

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION)

Complainant,)

vs.)

PUGET SOUND ENERGY, INC.)

Respondent.)

Docket Nos. UG-040640
UE-040641

**DIRECT TESTIMONY OF
THOMAS S. YARBOROUGH
ON BEHALF OF
THE NORTHWEST INDUSTRIAL GAS USERS**

September 23, 2004

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6 **INTRODUCTION**

7 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

8 A. My name is Thomas Yarborough. I am an Energy Manager for the Weyerhaeuser
9 Company. My business address is Mail Stop CH 1K32, 33663 Weyerhaeuser Way
10 South, Federal Way, Washington 98003.

11 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.**

12 A. My resume is attached to this testimony as exhibit _____ TSY-2.

13 **Q. WHAT IS THE PURPOSE FOR YOUR TESTIMONY?**

14 A. I am urging the Commission to adopt the rate spread and design recommendations of Mr.
15 Donald W. Schoenbeck. Transportation customers of Puget Sound Energy ("Puget")
16 should not be allocated any of the rate increases stemming from this proceeding.

17 **Q. ARE YOU AN EXPERT IN UTILITY RATEMAKING?**

18 A. Certainly not. I am not holding myself out as an expert in utility ratemaking. I am
19 merely testifying on the importance of energy costs in general, and natural gas
20 distribution margins in particular, for the Weyerhaeuser Company and other industrials in
21 Puget's service territory.

22 **Q. IS YOUR COMPANY A MEMBER OF THE NORTHWEST INDUSTRIAL GAS**
23 **USERS?**

24 A. Yes, the Weyerhaeuser Company is a member of NWIGU.
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1 **Q. DOES YOUR COMPANY HAVE FACILITIES IN PUGET'S SERVICE**
2 **TERRITORY?**

3 A. Yes. Weyerhaeuser has multiple facilities in Washington that take services from Puget,
4 including four plants that are distribution transportation customers under Schedule 57.
5 These four facilities are in Bellevue, Centralia, Olympia and Federal Way and employ
6 approximately 1,400 people. The facilities in Bellevue and Olympia are corrugated
7 packaging plants, Centralia is a hardwoods sawmill, and in Federal Way, the
8 transportation service is used to support HVAC in a large research and development
9 facility.

10 **Q. HOW LONG HAS YOUR COMPANY BEEN A CUSTOMER OF PUGET?**

11 A. Weyerhaeuser became a customer of Puget prior to 1950.

12 **Q. DOES YOUR COMPANY HAVE OTHER FACILITIES?**

13 A. Yes. Weyerhaeuser was founded in 1900 and currently employs about 55,000 people in
14 18 countries, primarily in the United States and Canada. Weyerhaeuser is an
15 international forest products company that operates five major business segments:
16 timberlands which focuses on growing and harvesting trees in renewable cycles; wood
17 products which focuses on the manufacture of building materials for homes and other
18 structures; pulp and paper which produces a variety of papers and the pulp to produce
19 papers and absorbent products; containerboard packaging and recycling which produces
20 paper, boxes and bags to move products from factory to store to consumer and includes
21 the collection and recycling of wastepaper, boxes and newsprint to make new products;
22 and, real estate which focuses on the building of single and multi-family homes and land
23 development. In addition to our Washington facilities, Weyerhaeuser has major
24 operations in the states of Alabama, Arkansas, California, Georgia, Kentucky, Louisiana,
25 Mississippi, North Carolina, Oklahoma, Oregon, South Carolina and Tennessee. Our
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1 facilities in Puget's service territory are part of business units that are among the most
2 geographically diverse. For example, Weyerhaeuser operates 92 packaging (box) plants
3 in the United States and five in Mexico. In addition to Centralia, Weyerhaeuser has
4 eleven other hardwoods sawmills in the United States and one in Canada.

5 **Q. ARE YOU AWARE THAT PUGET HAS PROPOSED AN INCREASE OF**
6 **APPROXIMATELY 10.5 PERCENT FOR SCHEDULE 57 CUSTOMERS?**

7 A. Yes, that is my understanding.

8 **Q. WHAT IS YOUR UNDERSTANDING OF WHY PUGET HAS MADE THESE**
9 **PROPOSALS?**

10 A. Based on my reading of the testimony of Mr. Heidell, it is my understanding Puget is
11 proposing to perpetuate long-standing subsidies that exist under Schedule 57, even
12 though Puget recognizes that serious disparities exist in Puget's current rate structure.
13 While Puget proposes less than an equal percentage increase for Schedule 57, the
14 proposal essentially leaves in place rate disparities even though Puget recognizes the
15 existence of these disparities.

16 **Q. HAVE YOU REVIEWED PUGET'S COST OF SERVICE STUDY?**

17 A. No. I am not an economist. I would defer any questions related to the cost-of-service to
18 Donald Schoenbeck. However, I have read the testimony of Puget witnesses Colleen
19 Paulson and Jim Heidell on gas cost-of-service and gas rate spread and design. The
20 results of the Company's cost study, as I understand it, indicate that transportation
21 customers are already paying much higher rates than can be justified based on Puget's
22 cost-of-service study.

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1 **Q. DO YOU AGREE WITH MR. HEIDELL'S RECOMMENDATION TO RAISE**
2 **SCHEDULE 57 TRANSPORTATION RATES?**

3 A. No, I do not. Again, I am not a ratemaking expert, but as I understand it, if the
4 Commission adopts Puget's position, industrial transportation customers of Puget will see
5 rate increases even though the Company's own study shows that current rates already
6 result in industrial transportation customers substantially subsidizing the rates of other
7 customer classes. At a time when industries in our region are struggling to retain jobs, I
8 would find such a result to be a negative sign about the State of Washington's
9 commitment to enhancing the viability of the manufacturing sector in the Washington
10 economy. In an extremely tight economy, and where it is apparent that industrial gas
11 transportation rates are above what they should be, the Commission should not layer
12 additional charges on rates that already bear no relationship to their cost-of-service
13 according to Puget's filings.

14 **Q. WHY DO DISTRIBUTION COSTS MATTER IN A TIME WHEN NATURAL**
15 **GAS PRICES ARE EXTREMELY HIGH AND VOLATILE?**

16 A. When Weyerhaeuser purchases natural gas, it pays for the commodity and delivery of the
17 gas. The focus here is only on what Puget charges to transport the gas across town,
18 because Puget neither produces gas nor provides interstate transportation services.

19 Weyerhaeuser has facilities throughout the United States and in other countries.
20 The commodity costs for all Weyerhaeuser sites in the United States are quite similar, but
21 because of Puget's high industrial distribution rates, the final unit cost of gas is higher for
22 Weyerhaeuser's plants in Puget's service territory than other facilities. Competitive
23 market pressures require Weyerhaeuser's management to produce its products at the
24 plants with the lowest overall cost to deliver the products to our customers. The Pacific
25 Northwest used to have a price advantage over other parts of the United States with
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1 regard to gas commodity, as Western Canadian gas had only the U.S. West Coast as a
2 market. Now Canadian gas is available to both the Midwest and West Coast markets.
3 The end of the commodity cost advantage in our region makes addressing the delivery
4 cost subsidies all the more urgent. Since our region has no commodity cost advantage
5 compared to the rest of the United States, the delivery cost subsidies have a real and
6 magnified impact on the competitiveness of the area's industries.

7 **Q. WHAT IS THE IMPACT TO THE WEYERHAEUSER COMPANY OF AN**
8 **ENERGY PRICING POLICY THAT HAS SUBSIDIES BUILT INTO**
9 **TRANSPORTATION RATES?**

10 A. Energy costs, including distribution costs, are an important component to Weyerhaeuser's
11 cost of doing business wherever we operate. For Weyerhaeuser, a company with a strong
12 regional presence, if the Commission adopts the recommendations of Puget, it would
13 perpetuate inappropriate subsidies that appear to have existed in Puget's rates for many
14 years. This result would be a troubling policy decision with a significant impact to
15 Puget's industrial customers under an already challenging business climate.

16 **Q. ARE YOU SEEKING SUBSIDIES FOR INDUSTRIAL USERS?**

17 A. No, just the opposite. I am advocating that the Commission eliminate recognized rate
18 disparities that have existed in Puget's rates for many years. These rate disparities have
19 forced industries to subsidize Puget's other customer classes. These subsidies harm local
20 industries, and make it difficult or impossible to compete nationally or globally.

21 **Q. HOW DOES HAVING THESE SUBSIDIES BUILT INTO PUGET'S**
22 **DISTRIBUTION RATES AFFECT YOUR COMPANY?**

23 A. The high cost of transportation delivery service from Puget puts its industrial customers,
24 including my Company, at a competitive disadvantage compared to companies in other
25 parts of the United States and the world that pay much lower delivery costs.
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1 Weyerhaeuser currently purchases its own natural gas commodity and interstate pipeline
2 services pursuant to Puget's Schedule 57. Thus, if distribution costs are higher here than
3 in other parts of North America, it puts our facilities served by Puget at a competitive
4 disadvantage. The negative impact of such a pricing policy by a monopoly energy
5 provider is significant. The economic well being of Puget's industrial customers has
6 serious consequences to the employees of these companies and the communities in which
7 they live and work.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes.

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P R O F E S S I O N A L E X P E R I E N C E

Weyerhaeuser Company
PO Box 2999
Tacoma, WA 98477-2999

Energy Management Group

February 1991--Present

Energy manager responsibilities include power and natural gas contract negotiation, consultation with manufacturing operations on energy strategies for cost control, efficiency improvement and conservation, evaluation of cogeneration opportunities, and improvement of power supply reliability. Specific experience:

- Oversight of energy regulatory activities related to company operations in Washington, Oregon, Oklahoma and Arkansas.
- Participation on regional and corporate teams engaged in the management of savings opportunities related to deregulation of the electric power industry.
- Design and implementation of digital electrical metering systems and development of energy information communication schemes using the company Intranet.
- Engineering and commissioning support on numerous projects related to turbine generator control, advanced metering and energy management and electrical control and protective relay installation for Weyerhaeuser pulp and paper and wood products operations .
- ICNU (industrial energy users coalition) Board of Directors, chairman 1997-1999.

**Process Energy Group and
Wood Products Maintenance
and Energy Group**

January 1981—February 1991

Responsibilities and experience as a process engineer and then as an engineering specialist in the areas of energy system audits, conservation evaluation and implementation and cogeneration opportunity assessments included:

- Thermal and electrical energy audits of Weyerhaeuser wood products and pulp & paper facilities.
- Design and application of energy-efficient lighting systems in various manufacturing facilities.
- Design, scoping, short circuit and load flow studies of a 10MW power plant for a joint venture wood products facility in Lahad Datu, Malaysia.

- Development of an energy conservation manual and energy audit seminar for mill personnel.
- Instructor in over forty energy workshops in pulp & paper and wood products facilities.
- Scoping for FERC-licensing of small hydroelectric developments on Weyerhaeuser lands.
- Development of implementation plan for the addition of a 5 MW condensing turbine at Wright City OK.
- New thermal energy source study for Marshfield, Wisconsin door core line.
- Combustion turbine and combined cycle application and economic studies for Valliant OK, Everett WA, Klamath Falls OR, and Longview WA.
- Development and testing of a high efficiency kiln motor at Mountain Pine AR.
- Energy conservation opportunity studies of Weyerhaeuser facilities in the Northwest for Bonneville Power Administration.
- Scoping and preliminary design of variable speed drive applications on boiler induced draft fans at Klamath Falls OR, Philadelphia MS and Snoqualmie Falls WA.
- Design and installation of power factor correction capacitors at Princeton BC, Klamath Falls OR, Snoqualmie Falls WA and Enumclaw WA.
- Design, construction, and commissioning of new controls for refurbished turbine generators at Klamath Falls OR and Cosmopolis WA.
- Easypower™ short circuit and load flow studies for Enumclaw WA, Cosmopolis WA and Aberdeen WA.
- Project electrical engineer for installation of wet scrubber at Snoqualmie Falls WA powerhouse.
- Design and specification of substations and motor control centers for expansion projects at Snoqualmie Falls WA planer mill and Adel GA particleboard plant.

Pastoral Ministry

1977-1980

Scio, Oregon

Western Seminary

1972-1977

5511 S.E. Hawthorne Blvd.
Portland, OR

- Assistant to Registrar
- Teaching Assistant in New Testament Greek
- Teaching Fellow in Hebrew Grammar

U.S. Navy

1967-1972

- Administrative Officer
- Legal Officer
- Maintenance test pilot
- Helicopter aircraft commander

E D U C A T I O N

Master of Theology Western Seminary	1977
Master of Divinity Western Seminary	1975
Bachelor of Electrical Engineering Georgia Tech	1967

P R O F E S S I O N A L L I C E N S E S

**Registered Professional Engineer in
the State of Washington**