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BEFORE THE WASHINGTON STATE

2

UTILITIES AND TRANSPORTATION COMMISSION

3

In the Matter of the Amended )

4 Petition of ) DOCKET NO. UE-070725

)

5 PUGET SOUND ENERGY, INC. )

)

6 For an Order Authorizing the ) Volume II

Use of the Proceeds from the ) Pages 35 to 208

7 Sale of Renewable Energy )

Credits and Carbon Financial )

8 Instruments )

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PORTIONS DESIGNATED CONFIDENTIAL - REMOVED

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A hearing in the above matter was held on

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March 5, 2010, from 9:30 a.m to 3:00 p.m., at 1300

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South Evergreen Park Drive Southwest, Room 206, Olympia,

13

Washington, before Administrative Law Judge DENNIS MOSS

14

and CHAIRMAN JEFFREY D. GOLTZ and Commissioner PATRICK

15

J. OSHIE and Commissioner PHILIP B. JONES.

16

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21 MICHAEL P. PARVINEN

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23 PUBLIC COUNSEL

24 SCOTT NORWOOD

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3 (SCE) requests approval of a renewable power

4 purchase agreement with PSE

5 DWS-13 Resolution E-4244. Southern California Edison

6 (SCE) requests approval of a renewable power

7 purchase agreement with PSE; SCE's Advice

8 Letter 2319-E is approved without modification

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10 Company (PG&E) and PSE

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15 October 15, 2009 per Resolution E-4264

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0050

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

2 JUDGE MOSS: Good morning everyone. My name

3 is Dennis Moss, I'm an Administrative Law Judge with the

4 Washington Utilities and Transportation Commission

5 assisting the Commissioners this morning here on the

6 Bench, Chairman Goltz, Commissioner Oshie, and

7 Commissioner Jones, as we preside over the matter styled

8 Amended Petition of Puget Sound Energy, Inc. for an

9 Order Authorizing the Use of Proceeds from the Sale of

10 Renewable Energy Credits and Carbon Financial

11 Instruments. Our docket is UE-070725.

12 We have had a number of exhibits and

13 testimonies prefiled in the proceeding, and I have

14 furnished the parties with a, at this moment at least,

15 complete exhibit list, and so we'll talk about that in a

16 moment in terms of whether we want to stipulate

17 everything in or have some discussions about some

18 exhibits or whatnot, but our first order of business

19 will be to take appearances of counsel or other party

20 representatives, and so I will start with the company.

21 MS. CARSON: Good morning, Sheree Strom

22 Carson with Perkins Coie representing Puget Sound

23 Energy.

24 JUDGE MOSS: Thank you.

25 Mr. Roseman, we'll just go around the room.

0051

1 MR. ROSEMAN: Ronald Roseman, Attorney at

2 Law, representing The Energy Project.

3 JUDGE MOSS: Thank you.

4 MR. SANGER: Irion Sanger, Attorney,

5 representing the Industrial Customers of Northwest

6 Utilities.

7 JUDGE MOSS: Thank you.

8 MS. SHIFLEY: Sarah Shifley, Assistant

9 Attorney General for Public Counsel.

10 JUDGE MOSS: Okay.

11 Ms. Gravatt, go ahead.

12 MS. GRAVATT: Ann Gravatt representing the

13 Renewable Northwest Project.

14 JUDGE MOSS: Mr. Johnson.

15 MR. JOHNSON: David Johnson representing the

16 Northwest Energy Coalition.

17 JUDGE MOSS: Okay.

18 Mr. Boehm.

19 MR. BOEHM: Kurt Boehm representing the

20 Kroger Company.

21 JUDGE MOSS: Boehm, I apologize for

22 mispronouncing your name.

23 Anybody else in the hearing room other than

24 Mr. Trotter.

25 MR. TROTTER: Thank you, Your Honor, Donald

0052

1 T. Trotter, Assistant Attorney General, appearing for

2 UTC Staff.

3 JUDGE MOSS: All right, are there any counsel

4 or other party representatives appearing by telephone

5 today?

6 Hearing none, I know that we do have

7 several --

8 MR. EBERDT: Excuse me, Judge.

9 JUDGE MOSS: Oh, I'm sorry.

10 MR. EBERDT: This is Chuck Eberdt, Charles

11 Eberdt, from The Energy Project.

12 JUDGE MOSS: Yes, Mr. Eberdt, we do have

13 several witnesses I understand listening in this

14 morning, perhaps Mr. Norwood is on the line, Mr. Higgins

15 is at least available by telephone if we need him, and

16 we'll see about that during the course of the day.

17 I alerted the parties off the record and I'm

18 doing it again now for those of you on the conference

19 bridge line to the significant probability that at least

20 a portion of our hearing day will be in confidential

21 session. Unfortunately what that means for those of you

22 who have elected not to be here today, even if you are

23 privy to the confidential information, you will not be

24 able to hear those portions because I'm going to mute

25 the conference bridge line during that period. I do

0053

1 have someone checking into whether we can have a

2 dedicated line, but I won't know the answer to that

3 until later. So we'll see how it goes, and perhaps I'm

4 mistaken, but if that happens, those of you on the

5 conference bridge line will be temporarily at least

6 excluded from listening. And of course those in the

7 hearing room who are not signatories to the appropriate

8 confidentiality agreement under the protective order

9 will have to leave the room.

10 All right, let's turn first if we can then to

11 the question of the exhibits. It's not a huge volume in

12 this case, but if we can just stipulate everything in

13 that's always helpful. Are there exhibits as to which

14 parties have objections, Ms. Carson?

15 MS. CARSON: Yes, Puget Sound Energy has

16 objections to 3 exhibits, TAD-25, TAD-26, and J-15.

17 Other than that, we are agreeable to stipulating the

18 rest of the exhibits in.

19 JUDGE MOSS: TAD-25, 26, and J what?

20 MS. CARSON: 15.

21 JUDGE MOSS: 15, all right.

22 Anybody else have objections to any of the

23 exhibits?

24 All right, well, we'll reserve on those three

25 subject to that reservation, and we'll deal with the

0054

1 objections when we get to them, if we get to them. The

2 exhibits as marked for identification will be admitted

3 and made part of the record.

4 All right, if there's nothing else, I think

5 we can probably begin with our witnesses, anything

6 preliminary?

7 And I believe our panel is the first

8 indicated witness, so those of you on the panel, I know

9 Mr. Eberdt is here by telephone, Ms. Gravatt is here, I

10 see Ms. Dixon, a couple of you I don't really know by

11 sight but come up. And if we need an extra chair, I

12 will ask somebody to sacrifice a chair for the

13 witnesses.

14 You all may as well just remain standing for

15 a moment, ask that you raise your right hands.

16 (Witnesses ANN E. GRAVATT, DANIELLE O. DIXON,

17 SANDRA M. SEIG, ERIC E. ENGLERT, and CHARLES

18 M. EBERDT were sworn.)

19 JUDGE MOSS: Mr. Eberdt, I'm assuming you

20 took the oath there in your remote location as well.

21 MR. EBERDT: Absolutely, Your Honor.

22 JUDGE MOSS: Okay, very good.

23 You all may be seated.

24 And we do have a little bit of cross

25 indicated for the panel from ICNU, but let me ask first

0055

1 if there's anything preliminary for the panel?

2 All right, then we can -- we've stipulated

3 the material into the record, so there's no real need

4 for any counsel to do preliminaries, we can go straight

5 to the cross-examination. Mr. Sanger, go ahead.

6 MR. SANGER: Thank you, Your Honor.

7

8 Whereupon,

9 ANN E. GRAVATT, DANIELLE O. DIXON, SANDRA M. SEIG,

10 ERIC E. ENGLERT, and CHARLES M. EBERDT,

11 having been first duly sworn, were called as witnesses

12 herein and were examined and testified as follows:

13

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

15 BY MR. SANGER:

16 Q. Good morning.

17 Do you all have copies of your direct

18 testimony in front of you, that's Exhibit Joint 1T. Can

19 you please turn to page 10 of that testimony. Your

20 testimony at page 10, does that discuss the precedent

21 for Northwest utilities reinvesting money from REC sales

22 into renewable energy resources?

23 A. (Ms. Gravatt) It does.

24 Q. Does your testimony refer to a 2007 Oregon

25 Public Utility Commission decision?

0056

1 A. (Ms. Gravatt) It does.

2 Q. Have you been provided a copy of that OPUC

3 decision which is ICNU Cross Exhibit J-16?

4 A. (Ms. Gravatt) I have.

5 Q. What is the date of the OPUC order that you

6 refer to in your testimony?

7 A. (Ms. Gravatt) The order was entered, how

8 about that, 3 years ago exactly, March 5th, 2007.

9 Q. And does the order use a different name or

10 different abbreviation for renewable energy credits and

11 abbreviates them as TRCs?

12 A. (Ms. Gravatt) It does.

13 Q. In your view, are those essentially the same

14 as RECs or renewable energy credits?

15 A. (Ms. Gravatt) Yes.

16 Q. If you look at the first page of that

17 exhibit, you see the paragraph under the title Opinion

18 on page 1, and the end of that paragraph states that:

19 The Commission adopted Staff's

20 recommendation to approve the sale of

21 TRCs and grant an accounting order.

22 Staff's recommendation is attached as

23 Appendix A and is incorporated by

24 reference.

25 A. (Ms. Gravatt) Yes.

0057

1 Q. When reviewing the order, had you reviewed

2 staff's recommendation that the OPUC incorporated into

3 its order?

4 A. (Ms. Gravatt) Yes.

5 Q. Can you please turn to page 4 of the ICNU

6 Cross Exhibit J-16.

7 JUDGE MOSS: And is this your exhibit page 4

8 or the page 4 at the bottom?

9 MR. SANGER: This would be exhibit page 4.

10 JUDGE MOSS: All right.

11 MR. SANGER: On the exhibit itself it is

12 Appendix A, page 1 of 6.

13 JUDGE MOSS: Thank you.

14 BY MR. SANGER:

15 Q. Would you agree that the OPUC staff member

16 that drafted the staff recommendation was Michael

17 Dougherty?

18 A. (Ms. Gravatt) Yes.

19 Q. Have you met Mr. Dougherty?

20 A. (Ms. Gravatt) Just by telephone.

21 Q. Could you please turn to the bottom of page 7

22 of the same cross exhibit, there's a title at the bottom

23 of page 7 that reads Accounting Order.

24 A. (Ms. Gravatt) Yes.

25 Q. There's language there which reads that:

0058

1 PGE has requested an accounting order

2 which would allow the company to record

3 TRC sales as property transactions and

4 apply interest at the same rate as

5 accumulated property sales. These

6 proceeds would then be amortized back to

7 customers, in the same manner as

8 property sales.

9 Do you see that language?

10 A. (Ms. Gravatt) Yes.

11 Q. Do you have any reason to dispute that PGE's

12 TRC sales were recorded as property transactions and

13 amortized back to customers in the same manner as

14 property sales?

15 A. (Ms. Gravatt) I don't know. I know that

16 staff reported in this order that PGE was requesting

17 that. What actually happened in the end I don't know.

18 Q. Would you agree that staff's recommendation

19 and request that they be recorded in that manner is what

20 the Commission approved in its order?

21 A. (Ms. Gravatt) I believe what the Commission

22 approved ultimately had 9 conditions attached to it, and

23 it gave the company the option of what it did with the

24 REC proceeds. It either could be used to lower

25 customers' bills, or it could be used to reinvest in

0059

1 additional renewable resources, which is on page, of

2 your exhibit number, page 2, at the bottom of that page.

3 Q. Thank you.

4 Have you reviewed the testimony of other

5 parties to this proceeding?

6 A. (Ms. Gravatt) Yes.

7 Q. Have the panel members reviewed the testimony

8 of Kevin Higgins, which is Exhibit KCH-1T?

9 A. (Ms. Gravatt) Yes.

10 A. (Mr. Englert) Yes.

11 Q. Can you please refer to page 6 of that piece

12 of testimony, which was KCH-1T.

13 JUDGE MOSS: Did you say page 7?

14 MR. SANGER: Page 6, Your Honor.

15 JUDGE MOSS: 6.

16 MR. SANGER: And I previously informed

17 counsel for the joint parties that I would be asking a

18 question about this testimony.

19 JUDGE MOSS: Thus explaining their being well

20 prepared for it.

21 MS. DIXON: We may have to share a copy.

22 Some of us don't have a copy of this testimony with us

23 here.

24 MR. BOEHM: I have an extra copy.

25 JUDGE MOSS: Well, only one witness needs to

0060

1 respond unless Mr. Sanger wants each witness to respond.

2 MR. SANGER: No, Your Honor.

3 JUDGE MOSS: So you ought to be able to get

4 by with less than 4 copies.

5 Go ahead with your question, Mr. Sanger.

6 MR. ENGLERT: Could you please restate where

7 you're at.

8 BY MR. SANGER:

9 Q. Page 6, lines 8 through 11, could you please

10 read that if you're not familiar with it.

11 A. (Mr. Englert) It says are you familiar with

12 the rate making treatment?

13 Q. Yes.

14 Do any of the witnesses have any information

15 or did you submit any testimony contradicting

16 Mr. Higgins' testimony regarding the rate making

17 treatment of REC sales in Utah and Wyoming?

18 A. (Mr. Englert) Not that I can recall.

19 A. (Ms. Dixon) Not from the joint panel.

20 Q. Do you have any information to disagree with

21 Mr. Higgins' testimony?

22 JUDGE MOSS: Apparently not, let's go on.

23 Q. Please refer to ICNU cross-examination

24 Exhibit J-15. This is a copy of testimony from Michael

25 Dougherty in OPUC Docket UE-210, which is a PacifiCorp

0061

1 general rate case.

2 JUDGE MOSS: All right, and that's marked for

3 identification, but I understand that the company at

4 least has an objection to that.

5 MR. SANGER: Yes, Your Honor.

6 JUDGE MOSS: Okay, let's hear the objection.

7 MS. CARSON: Your Honor, we object to this

8 exhibit. It lacks foundation. This is testimony in a

9 proceeding in Oregon. It was not a document prepared by

10 any of the witnesses on this panel. Furthermore, this

11 document is dated July 24, 2009. It's been available to

12 ICNU for several months. It was available prior to the

13 time that ICNU filed their response testimony and could

14 have been used as an exhibit at that point in time, and

15 we see this as an improper attempt to supplement

16 evidence at the 11th hour.

17 CHAIRMAN GOLTZ: Is this Exhibit 15 or 16?

18 JUDGE MOSS: This is 15. It's labeled staff

19 exhibit 300, opening testimony, July 24, 2009, this is

20 Joint 15. There we go.

21 Okay, I think we're all on the same page now.

22 All right, Mr. Sanger, do you have a response to we have

23 an objection here for foundation?

24 MS. CARSON: Foundation and untimely

25 submission of an exhibit.

0062

1 JUDGE MOSS: Okay.

2 MR. SANGER: Yes, Your Honor. The testimony

3 of the joint panel addresses the rate making treatment

4 for RECs in other jurisdictions. They specifically

5 point out the rate making treatment of RECs in Oregon.

6 This is more recent information about the rate making

7 treatment of RECs in Oregon, and I wanted to ask the

8 witnesses their views on this testimony and what their

9 opinions are about it. It's more recent. The order

10 that they cite is from 2007, which is a little bit older

11 than the information that this exhibit would bring

12 forth.

13 JUDGE MOSS: Anybody else want to be heard?

14 Well, Mr. Sanger, I don't have any problem

15 with you questioning the panel to the extent they

16 testified concerning treatment in Oregon or another

17 jurisdiction. That's certainly appropriate. But I

18 don't think it's appropriate to be cross-examining these

19 witnesses about somebody else's testimony in another

20 jurisdiction, so I'm going to sustain the objection, and

21 we will not admit Exhibit J-15, but you may ask your

22 questions without reference to it.

23 BY MR. SANGER:

24 Q. Regarding the REC treatment in Oregon, does

25 the joint panel know if customers receive the benefits

0063

1 of REC sales, PacifiCorp REC sales in Oregon, over the

2 years 2007 through 2009?

3 A. (Ms. Gravatt) I'll answer the question. As

4 I understand what PacifiCorp has done with renewable

5 energy credits between 2007 and 2009 is bank them, which

6 is a term of art under the Oregon Renewable Energy

7 Standard. So to the extent of my knowledge of what

8 PacifiCorp has done with credits is not to sell them but

9 save them for compliance, future compliance with

10 Oregon's Renewable Energy Standard.

11 MR. SANGER: No further questions, Your

12 Honor.

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

14 Anybody else have questions for the panel,

15 any of you counsel?

16 All right, then I'll give the Bench an

17 opportunity to ask any questions it may have of

18 panelists or the panel generally, anything?

19

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

21 BY CHAIRMAN GOLTZ:

22 Q. Okay, I have a -- and maybe I could deduce

23 this by scrubbing through the testimony a little bit

24 more, and if this isn't the appropriate -- if these

25 aren't the appropriate witnesses to ask these questions,

0064

1 then you can defer to someone else.

2 But the money that would be used for

3 renewables or for conservation from these REC sales, the

4 proposal is that it be spent for these various purposes,

5 but who actually would make the decision on the ground

6 as to who gets -- which projects would be funded or not

7 funded?

8 A. (Mr. Englert) In terms of implementing the

9 conservation, low income weatherization repair

10 program --

11 MR. EBERDT: This is Chuck Eberdt, I'm

12 assuming that we're referring to --

13 JUDGE MOSS: Mr. Eberdt, we're getting an

14 answer here in the hearing room, perhaps we can hear

15 from you in just a minute as well.

16 MR. EBERDT: That's fine, I just couldn't

17 hear anything.

18 JUDGE MOSS: His microphone probably was off,

19 so we'll remedy that.

20 A. (Mr. Englert) The implementation of the low

21 income weatherization repair program would be done

22 through a similar fashion that our current

23 weatherization program is being conducted. And the

24 small renewable program would be done in a similar

25 fashion to a program we currently have that places small

0065

1 renewable projects at education facilities such as

2 schools. And I believe as part of a data request we

3 suggested a structure for how that grant process would

4 be conducted.

5 BY CHAIRMAN GOLTZ:

6 Q. Anybody else want to weigh in on that?

7 JUDGE MOSS: Mr. Eberdt, are you there?

8 MR. EBERDT: I could only hear part of that.

9 JUDGE MOSS: Did you want to respond to

10 Chairman Goltz's question?

11 BY CHAIRMAN GOLTZ:

12 Q. So let me ask a little bit more about the

13 renewable projects then, and maybe you can describe

14 similar to this another program. Are there applications

15 being taken, would there be applications for this and a

16 grant sort of mechanism, and then who actually would

17 make the ultimate decision as to whether you put solar

18 panels on a house in or an apartment building in

19 Ellensburg or you put solar panels on a house in

20 Olympia?

21 A. (Mr. Englert) So we did describe some of the

22 selection criteria for grants. We talked about energy

23 efficiency being a consideration, energy efficiency

24 going into that site. Also geographic diversity to make

25 sure there's a balance of that. Also considering the

0066

1 cultural community diversity and the results of

2 consideration of demonstration of qualified management

3 of the program.

4 Q. So who actually makes the decision, what

5 entity, what person would decide that?

6 A. (Ms. Sieg) PSE in coordination with

7 interested parties such as --

8 MR. ROSEMAN: Will you put the microphone

9 closer to you. I'm sorry to do that.

10 A. (Ms. Sieg) Puget Sound Energy in

11 coordination with interested parties, including the low

12 income agencies that currently administer the

13 weatherization program would be party and other

14 interested parties including The Energy Project.

15 Q. So ultimately the decisionmaker would be PSE?

16 A. (Ms. Sieg) It would be PSE in coordination

17 with the work group.

18 Q. And so -- and then another question is so

19 what would be the eligibility for say a small scale

20 renewable? Would it be only on multifamily, would it be

21 only on -- or single family residents be eligible,

22 residences be eligible or -- and is there some

23 limitation on who can own the property? In other words,

24 could it go to actually a privately owned individual

25 house, or is it going to be used for apartments that are

0067

1 actually owned by one of the action agencies?

2 A. (Ms. Sieg) The renewables aspect of the

3 program could go to -- it could be applied towards

4 single family or multifamily units. In practice, the

5 majority of the projects funded would most probably be

6 residential multifamily units. Property managers would

7 have to sign an agreement showing that they do have

8 qualified management to maintain the renewable

9 installation, and they would have to sign other

10 operational agreements.

11 Q. And these are apartment buildings that are

12 privately owned or publicly owned or both?

13 A. (Ms. Sieg) Most of them would probably be

14 privately owned.

15 Q. And if there was -- but they are privately

16 owned with a continuing obligation to provide housing to

17 low income folks?

18 A. (Ms. Sieg) Yes, the property owners when

19 they sign a -- they sign a contract for weatherization

20 installation, they make agreements that they won't for

21 instance increase rent over, you know, a stated period

22 of years. So there are protections in place so that

23 they -- so that the building continues to benefit low

24 income customers.

25 Q. So I guess my concern was if a privately

0068

1 owned -- if installed in a privately owned apartment

2 building that has an obligation to serve low income

3 people and then a year later they say, oh, never mind,

4 I'm going to rent this out at market rates from now on,

5 how do you guard against that?

6 A. (Ms. Sieg) They would have to sign

7 contractual agreements that they would not do that.

8 Q. So that's part of the plan?

9 A. (Ms. Sieg) Yes.

10 CHAIRMAN GOLTZ: Thank you, that's all.

11 COMMISSIONER OSHIE: Judge, I have a few

12 questions.

13 JUDGE MOSS: All right, Commissioner Oshie.

14

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

16 BY COMMISSIONER OSHIE:

17 Q. Let's go back here a little bit to what the

18 Chairman was asking you about, because now I thought I

19 had a little clearer picture, but now I don't I guess.

20 CHAIRMAN GOLTZ: I clarified it for you?

21 COMMISSIONER OSHIE: You clarified what I

22 didn't know, that's for sure.

23 BY COMMISSIONER OSHIE:

24 Q. So Puget Sound Energy makes the decision on

25 where these renewable projects would be installed, and

0069

1 it's based upon you've said diversity I suppose, the

2 qualifications of the facility in terms of its -- the

3 clientele that it serves, in other words, it has to have

4 a low income purpose, and that they would sign -- the

5 life of these projects are -- let's just -- are you

6 aware of what the life of a solar project for example

7 may be? Say rooftop solar, what's its typical expected

8 life span?

9 A. (Ms. Gravatt) Probably between 10 and 20

10 years.

11 Q. Okay. So let's just says it's 15 years just

12 to be -- let's just cut it in half, cut the difference

13 in half. So someone who wants that roof panel to be

14 installed as an example has to sign a contract that for

15 15 years they're not going to raise the rent or make any

16 changes -- and make any material changes to the

17 contractual arrangement that it has with any of their --

18 either their renters or those that lease the property.

19 Is that my understanding?

20 A. (Ms. Sieg) The aspect of the contractual

21 agreement hasn't been designed yet.

22 Q. Well, I thought that's what you just said,

23 and that's why I'm curious. Because you said they'd

24 have to sign an agreement saying they're not going to

25 raise the rent and -- but you don't know if that's going

0070

1 to be included or not?

2 A. (Ms. Sieg) I'm answering to the fact that in

3 the low income weatherization program, which this would

4 be -- this aspect of the low income weatherization

5 program would be -- the renewables aspect would be

6 coordinated with the energy efficiency aspect. That is

7 something that is part of the low income weatherization

8 program, these contractual agreements that property

9 owners can not benefit from the installation of an

10 energy efficiency measure, so likewise a similar

11 contractual agreement would be designed for the

12 renewables portion of it. Now the details of the

13 agreement haven't -- we haven't designed the details of

14 the agreement.

15 Q. Okay. Let's -- typically, you know, there

16 are all kinds of mixes of multifamily housing and --

17 although I would say fairly typical that, you know,

18 other than certain circumstances that individuals are

19 metered, so what do you do with the rooftop application

20 on a 12-plex? Is it split 12 ways, the benefits of it?

21 Does it have to be rewired so only the common areas then

22 are fed by that particular rooftop? Or I mean how is

23 that going to be determined, and how's it actually going

24 to happen as a matter of sort of application? It's easy

25 to understand a one family, you know, residential home.

0071

1 It's a heck of a lot more complicated in my mind to try

2 to do it on a multifamily basis, and what's your

3 thinking on that?

4 A. (Ms. Gravatt) Commissioner Oshie, we're not

5 breaking now ground here completely entirely. We did

6 reference in the testimony in the state of Montana

7 Northwestern Energy through its system benefit funds has

8 funded quite a few -- quite a number of small scale

9 solar systems on multifamily housing. The one we

10 reference is a 50 kw in Billings. I don't know the

11 specific answer to your question as to how the meter was

12 handled, but that's certainly a program that we would

13 look to and educate ourselves further about how they

14 handled that.

15 Q. Well, what if they're multiple -- excuse me,

16 Ms. Gravatt, go ahead.

17 A. (Ms. Gravatt) I was just going to wonder if

18 Chuck potentially had some expertise to weigh in here.

19 MR. ROSEMAN: Commissioner Oshie, excuse me,

20 but Mr. Eberdt might be able to shed some light on this.

21 My experience, you can confirm with Mr. Eberdt, is that

22 most of the multifamily housing that these community

23 action agencies do are not private, are public housing

24 where 100% of the tenants are on some kind of subsidy.

25 That's my understanding that that is the vast majority

0072

1 and obviously the easiest way to address your concern

2 here. But why don't you maybe make inquiry of

3 Mr. Eberdt and see if he could shed some light on it for

4 you.

5 COMMISSIONER OSHIE: Sure, that would be

6 fine, that's fine, Mr. Roseman.

7 BY COMMISSIONER OSHIE:

8 Q. So, Mr. Eberdt, I was questioning the

9 representatives of PSE in the renewables project, but

10 why don't you, you're actually in the field, so why

11 don't you tell us what you think is the proper response

12 here?

13 A. (Mr. Eberdt) Well, Commissioner, I guess the

14 safest thing to say here is that I've always seen that

15 as part of -- as being one of the conditions that is

16 under consideration when we select where this happens.

17 I would assume that because of the cost it's more likely

18 that this is going to happen in multifamily before it

19 happens in single family just because of the economies

20 of scale making it more cost effective. And the

21 experience that we have so far in this particular area

22 has been with organizations like the King County Housing

23 Authority where that is clearly a public housing

24 situation, and that way the benefits are, you know, you

25 don't have to spend a lot of time trying to parse them

0073

1 out.

2 Q. And with the King County Housing Authority

3 aren't the individual units separately metered?

4 A. (Mr. Eberdt) Yes, in most cases I believe

5 they are, and the -- I could not tell you without

6 actually doing more research whether they have used the

7 PV systems that they put on those units merely to feed

8 the common areas or whether they use them to lower

9 individual unit cost.

10 Q. All right, thank you, Mr. Eberdt.

11 So over this 15 year life of whatever the

12 renewable is, let's say it's solar, so who maintains

13 that? There's got to be O&M costs that are associated

14 with it, and so how is that going to be done? Is that

15 going to be the owner's responsibility after it's

16 installed, or is that going to be Puget's, or is it

17 going to be done collaboratively in some respect?

18 A. (Mr. Eberdt) This is Chuck Eberdt again.

19 That's one of the conditions that I again assumed was

20 part of the decisionmaking process is what the

21 capability of the let's say end user for lack of a

22 better term is to do that. And another reason that I

23 assume we're talking about, initially at least until

24 costs come way down, we're talking about organizations

25 like a housing authority, because they have the staff

0074

1 and they do keep the staff, you know, ongoing that can

2 do this sort of thing.

3 Q. So I guess the assumption is that the

4 whoever, if it -- whatever project receives the benefits

5 is responsible for its upkeep and maintenance?

6 A. (Mr. Eberdt) Yes.

7 Q. Okay. And typically what are the, and I'll

8 ask I guess this is for Ms. Gravatt, typically what are

9 the most serious, if you will, or the most common, let's

10 use that term, what's the most common problems

11 associated with the rooftop solar panels of the

12 generation that we would have available today?

13 A. (Ms. Gravatt) You know, it generally --

14 well, maybe I have the East Coast snow storm on my brain

15 this morning, but things like that, clearing, making

16 sure the panels are cleared off so that they can receive

17 the sunlight, so snow, ice, that sort of thing.

18 Obviously you can wait until it melts to a certain

19 extent. But, you know, any kind of leaves or branches,

20 that sort of thing, anything that's going to obstruct

21 the ability of the panel to operate to its maximum

22 capability. That's the most common that I'm aware of.

23 In terms of, you know, I think that the

24 Northwest, Washington, has a rapidly developing

25 installer network and a work force that's prepared to

0075

1 address some of the operational issues. I do understand

2 that there's training now going on through some of the

3 community action agencies. The A WISH network has

4 informed us about this, which right now is targeted to

5 solar hot water to sort of develop the skills there that

6 would be needed for operations and maintenance, so I

7 think some of these skills and technology capabilities

8 are being developed.

9 Q. And solar hot water would be at least within

10 the parameters of what the petitioners have requested?

11 A. (Ms. Gravatt) Absolutely.

12 Q. Okay. So there would have to be in the

13 contract then there would be some kind of O&M provisions

14 that is the responsibility of the owner, okay. And if

15 it's on a residential home, is that the same, same

16 requirement?

17 A. (Ms. Sieg) Yes.

18 Q. It's on, you just have to get closer.

19 A. (Ms. Sieg) Yes, we have some language in a

20 draft schedule here, and the actual language reads:

21 If the renewable energy system produces

22 electricity, then the property owner

23 must enter into a written parallel

24 operation agreement provided by the

25 company.

0076

1 Q. Parallel operation agreement, you want to

2 explain what that means?

3 A. (Ms. Sieg) This is probably the reason why a

4 lot of the projects would be multifamily, because the

5 property owner would have to be qualified to maintain

6 the system.

7 Q. And I would venture to guess that there are

8 probably very few single family residence owners that

9 are qualified to maintain and operate a solar panel on

10 their roof; is that true?

11 A. (Ms. Sieg) That is, well, if it's a low

12 income resident that could be true, yes.

13 Q. Because there is a cost I suppose to

14 maintaining. I mean I suppose there are other

15 technical, I mean we're all learning about this

16 technology and the benefits that it brings, but we're

17 also learning more about its cost?

18 A. (Ms. Sieg) Chuck Eberdt may want to weigh in

19 on this at this time.

20 Q. Mr. Eberdt, you're called to, you know,

21 you're the reliever I guess. The starting pitcher's

22 kind of fading a little on that question, so do you want

23 to come in out of the bullpen?

24 A. (Mr. Eberdt) Yeah, if I can remember which

25 is off and on on the mute button, this will work better.

0077

1 You know, with a photovoltaic system, I don't

2 think there is a tremendous amount of maintenance other

3 than the sort of thing that Ann described a second ago

4 about keeping it clear and making sure it still has the

5 visibility to the sun that you want. With a water

6 system like a hot water system, I think there is a

7 little more attention to that sort of thing where you

8 want to make sure that the whatever is running through

9 the panel is maintaining the proper pH and that sort of

10 thing. So, you know, on the one hand I think there is

11 some maintenance that is beyond a typical homeowner in

12 the case of a hot water system, but in the other I don't

13 know that there really is other than just sort of

14 keeping things neat. So it again would be one of those

15 considerations that would be part of the whole

16 decisionmaking process of what's an appropriate way to

17 use this money, what's an appropriate installation.

18 Q. Let's go back to that, your last comment

19 there, Mr. Eberdt. I guess, you know, the appropriate

20 installation, I mean is the capacity that's going to be

21 received from any of these renewable projects a factor?

22 In other words for solar, is it, you know, is that going

23 to be a primary factor in the installation? Are you

24 going to get the best bang for the buck? But I didn't

25 hear that out of the statements that were made by the

0078

1 witness panel as one of the considerations. It was --

2 maybe I missed it.

3 A. (Mr. Eberdt) Well, you know, to a certain

4 extent we're imagining what this is. You know, we don't

5 know what's going to come forward as a potential

6 application, so that's -- it's a little hard to answer,

7 but I would assume that one of the things you always

8 consider in any of this stuff, just like we do when we

9 do energy efficiency, is what are we getting back for

10 what we're installing.

11 A. (Ms. Dixon) Could I add to that also.

12 Mr. Englert mentioned the various criteria that are

13 currently used in Schedule 248 for selection criteria

14 for small scale renewable projects. The one I believe

15 that he did not mention, which may get to your question,

16 Commissioner Oshie, is looking also at project

17 characteristics. Within that schedule it talks about

18 the proposal needing to show energy reduction and

19 intelligent consideration and use of available natural

20 resources and appropriate size and technology will be

21 considered. So that may get somewhat to your question

22 as well in terms of the selection criteria.

23 Q. Is there some kind of cost effectiveness test

24 that's going to be applied in the installation of these

25 projects? I mean you, you know, referenced a rough

0079

1 analogy to energy efficiency, so what's the cost

2 effectiveness test for renewables? I'm assuming it's

3 pretty high, because otherwise almost everybody would

4 have one on their roof, you know, if they were cost

5 effective.

6 A. (Ms. Gravatt) Commissioner Oshie, I want to

7 back up before directly answering your question, which

8 of course I'm happy to, and remind you and the rest of

9 the panel that 80% of the funds are designed to go

10 towards energy efficiency, energy repair, which has been

11 the identified need of what's not getting funded now in

12 Puget's service territory. The renewables aspect of the

13 program is a much smaller portion of the funds.

14 That said, there is no cost effectiveness

15 test that I know of that is applied to solar

16 installations. By their nature at this point, small

17 scale solar systems are -- do have above market costs.

18 I believe in one of the data responses Puget put forward

19 sort of what their costs are right now for the solar

20 schools program, which if you want me to turn to the

21 actual costs I'm happy to direct you to that. It's

22 Public Counsel Data Request Number 4 where they say they

23 anticipate if all of this -- it's page 3.

24 JUDGE MOSS: That's Exhibit J-6.

25 A. (Ms. Gravatt) Yeah, sorry, Exhibit J-6, page

0080

1 3, and this is Puget's estimate of if $500,000 per year

2 were put towards the renewables program per year, they

3 anticipated 70 kilowatts, which is -- comes out to about

4 a little over $7 a watt, so that's actually a very good

5 deal for solar PV right now.

6 COMMISSIONER OSHIE: I don't think I have any

7 other questions, Judge, thank you.

8 JUDGE MOSS: Thank you.

9 Commissioner Jones.

10 COMMISSIONER JONES: I have some prepared

11 questions, but I don't know, for Mr. Eberdt and others,

12 but is this the appropriate time to do that, Judge?

13 JUDGE MOSS: Yes.

14

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

16 BY COMMISSIONER JONES:

17 Q. But my colleagues have preempted some of my

18 or asked some of my questions, but I will start with

19 Mr. Eberdt. Mr Eberdt, are you still there?

20 A. (Mr. Eberdt) Yes, sir.

21 Q. I guess one of my concerns is when you have a

22 large infusion of funds such as this, both for low

23 income weatherization and for renewables, can it be

24 spent cost effectively, appropriately, and properly?

25 Another issue is what is the overall capability of the

0081

1 work force and the community action agencies to deal

2 with this infusion of money? So could you address that?

3 You answered Commissioner Oshie's question on King

4 County Housing Authority for the renewables side, but

5 could you address is -- are the community action

6 agencies really prepared for this sort of infusion of

7 money over a what, 4 year period?

8 A. (Mr. Eberdt) Well, the -- one of the things

9 we've been dealing with for the last year is a huge

10 infusion of money, and actually one of the concerns we

11 have is what happens in two years if that goes away,

12 because we have in fact been doing a lot of recruitment.

13 Most agencies have hired some additional staff, but all

14 agencies have recruited additional subcontractors to

15 work with them on this sort of thing. So we're in the

16 midst of a pretty strong growth you might say in that

17 regard. And in terms of the way some of this money

18 would be used, the kind of repair work where we have

19 repairs that need to be done, those are not, how to put

20 this, those are jobs that don't actually require

21 additional training, because those people are the work

22 force that are looking for work right now. So I don't

23 think -- I'm not as concerned about this as I would have

24 been say a year, year and a half ago, or even two years

25 ago when we first started talking about this.

0082

1 Q. Does Puget have any response on that?

2 A. (Ms. Sieg) Yes. We have a close working

3 relationship with the low income agencies. We have

4 contracts with 8 agencies in our electric service

5 territory. We're in communication with them on a daily

6 basis addressing any barriers that they may be facing in

7 the field, so we keep a pretty close track of what's

8 going on. And my sense is the same as Chuck Eberdt's,

9 is that a lot of the ramp up that he's referring to has

10 occurred, so they're in a very good position to spend

11 the repair dollars. And I also want to emphasize that

12 the repair dollars have become a bit of a bottleneck in

13 the low income weatherization energy efficiency program,

14 because so many times the agencies will go to a

15 customer's home after they've been income qualified, and

16 they conduct a home audit to find out that they can't

17 sufficiently repair the home to install the

18 weatherization measure.

19 Q. Right, and I think you made that point

20 adequately in your testimony.

21 A. (Ms. Dixon) Commissioner, may I add one

22 thing ago as well?

23 Q. Oh, sure, sorry.

24 A. (Ms. Dixon) I think we also addressed this

25 issue you raised in our original testimony by proposing

0083

1 that the funds be expended over a 7 year period.

2 Q. Sure, understand.

3 So one of you mentioned the criteria that are

4 proposed, and it's on page 20 of your testimony, and I

5 think you referenced at least for the renewables, but I

6 just want to get clear in my own mind. It seems to be

7 kind of a work in progress, is that right, Ms. Sieg?

8 These criteria, you seem to be referring to a draft

9 tariff there or something or a draft program. But my

10 question is when I read the testimony and I think about

11 this a bit and listen to my colleagues' questions, are

12 there other criteria as well that could be included such

13 as economic development, jobs? There's nothing in here

14 on the renewable criteria about -- and I realize it's

15 very small right now, as Ms. Gravatt said, but peak

16 capacity reduction, you know, clean air, environmental

17 attributes, so is this just still kind of a work in

18 progress, these criteria?

19 A. (Ms. Sieg) Yes, it is.

20 Q. Okay. And then how are you going to

21 formalize this with the Commission? Will there be --

22 I'm still a little confused. Will there be 2 new tariff

23 filings, one for this program kind of building on

24 Schedule 248 for the school based renewable projects,

25 that will be one tariff, could be a component of

0084

1 Schedule 248, and then on the low income weatherization

2 side are you just going to use the existing tariff, or

3 will it be a new tariff?

4 A. (Mr. Englert) So you're correct, the draft

5 tariff that Ms. Sieg was referring to, we --

6 Q. A little closer, please.

7 A. (Mr. Englert) We've called it Schedule 247

8 draft form, so yes, we were anticipating that that would

9 be a separate tariff schedule that would administer

10 that. And then yes in regard to the weatherization

11 repair, it would be run under the current program.

12 Q. Is there any possibility of linking into

13 existing federally funded program either under the ARRA

14 or LIHEAP to take these funds and leverage them, if you

15 will, a bit, or will they be kind of administered as sub

16 accounts within that tariff?

17 A. (Ms. Sieg) I will defer that question to

18 Charles Eberdt.

19 Q. Mr. Eberdt, the pinch hitter again. Chuck,

20 are you there?

21 A. (Mr. Eberdt) I keep hitting the button the

22 wrong way, I'm sorry, sir.

23 I thought this might be leading my way. The

24 fact of the matter is that most of -- in most cases, the

25 ARRA funds are going to be blended in that sense with

0085

1 the utility funds, and in fact we're probably going to

2 -- we're going to need the repair funds to spend the

3 ARRA funds in a lot of ways as well, because those funds

4 don't come with much for repair, so we will be

5 leveraging ARRA funds with this money.

6 Q. Thanks, that makes sense to me.

7 Mr. Eberdt or the panelists, are there any

8 other government barriers or challenges that could

9 impede the ramp up of this program? I know the with the

10 ARRA programs, Mr. Eberdt, there were some Davis-Bacon

11 requirement, maybe some other requirements, local

12 government permitting, can you tell us do you anticipate

13 either during the past year with ARRA ramp up and

14 funding, have you encountered any other governmental

15 barriers or challenges?

16 A. (Mr. Eberdt) Well, it has been challenging,

17 there's no doubt about that. You know, the fact that

18 the Davis-Bacon wage requirements were not clear and it

19 took the federal government several months to make them

20 clear, and then about the time that was getting resolved

21 the State made it clear that we would have to also meet

22 prevailing wage requirements, has been a test, there's

23 no doubt about that. I think the agencies now are

24 buckling down and just trying to make the work work and

25 get the job done. Washington actually is one of the few

0086

1 states that has already met the first threshold with the

2 ARRA funds so that we can now actually apply for the

3 remaining funds. I think I heard recently that we were

4 in the top 10 of the states in terms of production, so I

5 think we're in good shape that way. And, you know,

6 we're still working things out and trying to make things

7 work where there are little small things that we need to

8 work out the wrinkles, but we're dealing with wrinkles

9 at least now, not waves.

10 Q. My final question is on the oversight and

11 accountability of this. I think in response to the

12 Chairman's question, this is more for Puget but also

13 anybody who wants to jump in, is in the end who -- what

14 sort of accountability mechanisms are going to be built

15 into both these programs I guess is my question, and are

16 you -- the way I understand the current process for

17 weatherization of low income and other issues is there's

18 a, whether it's called a CRAG, I mean I lose track of

19 these acronyms, but there's some sort of advisory group,

20 a CRAG if you will or a subcommittee of the CRAG that

21 will be consulted with, both to look at what

22 Commissioner Oshie addressed on the cost effectiveness

23 test, more on weatherization, I think we all realize

24 that renewables are pricey now, but what sort of

25 accountability mechanisms are going to be built in?

0087

1 A. (Ms. Sieg) In terms of ensuring that the

2 cost effectiveness test is met?

3 Q. Well, both that and after post install.

4 Let's say these measures are put in and installation is

5 not done properly. There should be some mechanism in my

6 view to look at, you know, if -- at least speaking for

7 myself, I don't think we want to be installing a lot of

8 weatherization measures related to energy structures or

9 small scale solar thermal if either -- they don't work

10 out. They aren't maintained, you know, they're put up

11 there and they -- so I guess what I'm asking for is this

12 advisory or accountability mechanism in my view should

13 be somewhat broader than just looking preinstall, you

14 know, what's the cost effectiveness test, which is what

15 we usually do, what they usually do.

16 A. (Ms. Sieg) Okay. I can speak -- I would

17 like to speak specifically to the weatherization

18 program. Those accountability mechanisms are already in

19 place, because our proposal is really building upon the

20 base of the existing low income weatherization program.

21 That program is conducted in accordance with State

22 policies and procedures. The low income agencies are

23 inspected on a regular basis. They report on a monthly

24 basis to Puget Sound Energy regarding measures that they

25 have installed and completed. We follow the activity

0088

1 very closely. We generate cost effectiveness like back

2 end cost effectiveness analyses on the program to see

3 how it's progressing. So the base program has all that

4 in place already. As for the renewables portion, as you

5 have highlighted, that is a work in progress, so much of

6 that would have to be worked out.

7 A. (Mr. Eberdt) If I may add something?

8 Q. Sure.

9 A. (Mr. Eberdt) Just by way of explanation sort

10 of piling on you might say to what Sandy just said, one

11 of the differences in our -- in the low income program

12 is that we inspect 100% of the work, which is not what

13 typically happens with energy efficiency in residential

14 construction by any means. And one of the messages that

15 the federal government has been sending rather heavily

16 with regard to the ARRA funds is accountability and

17 inspection, and the Inspector General Office federally

18 is involved in that whole thing. So we've been getting

19 a lot of messages about the work being done properly,

20 and, you know, it's always been our intention to

21 maintain that level and to, you know, our -- it's our

22 belief that the best work that's done in residential

23 energy efficiency is what's done in low income homes,

24 and we wish everybody got that good quality.

25 Q. So, Mr. Eberdt, on the small scale renewables

0089

1 side, are you going to be a player in that as well, and

2 do you have any ideas for a similar oversight mechanism,

3 because this would not be federal funded, either LIHEAP

4 or ARRA funding, correct, this would be --

5 A. (Mr. Eberdt) Right.

6 Q. If the Commission adopts this, this would be

7 new money coming directly from a Commission order,

8 correct?

9 A. (Mr. Eberdt) I believe that would be

10 correct, there would not be -- I don't -- well, there

11 could be some federal funding that we might be able to

12 package with this going forward, you know, it's

13 possible. I would assume that we would have to set up

14 what we want for that follow through in the course of

15 making this program work.

16 Q. Okay. So again, as you said, Ms. Sieg, a

17 work in progress on the renewables side?

18 A. (Ms. Sieg) On the renewables side, yes.

19 COMMISSIONER JONES: Judge, that's all I

20 have.

21 JUDGE MOSS: Chairman Goltz I believe.

22 CHAIRMAN GOLTZ: Yes, I apologize for keeping

23 you, I'm thinking of new things here. This follows up a

24 little bit, and I'll be brief.

25

0090

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

2 BY CHAIRMAN GOLTZ:

3 Q. You said to be spent over -- and focus on the

4 renewables, which is approximately $4 Million in the

5 aggregate of the proposal and spent over 7 years, so

6 that's $500,000, $600,000 a year; is that right?

7 A. (Ms. Gravatt) Yes.

8 Q. And so can someone just give a ball park

9 estimate as to if you're going to install rooftop solar

10 on a multifamily residence, what's the ball park cost of

11 that?

12 A. (Ms. Gravatt) I'll refer back to the Exhibit

13 Joint 6, which was just Puget's aggregate estimate per

14 year, and again they were estimating $500,000 per year,

15 an estimated 70 kw would be able to be installed, which

16 is a $7, around just over $7 a watt, so a typical

17 residential system just, you know, one home, is usually

18 3 kw, so it obviously depends on the size.

19 Q. I want to know how much it costs. I mean how

20 many projects would be installed in a year is what I'm

21 trying to get a ball park on. Is it 5, 10, 20? I'm

22 guessing it's around 20.

23 A. (Mr. Englert) With the $500,000 estimate, we

24 estimated there would be about 50 projects.

25 Q. Per year?

0091

1 A. (Mr. Englert) Correct.

2 Q. And then is part of the -- is part of the

3 project or could it be part of the project to at the end

4 or sometime in the middle of the 7 year period to really

5 do a look back and evaluate the cost benefit of these

6 expenditures, of the renewables expenditures?

7 A. (Ms. Gravatt) Absolutely. I mean I think,

8 you know, a lot of these details would have to be worked

9 out with the advisory group, and we actually have had at

10 least one or two internal conversations already about

11 what this sort of advisory group would look like, and

12 obviously the company would take the lead, but, you

13 know, interested stakeholders such as our organization

14 and others much closer to sort of on the ground work

15 would be involved, but yes, making sure that the systems

16 were operated as expected, were, you know, maintained,

17 and that the overall, you know, kilowatt hours were

18 produced as expected. That sort of thing would be --

19 would have to be involved.

20 Q. The reason I ask is it appears to me from

21 looking at the testimony of yours and as well as of

22 others that the debate seems to be about is this cost

23 effective, but is there another -- it's justified by the

24 cost effectiveness, but is there another rationale for

25 the research and development aspect of all this that at

0092

1 the end or sometime in the next few years you'll just

2 have a better idea if going forward this makes sense on

3 a larger scale than this?

4 A. (Ms. Gravatt) I have obviously been remiss

5 in my advocacy role here today. Absolutely, there is a

6 larger bigger picture here than just the cost of the

7 systems. I mean -- and I believe in other places in the

8 testimony we have pointed out that the clean air

9 benefits, the benefits of distributed generation to the

10 distribution system, the making renewables available to

11 a community that ordinarily simply wouldn't have the

12 funds to afford them, the education that sort of, yeah,

13 public education aspect of it particularly on a larger

14 multifamily, these are all factors that are considered.

15 And again, the derivation of the money at issue in this

16 docket is renewable energy, and having a connection

17 between -- some connection between renewable funds being

18 reinvested in additional renewables is a factor to this.

19 Q. Let me then ask of the $4 Million on the

20 renewables, how much of that will actually go to

21 acquisition or installation of renewable facilities, and

22 how much, if any, will be in effect overhead to the

23 various -- either to Puget or to the action agencies?

24 A. (Ms. Gravatt) A specific dollar amount I

25 don't know the answer to. I would point to, and I'm

0093

1 sorry, I don't have the details, but Puget does have a

2 small scale renewable program on solar schools program,

3 and we have sort of consistently internally looked at

4 that program and the staff for questions such as these,

5 but I don't know sort of what the administrative

6 overhead of that would be. I think some of the -- the

7 80%/20% was kind of an initial guess. It is feasible

8 that in, you know, the initial years of the program that

9 those numbers could shift, particularly if the state of

10 the repairs needed is greater than anticipated.

11 Q. I'm just -- I mean I know for example giving

12 this money to the Department of Defense there would be a

13 certain amount that would be taken off as overhead, and

14 I wanted to know if that's true here too.

15 A. (Ms. Gravatt) We are not using the

16 Department of Defense as our model.

17 Q. Okay.

18 Can I hear from Puget on that?

19 A. (Ms. Sieg) Yes, we do have a figure for the

20 administrative overhead for the application of our

21 proposal for the REC proceeds, and the Puget Sound

22 Energy administration costs, which encompasses the

23 weatherization admin costs and the admin costs of the

24 proposed renewables program, we estimate to be about

25 $108,000 a year.

0094

1 Q. Okay, so $108,000 net, that's for

2 administration of the entire $20 Million over a 7 year

3 period?

4 A. (Ms. Sieg) No, I'm sorry, per year.

5 Q. No, I understand, $108,000 per year over the

6 entire -- over the 7 year period, so it would be about

7 $756,000?

8 A. (Ms. Sieg) Yes.

9 Q. Okay. And is that consistent with the

10 overhead percentage that is being used under existing

11 programs?

12 A. (Ms. Sieg) The PSE administrative portion?

13 Q. Yes.

14 A. (Ms. Sieg) Actually on the weatherization

15 side it's about 2.5% of the overall budget, because the

16 base program is already in place, so to administer an

17 additional funding source is going to take some

18 resources, but not significant. On the renewables side

19 of it, when I say that $108,000 a year, a portion of

20 that is for the renewables side even more so than the

21 weatherization just because that would take more PSE

22 admin resources because we are building that program.

23 Q. I understand.

24 A. (Ms. Sieg) Yes.

25 Q. And final question, really final question,

0095

1 is, you know, if -- when you read the literature on

2 rooftop solar, the rationale from the vendors at least

3 to make it cost effective is you will get all sorts of

4 state and federal tax benefits of various types, and I'm

5 assuming that there's no tax, by this taking $4 Million

6 of this $20 Million and putting it into renewables,

7 there's no way to use -- there's no federal tax or state

8 tax benefits to anybody involved here, so that

9 calculation in the cost benefit analysis is not present

10 in this?

11 A. (Ms. Gravatt) Well, let's see, for the

12 federal tax credit which is 30% for solar, yes, the

13 individual homeowner would have to be contributing to

14 take that. That's who the tax credit is designed for.

15 So in the case of a multifamily or something, that's

16 right, if they're not contributing, those tax credits

17 would not be available. Washington state does have at

18 least currently a sales and use tax exemption that would

19 apply to the purchase of the system, so that tax

20 benefit, to the extent it's not zeroed out by the

21 legislature, would be available.

22 A. (Mr. Englert) Chairman, may I clarify the

23 answer I gave to you previously?

24 Q. Sure.

25 A. (Mr. Englert) Regarding your question about

0096

1 the $500,000 per year, if that money were to be applied

2 just to the solar thermal hot water project, then that

3 would be the 50 projects. If that same amount of money

4 were applied for photovoltaic systems, that would sum

5 approximately 70 kilowatts or we estimate about 23

6 locations.

7 Q. I understand, okay. So it depends on the

8 mix, and you don't know that yet?

9 A. (Mr. Englert) Correct.

10 CHAIRMAN GOLTZ: Thank you, I have no further

11 questions.

12 COMMISSIONER OSHIE: Judge, I have a couple

13 follow-ups.

14

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

16 BY COMMISSIONER OSHIE:

17 Q. You know, would all of you really agree that

18 a kilowatt hour saved is the same as a kilowatt hour

19 generated; is that a principle we can all agree on on

20 the panel?

21 A. (Ms. Dixon) Perhaps even better than a

22 kilowatt hour generated.

23 Q. And perhaps because it's saved day in and day

24 out, in a sense generated by energy efficiency as

25 opposed to the intermittent nature of renewables, or

0097

1 just in general, Ms. Dixon?

2 A. (Ms. Dixon) In general, a kilowatt hour

3 saved is the best way to move forward for economic

4 reasons as well as environmental reasons.

5 Q. And if we spend, as I think Ms. Gravatt

6 testified, say for at least rooftop solar up to $7 a

7 kilowatt hour to install a rooftop solar panel and you

8 can buy energy efficiency for 3 1/2 cents a kilowatt

9 hour, if I do my rough lawyer math on it that's about

10 200 kilowatt hours of efficiency you can buy for the

11 same kilowatt hour of solar. Now an economist would

12 probably know where they want to put the money because

13 of the tremendous gulf between the kilowatt hour

14 generated with the solar application and the kilowatt

15 hour saved through energy efficiency; would you agree?

16 A. (Ms. Dixon) Are you saying that to me, I'm

17 not an economist.

18 Q. Do you want to pass the question?

19 A. (Mr. Eberdt) I'm not an economist either,

20 but I'm willing to field the question.

21 Q. That's fine, Mr. Eberdt.

22 A. (Mr. Eberdt) Lord knows I always step where

23 I shouldn't.

24 I agree, and that's why one of the conditions

25 that we talked about in terms of before any solar is put

0098

1 on any building that that building has to be maximized

2 in terms of its energy efficiency. You know, part of

3 our thinking when the company came to us and said let's

4 try to think about ways we can advance the effort in low

5 income and overcome barriers that we see coming forward,

6 you know, one of the things that we felt that we wanted

7 to be able to do was to help move things that were

8 beginning but weren't really going to be beneficial to

9 low income, and to some great extent that's where the

10 solar stuff comes in. It's, you know, the more we can

11 help the proliferation of distributed generation and

12 that sort of thing, the better off we all are, and so

13 that was part of the reason we carved off some of this

14 for renewables.

15 Q. Mr. Eberdt, are you testifying that all low

16 income customers that need energy efficiency resources

17 installed in their home are now receiving them?

18 A. (Mr. Eberdt) Absolutely not.

19 Q. No.

20 A. (Mr. Eberdt) No. What I'm trying to say is

21 we tried to weigh moving in two directions, and that's

22 why the bulk of this money is for repair and energy

23 efficiency, because that's the most effective way to use

24 the money.

25 Q. And if we -- under your proposal, would you

0099

1 -- and let's assume that there's a pot of money divided

2 between renewables and energy efficiency that go to

3 benefit low income customers, at least that's how I

4 understand it, but some are carved off from renewables,

5 if we just put all the money into energy efficiency

6 that's on the table right now based on the petition's

7 proposal, wouldn't that benefit low income customers in

8 a much more significant way than what's being proposed?

9 A. (Mr. Eberdt) I guess the question is one of

10 immediate term or long-term and --

11 Q. Well, what's the -- how do you view the

12 benefits of energy efficiency, do you view that as a

13 long-term investment or just an immediate investment?

14 A. (Mr. Eberdt) I view that as an immediate and

15 a long-term investment. I guess what I'm trying to say

16 is that I see that there's a transitional issue here as

17 far as solar goes, and if it's going to become something

18 that's societally beneficial, we need to be making

19 investments in it so that we can make it work for us.

20 Q. Wouldn't you agree that the low income

21 programs are underfunded with regard to energy

22 efficiency you want to reach the eligible customer base?

23 A. (Mr. Eberdt) I would be foolish to say no.

24 Q. All right. And so if there were extra moneys

25 available to provide these energy resources or energy

0100

1 efficiency resources, isn't that going to benefit more

2 low income customers?

3 A. (Mr. Eberdt) Yes.

4 Q. And there's about $4 Million on the table,

5 what's the budget of your low income program right now

6 per year with Puget?

7 A. (Mr. Eberdt) We're spending, Sandy is

8 probably a better person to answer that, I think we're

9 at around $2 1/2 Million.

10 Q. Okay. So it would be approximately 160% of

11 what you're spending right now annually on energy

12 efficiency?

13 A. (Mr. Eberdt) Well --

14 Q. I know it's divided up over a number of

15 years.

16 A. (Mr. Eberdt) Okay.

17 MR. ROSEMAN: Excuse me, and a number of

18 agencies. Mr. Eberdt is only speaking for the --

19 MR. TROTTER: Your Honor, I'm going to object

20 to counsel testifying. This is the second time, I let

21 it go once. Thanks.

22 JUDGE MOSS: All right, thank you for noting

23 that.

24 A. (Mr. Eberdt) I'm not sure where we are right

25 now.

0101

1 BY COMMISSIONER OSHIE:

2 Q. I'm not sure where we're at either,

3 Mr. Eberdt.

4 A. (Ms. Gravatt) Commissioner Oshie, can I

5 respond to some of your questions just a bit further?

6 Q. Do you disagree with Mr. Eberdt?

7 A. (Ms. Gravatt) Never disagree with

8 Mr. Eberdt.

9 MR. ROSEMAN: I am.

10 A. (Ms. Gravatt) I sense your concern is that

11 any funds in this pool of money would be going to

12 renewable resources, and I will again point out that the

13 large majority of the funds that are at issue here are

14 going to energy efficiency, repairs, weatherization, but

15 these funds wouldn't exist but for the company's

16 investment in renewable resources. They are available

17 because the company invested in renewable resources, so

18 the connection between some portion of them going to

19 additional renewables is a good thing in my point of

20 view, our point of view. And to sort of to expand upon

21 what Mr. Eberdt said, you know, solar is ubiquitous and

22 ultimately not as resource constrained as some of the

23 other renewable resources. And if we are going to meet

24 the climate challenge, we need to invest in all of it,

25 we need all energy efficiency. There's not enough funds

0102

1 available for all clean energy. This is going to

2 address some of the lack of funds for energy efficiency.

3 In an ideal world, we would have enough money to do 100%

4 of all the energy efficiency and invest 100% in clean

5 energy. There's a limited pool of money. But I do

6 think that sort of a long run public interest of

7 enabling a community that wouldn't otherwise be able to

8 benefit directly from renewable resources is worth the

9 investment.

10 Q. Wouldn't you agree, Ms. Gravatt, that the

11 cost of solar as an example and other renewable

12 resources are being driven down by advances in

13 technology and are projected to be significantly lower

14 in the future?

15 A. (Ms. Gravatt) Absolutely.

16 Q. So why don't we invest today at today's

17 prices rather than just wait until it can be more

18 ubiquitous by the availability to more people at a

19 reduced cost? We have a limited pool of money, so why

20 not use it to buy the most and the best we can? And

21 that goes to the energy efficiency question as well,

22 would you agree than an energy -- that a kilowatt hour

23 saved is the same as a kilowatt hour generated?

24 A. (Ms. Gravatt) Well, I think broadly to

25 answer your question that if we waited to invest in

0103

1 renewable resources, that's not always the best

2 decision. Puget has invested wisely early in their wind

3 projects, and those projects were cheaper then than they

4 are today. No, I don't think you wait. I think you

5 invest now. I think the demands of climate demand that

6 we invest now. And again, the large majority of these

7 funds are going to energy efficiency.

8 Q. Well, are you saying that Puget isn't

9 investing enough in renewable resources right now?

10 A. (Ms. Gravatt) Puget is a leader in the

11 region for investment in renewable resources, but more

12 can always be done.

13 COMMISSIONER OSHIE: Okay, thank you.

14 JUDGE MOSS: Have we exhausted our questions

15 from the Bench?

16 CHAIRMAN GOLTZ: Yeah. That was scheduled

17 for 10 minutes I see.

18 JUDGE MOSS: Well, you're not listed.

19 Anything else?

20 Mr. Roseman.

21 MR. ROSEMAN: Yes.

22

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

24 BY MR. ROSEMAN:

25 Q. Mr. Eberdt, are you there?

0104

1 A. (Mr. Eberdt) I am.

2 Q. Good.

3 JUDGE MOSS: Pushing his mute button.

4 Q. In the past have low income projects been

5 used to experiment or to receive new technologies in

6 weatherization?

7 A. (Mr. Eberdt) Yes, absolutely.

8 Q. And can you give some examples of those

9 technologies that had been first used primarily in low

10 income homes and then expanded to the larger population?

11 A. (Mr. Eberdt) Well, yeah, there are three

12 areas that come immediately to mind that are basic and

13 contribute heavily to energy efficiency. One is what we

14 call dense pack insulation where the insulation is blown

15 into the wall at a high density. And as a result of

16 that, you not only get the conductive resistance, you

17 get a fair amount of infiltration resistance as well so

18 that the insulation actually performs better. The low

19 income network is where fan door diagnostics were worked

20 out to begin with and perfected over the last 15 years

21 so that we can actually test houses to see how leaky

22 they are and where those leaks are. And it's through

23 the technology working with that technology over the

24 years that we've learned how to use that properly so

25 that you don't waste a lot of money caulking and weather

0105

1 stripping areas that aren't going to do you any good at

2 all and so that you also find the leaks that are in fact

3 going to result in problems for the structure if you

4 don't deal with them that could result in moisture

5 control problems and things like that. And the third

6 area where I think the low income network was the guinea

7 pig that has produced one of the best energy saving

8 measures is in dealing with ductwork, duct leakage

9 control and ceiling ductwork so that you don't spend a

10 lot of money heating, burning gas or using electricity

11 or whatever to heat air that you then send out through

12 your ductwork into your crawl space before it ever gets

13 to your heated space.

14 Q. How about compact fluorescents?

15 A. (Mr. Eberdt) I forgot about that. Yeah, we

16 actually with this very utility back in the '80s were,

17 you know, kind of, for lack of a better way of putting

18 it, beating them up to install compact fluorescents

19 before a lot of the utilities wanted to do it.

20 JUDGE MOSS: Okay, well, if there's nothing

21 further then, I will thank our panelists for being here

22 today, and you, Mr. Eberdt by telephone, and release you

23 all. I don't think I will even bother to say subject to

24 recall, because we've had pretty thorough examination

25 this morning.

0106

1 It's now about 5 minutes before the hour, so

2 why don't we take our morning recess until 10 after the

3 hour, and please be prompt so we can use our time

4 efficiently before lunch.

5 (Recess taken.)

6 JUDGE MOSS: All right, let's be back on the

7 record, and Mr. DeBoer has already taken the witness

8 stand but we'll need to swear him in, so if you will

9 please rise and raise your right hand.

10 (Witness TOM A. DEBOER was sworn.)

11 JUDGE MOSS: Thank you, please be seated.

12 MR. SANGER: Judge Moss.

13 JUDGE MOSS: Mr. Sanger.

14 MR. SANGER: Judge Moss, I would like to

15 address a procedural issue before we start with the

16 cross-examination.

17 JUDGE MOSS: All right.

18 MR. SANGER: Currently on the line I believe

19 are Scott Norwood and Don Schoenbeck, were you able to

20 inquire about the availability of a separate line for

21 them to call into?

22 JUDGE MOSS: Actually I neglected to do that

23 during the break. Is their presence necessary in some

24 fashion?

25 MR. SANGER: Mr. Schoenbeck's presence is not

0107

1 necessary. I will let Ms. Shifley address Mr. Norwood's

2 presence, whether that is necessary or not.

3 MS. SHIFLEY: It's not necessary, but it

4 would be very helpful I guess for us to be able to have

5 our expert witness, if possible.

6 JUDGE MOSS: Mr. Trotter, are you going to

7 get into areas of confidentiality with your examination

8 that we might need to close the hearing room?

9 MR. TROTTER: I have no plans currently to do

10 that.

11 JUDGE MOSS: All right, then we're going to

12 start with Mr. Trotter, and we'll see how things go, and

13 that will give me the opportunity perhaps during the

14 luncheon break to make up for the fact that I neglected

15 to do that during the recess while maximizing the

16 efficient use of our time.

17 So is there anything else?

18 All right, then we'll begin with you,

19 Mr. Trotter.

20 MR. TROTTER: Thank you, Your Honor.

21

22 Whereupon,

23 TOM A. DEBOER,

24 having been first duly sworn, was called as a witness

25 herein and was examined and testified as follows:

0108

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

2 BY MR. TROTTER:

3 Q. Good morning, Mr. DeBoer.

4 A. Good morning.

5 Q. In my questions of you today I'm going to use

6 some acronyms, probably just two, REC to refer to

7 renewable energy credit and CFI to refer to carbon

8 financial instruments. Is that your understanding of

9 how those acronyms are used?

10 A. Yes.

11 Q. I would like to start briefly with a few

12 CFIs. I believe I read in your testimony that PSE

13 traded those on a Chicago exchange but no longer does

14 so; is that correct?

15 A. That's correct. We entered into a phase 1

16 agreement which is now completed, so those sales are all

17 done as of November of last year.

18 Q. So on a going forward basis, would it be fair

19 to say that PSE does not plan to engage in those

20 transactions?

21 A. We don't have any current plans to. We did

22 not engage -- elect to go forward with phase 2 of that,

23 and we don't have any plans for any other sales of

24 carbon instruments at this time.

25 Q. So the confidential figure in the record for

0109

1 CFIs is the liquidated figure?

2 A. Yes.

3 Q. My questions today are on your rebuttal

4 testimony if you turn to page 21 of Exhibit TAD-3HCT.

5 JUDGE MOSS: What was the page, Mr. Trotter?

6 MR. TROTTER: 21.

7 JUDGE MOSS: Thank you.

8 BY MR. TROTTER:

9 Q. Line 14. And you recall, Mr. DeBoer, Staff

10 witness Mr. Parvinen described his understanding of the

11 accounting PSE would use for an uncompensated writeoff

12 of the California receivable?

13 A. Yes.

14 Q. In your testimony here you take exception to

15 that, and just for the record we have entered in the

16 record Exhibit TAD-10 which is PSE's idea of the proper

17 accounting under that scenario?

18 A. Yes.

19 Q. Regardless of whether PSE is correct or Staff

20 is correct on the accounting methodology, under either

21 there would be no rate impact to rate payers; is that

22 right?

23 A. That's correct. The $21 Million California

24 receivable would never be collected from retail rate

25 payers in Washington under any accounting scenario.

0110

1 Q. As long as we're agreeing on things, let's go

2 to page 19, your answer beginning on line 15. Actually

3 on line 18 you indicate that there are, this is in

4 discussing of methods for allocating REC revenues or REC

5 proceeds, and you say there are other reasonable

6 approaches to allocating these credits to customers as

7 suggested by the parties to this case, and you would

8 include Staff, Public Counsel, ICNU, and Kroger in that

9 statement?

10 A. Yes, most of them were variations on a

11 similar theme.

12 Q. So their proposals, just the mechanics of

13 them are acceptable to PSE?

14 A. Yes, we proposed a return of an offset

15 against the regulatory asset, but we're not opposed to

16 returning it similar to the PTC credits that are

17 currently being returned to customers.

18 Q. Let's turn back to page 4, and your testimony

19 starts on the prior page but you kind of get into it on

20 page 4, and you are critiquing the Staff, Kroger, ICNU,

21 and Public Counsel proposal that all the benefits from

22 RECs and CFIs go to rate payers who pay in rates for the

23 assets that generate those RECs and CFIs because

24 according to you on line 4 here their theory is based on

25 a false premise. Do you see that?

0111

1 A. Yes.

2 Q. And the false premise that you allege is that

3 rate payers rather than investors supply the capital to

4 fund those resources that gave rise to the REC revenues

5 when in fact investors supply that capital?

6 A. That's correct, it's our position that

7 investors supply that capital.

8 Q. Okay. And it's also your position that the

9 parties not aligned with PSE in this case have based

10 their proposals on a false premise?

11 A. Well, we take issue the way the parties have

12 characterized how these -- with the argument that 100%

13 of the REC benefits should go back to rate payers

14 because the argument that the costs are included in

15 rates. That's what we're taking issue with.

16 Q. And you call it a false premise?

17 A. Yes.

18 Q. On line 4. PSE is not proposing that

19 investors get 100% of the REC and CFI proceeds in this

20 case, is it?

21 A. No, in fact we're proposing that we get less

22 than 10%.

23 MR. TROTTER: Your Honor, I would just

24 caution the witness that we may be getting into

25 derivable confidential information.

0112

1 THE WITNESS: Thank you, Mr. Trotter, you're

2 exactly right.

3 MR. TROTTER: I'm sorry I roped you into that

4 one.

5 JUDGE MOSS: We call that waiver.

6 THE WITNESS: It's the yellow paper it's on

7 that threw me.

8 BY MR. TROTTER:

9 Q. All the risks inherent in the investment that

10 investors make in PSE are reflected in the cost of the

11 capital they provide; is that correct?

12 A. I'm sorry, could you repeat that question.

13 Q. All of the risks inherent in the investment

14 that investors make in PSE are reflected in the cost of

15 the capital they provide, correct?

16 A. Yes, I think that's true.

17 Q. And in setting PSE's rates, the Commission

18 calculates that cost of capital and applies it to the

19 rate base to determine the fair return component of

20 rates, correct?

21 A. They provide an opportunity to earn that

22 return, yes.

23 Q. And the fair return component of rates is how

24 investors are compensated for the risks they undertake

25 in providing their capital to PSE, correct?

0113

1 A. That's correct.

2 Q. Now in the middle of page 4 and, well, just a

3 moment, at the bottom of page 4 and over onto page 5 you

4 make the point that when these projects were being

5 developed the REC market was in its infancy and so on,

6 and over on page 5 you say, quote, starting at line 2:

7 Accordingly, the decision to acquire

8 both the Hopkins Ridge and Wild Horse

9 projects and the decision to enter into

10 the Klondike 3 power purchase agreement

11 were all made without giving weight to

12 any potential benefits associated with

13 prospective REC sales.

14 Do you see that?

15 A. Yes.

16 Q. And when we talk about the decision to

17 acquire or the decision to enter into, that was PSE's

18 decision, correct?

19 A. Correct.

20 Q. And it was also the investors' decision to

21 invest in PSE and then have PSE use that money to invest

22 in these projects, correct?

23 A. Correct.

24 Q. So would it be correct that would it follow

25 by logic then that the investors' decision to invest in

0114

1 these projects were made without giving weight to any

2 potential benefits associated with prospective REC

3 sales?

4 A. No, I wouldn't agree with that.

5 Q. So you're telling me that although PSE did

6 not consider potential benefits associated with

7 prospective REC sales when it decided to acquire Hopkins

8 Ridge and Wild Horse and enter into the Klondike 3 power

9 purchase agreement, the investors did?

10 A. Well, the point of the statement is that when

11 we did the analysis to build into rates these plants and

12 this PPA with Klondike, we didn't consider any value for

13 RECs, so those were not part of the prudence

14 determination of bringing those plants into rates. We

15 had known and it was in the testimony in those rate

16 cases when we brought those plants in that RECs are out

17 there. They just weren't factored into the rate

18 calculation.

19 Q. Very good. So then it's your testimony that

20 investors did consider prospective REC sales when they

21 made their investment decision to give this money to PSE

22 for investing in these projects?

23 A. No. We knew the prospects of RECs was out

24 there. We made the decision to invest in these wind

25 facilities because we had to comply with the RPS and we

0115

1 had to provide -- to meet our resource need.

2 Q. I'm focusing on investors now, was your

3 answer responsive? When you said we, did you mean

4 investors as well as PSE?

5 A. Well, yes, one and the same.

6 Q. Okay. I would like to present an example. I

7 would like you to assume that PSE prudently acquires a

8 resource that is expected to perform at a certain level

9 of proficiency, and it is that level that's reflected in

10 the planning documents, PSE's decision to purchase the

11 resource, and the UTC's prudence review of that

12 resource. Do you have that in mind?

13 A. Yes.

14 Q. And let's further assume that in actual

15 operation that resource turns out to be significantly

16 more efficient than planned, and that's an ongoing

17 characteristic of the plant. Do you have that in mind?

18 A. Yes.

19 Q. In the rate making process used by the UTC,

20 the rate payers would receive the benefits of that

21 higher than expected level of performance; isn't that

22 right?

23 A. Not entirely. I believe it would flow

24 through the PCA, so both rate payers and customers would

25 share in those benefits.

0116

1 Q. You said rate payers and customers.

2 A. I'm sorry, rate payers and shareholders.

3 Q. You mean through the sharing bands?

4 A. Yes.

5 Q. Is that what you're talking about?

6 A. PC sharing bands.

7 Q. So if PC was in the outer band, it would be

8 100% to rate payers?

9 A. I don't know what you mean by outer band, but

10 there is the band where 100% is born by rate payers and

11 100% born by shareholders depending on which side of it

12 you were on.

13 Q. So it depends on where you are in the band?

14 A. Correct.

15 Q. And to the extent rate payers receive

16 benefits from those, that higher efficiency, would high

17 income rate payers get an exclusive share of those

18 benefits?

19 A. No.

20 Q. Would low income rate payers get an exclusive

21 share of those benefits?

22 A. No.

23 Q. And just to complete the example, the middle

24 income rate payers wouldn't get an exclusive share of

25 those benefits either, right?

0117

1 A. Correct.

2 MR. TROTTER: Those are all my questions,

3 Mr. DeBoer, thank you.

4 JUDGE MOSS: Thank you, Mr. Trotter.

5 Well, we still have about 35 minutes, let's

6 see if we can use that efficiently.

7 Mr. Sanger, you said that it was not

8 critically important to you if Mr. Schoenbeck was

9 listening in, so. And I will ask you first though, does

10 your cross -- is your cross going to venture into the

11 use of highly confidential or confidential information

12 that would need to be disclosed?

13 MR. SANGER: Yes, Your Honor, it's very

14 likely that my testimony will address confidential

15 material.

16 JUDGE MOSS: All right, then can we go ahead

17 with that then, you're prepared to go ahead without

18 Mr. Schoenbeck sitting here?

19 MR. SANGER: Yes, I am, Your Honor. I would

20 like to set a time specific for Mr. Schoenbeck to call

21 back in if he's going to be required to go off the line

22 though.

23 JUDGE MOSS: Okay, well, we'll take our

24 recess around 12:00.

25 (Discussion on the Bench.)

0118

1 JUDGE MOSS: We'll plan to come back about

2 1:15 after lunch, so that will probably be the right

3 time for him to check back in.

4 MR. SANGER: Okay.

5 JUDGE MOSS: Now do you have some portion of

6 your testimony or your inquiry that is not confidential,

7 or do we need to go into confidential session now?

8 MR. SANGER: I do have a portion that is

9 non-confidential, but I would recommend that we, it's

10 only a couple questions, I would recommend we just go

11 into confidential session now.

12 JUDGE MOSS: All right, and I think that will

13 probably promote efficient use of our time, which is my

14 interest here.

15 So I'll just tell you, those of you on the

16 conference bridge line, you will not be able to listen

17 in for the next 30 minutes, at which time we will take

18 our luncheon recess until 1:15. Check back in at 1:15,

19 and we'll see where we are at that juncture, and if we

20 have any information that is helpful to you with respect

21 to listening in, we'll let you know.

22 So with that, I will ask those of you here in

23 the room if there are any who are not signatories to the

24 confidentiality agreements under the protective order

25 that's effective in this proceeding, I will have to ask

0119

1 you to please leave the room. It doesn't look like

2 anybody's rushing through the doors, so I'm assuming you

3 are all privileged.

4 So with that, I'm going to mute the bridge

5 line, and we will be in confidential session.

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

2 JUDGE MOSS: I'll just apologize in absentia

3 as it were to those who have hung up the line and aren't

4 there with us any more, but the conference bridge line

5 is now on again, so if somebody wants to call somebody

6 and let them know, that's fine, but in any event go

7 ahead, Mr. Boehm.

8 MR. BOEHM: Thank you, Your Honor.

9

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

11 BY MR. BOEHM:

12 Q. Good morning, Mr. DeBoer, my name is Kurt

13 Boehm, I represent the Kroger Company.

14 I would like to direct you to page 3, line

15 16, of your rebuttal testimony. And in these passages,

16 you're noting the distinction between an asset owner

17 such as Puget and a customer who purchases electric

18 service; is that correct?

19 A. Yes.

20 Q. Isn't it true that in PSE's role as an asset

21 owner they just asked the Commission for a rate increase

22 of approximately $110 Million per year from electric

23 customers?

24 A. Yes, I believe that's the number in the

25 rebuttal case.

0133

1 Q. And this rate increase was justified to

2 recover Puget's costs as the owner of the assets to

3 provide electric service; is that correct?

4 A. That was to recover our revenue deficiency.

5 It covers a lot of things, yes.

6 Q. Now in asking for the $110 Million increase,

7 was the value of Puget's REC sales made from its assets

8 taken into account?

9 A. No, these were two separate dockets.

10 Q. And in fact testimony that a few interveners

11 filed in that case in reference to the RECs was struck

12 from the record; is that correct?

13 A. That's correct.

14 Q. Do you think it's reasonable for customers

15 who are being asked to pay an additional $110 Million in

16 rates to Puget to ask the Commission for a fair

17 consideration of the REC values produced by those assets

18 to help defray the cost of the rate increase that Puget

19 has requested?

20 A. I do. That's exactly why we filed the

21 accounting petition and why we proposed to give the bulk

22 of the REC revenues back to customers.

23 MR. BOEHM: That's all the questions I have.

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

25 Well, that probably exhausts what we can

0134

1 usefully do before the luncheon recess. We'll check

2 into the phone situation for Mr. Norwood, Ms. Shifley,

3 during that recess, but in the meantime we'll just get

4 an extra 15 minutes for lunch, and we'll be in recess

5 now until 1:15 this afternoon.

6 (Luncheon recess taken at 11:45 a.m.)

7

8 A F T E R N O O N S E S S I O N

9 (1:15 p.m.)

10 JUDGE MOSS: All right, let's be back on the

11 record. We are continuing to try to make arrangements

12 for witnesses who are not present to be able to call in

13 during the confidential session, and that is in progress

14 I hope. Once we get that set up, then we'll just have

15 to have the counsel or other representatives contact

16 their witnesses by separate phone, because we need to

17 move on with our hearing now, and I understand I think

18 the only cross we have left from Mr. DeBoer is from you,

19 Ms. Shifley, and Ms. Shifley has indicated to me off the

20 record that she wishes to stray into the confidential or

21 highly confidential material, so this will mean we need

22 to go back into confidential session. So those of you

23 who are on the bridge line who are expecting that we can

24 make some special arrangement, we are indeed working on

25 that, and your representative will contact you hopefully

0135

1 shortly so that you won't miss very much. But in the

2 meantime, I'll have to turn off the bridge line and ask

3 those present in the room who are not signatories to the

4 appropriate confidentiality agreement under the

5 protective order in this proceeding, please leave, thank

6 you.

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

2 JUDGE MOSS: Now, Ms. Carson, do you still

3 have cross-examination for Mr. Parvinen?

4 MS. CARSON: I do not.

5 JUDGE MOSS: Mr. Roseman, do you still have

6 cross-examination for Mr. Parvinen?

7 MR. ROSEMAN: I do not, Your Honor.

8 JUDGE MOSS: All right, well, Mr. Parvinen,

9 it appears you're off the hook unless the Bench has

10 questions.

11 CHAIRMAN GOLTZ: Commissioner Jones has

12 questions.

13 JUDGE MOSS: Commissioner Jones has

14 questions, so, Mr. Parvinen, I will ask you to take the

15 stand.

16 COMMISSIONER JONES: I don't.

17 JUDGE MOSS: Why don't you come over here.

18 Separation probably makes it a little easier for our

19 court reporter.

20 Please raise your right hand.

21 (Witness MICHAEL P. PARVINEN was sworn.)

22 JUDGE MOSS: Thank you, please be seated.

23 Everything has been stipulated in, but do you

24 want to go through the preliminary ritual, Mr. Trotter?

25 MR. TROTTER: I have no need to, Your Honor.

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1 JUDGE MOSS: Okay, very well, then,

2 Mr. Parvinen, apparently you are going to be available

3 for questions from the Bench because the other counsel

4 have waived cross, so Commissioner Jones.

5 COMMISSIONER JONES: No questions.

6

7 Whereupon,

8 MICHAEL P. PARVINEN,

9 having been first duly sworn, was called as a witness

10 herein and was examined and testified as follows:

11

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

13 BY CHAIRMAN GOLTZ:

14 Q. Well, just since you took all the trouble to

15 go over there, one of the -- we just heard Mr. DeBoer

16 talk about the justification for attributing some of

17 that bid in that auction to a settlement of the disputed

18 amount, and my question is whether there's a different

19 rationale that could be applied. And I think Mr. DeBoer

20 hinted at it in that apparently Puget has and other

21 utilities may have available to them some RECs which

22 would not perhaps when they built the plants years ago

23 did not require them, did not -- they did not fully know

24 their value, that may have been uncertain. Let me ask

25 you that first, would you agree with that when, you

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1 know, several years ago when some of these plants were

2 acquired that the value of the RECs may have been very

3 uncertain?

4 A. It was uncertain, and it wasn't used in a

5 calculation of a prudence determination or cost

6 effectiveness of those plants.

7 Q. And so but nevertheless they turned out they

8 did have some value, and isn't there a rationale under

9 sort of Commission practice for allowing utilities some

10 share in order to create some incentive for going out

11 and maximizing the price for the sales? And let me get

12 -- while you're thinking about that, let me just strike

13 that for a second and go back. I mean the market for

14 electricity if they have surplus power at any given

15 point, like, you know, maybe today is a warmer day so

16 they have a little bit of surplus so they would try to

17 sell that and the price would be what it is. They can't

18 say, well, I'll sell that electricity tomorrow, because

19 it's only here today. But in contrast, the RECs are

20 either can be sold today, they could be sold tomorrow,

21 they could be sold a month from now, and so isn't there

22 some argument that in order to create an incentive for

23 the company to maximize the revenues from those RECs,

24 they should get a little bit of skin in the game so to

25 speak, a little bit of the sharing in order to create

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1 the incentive so they just don't say, oh, we got these

2 RECs, let's sell them, and whatever, if it's all going

3 to go to rate payers, then whatever it is, that's what

4 it is?

5 A. Well, a couple different thoughts on that,

6 and Mr. Higgins from Kroger suggested that that is an

7 option, to give the company an incentive to go out and

8 do the absolute maximum because they would, as you said,

9 have some skin in the game. The other line of thought,

10 and which was the first question you completed I never

11 had a chance to answer, I couldn't think of an exact --

12 of a precise example of that occurring other than prior

13 to the PCA I guess that was the situation. The

14 companies had the incentives to go out and maximize the

15 use of their system. And those revenues, even though

16 they would be booked above the line, would determine

17 they would be part of a test year or a year in which the

18 company would then decide based on those operations if

19 they needed to come in for rates or not. But to the

20 extent they did really well, they didn't need to file

21 rates, then it would go to shareholders, so there was an

22 incentive from that standpoint.

23 Q. Switching over to the issue we dealt with

24 with the panel this morning, your testimony was that the

25 renewables, using this on renewables would not be cost

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1 effective but that conservation would be or may be?

2 A. My testimony is that both are not cost

3 effective.

4 Q. But the conservation expenditures would be

5 closer to cost effective than the renewables; did you

6 parse it out that finely?

7 A. I didn't parse it out because it was really

8 difficult to tell from the data request how non-cost

9 effective the renewables were.

10 Q. Okay. Is it -- but is it true that in, not

11 looking at this particular proposal, but at the

12 conservation, in general, conservation expenditures and

13 conservation programs approved by the -- are cost

14 effective?

15 A. Yes.

16 Q. And isn't it also true that some elements of

17 the -- of an overall package of conservation programs

18 are more cost effective than others?

19 A. That's correct.

20 Q. And within a whole package of Puget's and

21 realistically take Puget's conservation program, there

22 are some specific elements that if they stood alone

23 would not be cost effective; would that be true?

24 A. That is correct.

25 Q. And but yet the Commission looks at them as

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1 an overall package?

2 A. Yes. And I believe that's basically under

3 the premise that if you're going out and acquiring just

4 the most cost effective things, it's more beneficial to

5 pick up other components at the same time. For example,

6 if you're doing a house, doing certain measures within a

7 house, that one piece may not be more cost -- that cost

8 effective now, but it's better to do that as part of the

9 total package than to try to come back at a later date

10 when it may become cost effective. So yeah, when you

11 look at the conservation from a program, and I'm trying

12 to think of the term that keeps getting told to me, but

13 it's basically at a program level as opposed to a

14 specific measure.

15 Q. So should we look at this proposal as part of

16 the overall conservation/renewable effort of Puget, or

17 should we look at it as just a standard, it rises and

18 falls under its own little package?

19 A. Well, and that gets to the crux of my

20 testimony that if it were cost effective as a program,

21 it would be included in the programs, and that's not

22 precluded from happening.

23 JUDGE MOSS: Let me interrupt for half a

24 second. I have been remiss in not taking us out of

25 confidential session, so I would like to do that now,

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1 and I will just direct too that Mr. Parvinen's portion

2 of the testimony of this record should not be included

3 in the confidential part of the transcript.

4 CHAIRMAN GOLTZ: Well, with that, I don't

5 have any further questions.

6 JUDGE MOSS: All right.

7 COMMISSIONER OSHIE: Judge, I have a few

8 questions to follow up.

9

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

11 BY COMMISSIONER OSHIE:

12 Q. Let me explore this notion of whether there's

13 a value of having skin in the game, Mr. Parvinen. And,

14 you know, it's -- if we -- I don't -- maybe you can -- I

15 think I understand Staff's position with regard to the

16 attributes, if you will, of renewable generation, and,

17 you know, they have -- there are many features of them

18 that produce revenue or could produce revenue so to

19 speak, they have value. You have production tax

20 credits, investment tax credits, you have accelerated

21 depreciation, you have sales of power that's not

22 required by the utility at any given time, and of course

23 you have the value of the power when necessary. Does

24 that -- am I missing anything in what I would call the

25 positive attributes of renewable generation?

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1 A. Off hand that's a pretty complete list.

2 Q. Well, I'll never come back in some other

3 situation and say, now, do you remember your testimony

4 on March 5th, you know, didn't, wasn't that part of

5 that, no, that's not -- but I mean all of these

6 attributes at least have some economic value so to

7 speak, do they not?

8 A. Yes.

9 Q. And if we took another generator as an

10 example, a natural gas generator, the attributes from

11 that generator are -- they're perhaps, you know, they're

12 really two, which is you can make off system sales or

13 off, yeah, off system sales, or you can use the energy

14 generated for your own need; is that correct?

15 A. Right.

16 Q. And I suppose one other sort of side benefit

17 is if you didn't really need to run the facility, you

18 might be able to move the gas or the capacity of the gas

19 and similar transmission capacity to another third party

20 for a value; is that correct?

21 A. Right, that's correct.

22 Q. Now is there -- isn't the skin in the game

23 with regard to the natural gas generator the PCA dead

24 bands? I mean there it's if the utility is -- does

25 well, saves money in their costs, don't they get to keep

0200

1 that, at least a portion of it, up to a certain band

2 don't they keep 100% of it?

3 A. Yes.

4 Q. And is there any reason philosophically to

5 treat, you know, these wind generators any differently

6 than a natural gas generator with regard to the

7 disposition of attributes that have economic value that

8 can be sold into the marketplace?

9 A. Maybe I'm not quite getting what you're

10 driving at, but I believe wind --

11 Q. Let me break it down. If -- so we have the

12 -- we have the natural gas generator as a model, so

13 let's take the renewable generator, say it's wind. When

14 the utility makes an off system sale of energy from a

15 wind generator, you know, if you could hypothetically

16 parse those electrons, should it be -- is it Staff's

17 position that those revenues from that sale should be --

18 from the wind generator sale should be treated in the

19 same way as revenues from a natural gas generator?

20 A. Yes.

21 Q. And an economic attribute, if you will, that

22 has value are RECs. Essentially as I read Staff's

23 testimony, Staff is asking that those, you know, it's a

24 little bit treatment than off system sales, but you want

25 the economic value of those RECs to be flowed back to

0201

1 rate payers?

2 A. That's correct.

3 Q. And if we treated those RECs as revenue as we

4 did its off system sale revenue, then the skin in the

5 game would be -- wouldn't that be the bands within the

6 PCA?

7 A. Yes.

8 Q. And if we -- and I know that we treat the

9 production tax credits differently, but if we used those

10 values and also treated them as an economic attribute

11 and wanted to treat that as an off system sale as an

12 example, there would be, you know, there would be skin

13 in that game for essentially both parties, correct?

14 A. That's correct.

15 Q. Okay. I don't really, you know, is there --

16 and do you see is there, now that you're on the stand,

17 in Staff's mind is there an issue of intergenerational

18 equity that's presented by these wind facilities?

19 A. As far as the RECs go or in this case?

20 Q. I think just in general. I mean are there --

21 I mean there's -- I think at least I understand the

22 reason why utilities are investing in wind now is to

23 meet the requirements of the law primarily which has a

24 real effect in 2012 and goes forward from there; is that

25 correct?

0202

1 A. Yes.

2 Q. And if -- and so, if you will, you know, with

3 the benefits of wind are really in, you know, they're

4 executory in nature, they're going to happen sometime in

5 -- they will be more fully realized in the future; is

6 that correct?

7 A. Well --

8 Q. At least hypothetically? Well, let me, yeah,

9 do you see -- how do you view the future benefits of

10 wind generation as the director of our energy staff?

11 A. You're -- okay. Generally speaking wind is

12 another resource that the company uses to meet its load.

13 It has long-term implications in that it's a resource

14 that will be here for, you know, 20, 30, 40 years. They

15 have long-term life effects. The benefits that are

16 derived up front to help offset that are for the most

17 part normalized so that those are passed on over the

18 life of that facility, with the exception of the

19 production tax credit. But the tax benefits associated

20 with accelerated depreciation through the use of

21 deferred tax, those get extended over the life of the

22 facility.

23 Q. All right. And so in your mind that -- the

24 way that we -- the rate treatment that we use for these

25 facilities mitigates against any intergenerational

0203

1 equity that may exist or intergenerational inequity,

2 excuse me?

3 A. Yes.

4 COMMISSIONER OSHIE: All right, no other

5 questions, Judge, thanks.

6 JUDGE MOSS: Okay, anything else?

7 Apparently not.

8 Mr. Trotter, do you have any redirect?

9 MR. TROTTER: I just have a few questions,

10 Your Honor, thank you.

11

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

13 BY MR. TROTTER:

14 Q. You were asked some questions regarding a

15 PCA. Absent an accounting petition context, would REC

16 revenues be run through the PCA as it's currently

17 constituted?

18 A. No. We did ask that that -- we actually

19 asked that exact question in a data request to the

20 company, and the response, and I don't have the exact

21 response in front of me, but no, it would be run through

22 Account 447 I believe was their account, which is other

23 sales for resale type account, so it would be above the

24 line and booked through normal operating revenues.

25 Q. You were asked some questions about incentive

0204

1 mechanisms, are those easily implemented in your

2 experience, Mr. Parvinen?

3 A. No, they're highly vetted in front of the

4 Commission and all options are presented.

5 Q. In your opinion, should the burden be on PSE

6 or the Commission Staff to show that the utility

7 maximized its revenues?

8 A. Well, the burden of proof is typically on the

9 company to demonstrate that it's operating in the best

10 interests of customers.

11 Q. Turning to the -- well, let me ask it another

12 way. Should the company be rewarded in your opinion for

13 making a sale at market?

14 A. No.

15 Q. You were asked some questions about the cost

16 effectiveness of conservation. I would like to turn you

17 to Exhibit J-8, which is PSE's current conservation

18 tariff, on page 5. Chairman Goltz asked you about how

19 cost effectiveness is measured, and I would like to

20 focus you on item 7 on that page where it says in the

21 first sentence, the last part of it, a measure must

22 reasonably be expected to satisfy the total resource

23 cost tests and the utility cost tests; do you see that?

24 A. Yes, I do.

25 Q. And so does each measure need to satisfy

0205

1 those two tests, or is it a program basis or both, or

2 what's your understanding?

3 A. This is based on, yeah, this is based on

4 measure that -- and typically the way I would look at

5 this is overall the total resource cost test applies to,

6 you know, taking a look at measures, the total actual

7 costs and benefits, measurable, unmeasurable, societal,

8 and it has to pass that test. And then from the

9 utility's standpoint on what the utility will pay for a

10 benefit is strictly measured against energy cost, and

11 that's what the utility cost test is. So it does have

12 to pass both components, and these measures do not pass

13 the utility cost test.

14 Q. Can you give an example let's say using a

15 highly efficient clothes washer, is it possible for a

16 customer who wants that measured to get a benefit say

17 from his or her sewer utility and his or her water

18 utility?

19 A. Yeah, that's a good example for the total

20 resource cost test since a high efficiency washer saves

21 not only energy, saves water, saves on sewer, so there's

22 a lot of benefits associated with that. But for then

23 for the utility, what it actually saves is just the

24 energy. So the customer can get the benefits of

25 multiple savings, but what the utility would pay for is

0206

1 only those energy savings associated with that.

2 Q. I believe the panelists testified this

3 morning that the renewable measures in their proposal

4 cost $7 a watt; did you hear that?

5 A. Yes.

6 Q. And how much is that per megawatt?

7 A. $70.

8 Q. If you saw PSE coming in with a resource and

9 you didn't know what it was and it cost $70 a megawatt,

10 would you be concerned about the cost effectiveness of

11 that resource?

12 A. That --

13 Q. Maybe you want to review your math.

14 A. That's not quite an apples to apples

15 comparison.

16 JUDGE MOSS: I think maybe we better rework

17 the math.

18 MR. TROTTER: I think so too. I will just

19 withdraw the question.

20 JUDGE MOSS: $7 a watt works out to $7,000 a

21 kilowatt.

22 COMMISSIONER OSHIE: Mr. Parvinen is using

23 lawyer math there, run him down the wrong path.

24 THE WITNESS: Somebody told me to bring my

25 calculator.

0207

1 BY MR. TROTTER:

2 Q. Is $7 a watt $7,000 a megawatt?

3 A. There you go.

4 Q. And would that cause concern if a measure, or

5 excuse me, a resource was proposed by PSE at that cost?

6 A. Absolutely.

7 MR. TROTTER: That's all I have, thank you.

8 JUDGE MOSS: All right, anything else?

9 All right, Mr. Parvinen, thank you very much

10 for walking across the room and being on the stand with

11 us this afternoon.

12 And I believe that completes the examination

13 of witnesses. Is there other business the parties wish

14 to conduct on the record?

15 Apparently not.

16 I have one remaining piece of business that I

17 want to conduct. I will call it a matter of personal

18 privilege, if you will. Although he chose to flee the

19 jurisdiction earlier today, one thing I wanted to do

20 this afternoon was acknowledge Dick Byers, who is in all

21 likelihood participating in his last hearing here as the

22 Commission's Senior Policy Advisor for Energy. I've had

23 the pleasure of working with Dick for 13 years and have

24 done many cases with him and with you all, and it's been

25 a real honor to work with Dick. He's also a close

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1 personal friend, and I'm looking forward to many more

2 years in that capacity. But since this will, as I said,

3 in all likelihood be his last hearing, I wanted to

4 acknowledge that on the record and give him that little

5 bit of immortality.

6 (Applause.)

7 CHAIRMAN GOLTZ: I hope the court reporter

8 records the fact there was applause there. So I too

9 would just echo what Judge Moss said. I haven't worked

10 with him as much as Judge Moss, but in the last year

11 worked with him quite a bit, and I can just assure

12 everyone that he's given the Commission just total,

13 thorough, unbiased, objective, intelligent advice on all

14 matters. He did say that he was going to be gone this

15 afternoon, but he said he would read the transcript, so

16 we'll just let him come to this.

17 JUDGE MOSS: Okay, well, with that I believe

18 we have concluded our hearing, and I believe we have a

19 briefing schedule already, is that right. Okay, so

20 we'll be looking forward to receiving the parties'

21 briefs in due course and we'll get to the decision, so

22 thank you all very much.

23 (Hearing adjourned at 3:00 p.m.)

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25