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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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3 WASHINGTON UTILITIES AND)
4 TRANSPORTATION COMMISSION,) DOCKET NO. UG-941408
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6 vs. Complainant,)
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8 A hearing in the above matter was held on
9 August 25, 1995, at 9:30 a.m. at 1300 South Evergreen
10 Park Drive Southwest before Administrative Law Judge
11 C. ROBERT WALLIS.

12 The parties were present as follows:

13 CASCADE NATURAL GAS CORPORATION, by JOHN
14 L. WEST, Attorney at Law, 4400 Two Union Square, 601
15 Union Street, Seattle, Washington 98101-2352.

16 WASHINGTON UTILITIES AND TRANSPORTATION
17 COMMISSION STAFF, by ROBERT CEDARBAUM, Assistant
18 Attorney General, 1400 South Evergreen Park Drive
19 Southwest, Olympia, Washington 98504.

20 FOR THE PUBLIC, DONALD TROTTER, Assistant
21 Attorney General, 900 Fourth Avenue, Suite 2000,
22 Seattle, Washington 98164.

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25 Lynda M. Filkins, RPR, CSR
Court Reporter

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I N D E X

| 2 | WITNESSES: | D | C | RD | RC | EXAM |
|---|------------|-----|-----|-----|-----|------|
| | P. POPOFF | 93 | 96 | 130 | 134 | |
| 3 | J. STOLTZ | 136 | 137 | | | |

| 4 | EXHIBITS: | MARKED | ADMITTED |
|---|-----------|--------|----------|
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1 P R O C E E D I N G S

2 JUDGE WALLIS: Today is for the Friday,
3 August 25, 1995, session in the matter of the
4 Commission Docket UG-941408. I'm review judge
5 C. Robert Wallis presiding at this proceeding on behalf
6 of the Commissioners. The parties have waived
7 participation of the Commissioners in the entry of the
8 initial order for purposes of this proceeding, and upon
9 conclusion of the proceeding, it will be presented to
10 the Commissioners for their decision.

11 I will note we're proceeding in the absence
12 of a court reporter with a mechanical transcription,
13 and we will ask the reporting firm to transcribe that
14 on the same schedule and terms as on the same schedule
15 and terms as it would had the reporter been physically
16 present in the room.

17 Prior to beginning the session this morning,
18 we have identified a number of documents that the
19 parties intend to introduce into the record of today's
20 session. The documents are relatively numerous and
21 they are identified as follows: Exhibit T-21 is a
22 document consisting of the testimony of -- prepared
23 testimony of Mr. Popoff. Exhibit 22 is a document
24 described as PJP 1; Exhibit 23, a document
25 described as PJP 2. Exhibit T-24 is a document

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1 described as PJP 3. Exhibit 25 is a document described
2 as PJP 4. Exhibit 26 for identification is a document
3 described as PJP 5. Exhibit 27 is a document described
4 as PJP 26.

5 Exhibit T-28 is a document designated
6 Supplemental Testimony of Philip G. Popoff. Exhibit 29
7 for identification is a document designated PJP 7.
8 Exhibit 30 for identification is a document designated
9 PJP 8. Exhibit 31 is a document designated PJP 9.

10 Exhibit T-32 is a prepared rebuttal
11 testimony of Mr. Stoltz. Exhibit T-32C is a
12 confidential document consisting of page 18 of
13 Exhibit T-32, with a complete text. Exhibit T-32, a
14 portion of the text deleted as confidential, again
15 page 18. The complete text is designated Exhibit
16 T-32C. 33 for identification is a document designated
17 JTS 7. Exhibit 34 is a document designated JTS 8.
18 Exhibit C-36 is the complete text of Exhibit 34 for
19 identification.

20 On JTS 8, certain portions are designated as
21 confidential and they are deleted from the confidential
22 exhibit. The nonconfidential exhibit Exhibit C-34 is
23 complete, including the confidential information.
24 Exhibit 35 for identification is a document designated
25 JTS 9.

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1 Exhibit 36 for identification and the
2 documents following are those which the parties intends
3 to present and offer on cross-examination of the
4 witnesses. Exhibit 36 is a document is a document
5 designated Response to Date Request No. 4 and the Data
6 Requests that I'm referring to regarding the testimony
7 Mr. Popoff are those Data Requests that the company
8 directed to the Commission staff.

9 Exhibit 37 for identification is response to
10 Data Request No. 5. Exhibit 38 is a response to Data
11 Request No. 6. Exhibit 39 for identification is
12 response to Data Request No. 7 and the supplemental
13 response to Data Request No. 7. Exhibit No. 40 for
14 identification is a response to Data Request No. 8.
15 Exhibit 41 will be the response to Data Request No. 9.
16 Exhibit 42 for identification is the response to Data
17 Request No. 23. Exhibit 43 will be the response to
18 Data Request No. 25. Exhibit 44 is the response of
19 supplemental response to Data Request No. 27. Exhibit
20 45 would be the response and supplemental response to
21 Data Request No. 28.

22 Exhibit 46 for identification is the
23 response to Data Request No. 30. Exhibit 47 for
24 identification is a response to exhibit -- Data Request
25 No. 31. Exhibit 48 for identification, and as to

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1 Exhibits 48, 49, and 50, 51 and 52 for identification,
2 the respondent has presented only the supplemental
3 response to designated Data Requests. The respondent
4 has agreed to submit at a later time the initial
5 response to these data requests so that the full
6 exhibit will be the response and the supplemental
7 response to the data requests.

8 Exhibit 48 for identification, thus, is a
9 response and supplemental response to Data request
10 No. 15. Exhibit 49 for identification is the response
11 and supplemental response to Data Request 16. Exhibit
12 50 is a response to and supplemental response to Data
13 Request No. 20. Exhibit 51 for identification is the
14 response and supplemental response to Data Request No.
15 21, and Exhibit 52 for identification is the response
16 and supplemental response to Data Request No. 22.
17 Exhibit 53 for identification is the response and
18 supplemental response to Data Request No. 32. That
19 has been provided in full. Exhibit 54 for
20 identification is the response to Data Request No. 1.

21 (Marked Exhibits T-21 through 54.)

22 I wonder if I might have counsel identify
23 themselves this morning for the record.

24 MR. WEST: Your Honor, my name is John West
25 and I represent Cascade Natural Gas Corporation.

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1 My address 4400 Two Union Square, Seattle, Washington
2 98101 and at counsel table today is Lance Bass from
3 that same address.

4 JUDGE WALLIS: For purposes of the record.
5 How does Mr. Bass spell his last name?

6 MR. WEST: B-A-S-S.

7 MR. CEDARBAUM: My name is Rob Cedarbaum
8 and I'm an assistant Attorney General representing the
9 Commission staff. My business address has been
10 previously noted only record.

11 MR. TROTTER: Donald Trotter, Assistant
12 Attorney General for Public Counsel.

13 JUDGE WALLIS: Thank you very much. Our
14 first order of business is the cross-examination
15 of Mr. Popoff, whose exhibits have been identified as
16 Exhibit T-21 through Exhibit 35. I'm going to ask
17 Mr. Popoff to stand and be sworn.

18

19 PHILIP POPOFF,
20 witness herein, being first duly sworn on oath
21 was examined and testified as follows:

22

23 DIRECT EXAMINATION

24 BY MR. CEDARBAUM:

25 Q. If you could, please state your full name

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1 and spell your last name.

2 A. My name is Philip Popoff. The last name is
3 spelled P-O-P-O-F-F.

4 Q. Mr. Popoff, by whom are you employed?

5 A. I'm employed by the Utilities and
6 Transportation Commission as a utility rate research
7 specialist.

8 Q. And do you have before you what's been
9 marked for identification as Exhibit T-21,
10 which is your testimony in this case?

11 A. Yes.

12 Q. And does that document constitute your
13 direct testimony in this proceedings?

14 A. Yes, it does.

15 Q. You also have before you what's been marked
16 for identification and T-22 through -- Exhibits 22
17 through 27?

18 A. Yes.

19 Q. And are those exhibits the exhibits that
20 you reference in your direct testimony in Exhibit T-21?

21 A. Yes, they are.

22 Q. And were Exhibits T-21 through 27 prepared
23 by you or under your supervision and direction?

24 A. Yes.

25 Q. Are they true and correct to the best of

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1 your knowledge and belief?

2 A. Yes.

3 Q. You also have before you identification of
4 Exhibit T-28?

5 A. Yes, I do.

6 Q. Does that exhibit constitute your
7 supplemental testimony in this case?

8 A. Yes.

9 Q. Do you also have before you what's been
10 marked for identification as Exhibits 29 through 31?

11 A. Yes.

12 Q. And are those the exhibits that are
13 referenced through the course of your supplemental
14 testimony, T-28?

15 A. Yes.

16 Q. And were Exhibits T-28 through 31 prepared
17 by you or under your supervision and direction?

18 A. Yes.

19 Q. Are they true and correct to the best your
20 knowledge and belief?

21 A. Yes.

22 Q. Exhibit T-28 is your supplemental testimony;
23 is that right?

24 A. Yes, it.

25 Q. To the extent that that testimony modifies

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1 or updates the testimony you gave in your direct
2 testimony, T-21, Exhibit T-29 would control the staff
3 presentation in this case; is that right?

4 A. Yes, that's right.

5 MR. CEDARBAUM: Thank you. With that,
6 I would offer, Your Honor, Exhibits T-21 through 31
7 and tender Mr. Popoff for cross-examination.

8 JUDGE WALLIS: Is there an objection?

9 Being no objection, Exhibits T-21 through 31
10 are received in evidence.

11 (Received T-21 through 31.)

12 JUDGE WALLIS: Mr. West?

13

14 CROSS-EXAMINATION

15 BY MR. WEST:

16 Q. Mr. Popoff, referring to the dates of
17 preparation your supplemental and written testimony, is
18 it correct that your supplemental testimony was
19 prepared and submitted this August and the original
20 testimony for this docket was filed in April?

21 A. Yes.

22 Q. And you stated your intention that to the
23 extent the supplemental testimony is conflict with
24 the original testimony the original testimony will be
25 supplemented?

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1 A. Where there is specific conflicts, yes.

2 Q. What I would like to do next, Mr. Popoff,
3 is to review your original natural testimony and
4 discuss some specifics of that to clarify what has been
5 superseded and what perhaps remains at issue in the
6 case.

7 I would like to refer to you first to page
8 6 of your initial testimony. Referring now to lines
9 6 through 17 on page 6, is this the portion of your
10 testimony which had been superseded?

11 A. I believe parts of it are.

12 Q. Does this describe what parts have been
13 superseded? Beginning on page 6, line 11, please
14 describe what parts have been superseded.

15 A. Beginning on page 6 line 11...
16 (inaudible)... shown that four acres is not currently
17 used to....

18 (Off the record.)

19 JUDGE WALLIS: Back on the record.

20 Mr. West?

21 BY MR. WEST:

22 Q. Mr. Popoff, would you please refer to
23 Exhibit 5, which is last of the exhibits which you
24 have submitted?

25 A. Is it one of the data requests?

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1 Q. Yes, it's Data Request No. 32. There at
2 first paragraph of that response you'll see a reference
3 to a 4.9 percent annual gas supply inflator stated in
4 the Washington Water Power 1995 Integrated Resource
5 Plan. Do you see that reference?

6 A. Yes.

7 Q. Do you know on what information the
8 Washington Water Power 1995 Intregrated Resource Plan
9 based it's gas supply inflator of 4.9 percent?

10 A. No.

11 Q. Do you know when this inflator was
12 calculated or constructed?

13 A. No.

14 Q. Are you familiar with the methodology?

15 A. No.

16 Q. Do you agree that this inflator
17 is representative of a reasonable approach to the
18 increase in gas costs to be expected in the future?

19 A. Like I said, I haven't looked into the
20 background behind how they calculated it. I'm not sure
21 if staff has. It is in line, does seem to be in line
22 with several of the other forecasts, as far as prices
23 not escalating at tremendous rates and that there
24 certainly being gas there.

25 Q. This was the reference given by staff in

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1 response to Cascade's Data Request as to long-term
2 forecasts indicating the availability and price of gas
3 in the future; is that correct?

4 A. Yes. You would expect that if it wasn't
5 available and Water Power doesn't expect the prices
6 to be stable and gas to be available that it they would
7 have probably chosen something else.

8 Q. Do you know if this inflator applies to
9 peaking services?

10 A. I believe it was applied across the board to
11 their gas supplies.

12 Q. Do you know what would be the cumulative
13 costs of the PGS contract if we assumed that this
14 4.9 percent inflator were applied to the annual cost
15 of 639,887?

16 A. I haven't done that calculation, no.

17 Q. Mr. Popoff, I'm sorry. I was referring to
18 the pricing of the PGS contract if equivalent to the
19 Water Power price, the 639,887, to which I just
20 referred to is the equivalent Water Power storage
21 price. I'm sorry if I confused you with that question.

22 MR. CEDARBAUM: I guess I don't understand
23 what question was, then. Maybe you can restate it.

24 MR. WEST: The question was whether one
25 assumed a 4.9 percent inflator and one looked over a

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1 20-year term, what effect would that have on the
2 639,887 cost of the Water Power storage contract. I
3 believe the answer was the witness did not know because
4 he had not done that calculation.

5 MR. CEDARBAUM: I'll object. If that's the
6 question, I object to it as being irrelevant. The PGS
7 Longview Fiber contract is an annually adjusted
8 contract based on similar alternatives that are lower
9 priced. So what happens 20 years from now, based on
10 the inflator that may or may not apply, is not relevant
11 to looking at the cost of the Longview Fiber contract.

12 MR. WEST: Your Honor, the witness is
13 recommending that the Longview Fiber contract, which is
14 a 20-year contract, be priced in accordance with
15 the Water Power contract. For that reason, I think
16 the witness has incorporated this sum of 639,887 as
17 being a relevant inquiry.

18 MR. CEDARBAUM: That doesn't mean that five
19 years from now or 15 years from now or 20 years from
20 now that's what staff would think this contract --
21 how this contract ought to be priced. It is the
22 reasonably available alternative now. That's the basis
23 for the recommendation. What happens 20 years from now
24 is entirely irrelevant.

25 MR. WEST: I don't believe it's irrelevant

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1 at all. The issue here is whether the price for the
2 PGS peaking service is a reasonable one. The witness
3 has testified that a 4.9 annual inflator is anticipated
4 for gas supplies over the last 20 years, and what
5 I'm seeking to do by this line of testimony is to
6 show that when one looks over a period of 20 years
7 at that 4.9 percent inflator, assuming today's gas cost
8 of 639,887, which is subject to inflation, is, in
9 fact, larger than than \$817,381, which is the price of
10 the PGS contract, if that price does not inflate over
11 the next 20 years.

12 JUDGE WALLIS: Is it your assumption that
13 the inflator would remain constant over the ...
14 (inaudible)...

15 MR. WEST: My assumption is that in
16 answering the question that was put, what would staff
17 assume would happen in the gas market over the next so
18 many years, that their reference was to a 4.9 percent
19 inflator.

20 MR. CEDARBAUM: I still object on the basis
21 of relevance. If in five years from now the company
22 still has its contract with Longview Fiber and they
23 come in for recovery of those costs, the staff will
24 analyze that based on a force in the contract which
25 says that the contract will be renegotiated on the

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1 basis of reasonably available lower cost
2 alternatives. There may or may not be the Water
3 Power release. So to ask what the Water Power release
4 adjustment would be worth in price 20 years from now
5 based on this inflator is just not relevant.

6 MR. WEST: Your Honor, the relevancy is that
7 this today is what staff says is the lowest priced
8 available alternative. One could expect over the
9 next 20 years not that the Water Power contract would
10 necessarily be available, but that there would be some
11 other lowest price available contract alternatives.

12 The best we can do today on comparing the
13 existing PGS contract is to compare it to what we
14 expect might happen on a reasonable basis, that is, the
15 4.9 percent inflator that applied to the current least
16 cost alternatives. It may or may not be 4.9 percent.
17 The point I'm making is that when looked at over the
18 long-term, having a rate that does not change is
19 important. Particularly when comparing to a 4.9
20 percent inflation rate or any other reasonable
21 inflation rate, it may be an advantage over a
22 fluctuating lease cost year-by-year comparison.

23 JUDGE WALLIS: I'm going to allow the
24 witness to answer that.

25 A. I think that, first of all, the 4.9 percent

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1 inflator that Water Power is using for its gas
2 supplies, I don't know if that's applicable to
3 reasonably expect that's what the inflator on this
4 sort of contact would be or not. But I do -- my
5 testimony specifically says that staff does not accept
6 that the water power is the least cost option, just
7 that it's a lower cost option that we were able to
8 identify.

9 There were much cheaper options offered in
10 the unsolicited bids which came in, I believe, in late
11 December or January. So to say that that may be what
12 one would expect the Water Power storage release --
13 assuming all else equal -- to be, to inflate at, but
14 not least cost peaking alternative, I've not even
15 accept that had Water Power is the least cost peaking
16 alternative. Cascade hasn't looked.

17 Q. If one were to compare cost of fixed 20-year
18 contract against the contract which had a market-based
19 rate subject to an inflator such as 4.9 percent
20 annually, how would one make a comparison?

21 A. You would have to make assumptions about
22 the availability of gas supplies.

23 Q. Assuming there is available gas supply and
24 that that price is available over 20 years, is 4.9
25 percent higher than it was -- than it is available now

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1 on a year-by-year basis, that's a reasonable
2 assumption, isn't it?

3 A. That could be, but I think another
4 assumption that you're -- that that's not
5 incorporating it is the -- is when the FERC order 636
6 was implemented, what the PGS contract is based on now
7 is a pre-636 price. It would be peculiar not to expect
8 gas supply prices to go down as a result of 636,
9 especially in the long run, because that's why FERC
10 implemented order 636.

11 Q. Are you familiar with the date which those
12 -- order 636 was entered?

13 A. I believe it was implemented on -- I think
14 it was like May of 1992.

15 Q. It would not have been known in November of
16 1991, at which time the PTS Longview Fiber peaking
17 service was offered?

18 A. That's correct, and I don't believe staff
19 proposed to decrease the rate at that time, either.

20 Q. You indicated a familiarity with the FERC
21 order 636. Do you have an opinion as to -- based on
22 that order's effect, as to what will happen to gas
23 prices over the long-term future?

24 A. As I said, the reason for FERC implementing
25 636, they specifically stated, to allow buyers and

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1 sellers to come together and to increase the efficiency
2 of the market and allow competition to flourish, and
3 you would expect prices in that environment to go down.

4 Q. I would like to refer you back to Exhibit
5 53. Is it correct that the Washington Water Power
6 Resource Plan that's referred to was a 1995 comparative
7 resource plan and that used the 4.9 percent inflator?

8 A. Yes. I'm sorry. Perhaps I should clarify
9 and say that in the competitive market, prices would be
10 lower without the competition. That doesn't mean that
11 they won't go up due to other inflationary pressures.

12 Q. Well, all things being equal, 636 or no 636,
13 4.9 percent, apparently, is a reasonable way of looking
14 at price inflation for gas over the long-term?

15 MR. TROTTER: Objection... (inaudible)...

16 MR. CEDARBAUM: I will join the objection
17 and also add a further objection that this line of
18 questioning goes beyond the scope of this witness'
19 testimony and what the staff investigation has to be.
20 The burden of proof in this case is on the company
21 to demonstrate that these were the release costs
22 of supply contracts and that analysis was done to
23 support that conclusion. Mr. Popoff is testifying as
24 to what he had to do to try to fill in the gaps for the
25 company, based on his analysis of the company's case.

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1 That's the flavor of what all this is. I think its
2 goes well beyond the legal burden that staff has in
3 this proceeding.

4 MR. WEST: Your Honor, I'm just asking the
5 witness to respond to questions relating to data
6 responses that staff had given. If these are beyond
7 the scope of the inquiry, so be it.

8 JUDGE WALLIS: I do think that Mr. West is
9 entitled to inquire of information that the staff
10 has provided and the basis of staff recommendations.
11 I understand the Commission staff's position, but I
12 believe the inquiry so far was within the scope of
13 permissible questions.

14 Q. Mr. Popoff, what I would like to do is to
15 try to construct a hypothetical that would compare the
16 cost of a flat rate, 20-year contract with the cost of
17 an inflating contract over that same period of time.

18 A. Are we still talking about the Fiber
19 contract?

20 Q. Yes.

21 A. Which is not a flat rate contract.

22 Q. Well, if -- I think we'll come to that a
23 little later in the discussion. I think where the
24 questioning was when I started was to discuss with you
25 how one would construct such a hypothetical; that is,

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1 how would one go about comparing the costs of a 20-year
2 fixed contract with a 20-year variable contract
3 starting at an assumed number. Can you describe for
4 us how that would be done?

5 MR. CEDARBAUM: I object on the basis of
6 relevance. As Mr. Popoff just indicated, none of the
7 contracts in this hypothetical that we might get to
8 are fixed rate contracts. The Fiber contract isn't and
9 the contract that isn't, isn't. The Fiber contract is
10 annually renegotiated based on reasonably available
11 lower cost alternatives. It is not a flat fixed rate,
12 so the comparison has no relevance to this case.

13 JUDGE WALLIS: Mr. West, would you state
14 what you believe the relevancy might be?

15 MR. WEST: I believe I can, through asking
16 the witness another question, indicate what the
17 relevance is.

18 MR. CEDARBAUM: There is no relevance to
19 discussing a fixed rate contract in this case.

20 MR. WEST: The relevance is that Cascade
21 personnel offered to negotiate a PGS contract at a
22 fixed rate and in discussion with staff, staff
23 indicated that they did not think that --

24 MR. CEDARBAUM: Before you even continue, I
25 will object as being highly inappropriate to discuss

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1 negotiations settlements on this record. It's
2 surprising to me that counsel would even get into it.
3 And I would ask that the beginning portion of Mr.
4 West's testimony -- which it was -- be stricken.
5 In light of the Commission's initiative to have people
6 engage ADR type of initiatives, it amazes me that...
7 (inaudible)...

8 MR. WEST: Your Honor, if Mr. Cedarbaum
9 believes that I have breached confidence or acted
10 inappropriately with respect to this reference, I do
11 apologize. That was not my intention.

12 JUDGE WALLIS: I am concerned that as thus
13 described, the relevance to this proceeding -- to the
14 inquiry that the Commission must make and this point, is
15 it I think, limited and...(inaudible).

16 MR. CEDARBAUM: I would also ask that
17 counsel's statement be stricken. I would like a ruling
18 on that.

19 JUDGE WALLIS: Mr. West --

20 MR. WEST: I do not have an objection to
21 that.

22 JUDGE WALLIS: Very well.

23 BY MR. WEST:

24 Q. Mr. Popoff, are you familiar with the terms
25 of the PGS Longview Fiber contract?

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1 A. Yes.

2 Q. And I believe that's Exhibit 15. You might
3 want to refer to that contract.

4 MR. TROTTER: C-15.

5 JUDGE WALLIS: Does the respondent have a
6 copy of the exhibit?

7 Q. Mr. Popoff, I would like you to refer to
8 the contract, and you might want to look at page 3,
9 paragraph 4, with respect to the question, and that is,
10 does this contract contain and inflator or escalation
11 contingent?

12 A. It's a floating contract based on the price
13 of -- it says, based on -- it's comparable to least
14 cost alternative sources of peaking services reasonably
15 available to Cascade.

16 MR. TROTTER: This document has been
17 marked confidential and... (inaudible).

18 MR. WEST: I believe the particular question
19 is not part of a confidentiality concern. In fact,
20 one of the... (inaudible)...

21 Q. Mr. Popoff, there is no inflation factor
22 built into this contract. It must be subject to the
23 mutual agreements of the parties; is that correct?

24 A. The contract does not specifically have a
25 provision that raises the -- doesn't have an inflator

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1 rate. If you were to use LS service as the basis of
2 comparison and Northwest Pipeline would raise its LS
3 rates, it would seem to indicate that if that was going
4 to be your concept of what least cost is, then they
5 would have a right to increase the price of the
6 contract, according to this contract, in my economist's
7 opinion, and after having discussed it extensively with
8 staff.

9 Q. Do you have an opinion as to the
10 likelihood of that happening?

11 A. Likelihood of Northwest Pipeline raising its
12 rates?

13 Q. Do you have an opinion or understanding as
14 to the likelihood of Longview Fiber initiating a change
15 in the rate of this contract absent Cascade's approval?

16 A. I don't see that ratepayers are protected
17 from anything in this contract. They -- ratepayers
18 don't have any such protection under this contract, and
19 as far as I know, be Cascade hadn't hedged that risk in
20 any way, if that was possible.

21 MR. WEST: I don't believe that was a
22 response to the question and I would asked the witness
23 perhaps rephrase his answer?

24 JUDGE WALLIS: Would you repeat the
25 question.

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1 MR. WEST: The question was whether the
2 witness had an opinion as to the likelihood that
3 Longview Fiber would have approached Cascade for an
4 adjustment in the price of this contract, if Cascade
5 did not do so first.

6 A. I have not talked to -- not only have I not
7 talked to Longview Fiber, I have no way to know what
8 the likelihood. They -- seems to me they have the
9 legal ability to do that.

10 Q. In order to do that, would they have to have
11 information from Cascade as to what the least price
12 -- least cost alternative might be?

13 A. Um, if -- Cascade -- they negotiated based
14 on the price of LS service and Cascade accepted that as
15 the least cost alternative, then I don't know. I don't
16 know if there might be -- they might be able to get at
17 it through your least cost plan. I'm not sure.

18 Q. Is there anything in this contract which
19 indicates that it is priced based on LS service?

20 A. No.

21 Q. Mr. Popoff, referring again to Exhibit 53,
22 the answer to B refers to the Energy and Information
23 Administration. Would you describe what or who that
24 agency might be?

25 A. Pardon?

00112

1 Q. Would you describe, tell us who the Energy
2 and Information Administration is?

3 A. I believe that that is a federal government
4 agency that's funded by the DOE or at times by the DOE.
5 It provides several energy information publications and
6 on-line information.

7 Q. Are you familiar, Mr. Popoff, with the term
8 "gas bubble"?

9 A. Yes.

10 Q. Can you describe, please, your understanding
11 of the meaning of that?

12 A. That's what the gas industry has taken
13 to call an over supply of gas. There are rumors that
14 there was one in the late '80s and it went away and
15 it's back again. Some analysts don't believe it was
16 ever there; some believe it never wasn't away.

17 Q. Are you familiar with the term "fly-up" as
18 it applies to gas prices?

19 A. I don't know that I've specifically heard
20 that term.

21 Q. Are you aware that some of Cascade's core
22 customers are industrial gas users and that the core
23 market is not strictly residential users?

24 A. As Cascade defines core, yes.

25 Q. Are you aware that some members of the core

00113

1 market as defined by Cascade have alternative fuel
2 capabilities?

3 A. Makes it seem peculiar to call them core,
4 then, but yes, under Cascade's definition.

5 Q. So that there are, perhaps, some -- perhaps
6 there are some large enough users of gas in Cascade's
7 core market that they could purchase their own gas
8 supply rather than purchase a bundled gas supply and
9 distribution service?

10 A. That could be the case, yes.

11 Q. In your analysis of the PGS peaking service
12 that Cascade obtained from Longview Fiber, did you
13 consider the cost of the value of the pipeline capacity
14 which is part of the PGS contract?

15 A. I believe I clearly explained in my direct
16 testimony that the Water Power storage release comes
17 delivered equally, as well as in the unsolicited bids
18 that had Cascade had obtained also came delivered. So
19 yes.

20 Q. What value did you ascribe to that for
21 Cascade?

22 A. Bundled to the city gate, it's more
23 expensive than the Water Power storage release. The
24 whole contract -- I'm sorry -- not just the
25 transportation. I don't see much point in breaking the

00114

1 two apart. You should be comparing to-the-city-gate
2 delivery.

3 Q. Did you consider the value over the 20-year
4 period of the PGS contract of physical capacity?

5 A. There is -- that's quite difficult to do.
6 Especially now with 636, there is a wide variety of
7 things that you can do to get that transportation
8 cost, either bundled or unbundled or --

9 Q. Are you aware of what the availability of
10 such capacity might have been in 1991, at the time this
11 contract was negotiated and signed?

12 A. I don't believe that there were those -- the
13 same type of things -- like I said, the post-636 sorts
14 of opportunities. Those weren't available then but
15 they are now. Perhaps that's part of the reason why
16 staff didn't recommend to price the Water Power -- the
17 contract lower then. I'm not sure. So it doesn't seem
18 particularly relevant if it was then but it's not now.
19 Because now those opportunities are there.

20 Q. Is it true, to your knowledge, or would you
21 accept, subject to check, that at the tariff rates for
22 northwest bypass line, the annual cost of 150,000
23 therms per day of bypass line capacity in the amount of
24 the PGS contract, would be about \$1.5 million?

25 MR. CEDARBAUM: Can you restate the

00115

1 question?

2 MR. WEST: The question was whether the
3 witness could testify or whether he would accept,
4 subject to check, that the annual cost at the tariff
5 rates of pipeline of 150,000 therms per day capacity
6 would be about \$1.5 million.

7 A. I would be willing to accept that, subject to
8 check, but as I had mentioned, there is a lot of other
9 options rather than just buying capacity. So that does
10 become very difficult.

11 Q. Are you aware of any such options that
12 are available in a 20-period?

13 A. I don't know what the time horizon on them
14 would be, and I have no information from the company to
15 say whether they are or they aren't or why that's
16 relevant to the PGS contract.

17 Q. I would like to refer you now, Mr. Popoff,
18 to your supplemental testimony on page 2, please.

19 MR. CEDARBAUM: Counsel, what page?

20 MR. WEST: Page 2.

21 Q. I'm referring to lines 11 through 15. You
22 indicate that the prepayment of oil charge, as it's
23 termed, must be paid whether Cascade dispatches the
24 supply or not. The amount that Cascade pays to
25 Tenaska, which you term the prepayment of oil charge,

00116

1 is used by Tenaska to buy oil; is that correct?

2 A. I believe that -- I'm not sure exactly
3 whether Cascade would give the money to Tenaska. If
4 they had already purchased -- Tenaska had already
5 purchased the oil, then I would imagine they would.
6 If Cascade were to arrange for other transportation of
7 the oil there, I don't know who would pay the supplier
8 of the oil, whether it -- whether Cascade would hand the
9 monies to Tenaska and they would hand it to the
10 supplier.

11 Q. How ever those mechanics go, the purpose of
12 the payment is not, is to -- so that Tenaska may buy
13 oil as ultimate fuel?

14 A. So that there would be oil in the tank. I'm
15 not sure if Tenaska is going to buy it or you're going
16 to buy it.

17 Q. Putting aside that the pump of the payment
18 is to furnish alternative fuel so that Tenaska's
19 generator can run even though Cascade was using the
20 gas; is that right?

21 A. Yes.

22 Q. As is it true that Cascade has the
23 discretion to nominate PDSS gas service at any time
24 in this contract?

25 A. There are some hourly notice

00117

1 prenotification. I'm not sure exactly off the top of
2 my head what those are.

3 Q. Right, but subject to the mechanics of the
4 number of days or hours that are appropriate for each
5 type of payment, the nomination of the service in the
6 first instance is under Cascade's control; isn't that
7 correct?

8 A. Again, Tenaska can't force Cascade to take
9 it. Cascade decides whether or if they take it.

10 Q. Cascade chooses whether or not to nominate
11 or any of the service, correct?

12 A. Yes.

13 Q. And if in a particular winter, Cascade
14 decides not to nominate, then this payment doesn't have
15 to be made?

16 A. Pavement has already been made. It's
17 prepaid.

18 Q. Isn't it correct that it's prepaid only
19 when Cascade decides to prepay it? It must be prepaid
20 before it's used, but the decision to prepay and the
21 timing of the prepayment are Cascade's decisions; is
22 that correct?

23 A. I believe so.

24 Q. I'm referring you now, please, to page 4 of
25 your supplemental testimony. Beginning on line 12,

00118

1 there is a discussion of a two-step examination
2 process. Can you tell me what the origin of this
3 two-step process is?

4 A. As I mentioned, I had assisted somewhat with
5 the Puget Prudence Order -- sorry, not the order, but
6 the staff analysis. And that is the same approach that
7 staff took in that case, to first determine if prudent
8 level of activity had been done and then to determine
9 if ratepayers had been harmed and by how much, if they
10 had been.

11 Q. Is this process spelled out in a state or
12 WAC regulation anywhere?

13 MR. CEDARBAUM: Your Honor, I object as
14 calling for a legal conclusion, and Cascade wasn't
15 involved in the prudence case, but I was, as were other
16 people in this room. I think it's well established,
17 not only by that case but by prior commission order as
18 to what prudence and review is. To retread that
19 ground now is -- brings not only brings up bad memories
20 but I think it's just not probative in this record at
21 all. The Commission order in this case is a public
22 document. We can all read it and cite for it what they
23 want. It's a waste of our time.

24 MR. WEST: Your Honor, what I'm trying to
25 determine is whether there was something that was

00119

1 available in 1991 and 1990 and when Cascade was engaged
2 in this case which Cascade should have been looking
3 into but was not.

4 MR. CEDARBAUM: Your Honor, if Mr. West
5 wants to ask Mr. Popoff what analysis the company
6 should have done but didn't, that's fine, but the
7 statutes in this State have been on the book for a long
8 time... (inaudible)... demonstrate reasonableness and
9 prudence of their cost they are proceeding to
10 recover. I don't think anybody doesn't understand

11 that. I don't know at what point we're getting to

12 JUDGE WALLIS: I share Mr. Cedarbaum's
13 concern that a prudence evaluation not be mitigated.
14 Certainly, you may inquire into the areas of analysis
15 that guided witness' preparation of the information.
16 As to statutes and timing of the prudence order or
17 contents of the prudence order those are matters ...
18 (inaudible).

19 MR. WEST: Your Honor, I believe the witness
20 testified that these were the staff processes that he
21 used and I would like to know if these are internal
22 staff processes or if they were available outside

23 MR. CEDARBAUM: Mr. West is saying the
24 company wasn't care of it responsibility to
25 the requirement demonstrates prudence of cost is an

00120

1 internal document... (inaudible).

2 If you want to ask Mr. Popoff about what
3 analysis does he think the company should have taken
4 to demonstrate this and what they didn't do ...

5 (Inaudible), that's fine.

6 JUDGE WALLIS: What is the purpose?

7 MR. WEST: The purpose is to familiarize the
8 company with the two-step process. I'm familiar
9 with the order but I wasn't aware that the order

10 MR. CEDARBAUM: I have read the orders.
11 They set out in very clear terms and refer to prior
12 orders as to... (inaudible)... Mr. West can provide the
13 company with a copy of the order... to figure out
14 what the Commission (inaudible). I don't know that
15 the company needs to educate itself... (inaudible).

16 JUDGE WALLIS: Do you believe that the
17 witness may be asked why he engaged in a two-step
18 process. Would that satisfy your inquiry, Mr. West?

19 MR. WEST: Yes, Your Honor, it would. That
20 was what I was intending to do. I was not intending to
21 relitigate the prudence question from the beginning. I
22 was just trying to understand the witness' application
23 of this process to this document.

24 JUDGE WALLIS: Does the witness have the --

25 THE WITNESS: I can get it --

00121

1 Q. The question is, can you please describe
2 the two-step examination that you applied that was
3 applied to this docket and the basis for that.

4 A. Well, looking Tenaska and having -- looking
5 at when I first received the company's initial filing,
6 which was UG 941213, you know, the huge oil cost in
7 Tenaska as well as Tenaska being a new item in the PGA
8 sent up a flag for me to say, well, that makes me
9 suspect something right there. So I started to look
10 into what it was and why it was there. So to figure
11 out if the company needed that resource, if it was the
12 best -- if it did need that resource, was that the best
13 resource available and was it priced as low as it could
14 have been. That's to decide if it was a prudent
15 action. And then if I don't think it was, then what
16 was the appropriate adjustment. That's the second
17 step. If I've decided that, as far as I'm concerned, it
18 doesn't look -- doesn't look like the appropriate
19 amount of analysis was done, that the contract wasn't
20 negotiated as aggressively as it should have been, I
21 look to see how were ratepayers harmed by that.

22 JUDGE WALLIS: We need to go off the record.

23 (Recess.)

24 JUDGE WALLIS: Let's go back on the record.

25 BY MR. WEST:

00122

1 Q. Mr. Popoff, again referring to the Longview
2 Fiber service, have you investigated or do you have
3 information as to the present book value of the
4 facilities that serve the Longview Fiber mill?

5 A. I guess I'm not following. Per book value
6 of your pipes in the ground that serve the mill?

7 Q. Correct, all of Cascade's facilities that
8 serve the mill, are you familiar with that?

9 A. I haven't, at least especially recently,
10 haven't looked at that, and I don't know why that
11 matters. In a supply contract delivered to your
12 city gate, if it's something that's beyond your city
13 gate, I'm not sure that that's particularly relevant to
14 the price of the supply contract.

15 Q. It has been a subject of the companion
16 piece. I just was wondering if you have that
17 information. Would you accept, subject to check, that
18 that value is less than \$500,000?

19 MR. CEDARBAUM: Objection on the basis
20 of relevance, and the witness already indicated that he
21 hasn't looked at that. I don't think it's fair to
22 accept something subject check at this stage of the
23 proceeding. Mostly, it's not relevant to the cost
24 analysis that was done of the supply contract.

25 MR. TROTTER: (Inaudible).

00123

1 What is the relevance, Mr. West?

2 MR. WEST: The relevance is that the witness
3 has testified that Cascade's reason for granting this
4 contract to this customer had to do with a bypass, and
5 this is a question is designed to discuss the bypass
6 portion of this piece.

7 JUDGE WALLIS: The witness may
8 answer.

9 MR. CEDARBAUM: Still I -- as to relevance,
10 the relevance of Longview Fiber's cost to bypass
11 would be relevant to -- the subject would be relevant
12 to the bypass issue... (inaudible).

13 MR. WEST: The other -- one of the items in
14 the case is that view of Cascade's incentives to
15 preserve its margins and a comparison of the margins
16 being compared to facilities is a relevant issue.

17 A. The question again?

18 Q. The question is whether you would accept,
19 subject to check, that the value of all facilities
20 serving the Longview Fiber plant are less than
21 \$500,000.

22 A. I don't have any way to check that. As far
23 as I know, I have not -- I don't have that -- I
24 initially was thinking that perhaps it had something to
25 do with the Longview Fiber bypass contract that you

00124

1 have, which I might have access to that information
2 readily, but since there was -- this is basically the
3 first time that there was ever -- that we were informed
4 that there had been a bypass started at Fiber, I don't
5 know how I would check it.

6 And also, I think that my testimony said
7 that this is a reason why staff is concerned, not
8 whether or not there was actually a bypass threat there
9 or not. Whether or not there was one, if there was a
10 real one, then that is a pretty good reason for Cascade
11 -- that highlights or supports my concern that there
12 was an incentive to perhaps overprice the contract.

13 So if there was one, if that's -- I think
14 the company has established that there may indeed have
15 been a bypass threat at Fiber, but that doesn't mean
16 that that should be addressed by charging more than is
17 necessary on a gas supply contract to make up for that
18 difference. There is a lot of problems with doing
19 that.

20 Q. Mr. Popoff, you believe that the company
21 should negotiate with its customers for things like
22 peaking services without considering the total benefits
23 to the system? In other words, if there were
24 both peaking service and bypass issues involved, should
25 one only look to one or only look to the or the company

00125

1 look to both?

2 A. I think it's fine if the company wants to
3 look at both. It would be nice if they would inform
4 staff sometime sooner than four years afterwards. But
5 also, that doesn't mean that I don't -- I just can't
6 foresee a situation where staff would agree to accept
7 more costs in the PGS than is necessary, especially
8 according to the terms of the contract. So if there
9 was a bypass threat, I don't think there is still a
10 bypass threat, as long as the PGS contract is still
11 in effect. So whether now you renegotiate the price,
12 whether there was a bypass threat back then, maybe
13 that's why it was initially priced at LS service.
14 Perhaps that is true. That could be the case. Maybe
15 it was priced that high to begin with. But now as far
16 as the company has explained that the bypass threat
17 doesn't exist, as long as the PGS contract is in
18 effect -- so if there was bypass threat, then there
19 may be not. There is a whole separate proceeding
20 for a bypass.

21 MR. WEST Your Honor, I have no further
22 questions of this witness.

23

24 CROSS-EXAMINATION

25 BY MR. TROTTER:

00126

1 Q. You were asked questions regarding your
2 background and your understanding of the gas market
3 when these contracts were negotiated. Do you recall
4 that?

5 A. Yes.

6 Q. Did you gain any information on that topic
7 through the discovery process?

8 A. Yes, I believe that in response to Data
9 Request 11 they had indicated -- which, I'm sorry, I
10 don't remember what exhibit that is -- that they had
11 indicated that several options were not available then.
12 So they did indicate that additional SGS storage wasn't
13 available then. So that line of response -- I think
14 that's it.

15 Q. Could Cascade have gotten the Tenaska
16 contract?

17 A. I don't know if they could have.

18 Q. So they couldn't?

19 A. No.

20 Q. So then how come -- how can you conclude it
21 was... (inaudible) ...

22 A. Based on the prices of other contracts,
23 especially right now, in the analysis of looking at the
24 costs of those contracts, I had used some very
25 restrictive assumptions, especially based on some

00127

1 low-priced contracts, and then I made even additional
2 assumptions, and Tenaska still appeared to be cheaper.
3 So that doesn't mean that I had no -- I had no way
4 to develop cost adjustment to say what exact --
5 specifically how much less it should have been.

6 Q. In your analysis of comparable contracts you
7 said "especially now." Do you recall that?

8 A. Yes.

9 Q. (Inaudible).

10 A. Somewhat, yes.

11 Q. Is it correct that the staff expressly
12 did not look at conditions after the contracts ...
13 (Inaudible)...; i.e., lower gas prices?

14 A. Um, I could give I my thinking of what
15 happened but I wasn't involved in that portion.

16 Q. Referring to Exhibit C-32 if you will,
17 page 3, paragraph 4 --

18 A. I'm sorry, C-15 is --

19 Q. It's the Longview Fiber contract. The
20 question was on this paragraph. I don't know that this
21 was characterized as open escalating, but isn't it
22 correct that the price could go down with this
23 contract?

24 A. Yes. It should, according to my testimony.

25 Q. Is your understanding from there paragraph

00128

1 as economist that only one change can be made to insure
2 this the fee is comparable to least cost alternative
3 resources... or that change could be (inaudible)...

4 A. It says that it's an annually renegotiated
5 component, so that would lead me to believe that once
6 annually.

7 Q. Depending on what at alternative sources of
8 peaking service was available, the peaking service
9 could decrease or increase?

10 A. Yes. And I would also expect that there
11 would be different ways to look at it to say that there
12 if there was a three-year alternative available that
13 the contract could be negotiated down that three years.
14 It's a little vague in that sense, but that's one
15 respect, but that's what I would expect.

16 Q. In your supplemental testimony, page 5, here
17 you based your analysis of Tenaska based on a design
18 day criteria; is that right?

19 A. Yes.

20 Q. As part of your analysis you didn't conduct
21 an independent investigation?

22 A. No.

23 Q. You were asked questions regarding the
24 Longview Fiber bypass issue. In your opinion, is the
25 bypass issue a factor comparable to reflect the PGA...

00129

1 (inaudible)...

2 A. No, that's not the appropriate way for the
3 company to deal with that. There is several problems
4 with that. One is that it doesn't allow the staff or
5 other parties to thoroughly examine the information.
6 So to now try and do that in the context of a PGA
7 with other complex issues, you know, there is -- that's
8 why there is a separate proceeding for it.

9 Secondly, I think that it creates higher
10 than necessary gas costs, which can be a significant
11 problem. I think that in the future there is no way to
12 tell, especially now. But even then, there was no way
13 to tell what -- that the LDC would be the sole provider
14 of gas to core markets for the rest of time. So
15 that would make the LDCs merging naturally have higher
16 prices is they are forced to compete. That would be
17 a problem. And then if you do go to some form of
18 unbundling in the future, there could be gas supply
19 realignment costs in that. That's going to make those
20 higher.

21 I don't know if those will be or not, but if
22 they are, there is no reason to start inflating it now.
23 that works for both ratepayers and stockholder earnings
24 because stockholders might have to bear a portion. I
25 think that's not an appropriate way to be handling it.

00130

1 That's not why the PGA was invented or created, to
2 allow the company 100 percent recovery of its base
3 costs.

4 Q. Exhibit 54 is the staff's response to
5 company Data Request No. 1. Do you have that in front
6 of you?

7 A. Yes.

8 Q. Is that a true and correct copy of the
9 request as you understood it in your response?

10 A. Yes, I believe so.

11 MR. TROTTER: Request that Exhibit 54 be
12 received in evidence.

13 JUDGE WALLIS: Exhibit 54 is received into
14 evidence.

15 (Received Exhibit 54.)

16 MR. TROTTER: No further questions.

17 JUDGE WALLIS: Any questions?

18

19 REDIRECT EXAMINATION

20 BY MR. CEDARBAUM:

21 Q. Mr. Popoff, you were asked some questions by
22 Mr. West about how your supplemental testimony modified
23 your direct testimony. Do you recall that?

24 A. Yes.

25 Q. Is it correct that the supplemental

00131

1 testimony was prompted by data that you received from
2 the company after your direct testimony was submitted?

3 A. Yes.

4 Q. And is it your opinion that the company
5 should have provided that information sooner than
6 it did?

7 A. Might have been easier, I think so, yes.

8 Q. Was that the type of information that they
9 should have provided to you in order to demonstrate
10 the reasonableness of the Tenaska cost?

11 A. I thought it was the kind of information
12 that should have had on hand that they had done four
13 years ago.

14 Q. And was it information that they provided in
15 response to your Data Request?

16 A. That later Data Request, I think I sent a
17 letter containing all -- a lot of information --
18 asking for a lot of information, and then a follow-up
19 call to get the rest of the information that I had
20 asked for.

21 Q. Had you had all that information that you
22 had to request later, earlier in the case, it could
23 have been incorporated into your direct testimony?

24 A. Yes.

25 Q. You also indicated that you weren't sure

00132

1 whether or not the Tenaska contract could have been set
2 at a lower price than it was set. Do you recall that?

3 A. Yes.

4 Q. Did the company provide any analysis to you
5 that demonstrated that the Tenaska contract as
6 currently priced was the least costly?

7 A. Other than saying that there was additional
8 pressure to lower the distribution rate, no.

9 Q. Would that type of analysis be important?

10 A. Yes.

11 Q. Did the company provide any analysis about
12 the -- that they looked at the cost of oil in the
13 Tenaska contract as negotiated and signed?

14 A. I think that they -- there was a response to
15 a late Data Request that showed that they had been
16 receiving bunker fuel reports but I had -- I still
17 don't have any analysis that shows that they considered
18 the full cost of the Tenaska, the full cost of Tenaska
19 police the oil compared to anything. So I think that
20 they showed that they had bunker fuel reports, they had
21 been getting those, but I never did receive any kind
22 of oil -- you know, oil price forecasts or anything
23 like that.

24 Q. You have discussed with Mr. West the core
25 market versus noncore, and you indicated that at -- you

00133

1 indicated company's definition of core. What is your
2 definition of core market?

3 A. Those customers have no other alternatives.

4 Q. Primarily residential?

5 A. Residential and small commercial.

6 Q. Those are customers --

7 A. Maybe even large commercial. Those who have
8 no alternatives.

9 Q. So I take it that the company -- do you
10 believe company has or does not have an incentive to
11 negotiate strongly to keep those types of customers on
12 its system?

13 A. What I would define as core?

14 Q. Yes.

15 A. No, they don't. They have an incentive to
16 price below -- in the long run to price below the
17 price of other alternatives, such as electricity. But
18 you know, that's -- that's not particularly relevant
19 for people who already have furnaces in their house. I
20 don't know that -- I don't know that that's -- it's not
21 a tough incentive to beat.

22 Q. Finally, you discussed the topic that in
23 1992 -- I believe it was that date -- that the staff
24 did not recommend any kind of an adjustment in the PGA
25 for the Longview Fiber contract. Do you recall that?

00134

1 A. Yes.

2 Q. Why was that?

3 A. Well, I think that they -- staff especially
4 didn't make this similar argument because at that time
5 the Water Power storage release wasn't available --
6 well, they had already purchased it. So there was no
7 incremental Water Power storage release available. So
8 other than that --

9 MR. CEDARBAUM: Thank you. That's all.

10 JUDGE WALLIS: Any further questions?

11 MR. WEST: Just one.

12

13 RECROSS-EXAMINATION

14 BY MR. WEST:

15 Q. Mr. Popoff, are you aware of competitive
16 situations between gas and oil in the 1980s, as far as
17 fuel switching by major industrial customers?

18 A. Generally. There was some and there were
19 reasons why they switched to oil and back again.

20 Q. Are you aware that those reasons are related
21 to the price of oil relative to the price of gas?

22 A. Especially the price of gas delivered.

23 Q. And would you expect that a company which
24 serves customers who are fuel-switchable between gas
25 and oil would have information and understanding of the

00135

1 relative prices between gas and oil in that time
2 period?

3 A. In the time period -- in the 1980s?

4 Q. Correct.

5 A. Yes.

6 Q. Do you know what time, about what year that
7 ceased to be such an issue in the industry, or has
8 it ceased to be?

9 A. Um, I'm sure that for your large industrial
10 customers that's always going to be an issue. For your
11 residential and small commercial, it probably won't be
12 an issue until there is an unbundling kind of
13 situation, and it could be a problem.

14 MR. WEST: No further questions, Your Honor.

15 JUDGE WALLIS: Anything further?

16 MR. CEDARBAUM: No, Your Honor.

17 JUDGE WALLIS: Mr. Popoff, there are no
18 further questions for you. Thank you for appearing
19 today. You're excused from the stand.

20 (Discussion off the record.)

21 JUDGE WALLIS: Let's be back on the record.

22 Mr. Stoltz I believe you've been previously
23 sworn in this proceeding. You may resume the stand
24 at this time.

25 Whereupon,

00137

1 A. I do not.

2 Q. If I were to ask you the same questions
3 today that appear in your testimony, would your answers
4 be the same?

5 A. They would.

6 Q. In your opinion, are the answers set forth
7 in your testimony true and correct?

8 A. Yes, they are.

9 MR. WEST: Your Honor, I move the admission
10 of Exhibit T-32 and T-32C and Exhibits 33, 34 and C-34 and
11 Exhibit 35.

12 JUDGE WALLIS: Being no objection. The
13 exhibits are received in evidence.

14 (Received Exhibits T-32, T-32C,
15 33, 34, C-34 and 35.)

16 MR. WEST: Mr. Stoltz is available for
17 cross-examination.

18

19 CROSS-EXAMINATION

20 BY MR. CEDARBAUM:

21 Q. Good afternoon.

22 A. Good afternoon.

23 Q. On page 20 of your rebuttal testimony,
24 Mr. Stoltz, starting at the bottom and on to page 21,
25 you discuss the subject of RFPs for similar services in

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1 the context of your testimony on the Longview Fiber
2 contract; is that right?

3 A. Yes.

4 Q. If I could have you turn to Exhibit C-17,
5 do you have that?

6 A. Yes, I have that.

7 Q. And this was the company's response to our
8 Data Request 21; is that right?

9 A. Yes, that's correct.

10 Q. Beginning at the third page in of the
11 exhibit, there is a document where the subject
12 is, Requests for Proposals for Firm Gas Supply, dated
13 September 7, 1994; is that correct?

14 A. Yes, that's right.

15 Q. And there are four pages listed; is that
16 right?

17 A. Yes, that's correct.

18 Q. Essentially four types of supplies, four
19 packages describing supplies the company is seeking; is
20 that right?

21 A. Yes, that's right.

22 Q. And each of the packages contain specific
23 terms as to volume, source, point of purchase, term,
24 anticipated load factor and comments; is that right?

25 A. Yes, that's correct.

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1 Q. Are those types of terms for an RFP pretty
2 standard types of information that the company would
3 be looking for in an RFP, perhaps these and others?

4 A. Probably these and others. Submitting RFPs
5 for gas supplies is fairly new to our industry and
6 it's still evolving, so there is -- currently that's
7 the information we. In future RFPs there maybe more
8 information... (inaudible).

9 Q. At this point in time and at future points
10 in time, the company will be seeking standard
11 information or information, information typically one
12 RFP to the next that will be fairly consistent and
13 there might be differences amount them, but the type of
14 information that you will be looking for will be
15 standard types of information?

16 A. I can only assume that would be the case.
17 As I indicated before, this is an evolving process.
18 I'm not sure how long things we're doing now will work
19 well. If they do not work well, we will change the
20 procedure to try to make them work better.

21 Q. But the types of information that you would
22 be seeking are important from a company's operational
23 point of view?

24 A. Yes, generally.

25 Q. On page 21 of your rebuttal testimony,

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1 you discuss your concern about putting out RFPs where
2 the company doesn't have the intent to sign contracts,
3 and then you state at line 13 that "To date, staff has
4 not disagreed with the company's concerns in this
5 matter." Do you see that?

6 A. Yes, I do.

7 Q. And is it correct that your rebuttal
8 testimony was filed with the Commission in mid-May
9 of 1995?

10 A. Yes, that's correct.

11 Q. Is it also correct that the company asked
12 staff in Data Request No. 30 -- give me a
13 minute I'll find the exhibit number -- Exhibit No.
14 46 -- concerning the types of issue that you're
15 referring to on page 21 of your testimony?

16 A. I didn't bring 46 up with me. Excuse me a
17 second. I'll grab my copy.

18 Q. Do you have it now?

19 A. I have it now.

20 Q. For example, subpart A of Data Request 46
21 asks staff whether they advocate that Cascade send
22 out an RFP for service it does not reasonably intend
23 to purchase. Do you see that?

24 A. Yes.

25 Q. Would you accept, subject to check, that

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1 Data Request No. 30 was mailed to the company by
2 letter date of April 27, 1995?

3 A. I would accept that.

4 Q. If I could refer you to Exhibit No. 55 for
5 identification, do you recognize this as your response
6 to staff Data Request No. 30?

7 A. I do.

8 JUDGE WALLIS: Marking Exhibit 55 for the
9 Commission. It's a single-page document.

10 (Marked Exhibit 55.)

11 MR. CEDARBAUM: Offer Exhibit 55.

12 MR. TROTTER: Your Honor, I note
13 that there is some handwriting at the bottom, Is
14 that... (inaudible).

15 MR. CEDARBAUM: It came to us this way.

16 THE WITNESS: I believe it says orally in
17 negotiations for... with negotiations (inaudible)...

18 Q. On page 9 of your testimony, Mr. Stoltz,
19 you --

20 JUDGE WALLIS: Let me just state that
21 Exhibit 55 is received in evidence.

22 (Received Exhibit 55.)

23 Q. On page 9 of your rebuttal testimony,
24 Mr. Stoltz, you compare the Tenaska contract with the
25 company-built LNG facility. You also state that the

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1 520,000 therms per day key is not an unreasonable
2 quantity for the company, referring to the
3 600,000-therm-per-day LS-1 service that the company has
4 with Northwest Pipeline. Do you see that portion of
5 your testimony?

6 A. I do.

7 Q. Looking at Exhibit 55, part C, your response
8 indicates that the company doesn't know how many days
9 of oil Tenaska needs as backup fuel under its power
10 contract with Puget Power; is that right?

11 A. Yes, I do.

12 Q. Do you know how many days generally of
13 backup fuel a co-generator is required to have on
14 hand to be able to sell its power?

15 A. No, I do not.

16 Q. Your response also indicates --
17 referring back to Exhibit 55 -- that the oil capacity
18 used to provide the PGSS service is incremental or in
19 addition to the oil requirements under its power
20 contract. My question is, does that imply that Tenaska
21 would have to have some oil storage even without its
22 contract?

23 A. Yes.

24 Q. Also, with regard to the oil inventory
25 issue that's discussed in your rebuttal, is it correct

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1 or would you accept, subject to your check, that in the
2 company's response to Data Request No. 15 under Docket
3 UG-941213, staff asked you to explain the procedure of
4 the company would use to determine the reasonableness
5 of the oil costs, and your answer was that the company
6 has not attempted to determine the reasonableness
7 of the Tenaska oil cost. Subject to your check, do
8 you recall that?

9 A. I recall that was a portion of our answer to
10 that question.

11 Q. Is it correct that the Tenaska contract
12 is partially deliverable over Cascade's direct line to
13 Sumas?

14 A. Yes, that's correct. It's entirely capable
15 of being delivered over the Sumas connection
16 that Cascade has. However, we do not have to unload
17 in the core in Bellingham to absorb it all or enough
18 downstream distribution capacity to satisfy if we had
19 the oil. Therefore, part of it has to be delivered
20 to Northwest Pipeline as well.

21 Q. If Tenaska had entered into the heating
22 supply contract with another party rather than Cascade,
23 would that other party have been able to take advantage
24 of the intraBellingham delivery as Cascade can take
25 advantage of?

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1 A. Not currently. Cascade would have the
2 opportunity and that point to sell transportation
3 capacity on that level. We do not currently have a
4 tariff to do so. Without that tariff, the other entity
5 would have to take possession at Sumas through
6 Northwest Pipeline facilities.

7 MR. CEDARBAUM: Thank you. That's all I
8 have.

9

10 CROSS-EXAMINATION

11 BY MR. TROTTER:

12 Q. Just a couple. On page 11... (inaudible) on
13 lines 11 through 13, you indicated that your long range
14 weather forecast that it is unlikely that a design day
15 would occur in the remainder of the 1994 heating
16 season? Do you see that?

17 A. Yes, I do.

18 Q. When will the next design day occur,
19 pursuant to your long range weather forecast?

20 A. The long range weather forecast that was
21 indicated there was for the remainder of the 1994-95
22 heating season. I have not seen a published long range
23 forecast for the 1995-96 heating season; however,
24 traditionally, the very first forecast given gives a
25 probability of a design year occurring.

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1 Q. Currently what is the series of design days

2 A. What is the -- I don't know what the
3 published report would say. We would consider it
4 having a 1 in 30 chance of occurring.

5 MR. TROTTER: No further questions.

6 JUDGE WALLIS: Mr. West?

7 MR. WEST: No questions.

8 JUDGE WALLIS: Thank you very much,
9 Mr. Stoltz. You're excused from the stand.

10 Let's be off the record for administrative
11 purposes.

12 (Discussion off the record.)

13 JUDGE WALLIS: Let's be back on the record,
14 please. The reporter has arrived and has committed to
15 make the transcript by Wednesday, August 30th, at the
16 close of or before. And it will be delivered
17 simultaneously to the Commission and to the company and
18 public counsel on that day, pursuant to prior
19 transcript orders.

20 The parties' briefs, they have agreed, will
21 be due two weeks after receipt of transcript and reply
22 for answering briefs are not contemplated. If the
23 party believes it necessary to answer, the
24 party should submit a request to submit the answer
25 stating the reasons.

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1 Is there is anything further to come before
2 the Commission in this proceeding? Appears that
3 there is not. Thank you all very much and this matter
4 is adjourned.

5 (Hearing adjourned at 12:45 p.m.)

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