15 Associates and Argus.
- 16 Q. You haven't provided that in this record?
- 17 A. I haven't provided them, but I assume that
- 18 this Commission -- and by the Commission I mean the
- 19 Commission, not the Staff -- is not without resources
- 20 and that they have the ability on their own to get that
- 21 kind of information.
- Q. Okay. Would you accept that Chesapeake and
- 23 Potomac Telephone is AA rated by stops?

- A. Yes, they are AA rated.
- Q. And Wisconsin Electric is AA plus?

WITNESS: CHARLES E. OLSON - Recross by Trotter 4514

- 1 MR. MARSHALL: Objection. Repetitive. Mr.
- 2 Trotter asked this earlier yesterday.
- 3 MR. TROTTER: I asked Wisconsin Electric. I
- 4 did not ask Chesapeake.
- 5 BY MR. TROTTER:
- 6 Q. Would you accept that Potomac Edison is
- 7 double A minus?
- 8 A. Yes.
- 9 Q. And Delmarva A plus?
- 10 A. Yes.
- 11 Q. GTE North is double A?
- 12 A. Yes.
- MR. TROTTER: One other question, your
- 14 Honor, was one I should have followed up first. If
- 15 counsel objects, that's fine.
- 16 BY MR. TROTTER:
- 17 Q. Am I correct that the cost of service
- 18 companies that you talked about yesterday were
- 19 companies that owned nuclear plants and their role in
- 20 life was to operate those plants and sell it to a
- 21 consortium of utilities that owns them?
- 22 A. They do presently own nuclear plants, and
- 23 that is the arrangement, yes.

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MR. TROTTER: Nothing further.
25
               JUDGE HAENLE: Did you have anything else,
        WITNESS: CHARLES E. OLSON - Recross by Trotter
                                                           4515
    Mr. Furuta?
               MR. FURUTA: No, your Honor.
 2
 3
               JUDGE HAENLE: Anything else, Mr.
 4
    Richardson?
 5
               MR. RICHARDSON: No.
 6
               JUDGE HAENLE: Mr. Adams?
 7
               MR. ADAMS: No.
 8
               JUDGE HAENLE: Anything else of the witness?
 9
               MR. MARSHALL: No.
10
               Commissioners, anything else?
11
               Go ahead and step down. Let's go off the
12
    record to change witnesses, please.
                (Discussion held off the record.)
13
14
                (Marked Exhibits T-929, 930, 931 and 932)
15
               JUDGE HAENLE: Let's be back on the record.
16
               During the time we were off the record a new
17
    witness has assumed the stand. Would you raise your
    right hand, please.
18
19
20
                     LAURA J. RITTENHOUSE,
               witness herein, being first duly
21
22
                sworn, was examined and testified
23
                           as follows:
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- JUDGE HAENLE: Also during the time we were
- off the record, I marked a number of documents for

WITNESS: CHARLES E. OLSON - Recross by Trotter 4516

- 1 identification as follows: Marked as Exhibit T-929 for
- 2 identification, LJR-1, 28 pages of prefiled testimony;
- 3 LJR-2 is two pages, Exhibit 930;
- 4 LJR-3 is eight pages, 931;
- 5 And LJR-4 is four pages, 932.
- 6 Your witness has been sworn, Mr. Marshall.

- 8 DIRECT EXAMINATION
- 9 BY MR. MARSHALL:
- 10 Q. Miss Rittenhouse, do you have before you
- 11 what has been marked for identification as Exhibit
- 12 T-929?
- 13 A. Is that the very first exhibit?
- 14 JUDGE HAENLE: Let's go off the record so
- 15 the witness can mark hers as well.
- 16 (Discussion held off the record.)
- JUDGE HAENLE: Let's be back on the record,
- 18 please.
- 19 During the time we were off the record, we
- 20 finished marking the exhibits.
- 21 Go ahead, Mr. Marshall.
- 22 BY MR. MARSHALL:
- Q. Do you recognize Exhibit T-929 as your

- 24 prefiled rebuttal testimony?
- 25 A. Yes.

- 1 Q. Do you have any additions or corrections to
- 2 make to that exhibit?
- 3 A. No, I do not.
- 4 Q. If I asked you the questions set forth in
- 5 Exhibit 929 today, would you give the answers as set
- 6 forth in that exhibit?
- 7 A. Yes, I would.
- 8 Q. Do you have before you what has been marked
- 9 as Exhibits 930, 931, and 932?
- 10 A. Yes, I do.
- 11 Q. Were those exhibits prepared under your
- 12 direction and supervision?
- 13 A. Yes, they were.
- 14 Q. Do you have any corrections or additions to
- make to Exhibits 930 to 932 at this time?
- 16 A. No, I do not.
- 17 Q. Are those exhibits true and correct to the
- 18 best of your knowledge?
- 19 A. Yes, they are.
- 20 MR. MARSHALL: We move for the admission of
- 21 Exhibit T-929 and Exhibits 930, 931, and 932, and Miss
- 22 Rittenhouse is available for cross-examination.
- JUDGE HAENLE: Any objection, Mr. Trotter?

- MR. TROTTER: Yes, your Honor. Objections
- 25 are on Page 23 and 24 of the testimony. Page 23, Line

- 1 12, the witness refers to another person and makes a
- 2 conclusion regarding how that person interpreted Mr.
- 3 Elgin's testimony, although I'm not sure it was
- 4 testimony.
- 5 In any event, our objection is this is
- 6 hearsay. It's clearly being offered for the truth, and
- 7 we have no basis on which to cross-examine other than
- 8 to elicit more hearsay.
- 9 The second objection --
- JUDGE HAENLE: So, the part you object to, I
- 11 assume, would be the top of Page 24?
- MR. TROTTER: Line 12 through Line 15.
- 13 JUDGE HAENLE: Okay. I see. Go ahead.
- MR. TROTTER: And then on Page 24, the
- 15 sentence that starts on Line 1 through Line 4. Again,
- 16 the witness is talking about interpretations by other
- 17 attendees, and those are based on hearsay, and we don't
- 18 have those people here.
- 19 That's our objection. We note there are
- 20 many other places here where the witness refers to
- 21 statements of Mr. Elgin and we're not going to object
- 22 to those. We'll at least have a chance to discuss
- 23 those with the witness.

- 24 But this is testimony based on hearing
- 25 statements for which we have no ability to

- 1 cross-examine those people.
- JUDGE HAENLE: Mr. Marshall?
- 3 MR. MARSHALL: I have a couple responses.
- 4 First, this is not hearsay because it goes to the state
- 5 of mind and not necessarily to the truth of the matters
- 6 asserted is what the statements are.
- 7 But as to the response to statements, the
- 8 responses were to statements made by a person who is
- 9 available for cross-examination, Mr. Elgin.
- 10 Secondly, hearsay, relevant hearsay, is
- 11 admissible in administrative proceedings. Nisqually
- 12 Delta case, 103, Washington 2nd, 720, WAC 480-09-75,
- 13 "Relevant evidence is admissible in the discretion of
- 14 the presiding officer."
- On those two bases, first, it is not
- 16 hearsay. State of mind, and relevant hearsay is
- 17 admissible in administrative proceedings. I submit
- 18 these statements are proper.
- 19 JUDGE HAENLE: Any brief response?
- 20 MR. TROTTER: The fact it can be admitted
- 21 doesn't mean it has to be.
- 22 And, secondly, they are here to buttress
- 23 this witness's testimony, which she has sworn is true.

- 24 And so they were offered as true of the matter
- 25 asserted.

- 1 JUDGE HAENLE: Mr. Adams, any objection to
- 2 all the documents?
- 3 MR. ADAMS: No objection to the documents,
- 4 but I would agree that the particular cited portions
- 5 are objectionable.
- 6 JUDGE HAENLE: All right.
- 7 Any response to that, Mr. Marshall? I
- 8 assume you have given your response?
- 9 MR. MARSHALL: Yes, I have.
- 10 JUDGE HAENLE: Mr. Furuta, any objection to
- 11 any of the documents?
- MR. FURUTA: No, your Honor.
- JUDGE HAENLE: Mr. Richardson, any
- 14 objection?
- MR. RICHARDSON: No, your Honor.
- 16 JUDGE HAENLE: I'm going to grant the motion
- 17 to strike the two portions, to not enter them into the
- 18 record, to delete them from the document, before the
- 19 document is entered into the record.
- 20 This witness can testify fully about her own
- 21 impressions given after hearing these comments, but I
- 22 have a strong concern that the persons that she is
- 23 referring to are not available for cross-examination,

- 24 and it is my impression, also, that the Company is
- 25 offering this testimony for the purpose of having the

- 1 Commission believe that the testimony given is true,
- 2 not for any kind of state of mind.
- 3 So, I'm going to enter the documents into
- 4 the record, T-929 except for Page 23, Lines 12 through
- 5 15, and except for Page 24, Line 1, beginning "These
- 6 comments," through the end of Line 5. And then I have
- 7 entered 930, 931, and 932.
- 8 (Received Exhibits T-929, 930, 931 and 932)
- 9 JUDGE HAENLE: Anything else, Mr. Marshall?
- MR. MARSHALL: No.
- JUDGE HAENLE: Mr. Trotter?
- 12 MR. TROTTER: Thank you.

- 14 CROSS-EXAMINATION
- 15 BY MR. TROTTER:
- 16 Q. Good morning.
- 17 A. Good morning.
- 18 Q. You have indicated in your testimony that
- 19 you reviewed the direct testimony and cross of Mr.
- 20 Elgin as well as the exhibits that he sponsored; is
- 21 that right?
- 22 A. That's right.
- Q. What other parts of the record have you

- 24 reviewed for purposes of your testimony?
- 25 A. I reviewed the rebuttal testimony offered by
 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4522
 - 1 various Company witnesses as well.
- 2 Q. Is that it?
- 3 A. Yes.
- 4 Q. So, Mr. Elgin was the only Staff testimony
- 5 that you reviewed?
- 6 A. I reviewed the others, but I reviewed his in
- 7 detail. That's the testimony I'm prepared to comment
- 8 on.
- 9 Q. What about other intervenors? Did you look
- 10 at theirs?
- 11 A. No, I haven't. Again, I skimmed them, but I
- 12 am not prepared to speak to them in detail.
- 13 Q. Those other testimonies didn't form the
- 14 support for your testimony?
- 15 A. The support for my testimony is primarily on
- 16 the question of whether the Company adequately conveyed
- 17 the message of the PRAM to investors. That's the part
- 18 of the testimony for which I am prepared to speak.
- 19 Q. And are you familiar with this Commission's
- 20 order on conservation incentives?
- 21 A. I am familiar with the order.
- Q. Have you read it?
- 23 A. I have not read it in detail. I'm familiar

- 24 with what it intends to produce.
- Q. And you are familiar with the PRAM 2 order?

 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4523
- 1 A. Yes, I am.
- 2 Q. In that regard, the Commission identified
- 3 several issues that it wanted to be addressed in this
- 4 case, did it not?
- 5 A. Excuse me. Could you repeat the question?
- 6 Q. In that record, the PRAM 2 order, the
- 7 Commission identified several issues that it wanted to
- 8 be addressed in this case, did it not?
- 9 A. It did, yes.
- 10 Q. Are you aware that Puget filed supplemental
- 11 testimony after it filed its direct case last October?
- 12 A. I'm aware of that.
- Q. Do you know the circumstances of that?
- 14 A. Refresh my memory as to the date of that
- 15 supplemental order.
- 16 Q. The supplemental testimony I believe was in
- 17 January.
- 18 A. Right. Of '93?
- 19 Q. Yes.
- 20 A. I'm thinking of the testimony that was filed
- 21 in September of '92. I may be getting those confused.
- Q. So, you're unfamiliar with any testimony
- 23 that was filed in January of 1993 by the Company?

- 24 A. I am certainly not familiar in detail with
- 25 it, yes.

- 1 Q. You're not familiar with the circumstances
- 2 under which it was filed, the reason why it was filed?
- 3 A. I will have to say I'm not.
- 4 Q. Turn to Page 17 of your testimony. And on
- 5 Line 19 you indicate, "Mr. Elgin also has recommended
- 6 more changes to PRAM, but has done no sensitivity
- 7 analysis to determine what impact these changes would
- 8 have on earnings."
- 9 Do you see that?
- 10 A. Yes, I do.
- 11 Q. And by "changes," you're referring to the
- 12 base/resource split?
- 13 A. That's correct.
- 14 Q. You're not offering an accounting evaluation
- 15 of that issue, are you?
- 16 A. Absolutely not.
- 17 Q. And the Commission did order that issue to
- 18 be addressed in this docket?
- 19 A. Yes.
- 20 Q. Mr. Elgin and Mr. Martin both testified that
- 21 the base/resource split should be a principal division
- 22 and if a multiplier were needed, the Company should
- 23 justify it. Isn't that correct?

- MR. MARSHALL: I object to the
- 25 characterization of that. I don't think the direct

- 1 testimony does state that.
- 2 BY MR. TROTTER:
- 3 O. Let me ask the witness that:
- 4 Do you recall whether or not Mr. Elgin and
- 5 Mr. Martin testified that the base/resource split
- 6 should be a principal division and that if a multiplier
- 7 is needed the Company should justify it?
- 8 A. Could you repeat it? I'm having trouble
- 9 hearing you.
- 10 Q. Sorry. Do you recall whether or not Mr.
- 11 Elgin and Mr. Martin testified that the base/resource
- 12 split should be a principal division, and if a
- 13 multiplier is needed the Company should justify it?
- 14 A. I do not recall that specific topic. What I
- 15 recall is the general conversation about questions
- 16 underlying the allocation of base and resource costs.
- 17 Q. You don't recall any discussion about the
- 18 multiplier?
- 19 MR. MARSHALL: Could counsel refer to the
- 20 page in the direct testimony of those two witnesses?
- 21 MR. TROTTER: I'm testing this witness's
- 22 recollection. If she doesn't recall any mention of it,
- 23 then she doesn't recall any mention of it.

- JUDGE HAENLE: That's going to make the
- 25 questions moot. If she doesn't recall anything he

- 1 won't be able to continue anyway.
- 2 MR. MARSHALL: I would just like the
- 3 reference to see for redirect whether there is any
- 4 mention in the direct testimony. So, if there is a
- 5 page that counsel has in mind, I think that it would be
- 6 proper to have that.
- 7 MR. TROTTER: We'll provide it at the break.
- JUDGE HAENLE: Ma'am, do you recall?
- 9 THE WITNESS: I do not recall.
- 10 BY MR. TROTTER:
- 11 Q. You didn't review any principles on this,
- 12 the base issue?
- 13 A. I did not review the intervenor testimony on
- 14 this principle.
- 15 Q. Turn to Page 3 of your testimony. On Line
- 16 2, I guess it starts on Page 2 on the bottom and moves
- 17 over, but you refer to a new standard on what qualifies
- 18 as a prudent new resource. Do you see that?
- 19 A. "To adopt a vague new standard on what
- 20 qualifies as a prudent new resource."
- 21 Q. Could you tell us what the old standard was
- of prudence?
- 23 A. The interpretation that I have as to what

- 24 qualified in a prudent new resource was one which had
- 25 been discussed within the least-cost resource plan that

- the Company has approved by the Commission and among
- 2 groups concerned with that least-cost resource plan.
- 3 And the interpretation of that was that when
- 4 everyone has agreed on what constitutes that new
- 5 resource under that plan and following the concerns
- 6 expressed by the Staff, the Commission, and so on, that
- 7 that would be deemed prudent.
- 8 Q. You weren't relying then on any Commission
- 9 orders on the standard for prudence, orders in
- 10 contested cases?
- 11 A. I could not cite -- the answer to -- the
- 12 answer to your question is I could not cite specific
- 13 orders.
- Q. Did you review the Company's response to
- 15 Staff's data requests or data requests by other parties
- on the issue of prudence of a new resource?
- 17 A. No.
- 18 Q. What new power supply resources is Staff
- 19 recommending denial on prudence grounds?
- 20 A. The answer to your question is I'm not aware
- 21 that there are any specific denials of recovery, but
- 22 questions have been raised -- were raised in the
- 23 testimony which I reviewed which suggested that the

- 24 belief that because there was an understanding of
- 25 approval under the least-cost plan that it was not

- 1 necessarily prudent.
- 2 Q. In its PRAM 2 order, prudence was one of the
- 3 issues the Commission asked the parties to address in
- 4 this case. Is that right?
- 5 A. That's right.
- 6 Q. Turn to Page 15. And here you're referring
- 7 to Exhibit 699, which was sponsored by Mr. Elgin or
- 8 which was an exhibit in which Mr. Elgin analyzes
- 9 certain financial reports and communications.
- 10 A. That's right.
- 11 Q. And one item he mentioned in that exhibit
- 12 was that Puget did not decouple its financial
- 13 statements. Do you recall that?
- 14 A. My recollection is that he -- that the
- 15 reference was to an analyst who in their testimony or
- in their written report said that they had decoupled
- 17 their --
- 18 Q. That's not what I was referring to.
- 19 A. Okay.
- Q. Do you recall in Exhibit 699 that Mr. Elgin
- 21 said that, apart from anything reported, that Puget did
- 22 not decouple its financial statements?
- 23 A. Oh, decouple the financial statements. I

- 24 recall that, yes.
- Q. Puget has not decoupled its financial
 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4529
- 1 statements, has it?
- 2 A. Is that a question you're asking?
- 3 O. Yes.
- 4 A. Puget has not decoupled their financial
- 5 statements. It's not clear to me why they would be
- 6 doing so as a financial analyst.
- 7 Q. Are you aware of any document in which Puget
- 8 has computed the impact of PRAM deferrals on an
- 9 earnings per share basis?
- 10 A. Are you speaking of public documents within
- 11 this rate case? Or other documents?
- 12 Q. Other documents.
- 13 A. They have -- repeat the question again.
- 14 Q. The impact of PRAM deferrals on an earnings
- 15 per share basis.
- 16 A. They have, yes, they have. I can't cite
- 17 them, but I know I have seen -- and had discussions
- 18 with the Company about the PRAM deferrals and how that
- 19 would affect earnings.
- 20 Q. Various witnesses in this case have computed
- 21 that to be around \$.50 a share. Do you agree with
- 22 that? For 1992?
- 23 A. If that's what our witnesses have testified

- 24 to, then -- I have not done a separate analysis myself
- 25 to confirm that.

- 1 Q. Is that the figure that you have seen in
- 2 Puget's computations for the impact of deferrals on
- 3 earnings per share for 1992?
- 4 A. Again, I cannot cite the reference, but my
- 5 recollection is yes.
- 6 MR. TROTTER: Your Honor, I would just ask
- 7 that if counsel --
- 8 BY MR. TROTTER:
- 9 Q. Have you provided that document to us in any
- 10 data request that you're aware of?
- 11 A. I'm sorry. Could you tell me what --
- 12 Q. The document that had that computation, the
- 13 fifty cents per share.
- 14 A. No, I have not supplied that. And I could
- 15 tell you that, again, my recollection is I have read
- 16 it, but I could not cite to you exactly which document
- 17 that came from.
- 18 Q. On Page 18 of your testimony -- and I
- 19 believe it's at the bottom of the page going over to
- 20 the next page -- you state that "Investors view
- 21 PRAM/decoupling as increasing regulatory risk, but
- 22 without any upside potential for increased earnings in
- 23 years of good hydro or cold winters."

- 24 Do you see that?
- 25 A. Do I see that?

- 1 Q. Yes.
- 2 A. I see that, yes.
- 3 Q. Are you saying they prefer Puget without a
- 4 PRAM?
- 5 A. Excellent question. The answer to your
- 6 question is no. But I need to qualify that and explain
- 7 what I mean by no. And it allows me to tell you one
- 8 reason why I'm very pleased to be here today. And that
- 9 is to be able to acknowledge to the Commission and to
- 10 all the people involved in the development of the PRAM
- 11 how favorably it has been viewed by investors. And in
- 12 making that statement, I need to qualify that by making
- 13 a distinction between the process of the PRAM and the
- 14 results of the PRAM.
- When I speak to the process of the PRAM,
- 16 what I mean is the collaborative process in which the
- 17 PRAM was derived through the working together of all
- 18 the interested parties, through the determination of a
- 19 new -- in a sense a new regulatory order, new
- 20 regulatory compact, a way to view regulation, that the
- 21 investors, the investors I have spoken with, saw as
- 22 very different from the way in which regulatory policy
- 23 has been developed in the past, which has been through

- 24 a more adversarial process.
- 25 And investors in the meetings which we held
 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4532
- 1 with investors around the country uniformly
- 2 acknowledged how important they felt this development
- 3 was and that it almost represented a new --
- 4 break-through in regulatory policy.
- 5 At the same time that investors were
- 6 impressed, appreciative, and certainly approving of the
- 7 PRAM, there was a skepticism expressed as well, and
- 8 the skepticism relates to the results of the PRAM.
- 9 While it established a new mechanism, while
- 10 it was done in a way that hadn't really ever been done
- 11 before in a regulatory proceeding, the result as to
- 12 whether the PRAM would work according to the rules
- 13 which had been established would only be borne out
- 14 through time and through the operation of the PRAM.
- So, while they were genuinely impressed with
- 16 the PRAM, there was a wait and see attitude as to just
- 17 how the new order would evolve and how it would be
- 18 realized in the results.
- 19 So, when I say that investors view
- 20 PRAM/decoupling as increasing regulatory risk but
- 21 without the upside, what I'm referring to there is,
- 22 again, in understanding the PRAM, really the two
- 23 significant elements that investors were interested in:

- 24 Number one, the fact that the PRAM allowed for the
- 25 continuation of the ECAC mechanisms in a form that

- 1 investors had come to rely on under the old ECAC
- 2 procedures;
- 3 But, two, it acknowledged the move by the
- 4 Company and the various parties to work collaboratively
- 5 to support the whole conservation effort and as a way
- 6 to meet the growth needs of Puget and to be able to do
- 7 so in a way that was socially beneficial, but recognize
- 8 that there were financial disincentives under current
- 9 regulation to proceed with a significant conservation
- 10 investment.
- 11 And what PRAM allowed was the decoupling of
- 12 this, to remove those financial disincentives.
- 13 Again, the recognition that this was a new
- 14 way to proceed to include social policy with financial
- 15 policy, but investors again were going to wait to see
- 16 exactly how that would be determined in the operation
- 17 of the PRAM.
- 18 Q. So, investors are not indifferent about the
- 19 PRAM, are they?
- 20 A. Investors are definitely -- well, they are
- 21 definitely not indifferent.
- Q. Would you agree that the PRAM provides
- 23 greater stability for Puget's earnings streams than if

- 24 it did not have such a mechanism?
- 25 A. I would agree that it provides more
 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4534
 - 1 stability. That's not necessarily less risk, but more
- 2 stability. And it is viewed, again, by the investors
- 3 with whom I speak, as providing that benefit.
- 4 Again, I want to distinguish between
- 5 earnings stability and perceived risk.
- 6 Q. Does PRAM have a damping effect on long-term
- 7 earnings per share growth?
- 8 A. The question is does PRAM have a dampening
- 9 effect on long-term earnings growth? That question
- 10 refers to the comment on the latter part of your
- 11 highlighted testimony without any upside potential for
- 12 increased earnings.
- 13 By agreeing to the decoupling and to
- 14 removing the incentive to sell more power, there is an
- 15 upside that the Company has under the PRAM that it does
- 16 not have.
- 17 Q. So, there is a dampening effect on long-term
- 18 earnings per share growth?
- 19 A. Yes.
- 20 Q. Turn to Page 14 of your testimony. And here
- 21 you refer to an article by Cheryl Richer from stops in
- 22 which she concludes that recovery of PRAM balances is
- 23 being extended or shaved and the mechanisms are being

- 24 reexamined; is that correct?
- 25 A. Is it correct that I refer to Cheryl
 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4535
 - 1 Richer's article which describes this?
 - 2 Q. Yes.
 - 3 A. Yes, that's true.
 - 4 Q. You agree on Lines 14 through 17 that PRAM
 - 5 balances were ultimately extended from one to two years
 - 6 and over \$9 million of the PRAM balances were, in fact,
 - 7 shaved?
 - 8 A. I do agree with that.
- 9 Q. The \$9 million is in the chart below, the
- 10 \$9.45 million?
- 11 A. That's right.
- 12 Q. When you use PRAM balances on Line 16, are
- 13 you referring to deferrals only? Or what?
- 14 A. I can't answer that question. I would have
- 15 to go back to review my notes.
- 16 Q. You don't recall from your understanding of
- 17 the PRAM 2 order whether those were deferred balances
- 18 or projected amounts?
- 19 A. I would like to get back to you on that.
- Q. Let's talk about the \$5.2 million
- 21 adjustments to future PRAMs.
- Do you see that on Line 20 to 21?
- 23 A. Right, I do.

- Q. Now, the adjustments in the \$5.2 million
- 25 category were to bring the Company's filing for

- 1 specific purchased power expenses into line with its
- 2 expected actual costs, not to subtract or add from
- 3 current deferred or future deferred balances. Isn't
- 4 that right?
- 5 A. Could you repeat the question, please?
- 6 Q. The adjustments in the \$5.2 million category
- 7 were to bring the Company's filing for specific
- 8 purchased power expenses into line with its expected
- 9 actual costs, not to add or subtract from current
- 10 deferred or future deferred balances; is that correct?
- 11 A. I believe that it is.
- 12 Q. And one of the adjustments to the future
- 13 PRAM involved substituting the Company's estimate for
- 14 purchases from Pacific Power and Light to the actual
- 15 figure. And the actual figure was lower than the
- 16 Company's estimate; is that correct?
- 17 A. Again, I have to refer to my notes. I hope
- 18 you'll excuse me. I arrived this morning at 3:00 a.m.
- 19 So, my brain isn't functioning as much as it could.
- Q. Will you accept that subject to check?
- 21 A. I would like to check that, yes.
- Q. Would you accept that the PP and L energy
- 23 rate was actually decreasing rather than increasing as

- 24 the Company had originally estimated?
- 25 A. Again, I would like to check that, please.

 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4537
- 1 Q. Would you accept that this adjustment
- 2 amounted to approximately \$2.8 million of the \$5.2
- 3 million shown on the chart on Page 14?
- 4 MR. MARSHALL: Your Honor, I guess I would
- 5 object to the relevancy. These are just quotations out
- 6 of the order itself. What went into the order is
- 7 really not at issue. It was what was stated in the
- 8 order that seems to be relevant. I don't know why
- 9 we're going through computations in PRAM 2.
- 10 MR. TROTTER: The reason we're going through
- 11 them, your Honor, is this witness has testified PRAM
- 12 balances were, in fact, shaved. And we're attempting
- 13 to show that they weren't in the manner that this
- 14 witness is suggesting. These were true-ups to actual
- 15 costs in certain of these adjustments, not denial of
- 16 incurred costs.
- I think that's a very important distinction.
- 18 She calls these cost disallowances on Line 17. I think
- 19 we're entitled to cross her on that issue.
- JUDGE HAENLE: Mr. Marshall?
- 21 MR. MARSHALL: The reference to the \$5.2
- 22 million Winterfeld Adjustments to future PRAMs speaks
- 23 to the order, and the order speaks for itself.

- 24 JUDGE HAENLE: I believe counsel is entitled
- 25 to test the witness's knowledge and basis for the

- 1 testimony. I believe he is doing that appropriately.
- 2 MR. ADAMS: The witness several times now
- 3 has responded: "I would like to check that." I didn't
- 4 know if that meant -- or no response. I just didn't
- 5 know where we were in the record.
- JUDGE HAENLE: We do need to clarify that.
- 7 THE WITNESS: Thank you for that
- 8 clarification. That is a no response and I would like
- 9 to check that.
- 10 JUDGE HAENLE: Subject to check means that
- 11 you are accepting the figure for purposes of the
- 12 question, and if you do not get back to us indicating
- 13 the figure is incorrect or the statement is incorrect
- 14 that it will stand in the record as correct.
- 15 We do it in that manner so that you have the
- 16 opportunity to check, but we also have a record. If
- 17 you say, no, you will not accept those, we don't have
- 18 any way for you to go now and get your notes and, you
- 19 know, without bringing your entire office to the
- 20 hearing here to be sure you have your backup, it's
- 21 really the only way we can question.
- 22 So, what we would ask you to do is to keep a
- 23 record of the questions that are being asked -- Mr.

- 24 Marshall can help you with that -- and to check them
- 25 when you have the opportunity. But we would ask you to WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4539

- 1 accept them subject to check unless you feel they are
- definitely wrong because that's the only way we would
- 3 be able to question. Otherwise, the question grinds to
- 4 a halt because you don't have your backup material.
- 5 THE WITNESS: Just to clarify, the questions
- 6 Mr. Marshall is recording, these would be questions
- 7 that we would review subject to check, and they would
- 8 then be verified that the testimony that I'm giving --
- 9 JUDGE HAENLE: What happens is that you
- 10 check them. You let Mr. Marshall know. If there are
- 11 mistakes in the figures or the statements that Mr.
- 12 Trotter has given you, you need to correct those. Mr.
- 13 Marshall transmits those corrections to us then.
- 14 THE WITNESS: That's acceptable, yes.
- JUDGE HAENLE: And the questions that you
- 16 have already answered, you would accept subject to
- 17 check, knowing that you can go back then, transmit
- 18 those to Mr. Marshall if they are incorrect, otherwise
- 19 they will stand as asked. Is that acceptable?
- THE WITNESS: Yes.
- JUDGE HAENLE: Thank you for that. That's
- 22 an excellent comment, Mr. Adams.
- 23 MR. TROTTER: I just have a couple more

- 24 questions on this line.
- JUDGE HAENLE: Okay.

- 1 BY MR. TROTTER:
- 2 Q. In preparing your testimony in determining
- 3 cost disallowances, did you go through each of the
- 4 adjustments that you refer to and determine which were
- 5 adjustments that denied the Company the costs that were
- 6 actually incurred versus attempts to set the amounts
- 7 consistent with what the Company was actually paying or
- 8 to update to more current estimates?
- 9 A. So, the question -- could you repeat the
- 10 question, please?
- 11 Q. I'm sorry. When you did your analysis here
- 12 in characterizing these adjustments as cost
- 13 disallowances, did you make a distinction between
- 14 adjustments that were truing up to be closer to what
- 15 the Company was actually incurring versus a denial of
- 16 costs that the Company had actually incurred but was
- 17 not going to be recovered?
- 18 A. No, I did not.
- 19 Q. Did you know that the \$3 million adjustment
- 20 on Line 19 dealt in part with a San Diego Gas and
- 21 Electric contract?
- 22 A. I recollect that, yes.
- 23 Q. And those costs had not been projected for

- 24 PRAM 1; is that correct?
- 25 A. Actually, I need to retract what I just said
 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4541
 - 1 because I'm confusing this with a different reference.
 - 2 I would like to say I do not recollect that, and I
- 3 cannot answer that question.
- 4 Q. Okay. Just one last question on this line:
- 5 You show a base cost revision of \$1.3 million on Line
- 6 21. \$1.284 million. Do you see that?
- 7 A. Yes, I do.
- 8 Q. And that dealt with the Pebble Springs
- 9 issue; is that right?
- 10 A. Yes.
- 11 Q. And the Company in this case is accepting
- 12 treatment of the nuclear plant abandonment as an
- 13 acceptable modification to the PRAM; is that correct?
- 14 A. Yes.
- 15 Q. There is still Skagit-Hanford?
- 16 A. Right.
- 17 Q. Are you aware of whether the Company
- 18 supported that recommendation with a financial
- 19 analysis?
- 20 A. Am I aware if the Company supported the
- 21 recommendation of the base cost reduction of the
- 22 Skagit, Hanford, Pebble Springs, et cetera, and whether
- 23 I am aware of what they used to support that? I am not

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25
               MR. TROTTER: This is an appropriate point
       WITNESS: LAURA J. RITTENHOUSE - Cross by Trotter 4542
    to break.
 2
               JUDGE HAENLE: Okay. Let's break for lunch
 3
    at this point. We'll be back at 1:30 and continue
    questioning the witness.
 5
                (At 12:00 noon the above hearing was
    recessed until 1:30 p.m. of the same day.)
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24 aware of that.

24
25 OLYMPIA, WASHINGTON; WEDNESDAY, JULY 21, 1993
4543
1 1:30 P.M.
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4 JUDGE HAENLE: Let's be back on the record

- 5 after our lunch recess.
- Go ahead, Mr. Trotter.

7

- 8 CROSS-EXAMINATION
- 9 (continued)
- 10 BY MR. TROTTER:
- 11 Q. Could you turn to Page 19 of your testimony,
- 12 Line 20. And you state there that before PRAM was
- 13 inaugerated in April 1991, Puget's stock traded below
- 14 that of comparable trading companies both in terms of
- 15 price appreciation and market-to-book ratio.
- 16 Do you see that?
- 17 A. Yes, I see that.
- 18 Q. What period of time are you referring to
- 19 when you say before PRAM was inaugerated in April '91?
- 20 A. That goes back to December of 1987.
- 21 Q. And you go on to testify here that after
- 22 April '91 until about mid '92, Puget's value increased
- 23 relative to the other companies and traded virtually in

- 24 line with them.
- 25 Do you see that?

- 1 A. Yes, I do.
- 2 Q. Do you attribute this improvement in Puget's
- 3 stock price to the PRAM that was inaugerated in '91, in
- 4 April?
- 5 A. I attribute that change to two factors. One
- 6 is the PRAM, and as I stated before, the favorable
- 7 reception that investors gave to the process, the
- 8 collaboratively evolved process, which resulted in the
- 9 PRAM.
- 10 And it also refers to the formal program of
- 11 investor relations that the Company inaugerated around
- 12 that time, which is the time which my association with
- 13 the Company as their investor relations advisor began.
- Q. Would it be fair to say that investors
- 15 perceived PRAM as an improvement over ECAC?
- 16 A. In my opinion it is not fair to say that
- 17 investors, given the fact of where Puget's stock traded
- 18 relative to these comparable trading companies, it's
- 19 not fair to say that investors viewed PRAM as favorable
- 20 to ECAC because PRAM is more than the ECAC.
- 21 I would say that the ECAC was certainly
- 22 viewed favorably, as are other fuel adjustment clauses
- 23 in the utility industry. And the extent to which the

- 24 PRAM continued the adjustment mechanisms that had been
- 25 established in the ECAC, that was certainly viewed

- 1 favorably.
- 2 Q. I asked you what period of time you're
- 3 referring to when you talked about before PRAM was
- 4 inaugerated, and you said from December '87; is that
- 5 right?
- A. I said December '87 because that's the time
- 7 at which I began my analysis of looking at how Puget's
- 8 stock has traded relative to these peer group
- 9 companies.
- 10 Q. Your point here was, I guess, between
- 11 December of '87 and April of '91, Puget's stock traded
- 12 below that of comparable trading companies in terms of
- 13 price appreciation and market-to-book ratio?
- 14 A. From 1987 until roughly around the
- 15 introduction of the PRAM.
- 16 Q. And Puget had an ECAC during the period
- 17 December '87 through whenever it terminated in January
- 18 of '90; is that right?
- 19 A. That's correct. But this is also the time
- 20 period when Puget had the recovery from the nuclear
- 21 plant construction program, and it was engaged in
- 22 rebuilding their book value during that time.
- Q. You state on Page 18 that investors saw

- 24 PRAM/decoupling as continuing the ECAC status quo with
- 25 a potential for PRAM/decoupling to have additional

- 1 benefits.
- 2 What additional benefits are you referring
- 3 to there?
- 4 A. The benefits I'm referring to there are the
- 5 earnings stability that would result from having
- 6 decoupling as well as the potential for incentives
- 7 earned from conservation.
- 8 Q. On Page 20 of your testimony in the answer
- 9 on Line 12, you say, "Another performance measure used
- 10 in the investor relations program is a comparison over
- 11 time between Puget's actual market price and a fair
- 12 market valuation range. Puget's fair market valuation
- 13 range is based on the average dividend yield and price
- 14 earnings multiples of comparable trading companies."
- Did I quote you correctly?
- 16 A. Yes, you have read the testimony correctly.
- Q. When you refer to "comparable trading
- 18 companies," are you talking about companies of
- 19 comparable risk?
- 20 A. I'm referring to companies of comparable
- 21 credit quality, comparable generation mix, comparable
- 22 capitalization. Those would be the principal
- 23 considerations in choosing these companies.

- So, to answer your question, risk in terms
- 25 of credit quality.
 - WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4547
- 1 Another important consideration is dividend
- 2 pay-out ratio.
- 3 Q. Okay. Is there any logic to comparing
- 4 Puget's dividend yield to that of companies which are
- 5 not of comparable risk?
- 6 A. I would not do that.
- 7 Q. So, your comparable trading companies, in
- 8 your view, were of comparable risk?
- 9 A. Yes.
- 10 Q. You would agree, wouldn't you, that two
- 11 companies can be of comparable risk and have different
- 12 dividend yields?
- 13 A. To the extent that dividend yield is a
- 14 function of current expectations, that's true. But to
- 15 the extent that there are other considerations that
- 16 investors factor into their analyses, that may not
- 17 hold. But I would look certainly at dividend yield as
- 18 a measure of Puget's comparable risk.
- 19 Q. Would you agree that companies that have the
- 20 same equity capitalization rate are of comparable risk?
- 21 A. Yes; along with other factors. It's not the
- 22 only thing that you would look at, but that's certainly
- 23 a factor.

- Q. Isn't the equity capitalization rate the sum
- 25 total of all factors that investors factor into an

- 1 investment under DCF theory?
- 2 A. When you say "capitalization rate," do you
- 3 mean the actual capitalization -- the equity in the
- 4 capital structure?
- 5 Q. No.
- 6 A. You're considering return on equity?
- 7 Q. Equity capitalization rate as that
- 8 terminology is used in the DCF model.
- 9 A. I would not answer that question because it
- 10 refers to cost of capital testimony and considerations
- 11 which I'm not prepared to get into at this time, in
- 12 this testimony.
- 13 Q. Assume that two companies had the same
- 14 investors' required return on equity of ten percent.
- 15 Company A, ten percent; Company B, ten percent. Do you
- 16 have that in mind?
- 17 A. Yes.
- 18 Q. You would agree those two companies were of
- 19 comparable risk?
- 20 A. Yes.
- 21 Q. It's possible for Company A to have a
- 22 dividend yield of seven and a growth rate of three to
- 23 get to that ten percent, while Company B could have a

- 24 yield of eight and a growth rate of two to get to that
- 25 ten percent. Would that be correct?

- 1 A. Again, I would like to comment on this from
- 2 an investor relations perspective rather than DCF.
- 3 Investors, when they make their determinations about
- 4 what companies they want to invest in, will be looking
- 5 at considerations which are different from DCF
- 6 calculations.
- 7 Q. If two companies have different dividend
- 8 yields and are of comparable risk, they by definition
- 9 will not be in the same market valuation range, will
- 10 they?
- 11 A. Could you repeat the question, please?
- 12 Q. If two companies have different dividend
- 13 yields and are of comparable risk, they by definition
- 14 will not be in the same fair market valuation range,
- 15 will they?
- 16 A. Could you tell me when you speak of
- 17 comparable risk your definition of comparable risk?
- 18 Q. The ten percent, Company A/Company B
- 19 situation, that they would both have a common equity
- 20 capital of ten percent; that the market perceives those
- 21 as both having a ten percent common equity.
- MR. MARSHALL: I would have to object to the
- 23 question. I don't know what common equity has to do

- 24 with translating to risk. There are elements of it, of
- 25 course --
 - WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4550
- 1 JUDGE HAENLE: I'll overrule the objection
- 2 and direct the witness to answer.
- 3 Ma'am?
- 4 THE WITNESS: Mr. Trotter, if you could
- 5 repeat the question one more time, please.
- 6 BY MR. TROTTER:
- 7 Q. If two companies have different dividend
- 8 yields and are of comparable risk, they by definition
- 9 will not be in the same fair market valuation range,
- 10 will they?
- 11 A. The way I would answer the question would be
- 12 in terms of the model which I'm using in this investor
- 13 relations approach. So, the way I understand your
- 14 question is you're asking me to respond in terms of a
- 15 DCF approach, which I'm not prepared to answer.
- 16 O. You're not holding yourself out as an expert
- 17 on DCF, are you?
- 18 A. I am not. That is Mr. Olson's opportunity.
- 19 Q. On the top of Page 20 of your testimony, you
- 20 indicate that after mid 1992, when the Commission made
- 21 its mid-course corrections to the PRAM, Puget's
- 22 valuation declined.
- 23 Are you saying that currently investors are

- 24 placing a penalty is not maybe the word, but penalty on
- 25 Puget's stock because of the order last fall?

- 1 A. It is placing a penalty on the stock because
- 2 of the uncertainty that was generated by the order and
- 3 the concerns that investors have about the viability,
- 4 stability, and continuation of the PRAM.
- 5 Q. On Page 25 of your testimony, Line 18 to 19,
- 6 you state: "In financial theory, increased risk
- 7 requires higher equity returns or increased
- 8 capitalization."
- 9 My question to you is: Does it also follow
- 10 that decreased risk requires lower equity returns or
- 11 decreased capitalization?
- 12 A. The answer is, if the decreased risk truly
- 13 results in less risk, then there would not be as much
- 14 equity required.
- 15 Q. On Page 9 of your testimony -- excuse me. I
- 16 have the wrong reference. Page 27. From the prior
- 17 page you're talking about comparison between electric
- 18 and gas utilities.
- 19 And you state on Line 9 through 12, you
- 20 refer to your opinion that purchased gas cost
- 21 adjustment mechanisms operate without qualification.
- 22 My question is: Have you ever been involved
- 23 in a PGA proceeding?

- 24 A. I have not.
- Q. Don't many jurisdictions hold hearings prior
 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4552
- 1 to implementing such adjustments?
- 2 A. I don't know the answer to that question.
- 3 What I do know is that, in the minds of investors, that
- 4 the operations of gas -- purchased gas adjustment
- 5 clauses operate without -- typically operate without
- 6 qualification. And certainly one of the reasons for
- 7 that now is the fact that gas prices are historically
- 8 at low levels.
- 9 Q. So, you weren't relying on any recent
- 10 hearings in this jurisdiction on that issue?
- 11 A. No, I was not.
- 12 Q. Turn to Page 25. And on the bottom of Page
- 13 25 over to the top, you are referring to a statement by
- 14 Mr. Elgin referencing the low-cost purchased hydro
- 15 contracts, the low-cost purchased hydropower contracts
- 16 as more of an asset than liability.
- 17 Purchased power does not appear on Puget's
- 18 balance sheet, does it?
- 19 A. Purchased power does not appear on their
- 20 balance sheet. That's correct.
- 21 Q. Are you aware of any Company witness that
- 22 has characterized these contracts as an asset?
- 23 A. I'm not aware of any Company witnesses who

- 24 have characterized that. I think the important point
- 25 here is that the reading of the testimony was such that

 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4553
 - 1 the contracts certainly are of value to the Company.
- 2 And I know investors certainly view these contracts
- 3 very favorably.
- 4 What was the concern here was that the term
- 5 "asset" seemed to be confused with the asset as on a
- 6 balance sheet.
- 7 I would like to add to this --
- 8 MR. TROTTER: Your Honor, the question was
- 9 whether she was aware of any witness of the Company
- 10 that characterized these contracts as an asset, and I
- 11 think she has answered that fully because it was either
- 12 she didn't or she did.
- JUDGE HAENLE: I agree.
- 14 BY MR. TROTTER:
- 15 Q. Turn to Page 6 if my reference is correct.
- 16 On Line 7 you indicate that the SEC requires disclosure
- 17 of material facts under uniform accounting rules in
- 18 order to allow potential investors to compare publicly
- 19 traded companies fairly.
- 20 My question is: Are you familiar with the
- 21 shaping issue that has arisen in past PRAM proceedings?
- 22 A. I am aware that it has been discussed, but I
- 23 could not give you the details of that issue.

- Q. Are you aware that Puget records revenues on
- 25 a temperature-normalized basis?

- 1 A. Yes, I believe it does.
- Q. Are you aware of any other utility, electric
- 3 utility, that books revenues on a
- 4 temperature-normalized basis?
- 5 A. I am not aware of that.
- 6 Q. Are you aware of any report to shareholders
- 7 of Puget where this information has been stated?
- 8 A. I am not aware of it. But the fact I'm not
- 9 aware of it does not mean that it may not have
- 10 occurred.
- 11 Q. On Page 24 of your testimony, Lines 12 to
- 12 14, you're referring to collaborative meetings. And
- 13 you indicate Mr. Elgin stated that there was not enough
- 14 time.
- Do you see that?
- 16 A. Yes.
- 17 Q. And we asked you for the source of that
- 18 statement that you're relying on. And you referred us
- 19 to Transcript 1985 to '86.
- 20 A. That's right.
- 21 Q. You weren't relying on any other reference
- 22 for that statement?
- 23 A. I was relying on that transcript and

- 24 communications that I have had with the Company over
- 25 their concerns about this.

- 1 Q. And on Page 27, Lines 22 to 23, you state
- 2 it's your impression that it is almost as if Staff does
- 3 not want PRAM/decoupling to succeed.
- 4 My question is: Did Staff support or oppose
- 5 the Company on the Pebble Springs adjustment in the
- 6 PRAM 2 proceeding?
- 7 A. I'm aware that they did support that. In
- 8 fact, we discussed that over lunch.
- 9 Q. Did Staff support or oppose the proposal in
- 10 PRAM 2 to extend the recovery of deferrals?
- 11 A. That I do not know.
- 12 Q. Did Staff resolve with the Company the
- 13 shaping issue? Or is that still an issue of
- 14 contention?
- 15 A. I cannot comment on that.
- 16 Q. Now, I would like to talk briefly about the
- 17 Boston Smith Barney seminar which you attended and
- 18 which you describe in your testimony.
- 19 Did you review Mr. Elgin's notes that were
- 20 presented as a response to Record Requisition 578?
- 21 A. Yes, I did review those.
- 22 MR. TROTTER: Your Honor, I would like to
- 23 distribute an eight-page exhibit at this time, Response

- 24 to Record Requisition 578.
- 25 JUDGE HAENLE: The multi-page document with
 WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4556
 - 1 that caption at the top will be marked as Exhibit 933
- 2 for identification.
- 3 (Marked Exhibit 933)
- 4 MR. TROTTER: Your Honor, I'm not
- 5 representing this is the entire response. I think
- 6 there was an attachment at the back which were not in
- 7 the notes to save paper. If the Company has a concern,
- 8 we'll deal with that.
- 9 BY MR. TROTTER:
- 10 Q. Do you recognize Exhibit 933 for
- 11 identification, and particularly Pages 3 through 8,
- 12 as the notes of Mr. Elgin?
- 13 A. Yes, I do.
- Q. And do those pages, 3 through 8, refresh
- 15 your recollection on the issues that Mr. Elgin
- 16 addressed in his direct presentation?
- 17 A. Yes. And, in fact, I thought that the notes
- 18 tracked the notes that I had taken quite well, with
- 19 some exceptions, but, yes.
- Q. We'll put those in in a minute.
- 21 This was the range of topics that Mr. Elgin
- 22 addressed in his direct presentation?
- 23 A. Yes. And he did a good job of doing that.

- MR. TROTTER: Your Honor, I move for the
- 25 admission of Exhibit 933.
 - WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4557
- 1 JUDGE HAENLE: Any objection, Mr. Marshall?
- 2 MR. MARSHALL: No objection.
- JUDGE HAENLE: Mr. Adams?
- 4 MR. ADAMS: No.
- 5 JUDGE HAENLE: Mr. Furuta?
- 6 MR. FURUTA: No.
- 7 JUDGE HAENLE: Mr. Richardson?
- 8 MR. RICHARDSON: No objection, your Honor.
- 9 JUDGE HAENLE: Exhibit 933 will be entered
- 10 into the record.
- 11 (Received Exhibit 933)
- 12 BY MR. TROTTER:
- 13 Q. We asked you to provide a copy of your notes
- 14 from the same seminar; is that right?
- 15 A. That's right.
- 16 MR. TROTTER: I would like to have marked
- 17 for identification Response to Staff Data Request 2558.
- 18 JUDGE HAENLE: That multi-page document will
- 19 be 934 for identification.
- 20 (Marked Exhibit 934)
- 21 BY MR. TROTTER:
- Q. Is Exhibit 934 the copy of the notes that
- 23 you provided in response to that data request?

- 24 A. Yes, it is.
- Q. And I take it that you did you type these as WITNESS: LAURA J. RITTENHOUSE Cross by Trotter 4558
 - 1 you were listening to the seminar? Or did you type
 - 2 this off of handwritten notes?
- 3 A. This was off of handwritten notes.
- 4 Q. And your notes may contain additional items
- 5 to Exhibit 934 to the extent there was additional
- 6 questioning?
- 7 A. That's correct.
- 8 Q. And did you ask any questions of him?
- 9 A. No, I did not.
- 10 MR. TROTTER: Did I move the exhibit, your
- 11 Honor?
- 12 JUDGE HAENLE: You moved the last one. You
- 13 didn't move this one.
- MR. TROTTER: I move Exhibit 934.
- 15 JUDGE HAENLE: Mr. Marshall, any objection?
- MR. MARSHALL: No objection.
- JUDGE HAENLE: Mr. Adams?
- MR. ADAMS: No.
- 19 JUDGE HAENLE: Mr. Furuta?
- MR. FURUTA: No objection.
- JUDGE HAENLE: Mr. Richardson?
- MR. RICHARDSON: No objection.
- JUDGE HAENLE: Exhibit 934 will be entered

- 24 into the record.
- 25 (Received Exhibit 934)

- 1 MR. TROTTER: Those are all my questions.
- 2 Thank you, Miss Rittenhouse.
- JUDGE HAENLE: Questions, Mr. Richardson?
- 4 MR. RICHARDSON: No, your Honor.
- 5 JUDGE HAENLE: Mr. Furuta?
- 6 MR. FURUTA: No, your Honor.
- 7 JUDGE HAENLE: Mr. Adams?
- 8 MR. ADAMS: No questions.
- 9 JUDGE HAENLE: Commissioners, questions?
- 10 CHAIRMAN NELSON: I pass.

11

- 12 EXAMINATION
- 13 BY COMMISSIONER CASAD:
- 14 Q. Good afternoon.
- 15 A. Good afternoon.
- 16 Q. On Page 19 of your testimony, starting on
- 17 Line 5 and ending on Line 17, I'll just paraphrase.
- 18 You indicate that most analysts and investors attending
- 19 presentations after the PRAM 2 orders expressed
- 20 concerns.
- 21 "They believed" -- I'm not paraphrasing.
- 22 I'm actually reading. "They believed that the PRAM
- 23 would work in the ways the Commission had originally

- 24 established in 1991. The Commissioners' actions in the
- 25 fall of 1992 changed that expectation. Instead,

- 1 regulatory rules seemed to be short circuited. They
- 2 saw this as regulation the old way, not the new way.
- 3 "What analysts seek is to have stability
- 4 which allows them to estimate earnings with a
- 5 reasonable degree of certainty. What they do not value
- 6 are unexpected, mid-stream corrections which raise
- 7 fundamental questions about the mechanism."
- 8 Earlier in your testimony I heard you
- 9 describe this experiment that we have undertaken as a
- 10 radical departure from usual rate of return regulation,
- 11 first one in the country, roundly applauded and
- 12 accepted by analysts as kind of a break-through, but
- 13 entirely different from traditional regulation.
- 14 Do you think the Commission would have been
- 15 well advised to embark on that radical departure from
- 16 traditional regulation without some mechanism to
- 17 reexamine the course that had been embarked on to see
- 18 if it was halfway reasonable or that, if there were
- 19 necessary changes, that they could be changed rather
- 20 than just trashing the whole experiment?
- 21 A. Would it have been prudent or reasonable to
- 22 expect the Commission -- I do not believe so. And my
- 23 understanding of investor expectations was that they --

- 24 and I think they were well informed by the Company and
- 25 understood that the PRAM was an experiment.

- 1 What I have entered into my backup testimony
- 2 are reports that were taken after each of the investor
- 3 meetings. And the trends evident in those reports are
- 4 fascinating in terms of documenting the extent to which
- 5 investors became more and more aware of what the PRAM
- 6 was about and feeling confident to have opinions about
- 7 the PRAM.
- 8 And my -- what I can summarize from those
- 9 comments is that it was expected that the PRAM would
- 10 operate, that rates would be adjusted according to the
- 11 rules that had been set in place at the PRAM -- during
- 12 the PRAM years, and at the end of three years there
- 13 would be a rate case in which the results of the PRAM
- 14 would be reviewed and it would be determined whether
- 15 the experiment would be continued.
- 16 O. You think it was unwise of the Commission to
- 17 recognize the fact that abnormal weather conditions
- 18 which had not been experienced by this region in fifty
- 19 or a hundred years contributed to a revenue situation
- 20 which loaded very high costs on ratepayers? And you
- 21 believe the Commission was wrong to recognize that
- 22 reality and try to defer or soften that rate shock that
- 23 would have been visited upon ratepayers?

- 24 A. I don't say that it was wrong. I would say
- 25 that there was an effect that was created because of a

- 1 phenomenon which I'm aware of through previous work I
- 2 have done in developing countries and anti-poverty
- 3 programs.
- 4 This is the rising expectations. You talked
- 5 about the art versus the science of interpreting. I
- 6 have a chart which I would like to introduce which
- 7 shows in terms of market valuation what the impact of
- 8 that was.
- 9 But I believe that because of the way that
- 10 people appreciated and understood the PRAM, it was an
- 11 expectation that the rules would be followed a certain
- 12 way, and then they would be reexamined at the end of
- 13 the rate case.
- 14 Because of the poor hydro conditions and
- 15 because of the expectation that rates would have to
- 16 increase by almost double digits at the time the
- 17 readjustment was being visited, I think there was very
- 18 definitely a recognition that maybe this wouldn't have
- 19 the result that was expected.
- 20 I think what was unfortunate is that a lot
- 21 of these decisions came in the middle of a common stock
- 22 offering, and there was some perhaps miscommunication
- 23 about the extent of the time over which the recovery of

- 24 these deferred expenses would occur.
- 25 And I think the investors, because of that
 WITNESS: LAURA RITTENHOUSE Examination by Casad 4563
- 1 miscommunication, registered some concern about -- and
- 2 I think it's almost a test of how supportive the
- 3 Commission is of the PRAM.
- If you would like, I have these graphs I
- 5 would like to introduce.
- 6 Q. Your answer confuses me a little because I
- 7 don't think it necessarily comports with your written
- 8 word. It says, "What they do not value are unexpected,
- 9 mid-stream corrections which raise fundamental
- 10 questions about the mechanism."
- 11 Something that's advertised as an
- 12 experiment, which is a radical departure from
- 13 traditional regulation, which all the parties are aware
- 14 that it's going to have to be revisited as we go along
- 15 to see if it works or try to make it work, prudence
- 16 would dictate that one would want to have a look at
- 17 this as we go forward and not say in advance, "We're
- 18 going to ride with everything for three years or five
- 19 years from now regardless of what it does to
- 20 ratepayers, regardless of what it does to the efficacy
- 21 of the program, regardless of what it does to the
- 22 experiment. We're going to take that pig in a poke and
- 23 buy that for five years."

- I would suggest if that were the case you
- 25 might want different regulators than the ones you have

- 1 here in the state of Washington because I don't think
- 2 they would buy off that way.
- 3 And what we have is a product of that review
- 4 that took place.
- 5 So, I'm a little confused about your
- 6 perspective here. It seems to me that, quite to the
- 7 contrary of what you say, the Commission did what was
- 8 quite reasonable, and I think most rational investors
- 9 would probably tend to recognize that. I'm a little,
- 10 quite frankly, a little confused.
- 11 A. I can understand your confusion. Let me try
- 12 to straighten it up by offering two perspectives: One
- 13 is the expectation that had been created among
- 14 investors at the time at which you described the
- 15 reevaluation and the reexamination would occur at the
- 16 rate case, when the rate case would have been called.
- 17 The expectation was not that the PRAM would be
- 18 questioned before that time.
- 19 The confusion I think stems from the fact
- 20 that investors are also appreciative of political
- 21 realities and the problems that Commissions have in
- 22 determining rates and the acceptability of those rates.
- So, -- and I think the confusion is

- 24 demonstrated in these graphs which show that during the
- 25 period in which -- up until the time when the PRAM

- 1 questions began to surface, Puget's stock traded very
- 2 -- traded in line with those stocks of comparable
- 3 trading companies. And this was the first time that
- 4 this had happened since the time that I have been
- 5 tracking this data since 1987.
- 6 So, in response to some other considerations
- 7 and to support my point about how favorably investors
- 8 viewed the PRAM at the inauguration of the PRAM for the
- 9 first time since 1987, Puget's stock began to trade in
- 10 line with those of comparable trading companies.
- 11 But it was at the time that the questions
- 12 arrived that that started to diverge again.
- 13 Q. You have been following Puget for some time
- 14 as an analyst and banker?
- 15 A. That's right.
- 16 O. Would it be your view that Puget today in
- 17 1993 is a far healthier company than it was in 1983?
- 18 A. Without any question, particularly in terms
- 19 of the book value and the steady recovery that the
- 20 Company, being supported by this Commission, has built
- 21 over that time period.
- Q. What do you think it would take to totally
- 23 satisfy analysts, rating experts, if a Commission

- 24 embarks on some innovative -- attempted innovative
- 25 approaches to regulation and doesn't buy the same old

- 1 product all the time in attempts to develop mechanisms
- 2 which are advantageous to ratepayers and advantageous
- 3 to shareholders as their legal obligation mandates that
- 4 they do?
- 5 At what point will analysts be satisfied
- 6 that this is exercising reasonable caution, is a
- 7 reasonable thing to do? Are they insatiable? Do they
- 8 have to have everything absolutely a hundred percent
- 9 guaranteed? Or are they able to recognize that this is
- 10 a shifting world in which we live and that risk also
- 11 occurs on the regulatory side of the house as it does
- 12 on the utility side of the house?
- 13 A. It sounds like we're getting back to the
- 14 rational, insatiable investor.
- Q. Rational regulator maybe?
- 16 A. I would like to answer your question by
- 17 commenting on the previous question where you asked if
- 18 Puget had built back their financial strength and is
- 19 financially stable. Yes. That's true.
- 20 The way investors would look at that is what
- 21 kind of opportunities for the future does Puget have
- 22 given their continuing growth in the territory and
- 23 given these new regulatory mechanisms. And it has to

- 24 do with the question of risk, which I know has been
- 25 discussed here in some detail.

- On the one hand, the regulatory mechanism
- 2 being radical because it represents a new type of
- 3 dialogue as well as a new way of a company being able
- 4 to be incentivized to engage in and promote
- 5 conservation which is seen as a desirable feature of
- 6 resource planning.
- 7 This is viewed by these investors as a
- 8 positive, that there is this regulatory understanding
- 9 now. It is also viewed as increasing risk to the
- 10 Company because, in a sense, it makes them more
- 11 regulatory reliant; that these assets that are being
- 12 recorded, the conservation assets, are such that as
- 13 they build up over time on the Company's balance sheet,
- 14 it requires the support of the Commission to be sure
- 15 that these investments are going to be recovered over
- 16 time.
- 17 So that --
- 18 Q. The question was asked of you earlier:
- 19 Would investors prefer that Puget not have a PRAM where
- 20 those elements of risk are mitigated? And I think your
- 21 response was, no, investors would not prefer that Puget
- 22 not have a PRAM.
- 23 A. My answer to your question is investors

- 24 would like to have Puget have a PRAM and have the
- 25 confidence that the conditions of the PRAM will be

- 1 supported by the Commission and what is intended
- 2 through the PRAM, which is supporting conservation and
- 3 the recovery of those conservation assets, will be
- 4 supported by this Commission and future commissions.
- 5 COMMISSIONER CASAD: I have no further
- 6 questions. Thank you.
- 7 JUDGE HAENLE: Commissioner?

- 9 EXAMINATION
- 10 BY COMMISSIONER HEMSTAD:
- 11 Q. Pursuing that briefly: In view of all of
- 12 the structural changes that are going on within the
- 13 electric utility industry, does the investor community
- 14 today value electric utilities as a higher risk than
- 15 they have in the past?
- 16 A. Yes, investors do view utilities as higher
- 17 risk. And it's rather paradoxical because, as returns
- 18 are coming down, it would seem to suggest that there is
- 19 not increasing risk in the industry.
- Q. Returns are coming up for other kinds?
- 21 A. Exactly. But in the relative analysis,
- 22 there is -- utilities are viewed to be riskier because
- 23 of increased competition, because of the changes in

- 24 regulation. I think the legacy of the nuclear
- 25 construction program was one which taught investors

LAURA J. RITTENHOUSE - Examination by Hemstad

- 1 that the regulatory compact which they had relied
- 2 previously on in their investment decisions was one
- 3 that has changed.
- 4 And as companies are looking at how they
- 5 will meet these new competitive challenges, what kinds
- 6 of capital structures are appropriate given these
- 7 risks, how does one support social requirements like
- 8 conservation and meeting environmental requirements?
- 9 These are all things that utilities did not
- 10 really have to attend to in previous times.
- 11 Q. Then, in that industry-wide context, in view
- 12 of the as you describe the innovative rate mechanisms,
- 13 at least currently in place here, how does the market
- 14 value Puget in relationship to the more traditional
- 15 rate arrangements of other utilities?
- 16 A. It's interesting because this morning I was
- 17 reviewing the Standard and Poor's reports on all the
- 18 different comparable companies which we have looked at
- 19 as Puget's peers in the industry, Puget was the only
- 20 company cited. One of the positives of the Company was
- 21 because of the innovative regulation.
- Q. Would that tend to reduce risk or increase
- 23 it?

- A. At the same time, while they see that as a
- 25 positive, they register their concern as to whether the

LAURA J. RITTENHOUSE - Examination by Hemstad 4570

- 1 regulation, PRAM, will be continued and under what
- 2 conditions it will be continued.
- 3 One of the points that is, of course,
- 4 uppermost in the minds of investors is what kind of
- 5 growth prospects does the Company enjoy and how will
- 6 they be able to support their financial health going
- 7 forward into the future?
- 8 I think this requires a different kind of
- 9 partnership with the regulatory bodies than in the
- 10 past.
- 11 COMMISSIONER HEMSTAD: That's all I have.
- 12 JUDGE HAENLE: Commissioners?

- 14 EXAMINATION
- 15 BY JUDGE HAENLE:
- 16 Q. Referring to Page 2 of your testimony, about
- 17 the middle of the page, you refer to the Commission
- 18 extending the period from one to two years, but without
- 19 interest.
- In the next line you indicate that that
- 21 would, in effect, be another cut.
- 22 A. Yes.
- Q. Are you aware that was the Company's

- 24 proposal to not have interest?
- 25 MR. MARSHALL: I would have to object

LAURA J. RITTENHOUSE - Examination by Haenle 4571

- 1 because it was not the Company's proposal to have that
- 2 without interest.
- JUDGE HAENLE: Help me out here. I
- 4 understood that was what the Company had proposed. Is
- 5 that not correct?
- 6 MR. MARSHALL: There was a proposal to defer
- 7 from one to three years with interest, and the Company
- 8 proposed two years because it could not be done in
- 9 three years, but not without interest.
- 10 JUDGE HAENLE: Was that your understanding
- 11 in preparing the testimony as Mr. Marshall described
- 12 it?
- THE WITNESS: Yes.
- 14 JUDGE HAENLE: Did you have any redirect,
- 15 sir?
- 16 MR. MARSHALL: Yes. Just a few questions.
- 17
- 18 REDIRECT EXAMINATION
- 19 BY MR. MARSHALL:
- Q. With respect to the first area that Mr.
- 21 Trotter asked about which was the prudency test that
- 22 you referred to in your testimony, I would like to
- 23 refer you to Page 15.

- 24 That was in the context of the questions
- 25 asked about whether certain specific statements should

 WITNESS: LAURA RITTENHOUSE Redirect by Marshall 4572
- 1 be made to investors about whether PRAM has eliminated
- 2 risk. And your testimony about prudency begins, I
- 3 believe, as Lines 17 going on through Lines 23.
- 4 Would you discuss what your concern was
- 5 about the prudency test that Mr. Elgin was proposing?
- JUDGE HAENLE: Page which now?
- 7 MR. MARSHALL: Page 15.
- 8 MR. TROTTER: Object to the question, your
- 9 Honor. Mr. Elgin did not enunciate a new prudency
- 10 test. We objected to counsel's characterization of
- 11 that during cross, and the question regarding that was
- 12 withdrawn.
- JUDGE HAENLE: Mr. Marshall?
- MR. MARSHALL: I'll rephrase the question.
- JUDGE HAENLE: Thank you.
- 16 BY MR. MARSHALL:
- 17 Q. When you read Mr. Elgin's testimony
- 18 regarding whether power costs would be disallowed if
- 19 the Company did not give out information, was that what
- 20 you were referring to?
- 21 A. That is correct.
- Q. Why was that troublesome to you?
- 23 A. The source of my concern was the raising of

- 24 this without anything specific behind it was something
- 25 that seemed to draw more uncertainty and lack of

WITNESS: LAURA RITTENHOUSE - Redirect by Marshall 4573

- 1 specificity about what was going to result from these
- 2 proceedings.
- 3 Q. Did you read a portion of Mr. Elgin's
- 4 testimony where he did testify about red flags and
- 5 warnings of the Company on prudency?
- 6 A. Yes.
- 7 Q. In light of that, would you believe that it
- 8 would be appropriate to represent to the investors that
- 9 the PRAM will eliminate risk associated with purchased
- 10 power?
- 11 A. It would not be appropriate certainly in
- 12 light of that.
- 13 Q. Was that the thrust or the point of your
- 14 testimony in that area?
- 15 A. In that area, yes.
- 16 Q. With respect to the next issue that Mr.
- 17 Trotter asked about, sensitivity analysis with respect
- 18 to the determination of the impact of base and
- 19 resource, I believe you testified to that, and Mr.
- 20 Trotter referred you to Page 17. Would you turn to
- 21 that, please.
- 22 A. Yes?
- Q. Beginning at Lines 19 through 22, you

- 24 indicated that Mr. Elgin had recommended changes to
- 25 PRAM but had done no sensitivity analysis to determine

 WITNESS: LAURA RITTENHOUSE Redirect by Marshall 4574
 - 1 what impact these changes would have on earnings.
- 2 In what context were you making those
- 3 statements? Why was that of concern or troublesome to
- 4 you?
- 5 MR. TROTTER: Your Honor, I believe this is
- 6 asked and answered. I'll object on that basis.
- 7 JUDGE HAENLE: I don't believe that that was
- 8 the question that was asked exactly. I'll overrule the
- 9 objection and allow the witness to answer the question.
- 10 THE WITNESS: The concern that I indicate in
- 11 this part of the testimony is the questioning of the
- 12 allocation of base cost/resource cost, the question of
- 13 just how the PRAM would operate.
- 14 The concern is because investors are most
- 15 interested in being able to make earnings projections
- 16 and base their investment recommendations on the
- 17 likelihood of the Company's being able to earn what
- 18 they are expected to earn.
- 19 It seemed to me, particularly since he was
- 20 taking the step of trying to see the world from an
- 21 investor's perspective, that for him to not consider
- 22 what the earnings impact would be would not be
- 23 reflecting how an investor looks at the world.

- 24 BY MR. MARSHALL:
- Q. I would like to turn your attention to the WITNESS: LAURA RITTENHOUSE Redirect by Marshall 4575
- 1 third area that Mr. Trotter mentioned. He discussed,
- 2 referring to Page 26, he discussed the issue of whether
- 3 hydro resources had a value as an asset.
- 4 Beginning at Lines 5 through 8, what was the
- 5 context in which you were making those remarks? What
- 6 was the point that you were trying to make with regard
- 7 to whether that was an asset or a value?
- 8 A. Well, it's not a very large point. But the
- 9 point merely was that in the written testimony it
- 10 seemed that he was confusing this notion of the
- 11 low-cost hydro assets as perhaps saying that the
- 12 Company didn't think they had value.
- 13 My point there was that the low-cost hydro,
- 14 particularly in the minds of the investors, has great
- 15 value to the Company. But there needs to be a strong
- 16 balance sheet to support all of the Company's
- 17 operations.
- 18 What is of increasing concern, of course, to
- 19 companies and investors and commissions is the rating
- 20 agencies' increased scrutiny on purchased power
- 21 contracts and the imputation of these contracts as a
- 22 liability onto the Company's balance sheets.
- 23 And I had discussions with stops about the

- 24 need to look perhaps differently at contracts.
- 25 Certainly these kinds of contracts which have been in WITNESS: LAURA RITTENHOUSE - Redirect by Marshall 4576
- 1 place and are very low-cost are viewed more favorably
- 2 by the rating agencies than perhaps new contracts which
- 3 have yet to be proven and entail more risk.
- 4 But, nevertheless, all kinds of purchased
- 5 power are being considered by the rating agencies.
- 6 Q. A final area: Mr. Trotter referred you to
- 7 Pages 13 and 14 with respect to statements made by an
- 8 analyst at stops, Ms. Cheryl Richer. Would you turn to
- 9 those pages.
- 10 A. Yes.
- 11 Q. And in an exhibit he took issue with certain
- 12 statements made by certain of the financial analysts,
- 13 including specific statements by Cheryl Richer, which
- 14 he quoted in an exhibit.
- Did you read that exhibit?
- 16 A. Yes, I did.
- 17 Q. Did you quote from that exhibit here insofar
- 18 as Standard and Poor's recent analysis of May 3, 1993?
- 19 A. Yes.
- 20 Q. With respect to the criticism of Ms. Richer
- 21 by Mr. Elgin, did you address that at Page 14 of your
- 22 testimony?
- 23 A. I did.

- Q. And regardless of the details of how
- 25 adjustments were made and what the deferrals were, what

 WITNESS: LAURA RITTENHOUSE Redirect by Marshall 4577
- 1 was the point that you were making on that page?
- 2 A. The point I was making on that page is that
- 3 the amounts indicated in the order which were to be
- 4 deferred represented -- and this was an order that was
- 5 available certainly to investors, and analysts read
- 6 this order -- the interpretation of that order without
- 7 a great deal of knowing the background and details on
- 8 it, but just from reading the order, the interpretation
- 9 was one which indicated that the deferred balances
- 10 resulted in a shaving. And this was voiced by Ms.
- 11 Richer as a concern.
- 12 It relates to I think Commissioner Casad's
- 13 point earlier that this area -- and it's a difficult
- 14 area -- but we have a new order. It's being worked
- 15 out. And what it requires is constant communication
- 16 between the important parties to be sure that everyone
- 17 is understanding what the implications of that order
- 18 are and what concerns people have about the working out
- 19 of this new regulatory order.
- 20 By that I mean not the order, but the
- 21 mechanism.
- Q. Would it have been appropriate for Ms.
- 23 Richer to have said that the PRAM balances were not

- 24 extended or amounts were not shaved?
- 25 A. She could not have said that if she had read
 WITNESS: LAURA RITTENHOUSE Redirect by Marshall 4578
- 1 this order.
- 2 Q. With respect to whether PRAM has eliminated
- 3 risk associated with purchased power, given the fact
- 4 that this is under review and issues have been raised,
- 5 would you advise any analyst making a statement to
- 6 stockholders that PRAM has eliminated risk associated
- 7 with purchased power?
- 8 A. I would not expect any investor to make the
- 9 statement that PRAM has eliminated risk to purchased
- 10 power. And I speak of that specifically in this case,
- 11 but even more broadly in terms of the investor
- 12 perspective.
- 13 Included as an exhibit is a copy of an
- 14 article which I wrote for the ELECTRICITY JOURNAL which
- 15 involved a fairly extensive survey of people in the
- 16 industry and their perceptions of what happens to risk
- in purchased power.
- 18 What I found in talking to -- and this was a
- 19 truly cross section of people in the industry. It
- 20 included regulators, commissioners, Staff people,
- 21 independent power producers, utility people, investors,
- 22 bankers.
- 23 With one exception, all of the thirty people

- 24 I interviewed stated that there is risk involved in
- 25 purchased power.
 - WITNESS: LAURA RITTENHOUSE Redirect by Marshall 4579
- 1 MR. MARSHALL: Thank you, I have no further
- 2 questions.
- JUDGE HAENLE: Anything else, Mr. Trotter?
- 4 MR. TROTTER: Just a couple.

- 6 RECROSS-EXAMINATION
- 7 BY MR. TROTTER:
- 8 Q. Turn to Page 14 and the question that deals
- 9 with Cheryl Richer.
- 10 A. Right.
- 11 Q. I take it it's your role to provide analysts
- 12 with the background and details of what the Commission
- 13 has done; is that correct?
- 14 A. That is not my role. That is the Company's
- 15 role.
- 16 Q. And you participate with them in that
- 17 process?
- 18 A. That's correct.
- 19 Q. Did the Company characterize what you show
- 20 on Page 14 in the chart as cost disallowances?
- 21 A. They see those as cost disallowances, yes.
- 22 Q. They communicated that to the investment
- 23 community?

- A. We have discussed that in our meetings.
- 25 That's correct, yes.

WITNESS: LAURA RITTENHOUSE - Recross by Trotter 4580

- 1 MR. TROTTER: Your Honor, I intended to ask
- 2 about the newspaper article, just two questions, on
- 3 Page 23. But I neglected to. If I could have another
- 4 courtesy. We have been under a lot of pressure.
- JUDGE HAENLE: Page which?
- 6 MR. TROTTER: 23.
- 7 BY MR. TROTTER:
- 8 Q. You refer to recent newspaper articles. And
- 9 you're referring to articles at the time Staff
- 10 testified; is that right?
- 11 A. Yes. All those articles, yes.
- 12 Q. And you're not suggesting that Mr. Elgin was
- interviewed by the press, are you?
- 14 A. No. I do not know that.
- MR. TROTTER: That's all I have.
- 16 JUDGE HAENLE: Anything more of the witness?
- 17 All right, thank you. You may step down.
- 18 Let's go off the record to change witnesses,
- 19 please.
- 20 (Discussion held off the record.)
- JUDGE HAENLE: Let's be back on the record.
- During the time we were off the record, Mr.
- 23 Weaver assumed the stand.

I'll remind you, sir, that you were sworn at 24 25 the beginning of the hearing and remain under oath. WITNESS: LAURA RITTENHOUSE - Recross by Trotter 4581 1 2 WILLIAM S. WEAVER, 3 witness herein, having been previously duly sworn, resumed the stand and testified 4 5 further as follows: 6 JUDGE HAENLE: I have marked for 7 identification two documents: T-935, rebuttal 8 testimony in 22 pages, WSW-3 in the upper right-hand 9 corner; and 936, consisting of two articles, WSW-4 in 10 the upper right-hand corner. 11 (Marked Exhibits T-935 and 936) JUDGE HAENLE: Go ahead, Mr. Marshall. 12 13 DIRECT EXAMINATION 14 15 BY MR. MARSHALL: 16 Mr. Weaver, do you have before you what has been marked for identification as Exhibit T-935? 17 I do. 18 Α. 19 Q. Do you recognize that document as your 20 prefiled rebuttal testimony in this case? 21 Α. Yes. 22 Q. Do you have any additions or corrections to

make to Exhibit T-935 at this time?

- 24 A. I just have two, and they are the same
- 25 corrections appearing two places in the prefiled

WITNESS: WILLIAM S. WEAVER - Direct by Marshall 4582

- 1 testimony. First, Page 2, Line 22, change "JHS-13" to
- 2 "JHS-12."
- 3 And then the same change on Page 13, Lines
- 4 what appear to be 20/21. Again, change "JHS-13 to
- 5 "JHS-12."
- 6 Q. Does that complete your corrections, Mr.
- 7 Weaver?
- 8 A. Yes, it does, Mr. Marshall.
- 9 Q. As corrected, if I asked you the questions
- 10 set forth in Exhibit T-935 today, would you give the
- 11 answers as set forth in that exhibit?
- 12 A. I would.
- 13 Q. And do you have before you what has been
- 14 marked as Exhibit 936?
- 15 A. I do.
- 16 Q. Was that exhibit prepared under your
- 17 direction and supervision?
- 18 A. Yes, it was.
- 19 Q. Do you have any additions or corrections to
- 20 make to that exhibit at this time?
- 21 A. I do not.
- 22 Q. Is that exhibit a true and correct copy of
- 23 what it purports to be to the best of your knowledge?

- 24 A. Yes, it is.
- 25 MR. MARSHALL: I would move the admission of

WITNESS: WILLIAM S. WEAVER - Direct by Marshall 4583

- 1 Exhibit T-935 and Exhibit 936 at this time. And the
- 2 witness, Mr. Weaver, is available for
- 3 cross-examination.
- 4 JUDGE HAENLE: Any objection, Mr. Trotter?
- 5 MR. TROTTER: No.
- JUDGE HAENLE: Mr. Adams?
- 7 MR. ADAMS: No.
- 8 JUDGE HAENLE: Mr. Furuta?
- 9 MR. FURUTA: Your Honor, I have Exhibit
- 10 T-935, but I just discovered I don't know if I ever
- 11 received 936.
- 12 JUDGE HAENLE: Let's go off the record for
- 13 a minute so a copy can be provided, please.
- 14 (Discussion held off the record.)
- JUDGE HAENLE: Let's be back on the record.
- During the time we were off the record, Mr.
- 17 Furuta was provided with a copy of the document.
- 18 Have you any objections to the document, Mr.
- 19 Furuta?
- MR. FURUTA: No, your Honor.
- JUDGE HAENLE: Mr. Richardson?
- MR. RICHARDSON: No, your Honor.
- 23 JUDGE HAENLE: T-935 and 936 will be entered

- 24 into the record.
- 25 (Received Exhibits T-935 and 936)

WITNESS: WILLIAM S. WEAVER - Direct by Marshall 4584

- 2 CROSS-EXAMINATION
- 3 BY MR. TROTTER:
- 4 Q. Turn to Page 6, Mr. Weaver.
- 5 A. I'm there, Mr. Trotter.
- 6 Q. And here you're referring to capital
- 7 structure. And you note that the 45 percent equity
- 8 ratio is presently Puget's actual capital structure?
- 9 A. Yes, I do. And I also go on to say it's the
- 10 capital structure that we expect will be, on average,
- 11 in effect during the first year of the new rates.
- 12 Q. And other parties' capital structures became
- 13 hypothetical because of the \$3 million plus common
- 14 shares that were issued last month?
- 15 A. Yes. Although I need to tell you I think
- 16 everybody's capital structure was hypothetical,
- 17 including the Company's, until that issue was done.
- 18 Q. Puget's year-end '92 common equity ratio was
- 19 forty percent?
- 20 A. You know, it is, of course, based on the
- 21 books and the annual report and so forth. You're
- 22 absolutely right. The one thing, though, that I should
- 23 point out -- and I know Mr. Olson, the Company's

- 24 vice-president of finance, is always anxious to make
- 25 this point: The reason it was only forty percent at

- year end was that we had done a refinancing in January.
- We had issued the bonds to refund the Puget energy
- 3 bond, which are about \$114 million worth of securities.
- We had issued the new bonds in December, but we hadn't
- 5 yet refunded those Puget energy bonds.
- 6 So, in effect, we have two bond issues on
- 7 the books at the end of December.
- 8 And when you make an adjustment -- and I
- 9 think Doctor Olson yesterday said that I would make
- this adjustment. So, I did take a look at it last 10
- 11 night, although normally Mr. Olson would do it. You
- 12 end up with an adjusted capital structure, the equity
- 13 component being 42.6 percent.
- Does that include short-term debt? 14 Q.
- 15 Yes, it does. Α.
- 16 Q. Puget's cost of long and short-term debt is
- 17 lower today than it was in the last case?
- Yes, sir, it is. 18 Α.
- 19 Q. On Lines 21 through 23 of Page 6, you
- 20 indicate you agree with the Staff -- I'll paraphrase
- this just slightly -- Staff's capital structure. "The 21
- 22 Commission would have to find that the existence of a
- 23 45% equity component in the Company's actual capital

- 24 structure is imprudent."
- 25 Is that a fair quote?

- 1 A. Yes, sir, I do. And I should explain.
- 2 MR. TROTTER: Your Honor, the question is
- 3 whether it's a correct quote.
- 4 JUDGE HAENLE: That's correct. Please keep
- 5 to the questions with a yes or no and explanation if
- 6 you feel necessary, but it's not proper to add to the
- 7 question.
- 8 THE WITNESS: Not to confuse things, I said,
- 9 yes, and I should explain.
- 10 JUDGE HAENLE: The question was whether you
- 11 saw the quote. I don't know that there is a lot you
- 12 can add to that.
- 13 BY MR. TROTTER:
- Q. Mr. Weaver, I'm sure you'll have your
- 15 opportunity. But my question is: Were you relying on
- 16 any Commission order which adopted a hypothetical
- 17 capital structure and made a finding that the existing
- 18 capital structure was imprudent?
- 19 A. No, I was not. Now if I may explain that.
- 20 What I would like to say is I was relying on
- 21 the general principle that cost of service including
- 22 capital costs unless imprudent should be allowed to be
- 23 recovered in rates.

- Q. And has this Commission adopted a
- 25 hypothetical capital structure for Puget in prior cases
 WITNESS: WILLIAM S. WEAVER Cross by Trotter 4587
 - 1 without making a finding of imprudence of the existing
 - 2 capital structure?
- 3 A. I don't know the answer to that. Puget has
- 4 had so many cases since its inception, I just simply
- 5 don't know.
- 6 Q. What about the decoupling order?
- 7 A. The Commission made an adjustment to cost of
- 8 capital in the decoupling order. That's correct.
- 9 Q. And it did so by revising the equity ratio
- 10 to a level different than actual?
- 11 A. I don't know the answer to that. I don't
- 12 know what was in the Commission's mind, whether they
- 13 expected us to change the capital structure or -- I
- 14 simply cannot answer that. It calls for a conclusion
- 15 about what was in the Commission's mind.
- 16 Q. Okay. Let me ask it this way: Was the
- 17 equity ratio adopted in that order different from the
- 18 Company's actual equity ratio?
- 19 A. Yes. But the actual capital structure at
- 20 the time was different from the previous allowed
- 21 capital structure as well, which is the problem that
- 22 I'm having with the question.
- Q. Turn to Page 9. And here you start a list

- 24 of electric utilities that you say were downgraded
- 25 because of reliance on purchased power; is that right?

- 1 A. Correct. Seventeen.
- 2 Q. By downgrading, do you mean bonds were
- 3 downgraded?
- 4 A. Bonds or the outlook for the security
- 5 ratings, both. There are three that the outlook was
- 6 downgraded. There are fourteen that actually received
- 7 bond downgrades.
- 8 Q. Okay. And with respect to Portland General
- 9 Electric shown on Page 10, that reflected the purchased
- 10 power to replace the Trojan plant; is that correct, in
- 11 part?
- 12 A. Yes. Actually, these downgrades, I should
- 13 just be clear on, the answer is yes. But these
- 14 downgrades reflect the entire situation of each
- 15 company. These are situations where purchased power
- 16 was mentioned as one of the reasons.
- 17 Q. Let's go back to Page 9 and just start with
- 18 Jersey Central Power and Light.
- 19 Do you know how that company's purchased
- 20 power is recovered through rates?
- 21 A. I'm sorry. You trailed off at the end
- 22 there, Mr. Trotter.
- Q. Do you know how that company's purchased

- 24 power is recovered through rates?
- 25 A. No, I don't. I have no idea.

- 1 Q. What about the rest of these?
- 2 A. No. I have not done any investigation of
- 3 what that would be.
- 4 Q. Isn't it true that Jersey Central has one
- 5 percent of its power purchased power?
- 6 A. I have no idea.
- 7 Q. Would you accept subject to check that in
- 8 Exhibit 918, which is sponsored by Mr. Russ Olson, on
- 9 Page 11 he shows Jersey Central Power and Light as No.
- 10 16 on his list as having one percent purchased power?
- 11 A. You know, I really can't accept that subject
- 12 to check. And the reason for it is in the Duff and
- 13 Phelps press release downgrading Jersey Central, it's
- 14 stated that Jersey Central Power and Light is heavily
- 15 dependent on purchased power to meet its load
- 16 requirements.
- 17 And the only thing I would suggest as an
- 18 explanation for the apparent discrepancy is that Jersey
- 19 Central Power and Light is one of the operating
- 20 subsidiaries of the GPU holding company system. And I
- 21 do know that occasionally people record purchased power
- 22 differently if it's being sold within the holding
- 23 company system as when it is imported into the system.

- So, I suspect there is some kind of
- 25 difference in tabulation there, Mr. Trotter.

- 1 Q. Thank you. Turn to Page 5 of your
- 2 testimony. And here you discuss the serious question
- 3 of whether there would be an underlying basis to
- 4 continue any regulatory assets on the Company's books.
- 5 First, my question is: Puget's rate
- 6 moderation proposal is a request by Puget to create a
- 7 regulatory asset; is that correct?
- 8 A. Yes, sir, it is.
- 9 Q. And if that proposal is accepted, would you
- 10 agree that the Commission should clearly state and
- 11 understand that any part of the revenue requirement
- 12 that is deferred will earn interest and will be fully
- 13 recovered in the subsequent periods identified?
- 14 A. Yes.
- 15 Q. Now, with respect to conservation costs, the
- 16 Commission has established a deferred cost recovery
- 17 mechanism; correct?
- 18 A. Yes, Mr. Trotter, that's correct.
- 19 Q. Now, is it the Company's position that those
- 20 costs, once they are booked, must be recovered? Or is
- 21 it appropriate for the Commission to examine those
- 22 costs to assure that they are legitimate and proven?
- 23 A. Well, I think it falls somewhere between the

- 24 two. And I know we kind of look at these things
- 25 somewhat categorically. But I think I would advocate

- 1 that we get away from that a little bit here. And let
- 2 me tell you why:
- 3 This Commission has been on the forefront of
- 4 least-cost planning, and certainly one of the things
- 5 that has resulted is some pretty major expenditures by
- 6 this Company on conservation.
- 7 And those conservation expenditures are not
- 8 without rules that govern them. After all, they are
- 9 all made pursuant to a tariff that's filed and reviewed
- 10 from time to time by this Commission. And it has been
- 11 recently changed as the Commission has seen fit to
- 12 change it on a prospective basis. So, Puget is not out
- 13 just making conservation expenditures as it sees fit.
- 14 It's circumscribed by the tariff.
- To the extent that the Company violates that
- 16 tariff or does things that are imprudent by a
- 17 traditional definition of imprudency, I am certainly
- 18 not going to suggest that this Commission can't rule
- 19 that those things were improper and should not be
- 20 recovered in rates.
- 21 But as a practical matter, when you build up
- 22 \$200 million worth of conservation assets on your books
- 23 and it becomes apparent to those that we go to and ask

- 24 that they give us funds to build the facilities we need
- 25 to serve customers, that those funds may eventually be

- 1 unrecovered.
- 2 There is a cost associated with that. And
- 3 that cost, of course, is translated eventually into our
- 4 cost of capital.
- 5 So, it isn't a question of telling the
- 6 Commission that once Puget makes expenditures it can't
- 7 change its mind if the Company has done something
- 8 that's imprudent or self dealing, profligate. But that
- 9 power should be exercised very carefully or we're going
- 10 to have a difficult time, particularly as the capital
- 11 markets change and the perception of this industry
- 12 changes in the not too distant future, attracting these
- 13 dollars we need.
- 14 The reason why I'm concerned about that as
- 15 the person who has to see that the dollars are there is
- 16 that we have got a comparatively large construction
- 17 budget, this \$1.5 billion that Mr. Olson mentioned
- 18 yesterday over the next five years. And I have got to
- 19 find some way to get the dollars in the door at a
- 20 reasonable cost, and I'm not going to be able to do it
- 21 if the investors are worried that those dollars are not
- 22 going to be repaid.
- 23 But that's why I made a plea to let me kind

- 24 of go somewhere in the middle on that answer. And I'm
- 25 sorry, but I feel strongly about it.

- 1 Q. Let's assume that an investigation is made
- 2 of the conservation programs and Puget purchased an
- 3 item for twice what the market would bear for that
- 4 item, and let's assume that that is a clear showing of
- 5 imprudence.
- 6 You're saying that that is an item that the
- 7 Commission could look at and take out?
- 8 A. Sure. Under traditional prudence
- 9 definitions, I think that's absolutely correct, Mr.
- 10 Trotter.
- 11 Q. To the extent the market pays a penalty that
- 12 and assuming that could be measured, that would be
- 13 something the shareholder would bear?
- 14 A. Yes. And the shareholder should probably
- 15 say to management, "If you're going to be to imprudent,
- 16 we'll get management that can do the job better."
- 17 Q. Now, we're talking in terms of the
- 18 conservation expenditures. Puget does thousands upon
- 19 thousands of individual projects, does it not?
- 20 A. Yes, it does.
- 21 Q. And so the task of examining Puget's
- 22 programs on a project by project basis could be
- 23 virtually impossible from a Staff or intervenor point

- 24 of view. And maybe from a Company point of view, too.
- 25 Would that be a fair statement?

- 1 A. I think I agree.
- Q. On Page 8 of your testimony, you talk about,
- 3 beginning on Line 12, the addition of 736 average
- 4 megawatts of purchased power since your last general
- 5 rate case.
- 6 Puget is asking the Commission to continue
- 7 the PRAM to recover those costs on a timely basis; is
- 8 that correct?
- 9 A. That's correct.
- 10 Q. Turn to Page 2.
- 11 A. Okay.
- 12 Q. And on Lines 6 through 11, you note that "At
- 13 a time when Puget is recognized as a stellar performer
- 14 on Integrated Resource Planning and has achieved the
- 15 plan and resource sides of its plan to meet its growing
- 16 loads, Staff recommends large disallowances of the
- 17 costs of doing so."
- 18 My question is: We asked you to identify
- 19 the disallowances. Am I correct that you're referring
- 20 to the self-insurance issue, storm damage, FAS 106, and
- 21 conservation advertising?
- 22 A. Yes. Let me just go on there. That's
- 23 normally the way I think of disallowance as a matter

- that has been booked and then it would be a write-off.
- 25 If one were thinking of it more broadly --WITNESS: WILLIAM S. WEAVER - Cross by Trotter 4595
 - 1 after all, there is the suggestion, at least in the
 - 2 Staff case, that the costs of these new resources not
- 3 be recovered currently, but apparently be deferred, but
- 4 still subject to some later determination as to whether
- 5 they are appropriate for recovery, this \$40 to \$50
- 6 million of power costs. I have been unable to fathom
- 7 exactly what that means.
- 8 But that also gives me some concern, and I
- 9 just mention it so that we not lose sight of it here.
- 10 Q. What exactly are you talking about here?
- 11 A. The Staff treatment of the power costs
- 12 associated with new generating resources.
- 13 Q. The ones that aren't on line yet?
- 14 A. Correct.
- 15 Q. Do you associate the self-insurance issue as
- 16 one that is related to a cost of integrated resource
- 17 planning?
- 18 A. Well, you know, I certainly -- it's a cost
- 19 of general service.
- 20 Q. So, any disallowance of any costs would be
- 21 -- referring to your phrase on Line 10 -- of the costs
- 22 of doing so, referring back to integrated resource
- 23 planning?

- 24 A. Sure. The Company has kind of general
- 25 overhead type costs. I rolled them all in.

- 1 Q. Are you aware that in the Integrated
- 2 Resource Plans for 1990 and 1991, the Company assumed a
- 3 forty percent equity ratio, and in it's '92/'93 IRP,
- 4 14.5 percent as refers to capital structure?
- 5 A. I'm not aware of those numbers. What I am
- 6 aware of is that, in the most recent plan, there is a
- 7 discussion about the question of whether or not that
- 8 equity component that you just referenced is
- 9 appropriate in light of the rating agencies' now fairly
- 10 explicit adjustments for imputed debt.
- 11 Q. Would you accept the figures I gave you
- 12 subject to check?
- 13 A. I sure would.
- Q. And those were twenty-year assumptions,
- 15 aren't they, the IRP?
- 16 A. They are.
- 17 Q. Turn to Page 5. Here again you're talking
- 18 about regulatory assets, and amending past regulatory
- 19 promises are beginning to evoke strong reactions from
- 20 the SEC and from the accounting profession.
- 21 Do you see that testimony?
- 22 A. Yes, I do.
- 23 Q. Staff asked you to provide support for your

- 24 statement. And am I correct that the accounting
- 25 profession that you're referring to is the Financial

- 1 Accounting Standards Board?
- 2 A. The response to the Staff request certainly
- 3 referenced the financial accounting standards
- 4 promulgated by that standard-setting body. But I have
- 5 got to tell you that even the Company's outside
- 6 auditors are concerned about that. So, I don't want to
- 7 be too limited, even though I did cite you to the
- 8 formal standards.
- 9 Q. And the SEC reference you provided us is a
- 10 bulletin from the SEC; is that correct?
- 11 A. Yes. I believe what I furnished was a
- 12 discussion of whether or not it would be appropriate in
- 13 making environmental disclosures for regulated
- 14 companies to offset their environmental liability by an
- 15 estimate of how much their rate regulators may allow
- 16 them to pass through in rates. And SEC says that's
- 17 something they will not allow.
- 18 Q. And that was a statement in a Staff
- 19 accounting bulletin; is that right?
- 20 A. You know, I don't have the document in front
- 21 of me right now. But that's right. The only reason I
- 22 hesitate at all, I don't know that that's the right
- 23 term, but it's close to it.

- Q. Would you accept that the bulletin contains
- 25 a statement that "The statements in Staff accounting

- 1 bulletins are not rules or interpretations of the
- 2 Commission, nor are they published as bearing the
- 3 Commission's approval"?
- 4 A. I would accept that. However, I have to
- 5 tell you that the instances are rare when a reporting
- 6 company can deviate from what's in a Staff accounting
- 7 bulletin without having exception taken to its filings.
- 8 Q. Turn to Page 14 of your testimony. You were
- 9 talking about the small hydro program.
- 10 A. Right.
- JUDGE HAENLE: If you're going on to another
- 12 subject, perhaps this would be an appropriate time to
- 13 take a break. I know you have got quite a bit left on
- 14 your estimate.
- 15 Let's take fifteen minutes and be back at
- 16 ten minutes after, please.
- 17 (Recess.)
- 18 JUDGE HAENLE: Let's be back on the record,
- 19 please, after our afternoon recess.
- Go ahead, Mr. Trotter.
- 21 MR. TROTTER: Thank you.
- 22 BY MR. TROTTER:
- Q. Would you turn to Page 16 of your testimony.

- 24 A. Yes, sir.
- Q. And talking about HEDC and the small hydro
 WITNESS: WILLIAM S. WEAVER Cross by Trotter 4599
 - 1 program, and on Line 5 you indicate the rationale for
- 2 crediting the profit on Stone Creek against Black Creek
- 3 for ratemaking purposes is to simply reflect the booked
- 4 costs of the HEDC small hydro program in rates as
- 5 projects become owned and operated by Puget.
- And with respect to the booked costs, that
- 7 includes the administrative and overhead factor?
- 8 A. Yes.
- 9 Q. And construction work is done through Hydro
- 10 West, which is 51 percent owned by HEDC?
- 11 A. Yes.
- 12 Q. And Hydro West is a profit-generating
- 13 enterprise?
- 14 A. Yes.
- Q. And so, when you say on Page 14, Line 16,
- 16 that "HEDC has a contract with Hydro West on a
- 17 cost-plus basis subject to a cap and sharing of
- 18 benefits or costs if the project comes under or over,
- 19 respectively, the ceiling amount."
- Is that plus a book cost to HEDC?
- 21 A. Yes, it would be.
- Q. And do you have a figure for that?
- 23 A. Fifteen percent is the adder to the costs

- 24 for the margin.
- Q. And this is a different fifteen percent than WITNESS: WILLIAM S. WEAVER Cross by Trotter 4600
 - 1 the administrative and overhead?
- 2 A. Yes. And I guess I should make sure we are
- 3 clear, just to make sure we understand what we're
- 4 talking about here:
- 5 There are two separate contracts. There is
- 6 a contract with Hydro West Group to do the necessary
- 7 work to license the projects. And it has a fifteen
- 8 percent component that reflects general overhead.
- 9 This contract is the construction contract
- 10 with the Hydro West Group to build the project, and
- 11 this fifteen percent is not general overhead. This is
- 12 what you would really call profit.
- 13 Q. And that's being recorded as a booked cost
- 14 of HEDC?
- 15 A. Yes, sir.
- 16 Q. And so would HEDC receive 51 percent of that
- 17 15 percent?
- 18 A. Yes. Assuming that the costs of
- 19 constructing the project came in on budget, then the 15
- 20 percent would be available, and it would be partly
- 21 owned to the tune of 51 percent by HEDC.
- 22 Q. You are not intending to offset the hydro
- 23 project costs with the profits generated by Hydro West,

- 24 which become HEDC's share?
- 25 A. Actually, in my testimony I do make that
 WITNESS: WILLIAM S. WEAVER Cross by Trotter 4601
 - 1 offer because there was a concern about the possibility
 - 2 -- and it certainly is a possibility -- that HEDC could
- 3 earn more than a utility rate of return. And, of
- 4 course, HEDC owns the 51 percent of the Hydro West
- 5 Group.
- 6 So, in my testimony I suggest, if there is
- 7 concern about that, that is, if these earnings should
- 8 exceed really an AFUDC rate for Puget Power and Light,
- 9 that that difference could be used then to credit
- 10 against the book cost of the projects for ratemaking
- 11 purposes.
- 12 Q. If Hydro West incurs losses, will HEDC's 51
- 13 percent share of those losses be part of the book cost
- 14 of the hydro program?
- 15 A. That's an interesting question. It seems to
- 16 me that they should not be if they are losses related
- 17 to developing the projects for Puget. But if they are
- 18 related to developing the projects for Puget, then the
- 19 point I'm trying to make, if Puget had done this
- 20 in-house, we would have those same "losses" or, better
- 21 stated, I think expenses.
- The purpose of my adjustment here is to end
- 23 up with costs to Puget that reflect nothing extra

- 24 because the projects are being developed and
- 25 constructed in a subsidiary.

- 1 Q. Hydro West and HEDC are not bound by the
- 2 accounting rules included in the Uniform System of
- 3 Accounts of this Commission?
- 4 A. That's correct.
- 5 Q. When Puget acquired HEDC, did it pay a price
- 6 in excess of book?
- 7 A. I simply have no way of knowing that because
- 8 I don't know what book was.
- 9 Q. Is there carried on the books an amount of
- 10 capital --
- 11 A. There is no acquisition adjustment on the
- 12 books related to this. But the reason for it, quite
- 13 simply, is that this was acquired through negotiation
- 14 with a non-utility entity. And so we weren't dealing
- 15 with a utility that would keep its books on that basis.
- 16 It's much as if we had acquired it from a
- 17 turn-key contractor or something like that. We
- 18 wouldn't have an acquisition adjustment.
- 19 Q. Was there any compensation paid in the form
- 20 of good will?
- 21 A. Not to my knowledge, Mr. Trotter.
- Q. So, if HEDC, in fact, did pay in excess of
- 23 book, that's not to be accounted for for an acquisition

- 24 adjustment type mechanism?
- 25 A. No. I should just go back. You said if
 WITNESS: WILLIAM S. WEAVER Cross by Trotter 4603
 - 1 HEDC did pay. I think when we first started talking
 - 2 about this, we were talking about Puget acquiring HEDC
- 3 at a premium. So, actually, if Puget should pay in
- 4 excess of book there is no acquisition adjustment I
- 5 think fully answers the question.
- 6 Q. Is your answer to the question when HEDC
- 7 acquired its share of Hydro West?
- 8 A. I see. That's a different question, and the
- 9 answer would be there would be no acquisition
- 10 adjustment on the books.
- 11 Q. The answer is no in each instance?
- 12 A. Correct.
- 13 Q. On Page 16 at the top of the page, you
- 14 indicate the purpose of HEDC is simply to license and
- 15 bring new small hydro plants on line to be owned and
- 16 operated by Puget.
- 17 Should we add also that that may also
- 18 involve the sale of such small hydro plants?
- 19 A. No. I would say we shouldn't. The purpose
- 20 is not to build and sell these projects. If it makes
- 21 sense and reduces the overall cost of the program, as
- 22 we believe is the case with the sale of Stone Creek,
- 23 then HEDC would do it; that is, would sell those

- 24 projects.
- 25 But the purpose is to bring them on for WITNESS: WILLIAM S. WEAVER Cross by Trotter 4604
- 1 Puget. This is how we're implementing the small hydro
- 2 portion of our least-cost plan.
- 3 Q. But is it possible that as other projects
- 4 are completed, they could be sold, depending on the
- 5 circumstances?
- 6 A. Yes, that is possible. And certainly, if we
- 7 have other projects that are outside of our service
- 8 territory or the state of Washington, I think it might
- 9 make sense to look for purchasers.
- 10 Q. Turn to Page 15, Lines 14 through 16. You
- 11 refer to the arrangements starting out with
- 12 approximately sixty hydro sites were owned by HEDC.
- 13 A. Yes, sir.
- Q. And are you familiar with Mr. Lauckhart's
- 15 rebuttal Exhibit JRL-20, the last page, which is
- 16 entitled HEDC Projects Evaluation?
- 17 A. Yes, generally.
- 18 Q. And he names seventeen projects out of the
- 19 sixty, although as I understand it, on one of the
- 20 notes, that one of the projects listed is actually
- 21 three. So, we would have a total of nineteen?
- 22 A. Correct.
- 23 Q. To the best of your knowledge, these are the

- 24 ones that have a potential for development?
- 25 A. Yes. Those are the ones that, after culling
 WITNESS: WILLIAM S. WEAVER Cross by Trotter 4605
 - 1 through the various projects, we have not limited our
- 2 efforts to.
- 3 Q. And would you accept that nine of those
- 4 projects have avoided costs stated? And I'm including
- 5 the Weyerhaeuser group as three.
- 6 A. I certainly can accept that. I haven't
- 7 looked at that and counted the numbers.
- 8 Q. Okay. And for these projects, their ongoing
- 9 and additional costs will be accumulated?
- 10 A. I want to say no because I don't think there
- 11 are costs in addition to what are stated on Mr.
- 12 Lauckhart's exhibit. But if your question is are we
- 13 continuing to spend licensing and development dollars
- 14 on those projects, the answer is yes.
- 15 Q. Well, for ten of the projects listed, there
- 16 is no project cost listed. Would you accept that?
- 17 A. I don't have the exhibit in front of me. If
- 18 I did, -- in fact, if you could just show it to me,
- 19 maybe I could just accept that.
- MR. TROTTER: May I approach the witness?
- JUDGE HAENLE: Yes.
- MR. TROTTER: I did address this at the
- 23 break with the witness. But I also said I would just

- 24 ask some general questions.
- JUDGE HAENLE: Okay.

- 1 (Discussion held off the record.)
- THE WITNESS: Yes, I can accept that there
- 3 are ten that don't have avoided costs listed on the
- 4 exhibit.
- 5 BY MR. TROTTER:
- 6 Q. Or project costs?
- 7 A. Or project costs.
- 8 JUDGE HAENLE: That's after Mr. Trotter did
- 9 provide you with a copy of it, did he not?
- 10 THE WITNESS: Yes. Thank you, your Honor.
- 11 Thank you, Mr. Trotter.
- 12 BY MR. TROTTER:
- 13 Q. Now, under the Company's alternative
- 14 proposal, if one out of the nineteen projects on Mr.
- 15 Lauckhart's exhibit were completed and the others were
- 16 not, for whatever reason they were terminated, the
- 17 accumulated costs of the non-completed projects would
- 18 be included as part of the book costs of the remaining
- 19 projects?
- 20 A. Yes.
- 21 Q. And at this point it would not be possible
- 22 to determine the actual resulting cost of any of the
- 23 projects because they are still ongoing?

- 24 A. Yes; with the exception of Stone Creek,
- 25 which is complete.

- 1 Q. And under the alternative proposal of Puget,
- 2 are we creating a regulatory asset? In other words, if
- 3 the Commission adopts the alternative and later decides
- 4 that the costs of the projects that are completed are
- 5 too high for some reason, that we can't unring the
- 6 bell?
- 7 A. I have the same position on that type of
- 8 deferral, if you will, that does result in an asset or
- 9 potential liability, as I did on the question you asked
- 10 me about conservation. I think you can always -- this
- 11 Commission's hands are not bound from applying
- 12 traditional prudence judgments to those sorts of
- 13 accumulations.
- 14 Q. But we are creating a regulatory asset?
- 15 A. Yes, sir.
- 16 Q. Would you include in your concept of
- 17 prudence evaluation compliance with accounting rules?
- 18 A. No, I wouldn't.
- 19 Q. Turn to Page 21 of your testimony. Here
- 20 you're talking about the \$485,542 in write-offs.
- 21 Am I correct that this amount has been
- 22 written-off and has been claimed as deductions for tax
- 23 purposes in 1991 and 1992?

- 24 A. I'll accept that subject to check.
- Q. And if that is correct, the write-offs would WITNESS: WILLIAM S. WEAVER Cross by Trotter 4608
- 1 have been reflected in the Company's equity on its
- 2 books?
- 3 A. Yes.
- 4 Q. On Page 15 -- again, we're talking about the
- 5 general program -- do you recall stating on cross the
- 6 following: "You can moderate your construction program
- 7 to meet your loads some because this particular
- 8 project, Stone Creek, is not absolutely necessary to
- 9 meet Puget's loads in the early years."
- 10 Would you accept that?
- 11 A. Yes.
- 12 Q. Stone Creek is projected to generate around
- 13 98.3 average megawatts while Black Creek is projected
- 14 to generate 18 average megawatts?
- 15 A. The capacity on Stone Creek is only 12
- 16 megawatts.
- 17 Q. On the basis that Stone Creek was not
- 18 absolutely necessary to meet Puget's loads, is it also
- 19 true that Black Creek is also not needed to meet
- 20 Puget's loads?
- 21 A. No. Black Creek comes on somewhat later.
- 22 Also, Stone Creek, in conjunction with that statement
- 23 that you just quoted, I also pointed out that it was in

- Oregon, that we really don't do business in Oregon.
- 25 And that was an additional reason to sell that project.

- 1 So -- I just want to finish the answer --
- 2 so, the parallels between Stone Creek and Black Creek
- 3 really don't exist.
- 4 Q. Turn to Exhibit 936, changing subjects.
- 5 Would you refer to the second article that you include
- 6 there, the November 1990 article from ELECTRICITY
- 7 JOURNAL, just behind the blue page.
- 8 A. Yes, sir.
- 9 Q. And if you could turn to what's identified
- 10 as Page 30 of that article.
- In the right-hand column, first new
- 12 paragraph, second sentence, it states: "To the extent
- 13 utilities use a bidding process to decide whether to
- 14 build their own capacity or purchase from a NUG, they
- 15 must adjust the NUG's bid to reflect the effect of
- 16 purchase on their cost of capital."
- 17 Do you see that?
- 18 A. I sure do.
- 19 Q. Puget made no explicit adjustment to its
- 20 cost of capital in its bidding process to account for
- 21 such purchased power, did it?
- 22 A. No.
- Q. On Page 8 and 9 of your testimony, bottom of

- 24 Page 8, Line 21, you say, "The purchased power we have
- 25 recently been adding to our system is considered by

- 1 rating agencies to be more harmful to creditworthiness
- 2 than our pre-existing, low-cost purchased power base."
- 3 Isn't it true that Standard and Poor's
- 4 assumes a higher risk factor to the Mid-Columbia
- 5 contracts than your more recent take-or-pay contracts?
- 6 A. Yes, that's true. But so there is no
- 7 confusion, I'm talking on a kilowatt hour basis here.
- 8 All I have done is compared the cost of the new co-gen
- 9 projects with the ten million Mid-Columbia power.
- The new ones are four times as expensive.
- 11 If you use the Duff and Phelps method of just taking
- 12 twenty percent of the payment stream, you get the ratio
- of four to one that's in my testimony.
- 14 MR. TROTTER: Thank you, Mr. Weaver.
- JUDGE HAENLE: Do you have anything, Mr.
- 16 Richardson?
- MR. RICHARDSON: I do not, your Honor.
- JUDGE HAENLE: Mr. Furuta?
- 19 MR. FURUTA: Yes, your Honor. Thank you.

2021

22 CROSS-EXAMINATION

23 BY MR. FURUTA:

- Q. Good afternoon, Mr. Weaver.
- 25 A. Good afternoon, Mr. Furuta.

- 1 Q. If we could turn to your Pages 10 and 11,
- 2 the question and answer that begins on Line 14 on Page
- 3 10.
- 4 I understand there that you testified that
- 5 Hawaiian Electric Company's purchased power required
- 6 special consideration to preserve its creditworthiness
- 7 as expressly recognized by the regulatory commission.
- 8 Is that correct?
- 9 A. Yes.
- 10 MR. FURUTA: If I may pass out an exhibit.
- JUDGE HAENLE: You have handed me a
- 12 multi-page document entitled Response to Amended Staff
- 13 Data Request 2508. I will mark this document as 937
- 14 for identification.
- 15 (Marked Exhibit 937)
- MR. FURUTA: Thank you, your Honor.
- 17 I should point out that this is actually an
- 18 excerpt from the Company's response to Staff Data
- 19 Request 2508, and I just included the portion of the
- 20 response that deals with Hawaiian Electric Company.
- 21 BY MR. FURUTA:
- Q. Mr. Weaver, does your response, as contained
- 23 in what's identified as Exhibit 937, set forth all of

- 24 the sources upon which you relied for your testimony
- 25 that I just referred to in my previous question?

- 1 A. Well, it really doesn't. All that the
- 2 request asked for were the documents. And although I
- 3 have to say I didn't make the telephone calls myself to
- 4 confirm this, the folks at the power company did the
- 5 telephone calling to Hawaii Electric Company.
- 6 But I can't speak to that as personal
- 7 knowledge.
- 8 Q. Okay. As I understand it, Exhibit 937
- 9 contains an excerpt from the Hawaii Public Utility
- 10 Commission's interim decision and order in Maui
- 11 Electric Company's rate case; is that correct?
- 12 A. Correct.
- 13 Q. To your knowledge, though, in terms of
- 14 written orders, is this the extent of the documentation
- 15 upon which you relied, notwithstanding telephone
- 16 conversations that other Staff people from Puget had
- 17 with HECO?
- 18 A. Right.
- 19 Q. This quote that is in the second section of
- 20 the response is the only written document on which you
- 21 have relied?
- 22 A. Yes.
- 23 Q. To your knowledge, did the Hawaii Commission

- 24 order in the Hawaiian Electric general rate case
- 25 explicitly state that it was making an upward

- 1 adjustment to offset the downward movement on
- 2 creditworthiness of purchased power?
- 3 A. I don't know. This is all that the people
- 4 from Hawaii Electric sent to us.
- 5 Q. That's the order in the Maui case?
- 6 A. Right.
- 7 Q. And, Mr. Weaver, you are aware that the
- 8 Hawaii Commission's authorization of 12.75 percent
- 9 return on equity for Maui Electric was an interim
- 10 decision; is that correct?
- 11 A. That is what it says in the responses
- 12 furnished. And so that is correct to the best of my
- 13 knowledge.
- Q. Do you happen to know what the common equity
- 15 ratio was that was used in the Maui case?
- 16 A. I simply do not, Mr. Furuta.
- 17 Q. You wouldn't know in the HECO case, either?
- 18 A. No.
- 19 Q. And, to your knowledge, is Maui Electric
- 20 Company connected to any other electric system,
- 21 including its own parent company, Hawaiian Electric?
- 22 A. Well, I can make an educated guess that they
- 23 are not, given the currents in the channels over there.

- 24 But that's really all I know about it.
- Q. That's fine. Also I notice the other

 WITNESS: WILLIAM S. WEAVER Cross by Furuta 4614
- 1 utility which you mention on the top of Page 11 as
- 2 having had an upward adjustment to accommodate
- 3 purchased power is Consolidated Edison.
- 4 Is that the Consolidated Edison Company of
- 5 New York?
- 6 A. Yes.
- 7 Q. And I notice that you also list that same
- 8 company on the previous page as one of the seventeen
- 9 utilities you cite which were subject to downgradings
- 10 where purchased power was cited as a factor?
- 11 A. Yes.
- 12 Q. Do you happen to know if the downgrading for
- 13 Consolidated Edison was related to the rate case in
- 14 which they received an upward adjustment?
- 15 A. I don't know.
- 16 MR. FURUTA: That's all I have. Thank you,
- 17 Mr. Weaver.
- 18 JUDGE HAENLE: I assume you wanted to move
- 19 the entry of the document?
- MR. FURUTA: Yes, thank you, your Honor.
- JUDGE HAENLE: Any objection, Mr. Marshall?
- MR. MARSHALL: No objection. Except I
- 23 think, as Mr. Furuta indicated, there was another

- 24 document attached to this. The relevant portions are
- 25 quoted on the first page, so I don't have an objection.

- 1 JUDGE HAENLE: Any objection, Mr. Trotter?
- 2 MR. TROTTER: Nope.
- JUDGE HAENLE: Any objection, Mr. Adams?
- 4 MR. ADAMS: No.
- JUDGE HAENLE: Mr. Richardson?
- 6 MR. RICHARDSON: No objection, your Honor.
- 7 JUDGE HAENLE: 937 will be entered into the
- 8 record.
- 9 (Received Exhibit 937)
- JUDGE HAENLE: Mr. Adams?

11

- 12 CROSS-EXAMINATION
- 13 BY MR. ADAMS:
- 14 Q. Mr. Weaver, I want to direct your attention
- 15 to your testimony at Pages 3 to 5. These are really of
- 16 a clarification nature.
- 17 One of the items which you cite as requiring
- 18 a write-off of assets, as I understand it, is the
- 19 proposed disallowance of conservation advertising
- 20 expenses?
- 21 A. Yes.
- Q. Now, would you agree that no party in this
- 23 proceeding has proposed to remove from the rate base a

- 24 conservation expenditure that was approved by the
- 25 Commission in the last general rate case or any other

WITNESS: WILLIAM S. WEAVER - Cross by Adams

- 1 earlier general rate case? My reference being to
- 2 U-892788 as to the last general rate case.
- 3 A. I agree.
- Q. So, your reference here, then, in your
- 5 testimony is to conservation expenditures that were
- 6 made since the last general rate case; is that correct?
- 7 A. Correct.
- 8 Q. Would you agree that the conservation
- 9 advertising expenditures that are at issue in this case
- 10 can be divided into three parts: One, the expenditures
- 11 that were added to the rate base in PRAM 1, in the PRAM
- 12 1 proceeding; two, the expenditures that were added to
- 13 the rate base in the PRAM 2 proceeding; and, three, the
- 14 most recent expenditures that have not yet been added
- 15 to the rate base?
- 16 A. I don't know. I don't know the answer to
- 17 that.
- 18 Q. Can you indicate why you don't know the
- 19 answer to that?
- 20 A. I just don't know. But I can tell you who
- 21 will know. Mr. Story will know.
- Q. Would you agree that those are the three
- 23 additions to rate base that have occurred since the

- 24 last general rate case?
- 25 A. Yes. The reason I'm confused a little bit
 WITNESS: WILLIAM S. WEAVER Cross by Adams 4617
 - 1 -- and really Mr. Story will do a better job on the
- 2 numbers than I -- is simply because, with the PRAM
- 3 proceedings, updating conservation investment as we
- 4 move through time, and having had two of those now and
- 5 looking forward to a third, on the first two I would
- 6 think that those conservation expenditures would
- 7 already have been picked up in rates in those two
- 8 proceedings.
- 9 And I have to say I am not always capable of
- 10 understanding Staff's adjustments, and I don't know if
- 11 Staff reaches back into PRAMs 1 and 2 and picks up
- 12 conservation.
- I have to tell you I simply don't know. It
- 14 surprises me that you would say that. Mr. Story may
- 15 know the answer to it.
- 16 Q. Just for purposes of my questions, I'm not
- 17 interested in the dollar amounts -- in other words, I'm
- 18 not going to be asking you any specifics -- but would
- 19 you agree that there were conservation expenditures
- 20 that were added to the rate base as a result of PRAM 1?
- 21 A. Oh, yes.
- 22 Q. And, again, in PRAM 2 --
- 23 A. Absolutely.

- Q. And you are proposing as part of PRAM 3 to
- 25 add further costs, expenditures, are you not?

WITNESS: WILLIAM S. WEAVER - Cross by Adams 4618

- 1 A. Yes.
- Q. That's the level of detail I'm asking you
- 3 about.
- 4 A. I'm sorry.
- 5 Q. Now, regarding the third group, that is,
- 6 additions that have not yet been made to the rate base
- 7 but which have occurred since the PRAM 2 order, is it
- 8 your testimony that a disallowance of these
- 9 expenditures on the basis of prudence would be
- 10 retroactive as you use that term at Page 4 of your
- 11 testimony?
- 12 A. Well, you know, as we make these
- 13 conservation expenditures, we accumulate them on the
- 14 books as a recoverable asset. So, to the extent the
- 15 expenditures have been made but not yet recovered, they
- 16 are on the books.
- 17 And the reason I talk about retroactivity is
- 18 this sort of adjustment would impact those accumulated
- 19 assets.
- So, my answer is yes, it would be
- 21 retroactive in that respect.
- 22 Q. So, again, as to any expenditure made since
- 23 the PRAM 2 order which has been booked but is not yet

- 24 in rates, any disallowance of any of that amount would
- 25 result in a disallowance; is that correct?

WITNESS: WILLIAM S. WEAVER - Cross by Adams 4619

- 1 A. Yes.
- Q. I should say the word "write-off" is what I
- 3 really meant to say.
- 4 A. Right.
- 5 Q. Do you agree with that?
- 6 A. Correct.
- 7 Q. Now, as to the conservation advertising
- 8 expenditures that were included in rates in PRAM 1 and
- 9 2 and which were subsequent to the last general rate
- 10 case, do you agree that they have never been reviewed
- in a general rate proceeding?
- 12 A. The specific expenditures have never been
- 13 reviewed in a general rate proceeding; correct.
- Q. Now, are you proposing that PRAM
- 15 implementation filings be used as the proceeding for
- 16 the Commission to determine whether new resources such
- 17 as conservation and specifically conservation
- 18 advertising are prudent?
- 19 A. No.
- 20 Q. So, is this general rate case the
- 21 appropriate opportunity, then, to review the prudency
- 22 of those expenditures?
- 23 A. It's certainly one of them. It is an

- 24 appropriate opportunity to do it.
- Q. Do you believe the PRAM proceedings are an WITNESS: WILLIAM S. WEAVER Cross by Adams 4620
- 1 appropriate opportunity to do it?
- 2 A. I believe they are an appropriate
- 3 opportunity to do it.
- 4 MR. ADAMS: Thank you. That's all I have.
- 5 JUDGE HAENLE: Commissioners, questions?
- 6 CHAIRMAN NELSON: No.
- 7 COMMISSIONER CASAD: I have no questions.
- 8 COMMISSIONER HEMSTAD: I have no questions.
- 9 JUDGE HAENLE: All right. Any redirect?
- 10 MR. MARSHALL: No redirect.
- JUDGE HAENLE: Anything more of the witness?
- 12 Thank you, sir. You may step down.
- 13 Let's go off the record to change witnesses.
- 14 (Discussion held off the record.)
- 15 (Marked Exhibits T-938, 939, 940, 941, 942,
- 16 943, 944, 945, 946 and 947)
- JUDGE HAENLE: Let's be back on the record.
- During the time we were off the record, a
- 19 new witness has assumed the stand.
- 20 I'll remind you that you were sworn earlier
- 21 in the hearing and remain under oath.

J. RICHARD LAUCKHART,

- 24 witness herein, having been previously
 25 duly sworn, was examined and testified
 WITNESS: WILLIAM S. WEAVER Cross by Adams 4621

 1 further as follows:
 2 JUDGE HAENLE: Also while we were off the
 3 record, we marked a number of documents for
 - 4 identification as follows:
- 5 39-page document, JRL-15, is T-938; JRL-16,
- 6 939; JRL-17, 940; JRL-18, 941; JRL-19, 942; JRL-20,
- 7 943; JRL-21, 944; JRL-22, 945; JRL-23, 946; and JRL-24,
- 8 947.
- 9 Mr. Van Nostrand?

11

- 12 DIRECT EXAMINATION
- 13 BY MR. VAN NOSTRAND:
- 14 Q. Mr. Lauckhart, you have before you what's
- 15 been marked for identification as Exhibit T-938?
- 16 A. Yes, I do.
- 17 Q. You recognize that document as your prefiled
- 18 rebuttal testimony in this case?
- 19 A. Yes.
- 20 Q. Do you have any corrections or additions to
- 21 make to that document?
- 22 A. Yes.
- Q. Could you go through them?

- 24 A. I have three, and I have been told I
- 25 wouldn't get in trouble not having an errata sheet for
 - J. RICHARD LAUCKHART Direct by Van Nostrand 4622
 - 1 three. Page 9, Line 6, "5.9%" should be changed to
 - 2 "4.8%."
- 3 COMMISSIONER CASAD: Could we have that
- 4 again, please?
- 5 THE WITNESS: Page 9, Line 6, "5.9%" should
- 6 be changed to "4.8%."
- 7 Page 14, Line 14, the words "and Centralia
- 8 unit 1" should be stricken.
- 9 Page 31, Line 5, the year "1987" should be
- 10 "1989."
- JUDGE HAENLE: What page? I'm sorry.
- 12 THE WITNESS: Page 31, Line 5. That should
- 13 be 1989.
- 14 BY MR VAN NOSTRAND:
- 15 Q. And that completes your corrections?
- 16 A. Yes, it does.
- 17 Q. As corrected, if I asked you the questions
- 18 set forth in Exhibit T-938, would you give the answers
- 19 as set forth in that exhibit?
- 20 A. Yes.
- Q. Would you refer to Page 7, Line 11. Is it
- 22 correct that the 8 should be changed to a 7?
- 23 A. There is one year that could go either way.

- 24 I'll leave it at 8.
- Q. And you also have what's been marked for
 - J. RICHARD LAUCKHART Direct by Van Nostrand 4623
- 1 identification as Exhibits 939 through 947?
- 2 A. Yes.
- 3 Q. Do you recognize those as the exhibits
- 4 accompanying your prefiled rebuttal testimony in this
- 5 case?
- 6 A. Yes.
- 7 Q. Are those exhibits prepared under your
- 8 direction and supervision?
- 9 A. Yes.
- 10 Q. Are there any corrections or additions to
- 11 make to those exhibits?
- 12 A. No.
- MR. VAN NOSTRAND: I move T-938 and 939
- 14 through 947, and Mr. Lauckhart is available for
- 15 cross-examination.
- 16 JUDGE HAENLE: Thank you.
- 17 Any objections, Mr. Trotter?
- 18 MR. TROTTER: Yes. Page 36 of Exhibit
- 19 T-938, Line 7 beginning with the word "Nintendo,"
- 20 through 12, the sentence ending with the word
- 21 "position." Here the witness is making a statement
- 22 about Nintendo's point of view.
- 23 And we also move to strike the exhibit

- 24 reference here to 944, which is a letter regarding
- 25 Nintendo's position.
 - J. RICHARD LAUCKHART Direct by Van Nostrand 4624
- 1 Again, this is hearsay. We understand this
- 2 letter apparently -- I have not read the transcript of
- 3 the public yet -- but I understand that a letter of
- 4 this type came through in the public hearing, and there
- 5 was a witness.
- 6 But we had no opportunity to meaningfully
- 7 cross-examine. We had no notice that this witness
- 8 would appear.
- 9 If Nintendo wishes to take a position in
- 10 this docket, it should do so as a party. We're not
- 11 objecting to statements of Mr. Lauckhart regarding
- 12 Nintendo's concerns or position at the trial. But this
- 13 is clearly taking positions regarding this case.
- 14 There are several statements in the letter
- 15 that we believe are factually inaccurate. But we don't
- 16 have a chance to do anything about it through
- 17 cross-examination or otherwise.
- So, we'll object to Exhibit 944 and the
- 19 testimony that was based on it, which is Lines 7
- 20 through 12 on Page 36 of Exhibit T-938.
- 21 MR. ADAMS: Your Honor, could I ask for
- 22 clarification of exhibit number? 944 I thought was
- 23 JRL-31.

- MR. TROTTER: JRL-23. I guess I had mine in
- 25 the wrong order.
 - J. RICHARD LAUCKHART Direct by Van Nostrand 4625
- 1 JUDGE HAENLE: 946.
- 2 MR. TROTTER: I amend my motion accordingly.
- 3 Thank you.
- 4 JUDGE HAENLE: You are correct, Mr. Trotter,
- 5 that a letter from Nintendo was entered for
- 6 illustrative purposes in the hearing in Renton, I
- 7 believe. The witness that appeared was not the person
- 8 that had written the letter.
- Any response to the objection, Mr. Marshall?
- 10 MR. VAN NOSTRAND: It's me, your Honor.
- JUDGE HAENLE: I'm sorry. Mr. Van Nostrand?
- MR. VAN NOSTRAND: Your Honor, Exhibit 946
- 13 and the accompanying testimony we believe is directly
- 14 responsive to statements made by Mr. Elgin in his
- 15 direct examination and cross-examination on the issue
- 16 of whether or not customer choice was an issue in this
- 17 matter. Specifically, in Transcript 2525, Lines 21 and
- 18 22, Mr. Elgin states that customer choice is not an
- 19 issue.
- 20 It seems to me Mr. Elgin is making
- 21 statements regarding Nintendo's position in this
- 22 matter. We have a document which Nintendo itself
- 23 stating its position on this issue. We believe it's

- 24 relevant and it's admissible for that purpose.
- 25 JUDGE HAENLE: Let me be sure I understand.
 - J. RICHARD LAUCKHART Direct by Van Nostrand 4626
 - 1 The document that you're referring to is the letter
 - 2 which is 946?
- 3 MR. VAN NOSTRAND: Yes. And Mr. Lauckhart's
- 4 testimony, which briefly summarizes that exhibit.
- JUDGE HAENLE: Okay. Any brief response,
- 6 Mr. Trotter?
- 7 MR. TROTTER: Like I said, a person's
- 8 position ought to be through party status or through a
- 9 witness in a meaningful form.
- 10 JUDGE HAENLE: Did you have an objection to
- 11 any of the documents, Mr. Adams?
- 12 MR. ADAMS: I don't have in front of me the
- 13 public exhibit. And so I don't know whether the letter
- 14 that's marked as 946 is the same letter which was
- 15 presented at that Renton hearing.
- JUDGE HAENLE: It is the same letter
- 17 exactly.
- 18 MR. ADAMS: I mean, I guess I don't object
- 19 to it as long as it is given no additional status. And
- 20 it was illustrative at that time and it shouldn't be
- 21 any more than that at this point.
- JUDGE HAENLE: If it were being entered at
- 23 this point, the Commission would not enter it as an

- 24 illustrative exhibit. They would be rendering it as a
- 25 general exhibit. Let me try that again.
 - J. RICHARD LAUCKHART Direct by Van Nostrand 4627
- 1 I assume that the Company is asking at this
- 2 point that it be entered for all purposes and not just
- 3 for illustrative purposes; is that correct, Mr. Van
- 4 Nostrand?
- 5 MR. VAN NOSTRAND: That's correct, your
- 6 Honor.
- 7 MR. ADAMS: Then I object. But the same
- 8 letter is in for illustrative purposes and can be
- 9 argued by the Company.
- JUDGE HAENLE: Mr. Furuta, do you have
- 11 objection to any of the documents?
- 12 MR. FURUTA: Not the other documents. We
- 13 would agree that Exhibit 946 does have hearsay
- 14 problems. So, we would agree with that objection.
- 15 JUDGE HAENLE: All right. Any objection to
- 16 the documents, Mr. Richardson?
- 17 MR. RICHARDSON: None other than I echo the
- 18 other parties, your Honor.
- 19 JUDGE HAENLE: Okay. I'm going to sustain
- 20 the objection. I believe that I did allow, over the
- 21 objection of Ms. Brown at the public hearing, that the
- 22 letter be admitted for illustrative purposes.
- 23 The Company is asking at this time that it

- 24 be admitted for the truth of the matter included in it,
- 25 and I feel that is not appropriate since there is no
 - J. RICHARD LAUCKHART Direct by Van Nostrand 4628
 - 1 one here from Nintendo to cross-examine regarding
 - 2 Nintendo's position.
- If they had wanted to use this as a
- 4 substantive position, they could have presented a
- 5 witness if they had chosen to do so. They apparently
- 6 have chosen not to.
- 7 So, I do not feel that is appropriate.
- 8 I will not enter Exhibit 946 for
- 9 identification, and I will strike from the prefiled
- 10 testimony on Page 36 between Lines 7 and 8 beginning
- 11 "Nintendo would suffer," and ending between Lines 12
- 12 and 13 the word "position," all of the material between
- 13 there. I will grant the motion to strike that.
- 14 I will enter the remaining documents, which
- would be the remainder of T-938 and 939 through 947,
- 16 except for 946.
- 17 (Received Exhibits T-938, 939, 940, 941,
- 18 942, 943, 944, 945 and 947)
- 19 COMMISSIONER CASAD: Judge, may I just make
- 20 certain I understand what's being stricken? Starting
- on Line 7, beginning with the word "Nintendo"?
- JUDGE HAENLE: Let me be sure you have got
- 23 it. We don't probably want to read it into the record.

- 24 COMMISSIONER CASAD: (Indicating)
- JUDGE HAENLE: Exactly right.
 - J. RICHARD LAUCKHART Direct by Van Nostrand 4629
- 1 COMMISSIONER CASAD: Okay.
- JUDGE HAENLE: We could really emphasize it
- 3 then.
- 4 COMMISSIONER HEMSTAD: I would like to ask a
- 5 clarifying question.
- JUDGE HAENLE: Yes, indeed.
- 7 COMMISSIONER HEMSTAD: What evidentiary
- 8 weight or usefulness then does a letter from the Renton
- 9 hearing have when it is entered for illustrative
- 10 purposes?
- 11 JUDGE HAENLE: It is to show the position of
- 12 that party, but understanding at the public hearing the
- 13 party is generally not available for cross-examination.
- 14 And in this case the party who wrote the letter was not
- 15 available for cross-examination. It is to illustrate
- 16 to the Commission what the views of the public are as
- 17 defined in the rule.
- 18 Have I reported the rule correctly,
- 19 everybody?
- 20 MR. TROTTER: It's my understanding that
- 21 it's not substantive evidence. But it does give the
- 22 Commission a sense --
- 23 COMMISSIONER HEMSTAD: But in this

- 24 particular instance, it showed the view of Nintendo
- 25 with regard to the issue being discussed.
 - J. RICHARD LAUCKHART Direct by Van Nostrand 4630
- 1 MR. TROTTER: The problem, it's a perennial
- 2 problem. The Commission has historically wanted the
- 3 public to have a voice. But it poses problems to other
- 4 parties who can't discover through cross-examination.
- If there was extensive cross-examination,
- 6 that tends to intimidate other public witnesses. So,
- 7 it's a perennial problem. It is our view it's not
- 8 substantive, but it does serve for illustrative
- 9 purposes.
- 10 COMMISSIONER CASAD: Thank you for the
- 11 clarification.
- 12 JUDGE HAENLE: Did you have any additional
- 13 questions of the witness, Mr. Van Nostrand? Or is he
- 14 ready for cross-examination?
- MR. VAN NOSTRAND: I have no further
- 16 questions, your Honor.
- JUDGE HAENLE: Go ahead, Mr. Trotter.
- 18 MR. TROTTER: Thank you.
- 19 I would like to have marked for
- 20 identification the Company's response to Staff's
- 21 Rebuttal Data Request 2654.
- JUDGE HAENLE: It's multi-page document.
- 23 WUTC Staff Rebuttal Data Request No. 2654 will be

- 24 marked as 948 for identification.
- 25 (Marked Exhibit 948)
 - J. RICHARD LAUCKHART Direct by Van Nostrand 4631

- 2 CROSS-EXAMINATION
- 3 BY MR. TROTTER:
- 4 Q. Mr. Lauckhart, do you recognize Exhibit 948
- 5 as your response to Staff Rebuttal Data Request 2654?
- 6 A. Yes.
- 7 Q. In your response, you indicate that it's
- 8 your belief that the best forecast of Puget's hydro
- 9 realization would be a fifty-year history of natural
- 10 flows, each starting at 71.5 percent full in storage;
- 11 is that right?
- 12 A. Yes.
- Q. Which has a larger impact on the resulting
- 14 estimate of average hydro realization for Puget? Using
- 15 the fifty-year record versus the forty-year record? Or
- 16 starting reservoirs at 71.5 percent of full versus 100
- 17 percent of full?
- 18 A. I haven't done that calculation.
- 19 Q. You don't have a sense of the relationship?
- 20 A. I would say they were in the same ballpark
- 21 of magnitude.
- 22 Q. Turn to Page 7 of your testimony. And on
- 23 Lines 9 through 13 you refer to three of the eight

- 24 years that have the best chance of representing the
- 25 water conditions that may actually occur during the

- 1 rate year.
- 2 My question is: When you use the phrase
- 3 "representing the water conditions," are you referring
- 4 to starting reservoir conditions less than full?
- 5 A. When I'm talking about three of the eight,
- 6 I'm talking about starting reservoir elevations at a
- 7 level commensurate with what we expect this July -- end
- 8 of July reservoir elevation to be.
- 9 Q. Is that 71.5 percent of full?
- 10 A. Yes.
- 11 Q. Starting reservoir levels are only one of
- 12 the significant factors affecting hydro realization,
- 13 the other part being run-off during the year. Do you
- 14 agree?
- 15 A. Natural flow we call it, yes.
- 16 Q. Then if the run-off in the rate year is
- 17 different than in any of the eight historical years
- 18 that you refer to, it may well be that none of the
- 19 eight years in the historical record accurately
- 20 predicts actual hydro realization or at least as
- 21 closely as an historical year not part of the eight; is
- 22 that right?
- 23 A. Yes.

- Q. When you say these eight historical years
- 25 have the best chance of representing the water

- 1 conditions during the rate year, you don't mean then
- 2 that one of those years and only one will represent
- 3 hydro realization results in the rate year?
- 4 A. No.
- 5 Q. On Page 8 of your rebuttal testimony, Lines
- 6 20 to 23 -- this is in reference to the hydro
- 7 realization adjustment -- you state that "Actual data
- 8 collected over the last four years indicates that the
- 9 computer model clearly overestimates amounts of hydro
- 10 generation from a given quantity of water."
- 11 My question is: Are you referring to the
- 12 1987 to 1990 period?
- 13 A. Yes, that period we had in our study.
- 14 Q. And this is the same four-year period and
- 15 the same hydro study that Doctor Blackmon and Mr.
- 16 Winterfeld have taken exception to?
- 17 A. Yes.
- 18 Q. The Company has not done analysis of any
- 19 other period either before or after this four-year
- 20 period to corroborate findings of the study; is that
- 21 right?
- 22 A. Well, as we responded to questions on that,
- 23 the data is hourly data. And we are having a hard time

- 24 getting the data prior to '87, which may be irrelevant
- 25 anyway. It's quite old.
 - WITNESS: J. RICHARD LAUCKHART Cross by Trotter 4634
- Data after the beginning, like '91, has been
- 2 moved to a format that the districts could not provide
- 3 it to us easily. It had to be moved by hand. So, we
- 4 couldn't do that period.
- 5 Q. So, for whatever reason, it hasn't been
- 6 done?
- 7 A. That's correct.
- 8 Q. And on Page 9, at the top, you indicate that
- 9 any problems with the study are more than compensated
- 10 for by your proposal to adjust generation by only 4
- 11 percent rather than the 6.1 percent from the study.
- 12 My question is: The Company did not look at
- 13 periods outside the four years to see if the results
- 14 still hold or refine the study to control for other
- 15 factors affecting generation; is that correct?
- 16 A. I'm not sure. What do you mean by refine
- 17 the study to correct for other factors?
- 18 Q. For example, scheduled outages, spill,
- 19 reservoir elevations, and so on.
- 20 A. We think those are some of the reasons the
- 21 real world thinks you have to deal with that are not
- 22 reflected in this model that cause us to have less
- 23 generation than this model says. We think those things

- 24 are some of the reasons this happens and is why you
- 25 need to make this kind of adjustment.
 - WITNESS: J. RICHARD LAUCKHART Cross by Trotter 4635
- 1 Q. Those other factors were not considered in
- 2 your study?
- 3 A. They certainly were considered. They were
- 4 recognized as some of the reasons we aren't able to
- 5 get, in the real world, the kind of generation that the
- 6 computer model suggests we could.
- 7 Q. Let me be precise: Your computer model did
- 8 not take into account those factors, did it?
- 9 A. Which computer model?
- 10 Q. The one that generated the 6.1 percent. Let
- 11 me ask it another way: The study that resulted in the
- 12 6.1 percent did not take into account quantitatively
- 13 scheduled outages, spill, and reservoir elevation?
- 14 A. It did take those into account. What I'm
- 15 saying is that the computer model used by PNUCC to
- 16 generate generation from water amounts does not take
- 17 that into account. Our study did take that into
- 18 account.
- 19 Q. Your study was limited to the four years
- 20 examined?
- 21 A. Yes.
- Q. Periods outside of the four years were not
- 23 examined to determine whether the results of your study

- 24 still held true; is that correct?
- 25 A. Yes. We already answered that we didn't
 WITNESS: J. RICHARD LAUCKHART Cross by Trotter 4636
 - 1 study outside that period.
- 2 Q. And the four percent hydro adjustment that
- 3 you refer to was applied as a deduction to Puget's
- 4 Mid-Columbia hydro generation in every month as opposed
- 5 to, say, two percent in one month and six percent in
- 6 another month?
- 7 A. That's correct.
- 8 Q. Was this uniform four percent deduction in
- 9 each month based on findings of the study; that is,
- 10 that relative errors were relative against various
- 11 monthly conditions? Or was it done in order to keep
- 12 the mechanics of the adjustment simple?
- 13 A. Well, it's a relatively simplistic
- 14 adjustment. And it was done primarily because of the
- 15 mechanics were difficult to do it another way.
- 16 Q. Turn to Page 13. And this ends a discussion
- 17 that starts on Page 11 regarding your coal plant
- 18 availability; is that right?
- 19 A. Yes.
- 20 Q. And the question and answer that appear on
- 21 this page, you're discussing that the Company proposes
- 22 to use national average equivalent availability factors
- 23 to set performance of your coal plants while Staff

- 24 proposes to use historical data from Puget's own
- 25 thermal restores; is that right?
 - WITNESS: J. RICHARD LAUCKHART Cross by Trotter 4637
- 1 A. I think my testimony is that they propose to
- 2 use the actual performance of our coal plants.
- 3 Q. By "historical data" meaning the actual
- 4 historical experience?
- 5 A. Yes.
- 6 Q. On Lines 16 to 19, you indicate that they,
- 7 meaning Staff and Public Counsel, want to capture
- 8 actual performance in PRAMs 1 and 2. And my question
- 9 is:
- 10 The Staff's proposal was to use an average
- 11 of the last five years of actual experience at each of
- 12 Puget's thermal resources, which includes three of five
- 13 years that were not part of PRAM 1 and 2; is that
- 14 right?
- 15 A. That's correct. But the point here is that
- 16 that five-year average is heavily leveraged up by the
- 17 good performance that were done in the years of PRAM 1
- 18 and PRAM 2.
- 19 Q. When the PRAM mechanism using the simplified
- 20 dispatch model was adopted, would you agree that it was
- 21 the understanding of the parties that the equivalent
- 22 annual availability of each thermal resource adopted by
- 23 the Commission in the prior general rate case would be

- 24 used in subsequent PRAMs?
- 25 A. Yes.

- 1 Q. To your knowledge, was there ever any
- 2 linkage in the discussion among the parties regarding
- 3 use of the equivalent availability factors from the
- 4 last general rate case and subsequent PRAMs to the
- 5 manner in which the equivalent availability factors
- 6 would be determined in the general rate case?
- 7 A. I think the answer is yes. I think the
- 8 feeling was that we would not be using actual coal
- 9 plant performances of our plants to determine this in
- 10 the general rate case, and we wouldn't be using actuals
- in between; that what we did before was we used a
- 12 number that was out of the NRF, which, in fact, was
- 13 like a national standard. And I think there was a
- 14 sense that we would not be moving to actuals for these
- 15 things.
- 16 Q. Was that sense expressed in a document which
- 17 you're familiar with?
- 18 A. I haven't checked to see if that was.
- 19 Q. All else equal, Puget's net power supply
- 20 expenses are lower if the actual equivalent
- 21 availability factor of the thermal resources exceeds
- 22 the level set in the last general rate case?
- 23 A. If the incremental cost is less than the

- 24 secondary market, that would be true.
- Q. And Puget's stockholders would get the
 WITNESS: J. RICHARD LAUCKHART Cross by Trotter 4639
- 1 financial benefit of Puget's net power supply expenses
- 2 being relatively lower as a result of the equivalent
- 3 availability factor exceeding rate case levels; is that
- 4 right?
- 5 A. Yes. And we talked about this works both
- 6 ways. If the plants don't perform as well as the
- 7 national average, the stockholders would get hurt, and
- 8 the ratepayers would be insulated from that.
- 9 Q. Let's suppose that, for whatever reason,
- 10 plant performances exceed the national average in nine
- 11 out of every ten years.
- 12 Is it your view that Puget's stockholders
- 13 should receive all of those financial benefits in that
- 14 situation?
- 15 A. I think that would be an amazing statistic
- 16 that we could exceed the national average in nine out
- 17 of ten years. But if they did, then I think the
- 18 stockholders under this mechanism should get that
- 19 benefit.
- 20 MR. TROTTER: Next I would like to have
- 21 marked for identification Company's Response to Staff's
- 22 Rebuttal Data Request 2662 and 2663.
- JUDGE HAENLE: The response to Request 2662

- 24 will be 949 for identification.
- 25 (Marked Exhibit 949)
 - WITNESS: J. RICHARD LAUCKHART Cross by Trotter 4640
- 1 MR. TROTTER: Your Honor, I requested many
- 2 more copies of these be produced. Apparently I'm
- 3 missing some. Just a second.
- 4 I would like to have marked for
- 5 identification Response to Staff Data Request 2663.
- JUDGE HAENLE: The Response to Request 2663
- 7 will be marked as 950 for identification.
- 8 (Marked Exhibit 950)
- 9 BY MR. TROTTER:
- 10 Q. Mr. Lauckhart, at Page 21 of your testimony,
- 11 Lines 10 to 14, you address the fact that the Company
- 12 has decided to defer portions of the sale to BPA from
- 13 the first year to the fourth year of the sale.
- 14 Am I correct that Exhibit 949 for
- 15 identification explains the reasons for that?
- 16 A. Yes.
- 17 Q. And on Page 22 of your testimony, you're
- 18 referring to your study of the reasonableness of the
- 19 firm sale to BPA, and your response to Exhibit 2663,
- 20 which is Exhibit 950, is your response to request for
- 21 certain data related to that testimony?
- 22 A. Yes.
- MR. TROTTER: Move for the admission of 948

- through 950.
- JUDGE HAENLE: Any objection to those

- 1 documents, Mr. Van Nostrand?
- 2 MR. VAN NOSTRAND: No, your Honor.
- JUDGE HAENLE: Mr. Adams?
- 4 MR. ADAMS: No objection.
- 5 JUDGE HAENLE: Mr. Furuta?
- 6 MR. FURUTA: No, your Honor.
- JUDGE HAENLE: Mr. Richardson?
- 8 MR. RICHARDSON: No objection, your Honor.
- JUDGE HAENLE: 948, 949, and 950 will be
- 10 entered into the record.
- 11 (Received Exhibits 948, 949 and 950)
- 12 BY MR. TROTTER:
- 13 Q. Going to another subject, Mr. Lauckhart, in
- 14 calculating normalized net purchased power expense in
- 15 the PCS model, the Company includes a transaction named
- 16 PURCH sale representing the benefits it expects to
- 17 receive from non-firm energy transactions using a third
- 18 of it's shared AC?
- 19 A. There is logic in the model that
- 20 accomplished that, yes.
- 21 Q. And does that purchased sale represent
- 22 wheeling revenues expected to be received by Puget? Or
- 23 does it represent additional non-firm energy sales made

- 24 by Puget for additional energy purchases?
- 25 A. That could happen either way.

- 1 Q. So, the answer is both?
- 2 A. Yes.
- 3 Q. Turn to Exhibit 941. On Page 1, Line 47,
- 4 you show secondary sales.
- 5 Am I correct that the net benefits from this
- 6 purchased sale item --
- 7 A. Excuse me. My Page 941 --
- 8 Q. JRL-17.
- JUDGE HAENLE: 940.
- 10 BY MR. TROTTER:
- 11 Q. Mr. Lauckhart, are you with me on Exhibit
- 12 940?
- 13 A. Which line number?
- 14 Q. Line 47, Secondary Sales.
- 15 A. Yes.
- 16 Q. And are the net benefits from the purchased
- 17 sale item included on that line in some amount?
- 18 A. No, they are not. And this exhibit,
- 19 although it's called a simple dispatch model, is
- 20 causing a lot of confusion in these proceedings.
- Q. I'm not sure this is the --
- 22 A. Pardon me.
- Q. I'm not sure this is the simplified dispatch

- 24 model.
- 25 A. Pardon me. I made a mistake. These are
 WITNESS: J. RICHARD LAUCKHART Cross by Trotter 4643
 - 1 either in Line 47 or Line 48. I'm not sure which.
- 2 Q. But it's included on this table?
- 3 A. Yes, it's included in these numbers.
- 4 Q. Am I correct that the amount of that item is
- 5 \$4,902,800?
- 6 A. I'll accept that. Where did that number
- 7 come from?
- 8 Q. I believe it's from your workpapers.
- 9 A. I'll accept that subject to check.
- 10 Q. How is the benefit from the purchased sale
- 11 included in Puget's normalized power supply expense as
- 12 proposed by the Company reflected in the SDM
- 13 calculation of net power supplies?
- 14 A. Can I go back to my other?
- The SDM, which is now Exhibit 939 in this
- 16 case, is not an element that plays into this case or
- 17 the revenue requirement in any way. It is only to
- 18 demonstrate how you would transfer the data on Exhibit
- 19 940 into a format that could be used in the PRAM
- 20 mechanism.
- 21 It is included in there via the secondary
- 22 purchases and secondary sales and wheeling numbers.
- Q. Are you saying that the \$4.9 million is

- 24 included in the SDM?
- 25 A. Yes. And this is a matter that, if there is WITNESS: J. RICHARD LAUCKHART Cross by Trotter 4644
- 1 some confusion, we can clear up after this case is over
- 2 or sometime and before the PRAM. It would not have any
- 3 impact on this case.
- 4 Q. If Puget fails to realize the level of
- 5 benefits for non-firm or additional firm transactions
- 6 as assumed in the general rate case, the \$4.9 million,
- 7 will Puget propose any adjustments to the SDM in
- 8 subsequent PRAMs to reflect its actual experiences
- 9 falling short of projections in the rate case?
- 10 A. No. We would expect that to be trued up to
- 11 actual.
- 12 Q. That would be an adjustment in the SDM to
- 13 true up to actual?
- 14 A. Yes. This is the way this mechanism has
- 15 been designed to work to date. We have made an
- 16 estimate of what those benefits will be.
- 17 Q. If Puget purchases non-firm energy that is
- 18 resold during the same month to California utilities
- 19 using Puget's share of the third AC, will these
- 20 purchases be part of Puget's calculation of its average
- 21 secondary purchase rate for the SDM?
- 22 A. That is our proposal.
- Q. And similarly, will non-firm sales made to

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25
    purchases by Puget during the month be part of Puget's
        WITNESS: J. RICHARD LAUCKHART - Cross by Trotter 4645
    calculation of its average secondary sales rate for the
 2
     SDM?
 3
         Α.
               Yes.
 4
                JUDGE HAENLE: We have determined that we'll
 5
    break at this point. We'll begin tomorrow at 9:00 and
    continue with Mr. Lauckhart's cross-examination.
 6
 7
                (At 4:30 p.m. the above hearing was recessed
 8
    until Thursday, July 22, 1993, at 9:00 a.m.)
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California utilities via the third AC from non-firm