

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

2

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	DOCKET NO. UE-940728
)	
Complainant,)	VOLUME 3
)	
vs.)	PAGES 134 - 320
)	
PUGET SOUND POWER & LIGHT)	
COMPANY,)	
)	
Respondent.)	
-----)	

9 A hearing in the above matter was held on
10 September 12, 1994, at 9:50 a.m. at 1300 South
11 Evergreen Park Drive Southwest before Chairman SHARON
12 NELSON, Commissioner RICHARD HEMSTAD and
13 Administrative Law Judge ALICE HAENLE.

14

The parties were present as follows:

15

PUGET SOUND POWER & LIGHT COMPANY, by JAMES
16 M. VAN NOSTRAND, Attorney at Law, 411 - 108th Avenue
Northeast, Bellevue, Washington 98004.

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WASHINGTON UTILITIES AND TRANSPORTATION
18 COMMISSION STAFF, by SALLY G. JOHNSTON, Assistant
Attorney General, 1400 South Evergreen Park Drive
19 Southwest, Olympia, Washington 98504.

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FOR THE PUBLIC, ROBERT MANIFOLD, Assistant
Attorney General, 900 Fourth Avenue, Suite 2000,
21 Seattle, Washington 98164.

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Cheryl Macdonald
25 Court Reporter

1 I N D E X

2	WITNESSES:	D	C	RD	RC	EXAM
	KELLY	137	139			159
3						
4	MOAST	165	169			
5	MARTIN	188	191			
6	BLACKMON	207	208			241
				244	249	
7	WINTERS	250	253	271		
8	LAUCKHART	272	274			
9	SMITH	283	285			

10

	EXHIBITS:	MARKED	ADMITTED
11	T-44, 45 - 47	137	139
	48	139	140
12	49	151	152
	50 - 52	163	164
13	T-53, 54 - 61	165	168
	62	171	172
14	T-63, 64 - 66	188	190
	67	191	192
15	T-68, 69	206	208
	C-70, 71 - 72	"	"
16	C-73	213	216
	74	216	219
17	75	220	221
	76	"	"
18	77	222	222
	78	238	240
19	79	"	"
	T-80, 81	250	251
20	T-82, 83 - 87	273	274
	T-88, 89 - 93	283	285
21	94	286	286
	95	292	292
22	96	304	304

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P R O C E E D I N G S

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JUDGE HAENLE: The hearing will come to order. This is a third day of hearing in the PRAM 4 UE 940728. The hearing is taking place on September 12, 1994 before the commissioners. Like to take appearances, just your name and your clients' names, please, beginning with the company.

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MR. VAN NOSTRAND: For the company, James M. Van Nostrand.

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JUDGE HAENLE: For the Commission.

MS. JOHNSTON: Sally G. Johnston, assistant attorney general.

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MR. MANIFOLD: Robert F. Manifold, assistant attorney general.

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JUDGE HAENLE: Any of the intervenors here? Appears not.

Any preliminary matters before we start with the first witness? We have something like six hours of estimates so it looks like we'll be done relatively early in the week.

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All right. Ms. Kelly, would you raise your right hand, please.

Whereupon,

ANDREA KELLY,

1 having been first duly sworn, was called as a
2 witness herein and was examined and testified as follows:

3 JUDGE HAENLE: While we were off the record
4 I marked a number of documents for identification as
5 follows: Marked as Exhibit T-44 for identification, a
6 19-page document, ALK-testimony. 45 for
7 identification a one-page document, ALK-1. 46 for
8 identification a three-page document, ALK-2. And 47
9 for identification a one-page document, ALK-3. Your
10 witness has been sworn, Ms. Johnston.

11 (Marked Exhibits T-44, 45, 46 and 47.)

12 MS. JOHNSTON: Thank you.

13

14 DIRECT EXAMINATION

15 BY MS. JOHNSTON:

16 Q. Please state your full name for the record
17 and spell the last.

18 A. Andrea Kelly, K E L L Y.

19 Q. What is your business address?

20 A. My business address is 1300 South Evergreen
21 Park Drive Southwest, P.O. Box 47250, Olympia,
22 Washington 98504.

23 Q. And you are employed by the WUTC?

24 A. That's correct.

25 Q. What is your position?

1 A. I'm a utility rate research specialist.

2 Q. Did you prefile written direct testimony
3 and exhibits in this case?

4 A. I did.

5 Q. In preparation for your testimony here
6 today, did you predistribute what's been marked for
7 identification as Exhibits T-44, Exhibit 45, 46 and
8 47?

9 A. Yes.

10 Q. Are there any revisions, additions or
11 corrections to either your testimony or your exhibits
12 you would like to ake here today?

13 A. Yes.

14 Q. What are they?

15 A. On Exhibit T-44, page 1, line 21, it
16 states, "all but 83,000." That should read "all but
17 80,000."

18 And Exhibit 46, ALK-2, on the third page of
19 that exhibit there's a total that is shown as
20 379,950.52. That should be 402,184.11.

21 JUDGE HAENLE: Total on which page?

22 THE WITNESS: On page 3 of the exhibit
23 under the amount column the amount is 402,184.11.

24 Q. Are Exhibits T-44, 45, 46 and 47 true and
25 correct to the best of your knowledge?

1 A. Yes.

2 Q. Were they prepared by you?

3 A. Yes.

4 Q. If I were to ask you the questions set
5 forth in Exhibit T-44 today, would your answers be the
6 same?

7 A. Yes, they would.

8 MS. JOHNSTON: Your Honor, move the
9 admission of Exhibits T-44, 45, 46 and 47.

10 JUDGE HAENLE: Any objections?

11 MR. VAN NOSTRAND: No.

12 JUDGE HAENLE: All right. T-44 and 45
13 through 47 are entered into the record.

14 (Admitted Exhibits T-44, 45, 46 and 47.)

15 MS. JOHNSTON: Ms. Kelly is available for
16 cross-examination, Your Honor.

17 JUDGE HAENLE: Mr. Van Nostrand.

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

20 JUDGE HAENLE: You've handed me a one-page
21 document. The caption at the top is Response to
22 Company Data Request No. 716. I will mark this as 48
23 for identification.

24 (Marked Exhibit 48.)

25

1 CROSS-EXAMINATION

2 BT MR. VAN NOSTRAND:

3 Q. Good morning, Ms. Kelly.

4 A. Morning, Mr. Van Nostrand.

5 Q. Do you recognize what's been marked for
6 identification as 48 as your response to company data
7 request No. 716?

8 A. Yes, I do.

9 Q. And this concerns your adjustments
10 regarding conservation advertising?

11 A. Yes.

12 MR. VAN NOSTRAND: Your Honor, move the
13 admission of Exhibit 48.

14 JUDGE HAENLE: Any objection?

15 All right. 48 will be entered into the
16 record.

17 (Admitted Exhibit 48.)

18 Q. One of the reasons you give for your
19 proposed disallowance concerning conservation
20 advertising is that it relates to an advertising
21 campaign which the company did not pursue in the fall
22 of 1993, and your testimony at page 7, lines 18 to 20
23 refers to production time, service fees and other
24 expenses related to an advertising campaign which
25 Puget never chose to air. Is it your understanding

1 that the conservation advertising currently being
2 aired by Puget is unrelated to the advertising program
3 developed in 1993?

4 A. It's my understanding in the company's
5 response to data request No. 144, there's a document
6 that was provided to the company by Hinton and Steele,
7 its advertising agency, and it's my understanding that
8 the campaign that is currently airing was designed to
9 meet the need as defined by Hinton and Steele, and I
10 quote, "the need, same as always, credibility.
11 Customer and opinion leaders need to know what actions
12 the company is taking to keep lights on and rates down
13 and the UTC staff needs to know they know. And
14 further, the need for credibility is constant and
15 ongoing. Running paid media at lower levels for
16 longer flights instead of at high levels at short
17 flights will keep customer knowledge and opinion high
18 and keep issues raised by the UTC more like molehills
19 instead of mountains."

20 This indicates that the current campaign is
21 being run to increase the company's credibility.

22 Q. Now if you could respond to the question:
23 Is it your testimony that none of the costs incurred
24 in connection with the 1993 campaign relate to the
25 current advertising campaign?

1 A. The company has provided no indication that
2 the costs as outlined in my exhibit ALK-2, which has
3 been marked as 46, and the company's analysis in the
4 MES-8, that the costs are associated with the current
5 campaign. The current campaign consists of four
6 30-second commercials. If you look through the
7 production expenses that were related back through
8 April, May, June, July and August of last year, you
9 will notice that these are production expenses related
10 to television, newspaper and other radio commercials,
11 not the ones that are airing currently.

12 Q. With respect to the adjustment in your
13 testimony which you refer to as reclassified and
14 renamed expenses this totals about 197,000; is that
15 correct?

16 A. That's correct.

17 Q. Included in this 197,000 is 147,000 for
18 school presentations?

19 A. Yes, that's correct.

20 Q. Was this program ever classified by the
21 company as advertising?

22 A. It's my understanding that the expenses
23 related to school presentations are included in the
24 corporate communications plan. The dollar amounts
25 associated with the corporate communications plan were

1 included in the pro forma level of expense authorized
2 by the Commission as advertising. In the last general
3 rate case, the terms "corporate communications plan"
4 and "conservation advertising" were used
5 interchangeably, both by the company and by public
6 counsel and by staff. And in my response to data
7 request 716 -- I'm sorry -- 71, I outline how these
8 expenses were looked at by public counsel, and Mr.
9 Blackmon in his testimony provided dollar figures that
10 relate all the way through. The corporate
11 communications plan is included in conservation
12 advertising, and it's my understanding that school
13 presentations are part of the corporate communications
14 plan.

15 Q. Has the company ever expressly treated
16 school presentations as advertising?

17 A. The company has included school
18 presentations in its corporate communications plan,
19 apparently in 1992 the company developed miscellaneous
20 codes. However, in 1991, there were no miscellaneous
21 codes, and therefore the costs that are associated
22 with the corporate communications plan are embedded in
23 the pro forma level, the 2.1 pro forma level of
24 expense that was adopted by the Commission in the
25 UE-921262.

1 Q. Are you familiar with the definition of
2 advertising in Commission regulation 480-100-043?

3 A. I'm familiar with it.

4 Q. Would you accept subject to check that
5 advertising is defined to mean commercial use by a
6 utility of any media including newspaper, printed
7 matter, radio and television in order to transmit a
8 message to a substantial number of members of the
9 public or to such utilities' customers?

10 A. I will accept that subject to check.

11 Q. Does staff consider the company's
12 conservation education program to fall within this
13 definition of advertising?

14 A. As I stated in my response to data request
15 718, the company has accepted the definition of
16 conservation advertising, which was adopted by the
17 Commission in docket UE-921262. In that docket the
18 Commission accepted the definitions that the company
19 had historically used, and at that time the Commission
20 decided to expenses future conservation advertising,
21 so we have not changed -- staff has not adopted any
22 new conservation advertising definition. The
23 definition used is the one accepted by the Commission.

24 Q. But it's your testimony that because the
25 school education -- the conservation education program

1 was included within the corporate communications plan
2 that therefore it was considered as conservation
3 advertising. Is that a fair statement?

4 A. That is a fair statement, and it was
5 embedded in the pro forma level of expense adopted by
6 the Commission and being collected in current rates.

7 Q. And this \$147,000, is staff saying that
8 these activities, the conservation education program
9 is not related to conservation?

10 A. No. The staff has not looked at the text
11 of these -- the company hasn't provided the text of
12 these school presentations. They were provided --
13 they were included within the definition of the
14 corporate communications plan, and that's the issue
15 that staff has taken.

16 Q. Well, Ms. Smith back in July stated in
17 cross-examination that under this program the company
18 -- and this is at transcript page 76 -- under this
19 program the company, quote, provides training and
20 questionnaires and the ability for these students to
21 go home and inventory their energy use and gives them
22 energy savings tips to adopt and report on what they
23 have accomplished in their homes in terms of
24 conservation, and also there's a report that's
25 produced that looks at these particular homes before

1 and after the students have gone through these
2 activities."

3 Does staff accept or would you disagree
4 with that characterization of the program by Ms.
5 Smith?

6 A. Well, I don't disagree with that
7 characterization. I must add that she also stated
8 that there are no savings related to this program, and
9 that there are no savings documented from these
10 programs and recorded into the conservation
11 achievements for the year.

12 Q. Does staff recommend that the company not
13 engage in such activities?

14 A. Staff is recommending that the ratepayers
15 not pay for these expenditures twice, once in the
16 pro forma level of expense and once as a rate base
17 item.

18 Q. And by saying it's already included as a
19 pro forma level of public expense, it's because of
20 your conclusion that it was included within
21 advertising; is that correct?

22 A. That's correct.

23 Q. And the remaining \$50,000 of your \$176,000
24 adjustment relates to brochures and other materials
25 concerning specific conservation programs; is that

1 correct?

2 A. Would you provide the cite where you --

3 Q. I believe page 10, lines 17 to 22.

4 A. Would you repeat the question then.

5 Q. Would you agree that this \$50,000 portion
6 of your adjustment relates primarily to brochures and
7 other materials, conservation -pecific conservation
8 programs?

9 A. This relates to expenses that were booked
10 to conservation administration in December of 1993.
11 They had initially been considered conservation
12 advertising. Then in December of 1993 in its response
13 to WUTC request No. 98 the company indicates that it
14 did a review in detail to determine if there were
15 costs properly classified as conservation advertising
16 in accordance with the Commission's treatment of
17 conservation advertising in its order in docket UE-
18 921262. The company further states that these entries
19 related to costs from the prior period for program
20 information, which in the company's opinion were not
21 media-related. These charges do represent costs of
22 program brochures which provide information to
23 customers. However, the company has taken those
24 brochures and removed them from conservation
25 advertising and placed them into conservation

1 administrative expense.

2 Q. And does staff agree that the company is
3 now expensing these costs after October 1, 1993?

4 A. The company has -- because of a meeting
5 that we had in March of 1994 the company went back and
6 adjusted the classification of these program-related
7 brochures from a conservation administrative account
8 to a conservation advertising or an expense account.
9 However, they did not adjust any of these expenses
10 associated with this \$50,000. These remain as
11 conservation administrative expenses. And they should
12 be booked as conservation advertising.

13 Q. And these are expenses incurred prior to
14 October 1, 1993?

15 A. That's my understanding, yes.

16 Q. So essentially what you're asking is for
17 implementation of the decision -- the treatment in the
18 general rate case for implementation of that prior to
19 October 1?

20 A. No. That is not what I'm suggesting. What
21 I'm suggesting is that these costs should be shifted
22 back to conservation advertising, and since the
23 company has indicated in its response -- its Exhibit
24 27 in this docket, its response to data request 36
25 that the campaign had no further activity after May of

1 1993, this includes billing inserts, that these costs
2 would be disallowed the same as the conservation
3 advertising expenses that are currently still in
4 conservation advertising. But we are not asking for a
5 retroactive application of the Commission's order. In
6 this case it's the company that made changes
7 subsequent to the order on costs that were incurred
8 prior to the order, and after speaking with staff they
9 changed that.

10 Q. So is this another situation where it's
11 staff's view that these costs were part of a corporate
12 communications plan and thus should have been expensed
13 when incurred?

14 A. It's my understanding that these were
15 included in conservation advertising and were a part
16 of the pro forma level of expense that was accepted by
17 the Commission.

18 Q. Even though it's the company's testimony,
19 Ms. Smith's testimony, that these were traditionally
20 treated as part of the administrative expenses
21 associated with specific conservation programs?

22 A. Could you point to where in her testimony
23 that is?

24 Q. Page 7, lines 10 to 15.

25 A. Of what's marked as MES-4?

1 Q. Yes. "Conservation program and promotional
2 materials were not advertising but part of the
3 company's cost to operate the particular conservation
4 program and as such were part of the administrative
5 cost of the program. This definition changed after
6 the March 1994 meeting with staff."

7 A. But the company had changed that definition
8 in December of 1993 as indicated in its response to
9 WUTC No. 98 where it went through and did a review in
10 detail to determine if the costs were properly
11 classified. At that point in time the company decided
12 that the program-related -- the program brochures
13 should be conservation administration and not
14 conservation advertising. Yet they had been booked to
15 conservation advertising previously. So the March
16 meeting was the company going back to how they had
17 been historically treated prior to December of 1993.

18 Q. The other category of adjustment in your
19 testimony is for expenditures under programs not yet
20 approved; is that correct?

21 A. That is correct.

22 Q. And this concerns the expenditures incurred
23 by the company in connection with the implementation
24 of the nonresidential energy code or the NREC; is that
25 right?

1 A. That's my understanding, yes.

2 Q. And these expenditures total about \$700,000
3 according to your testimony at page 2, lines 8 to 9?

4 A. Yes.

5 Q. And Mr. Martin in his exhibit calculates
6 this figure to be about \$315,400 in his line 5 of
7 Exhibit RCM-3. Are these the same items?

8 A. I believe so. I believe it would be best
9 to talk to Mr. Roland -- Mr. Martin about this, but
10 I believe he has shown impacts of AFUCE.

11 Q. And that would explain the difference
12 between \$300,000 and \$315,000?

13 A. Like I said, he would probably be the best
14 person to answer that question.

15 MR. VAN NOSTRAND: Like to distribute
16 another exhibit, Your Honor.

17 JUDGE HAENLE: You've handed me a one-page
18 document. The caption at the top is Company Response
19 to Data Request No. 724. I will mark this as 49 for
20 identification.

21 (Marked Exhibit 49.)

22 Q. Do you have before you what's been marked
23 for identification as Exhibit No. 49?

24 A. I do.

25 Q. Do you recognize this as your response to

1 company data request No. 724?

2 A. Yes, I do.

3 Q. And this concerns the adjustment we've been
4 discussing regarding the implementation of the NREC?

5 A. Well, this concerns a specific statement in
6 my testimony regarding the UCG.

7 Q. And the UCG relates to the implementation
8 of the NREC?

9 A. That's correct. It's the utility code
10 group that the gas and electric utilities have formed.
11 It's a nonprofit organization.

12 MR. VAN NOSTRAND: Your Honor, move the
13 admission of Exhibit 49.

14 JUDGE HAENLE: Any objection?

15 All right. 49 will be entered into the
16 record.

17 (Admitted Exhibit 49.)

18 Q. And your testimony states that these
19 expenditures are under review in a separate proceeding
20 docket UE-940860; is that correct?

21 A. Yes, but that has since been withdrawn by
22 the company.

23 Q. And this docket concerns the company's
24 filing of schedule 83 to include, among other things,
25 provisions implementing the NREC?

1 A. It did, and it's my understanding that the
2 company is planning on refileing its schedule 83
3 sometime later this year and addressing this issue
4 then.

5 Q. And were you involved in a review by the
6 Commission staff of the company's tariff filing in
7 that docket?

8 A. Yes, I was involved.

9 Q. And was it your recommendation to the
10 company that it withdraw its schedule 83 filing?

11 A. No. That was not my specific
12 recommendation.

13 Q. What was your specific recommendation?

14 A. I was not the lead on this so I didn't make
15 a recommendation.

16 Q. Did you express your views to the company
17 regarding whether or not it should withdraw this
18 schedule 83 filing?

19 A. No, I believe I did not. That was done by
20 another staff member.

21 Q. And your testimony recommends that the
22 recovery of this \$300,000 should be allowed only if
23 those tariff revisions are approved; is that correct?

24 A. I recommend in my testimony that these be
25 allowed if the -- not only the tariff revisions but

1 the cost recovery be acknowledged in that docket.

2 Q. And it's your understanding that a docket
3 dealing with revisions to schedule 83 would also deal
4 with the cost recovery issues as well?

5 A. Well, I guess I misspoke. Not necessarily
6 the cost recovery, but the method in which the costs
7 are booked. The recovery of course would be
8 determined at a later date, but how these costs should
9 be booked, whether they should be treated as a rate
10 base item or whether they should be treated as an
11 expense item.

12 Q. You said the recovery would be treated at a
13 later date, but with respect to these \$300,000 in
14 expenditures they would be lost, wouldn't they?

15 A. They would be not allowed in rate base if
16 they turned -- if they were in a test year then they
17 would be looked at as an expenditure during a test
18 year.

19 Q. And that's the only way they would be
20 recovered under your recommendation; isn't that
21 correct?

22 A. Yes, that's the only way they would be
23 recovered. However, the company has been informed as
24 far back as November 30, 1993 that this cost recovery
25 needed to be resolved. In a meeting between staff and

1 the utility code group we discussed the fact that the
2 training and education portion of the code needed to
3 be looked at very carefully as far as what the cost
4 recovery would be. At that time Mr. Bob Banister, the
5 company employee who was also the president of the
6 utility code group, made a commitment that the company
7 would be in prior to April 1st to get this cost
8 recovery resolved, and the company has yet to get it
9 resolved.

10 Q. Is staff saying that the company's costs in
11 implementing the NREC should be disallowed because
12 they are not related to conservation?

13 A. That's yet to be determined.

14 Q. Is that the basis of your disallowance that
15 these costs are not related to conservation?

16 A. No.

17 Q. And you also mention the participation of
18 the utility code group. Is it staff's position that
19 the company should not be cooperating with public
20 utilities implementing the NREC?

21 A. No, not at all. It's staff's position that
22 the company needs to provide some clear information
23 about what they expect their costs to be. In response
24 to data request 137 the company indicates that it has
25 budgeted approximately \$845,000 to cover its three

1 years of expenses in the utility code group, yet
2 there's an outstanding obligation between the utility
3 code group and Building and Design 2000 for 4.125
4 million dollars over that same time period. With
5 Puget's 28.8 percent share of that, that's an estimate
6 of approximately 1.2 million dollars that they already
7 have and yet they've only budgeted \$845,000. These
8 type of discrepancies are what staff feels needs to be
9 resolved prior to recovery. The initial estimates for
10 training and education was one and a half million over
11 that time period. It's now 4.125.

12 Q. But at issue in this proceeding is only
13 \$236,000 paid by the company to the UCG; is that
14 correct?

15 A. Yes. And there's absolutely no information
16 provided by the company as to what those expenditures
17 went to.

18 Q. And I take it that's also -- that's your
19 testimony in light of Ms. Smith's rebuttal testimony
20 on pages 11 and 12 which lists the accomplishments of
21 the UCG thus far?

22 A. The accomplishments of the UCG that she has
23 listed do not have any -- she has not provided any
24 information as to how much each of these
25 accomplishments cost. When asked for specific detail

1 about the budgets of the utility code group we were
2 provided with a very broad level. There were four
3 categories. There was nothing to look at how much the
4 administrative expense of this nonprofit organization
5 would be. There was no information provided that
6 allows staff to make a recommendation as to
7 whether these costs are reasonable.

8 Q. Do you believe the company itself could
9 have performed the activities accomplished by the UCG
10 for the \$236,000 which you are proposing to disallow?

11 A. I have no idea.

12 Q. Is it staff's position that participation
13 in the UCG is not a cost-effective way of implementing
14 the NREC?

15 A. No, but the company has not proven that it
16 is. The analysis to which Ms. Smith refers to in her
17 rebuttal testimony performed by the Washington State
18 Energy Office does not use Puget's avoided costs, does
19 not use the savings that would be related to Puget's
20 service territory. It does not look at appropriate
21 measure lives. There has been no Puget-specific
22 analysis as to the cost effectiveness. However, the
23 indication is that this will be a cost-effective
24 resource for the company, and staff is not saying that
25 this isn't something that should be pursued. We are

1 saying that prior to cost recovery there needs to be a
2 determination of how the training and education
3 component should be treated. There's a three-year
4 code cycle. If these costs are allowed into rate base
5 they will be amortized over ten years during which
6 time there will be three more codes. That's of
7 concern.

8 Q. Is it staff's testimony that there are no
9 conservation-related expenditures other than those
10 expressly provided for in schedule 83?

11 A. Could you repeat the question.

12 Q. Is it staff's position that there are no
13 conservation-related expenditures other than those
14 expressly provided for in schedule 83?

15 A. No, that's not my understanding.

16 Q. So it is possible to have a
17 conservation-related expenditure but yet not have it
18 specifically authorized in schedule 83?

19 A. Yes, but the cost recovery of that
20 expenditure is still in question. The company may go
21 out and spend that money but then it still bears the
22 burden of proof of showing that those costs were
23 reasonable expenditures and prudent.

24 Q. But yet it's your testimony that recovery
25 would be disallowed simply because it's not authorized

1 in schedule 83; is that correct?

2 A. No, that's not my testimony. My testimony
3 is that the company has yet to provide sufficient
4 detail on the budgets associated with this training
5 and education component for staff to make a
6 recommendation as to whether these should be included
7 in the rate base, and the other concerns that I
8 discussed prior to this in your other questions are
9 also issues that need to be resolved.

10 MR. VAN NOSTRAND: I have no further
11 questions, Your Honor.

12 JUDGE HAENLE: Have you questions, Mr.
13 Manifold?

14 MR. MANIFOLD: No questions.

15 JUDGE HAENLE: Commissioners, do you have
16 questions?

17 CHAIRMAN NELSON: Yes.

18

19 EXAMINATION

20 BY CHAIRMAN NELSON:

21 Q. Ms. Kelly, can you tell me what the status
22 is of docket 940860 right now?.

23 A. It's been withdrawn, and the staff has
24 organized a meeting of the technical collaborative
25 which will occur at Commission headquarters on

1 September 20. That is when we're bringing together
2 all of the members of the parties to discuss the
3 issues that are outstanding related to schedule 83,
4 both ones that were filed in the last filing and ones
5 that need to be addressed prior to implementation of a
6 new schedule 83.

7 Q. So there is no formal docket pending at
8 this time?

9 A. No.

10 Q. But informal discussions are planned?

11 A. That's correct.

12 Q. With respect to the commercial code, is
13 what I'm hearing staff say is that even in a start-up
14 phase the company has to dot every I and cross every T
15 on expenditures for something that really has a lot of
16 public policy approval?

17 A. No. What staff is saying here is that the
18 company for over a year now has been aware that staff
19 has significant concerns especially regarding these
20 training and education costs. As we've seen with the
21 conservation advertising, when expenditures are very
22 difficult to tie to actual savings then there can be
23 problems, and we've shown in response to data requests
24 the outlined -- the Commission staff's concerns and
25 we've spoken to the company about this on many

1 occasions.

2 We've met with members of the Washington
3 State Energy Office, members of the Northwest Power
4 Planning Council, members of the Building and Design
5 2000 and members of the Utility Code Group, and
6 consistently we've told them five concerns, the first
7 being that the utility funding of coat implementation
8 should be temporary and phased out over time; that the
9 funding should be shared by all utilities in the state
10 on an equitable basis. The utility should take steps
11 to ensure that the training costs are reasonable given
12 the large disparity between the Northwest Power
13 Planning Council's initial estimates of \$500,000 per
14 year and the current signed contract of 4.125 million
15 dollars over three years. The nonprofit organization,
16 which the utilities intend to establish, being the
17 Utility Code Group, must be shown to be an efficient
18 method of coordinating funding and the utilities will
19 have to demonstrate the cost effectiveness of their
20 code implementation expenditures.

21 And in my opinion the company and the
22 Utility Code Group have worked and addressed the first
23 two but the last three still are outstanding, and
24 that prior to allowing these costs into rate base
25 staff feels that they need to be examined. We're

1 setting precedent. This is a market-moving program,
2 and it's the DSM program of the future according to
3 the Northwest Power Planning Council and several
4 individuals in the state, and if we're not careful
5 we'll have all sorts of nonprofits all over the state
6 with high overheads. Right now there's two nonprofit
7 organizations which ratepayers across the state are
8 funding associated with the nonresidential energy
9 code. They each have their own executive director,
10 they each have their own administrative support, and
11 it's just -- if we're going to move forward I think we
12 need to set a precedent that can be followed for the
13 rest of these market-moving programs.

14 Q. So if the answers to your final three
15 points were to be forthcoming in the next little
16 while, would the staff then be more amenable to
17 including these in Puget's accounts as they've
18 proposed?

19 A. Well, I think one of the issues that I
20 brought up is the amortization period of ten years.
21 If these costs get included in rate base they stay
22 there for ten years during which time there's three
23 more codes, so we're adding implementation costs on
24 top of implementation costs if the utilities were to
25 provide support for the next code. And that's a

1 concern. It seems that if we could include them in
2 rate base yet better match them to the life cycle of
3 the code then that may be a better option, too.

4 CHAIRMAN NELSON: That's all I have right
5 now. Thank you.

6 COMMISSIONER HEMSTAD: I don't have any
7 additional questions.

8 JUDGE HAENLE: Any redirect of this
9 witness?

10 MS. JOHNSTON: I just have some data
11 requests I would like to offer into the record.

12 JUDGE HAENLE: All right. Ms. Johnston
13 distributed three documents for identification and I
14 will mark them in the numerical order, I suppose.
15 That makes the top one a four-page document, Response
16 to Company Data Request No. 719. This will be marked
17 as Exhibit 50 for identification.

18 (Marked Exhibit 50.)

19 JUDGE HAENLE: Next one is a two-page
20 document entitled Response to Company Data Request No.
21 722. This will be 51.

22 (Marked Exhibit 51.)

23 JUDGE HAENLE: And 52 in one page, Response
24 to Company Data Request No. 756.

25 (Marked Exhibit 52.)

1

2

REDIRECT EXAMINATION

3 BY MS. JOHNSTON:

4 Q. You've just been handed what's been marked
5 as Exhibits 50, 51 and 52. Do you recognize these as
6 your response to company data requests No. 719, 722
7 and 756 respectively?

8 A. Yes, I do.

9 MS. JOHNSTON: Your Honor, move the
10 admission of Exhibits 50 through 52.

11 JUDGE HAENLE: Any objections?

12 MR. VAN NOSTRAND: No, Your Honor.

13 JUDGE HAENLE: Exhibits 50 through 52 will
14 be entered into the record.

15 (Admitted Exhibits 50, 51 and 52.)

16 JUDGE HAENLE: Thank you, you may step
17 down. Let's go off the record to change witnesses.

18 (Recess.)

19 JUDGE HAENLE: Let's be back on the record.
20 During the time we were off the record a new witness
21 has assumed the stand.

22 Whereupon,

23 PATRICK MOAST,

24 having been first duly sworn, was called as a witness
25 herein and was examined and testified as follows:

1 JUDGE HAENLE: Also during the time we were
2 off the record I marked a number of documents for
3 identification as follows: Marked as Exhibit T-53 for
4 identification a 12-page document, PJM-Testimony, and
5 then I marked as 54 through 61 for identification
6 PJM-1 through PJM-8, and please note that PJM-2 in one
7 page and PJM-7 in multi pages are both revised. They
8 say "revised" very clearly on the front. Please be
9 sure you have the revision and as I understand that is
10 to be substituted straight across.

11 Is that right, Mr. Moast?

12 THE WITNESS: Yes.

13 (Marked Exhibits T-53 and 54 through 61.)

14

15 DIRECT EXAMINATION

16 BY MS. JOHNSTON:

17 Q. Mr. Moast, please state your full name for
18 the record, spelling the last.

19 A. My name is Patrick J. Moast, M O A S T.

20 Q. What is your business address?

21 A. My business address is the Washington
22 Utilities and Transportation Commission, 1300 South
23 Evergreen Park Drive Southwest, P.O. Box 47250,
24 Olympia, Washington.

25 Q. What is your position with the Washington

1 Utilities and Transportation Commission?

2 A. I'm a utilities rate research specialist.

3 Q. Did you prefile written direct testimony
4 and exhibits in this case?

5 A. Yes.

6 Q. In preparation for your testimony here
7 today, did you predistribute what's been marked for
8 identification as Exhibits T-53, Exhibits 54 through
9 61?

10 A. Yes.

11 Q. Are there any revisions, additions or
12 corrections you would like to make to either your
13 testimony or exhibits notwithstanding the substituted
14 PJM-2 and 8?

15 A. Yes, there are two.

16 JUDGE HAENLE: 2 and 7.

17 MS. JOHNSTON: Excuse me?

18 A. On page 2, line 24 of my direct testimony,
19 Exhibit T-55, sorry, T-53. The number now should be
20 8,43,960.

21 JUDGE HAENLE: That's not enough numbers.

22 MR. MANIFOLD: This is line 24?

23 THE WITNESS: Line 24 on page 2.

24 THE WITNESS: Number was 15,033,700.

25 Number now should be 8,439,600.

1 A. The second change is on page 5, line 24.
2 The number previously was 1,618,302. The number now
3 should be 9,443,600.

4 Q. Are Exhibits T-53, Exhibits 54 through 61
5 as corrected true and correct to the best of your
6 knowledge?

7 A. Yes.

8 Q. Were they prepared by you or under your
9 direction and supervision?

10 A. Yes.

11 Q. If I were to ask you the questions set
12 forth in Exhibit T-53 today, would your answers be the
13 same?

14 A. Yes.

15 Q. Would you please briefly explain why it is
16 you revised your exhibits?

17 A. Yes. In Puget's rebuttal case they
18 accepted my recommendation that they not predict
19 displacement for the PRAM 4 period. They, however,
20 recommended that the secondary sales rates that be
21 used in the simple dispatch model be revised to
22 reflect that a certain amount of the extra surplus
23 power that would now be available when the company
24 does not displace could now go and be sold by the
25 company over their third AC intertie. I reviewed

1 their comments and I agreed that their recommendation
2 for revised secondary rates were appropriate in
3 conjunction with my recommendation for no
4 displacement.

5 Q. And that change in position necessitated
6 the change in the exhibits; is that true?

7 A. Yes.

8 MS. JOHNSTON: Your Honor, move the
9 admission of Exhibits T-53, and Exhibits 54 through
10 61.

11 JUDGE HAENLE: Any objections?

12 MR. VAN NOSTRAND: No, Your Honor.

13 MR. MANIFOLD: No.

14 JUDGE HAENLE: T-53 and 54 through 61 are
15 entered into the record.

16 (Admitted Exhibits T-53 and 54 through 61.)

17 MS. JOHNSTON: Thank you. Mr. Moast is
18 available for cross-examination.

19 MR. VAN NOSTRAND: I wonder if I could just
20 clarify when we're going to cover the bench request
21 issue because, my understanding, will the response to
22 the bench request also change as a result of these
23 revisions?

24 MS. JOHNSTON: Yes, it should.

25 THE WITNESS: Yes. My revised Exhibit 55

1 is intended to also satisfy and update the bench
2 request No. 1.

3 JUDGE HAENLE: So you're saying that there
4 is no need to put in bench request No. 1 and update
5 that, that Exhibit 55 takes care of that?

6 THE WITNESS: Yes.

7 JUDGE HAENLE: The bench is satisfied with
8 that unless somebody else needs it then. We'll
9 consider the response to bench request No. 1 satisfied
10 by Exhibit 55. Thank you.

11

12 CROSS-EXAMINATION

13 BY MR. VAN NOSTRAND:

14 Q. Now, this response indicates that -- your
15 Exhibit 55 indicates that you have 8.4 million dollars
16 adjustment to power costs for the PRAM 4 period and
17 the portion of your testimony relating to just
18 carrying forward the recommendation from the prudence
19 case is about 9.4 million dollars; is that correct?

20 A. Right.

21 Q. If you could take me through those
22 footnotes there on the bottom of page 55 so I could
23 understand what portions of Puget's case are
24 reflected. You testified just now that the
25 displacement-related adjustment, you have accepted the

1 calculation in Puget's rebuttal case; is that correct?

2 A. Correct.

3 Q. So the difference on line 8 is zero. B we
4 just discussed is caring forward staff's
5 recommendation from the prudence case?

6 A. Correct.

7 Q. Now, C, does this reflect your adoption or
8 rejection of the proposed update to the Water Power
9 purchase sale contract?

10 A. It reflects my rejection.

11 Q. And the basis for that rejection?

12 A. The basis for the rejection are Puget's
13 proposal to update their Washington Water Power
14 purchased power contracts, that the updates were
15 not made with the company's original filing.

16 Q. And line D as well, does that reflect your
17 rejection of that proposed update as well?

18 A. Yes.

19 Q. So in terms of the difference between Puget
20 and staff at this point, apart from the prudence
21 disallowance, of course, it's just lines C and D?

22 A. Correct.

23 MR. VAN NOSTRAND: That eliminates about
24 four pages of cross, Your Honor.

25 JUDGE HAENLE: Excellent.

1 Q. If we could turn to your testimony
2 regarding the BPA sale at pages 7 to 10. Is it
3 correct that you're not proposing any adjustment to
4 actual Puget revenue from its 1993/94 winter sales to
5 BPA?

6 A. That's correct.

7 Q. But your testimony is that there was
8 insufficient information to evaluate whether BPA sale
9 was economic last winter; is that correct?

10 A. That's correct.

11 MR. VAN NOSTRAND: Like to distribute an
12 exhibit, Your Honor.

13 JUDGE HAENLE: Yes. Would this be a good
14 time to take a break?

15 MR. VAN NOSTRAND: Sure.

16 JUDGE HAENLE: Take our morning recess at
17 this time and be back at 11:00 and we'll go on at that
18 point.

19 (Recess.)

20 JUDGE HAENLE: Let's be back on the record
21 after our morning recess. During the time we were off
22 the record Mr. Van Nostrand distributed a one-page
23 document. At the top it says Response to Data Request
24 -- this is company data request No. 704. I will mark
25 this as Exhibit 62 for identification.

1 (Marked Exhibit 62.)

2 Q. Mr. Moast, do you have before you what's
3 been marked for identification as Exhibit 62?

4 A. Yes.

5 Q. And do you recognize this as your response
6 to company data request No. 704?

7 A. Yes.

8 MR. VAN NOSTRAND: Your Honor, move the
9 admission of Exhibit 62.

10 JUDGE HAENLE: Any objection?

11 All right. 62 then will be entered into
12 the record.

13 (Admitted Exhibit 62.)

14 Q. Concerning the company's actual sales to
15 BPA under this contract during the '93-94 winter,
16 would you accept subject to check that the company
17 actually sold 301,772 megawatt hours to BPA during the
18 '93-94 winter?

19 A. Yes.

20 Q. And that the contract price for these sales
21 is \$24 per MWH; is that correct?

22 A. Subject to check, yes, I accept that.

23 Q. And comparing this price with Puget's spot
24 market value for light load hour at the times of
25 Puget's deliveries to BPA, Puget's analysis suggests

1 that it received a premium of \$566,000 over the spot
2 market value of this power during the '93-94 PRAM
3 period?

4 A. That's a subject to check question?

5 Q. Yes.

6 A. Yes.

7 Q. And these are set forth in Mr. Bill
8 Gaines's testimony in Exhibit 2044 in the prudence
9 review. Can't this analysis be performed using the
10 calculation that's provided in response to request No.
11 94 which is already included as Exhibit 43, the
12 summary of light load hours?

13 A. The response to data request 94 only
14 provides price information.

15 Q. And isn't it just a matter of comparing the
16 prices available on the secondary market to the \$24
17 per MWH price under the BPA contract and determining
18 whether or not a benefit accrued at the time the sale
19 was made?

20 A. To thoroughly compare the comparative
21 opportunity to sell to BPA light load hour volumes
22 against the secondary sales prices that are listed in
23 data response 94, I stated that I needed volumes to be
24 associated with the secondary sales prices in Exhibit
25 94 to weight the prices by the appropriate quantities

1 sold and available at those different days.

2 Q. What do you mean by weight?

3 A. For instance, on one day during the winter
4 period secondary sales prices might be 16 mills and
5 the company might have 2 million kilowatt hours that
6 it could sell at that time. On the next day the
7 secondary sales price might be 30 mills, but it may
8 not have had anything to sell at that time. So, if
9 you weighted 16 mills times 2 million kilowatt hours
10 plus 30 mills times zero kilowatt hours, the weighted
11 price would be 16 mills.

12 Q. But don't you just look at the actual
13 price? If you're going to determine the benefits of
14 this sale, don't you just look at the actual price in
15 the secondary market at the time the power was sold to
16 BPA, compare that to the \$24 price on the BPA contract
17 and calculate the advantage or disadvantage?

18 A. That's not sufficient in my opinion to do
19 an accurate comparison.

20 Q. Is it your assumption that the quantities
21 involved in Puget sales to BPA may be sufficient to
22 affect the market price?

23 A. No.

24 Q. What additional information do you need in
25 order to complete the analysis if you know the price

1 at which the power -- the price available in the
2 secondary market and the price at which -- contract
3 price at which Puget actually sold to BPA, what
4 additional information do you need to know?

5 A. In my testimony I recommended a tracking
6 system to measure the company's sales and purchases by
7 price and quantity, by light load hour and heavy load
8 hour, and it doesn't have to be -- it could be daily,
9 it could be average to monthly, but a distinction of
10 how these transactions separate out by light load hour
11 and heavy load hour is important in terms of looking
12 at the BPA sale retrospectively and also in the future
13 years.

14 Q. But isn't that precisely the sort of
15 analysis that Mr. Gaines prepared and concluded that
16 the net benefit during the '93-94 period was \$566,000?

17 A. I don't know.

18 Q. Would you accept subject to check that that
19 was his conclusion?

20 A. I will accept that subject to check.

21 Q. Doesn't the company have considerable
22 flexibility under the BPA sales agreement to fulfill
23 its obligation to deliver power?

24 A. I would believe that's true.

25 Q. And in fact the contract allows the company

1 to shift power deliveries within the month to meet its
2 obligations subject to a maximum hourly rate of
3 delivery; is that correct?

4 A. I will accept that subject to check.

5 Q. Another portion of your testimony concerns
6 the proposed record keeping requirement regarding the
7 company's transactions over the intertie. Do you
8 recall that?

9 A. Yes.

10 Q. And you state that these records are
11 necessary to evaluate the accuracy of Puget's claims
12 on third AC cost effectiveness; is that correct?

13 A. That's correct.

14 Q. Is it your proposal that the company's
15 decision to participate in the third AC intertie
16 should be evaluated in light of the actual results as
17 documented through these record keeping requirements?

18 A. Yes.

19 Q. And it's these actual results which
20 determine whether or not the company's decision to
21 participate in the third AC intertie was a sound one?

22 A. Yes.

23 Q. Do the records which you proposed to
24 require the company to collect relate to the analysis
25 performed by the company at the time it made its

1 decision?

2 A. No. I think that would be impossible since
3 there were no actual transactions upon which the
4 company could base its decision at the time.

5 MR. VAN NOSTRAND: No further questions,
6 Your Honor.

7 JUDGE HAENLE: Have you questions, Mr.
8 Manifold?

9 MR. MANIFOLD: Yes, a few.

10

11 CROSS-EXAMINATION

12 BY MR. MANIFOLD:

13 Q. Mr. Moast, first questions concern the
14 staff's proposal regarding recovery of the prudence
15 disallowance as recommended by staff. That's included
16 in your testimony?

17 A. Yes.

18 Q. And part of that recovery would be the --
19 or treatment I should say -- would be the amount that
20 has been allowed to be collected subject to refund?

21 A. I will accept that. I'm not part of the
22 prudence case.

23 Q. But that's included in your testimony in
24 this case on how that would be --

25 A. Yes.

1 Q. And the way I understand your testimony,
2 your proposal is that the amount of refund that would
3 be given back to consumers, to put it graphically,
4 would be split in between two years, part to be done
5 during PRAM 4 year and part to be done during the PRAM
6 5 year?

7 A. I confess I am not familiar with what the
8 staff's recommendation is with regard to the refund of
9 the prudence case.

10 Q. Who should I ask? That was included in the
11 numbers in your part of this, wasn't it?

12 A. I calculated what staff's recommendation
13 with regard to a lower price for the three contracts,
14 the March Point 2, the Sumas and the Tenaska contracts
15 would be, and I implemented staff's recommendation in
16 its prudence case to reflect those costs in the SDM
17 model.

18 Q. Well, what I want to ask about is why staff
19 is proposing to have that accounted for in two
20 different years rather than in one year and is Mr.
21 Martin an appropriate witness to ask rather than you?

22 A. Yes.

23 Q. The other set of questions I have for you
24 concerns the projection and the displacement into the
25 projection period. Just to set it up, my

1 understanding is part of the PRAM process is to
2 project power costs over the one-year period starting
3 October 1st of this year?

4 A. Correct.

5 Q. And an issue in this case at this point is
6 whether or not to project displacement of the
7 purchased power contract resources over that period --
8 over that one-year period?

9 A. Correct.

10 Q. And at this point the company and staff are
11 in agreement that the projection should assume no
12 displacement of those resources?

13 A. Correct.

14 Q. Now, and that has an effect, obviously,
15 upon the amount of revenue to be collected, starting
16 October 1st, based upon the projection?

17 A. Yes.

18 Q. It's not anybody's expectation that the
19 resources will be -- let me rephrase that to avoid a
20 double negative. It is the expectation that those
21 resources would be displaced on occasion during the
22 upcoming year?

23 A. It's very well possible.

24 Q. If they are displaced, how would the change
25 in revenues be reflected or trued up in the next PRAM

1 process? And specifically would that true-up capture
2 all of the actual changes in power costs or would it
3 simply reflect the simple dispatch model's reflection
4 of what happened?

5 A. Simple dispatch model is a monthly model.
6 It balances the company's surpluses and deficits.
7 It's not well equipped to evaluate specific company
8 decisions with regard to how it administers its
9 contracts. With regard to the decision that the
10 company may make down the road to displace or not
11 displace given what it knows at that time about
12 secondary sales prices, secondary purchase prices,
13 actual prices in the marketplace, the actual cost of
14 the contracts, the incremental generation rate that is
15 supplied to it by the producer, at that point in time
16 the company would decide whether to displace or not.
17 Those actual decisions and the impacts from those
18 actual decisions with regard to costs to the company
19 to either buy the power or not buy the power will have
20 to be reviewed by all parties within the context of
21 the deferral element of the company's PRAM 5 in this
22 case filing.

23 At that time all parties will have the
24 right to discover what was known by the company at the
25 time that it made its decision whether or not to

1 displace, and it's our recommendation that that is the
2 appropriate time to evaluate whether the company made
3 the appropriate decisions with regard to whether to
4 displace or not to displace.

5 Q. The simple dispatch model was set up
6 specifically for purposes of the PRAM process?

7 A. Yes.

8 Q. And normally power costs are predicted or
9 trued up in deferrals by running numbers through the
10 simple dispatch model?

11 A. That's how the simple dispatch model was
12 originally envisioned to simplify the process of
13 certain power cost expenses.

14 Q. Because of the model's, I think you
15 delicately put it, difficulty or impossibility of, as
16 currently constituted, of tracking two different sets
17 of prices within a month for secondary sales and
18 purchases, if one did the deferral true-up only using
19 the simple dispatch model, is it correct that one
20 would not accurately reflect what really goes on
21 regarding dispatchability?

22 A. Yes. The simple dispatch model in and of
23 itself is too general as a monthly model to evaluate
24 specific decisions that would occur within the month.

25 Q. Would it be your expectation, then, in the

1 deferral true-up in PRAM 5 for the period starting
2 October 1 of this year, that the true-up would be
3 based upon explicit adjustments in addition to the
4 simple dispatch model in order to capture this within-
5 month aspect of the dispatch?

6 A. Could you -- the word "adjustments" I think
7 was one that threw me. If you don't mind to rephrase
8 that or restate it.

9 Q. Well, in accomplishing -- let me start over
10 again. We're projecting power costs for the year
11 starting October 1, which I will call the PRAM 4
12 period?

13 A. Right.

14 Q. And since we're projecting it, we're going
15 to true it up later; some would say that it doesn't
16 matter how accurate you are in the projection because
17 you will just true it up later and it will all come
18 out in the wash, correct?

19 A. Some people could say that.

20 Q. So what I'm trying to explore is whether as
21 to this particular issue, that is, how resources are
22 dispatched and months within which there is both a
23 dispatch for part of the month and not for the rest of
24 the month, since that particular issue is not captured
25 by the simple dispatch model, since you're

1 recommending not capturing that on the projection,
2 would you recommend making -- I used adjustments,
3 substitute the word you would like in your answer --
4 would you recommend making some change in the true-up
5 in order to capture those aspects that are not
6 captured by a normal run of the simple dispatch model?

7 A. Yes. I would like to distinguish between
8 the word true-up and adjustment because true-up may be
9 viewed by some people as just saying you're flowing
10 through. A trueing-up mechanism, the company's actual
11 behavior was different than its projected behavior and
12 you're capturing that difference and flowing through
13 those changes. An adjustment would be to evaluate
14 more closely those actual decisions and to determine
15 whether they were appropriate or not and, based on the
16 merits of that evaluation, possibly recommend that
17 certain costs associated with the decision not be
18 included in the true-up. And that is my
19 recommendation that we reserve the right to review the
20 actual decisions, and to the extent that certain
21 decisions may be decided by staff to not be
22 appropriate, we would not recommend that they be trued
23 up but rejected from recovery.

24 Q. Well, what if they were appropriate
25 decisions but are simply decisions that are not

1 captured in the simple dispatch model?

2 A. I would recommend they be trued up.

3 Q. So given the way the simple dispatch model
4 operates, that would require doing something in
5 addition to simply running the model?

6 A. Yes. It would have to be done outside the
7 model.

8 Q. What would you call that? I was calling
9 that an adjustment.

10 A. I would agree. That's a good word for it
11 then at that point.

12 MR. MANIFOLD: No further questions.

13 JUDGE HAENLE: Commissioner, do you have
14 questions?

15 COMMISSIONER HEMSTAD: No, I don't.

16 JUDGE HAENLE: Have any redirect?

17 MS. JOHNSTON: No, Your Honor.

18 JUDGE HAENLE: Anything more of the
19 witness?

20 MR. VAN NOSTRAND: I'm sorry. I had a
21 couple of more questions in follow-up to these
22 revisions that were made this morning if I could just
23 --

24 JUDGE HAENLE: Go ahead.

25

1 CROSS-EXAMINATION

2 BY MR. VAN NOSTRAND:

3 Q. Mr. Moast, I would like to focus for a
4 minute on this Water Power contract covered in Exhibit
5 55, the footnote C, and you stated that the reason
6 that you did not accept this update was that it wasn't
7 included in the company's original filing; is that
8 correct?

9 A. Correct.

10 Q. Would you accept subject to check that the
11 contract amendment which updates the rate was not
12 signed until June 27, 1994?

13 A. Correct.

14 Q. And therefore it could not have been
15 included in the company's initial filing in this case
16 which was made on June 1; is that right?

17 A. Company knew that they were going to be
18 resigning the contract. I expect that they could have
19 incorporated some estimated value that came closer to
20 what the ultimate signed contract was going to be
21 showing in its original filing.

22 Q. Now, is the treatment which you're
23 proposing here -- in other words, not reflecting the
24 update -- consistent with the way this contract has
25 been treated in previous PRAM filings?

1 A. It's consistent with staff's argument that
2 certain issues either be trued up or not be trued up,
3 and it's also consistent with staff's position that
4 the June 1st cutoff date for the filing should reflect
5 what the company expects for the coming PRAM 4 period
6 and that company's June 1st filing should also include
7 actuals up through and including April 1994.

8 Q. But when the contract rate has been updated
9 and the contract rate goes down, hasn't this updated
10 information been taken into account even though it was
11 following the June 1 date in previous PRAM
12 proceedings?

13 A. Are you referring to a specific instance in
14 the past?

15 Q. Yes.

16 A. What instance are you referring to?

17 Q. I believe PRAM 2, Mr. Winterfeld accepted
18 this update when the rate went down.

19 A. I don't recall. I don't know.

20 Q. Now, you indicated that this is an item
21 that's not going to be trued up, isn't that right,
22 this particular contract?

23 A. Correct.

24 Q. Whereas the item D on your Exhibit 55, the
25 wheel rates are trued up?

1 A. Correct.

2 Q. So the effect of rejecting this proposed
3 update is even though the information suggests that
4 the rate is going to be higher there would be no
5 rate recovery of that higher amount; is that correct?

6 A. Correct.

7 MR. VAN NOSTRAND: No further questions,
8 Your Honor, thank you.

9 JUDGE HAENLE: Anything more of the
10 witness? Anyone?

11 Thank you, sir. You may step down. Go off
12 the record to change witnesses, please.

13 (Recess.)

14 JUDGE HAENLE: Let's be back on the record.
15 During the time we were off the record a new witness
16 assumed the stand. Would you raise your right hand,
17 sir.

18 Whereupon,

19 ROLAND MARTIN,
20 having been first duly sworn, was called as a witness
21 herein and was examined and testified as follows:

22 JUDGE HAENLE: During the time we were off
23 the record I marked a number of documents for
24 identification as follows: Marked as T-63 for
25 identification, a 19-page document, RCM-Testimony; 64

1 for identification a four-page document, RCM-1. And
2 note that this has been revised. Please be sure you
3 have the update. 65 for identification, RCM-2. Note
4 this is also revised and 66 for identification in four
5 pages RCM-3.

6 Do I understand, Ms. Johnston, that RCM-1
7 and RCM-2 are just to be substituted straight across?

8 (Marked Exhibits T-63, 64, 65 and 66.)

9 MS. JOHNSTON: Yes, that's correct.

10

11 DIRECT EXAMINATION

12 BY MS. JOHNSTON:

13 Q. Would you state your full name, spelling
14 your last.

15 A. My name is Roland C. Martin and my last
16 name is spelled M A R T I N.

17 Q. What is your business address?

18 A. Business address is 1300 South Evergreen
19 Park Drive Southwest, Olympia, Washington 98504.

20 Q. You are employed by the WUTC?

21 A. Yes.

22 Q. What is your position?

23 A. Employed as a revenue requirement
24 specialist.

25 Q. Did you prefile written direct testimony

1 and exhibits in this case?

2 A. Yes.

3 Q. In preparation for your testimony here
4 today, did you predistribute what's been marked for
5 identification as Exhibits T-63 and Exhibits 64, 65
6 and 66?

7 A. Yes, I did.

8 Q. Are there any revisions, additions or
9 corrections that you need to make to your testimony or
10 exhibits?

11 A. Yes. I would like to reflect the
12 corrections which are a result of the revisions of my
13 exhibits. On page 4 of Exhibit T-63, line 17, there
14 appears now 453,296,344. That should be revised by
15 45,446,815, and there's a 3.8 percent appearing there
16 which should be revised to 4 percent.

17 On the next line, the same page, there
18 appears a figure of 60,569,963. That is now revised
19 to 55,542,414 and 5.4 percent appearing there now
20 should be revised to 4.9 percent. And the last
21 revision on the same page on line 21 the 82,052,433
22 figure should now be revised to 82,052,548. Those are
23 all the corrections that I have.

24 Q. Could you briefly explain the corrections
25 that you've made to your exhibits?

1 A. The purpose of these corrections is to take
2 into account the revisions made by staff witness Mr.
3 Moast, and I believe he already explained those
4 corrections, since I am presenting the summary results
5 of recommendations of staff, those are taken into
6 account in the exhibit that I am sponsoring.

7 Q. Thank you. Are Exhibits T-63, 64, 65
8 and 66 as corrected true and correct to the best of
9 your knowledge?

10 A. Yes.

11 Q. And were they prepared by you?

12 A. They were prepared by me and some were
13 prepared under my direction.

14 Q. If I were to ask you the questions set
15 forth in Exhibit T-63, would your answers be the same?

16 A. Yes.

17 MS. JOHNSTON: Your Honor, move the
18 admission of Exhibit T-63, Exhibits 64, 65 and 66.

19 JUDGE HAENLE: Any objections?

20 MR. VAN NOSTRAND: No.

21 MR. MANIFOLD: No.

22 JUDGE HAENLE: All right. T-63 and 64
23 through 66 are entered into the record.

24 (Admitted Exhibits T-63, 64, 65 and 66.)

25 MS. JOHNSTON: Mr. Martin is available for

1 cross-examination.

2 MR. VAN NOSTRAND: I would like to
3 distribute an exhibit, Your Honor.

4 JUDGE HAENLE: You've given me a one-page
5 document, caption at the top, Response to Company Data
6 Request No. 706. I will mark this as Exhibit 67 for
7 identification.

8 (Marked Exhibit 67.)

9

10 CROSS-EXAMINATION

11 BY MR. VAN NOSTRAND:

12 Q. Mr. Martin, do you recognize what's been
13 marked for identification as Exhibit 67 as your
14 response to company data request No. 706?

15 A. Yes, I do, except that I believe this
16 response was later amended or changed. I can state
17 the change that we made. It's a minor one.

18 Q. If you could please do that.

19 A. In the response item D, the line -- the
20 sentence reads now, "the line items shown in Exhibit
21 ALK-3 are general nonoperating expenses." The
22 revision is just to delete the prefix "non." So it
23 should read now "general operating expenses."

24 Q. And with that revision, does this represent
25 your response to the company data request 706?

1 A. Yes.

2 Q. And this question basically asks where the
3 conservation costs which staff proposes to be
4 disallowed, where they would be recovered; is that
5 correct?

6 A. Yes, or how they are going to be treated.

7 MR. VAN NOSTRAND: Your Honor, move the
8 admission of Exhibit 67.

9 JUDGE HAENLE: Any objections?

10 All right. 67 is entered into the record.

11 (Admitted Exhibit 67.)

12 Q. One of the adjustments to conservation
13 discussed in your testimony is the write-off of
14 conservation advertising as a result of the order in
15 the company's general rate proceeding, and that's
16 discussed on pages 16 to 18 of your testimony. Do you
17 recall that?

18 A. Yes.

19 Q. And the company was required as part of the
20 general rate order to write off part of its
21 conservation advertising expenditures, and your
22 testimony notes that rather than the 652,000 written
23 off by the company the amount should have been 694,700
24 to reflect the application of the production factor;
25 is that correct?

1 A. That's correct. I believe the company
2 failed to take into account the fact that the number
3 used in the last general rate case was a test year
4 number, so to factor in the production factor the
5 amount would have been higher for the rate year or
6 PRAM year.

7 Q. And would you agree that the company has
8 incorporated an adjustment to reflect your
9 recommendation in its rebuttal testimony and in its
10 calculation of the revenue requirement?

11 A. I think that's one of the items that the
12 company accepted and there was another adjustment
13 related to conservation advertising in the model of
14 503, so those are two items that I noted to be
15 acceptable to the company.

16 Q. Just have a few questions to cover briefly
17 the issue of interest on PRAM deferrals which you
18 discuss in your testimony. Your testimony states that
19 the PRAM deferrals at issue in this proceeding is
20 about 82 and a half million dollars; is that right?

21 A. That's correct.

22 JUDGE HAENLE: Where are you referring to,
23 please?

24 MR. VAN NOSTRAND: The 82 and a half figure
25 was just corrected.

1 JUDGE HAENLE: That's at page 4. Where is
2 the discussion?

3 MR. VAN NOSTRAND: Right. Page 4.

4 Q. And turning to page 11, your testimony
5 notes that the PRAM deferral balance is a portion of
6 the working capital allowance which is included as a
7 component of rate base, is that correct, on lines 6 to
8 8 on that page?

9 A. Yes. That was the treatment according to
10 that item in the last general rate case.

11 Q. And in terms of the amount of PRAM
12 deferrals reflected in the working capital calculation
13 of the company's last general rate proceeding, isn't
14 it true that the average balance of the PRAM deferral
15 for purposes of setting rates was only such as to
16 produce a working capital revenue requirement of about
17 \$594,000?

18 A. I believe the calculation done in the last
19 general rate case is to establish a working capital
20 allowance for a company, and the item being included
21 in that calculation is the deferral amount for PRAM,
22 so I believe it would be not an exact description if
23 we say that there was a working capital allowance
24 exclusively tied to PRAM deferrals. What I am saying
25 is that the calculation of working capital allowance

1 involves so many items and those are based on
2 historical data from the balance sheet, and that
3 calculation is to arrive at a lump sum working capital
4 allowance for the company. Not necessarily tied up to
5 the individual items involved in the calculation.

6 Q. But with respect to the working capital
7 calculation and the treatment given to PRAM deferrals
8 under that in the general rate case, wasn't that
9 working capital calculation based on the average of
10 the monthly averages for the PRAM deferrals for the 12
11 months ended June 1992?

12 A. Yes, it was.

13 Q. And given that PRAM was implemented on
14 October 1, 1991, you would have nine months of actual
15 PRAM deferrals reflected in that calculation?

16 A. That's correct. Because of the historical
17 approach to rate making we use historical test year
18 and the test year reflected, I believe, only nine
19 months of PRAM.

20 Q. Do you know what that average balance was
21 during that nine-month period that would have been
22 incorporated into the working capital calculation?

23 A. I don't have the exact amount. I think the
24 revenue requirement as discussed by Mr. Story is in
25 the magnitude of a little over half a million dollars.

1 Q. So is it fair to say that the PRAM
2 deferrals reflected in the working capital calculation
3 are substantially smaller than the 82.5 million
4 dollar deferral as of April 30, 1994?

5 A. As I've said earlier, the calculation of
6 working capital is based on so many accounts so that
7 what the company was granted was working capital
8 allowance and it's not necessarily tied up or being
9 tracked to the individual components used in the
10 calculation. So the historical approach is still
11 used, prospective relationships, and working capital
12 is part of the rate base, and each individual item of
13 the rate base is not being tracked, so I cannot
14 possibly say that the analysis to individually track
15 the items in the rate base and say that working
16 capital allowance due to this item or such item went
17 up or went down. I think that's an inappropriate way
18 of describing it.

19 The correct way to do is to -- if the
20 company desires and feels that the working capital
21 allowance or the rate base is causing the prospective
22 relationship set in the last general rate case to be
23 disproportionate, then I believe the proper forum to
24 do that is in the general rate case, not in a PRAM
25 proceeding.

1 Q. In terms of how the PRAM deferral at issue
2 here was generated, would you agree that the use of
3 93.6 percent production factor in the last general
4 rate case rather than the 95.5 percent production
5 factor proposed by the company on rebuttal has caused
6 PRAM deferrals to be higher?

7 A. I am aware of an analysis that directly
8 links the deferrals as higher due to the change in
9 production factors from originally filed by the
10 company in the general rate case and a revision during
11 the rebuttal. I have not done any analysis to show
12 that or I haven't seen one.

13 Q. You haven't looked at whether or not the
14 actual production factor has turned out to be closer
15 to the 95.5 percent or the 93.6 percent at issue in
16 the general rate proceeding?

17 A. No.

18 Q. Would you agree that the treatment called
19 in the general rate case order for the Tenaska project
20 for recovery in rates until PRAM 4 has caused PRAM
21 deferrals to increase?

22 A. One other specific item, I think I could
23 say that PRAM deferrals went up because in the last
24 general rate case I believe there were no rates to
25 cover Tenaska costs.

1 Q. And similarly, wouldn't the treatment of
2 Sumas and Encogen in the PRAM 2 proceeding cause PRAM
3 deferrals to increase?

4 A. I am not sure about that, but I could
5 accept that subject to check.

6 Q. Would you accept subject to check that in
7 that proceeding staff recommended that Sumas and
8 Encogen not be included in power costs even though
9 they were expected to come on line during the PRAM 2
10 period and recovery was deferred until PRAM 3?

11 A. Yes, I would accept.

12 Q. And would you also accept subject to check
13 that the order in the PRAM 2 proceeding indicates that
14 the deferrals would increase by 10.2 million dollars
15 as a result of this postponement?

16 A. Yes, subject to check.

17 Q. That's the order on page 69. Just briefly
18 looking at the table on page 12 of your testimony,
19 this reflects the information provided by the company
20 in its response to requests No. 139; is that correct?

21 A. That's correct.

22 Q. And in that response also includes an
23 additional adjustment which staff asked the company to
24 perform in request No. 139?

25 A. I believe we requested the company to

1 reflect the impacts of voluntary separation program
2 and enhanced separation plan.

3 Q. And wasn't part B of that request also
4 asking the company to exclude the out-of-period
5 impacts of the depreciation rate change?

6 A. I believe that information was volunteered
7 by the company because I did not request for it.

8 Q. Would you accept subject to check that data
9 request No. 139 part B indicates --

10 JUDGE HAENLE: I'm sorry. Part which?

11 MR. VAN NOSTRAND: B.

12 Q. "Please provide in a separate column the
13 adjusted rates of return to further exclude the
14 out-of-period impacts of the depreciation of rate
15 change accounting and described in the company's
16 response to record requisition No. 3."

17 A. Yes. When I say I did not request for the
18 information, I was referring to the record requisition
19 No. 3 and the originally that request, I believe, has
20 no -- not is about any deferred depreciation rate
21 change accounting entry.

22 Q. But in request No. 139 you don't deny that
23 you did ask for the company to calculate the adjusted
24 rates of return to reflect the depreciation change?

25 A. Yes, we did request that in that data

1 request.

2 Q. And that was provided in the attached
3 worksheet column 4, which you did not include in your
4 table on page 12; is that correct?

5 A. That's correct. And the reason why I
6 didn't include that is I noted that there are so many
7 other items which could very well be included. It's
8 been a fat lip. These calculations are based on
9 actual per books numbers, and looking at them closely
10 the elements that went into the calculation, I know
11 that we could go on and on and on putting adjustment
12 performing or normalizing or whatever to bring the
13 published results into admission basis.

14 One of the items I noted subsequent to
15 preparation of this table is like, for example, in
16 December of 1993 the reported amounts, as well as the
17 corrected and adjusted numbers, I realized that the
18 plant held for future use, which the Commission
19 disallowed during the last general rate case, the
20 magnitude of about 5 million dollars are still in the
21 rate base in this calculation. So I believe, as I
22 mention in my testimony, the data I am referring to
23 provides useful information, but it depends on what
24 purpose this information is going to be used. We can
25 either take a lesson or indication about the general

1 tendencies of where the company is standing right now
2 as far as rate relief is concerned, but what I said in
3 my testimony is that it shouldn't be a basis for
4 granting additional rate relief for the company.

5 Q. Turning to what the company did say in
6 response to your request in 139, if the adjustment
7 calculated by the company at your request were
8 included in your table A, wouldn't the last column be
9 revised to show a reduction in February 1994 from 9.19
10 to 9.12 percent; in March of 1994 from 9.41 percent to
11 9.31 percent; in April 1994 from 9.45 percent to 9.31
12 percent; and in May of 1994 from 9.45 percent to 9.28
13 percent?

14 A. Yes. This is the information provided in
15 the response.

16 MR. VAN NOSTRAND: No further questions,
17 Your Honor.

18 JUDGE HAENLE: Mr. Manifold.

19 MR. MANIFOLD: Few questions.

20

21 CROSS-EXAMINATION

22 BY MR. MANIFOLD:

23 Q. Mr. Martin, Mr. Moast referred to you some
24 questions I was asking of him regarding the staff's
25 recommendation for the recovery of the amount of money

1 that the Commission allowed the company to collect
2 subject to refund regarding the prudency hearing.

3 Were you in the room when I asked those questions?

4 A. Yes. And I would be glad to answer the
5 questions if I can.

6 Q. Good. I guess I'm tempted to say go ahead,
7 but let me pose them. It's my understanding that the
8 staff in their PRAM 4 case has included the treatment
9 during PRAM 4 of its recommendation in the prudency
10 case?

11 A. That is right.

12 Q. And part of that reflects how to deal with
13 the amount of money that was collected by the company
14 subject to -- is being collected by the company
15 subject to refund?

16 A. Yes.

17 Q. And it's my understanding that the staff
18 recommendation is that although that money was
19 collected over one-year period ending at the end of
20 this month that it should be in effect refunded to
21 consumers in two segments, one segment during the PRAM
22 4 year and another segment during the PRAM 5 year?

23 A. Yes. The reason why we recommended that
24 way is that taking the whole PRAM mechanism in
25 balance, we know that the ratepayers still owe the

1 company rather than the company owing the ratepayers.
2 We note the big deferral amount and we note, as I
3 mentioned earlier during Mr. Van Nostrand's cross,
4 that Tenaska costs which are coming on line were not
5 provided for in the last general rate case, that it
6 would be more practical approach to have this credit
7 be given to the company in the same fashion as the way
8 that the PRAM mechanism works where we first true up
9 the first seven months and then later the next five
10 months in the following PRAM year. So it's sort of
11 matching and spreading the benefit with the expended
12 cost.

13 Q. You anticipated my question. So the reason
14 for this treatment is that it reflects the way other
15 costs are treated in PRAM in a period through April is
16 trued up in one case and then the other period from
17 May through September of these refunded amounts would
18 otherwise -- other power costs during that period
19 would be treated in PRAM 5?

20 A. That's right.

21 Q. Is there any concern regarding the
22 magnitude of these costs and rate impact or rate
23 shock? I'm noting, as you did, that these are going
24 to be -- rates will still be going up even given the
25 amount of these numbers.

1 A. I believe -- that is what I mentioned is
2 only true with regards to the amount of deferrals,
3 with regards to the net deferrals being smaller than
4 what it would have been, but as to the issue of rate
5 shock, I think the Commission still has the
6 reservation to either amortize it over one year or two
7 years; that portion of the PRAM mechanism will take
8 care of others' rate shock.

9 Q. Is there any doubt about the amount of
10 money per the staff case that is reflected in the May
11 1994 through September 1994 refund amount?

12 A. I think that won't be actually known until
13 we experience what the actual quantities of the
14 contracts are going to be for that period. An input
15 in the calculation of the amount of credit or refund
16 is how much will be the actual quantities, so at this
17 point we don't know exactly yet what the actuals
18 during the period from -- the last five months.

19 MR. MANIFOLD: No further questions. Thank
20 you.

21 JUDGE HAENLE: Questions, commissioners?

22 CHAIRMAN NELSON: No.

23 COMMISSIONER HEMSTAD: No.

24 JUDGE HAENLE: Redirect?

25 MS. JOHNSTON: No, Your Honor.

1 JUDGE HAENLE: Anything more of the
2 witness?

3 All right. Thank you, sir. You may step
4 down. This looks like a wonderful lunch break time.
5 Let's break for lunch at this point. Come back at
6 1:30, please.

7 (Lunch recess.)

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1 DIRECT EXAMINATION

2 BY MR. MANIFOLD:

3 Q. Dr. Blackmon, do you have before you the
4 exhibits that have just been so marked?

5 A. I do.

6 Q. Is Exhibit T-68 your direct filed testimony
7 in this case?

8 A. It is.

9 Q. Do you have any changes or corrections to
10 be made in that?

11 A. Yes, I have one. At page 20, line 11,
12 the number 9.971 million should be 11.362 million.

13 Q. With that change if I asked you the
14 questions contained in Exhibit T-68 today, would you
15 give the answers that are contained therein?

16 A. Yes.

17 Q. Does what has been marked as Exhibit 69
18 through 72 constitute your exhibits accompanying your
19 testimony?

20 A. Yes.

21 Q. Are they true and correct to the best of
22 your knowledge?

23 A. Yes.

24 MR. MANIFOLD: Your Honor, move for the
25 admission of Exhibits T-68 through 72.

1 JUDGE HAENLE: I'm sorry. Any objection to
2 the entry of the documents?

3 MR. VAN NOSTRAND: No.

4 JUDGE HAENLE: Those documents then will be
5 entered into the record.

6 (Admitted Exhibits T-68, 69, C-70, 71 and
7 72.)

8 MR. MANIFOLD: Witness is available for
9 cross.

10 JUDGE HAENLE: Thank you. Mr. Van
11 Nostrand.

12 MR. VAN NOSTRAND: Thank you.

13

14 CROSS-EXAMINATION

15 BY MR. VAN NOSTRAND:

16 Q. Good afternoon, Dr. Blackmon.

17 A. Good afternoon.

18 Q. The first adjustment discussed in your
19 testimony has to do with the deferred power costs and
20 the adjustment to actual previous displacement; is
21 that right?

22 A. That's correct.

23 Q. And your adjustment in effect increases the
24 company's actual displacement savings of \$189,249 to
25 \$553,442 as shown in your Exhibit C-70?

1 A. That's correct.

2 Q. And according to your testimony you
3 calculated your adjustment based on your comparison of
4 the incremental generation rate report by each project
5 to the average price that Puget was paying for
6 secondary energy in that particular month; is that
7 correct?

8 A. That's correct.

9 Q. And another adjustment you made in the form
10 of your calculation was to take the quantity based on
11 the greater of actual displaced energy during the May
12 to September 1993 period or the displaced energy
13 assumed by Puget in projecting power costs; is that
14 correct?

15 A. That's correct.

16 Q. And the reference to that is in footnote J
17 to your Exhibit C-70 which states that column J is the
18 greater of displaceable energy assumed by Puget Power
19 in projected cost work papers or actual displaced
20 energy in month?

21 A. That's correct.

22 Q. And where did you discuss in your testimony
23 the basis for that particular adjustment?

24 A. Which particular adjustment are you
25 referring to?

1 Q. The adjusting the quantity for the greater
2 of actual or projected.

3 MR. MANIFOLD: Perhaps if counsel has a
4 page cite we can cut some time here.

5 MR. VAN NOSTRAND: It's a rhetorical
6 question. I would like to know where it's discussed.

7 A. In general it's discussed at pages 5 and 6
8 of the prefiled testimony. It falls within the -- I
9 mean, in general what I have done is identified
10 instances where it appeared that displacement was
11 economical to do and yet it didn't happen, and in some
12 cases Puget made a displacement for, say, five or six
13 days or 15 days out of a month, and then the remaining
14 days of the month it didn't make a displacement, and
15 that's discussed at pages 5 and 6 of the testimony.

16 Q. And you said that it appeared economic but
17 yet displacement didn't occur. By that you were
18 saying that it appeared economic based on projections?

19 A. It appeared based on the information that
20 Puget power provided us, the most detailed information
21 on the conditions that occurred at the time, that
22 Puget should have displaced some of these projects at
23 certain times. That's based on -- that level of
24 information is the average price for secondary energy
25 that was observed in a particular month. That's the

1 level of detail which we weren't provided and that's
2 the level of detail of which I made my analysis.

3 Q. Now, this adjustment where you took the
4 greater of the actual or the projected, when you say
5 the projected cost work papers, is that the predicted
6 cost work papers for the PRAM 4 period in this case?

7 A. Yes, that's right.

8 Q. So you adjusted the actual which happened
9 during the September, the May through September 1993
10 period, based on where the quantity was greater, the
11 projections for those similar months in the next PRAM
12 period?

13 A. That's correct. You have to understand
14 where the projections for PRAM 4 came from. Those
15 came from observing the past behavior of the
16 cogeneration projects. And so ultimately the source
17 of that information is the notices that project
18 operators have provided Puget Power that say how much
19 energy they can displace at what incremental
20 generation rate. Those notices were used to formulate
21 the projections in PRAM 4. They also were used by me
22 to look at whether or not Puget did a good job in the
23 past of taking advantage of displacement opportunity
24 that existed.

25 Q. Doesn't this portion of your calculation,

1 the change in the assumed quantity based on
2 projections versus actual, doesn't this have a much
3 greater impact in the amount of your adjustment than
4 the price adjustment discussed in your testimony?

5 A. I haven't done that calculation.

6 MR. VAN NOSTRAND: Like to distribute an
7 exhibit, Your Honor.

8 JUDGE HAENLE: Yes. What you have
9 distributed is also confidential document, Mr. Van
10 Nostrand.

11 MR. VAN NOSTRAND: Yes.

12 JUDGE HAENLE: I only want one copy then,
13 if I can give this back to you.

14 You've handed me a one-page document. It
15 has the same title at the top as Exhibit C-70 does.
16 How will we know which is which, Mr. Van Nostrand, or
17 how is this different? How can we describe for the
18 record how it's different without getting the
19 confidential numbers into the record?

20 MR. VAN NOSTRAND: This is the same except
21 columns J and K were recast to be the same as E and F
22 so we can isolate the impact of the price versus the
23 quantity adjustments, so J and K are different on this
24 exhibit than on the original.

25 JUDGE HAENLE: It won't harm

1 confidentiality to show that J and K columns,
2 potential minus actual, are zero in your new exhibit,
3 will it?

4 MR. VAN NOSTRAND: Run that by me again.

5 JUDGE HAENLE: I was trying to look and see
6 something that would be obvious and I see at the
7 bottom that potential minus actual in columns J and K
8 is zero and 0.0. Is that a good way to identify which
9 is which?

10 MR. VAN NOSTRAND: Yes.

11 JUDGE HAENLE: This document, then, with
12 the title Calculation of Adjustment to Deferred Power
13 Costs for Potential Displacements will be marked as
14 Exhibit C-73 for identification.

15 (Marked Exhibit C-73.)

16 Q. Dr. Blackmon, you have before you what's
17 been marked for identification as Exhibit C-73?

18 A. I do.

19 Q. And would you accept subject to check that
20 this exhibit is a recast of your Exhibit C-70 using
21 the computer diskette provided to the company and that
22 the columns J and K were recast to reflect the same
23 quantity as columns E and F in order to isolate the
24 two pieces of the adjustment?

25 A. Yes, I would.

1 Q. And doesn't this recast of your exhibit
2 indicate that only \$79,432 of your \$380,000 adjustment
3 relates to the price issue discussed in your testimony
4 and that the other four-fifths of the adjustment
5 relates to the adjustment of quantity to use the
6 greater of actual or projected?

7 A. Yes. They're both discussed in my
8 testimony, and it would appear to me that this exhibit
9 accurately divides that up into how much of it is due
10 to a difference in price and how much of it -- by a
11 difference in price what that means is that, okay,
12 given that Puget made a displacement at what rate
13 should they have done it at versus the quantity
14 question, which is should Puget have done the
15 displacement or not, and I think -- it appears,
16 anyway, subject to check, that it accurately
17 divides the total into the price element and the
18 quantity element.

19 MR. VAN NOSTRAND: Your Honor, subject to
20 Dr. Blackmon's check that this document was prepared
21 adequately, I would move the admission.

22 JUDGE HAENLE: Any objection?

23 MR. MANIFOLD: I do, just a format one.
24 That is, since this isn't his exhibit but something
25 the company prepared to replicate it, it seems to me

1 the upper right-hand corner which has the
2 identification as if it were his exhibit should not
3 appear and striking that out on our copies would be
4 one more way of distinguishing the two.

5 JUDGE HAENLE: How about if I put a line
6 through witness Blackmon page 1 of 1 and write
7 something like cross-examination by company at the
8 corner. Is that okay, Mr. Van Nostrand?

9 MR. VAN NOSTRAND: Fine.

10 MR. MANIFOLD: Other than that I have no
11 objection. I do have a question about when we're to
12 respond to subject to checks since I suspect the usual
13 ten-day rule isn't going to be very effective.

14 JUDGE HAENLE: That's an excellent
15 question. What do you propose, Mr. Van Nostrand, in
16 terms of subject to checks, I mean?

17 MR. MANIFOLD: I actually have a suggestion
18 and that is once we know what they all are at the end
19 of the day we might, with our respective witnesses, be
20 able to give you an estimate of when we can get those
21 in or you could tell us when we need to get them
22 in.

23 JUDGE HAENLE: Only that if you intend to
24 -- because the Commission has changed the oral
25 argument to Thursday at 1:30, in order for you to

1 address them in oral argument they would need to be in
2 I would guess Thursday morning, something like that,
3 in order for you to address them. But why don't you
4 talk about it at the end of the day. We'll take that
5 up as the last procedural matter, and if we need to
6 make other arrangements we can do that, but keep in
7 mind we have a very, very short time line on this one.
8 So keeping that in mind, then, I will admit C-73 into
9 the record. Do remember to treat it as confidential,
10 please.

11 (Admitted Exhibit C-73.)

12 MR. VAN NOSTRAND: Distribute another
13 exhibit, Your Honor.

14 JUDGE HAENLE: You handed me a multi-page
15 document. The caption at the top is Response of
16 Public Counsel to Request No. 740. That's the first
17 page. I don't know if there are others. There are
18 others attached to it. That's the first page. That
19 will be marked as 74 for identification.

20 (Marked Exhibit 74.)

21 Q. Dr. Blackmon, you have before you what's
22 been marked for identification as Exhibit 74 for
23 identification?

24 A. I do.

25 Q. And you recognize the first page as your

1 response to request No. 740 in this proceeding?

2 A. I do.

3 Q. And you recognize the last three pages as
4 the company's response to public counsel data request
5 No. 230, which is referenced in your response to 740?

6 A. I do.

7 Q. And do you recognize all the pages in
8 between as the company's response to public counsel
9 data request No. 5039 in the prudence review which you
10 reference in part A of your response to request No.
11 740?

12 A. This was an unusual data request and
13 response in the prudence case, which is why I'm a
14 little slow in answering, because the original
15 response didn't meet the form and content that we had
16 expected, and so we formulated additional questions.
17 As long as I don't have to verify that it's complete,
18 it appears to be the request including supplemental
19 request and Puget Power's responses to these requests.

20 Q. And your response to 740 indicates that
21 public counsel was unsuccessful in obtaining actual
22 secondary rates in this proceeding, isn't that
23 correct, your response to part A?

24 A. Yes.

25 Q. And then in turn, the last three pages,

1 your request No. 230 in this proceeding, that request
2 doesn't ask for the actual secondary rates, does it?

3 A. It asks for the replacement power costs.

4 Q. And that's the same as the secondary rate?

5 A. It's the same as the secondary purchase
6 rate, yes, by definition.

7 Q. By definition. Is your testimony that by
8 definition replacement power costs for purposes of
9 Puget's displacement provisions is the same as the
10 actual secondary rates?

11 A. I think I see the point of your question.
12 When I say by definition, what I mean is that in the
13 purchased power contracts replacement power costs is
14 defined as the rate at which Puget Power would
15 otherwise purchase electricity if it were to displace
16 a cogeneration project. Therefore, purchased power
17 rate is equal to replacement power costs with the
18 qualification being that the replacement power cost
19 necessarily has to be a forward looking number rather
20 than a backward looking number. I mean, it doesn't
21 say that in the definition that's in the contract, but
22 the reality is that displacement decisions have to be
23 made looking at the future if only a very short-term
24 future, and so you could expect that there would be
25 some difference between what people expected the

1 replacement power costs to be and what the actual rate
2 that was paid for secondary purchases was in that same
3 period.

4 Q. And with that background explanation in
5 mind, the requests for 230 does not ask for the actual
6 secondary rates but instead asks for the replacement
7 power costs; is that right?

8 A. With that understanding that there's a
9 slight difference between the two, that's right.

10 MR. VAN NOSTRAND: Your Honor, move the
11 admission of Exhibit 74 subject to Dr. Blackmon's
12 ability to check to make sure that the response to
13 5039 is indeed complete.

14 JUDGE HAENLE: Any objection to its entry?

15 MR. MANIFOLD: No objection.

16 JUDGE HAENLE: 74 will be entered.

17 (Admitted Exhibit 74.)

18 MR. VAN NOSTRAND: Please mark 739 first
19 and 744 second.

20 JUDGE HAENLE: One page document entitled
21 Response of Public Counsel to Request No. 739 will be
22 marked as Exhibit 75 for identification and the second
23 is a one-page document entitled Response of Public
24 Counsel to Request No. 744. That will be 76 for
25 identification.

1 (Marked Exhibits 75 and 76.)

2 Q. Dr. Blackmon, do you recognize the exhibits
3 marked for identification as 75 and 76 as your
4 responses to Puget's data requests No. 739 and 744?

5 A. I do. I would note that in 739 it appears
6 that part of the request has been left out. At the
7 end of the second line it says, "Please indicate
8 whether Dr. Blackmon that the amounts so reported are
9 actual," and I don't know if in our retyping of it we
10 left words out or what, but at some point, something
11 got left out.

12 JUDGE HAENLE: Is there a way for us to go
13 on while staff --

14 A. I can tell you what I think is missing if
15 that would help. I think it should indicate "whether
16 Dr. Blackmon believes that the amounts so reported."

17 MR. VAN NOSTRAND: Good guess. That's
18 indeed what it says.

19 JUDGE HAENLE: I will add that to my copy.
20 Please do the same to your copies.

21 MR. VAN NOSTRAND: With that correction, I
22 move the admission of 75 and 76.

23 JUDGE HAENLE: Any objection?

24 MR. MANIFOLD: No objection.

25 JUDGE HAENLE: 75 and 76 are entered.

1 (Admitted Exhibits 75 and 76.)

2 Q. Dr. Blackmon, your response to No. 739 in
3 Exhibit 75 indicates that replacement power costs is
4 an estimate not necessarily agreed upon between Puget
5 and the cogenerators; is that correct?

6 A. That's correct.

7 Q. And could you please explain what you meant
8 by not necessarily agreed upon?

9 A. Well, the question asked whether I believe
10 that replacement power costs is a number that is
11 agreed upon between Puget and the cogenerator, and my
12 answer is no, that it's not a number that's agreed
13 upon by Puget Power and the cogenerator. The way
14 the process works is that the cogenerator informs
15 Puget Power of what its incremental generation rate
16 is, in other words, how much it would save per
17 kilowatt hour if it were to displace all or part of
18 the project. Puget then determines its replacement
19 power costs, but Puget doesn't say here's what we
20 think our replacement power cost is, do you think
21 that's our replacement power cost? The cogenerator is
22 not going to know what Puget's replacement power cost
23 is and it's none of that cogenerator's business what
24 that replacement power cost is, and then once Puget
25 has stated what it says its replacement power cost is,

1 then if it can replace the power at a lower cost, it
2 does so and the savings are divided between Puget
3 Power and the cogenerator, so there's no agreement.

4 JUDGE HAENLE: You've handed me a five-page
5 document. This is entitled Agreement for Firm Power
6 Purchase (Thermal Project). I will mark this as 77
7 for identification.

8 (Marked Exhibit 77.)

9 Q. Dr. Blackmon, would you accept subject to
10 check that Exhibit 77 is an excerpt from the March
11 Point 1 cogeneration contract which includes paragraph
12 2.5, a displacement option, Exhibit F and Exhibit G?

13 A. Yes.

14 Q. And are these the displacement provisions
15 typically found in a company's cogeneration contracts?

16 A. Yes.

17 MR. VAN NOSTRAND: Your Honor, move the
18 admission of Exhibit 77.

19 JUDGE HAENLE: Any objection?

20 MR. MANIFOLD: No objection.

21 JUDGE HAENLE: All right. Exhibit 77 will
22 be entered into the record.

23 (Admitted Exhibit 77.)

24 Q. If I can turn your attention to the second
25 page of the exhibit marked as page 6. Paragraph 2.5.3

1 of the contract provides, doesn't it, that if the
2 parties agree that the replacement power cost for any
3 period will be less than the incremental generation
4 rate then the energy may be displaced; is that
5 correct?

6 A. That's correct.

7 Q. Paragraph goes on to state that prior to
8 such election the parties shall have agreed upon and
9 then subpart C is the replacement power costs for the
10 period of displacement?

11 A. That's correct.

12 Q. And Exhibit G which is the last page of the
13 agreement is a sample calculation of a displacement
14 option, and the definition of RPC also states that the
15 replacement power cost is that agreed upon pursuant to
16 2.5.3(c)?

17 A. That's correct.

18 Q. In light of your review of the actual
19 contractual terms, is it still your testimony that the
20 replacement power cost is not necessarily agreed upon
21 but -- replacement power costs is not necessarily
22 agreed upon between Puget and the cogenerator?

23 A. Yes, that's still my testimony. I think
24 that what is referred to in this contract as being
25 agreed upon is the overall terms of the displacement.

1 What the incremental generation rate will be is a
2 number that's supplied by the cogenerator; what the
3 replacement power costs will be is a number that's
4 supplied by Puget Power, and the number of megawatts
5 are more specifically the duration of the
6 displacement, but I don't believe that this section --
7 that the language in this section, particularly as
8 it's been applied in practice, means that the
9 cogenerator has the right to agree or disagree with
10 the replacement power costs.

11 Q. Is it your testimony that we should adopt
12 an adjustment based on your understanding of how these
13 are calculated rather than what the contractual terms
14 actually provide?

15 A. I don't see how it enters into the value of
16 the adjustment one way or the other.

17 Q. If we could turn to your adjustments to
18 projected power costs. Beginning on page 12 of your
19 testimony discusses the adjustment to projected
20 displacement of cogeneration projects and you show a
21 calculation of a 7.4 million dollar adjustment on page
22 2 of your Exhibit 72; is that correct?

23 A. That's correct.

24 Q. And if we could focus for illustration
25 purposes on the entry for June 1995 in your page 2 of

1 Exhibit 72. In that column you increase sales and you
2 increase purchases by the amount of assumed
3 displacements for the cogeneration units; is that
4 correct?

5 A. That's correct.

6 Q. And you therefore calculate a projected
7 displacement amount of 315,504 megawatt hours?

8 A. Well, the amount of displacement -- I mean,
9 that's the amount of energy that is assumed to be
10 displaced, if that was your question.

11 Q. But your adjustment in this column actually
12 increases the sales and increases the purchases by the
13 amount of energy assumed to be displaced, doesn't it?

14 A. I think so, if I could try to explain it.

15 Q. Referring to your testimony on page 16,
16 lines 1 and 2, the correction is simply to increase
17 sales and increase purchases by the amount of the
18 displacement?

19 A. That's correct.

20 Q. And so for June 1995 that figure is
21 315,000 megawatt hours?

22 A. Correct.

23 Q. And the purchases are assumed to be made at
24 9.4 mills, and that's on line 10, and the sales are
25 assumed to be made at 18.5 mills on line 9; is that

1 right?

2 A. That's correct.

3 Q. And these numbers from lines 9 and 10 are
4 the projections from Puget's simple dispatch model?

5 A. They're not from the simple dispatch model.
6 They're used in the simple dispatch model but they're
7 not produced by that model.

8 Q. They're part of the power supply cost work
9 papers?

10 A. That's correct.

11 Q. And comparing these columns 9 and 10
12 produces a suggested margin of 9.1 mills which, when
13 multiplied by the 315,000 megawatt hours produced for
14 the month, produces revenues of about 2.871 million?

15 A. That's correct.

16 Q. As shown on line 13?

17 A. Yes.

18 Q. Now, this quantity of 315,000 megawatt
19 hours, would you accept subject to check that that
20 equates to about 424 megawatts of energy on average
21 for every hour during the month? That's just simply
22 315,000 divided by 744.

23 A. 424 megawatts.

24 Q. So your adjustment assumes, doesn't it,
25 that for every hour during the month the company will

1 be purchasing about 424 megawatts at an average price
2 of 9.4 mills?

3 A. No, I would say that's not accurate.

4 Q. How do you --

5 A. The mechanics of my adjustments assume
6 that, but that's not an accurate description of the
7 effect of my adjustment. My adjustment needed to
8 correct an error that was in the company's
9 projections, and so the way that I corrected it was to
10 do the math in the way that you've said, but that
11 doesn't mean that I'm assuming that that is what Puget
12 Power would do in that month.

13 Q. But you calculate a revenue from these
14 assumed transactions and impute them, Puget is owed
15 these, so these are the transactions that will
16 actually occur, don't you?

17 A. What I did is that Puget Power assumed that
18 for the month it would displace 315,000 megawatt hours
19 because it could buy power at 9.4 mills per kilowatt
20 hour, but then when it came time to set rates Puget
21 Power said, well, the rate impact of that is that we
22 will reduce our secondary sales at 18 and a half mills
23 per kilowatt hour. I reversed both of those
24 assumptions and said that Puget would not lower its
25 sales at 18.5 mills the way they assumed because to do

1 so would be uneconomic for Puget and its ratepayers.

2 Q. And isn't the effect of your adjustment as
3 I stated, that Puget will be buying on average 424
4 megawatts for each and every hour at 9.4 and selling
5 it at each and every hour at eighteen-five?

6 A. If Puget makes that displacement under
7 those circumstances then that would be the effect,
8 yes.

9 Q. Is it your understanding that the company
10 can purchase at 9.4 and sell at 18.5 at the same time?

11 A. This goes back to the question of whether
12 we have adequate data on Puget's secondary rates.
13 Puget has been unable to provide us with secondary
14 rates on an hour by hour or even day-by-day basis,
15 and so I really don't know one way or the other.

16 Q. Do you suspect it's likely that Puget would
17 be able to buy and sell at the same time in the
18 secondary market, buy at 9.4 and sell at 18.5
19 simultaneously?

20 A. This assumption reflects the inclusion of
21 the intertie and with that intertie addition, it may
22 very well be that they can do that. I don't know.

23 Q. Does that strike you as consistent with the
24 economic theory, given your PhD as an economist, that
25 one would be able to buy and sell and reap economic

1 profits of the difference between 18.5 and 9.4 just by
2 buying and selling at exactly the same time?

3 A. I might note that my PhD is in public
4 policy, but it is a possibility, yes, because when one
5 has rights to a limited resource, such as the
6 intertie, then you do see geographic disparity in
7 prices, and the potential for arbitrage exists.

8 Q. And when you refer to the intertie you are
9 still just talking about this cogeneration
10 displacement or are you also referring to your
11 adjustment for increased activities due to the
12 intertie on page 3?

13 A. Well, I don't know why the potential would
14 differ depending on whether it was cogeneration power
15 or any other type of power.

16 Q. Without Puget's rights on the intertie,
17 would these arbitrage capabilities, as you described
18 them, exist?

19 A. There are -- even before the intertie
20 existed, there were observed differences in the rates
21 at which Puget bought power and sold power, and we've
22 never gotten the data to explain what the ultimate
23 source of that is. I'm certainly not complaining that
24 they have that ability, let me be clear about that. I
25 think it's good that Puget buys at a lower price than

1 it sells. But we have in the past seen a persistent
2 pattern that Puget buys at a lower price than it
3 sells. That differential has been projected to
4 increase with the addition of the intertie capacity,
5 and my estimates in fact are based on Puget Power's
6 projections of that differential.

7 Q. And does that differential which you refer
8 to, are those transactions which happen at the same
9 time or is that a perceived differential and
10 transactions at one time in the month versus another
11 time in the month?

12 A. At least the way Puget has included them in
13 the projections, the assumption is that this
14 differential could exist for the entire month.

15 Q. And that the differential would exist
16 simultaneously?

17 A. Yeah. I mean, Puget's projected secondary
18 rate that they include in their filing has that
19 differential between purchase and sale, and they have
20 applied it for -- they haven't applied it by saying,
21 well, that's part of the month at one rate and part
22 of the month at the other rate. They take the month
23 as a whole and apply that differential. And in fact
24 that's why the error occurred in Puget's original
25 filing because they were assuming that these

1 displacements occurred based on the lower purchase
2 rate and yet when it came time to calculate rate
3 effects they were applying that full month-long
4 displacement into rates at the secondary sales rate,
5 and I'm just reversing the error that Puget introduced
6 into the calculation.

7 Q. Now, when Puget made these estimates of a
8 differential between the purchased price and the sale
9 price, did its analysis assume that these transactions
10 would be made at the same time to produce the sort of
11 profits which you're showing?

12 A. Yes, they did.

13 Q. And did Puget's analysis also assume that
14 in any event the secondary purchase and sale rates
15 would be trued up to actuals?

16 A. I'm sorry. Could you ask that again.

17 Q. When Puget made these projections that show
18 a differential between the purchased price and the
19 sale price, wasn't that based on an understanding that
20 the actual results would be trued up in any event?

21 A. I assume it was, yes.

22 Q. And is that what you propose here as well
23 that the actual results be trued up?

24 A. Yes.

25 Q. So looking at your page 2 of Exhibit 72, if

1 it turns out that Puget in fact can't make these sales
2 to produce these net revenues of 7.4 million dollar
3 it's your proposal that the actual results would be
4 used to set rates?

5 A. Yes, that's my proposal.

6 Q. Turn to the next page of your Exhibit 72
7 which discusses your adjustment to net secondary
8 revenues, projected sales over the third AC, and on
9 this page you calculate an 11.4 million dollars
10 increase in net secondary revenues from transactions
11 over the third AC intertie; is that correct?

12 A. That's correct.

13 Q. And referring to that exhibit, for each
14 month you looked at the capacity available to Puget on
15 the intertie as set forth on line 3 and you subtracted
16 the amount of intertie use rejected by Puget on line 5
17 and calculated an unused intertie capacity; is that
18 right?

19 A. That's correct.

20 Q. And you assumed that Puget would use this
21 unused intertie capacity fully by buying at the
22 secondary purchase rate and selling at the secondary
23 sales rate?

24 A. That's correct.

25 Q. So for the month of June, for example, you

1 show an unused intertie capacity of 215.4 megawatts
2 and you multiply that times the same margin that we
3 discussed earlier, the 9.1 mills, and you produce net
4 secondary revenues of 1.4 million?

5 A. That's correct.

6 Q. And as in the case of the net revenues from
7 projected displacements that we just discussed on page
8 2, is it your assumption again for June 1995 that
9 Puget can simultaneously purchase power for 9.4 mills
10 and resell it for 18.5 mills for the 215 megawatts for
11 the month of June of 1995?

12 A. I hesitate to say that it's my testimony
13 that Puget can do that because I don't know whether
14 they can do that or not. I do know that the way
15 projected costs have been set is based on the
16 assumption that Puget can do that, and I don't have
17 any reason to doubt that assumption. As I said,
18 there's no reason in theory to believe that Puget
19 can't realize a difference between the price at
20 which it buys power here and sells power in California
21 over the intertie, and Puget has estimated this
22 differential -- that's the differential that they
23 included in their direct case. I've looked at it and
24 find no reason to say that that's the wrong number,
25 and so I have used it in my analysis.

1 Q. And is it your proposal that the level of
2 projected transactions which you show on this page be
3 trued up to reflect the actual results which Puget is
4 able to achieve?

5 A. That's not my proposal. I would say it's
6 my preference that it be trued up. In the general
7 rate case I recommended a similar adjustment to this
8 but related not to sales over the intertie but to
9 sales within the northwest, and I think my testimony
10 in the general rate case didn't say specifically one
11 way or the other whether that would be trued up or
12 not. In the 11th supplemental order the Commission
13 decided that it should not be trued up, and so what I
14 said in my testimony in this case is that consistent
15 with that policy it would not be trued up, though I
16 think it would be better to true it up because I think
17 there's a lot of uncertainty about exactly how the
18 intertie will be used and what the potential really is
19 for that, and I'm uncomfortable with the idea of
20 setting a number in stone that wouldn't be trued up.

21 Q. But as it stands you are proposing to set
22 rates based on 11.4 million dollars of revenues from
23 these sorts of transactions which if the company does
24 not actually achieve, it would experience a shortfall;
25 is that correct?

1 A. Yes. I've interpreted the Commission's
2 policy from the general rate case it wouldn't be trued
3 up, but I'm not going to say it's my proposal that it
4 not be trued up.

5 Q. Sticking with this month of June of 1995
6 that we're using for illustrative purposes, is the
7 adjustment which you're showing for anticipated or
8 projected third AC sales on transactions on page 3, is
9 that cumulative with your adjustment on page 2 so that
10 we need to add the 215.4 megawatts of assumed sales on
11 page 3 for the intertie to the 424 megawatts which we
12 discussed on page 2 for June of 1995, cumulative?

13 A. They are consistent with each other.
14 They're not cumulative but they are consistent with
15 each other.

16 Q. Well, you're calculating on page 3 revenues
17 of 1.4 million dollars based on 215.4 megawatts being
18 bought at 9.4 and sold at 18.5 simultaneously. And on
19 page 2 you're calculating 2.8 million dollars in
20 revenue based on 424 megawatts being bought at 9.4 and
21 sold at 18.5 simultaneously. In order to achieve the
22 overall adjustment you're proposing, don't you need to
23 add those two numbers together?

24 A. No, because the numbers on page 2 for the
25 displacements, those are intended to reverse the error

1 that the company made in its direct case, where, for
2 instance, in that month if you had a project with a
3 variable cost of 10 mills and Puget looked at that
4 purchase rate of 9.4 mills and said, oh, well, we
5 should displace that project that month, but then when
6 it came time to calculate rates Puget didn't assume
7 they bought more power at 9.4 to replace the 10 mill
8 power, they assumed that Puget wouldn't sell less
9 power at 18 and a half mills to make up for the effect
10 of the displacement. So they're not going to sell
11 power at 18 mills and they're going to save 10 mills
12 doing that. That's definitely a money-losing
13 proposition. And what I did was I reversed those
14 transactions; where Puget had assumed that they would
15 sell power at 18 mills to replace 10 mill power, I
16 said, no, they wouldn't do that. They would instead
17 buy power at 9.4 mills to replace it or they wouldn't
18 do the displacement at all if in fact they couldn't
19 buy at 9.4, and so reversing the transactions on page
20 2 produces a number of megawatt hours, but it's not
21 correct to say that you should add that to the numbers
22 that are on page 3.

23 JUDGE HAENLE: How are you doing on your
24 examination?

25 MR. VAN NOSTRAND: Another 10 minutes.

1 Q. Wouldn't you agree that another approach in
2 taking care of the issue regarding projected
3 displacements is to do as staff and the company agreed
4 and that's to not even make any assumptions regarding
5 projected displacements?

6 A. I would say that's another approach and
7 saying that I'm not saying if it's a good approach.

8 Q. Turning back to how you calculated this
9 unused intertie capacity, you would agree, wouldn't
10 you, that the amount you show on line 6 assumes 100
11 percent use by the company of its remaining portion of
12 the intertie?

13 A. I would agree with that. I tried to figure
14 out what level of sales over the intertie of other
15 people's surplus had been included in rates -- in the
16 general rate case, include that as a guide, and I
17 found that at the compliance filing Puget included
18 zero sales over the intertie of other nonPuget
19 surplus, and so I was left with no basis in the
20 general rate case to make an adjustment, and so I
21 assumed that Puget would use its intertie and its
22 capacity without a lot of examination of whether that
23 was the most reasonable number or not.

24 MR. VAN NOSTRAND: Like to distribute
25 another two exhibits, Your Honor.

1 JUDGE HAENLE: Yes. You've handed me two
2 documents. The first is a one-page document entitled
3 Response of Public Counsel to Request No. 747. I will
4 mark this as 78 for identification.

5 The second is a two page document entitled
6 response of public counsel to request No. 748. I will
7 mark this as 79 for identification.

8 (Marked Exhibits 78 and 79.)

9 Q. Dr. Blackmon, in request No. 748, which has
10 been marked for identification as Exhibit 79, you were
11 asked, weren't you, regarding the actual levels of
12 loading on the northwest/southwest intertie during a
13 recent period?

14 A. In 79?

15 Q. Yes, response to request No. 748.

16 A. Yes.

17 Q. And in that response you have referred to a
18 tabulation in Clearing Up in August of 1994; is that
19 correct?

20 A. It is.

21 Q. Is that included as page 2 of Exhibit 79?

22 A. Yes.

23 Q. And the actuals over the Pacific intertie
24 for the 12 months ending July 1994 indicate 1468
25 average hydro watts; is that correct?

1 A. That's correct.

2 Q. And as far as the capability of the
3 intertie during this period, would you agree that the
4 AC intertie rating was 4800 megawatts?

5 A. I would.

6 Q. And that the DC intertie during this period
7 was D rated as a result of the Los Angeles earthquake,
8 but that a reasonable rating during this period would
9 be 2,000 megawatts?

10 A. I'm sorry, but I have not tried to figure
11 out what the 12-month average for the DC intertie is.
12 Assuming that D rating for part of that period because
13 of the Los Angeles earthquake.

14 Q. Do you know whether a D rating occurred as
15 a result of the Los Angeles earthquake?

16 A. It did occur.

17 Q. If we assumed 2,000 wouldn't that suggest a
18 capability of 6800?

19 A. If you assumed 2,000 then 4800 plus 2,000
20 is 6800.

21 Q. And taking the 1468 actual for July of 1994
22 would suggest an average percentage loading during
23 this period of about 22 percent?

24 A. Yes.

25 Q. And in response to request No. 747 you were

1 asked whether or not you had done any sort of analysis
2 to substantiate whether or not Puget would be able to
3 buy and sell such quantities of power; isn't that
4 correct?

5 A. Yes.

6 Q. And your response states that no specific
7 seller or purchaser was identified?

8 A. No, that's not my response. My response
9 is, "no specific seller or purchase was identified,
10 just as specific sellers are not identified in the
11 projection of other secondary revenues."

12 MR. VAN NOSTRAND: Your Honor, move the
13 admission of Exhibits 78 and 79.

14 JUDGE HAENLE: Any objection?

15 MR. MANIFOLD: No.

16 JUDGE HAENLE: 78 and 79 are entered.

17 (Admitted Exhibits 78 and 79.)

18 MR. VAN NOSTRAND: I have no further
19 questions.

20 JUDGE HAENLE: Do you have questions, Ms.
21 Johnston?

22 MS. JOHNSTON: No.

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

25 CHAIRMAN NELSON: No.

1 COMMISSIONER HEMSTAD: No.

2

3 EXAMINATION

4 BY JUDGE HAENLE:

5 Q. It's not clear to me looking at page 3 of
6 your testimony whether -- I guess it's the bottom of
7 page 2 and the top of page 3 you indicate that your
8 recommendation is incomplete in that it reflects no
9 adjustment to the revenue requirement for
10 conservation, and then you say you understand the
11 Commission staff has reviewed the amounts in some
12 detail. Are you accepting the staff's amount on this
13 issue?

14 A. I would say I'm not public counsel's
15 witness on this issue. And so what Mr. Manifold will
16 say on oral argument is -- I'm not accepting and I am
17 not rejecting it. I really haven't looked at it.

18 Q. Well, he can't exactly take a position
19 without something to base it on.

20 JUDGE HAENLE: Do you have someone that --

21 MR. MANIFOLD: I don't have to have my own
22 witness to take a position on --

23 JUDGE HAENLE: You have to have a witness.
24 I wanted to know if your witness was taking a
25 position. You say he isn't. You can base it, you're

1 right, on the staff. I just want to know if your
2 argument is going to be, yes, the staff's figures are
3 fine or, no, they're not.

4 MR. MANIFOLD: I haven't heard the
5 company's rebuttal witnesses yet. You're asking me to
6 give my oral argument now?

7 JUDGE HAENLE: No. I'm asking when
8 somebody says I am taking no position but basing it on
9 the staff's amount -- it's a combination of the
10 staff's adjustment and his?

11 MR. MANIFOLD: I think he can answer that.

12 A. Perhaps the confusion is that if you look
13 at Exhibit 69, page 1, line 5, there's a number there
14 of 40 million dollars. That's the effect of -- the
15 adjustments that I recommend on the increase in this
16 case is to produce a number, \$40 million. I guess
17 what I was trying to say back on page 2 of my
18 testimony was that I don't intend that to be public
19 counsel's number because there may be conservation
20 issues where public counsel feels that an adjustment
21 is in order in which case that could change the 40
22 million dollar number.

23 MR. MANIFOLD: Is that clear then?

24 JUDGE HAENLE: That's close enough. I was
25 trying to figure out where --

1 MR. MANIFOLD: I think the purpose for the
2 testimony being that way is that this witness is
3 addressing a certain set of issues and based on those
4 issues comes up with this 40 million number.

5 JUDGE HAENLE: But he was not necessarily
6 taking a position then on whether the other
7 adjustments recommended by the Commission staff ought
8 to be done or not.

9 MR. MANIFOLD: Yes. This 40 million is
10 independent of the Commission's conservation
11 adjustments.

12 JUDGE HAENLE: I wish I could have asked
13 that in the first place and not gone through all that.

14 Q. At the bottom of the page 3 you ask will
15 you be addressing other issues, and the last line is
16 "Puget Power has not correctly implemented one
17 position relating to the calculation of secondary
18 purchase rates for the purpose of truing up deferred
19 power costs." Are you asking that something be done
20 about it in this case or what are you asking the
21 Commission to do?

22 A. At the point that this testimony was
23 prepared, I was asking the Commission to tell the
24 company to do it in a way that was consistent with the
25 11th supplemental order in the general rate case. On

1 rebuttal the company accepted that criticism or that
2 recommendation, and so I guess at this point all the
3 parties agreed that -- as to what is the right way to
4 calculate that number.

5 Q. So there's nothing beyond that that you're
6 asking?

7 A. No.

8 JUDGE HAENLE: That's all the questions I
9 had. Have you redirect?

10 MR. MANIFOLD: Yes.

11

12 REDIRECT EXAMINATION

13 BY MR. MANIFOLD:

14 Q. On Exhibit 72, page 2, you were asked
15 several questions and June 1995 was the column that
16 was used to be the basis of those questions. What I'm
17 not sure is real clear is which of the numbers in the
18 column labeled June 1995 come from the company either
19 as its inputs to the simple dispatch model or
20 otherwise and which of the numbers in that column were
21 derived or proposed by you?

22 A. Lines 2 through 6 and lines 9 to 10 are
23 from Puget Power's projected cost work papers. So
24 they're numbers that Puget Power used in formulating
25 its direct case that I reviewed and then used in my

1 case. Lines 7, 10, 13, 11 and 14 are calculations
2 that I performed.

3 Q. Line 7 is simply a sum of the other lines
4 above that?

5 A. Yes, it is.

6 Q. And line 11 is simply the difference
7 between lines 9 and 10, and line 13 is the application
8 of those two above numbers?

9 A. That's correct.

10 Q. And so it's Puget's projection for the
11 purpose of running its simple dispatch model, it is
12 Puget's projection that in June of 1995 it will have
13 average secondary sales rate of 18 and a half mills
14 and an average secondary purchase rate of 9.4 mills?

15 A. That's correct. When Puget calculated
16 displacement in its direct case they assumed that they
17 would displace these 315,000 megawatt hours with
18 purchases at 9.4 mills. When they calculated the rate
19 effect in the simple dispatch model they assumed that
20 they would sell power for that month at an average
21 rate of 18.5 mills per kilowatt hour. So both of
22 those numbers, they're not on the same -- it's two
23 different calculations but within the overall
24 calculation of -- in Puget's direct case those numbers
25 were used at the same time.

1 Q. And would those two numbers depend upon the
2 existence of the third intertie line?

3 A. The sales rate is, because those numbers
4 are derived from historical data, but the sales rate
5 was adjusted to reflect the estimated effect of the
6 intertie, the assumption being that Puget can sell its
7 power for more over the intertie than it could
8 locally.

9 Q. Who adjusted it?

10 A. Puget Power.

11 Q. You were asked some questions about the
12 intertie, and you referenced your recommendation in
13 the general rate case regarding intraregional sales.
14 And is that what resulted in the two plus million
15 dollars intramonth adjustment in the 11th supplemental
16 order?

17 A. That's correct.

18 Q. Are you saying that that adjustment was
19 based only upon sales within the region not over the
20 intertie?

21 A. That's correct. The adjustment that I
22 recommended in the general rate case was based on
23 during the test year which ran from 1991 to 1992. We
24 found that during that period Puget Power was buying
25 and selling power and again buying low and selling

1 high, which is a fine thing to do. It's just that I
2 felt it was appropriate that those benefits be passed
3 through to customers, and that's why that 2.3 million
4 dollar adjustment that the Commission adopted did.

5 Q. And during the test year that you
6 calculated that for, did Puget have a third intertie?

7 A. No.

8 Q. So your calculation did not incorporate any
9 result of a third intertie ownership?

10 A. No. The third AC intertie benefits were
11 supposed to have been included but not as a substitute
12 for my adjustment, or my adjustment was not supposed
13 to be a substitute for the third AC benefits, which,
14 if you look at the order in the general rate case, you
15 can see that they are two separate items and should
16 have both been included.

17 Q. And your conclusion or the effect of your
18 testimony on the third intertie is an 11.4 million
19 dollars adjusted in PRAM 4 projected rates?

20 A. That's to account for the revenues, the net
21 revenues, that Puget could be estimated to receive by
22 using the intertie to market surplus energy of other
23 utilities.

24 Q. And I believe you said that Puget in its
25 case had assumed zero net revenues for marketing the

1 energy of other utilities?

2 A. In this case, Puget assumed that it would
3 sell its surplus over the intertie, but it assumed
4 that it would never sell anyone else's surplus over
5 the intertie even when it had the capacity available
6 to do it, so that in a month where Puget had very
7 little surplus and they still had the intertie there,
8 there's the potential for them to acquire power in the
9 northwest and sell it in the southwest and there were
10 no revenues included for that.

11 Q. Has Puget taken any position or testified
12 regarding the use of its ownership of the intertie for
13 sale of energy from another utility, for instance,
14 regarding its justification for purchasing the
15 intertie?

16 A. In the general rate case Puget's direct
17 case and its rebuttal case included as a justification
18 for the intertie revenues that it received. Some of
19 those revenues came from selling Puget's own surplus
20 in the southwest. Some of those revenues came from
21 selling other people's surplus over the intertie. It
22 was the latter that was included in the initial filing
23 of the general rate case and then appears to have
24 disappeared by the end of the general rate case, and
25 it's that that I seek to put back in rates at this

1 point.

2 MR. MANIFOLD: Thank you. I have no other
3 questions.

4 JUDGE HAENLE: Recross?

5 MR. VAN NOSTRAND: Yes.

6

7 RECROSS-EXAMINATION

8 BY MR. VAN NOSTRAND:

9 Q. You just mentioned the analysis of Puget's
10 analysis in the third AC intertie regarding
11 assumptions made on use to market and others. What
12 assumed levels of intertie loading were made by Puget
13 when it did that analysis?

14 A. In the general rate case there was -- in
15 the direct case I believe that Puget assumed -- I
16 don't have the exact number, but I think it was in the
17 range of 70 to 80 percent use.

18 Q. But it's not the 100 percent that you are
19 assuming here for purposes of your adjustment, was it?

20 A. No, it's not.

21 MR. VAN NOSTRAND: No further questions.

22 JUDGE HAENLE: Anything else of the
23 witness?

24 Thank you, sir. Then you may step down.
25 Let's go off the record to change witnesses, please.

1 (Recess.)

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

3 During the time we were off the record another public
4 counsel witness has assume the stand.

5 Whereupon,

6 K. WINTERS,

7 having been first duly sworn, was called as a witness
8 herein and was examined and testified as follows:

9 JUDGE HAENLE: Also during the time we were
10 off the record I marked for identification two
11 documents. The first is a 15-page document. In the
12 upper right-hand corner it says KMW-T. Second is a
13 one page document. In the upper right-hand corner it
14 has KMW-2. Your witness has been sworn, Mr. Manifold.

15 (Marked Exhibits T-80 and 81.)

16

17 DIRECT EXAMINATION

18 BY MR. MANIFOLD:

19 Q. Do you have before you what's been marked
20 as Exhibit T-80 and 81?

21 A. Yes, I do.

22 Q. And is T-80 your direct testimony in this
23 case?

24 A. Yes, it is.

25 Q. Do you have a change to make on page 9?

1 A. Yes, I do. On line 8, there's a reference
2 to Exhibit 81, KMW-1. That should be changed to
3 KMW-2.

4 Q. With that change if I asked the questions
5 contained therein, would you give those answers today?

6 A. Yes.

7 Q. And are they true and correct to the best
8 of your knowledge?

9 A. Yes.

10 Q. Is Exhibit -- what's been marked as Exhibit
11 81, was that prepared by you or under your direction?

12 A. Yes, it was.

13 Q. Is it true and accurate to the best of your
14 knowledge?

15 A. Yes, it is.

16 MR. MANIFOLD: Your Honor, move for the
17 admission of Exhibits T-80 and 81.

18 JUDGE HAENLE: Any objections?

19 MR. VAN NOSTRAND: No.

20 JUDGE HAENLE: Exhibits T-80 and 81 will be
21 entered into the record.

22 (Admitted Exhibits T-80 and 81.)

23 JUDGE HAENLE: Anything more of your
24 witness?

25 MR. MANIFOLD: No.

1 JUDGE HAENLE: Go ahead.

2 MS. JOHNSTON: Your Honor, may I ask a
3 clarifying question?

4 JUDGE HAENLE: Yes.

5 MS. JOHNSTON: Mr. Manifold, could you look
6 at page 11 or maybe Mr. Winters at page 11. The
7 question there, "have these conditions been met?" You
8 say "No. These conditions have been met." Did you
9 want to insert the word "not" between "have" and
10 "been"?

11 THE WITNESS: There's something wrong with
12 that answer? Yes. "Not" is the correct.

13 MS. JOHNSTON: That's what I thought.

14 Q. So the word "not" should be added on line
15 16 of page 11 so it reads "these conditions have not
16 been met"?

17 A. That's correct.

18 Q. Was there any other thing that you wanted
19 to --

20 A. On Exhibit 81, page 1, there was a revision
21 to two numbers. One in column E for the year 1993,
22 the current number is 121,552, that should be changed
23 to 153,710. Moving over to column G in the same row,
24 the number 64.5 percent should be changed to 81.5
25 percent.

1 MR. MANIFOLD: No other questions.

2 JUDGE HAENLE: Did I enter those already?

3 I think I did.

4 MR. VAN NOSTRAND: They were represented to
5 be true and correct at the time, too.

6 JUDGE HAENLE: If I haven't I will enter
7 them.

8

9 CROSS-EXAMINATION

10 BY MR. VAN NOSTRAND:

11 Q. Good afternoon, Mr. Winters.

12 A. Good afternoon.

13 Q. Few questions. In your testimony where you
14 discuss Puget's financial performance under the PRAM,
15 and one of the points you make on pages 8 and 9 is
16 that the PRAM mitigates the impact of poor hydro and
17 mild weather on Puget's financial performance; is that
18 correct?

19 A. Can you give me a citation, please.

20 Q. Down by the designation at the bottom of
21 page 8 and top of page 9 where you discuss "Puget's
22 expected financial performance under poor
23 hydro/weather conditions has been mitigated by the
24 PRAM mechanism."

25 A. At the bottom of page 8?

1 Q. And top of page 9. Is that your testimony?

2 A. I'm still trying to find where I say that.

3 Q. Would you say that apart from whether
4 or not it's on pages 8 and 9?

5 A. Repeat the question.

6 Q. As to whether or not the PRAM mitigates the
7 impact of poor hydro and weather on Puget's financial
8 performance?

9 A. Yes.

10 Q. Would you agree that this attribute in
11 mitigating the effect of poor hydro and mild weather
12 reduces Puget's earnings variability?

13 A. Yes.

14 Q. And would you also agree that this reduced
15 earnings variability reduces the risk borne by
16 investors owning Puget Power stock?

17 A. Yes.

18 Q. In other words, the lower the risk borne by
19 investors, the lower the required return on equity?

20 A. Yes.

21 Q. And isn't it true that the reduction in
22 risk due to PRAM's hydro adjustment feature was
23 already taken into account by the Commission when it
24 set Puget's overall rate of return in the decoupling
25 proceeding, dockets 901183-T and 901184-P?

1 A. I don't think I would testify to that, no.

2 Q. Would you accept subject to check that in
3 that proceeding the Commission accepted staff's
4 argument that the PRAM reduces the company's risk from
5 adverse hydro conditions and therefore the Commission
6 conditioned adoption of the hydro adjustment portion
7 of the PRAM on the company reducing its overall rate
8 of return? The citation is the decoupling order on
9 page 17 and the order on page 29.

10 A. Is that where the overall rate of return
11 for the capital structure was adjusted with the effect
12 of the overall rate of return changing from 10.22 to
13 10.14?

14 Q. Yes.

15 A. Yes. I believe in that case that is what
16 the Commission ordered.

17 Q. And specifically the ordering paragraph 9
18 on page 29 states, "the company's proposed hydro
19 adjustment is accepted provided the authorized cost of
20 capital is reduced as proposed by Commission staff
21 to reflect lower risk to shareholders." Is that
22 right?

23 A. Can you provide a document?

24 Q. (Indicating).

25 A. Yes. That is what the order says.

1 Q. So would you agree that the reduction in
2 risk due to the hydro adjustment was taken into
3 account by the Commission at the time it adopted PRAM?

4 A. I would say that the Commission did make an
5 adjustment in the overall cost of capital in docket UE
6 -- and its order in docket 901183 and it linked that
7 adjustment to the hydro aspect of PRAM.

8 Q. And specifically the lower risk to
9 shareholders?

10 A. Yes.

11 Q. And the other condition in which you say is
12 mitigated by the PRAM according to your testimony at
13 page 9, lines 9 to 12, is the impact of mild weather
14 on earnings; is that correct?

15 A. Yes.

16 Q. And wasn't this reduction in risk
17 associated with weather conditions cited by public
18 counsel's cost of capital witness in the general rate
19 proceeding as a basis for reducing Puget's return on
20 common equity?

21 A. I believe so. I'm not absolutely sure. Do
22 you have a citation?

23 Q. Would you accept subject to check that in
24 Exhibit T-796 in the general rate proceeding public
25 counsel cost of capital witness Steven Hill stated

1 that because decoupling utility revenues from sales
2 has the effect of reducing the utility's exposure to
3 revenue stream volatility caused by weather and
4 economic conditions, it lowers the operating risk of a
5 utility. Lower operational risk for the utility
6 equals lower risk for investors and should in turn
7 call for lower allowed rates of return on equity
8 and/or lower equity ratios in a capital structure.
9 Is that a correct reading of Mr. Hill's testimony?

10 A. Yes, it is.

11 Q. Do you agree with that statement?

12 A. Yes. I do agree with that statement.

13 Q. And haven't the reductions in risk which
14 you describe on pages 8 and 9 of your testimony in
15 fact already been taken into account by the Commission
16 in setting Puget's return on equity at 10.5 percent in
17 the last general rate case?

18 A. I'm not sure that that is -- I'm not sure
19 exactly what reasons the Commission -- what thought
20 process the Commission went through when setting the
21 10.5 percent rate of return. I do not believe, if I
22 remember correctly, that the order stated whose
23 testimony or for what reasons it was basing its rate
24 of return decision on precisely.

25 Q. Did the Commission perform a discounted

1 cash flow analysis in arriving at its return on
2 equity?

3 A. I have no idea.

4 Q. Do you know whether the risk
5 characteristics of a utility are reflected in a
6 discounted cash flow analysis?

7 A. Can you repeat the question, please. Can
8 you point out in my testimony where I talk about
9 discounted cash flow?

10 Q. I don't believe you discuss that in your
11 testimony. Would you like to have --

12 MR. MANIFOLD: I will object that this is
13 not a rate of return witness and questions about or at
14 least detailed questions about the discounted cash
15 flow method would be beyond the scope of the
16 testimony.

17 JUDGE HAENLE: Well, you're not presenting
18 a witness to address that, I assume. I don't know who
19 Mr. Van Nostrand would ask his questions of if he is
20 trying to establish whether or not this witness feels
21 that his adjustment is duplicative of something that
22 has already happened. I don't see that there's
23 anybody else for him to ask. If he doesn't know he
24 can say he doesn't know.

25 MR. MANIFOLD: I think the question you

1 phrased is a fair question. That Mr. Van Nostrand
2 might have a question that doesn't relate to this case
3 doesn't mean that he can ask it of Mr. Winters.

4 JUDGE HAENLE: I thought that's what he was
5 asking. I didn't think I was rephrasing it in any
6 way. Why don't you answer that. Do you feel yours
7 duplicates something that's already been done?

8 THE WITNESS: My what?

9 JUDGE HAENLE: Your saying that things
10 should be adjusted for weather and hydro and weather.
11 At the bottom of page 8 and going on to page 9 you
12 talk about that.

13 THE WITNESS: I'm not making any proposed
14 adjustments based on hydro or weather risk in my
15 testimony, if that was your question.

16 Q. I will see if I can clean this up a bit.
17 Would you agree that your discussion of PRAM's
18 attributes minimizing risk go to the issue of
19 determining the required return on equity rather than
20 considering whether or not the company's actually been
21 able to earn its allowed return?

22 A. I would agree that the rate of return
23 testimony put on by the public counsel witness in the
24 general rate case took into his -- his recommendations
25 took into account the risk mitigation aspects of the

1 PRAM. I would not agree that that is necessarily a
2 consideration of those factors.

3 Q. But you did agree that the Commission took
4 into account the risk mitigation factor as it relates
5 to the hydro adjustment portion when it adopted the
6 PRAM initiative?

7 A. I agree in the order in docket No. UE
8 901183 that the Commission did specifically link
9 the risk mitigation aspect of the PRAM mechanism with
10 its rate of return decision.

11 Q. And on the issue of whether or not the
12 company has actually earned whatever return the
13 Commission establishes, you state on page 8, line 23,
14 that Puget has been earning above, at or just slightly
15 below its authorized rate of return since the PRAM
16 was adopted?

17 A. Yes.

18 Q. And in support of this statement you
19 provide your Exhibit 81?

20 A. Generally, yes.

21 Q. If we could focus on the last three years
22 during which the PRAM was in effect for 1991. You
23 show that the company actually earned 13.2 percent as
24 compared to the allowed return on equity of 12.8
25 percent; is that correct?

1 A. That's correct.

2 Q. Is it your understanding that the PRAM was
3 in effect throughout 1991?

4 A. No.

5 Q. And you would accept subject to check that
6 the PRAM was not implemented until October of 1991?

7 A. Yes, I will accept that.

8 Q. So would you agree --

9 A. Although, I believe that there were some --
10 I'm not sure about this but I think that there were
11 some -- the Commission did grant Puget the ability
12 to make some deferrals prior to October 1st, but I'm
13 not altogether clear on that.

14 Q. Is your testimony based on the assumption
15 that deferrals under the PRAM commenced prior to
16 October 1, 1991?

17 A. No. I just remembered that just now. No.
18 This exhibit just shows the numbers that are in column
19 B and C.

20 Q. Would you accept subject to check that the
21 PRAM was not implemented and that deferrals did not
22 commence until October of 1991 under the decoupling
23 order or is it your testimony that you won't accept
24 that subject to check?

25 A. I will accept that subject to check.

1 Q. And the citation for that would be -- well,
2 I will just give it to you -- page 22 of the
3 decoupling order. Second to the last paragraph, "The
4 deferrals authorized by this order will begin to
5 accumulate on October 1, 1991." Do you see that?

6 A. Yes. And I also see that the one exception
7 was deferrals of conservation.

8 JUDGE HAENLE: Could you look for a good
9 stopping place for a recess, Mr. Van Nostrand?

10 MR. VAN NOSTRAND: Just about three more
11 questions I can cover this area.

12 Q. Would you agree that by having the PRAM in
13 effect only the last three months of 1991 that the
14 company was allowed to benefit from hydro conditions
15 and the impact of weather on loads during the first
16 nine months of 1991?

17 A. Can you rephrase the question.

18 Q. Would you agree that given that the PRAM
19 was not implemented until October of 1991 that the
20 company was allowed to benefit from hydro conditions
21 and the impact of weather on loads during the first
22 nine months of 1991?

23 A. Yes.

24 Q. And would you agree that the excerpt from
25 the decoupling order which I've handed you, page 22,

1 that the Commission characterized the hydro condition
2 during 1991 as above average?

3 A. I will accept that subject to check.

4 Q. And specifically the language from the
5 order is that "the Commission notes the lower current
6 cost of capital and the exceptionally good hydro
7 conditions which the area is experiencing. Under
8 traditional rate making the company would have a very
9 good year." Do you see that on the excerpt from the
10 order which I handed you, underlined portion, page 22?

11 A. Yes. That's what the Commission order
12 says.

13 Q. And if the PRAM is in effect only the last
14 three months of 1991 and cannot capture the benefits
15 of above average hydro conditions, how does the
16 company's ability to earn above its allowed return
17 during 1991 have any bearing on how the company is
18 faring under the PRAM?

19 A. I think that what this exhibit shows --
20 what this exhibit attempts to do is compare years in
21 which similar hydro and weather conditions occurred in
22 recent past in which the company had a PRAM and
23 compare years when the company didn't have a PRAM or
24 an ECAC, and I included all of those years including
25 the partial year 1991 in which PRAM was implemented.

1 That's what that shows.

2 Q. But it also shows that the company earned
3 above its allowed return for 1991. Given that PRAM
4 only captured the last three months of 1991 and the
5 Commission stated that under traditional rate making
6 the company would have a good year, and the question
7 is, how do the results for 1991 specifically shown on
8 your table provide any indication on how the company
9 is faring under the PRAM given the circumstances?

10 A. Well, the company earned above its return
11 in that year and that would be the year PRAM went into
12 effect. That's all the exhibit attempts to show, and
13 it's consistent with my statement that since the PRAM
14 was put into place the company has been earning at,
15 above or slightly below its authorized rate of return,
16 so it's not -- that's the point. It's there for
17 people to evaluate as they place importance on those
18 statements.

19 Q. Does that exhibit reflect that PRAM was
20 only in effect the last three months of 1991?

21 A. No, it doesn't.

22 Q. And for 1992 the company under-earned its
23 allowed return earning only 12.6 percent as compared
24 to 12.8 percent?

25 A. As reported in the company's annual report,

1 yes, that's correct.

2 Q. And for 1993 your table shows that the
3 company was 120 basis points below its allowed return
4 or 11.0 percent as compared to 12.2 percent; is that
5 correct?

6 A. Again, as reported in company's annual
7 report, that's correct.

8 Q. How does a 120 basis point shortfall below
9 its allowed return for 1993 show that the company is
10 faring what you call extremely well under the PRAM?

11 A. Simply by comparing, for instance, the year
12 that you chose, 1993, you see that the normal hydro --
13 the actual hydro was well below normal, the actual
14 weather was well below normal, and if you look at
15 previous years in which the company did not have a
16 PRAM or ECAC-type mechanism that would mitigate the
17 impact of these occurrences on its results, financial
18 performance, you'll see that the company didn't
19 perform nearly as well as it reports that it performs
20 in its annual report, so that's what I'm trying to
21 show is that the comparison of -- I'm not trying to
22 show that the company is earning its authorized rate
23 of return. I don't even feel that that's an
24 appropriate measure of the effectiveness of the PRAM
25 mechanism. I'm simply trying to show that the company

1 is doing better under PRAM than it would have done
2 without PRAM.

3 Q. And isn't that reflective of for the rate
4 of return set for the company in the last general rate
5 case?

6 A. As I previously testified, I'm not sure
7 that that is.

8 Q. Do you know what the revenue shortfall
9 associated with 120 basis point deficiency in allowed
10 return represents?

11 A. Can you explain what you mean by revenue
12 shortfall?

13 Q. Yes. How much of a revenue deficiency is
14 represented by the difference between the 11.0 percent
15 actual versus the 12.2 percent allowed which your
16 table shows for 1993? Do you have any idea what that
17 revenue deficiency, how much that is?

18 A. I have not done that calculation.

19 Q. And that's not relevant to the issue of
20 whether the company is faring extremely well under the
21 PRAM?

22 A. No.

23 MR. VAN NOSTRAND: This is a good breaking
24 point, Your Honor.

25 JUDGE HAENLE: Let's take 15 minutes.

1 Please be back at 20 minutes after.

2 (Recess.)

3 JUDGE HAENLE: Let's be back on the record
4 after our afternoon recess. Go ahead, Mr. Van
5 Nostrand.

6 Q. The discussion of the company's requests
7 for interest on PRAM deferral, your testimony at page
8 6 states that charging ratepayers interest on PRAM
9 deferrals is the equivalent of instant recovery. Do
10 you recall that, page 6, lines 10 to 11?

11 A. Yes.

12 Q. Is it your impression that if Puget's
13 request to recover interest accruals is granted that
14 Puget will immediately recover interest accruals
15 in rates?

16 A. No. As my testimony above lines 10 and 11
17 says, since you can't have or since no one would want
18 to have monthly rate cases, that the way you provide
19 the equivalent of instantaneous recovery is to book a
20 deferral and charge interest on the time value of the
21 money and then subsequent rate case when that is
22 brought into rates, the effect of charging a time
23 value of money would be to make that recovery
24 instantaneous.

25 Q. And isn't this time value of money, what

1 you just mentioned, isn't this concept just consistent
2 with making the company whole for the carrying costs
3 on its deferrals?

4 A. That's a more complicated question than it
5 sounds like. It depends on how you -- what you
6 consider to be making the company whole. I don't
7 think that making the company whole is equal to making
8 sure that the company earns its authorized rate of
9 return in every year, so I would have to answer no.

10 Q. But in terms of making the company whole
11 for recognizing this time value of money of recovering
12 now versus later, wouldn't you agree that the carrying
13 costs in these deferrals need to be recognized in
14 rates?

15 A. No. Or what my testimony would have
16 recommended that the company's proposal be adopted.

17 Q. Is it your testimony that the company's
18 capital costs for its -- strike that. Is it your
19 testimony that the company's capital requirement, or,
20 in other words, its need to raise funds externally
21 are unaffected by whether or not it receives these
22 deferrals now versus later?

23 A. No.

24 Q. Is it your testimony that the company
25 actually incurs no carrying costs whatsoever in

1 connection with PRAM deferrals?

2 A. No.

3 Q. Your testimony on page 10, line 5, refers
4 to the absence of compelling evidence by the company
5 to support its request for interest on PRAM deferrals.
6 Do you recall that?

7 A. Yes.

8 Q. What's the basis for referring to a
9 standard of compelling evidence?

10 A. What I was referring to when I testified
11 that the company has not presented compelling evidence
12 that the sum of overall base costs are being under-
13 recovered is simply that taking one element, one base
14 cost element out of the context of all base costs
15 elements, which are not trued up in the PRAM, and
16 saying that this is being under recovered ignores the
17 -- the function of the PRAM in treating base costs,
18 and that is that you set base costs in the general
19 rate case and you don't adjust them again until the
20 next general rate case.

21 Q. So when you refer to the term compelling,
22 were you asserting a different evidentiary standard
23 than the preponderance of the evidence standard?

24 A. No.

25 Q. Your testimony also refers to the status

1 reports requested by the Commission which you state
2 have not been delivered; is that correct?

3 A. Can you refer --

4 Q. Page 11, lines 16 to 20.

5 A. I don't think my testimony was that some
6 report that should have been delivered has not been
7 delivered. I think my testimony is simply that the
8 process that was set out by the Commission in its
9 order and by the collaborative when it convened has
10 not been completed.

11 Q. So it's not that there has been any
12 deficiency in the company fulfilling its reporting
13 requirements to the Commission?

14 A. I'm not testifying that the company hasn't
15 met all of its requirements. There are no deficiencies
16 that I know of, no. That's not my testimony that
17 there are deficiencies.

18 MR. VAN NOSTRAND: I have no further
19 questions, Your Honor.

20 JUDGE HAENLE: Have you questions, Ms.
21 Johnston?

22 MS. JOHNSTON: No.

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

25 COMMISSIONER HEMSTAD: No.

1 JUDGE HAENLE: Any redirect?

2 MR. MANIFOLD: Yes, very briefly.

3

4 REDIRECT EXAMINATION

5 BY MR. MANIFOLD:

6 Q. Mr. Winters, is it your testimony that
7 because of the or expectation that because of the PRAM
8 one would expect Puget to always earn its authorized
9 rate of return?

10 A. No. Definitely not.

11 Q. And is that the context of your testimony
12 here?

13 A. Yes, it is.

14 Q. Is the context of your testimony that
15 you're comparing the earnings with the PRAM compared
16 to earnings without the PRAM and looking at the
17 difference between those two periods?

18 A. Yes. Comparing years with the PRAM with
19 less than normal hydro and weather with years without
20 the PRAM with similar hydro and weather. That was
21 comparing those two years with each other is the basis
22 of my comparison, not comparing authorized with actual
23 rates of return.

24 MR. MANIFOLD: No other questions.

25 JUDGE HAENLE: Anything more of the

1 witness?

2 Thank you, sir. You may step down. Does
3 that complete your witnesses, Mr. Manifold?

4 MR. MANIFOLD: It does.

5 JUDGE HAENLE: We'll go on to the company's
6 rebuttal witnesses then. Let's go off the record to
7 change witness.

8 (Recess.)

9 JUDGE HAENLE: Let's be back on the record.
10 During the time we were off the record the first
11 company rebuttal witness took the stand.
12 Whereupon,

13 RICHARD LAUCKHART,
14 having been first duly sworn, was called as a witness
15 herein and was examined and testified as follows:

16 JUDGE HAENLE: I premarked a number of
17 documents also for identification. Marked as T-82 for
18 identification, a multi-page document, JRL-9; 83 for
19 identification, JRL-10; 84 for identification, JRL-11;
20 85 for identification JRL-12; 86 for identification,
21 JRL-13; and 87 for identification, JRL-14. Were there
22 any prefiled revisions to this testimony, Mr.
23 Lauckhart?

24 THE WITNESS: No.

25 JUDGE HAENLE: Go ahead, Mr. Van Nostrand.

1 (Marked Exhibits T-82 and 83 through 87.)

2

3 DIRECT EXAMINATION

4 BY MR. VAN NOSTRAND:

5 Q. Mr. Lauckhart, do you have before you
6 what's been marked for identification as Exhibit T-82?

7 A. Yes.

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

10 A. Yes.

11 Q. Do you have any additions or corrections to
12 make to Exhibit T-82?

13 A. No.

14 Q. If I asked you the questions set forth in
15 Exhibit T-82 today, would you give the answers as set
16 forth in that exhibit?

17 A. Yes.

18 Q. Do you also have before you what's been
19 marked for identification as Exhibits 83 through 87?

20 A. Yes.

21 Q. And are these exhibits prepared under your
22 direction and supervision?

23 A. Yes.

24 Q. Do you have any additions or corrections to
25 make to these exhibits?

1 A. No.

2 Q. Are they true and correct to the best of
3 your knowledge?

4 A. Yes.

5 MR. VAN NOSTRAND: Your Honor, move the
6 admission of Exhibit T-82 and 83 through 87 and Mr.
7 Lauckhart is available for cross-examination.

8 JUDGE HAENLE: Any objections?

9 MR. MANIFOLD: No objection.

10 JUDGE HAENLE: I will enter T-82 and 83
11 through 87 then. Go ahead, Ms. Johnston.

12 (Admitted Exhibits T-82 and 83 through 87.)

13

14 CROSS-EXAMINATION

15 BY MS. JOHNSTON:

16 Q. Mr. Lauckhart, are you familiar with the
17 Commission's 11th supplemental order in 921262?.

18 A. I'm not sure what case that is. What case
19 are we talking about here?

20 Q. General rate case.

21 A. I've read the orders. I don't remember
22 specifically what's in that one.

23 Q. Are you aware that on, or perhaps I could
24 ask this subject to check, that on pages 45 and 46 of
25 that order pertaining to the third AC intertie "the

1 Commission agreed with witness Winterfeld that the
2 company's supposition of 'full utilization may be too
3 optimistic,' however, the Commission will allow the
4 modification at this time." Will you accept that
5 subject to check?

6 A. If that's what that said. I am not quite
7 sure what full utilization meant there but --

8 MR. VAN NOSTRAND: Could I provide a copy
9 of the order to the witness?

10 MS. JOHNSTON: You may.

11 JUDGE HAENLE: Is that what it says, Mr.
12 Lauckhart?

13 THE WITNESS: Would you point me to the
14 sentence you read one more time?

15 Q. Page 46, first full paragraph.

16 A. I'm not finding a sentence that I recall
17 exactly the way you read it to me.

18 Q. "The Commission shares Mr. Winterfeld's
19 concerns that the company's estimates may be overly
20 optimistic"?

21 A. Semicolon.

22 Q. Do you see that there?

23 A. I see. It goes on, of course.

24 Q. It does go on. Perhaps I should back up.
25 Look at page 45 under J, second full paragraph.

1 "Commission staff witness Winterfeld expressed concern
2 that the assumed full utilization may be too
3 optimistic." Do you see that language there?

4 A. I see that language.

5 Q. And the Commission went on to allow the
6 modification at this time despite that. Is that true?

7 A. I'm not sure what they were expressing if
8 those two sentences are linked, and I'm not sure what
9 Mr. Winterfeld was even talking about under full
10 utilization, so the sentence doesn't read the way you
11 said it, and I'm not quite sure we're in tune with
12 what's going on here.

13 Q. Well, that's fine. The order speaks for
14 itself. I will move on.

15 Are you aware that the Commission in its
16 order, in this very same order, found that wheeling
17 for others is an offset to purchased power, the
18 benefit of which the company should share with
19 ratepayers?

20 A. Where are you reading now?

21 Q. Page 46, that same paragraph at the top.
22 It's just beneath the sentence that says, "However,
23 the Commission will allow the modification at this
24 time." Do you see that?

25 A. Yes, I do, but I guess where I'm getting

1 confused is we don't do wheeling for others on the
2 third AC. That's not allowed under our contract, so
3 is this supposedly talking about third AC wheeling, do
4 you suppose?

5 Q. Yes.

6 A. That's not allowed under our third AC
7 contract.

8 Q. And do you recall your testimony on page 19
9 of Exhibit 521 in the general rate case that, "The
10 company intends to use the balance of its third AC
11 rates for accomplishing nonfirm transactions with the
12 southwest"?

13 A. Yes. We did an analysis to determine how
14 much we thought we could do by looking at power that
15 might be available for purchase in the northwest, and
16 how we may get access to some of that power. We
17 didn't assume 100 percent loading of the intertie with
18 that kind of activity.

19 Q. Are you aware that in Puget's compliance
20 filing Puget only included the 2,355,000 which the
21 Commission had ordered for, quote, within-month
22 secondary sales, end quote?

23 A. Yes.

24 Q. Is it true that Puget started its access to
25 to its share of the third AC intertie in August of

1 this year?

2 A. Puget does not yet have third AC ownership.

3 We have a contract that's been offered to us.

4 JUDGE HAENLE: So your answer is no?

5 THE WITNESS: Answer is no.

6 Q. So in fact there is no track record
7 regarding actual sales of purchases by Puget using the
8 third AC intertie entitlement, right?

9 A. Yes.

10 Q. Do you agree that it would be reasonable
11 for Puget to track its costs and benefits for proposed
12 recovery in PRAM 5? I.e., costs and benefits from the
13 third AC would be matched and parties would have nine
14 months of actuals to review and compare to Puget's
15 projections?

16 A. I would consider that a change to the PRAM
17 procedure.

18 Q. You would?

19 A. Yes. We have indicated a willingness to
20 talk about changes to the PRAM procedure.

21 Q. Thank you, Mr. Lauckhart.

22 MS. JOHNSTON: That's all I have.

23 JUDGE HAENLE: Do you have questions of the
24 witness?

25 MR. MANIFOLD: Yes.

1

2

CROSS-EXAMINATION

3 BY MR. MANIFOLD:

4

Q. Do you have available to you Exhibit 79

5

which was introduced through Dr. Blackmon by your

6

counsel. That was the data request 748 which had the

7

intertie numbers on it. In your testimony at page 9,

8

line 14 of your rebuttal testimony, you reference the

9

number 22 percent?

10

A. Yes.

11

Q. And is that the same calculation that your

12

counsel put in through Dr. Blackmon using Exhibit 79?

13

Was that the source of that?

14

A. Yes.

15

Q. And this is for the 12 months ending July

16

of 1994; is that right?

17

A. Yes.

18

Q. And would you characterize that as a wet,

19

dry, above or below normal hydro year for the

20

northwest?

21

A. Well, that specific year is fairly dry,

22

although you can look up, this table also has data

23

from 1986 on, a number of those were wet years. A

24

number of those were years when we had large firm

25

surpluses in the region which we don't have any more.

1 But you can -- instead of the 1468 number which I
2 used, that's the 12 months ended July 1994, you could
3 move up in time and you wouldn't find -- you might
4 find one year that was greater than 50 percent of all
5 of those years on the loadings of the intertie.

6 Q. So that's your answer to the question of
7 whether this is the number you used for 22 percent and
8 whether it was a dry year?

9 A. Yes.

10 Q. And do we normally set rates based upon
11 average hydro projections?

12 A. Under the PRAM procedure?

13 Q. Under rate making in general.

14 A. In general when we don't have ECACs or
15 PRAMs we talk about average water, yes. Average water
16 would give you a little bit higher than 22 percent but
17 not much.

18 Q. One of the areas of disagreement between
19 you and Dr. Blackmon is how to treat the projection
20 part of this PRAM proceeding; is that correct?

21 A. Yes.

22 Q. Projection of power costs during the PRAM 4
23 period starting October 1st of this year?

24 A. Yes.

25 Q. Were you in the room when I asked staff

1 witness Moast some questions about whether or not the
2 dispatched actual displacements would be trued up in
3 PRAM 5?

4 A. Yes, I was.

5 Q. And if I asked you the same questions,
6 would you give the same answers?

7 A. No.

8 Q. We'll go through it. Would you agree that
9 the issue here is that the simple dispatch model is
10 not able to accommodate both buying and selling within
11 the same month?

12 A. I'm not sure what issue you're talking
13 about now.

14 Q. The issue that I previously referenced
15 where you and Dr. Blackmon have differences of opinion
16 about projected power costs during the PRAM 4 period
17 based upon whether or not displacements are likely to
18 occur.

19 A. That issue I would not characterize as
20 being a problem with the simple dispatch model.

21 Q. Would you agree that the actual experience
22 of the company -- or let me start over. Do you think
23 that the actual experience of the company with
24 displacement of power costs should be trued up in the
25 next PRAM proceeding or should the true-up be based

1 simply upon a rerun of the simple dispatch model?

2 A. The mechanism works so that it does
3 essentially true it up to what our contracts provide
4 for, so that if you look at the simple dispatch model,
5 you will see that instead of the amount of power we
6 could have gotten if we had not displaced our
7 cogenerators, i.e., if we had displaced our
8 cogenerators the model will show a lower amount of
9 generation. The simple dispatch model will show that
10 as an actual level of cogeneration out of the
11 cogenerators. The dollars associated with the
12 purchase under that cogeneration contract will also be
13 reduced and will reflect the savings that we get --
14 our share of the savings that we get when we displace
15 so those numbers will show up in the columns in the
16 simple dispatch model. The simple dispatch model was
17 never designed for, and the purpose of it was never to
18 try to capture displacement savings. Those will -- in
19 the megawatt sum numbers, those have to be input to
20 that model, so that is why we do the simple dispatch
21 model the way we do. Those displacements are input to
22 the model.

23 MR. MANIFOLD: Thank you, I have no further
24 questions.

25 JUDGE HAENLE: Commissioners, have you

1 questions?

2 CHAIRMAN NELSON: No.

3 COMMISSIONER HEMSTAD: No.

4 JUDGE HAENLE: Any redirect of the witness?

5 MR. VAN NOSTRAND: No, Your Honor.

6 JUDGE HAENLE: Anything more of the
7 witness?

8 Thank you, sir. You may step down. Let's
9 go off the record to change witnesses.

10 (Recess.)

11 Whereupon,

12 MARY SMITH,

13 having been previously duly sworn, was called as a
14 witness herein and was examined and testified
15 further as follows:

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

17 During the time we were off off the record a new
18 company rebuttal witness assumed the stand. I will
19 remind you that you are previously sworn and under
20 oath. Also during the time we were off the record I
21 marked for identification a number of documents, MES-4
22 in 15 pages, rebuttal testimony, will be T-88 for
23 identification, and then MES 5 through 9 will be 89
24 through 93 for identification.

25 (Marked Exhibits T-88 and 89 through 93.)

1

2

DIRECT EXAMINATION

3 BY MR. VAN NOSTRAND:

4 Q. Ms. Smith, do you have before you what's
5 been marked for identification as Exhibit T-88?

6 A. I do.

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

9 A. Yes, I do.

10 Q. Do you have any additions or corrections to
11 make to that exhibit?

12 A. Nope.

13 Q. If I asked you the questions set forth in
14 Exhibit T-88 today, would you give the answers as set
15 forth in that exhibit?

16 A. Yes.

17 Q. Do you also have before you what's been
18 marked for identification as Exhibits 89 through 93?

19 A. Yes, I do.

20 Q. Were these exhibits prepared under your
21 direction and supervision?

22 A. Yes, they were.

23 Q. Do you have any additions or corrections to
24 make to these exhibits at this time?

25 A. No.

1 Q. Are they all true and correct to the best
2 of your knowledge?

3 A. Yes.

4 MR. VAN NOSTRAND: Your Honor, move the
5 admission of Exhibits T-88 and Exhibits 89 through 93
6 and Ms. Smith is available for cross-examination.

7 JUDGE HAENLE: Thank you. Any objection to
8 the entry of the documents?

9 MR. MANIFOLD: No objection.

10 JUDGE HAENLE: T-88 and 89 through 93 are
11 entered into the record.

12 (Admitted Exhibits T-88 and 89 through 93.)

13 JUDGE HAENLE: Go ahead.

14

15 CROSS-EXAMINATION

16 BY MS. JOHNSTON:

17 Q. Ms. Smith, please turn to page 6 of your
18 rebuttal testimony.

19 A. I'm there.

20 JUDGE HAENLE: Could I get you to put the
21 microphone right in front of you the way you'll be
22 speaking so that you'll be speaking into it. Thanks.

23 Q. At lines 3 and 4 you've shown that
24 approximately \$19,000 associated with self-audited
25 materials is included as conservation advertising in

1 the PRAM 4 layer; is that correct?

2 A. They are considered conservation
3 advertising in the PRAM 4 layer, that is correct.

4 JUDGE HAENLE: You've handed me a
5 three-page document. The caption on the front is
6 Response to WUTC Request No. 118. I will mark this
7 as 94 for identification.

8 (Marked Exhibit 94.)

9 Q. You've just been handed what's been marked
10 as Exhibit 94 for identification. Do you recognize
11 this as your response to staff data request No. 118?

12 A. That looks correct.

13 MS. JOHNSTON: Your Honor, move the
14 admission of Exhibit 94.

15 JUDGE HAENLE: Any objection?

16 MR. VAN NOSTRAND: No.

17 JUDGE HAENLE: Exhibit 94 will be entered
18 into the record.

19 (Admitted Exhibit 94.)

20 Q. In this data request you provided a listing
21 of the invoice paid to Word Play for, "technical
22 writing for the development of a self-energy audit
23 tool for residential customers." Is that true? Look
24 at your response to sub B.

25 A. Right, that is true.

1 Q. Now, on the second page of this response
2 you see charges for June, September and October of
3 1993 which are charged to activity code 186 CO
4 miscellaneous code 30. Is that true?

5 A. Yes. That is the corporate communications
6 plan activity which was used in the period May through
7 September of this PRAM period, but was no longer used
8 after the Commission's order which went into effect
9 October 1st. These charges then began being used to
10 activity code 186 EI as shown later in that same page.

11 Q. Now, this particular code, 186 CO is the
12 activity code for the company's corporate
13 communication plan; is that correct?

14 A. That's what I just referred to, and that is
15 more than just the advertising campaign. We talked
16 about that in my exhibit MES-9 which shows the
17 relationship between the conservation advertising and
18 the conservation corporate communications plan, and
19 staff seems to have some misunderstanding that there's
20 some overlap there, but they are not synonymous as was
21 discussed this morning.

22 Q. Will you accept subject to check that 186
23 CO 30 is the code for advertising?

24 A. 186 CO with the miscellaneous code of 30 is
25 designated as advertising. However, 186 CO is the

1 corporate communications plan which is not only
2 advertising. There are other elements of conservation
3 activity in that.

4 Q. But what you have before you is
5 miscellaneous code 30, correct?

6 A. That's correct. Miscellaneous code is an
7 advertising subcode for the activity code 186 CO.
8 When we drop the CO, to avoid the exact confusion
9 we're talking about here between corporate
10 communications plan and advertising, much of that
11 confusion arising from the last PRAM, we started using
12 the activity code 186 EI for empowerment instruction
13 for these activities. At the time of October when we
14 got the order, we understood that materials directly
15 related to programs were conservation rate-based.
16 They are provided for in schedule 83 under the
17 description of admin in schedule 83; and therefore,
18 since we no longer had a 30 to charge those to,
19 because we weren't charging as a rate base item
20 advertising any longer per the Commission order we are
21 now using the activity code 01 to designate these
22 codes. It is not a reclassification. That's a
23 clarification that happened as a result of the order.

24 Q. So this new activity code 186 EI to which
25 you just referred was created by Puget in December of

1 1993?

2 A. That's correct, and all of those charges,
3 all of the EI charges based upon the staff's
4 definition provided to the company in a March 1994
5 meeting at the company's request to clarify what was
6 meant by advertising, we had been charging those to
7 administration because they were a conservation
8 charge. Staff requested at that March meeting that
9 any printed materials, whether or not it's asking a
10 customer to participate in an energy audit or get a
11 rebate for a compact fluorescent bulb, any printed
12 materials would be charged to advertising. So in
13 March we went back and we -- all of those charges are
14 now considered expense charges, charged to 909. None
15 of that is charged to -- none of that is charged to
16 186 or conservation rate base in this proceeding.

17 Q. Now, in general, the expenses charged now
18 and in the future to the activity code 186 EI are
19 considered conservation rate base items. Is that
20 true?

21 A. No, I don't believe so. I think 186 EI,
22 the self-audit materials are all charged to expense
23 since October of 1993.

24 Q. Would you accept subject to check that
25 \$770 still remains in that account?

1 A. Yes, I would. That is correct, and when we
2 went back and made all the reversals. After that
3 March meeting there was \$15,770, or roughly that
4 amount, and we reversed to expense \$15,000 and somehow
5 that \$770 did get overlooked. So, yes, all
6 excepting \$770 have been charged to expense.

7 Q. Well, can you tell us why you didn't accept
8 staff's adjustment on this?

9 A. We would be willing to do that. It's a
10 very minor adjustment.

11 Q. Please turn to page 8. On lines 16 through
12 19 of your testimony you discuss staff's proposal to
13 remove conservation advertising costs from rate base.
14 You state --

15 A. Excuse me. Are you on the testimony now?
16 Page?

17 Q. Yes, I am. Are you there?

18 A. Yeah.

19 Q. You say staff's proposal implies that
20 the company should have foreseen the Commission's
21 general rate order and therefore should have stopped
22 all expenditures as of May of 1993. Do you see that?

23 A. Yes, I do.

24 Q. However, in response to company data
25 request No. 707, staff stated, "Although staff is

1 proposing to remove from rate base in this proceeding
2 some of the items of conservation advertising
3 expenditures during the period of May through
4 September 1993, staff's action is based on the nature
5 of these expenditures, i.e., not providing any
6 benefits to the ratepayer rather than on the time
7 frame of when they were incurred." Do you recall
8 that?

9 A. No. Would you direct me to the right
10 place?

11 Q. I just so happen to have a copy of it.

12 A. I'm sorry, where are you reading again?

13 Q. Beginning with the word "although" in the
14 response.

15 A. Yeah. I'm not sure I'm making the
16 connection between that and the previous citing of my
17 testimony.

18 Q. So you're agreeing that that is in fact
19 what staff stated in its response to company's data
20 request No. 707?

21 A. That's what staff stated. That's not the
22 company's position.

23 Q. Clearly.

24 JUDGE HAENLE: You've handed me a
25 multi-page document. The caption on the front is

1 Washington Utilities and Transportation Commission
2 Request No. 144. I will mark this as 95 for
3 identification.

4 (Marked Exhibit 95.)

5 Q. Do you recognize what's been handed to you
6 as your response to staff data request No. 144 in
7 part?

8 A. In part, yes.

9 MS. JOHNSTON: Your Honor, move the
10 admission of Exhibit 95.

11 JUDGE HAENLE: Any objection?

12 MR. VAN NOSTRAND: No. Subject to the
13 ability to provide a more complete response to it if
14 the questions indicate it's necessary.

15 JUDGE HAENLE: But not unless it's
16 necessary would be good, thank you. Please do speak
17 up if you feel it's later necessary. I will enter 95
18 into the record.

19 (Admitted Exhibit 95.)

20 Q. Now I want to direct your attention back to
21 your rebuttal testimony at page 8, lines 23 through
22 24. Now, there you refer to a 1994 fall campaign,
23 a conservation advertising campaign?

24 A. Yes. It is a continuation of the campaign
25 that was discussed there early in PRAM 3.

1 Q. You said it was discussed in the general
2 rate case?

3 A. I'm sorry.

4 Q. You say, "Current costs for the advertising
5 campaign are being charged to expense." Are these
6 above the line expense accounts?

7 A. These are the conservation advertising
8 campaign which, per the Commission order in the
9 general rate case, are being expensed. They are not
10 being rate-based to conservation, that's correct.

11 Q. Referring to a Hinton and Steele memo,
12 which is part of Exhibit 95 regarding the 1994
13 campaign, it states, quote --

14 A. Which page are you on?

15 Q. Third page in. First page of the memo. It
16 states, "the situation, same as always. The company
17 doing its job. Doing all it can to provide reliable
18 low-cost service to its customers now and in the
19 future but not telling anybody about it. The UTC
20 staff doing its job, doing what it can to cast doubt
21 on Puget's commitment and abilities in an effort to
22 keep rates even lower and telling everybody about it."
23 Is that an accurate quote?

24 A. That is a quote of the Hinton and Steele's
25 characterization in a presentation to the officers and

1 others involved in advertising in the company. That's
2 not the company's characterization. That is the
3 Hinton and Steele's presentation.

4 Q. So the answer to my question is yes?

5 A. That's true.

6 Q. It goes on to state "customers remain
7 suspicious about rates and all Puget actions taken on
8 their behalf. Puget Power faces ever more hoops to
9 jump through in an increasing tougher time in acting
10 in the best interests of the customers. The prudence
11 hearing is just the latest hoop." Is that also an
12 accurate quote?

13 A. Of Hinton and Steele, that is an accurate
14 quote of Hinton and Steele.

15 Q. Please turn to page 2 of this memo. Hinton
16 and Steele make its recommendation, begins with "same
17 as always, almost." One of the recommendations is to,
18 "focus on conservation and IRP. They're the issues
19 closest to the customer's heart or wallet." Is that
20 also accurate?

21 A. Yes. You're quoting right from Hinton and
22 Steele.

23 Q. On page 3 of this document Hinton and
24 Steele outline the proposed radio media schedule. Is
25 that true?

1 A. The proposed, right.

2 Q. And according to the schedule from the week
3 of August 29, 1994 through the week of January 9,
4 1995, 30-second testimonial radio commercial will be
5 aired?

6 A. Yes. Yes. These are conversation
7 testimonials from commercial customers who
8 participated in programs and saved energy and we
9 provided the text and recordings of those documents.
10 Those were worked on, by the way, during the summer of
11 1993 and a part of those costs are captured in the
12 amount that we are applying for here in PRAM as a
13 conservation rate base item.

14 Q. There are four such testimonials; is that
15 true?

16 A. There are four ads.

17 Q. Puget has gone forward with the recommended
18 radio campaign; is that true?

19 A. Yes.

20 Q. I believe you testified so. And is it
21 currently airing?

22 A. Yes, I believe so. I haven't heard any but
23 I am told that they are on the air.

24 Q. Now, turn back to Exhibit 95. On the first
25 page of the response under subpart A you state that

1 "The formal notification date to proceed with the
2 campaign was given August 22nd, 1994." Do you see
3 that?

4 A. I do.

5 Q. Now, staff's prefiled testimony in this
6 proceeding was filed on August 17th, 1994. Is that
7 true?

8 A. That's true.

9 Q. Now, turn back to page 4 of the Hinton and
10 Steele document. It states, "1994 production. Final
11 edit and talent renewal. Four 30-second testimonials.
12 Interviewing, writing and production nine 60-second
13 IRP partners." Is that an accurate reading?

14 A. Yes, but other than the final edit and
15 talent renewal, \$5,000, I don't believe this has
16 anything to do with the ads that are currently
17 running. Those -- I would assume that there is some
18 of that \$5,000 that's in connection with those ads,
19 but the rest of it would not be. It would be for
20 future ads.

21 Q. The nine 60-second IRP partners are a new
22 advertisement, correct?

23 A. That have not been interviewed, written or
24 produced, to my knowledge, yet. They're in the
25 planning stages.

1 Q. And these were not provided to staff in
2 response to the data requests?

3 A. Because they have not been produced yet.

4 Q. The costs associated with writing,
5 interviewing and producing the nine 60-second
6 commercials is approximately \$36,900. Is that true?

7 A. That's what I guess Hinton and Steele is
8 proposing in their budget.

9 Q. And the total 1994 production budget shown
10 here is for \$42,200. Do you see that?

11 A. Yes, but I did want to make clear, none of
12 these costs are costs we're talking about in PRAM 4.
13 These are future costs to be incurred. These are not
14 any of PRAM 4 costs that we're talking about here.

15 Q. In the company's supplemental response to
16 data request No. 144, attachment 2, page 2 -- are you
17 there?

18 A. If that's the memo from Mike McDonald, I'm
19 there.

20 Q. Yes, it is. This interoffice memorandum
21 states, "Should we want to cancel the October-November
22 advertising as a result of the rate decision, which
23 we're told should come around October 1, we would be
24 able to do so then with little or no penalty." Do you
25 see that?

1 A. Yes, I do.

2 Q. This seems to indicate that if the upcoming
3 rate decision is unfavorable then the company will
4 cancel this advertising campaign in October. Do you
5 think that's true?

6 A. I really have no idea. This was a memo
7 from the manager of that campaign to the officers of
8 the company and in his memo recommending that we
9 proceed with this. He's making sure that they're
10 aware that if there's a bad decision from the
11 company's perspective in the rate orders that there is
12 options to get out of this. I have no idea what
13 they'll plan to do or how that would be interpreted.

14 Q. Were you finished?

15 A. Yes.

16 Q. You're aware, are you not, that the company
17 cancelled the fall 1993 campaign on October 4, 1993
18 just days after the Commission had granted a 2.1
19 million pro forma level of expense for conservation
20 advertising?

21 A. And a \$652,000 write-off for conservation
22 advertising, yes, that's correct.

23 Q. Do you have Exhibit 27 available to you?

24 A. Yeah, I think I do.

25 Q. This is the company's response to staff

1 data request No. 36. In part A of this request you
2 were asked to provide a description of any and all
3 conservation advertising campaigns undertaken by the
4 company in 1993 and 1994. Do you recall that?

5 A. That's correct, and I don't know what date
6 this was provided but this was provided certainly
7 earlier this summer.

8 Q. In this response you also provided a list
9 of newspaper schedules for ads which ran between
10 January 18 through May 9, 1993; a Hinton and Steele
11 document showing the 1993 radio schedule for the time
12 period January 18 through May 9, 1993; and a Hinton
13 and Steele document showing the 1993 television
14 schedule for the time period January 18 through March
15 22nd, 1993. Now, copies of print advertisements and
16 audio and videotapes of television and radio
17 commercials were also provided. Is that true?

18 A. Yeah. In this data response we did the
19 print advertisements. I don't know whether we did the
20 videos and the cassettes although we have subsequently
21 provided them in another response as well.

22 Q. Second page of the response indicates that
23 audio and videotapes are being provided with this
24 response?

25 A. Thank you, yeah.

1 Q. Now, this response you also indicate that,
2 "the campaign had no further activity after May of
3 1993." Is that true?

4 A. That's been a much quoted by staff, and I
5 am afraid it's somewhat taken out of context. We
6 discussed this in cross-examination back in July where
7 I indicated that there was no further activity for the
8 major spring flight of ads. This campaign was
9 designed around the fall and spring flight of ads and
10 all that this data response was responding to was the
11 spring flight of ads. We have, subsequently in my
12 rebuttal testimony, provided information, and if you
13 will look on the two lists that you just referred to,
14 the television schedule and the radio schedule, at the
15 very bottom of those lists there's two stations. On
16 the TV schedule it's KSTW. The number of weeks that
17 those ads run are 15 as opposed to seven for every
18 other channel. On the radio schedule, KIRO at the
19 bottom, the number of weeks run is 21 as opposed to 12
20 for every other channel. The no activity for the main
21 campaign refers to those channels running for 7 and
22 12. That's the stuff that ended in May. On KSTW and
23 KIRO, as we have provided in another data request, and
24 if you will give me a second I will find it, there was
25 continuation of these ads and these were primarily in

1 connection with Mariner broadcasts on those two
2 stations throughout the summer into September.

3 Q. Are you finished?

4 A. I was going to refer to that data request
5 where we provided that information. That was in our
6 response to No. 145 where we clarified that the radio
7 campaign on those two channels ran through September.
8 So there were further ads and further activity despite
9 how this has been quoted. We've tried to clarify
10 that.

11 Q. Do you recall your testimony, that
12 cross-examination of your direct testimony?

13 A. Yes.

14 Q. I do recall asking you this question, and I
15 will read from transcript reference page 73. "So it
16 was specifically on May 9, 1993 that you terminated
17 this program? And you state, "Well," you say, "No. I
18 would not characterize that we terminated this
19 program. I would characterize that we did not run any
20 newspaper or radio, and I believe I could say the same
21 for TV after that date." My next question is, "Well,
22 since that time, has the company run any other ads?."

23 "ANSWER: No, no. There were plans for a
24 fall campaign which were not carried out."

25 Do you recall that testimony?

1 A. Yes. In fact, I have it in front of me,
2 and if we continue reading where I said, "No, I don't
3 believe there was any other TV after that date, it
4 doesn't constitute terminating the campaign. The
5 campaign was designed to run at selected periods of
6 time with the fall and spring. This was simply a date
7 that shows the end of the spring campaign. It has
8 nothing to do with the overall decision of the
9 campaign."

10 Q. Would you accept subject to check that
11 Exhibit 27, the company's response to data request 36,
12 was provided to staff on July 6, 1994?

13 A. That would be subject to check but sounds
14 about right.

15 Q. Your response to data request 144, which is
16 now Exhibit 95, indicates that the company began
17 working specifically on ideas for the fall 1994
18 campaign in early July. Is that fair to say?

19 A. Yes. I was not aware of those at that
20 time.

21 Q. Is that why this information was not
22 included in your response to data request 36?

23 A. That would be why.

24 Q. When you were cross-examined on July 20th,
25 did you provide any testimony that the company had

1 begun working specifically on ideas for a fall 1994
2 campaign?

3 A. I was not aware of it at that time.

4 Q. Has the company filed a supplemental
5 response to data request 36 in this proceeding?

6 A. I think the data requests in 144 and 145
7 and others serve in that function.

8 Q. That was in response to a renewed request
9 from the staff. In other words, the company on its
10 own motion didn't decide to supplement this with this
11 newly found information. Is that true?

12 A. Yeah, I guess so. My understanding of 36
13 was referring to the decision back in the PRAM case;
14 the stuff that's going on now is not in this PRAM
15 case. 36 refers to campaign activities and the amount
16 of money that's being applied for in this PRAM case.
17 Again, the campaign that's going on now has nothing to
18 do with dollars being asked for in this PRAM case.

19 Q. But staff in its data request did in fact
20 ask you to provide a description of any and all
21 conservation advertising campaigns undertaken by the
22 company in the years 1993 and 1994.

23 A. And at the time that I prepared that, that
24 was my best response. I wasn't aware of the '94 stuff
25 and quite frankly overlooked going back to supplement

1 that, but again this '94 activity is not stuff that's
2 being dealt with in this PRAM case.

3 JUDGE HAENLE: You've handed me a
4 multi-page document. The caption at the top is WUTC
5 Request No. 145 Corrected Response. I will mark this
6 as 96 for identification.

7 (Marked Exhibit 96.)

8 Q. Do you recognize what's been handed to you
9 as Exhibit 96 for identification as your corrected
10 response to the staff request No. 145?

11 A. I guess this is in part. Is there an A?
12 That looks like it, yes.

13 MS. JOHNSTON: Move the admission of
14 Exhibit 96.

15 JUDGE HAENLE: Any objection?

16 MR. VAN NOSTRAND: No, Your Honor.

17 JUDGE HAENLE: 96 will be entered into the
18 record.

19 (Admitted Exhibit 96.)

20 Q. Now, in section A you indicate, "and to
21 clarify that" -- this is a quote -- "and to clarify
22 that information, the radio campaign ran through May
23 30 and continued to September 1 through November 3 on
24 KIRO (Mariners) and on KSTW-TV ran through May 30 and
25 continued September 13 through the 24 (Mariners)." Is

1 that accurate?

2 A. Yes, that's accurate. I guess the baseball
3 season doesn't coincide with the optimum conservation
4 message.

5 Q. Has any similar Hinton Steele document been
6 provided to staff to support the claims of the company
7 in data request 145?

8 A. I'm sorry, what was the question?

9 Q. Have you provided staff with any Hinton
10 Steele documents to support the claims made in
11 subparagraph A in this response?

12 A. As I referenced when we were discussing a
13 moment ago data response No. 36, Exhibit 27, at the
14 bottom of those two TV and radio schedules, those two
15 stations had a longer number of weeks and that is the
16 reference from Hinton and Steele. Those were
17 provided. You will see the top of those headers are
18 Hinton and Steele and those are the indicators which
19 show that -- shows weeks are additional weeks beyond
20 the spring flight of campaign for those two stations.
21 So it was in the original 36.

22 Q. But the Hinton and Steele documents
23 provided in that response referred to a time frame of
24 January 18 through May 9, 1993. Is that true?

25 A. Yes, that is true. Again, this is a Hinton

1 and Steele document that we're providing, and those
2 dates do refer to the dates of the spring flight,
3 again, the major stuff. If you will add up the number
4 of weeks I suspect there's not enough -- there's more
5 than 21 weeks in that period.

6 Q. Where is the information or data to
7 support what you've indicated and represented to be
8 true in subparagraph A is in fact true that these ads
9 were run on these dates during these time periods?

10 A. Right here in 145.

11 Q. What do you mean when you say "right here"?

12 A. You said where is the information? It's in
13 36 on those two lines that we describe and then it's
14 right here described in 145 that you just handed out.

15 Q. Now, in 36 there are no dates included in
16 that, true?

17 A. That's correct.

18 Q. And then when you say here in 145 --

19 A. In 145.

20 Q. Right. In response to 145, you referred to
21 the invoices?

22 A. No. I'm referring to the response in A.

23 Q. You want us to accept your representation
24 without any backup or supporting documents that these
25 ads ran when you indicate -- represent to us that they

1 ran? There is no other --

2 A. Yes. I guess I would be saying that, and
3 also the fact that Hinton and Steele provided these,
4 which we provided to you in 36, which show the number
5 of weeks that those ads were run would suffice as
6 documentation, I would hope, as documentation. That's
7 the documentation that we have from Hinton and Steele.

8 Q. Please turn to the second page of this
9 response, your corrected response to 145, Exhibit
10 96. In the column labeled Code, the No. 1 indicates
11 Puget Power's assessment of costs which were
12 associated with advertisements which actually ran. Is
13 that true?

14 A. This was prepared in response to staff's
15 exhibit. I believe it was ALK -- it was either 2 or
16 3, and basically what we were trying to show was where
17 staff missed certain costs that they said were only
18 included in the ads that ran because that's what
19 constituted benefit to the customers and we are going
20 back line item by line item, the left-hand side of
21 this is the staff's exhibit, and pointing out where
22 there were other ads that ran during the summer period
23 for which work was done. If that's the measure -- I'm
24 not sure I agree that that's the measure. All this is
25 showing that there were ads run and there were costs

1 associated with those ads that were run customers
2 saw. That, again, is not our measure of what goes
3 into conservation rate base, but that was the point
4 that staff was trying to make up in coming up with
5 only \$80,000.

6 Q. Well, my question is a lot simpler than
7 that response. I just want to know if the No. 1
8 indicates your assessment of costs which were
9 associated with ads that actually ran.

10 A. Yes --

11 Q. Thank you. For the April --

12 A. -- prior to October. For ads that ran
13 prior to October of 1993. There are ads that have
14 run since October of 1993 which do not have an
15 indicator of 1 and there would be costs associated
16 with those as well. So these are -- the 1s only
17 indicate ads that ran during this PRAM period prior to
18 October 1993.

19 Q. Now, for the April 1993 statement, invoice
20 No. 15009, this is for talent services for the periods
21 of May through August for radio commercials. Is that
22 true?

23 A. Right.

24 Q. Now, by the company's own admission no
25 radio advertisement ran during the months of June,

1 July or August. Is that true?

2 A. No. As we just discussed there were
3 Mariner radios during that period.

4 Q. I would like to direct your attention again
5 to Exhibit 96 sub A, you state --

6 A. I'm sorry. Where are you?

7 Q. Exhibit 96, sub A, the radio campaign ran
8 through May 30.

9 A. Yes.

10 Q. And continued September 1 through October 3
11 and ran through May 30 and continued September 13
12 through the 24th?

13 A. That's true.

14 Q. So during these months June, July and
15 August, no radio ads ran.

16 A. I am not a professional in the advertising
17 field. We rely on Hinton and Steele for that and the
18 manager of advertising. Apparently, when you use
19 somebody's voice on an ad there are talent fees that
20 you have to pay for any period of time that those ads
21 are being used. They are not paid for each ad that's
22 run every time you hear it. They are paid for a
23 period of time that you plan to use those ads. So,
24 again, not being an expert in this field, this has to
25 do with normal course of business in running ads and

1 paying for the talent associated with those ads.

2 Q. Now, this issue of talent fee renewals
3 aside, it's true, is it not, that no ads ran during
4 the months of June, July and August?

5 A. I am not aware of any ads that ran on mass
6 media, TV and radio. There were bill inserts which
7 were part of the campaign come ran during August.

8 Q. Now, we're just talking about radio here.

9 A. I just want to be clear because there's
10 confusion about what's in the campaign and what's not.

11 Q. Now, you mentioned these talent fee
12 renewals. Isn't it true that the company made no
13 payments for talent fee renewals for any advertising
14 medium from March 1994 through July 1994?

15 A. I don't know. I don't know.

16 Q. I was going to ask you if you would be
17 willing to accept that subject to check.

18 A. In response to the first question I don't
19 know because I don't know, again, how this business
20 conducts its business. That is, when you pay for
21 talent services, I don't know whether those are before
22 or after or during. So, again, the timing of the
23 payments of these talent fees I can't attest that they
24 have any -- coincide necessarily with the fact that
25 there were no ads running at that point.

1 Q. That's not my question. I am asking you
2 about the fact of the payment, whether or not a
3 payment was made.

4 A. I don't know.

5 Q. Would you accept subject to check that no
6 payments for talent fee renewals for any advertising
7 medium were paid from March 1994 through July 1994?
8 And the source of your check would be the Hinton and
9 Steele invoices.

10 A. Are you talking '94 or '93?

11 Q. 1994.

12 A. There were no talent fees during March of
13 1994, is that the question?

14 Q. The company made no payments for talent fee
15 renewals for any advertising medium from March of 1994
16 through July 1994.

17 A. Again, I would have to check that.
18 However, that would sound reasonable since we weren't
19 running ads in that period. Again, not knowing how
20 all this works but we haven't run ads.

21 Q. I would appreciate it if you would accept
22 that subject to check.

23 Now, if you look at invoice 15012, would
24 you accept subject to check that that was for talent
25 fees associated with television?

1 A. Could be. I would accept that subject to
2 check.

3 Q. Now, again, no television was run during
4 the month of -- no television ads was run during the
5 month of June, July or August?

6 A. And again, Mariners ads were run through
7 the end of May and in September, and these aren't
8 necessarily quarterly bills that are timed with
9 exactly the schedule of the advertising run.

10 Q. So it's true then, the answer to my
11 question is that, no, no television was run during the
12 months of June, July and August?

13 A. It is true but you do have to pay talent
14 service fees when you are running ads.

15 Q. Is it correct that in the company's opinion
16 the invoices -- strike that. Would you accept subject
17 to check that the expenses charged to rate base
18 without a code 1 total approximately \$150,000?

19 A. Yes. I would accept that subject to check.
20 And those would be items that were incurred between
21 May and September, charged to conservation, not
22 charged to expense and associated with the
23 conservation advertising campaign and not associated
24 with ads that were specifically run, nonetheless
25 incurred before we got the Commission order.

1 Q. And the company's proposing that these
2 costs be included in rate base because, "some
3 advertising has now resumed and as such the costs of
4 planning and producing ads are providing benefits to
5 customers." Is that true?

6 A. I think that is a quote from my testimony;
7 is that right?

8 Q. Yes.

9 A. Yes. That's true.

10 Q. Would you please explain why it will cost
11 \$37,000 to create and produce nine 60-second
12 commercials yet ratepayers should pay over \$150,000
13 for the four 30-second commercials currently airing?

14 A. That isn't true. I didn't say that. There
15 is roughly 100 and whatever the number you said was --
16 \$50,000, that there's ongoing agency fees. We have a
17 long standing relationship with Hinton and Steele so a
18 number of those dollars, probably \$100,000 of them,
19 are associated with agency fees incurred before the
20 Commission order. Probably only \$40,000 or so deal
21 with production of future ads. Some of those ads are
22 the TV -- excuse me -- are the radio commercials that
23 are being aired now, and there is other production
24 that occurred during the summer of 1993 which is not
25 being used. So, no, it's not correct to say that that

1 cost represents the four commercials being run right
2 now.

3 Q. Please turn back to your analysis, Exhibit
4 96. Agency service fees during the May through
5 October 1993 period were \$12,000 per month. Is that
6 true?

7 A. That is true.

8 Q. And in March of this year 1994 this agency
9 service fees dropped to \$9,000 per month. Is that
10 also true?

11 A. I would hope that when we're doing a lot
12 less advertising the agency fee would be smaller.
13 Yes, it is true.

14 Q. And in June of 1994, couple of months ago,
15 these agency service fees dropped again to \$6,000 per
16 month?

17 A. Yes, that's true. Those fees of course are
18 not in this PRAM.

19 Q. On page 3 of this invoice analysis, invoice
20 15274, it states, "continuation of campaign Cougars
21 radio broadcast." Am I to understand that there is
22 additional radio advertisement in Cougars radio?

23 A. That's what this appears to show, and this
24 would be for ads that ran last September prior to
25 October of last year.

1 Q. Has the company provided to staff any
2 information regarding this Cougars radio
3 advertisement?

4 A. It would be the same ads that we're using
5 for the rest of the campaign and we provided those
6 numerous times.

7 Q. Well, isn't it true that you haven't
8 provided staff with any information as to when it ran
9 or that it ran?

10 A. Since I'm not certain what station the
11 Cougars ads run on, I'm not sure that I haven't
12 provided it.

13 Q. Will you accept subject to check that this
14 reference comparing on page 3 of Exhibit 96 to Cougars
15 radio broadcast is the first and only reference to
16 Cougars radio in this case?

17 A. Yes. Although, again, this would have been
18 on a radio station. It's characterized here as
19 Cougars radio, but it could well be on a station that
20 we've already referenced.

21 Q. I'm not asking you to speculate, Ms. Smith.
22 I'm just asking you to accept subject to check that
23 this is the first indication of Cougars radio that we
24 see in this case.

25 A. No. Again, the radio may have only been

1 referenced. It's the first reference to the word
2 "Cougars," but it's not the first reference to the
3 ads.

4 JUDGE HAENLE: What did they call them
5 before?

6 THE WITNESS: I'm not sure which station.
7 Again, in the TV schedules and radio schedules we have
8 all of these stations that are listed. I'm not sure
9 which one of those would have been the Cougars broad
10 cast.

11 Q. Can we turn to page 9 of your testimony.
12 At lines 7 through 14 you discuss the remaining
13 advertising cost not associated with Hinton Steele
14 which are included in the PRAM 4 conservation layer.
15 Is that true?

16 A. That's true.

17 Q. And you state that staff has not performed
18 a quote type of review performed of add agency costs
19 end quote, for these remaining costs. Is that true?

20 A. That is true. I think we even asked staff
21 about details and they said they would be in our
22 transaction inquiries, but we did not get any
23 spreadsheet in the manner that we did our Hinton
24 Steele invoices on these costs.

25 Q. Has the company provided a review of these

1 remaining costs similar to your Exhibit 92 MES-8?

2 A. MES-8 is only Hinton and Steele invoices.

3 These costs are not Hinton and Steele so they are
4 no relevance to MES-8.

5 Q. No. I was only referring to MES-8 as
6 format as an example of the analysis that you're
7 capable of providing to staff, and my question is, has
8 the company provided a review of these remaining costs
9 you refer to on page 9 of your testimony in a fashion
10 similar to what you provided staff in Exhibit 92?

11 A. Exhibit 92's format is staff's format that
12 we just responded to. That's not -- and, no, we
13 haven't prepared these other costs in our format, but
14 that was not our format of analysis. That was staff's
15 format of analysis.

16 Q. It's true, isn't it, that you haven't
17 provided a review of these remaining costs anywhere?

18 A. We have provided numerous transaction
19 inquiries on all of these costs.

20 Q. It's true, isn't it, that a transaction
21 inquiry is nothing more than a list?

22 A. Naming the vendor, naming the amount,
23 naming the date, naming the account.

24 Q. And that of course in and of itself would
25 not justify the expenses. Would you agree?

1 A. I don't know. It seems like a reasonable
2 listing, and if staff had any questions on any
3 particular ones they certainly could ask about them,
4 which they have on many occasions.

5 Q. Would you tell where in its case the
6 company has demonstrated that the \$160,000 in
7 advertising cost for electric associations, printing,
8 contract label, et cetera, were incurred for the
9 benefit of ratepayers?

10 A. This \$160,000 is comprised primarily of
11 printing costs for materials that the company uses in
12 advertising, including program-related brochures.
13 About 40-some-odd thousand of that amount was for Ms.
14 Moira O'Neill's effectiveness study of the ad campaign
15 that was conducted last summer, and another amount of
16 that on the Electric League ads were for media, and I
17 believe we refer to that on page 6 of my testimony at
18 the top of the page. Part of that 106 is the \$44,000
19 for compact fluorescent lighting media advertising
20 which is done through the Electric League in
21 cooperation with Seattle City Light, Tacoma City Light
22 and I believe at one point Snohomish PUD. I'm not
23 sure they're involved any longer. These were for ads
24 that had been run and delivered. These were for
25 printing that has been for publications that are now

1 considered advertising, and these are for the
2 effectiveness study in the ad campaign that was
3 conducted by Ms. O'Neill last summer.

4 JUDGE HAENLE: Can you estimate how much
5 more you have, Ms. Johnston?

6 MS. JOHNSTON: Well, at this rate, probably
7 another 45 minutes.

8 CHAIRMAN NELSON: Let's quit.

9 MS. JOHNSTON: Can I just follow up and get
10 an answer to my last question?

11 JUDGE HAENLE: Go right ahead.

12 Q. I'm going to ask this question again.
13 Where has the company demonstrated that the
14 \$160,000 in advertising costs for electric
15 associations, printing, contract labor, et cetera --
16 and here's the key tag of this question -- were
17 incurred for the benefit of ratepayers?

18 A. The \$160,000 amount first of all was a
19 number that was arrived at by staff. That's not the
20 company's number. It's comprised of company
21 expenditures, and we asked staff to break out those,
22 and they have a rough breakout in their testimony but
23 haven't broken those out. We have characterized our
24 conservation expenditures, which include the amounts,
25 I assume, that are included in staff's

1 \$160,000 in my testimony on pages 5 and 6 where we
2 break out all of the elements for the advertising rate
3 base. These were broken out prior to this testimony
4 very early on in this proceeding as part of a response
5 to public counsel No. 226. So we have not broken --
6 they don't align with the way we characterize the
7 elements of this campaign. That \$160,000 is staff's
8 number.

9 MS. JOHNSTON: Thank you.

10 JUDGE HAENLE: Let's break for the evening
11 then. We'll start again in the morning at 9:00.
12 Before we break let me remind everyone that there was
13 a letter issued September 8, 1994 changing the
14 scheduling of the oral argument in this matter so
15 we'll continue with this case tomorrow until it's done
16 and then Thursday we have 9:30 public testimony here
17 in Olympia and then the oral argument will be held
18 1:30 on Thursday, September 15, so remember your
19 schedule. We'll break then until tomorrow.

20 (Hearing adjourned at 4:50 p.m.)

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