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BEFORE THE WASHINGTON STATE

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UTILITIES AND TRANSPORTATION COMMISSION

3

4 In the Matter of the Amended)
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)
_____)

9

PORTIONS DESIGNATED CONFIDENTIAL - REMOVED

10

11 A hearing in the above matter was held on
12 March 5, 2010, from 9:30 a.m to 3:00 p.m., at 1300
13 South Evergreen Park Drive Southwest, Room 206, Olympia,
14 Washington, before Administrative Law Judge DENNIS MOSS
15 and CHAIRMAN JEFFREY D. GOLTZ and Commissioner PATRICK
16 J. OSHIE and Commissioner PHILIP B. JONES.

17

The parties were present as follows:

18

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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.

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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

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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

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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

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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

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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.

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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

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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 new 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?

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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?

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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

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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 that 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?

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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?

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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

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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

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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

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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

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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

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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?

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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

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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

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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

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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

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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.

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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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