

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

2	WASHINGTON UTILITIES AND)	
	TRANSPORTATION COMMISSION,)	DOCKET NO. UE-940728
3)	
	Complainant,)	VOLUME 4
4)	
	vs.)	PAGES 320 - 355
5)	
	PUGET SOUND POWER & LIGHT)	
6	COMPANY,)	
)	
7	Respondent.)	
	-----)	

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9 A hearing in the above matter was held on
10 September 13, 1994, at 9:00 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.

17 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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25 Cheryl Macdonald
Court Reporter

1 I N D E X

2	WITNESSES:	D	C	RD	RC	EXAM
	SMITH		324	342		
3	STORY	345	347			

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7	EXHIBITS:	MARKED	ADMITTED
	97	325	326
8	98	326	326
	99	330	331
9	100	342	344
	101	342	344
10	T-102	345	347
	103	345	347
11	104	348	349

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

2 JUDGE HAENLE: The hearing will come to
3 order. This is a fourth day of hearing in the Puget
4 PRAM 4 case. Today we're going to be winding up the
5 cross-examination of the company's rebuttal witnesses.
6 Present today are Mr. Van Nostrand and Ms. Johnston.
7 I received a message from Mr. Manifold at my office
8 saying that because he did not have questions of the
9 remaining witnesses that he would not be attending
10 this session today. He did mention, though, that he
11 would have his subject to checks ready on Thursday
12 morning. Is that per an agreement with you, Ms.
13 Johnston and Mr. Van Nostrand?

14 MS. JOHNSTON: That's fine.

15 MR. VAN NOSTRAND: There's no agreement but
16 I guess that's fine.

17 JUDGE HAENLE: Well, Thursday morning is
18 about as late as you could do it and still have them
19 ready to use on oral argument. So if you would all
20 plan to have your subject to checks by Thursday
21 morning, that would give you a couple of days. It's
22 not a lot but it's all we've got, I'm afraid.

23 Are there any other procedural matters we
24 need to cover? Anything left over from yesterday?

25 I think we're all ready to go then. Why

1 don't you go ahead, Ms. Johnston, and let me remind
2 you, let's make the questions and answers as concise
3 as possible. Perhaps it would help to focus if you
4 begin your answer with a yes or no to the extent you
5 can and then explain your answer. Go ahead.

6

7 CROSS-EXAMINATION

8 BY MS. JOHNSTON:

9 Q. Please turn to Exhibit 93, MES-9.

10 A. Thank you.

11 Q. This is an illustration of the overlap of
12 corporate communications plan and corporate
13 advertising in recent years. Is that true?

14 A. Yes, that's true, and it's again in recent
15 years it was designed as an illustration.

16 Q. And when you say recent years, what years
17 are you referring to?

18 A. Well, predominantly for this PRAM period.

19 Q. This context, does corporate advertising
20 refer to public relations advertising which the
21 company does?

22 A. Yes. Any advertising that the company
23 does. There's some above the line, some below the
24 line. It's just, again, an illustration that there's
25 this concept of there's other advertising besides

1 conservation advertising going on.

2 Q. This diagram indicates a significant
3 overlap between public relations advertising and
4 conservation advertising in the shaded area. Is
5 that true?

6 A. Correct. During the campaign, which we've
7 been conducting in the recent years, there has been a
8 significant overlap.

9 Q. What is the definition of corporate
10 advertising that you use per this diagram?

11 A. Anything classified as advertising under
12 WAC and FERC accounts for the company.

13 JUDGE HAENLE: You've handed me a one-page
14 document. The caption at the top is response to WUTC
15 No. 143. I'll mark this as 97 for identification.

16 (Marked Exhibit 97.)

17 Q. Do you recognize what's been marked for
18 identification as Exhibit 97 as your response to staff
19 data request No. 143?

20 A. Yes, I do.

21 Q. Thank you.

22 MS. JOHNSTON: Move the admission of
23 Exhibit 97.

24 JUDGE HAENLE: Any objection?

25 MR. VAN NOSTRAND: No.

1 JUDGE HAENLE: Exhibit 97 is entered.

2 (Admitted Exhibit 97.)

3 Q. Now, here you indicate that this diagram
4 was provided as a simple illustration as
5 clarification, which is what you just said earlier
6 this morning, and you further indicate that, "for the
7 periods requested, 1991, 1992, '93, '94, PRAM 2 and 3,
8 costs are not sorted using the categories shown in the
9 diagram because of the interrelationship with other
10 cost categories." Is that an accurate reading?

11 A. Yes, that's correct.

12 JUDGE HAENLE: You've handed me a four-page
13 document. The caption on the front is Response to
14 WUTC Request No. 96. I'll mark this as 98 for
15 identification.

16 (Marked Exhibit 98.)

17 Q. Ms. Smith, do you recognize Exhibit 98 for
18 identification as a partial response to WUTC No. 96?

19 A. Yes, as a partial response.

20 MS. JOHNSTON: Your Honor, move the
21 admission of Exhibit 98.

22 JUDGE HAENLE: Any objection?

23 MR. VAN NOSTRAND: No objection.

24 JUDGE HAENLE: 98 is entered.

25 (Admitted Exhibit 98.)

1 Q. Now, I just want to clear up something that
2 we discussed yesterday. Yesterday you stated that
3 Mariners TV is on KSTW. Do you recall that testimony?

4 A. Yes, I do.

5 Q. And you also make that statement in Exhibit
6 96, which is your corrected response to WUTC No. 145.
7 Do you recall that?

8 A. Yes, I believe so. Yes, that's correct.

9 Q. Please turn to the last two invoices which
10 are a part of Exhibit 98.

11 A. I'm there.

12 Q. Do you see where it says KIRO TV?

13 A. I do.

14 Q. And under the job 0460 it states
15 TV/Mariners?

16 A. I see that. That's also dated April 1993,
17 which is, I guess, prior to this period here.

18 JUDGE HAENLE: Is it likely that they
19 continue to use the same designation so that that
20 would correctly identify the television station
21 to which they were referring to?

22 THE WITNESS: I would suppose so. I quite
23 honestly don't know.

24 Q. Do you have Exhibit 27 available to you?

25 A. Could you give me the data request?

1 Q. 36. We referred to it yesterday. Wouldn't
2 you agree that the last page of this Hinton Steele
3 document indicates that there were seven weeks
4 associated with KIRO?

5 A. On the TV schedule?

6 Q. Yes.

7 A. Yes. That appears to be what it says
8 there.

9 Q. Rather than the 15 weeks you testified to
10 yesterday regarding KSTW. Is that true?

11 A. They're both true, I guess. They're on
12 KIRO and KSTW. I'm sorry, I'm not a Mariners fan.
13 Should I say that? I don't watch Mariners games and
14 therefore I'm not sure what stations they're on.

15 Q. Please turn to page 12 of your rebuttal
16 testimony. At lines 22 through 34 you quote from the
17 company's current schedule 83 which states, "Program
18 development. The company may fund new or different
19 services or programs not meeting the total resource
20 cost test if the company determines that the total
21 resource cost test is likely to be satisfied within a
22 defined planning horizon." Is it the company's
23 position that this clause guarantees the recovery of
24 so-called program development costs?

25 A. No. It in no way guarantees. It does

1 discuss the types of costs that are being referred to
2 here, however, which is the development of the
3 commercial energy code program.

4 Q. So you would agree that the company still
5 has the burden of proving that these costs are
6 reasonable and prudent?

7 A. Sure.

8 Q. Please turn to Exhibit 28.

9 A. I'm there.

10 Q. On the last page of this document, it
11 indicates that the specific activity code for new
12 program development is 182-PD. Is that true?

13 A. Talking about two different kinds of
14 program development here. Yes. There's program
15 development -- we don't use this activity code if we
16 can identify the activities more specifically than a
17 general broad program development. These charges that
18 are being discussed here, which is the commercial code
19 program, we can identify them and therefore we put
20 them in their own specific activity code so that we
21 can easily go in and track them according to that
22 activity.

23 Q. On the page just preceding that page, and
24 which is stated it indicates that there are specific
25 activity codes related to the commercial energy code

1 and the utility code group. True?

2 A. That's correct. 182 CC and 182 UC which
3 are being used to track the costs for the development
4 of the commercial energy code program.

5 JUDGE HAENLE: You've handed me a two-page
6 document. The caption on the front is Response to
7 WUTC Request No. 137. Mark this as 99 for
8 identification.

9 (Marked Exhibit 99.)

10 Q. Do you recognize what's been handed to you
11 and marked for identification as Exhibit 99 as your
12 response to staff data request No. 137?

13 A. Yes. There's a supplemental response that
14 goes with this as well, but this is the original part
15 of this one.

16 MS. JOHNSTON: Move the admission of
17 Exhibit 99.

18 JUDGE HAENLE: Any objection?

19 MR. VAN NOSTRAND: Yes. We prefer to have
20 the supplemental included as part of that exhibit. It
21 does provide a more complete response. We do have
22 that available in fact.

23 JUDGE HAENLE: Ms. Johnston.

24 MS. JOHNSTON: I have no objection to that
25 if Mr. Van Nostrand wants to have copies made and

1 offered into the record.

2 JUDGE HAENLE: The record should reflect
3 Mr. Van Nostrand is distributing a document.
4 The document that you distributed, Mr. Van Nostrand,
5 has four pages. The first two is the same and then
6 there is an additional page indicating it is an
7 additional response and an attachment so the document
8 is four pages long. Any objection to its entry in
9 that form?

10 MR. VAN NOSTRAND: No, Your Honor.

11 JUDGE HAENLE: Exhibit 99 in four pages is
12 entered.

13 (Admitted Exhibit 99.)

14 Q. In this response you indicate that the
15 company has budgeted a total of \$845,000 over the
16 1994, 1995, 1996 period. Is that true?

17 A. That is true. Estimated budgets for 1995
18 and 1996.

19 Q. Would you accept subject to check that
20 Puget's 30 percent of this two plus million dollars is
21 \$600,000 plus?

22 A. Can you clarify the question? That doesn't
23 follow from the 850 -- 845,000 you just mentioned.

24 Q. Turn to the last page of the exhibit,
25 please. See the budget column there over the time

1 period October 1993 through December 1994, the 2.2
2 million?

3 A. Where are you? I'm sorry.

4 Q. The last page of Exhibit 99.

5 A. I see that.

6 Q. And do you see the 2.2 million dollars
7 figure there in the total column?

8 A. Yes, 2.15.

9 Q. Would you accept subject to check that
10 Puget's 30 percent of this figure is over \$600,000?

11 A. Puget's share is 28.8 percent and the
12 amount that you see on this last page, 2.15 million
13 dollars, is just a budgeted amount by the UCG of
14 Puget's '94 budget, is \$560,000 as shown on page 1 of
15 this response, and is certainly, you know, very close
16 to that kind of budget.

17 Q. In response to staff data request No. 138
18 regarding Building and Design 2000 budgets, you state
19 that, "Puget's share of any costs are included in the
20 company's UCG funding." Is that correct?

21 A. Yes, that's correct. They are in these
22 dollars that we just talked -- whatever is spent for
23 B and D. B and D is a contractor to UCG and so
24 therefore when Puget spends money it's through UCG.

25 Q. Bob Banister is a Puget Power employee; is

1 that right?

2 A. That is correct.

3 Q. Is he still president of the Utility Code
4 Group?

5 A. Yes.

6 Q. His work at UCG is charged to conservation
7 rate base account 186 CC?

8 A. It's either 186 CC or 186 UC. Both of
9 those involve the commercial code group. I'm not sure
10 which one.

11 Q. If Mr. Banister, as you just stated, is
12 president of the UCG, can you tell us why Puget
13 appears to be unable to get more detailed information
14 on budgets?

15 A. We have asked the staff what level of
16 detail they need in response to 137. They did come
17 back and ask us to provide more level. We did go back
18 to UCG, and as you can see in this amended response
19 UCG gave us a breakout by the categories that we're
20 paying for. Puget out of UCG is getting training and
21 technical assistance, enforcement, inspector stuff and
22 evaluation stuff, and all of those are the products
23 that we're paying for and that's the budget that we
24 provided.

25 We then asked staff for -- when they said

1 that wasn't sufficient detail, we said what more
2 detail do you want? Staff has not provided us the
3 specific questions that they want. We asked in three
4 data requests of them what the specific details they
5 want are and they've only responded with 722, which is
6 the exhibit that was discussed yesterday which
7 presented five very general level of categories none
8 of which specified budgets for UCG. Those, I believe,
9 were data responses of 723 and 726 and, again, staff
10 just referred us to 722 which asked for providing very
11 broad levels of information. Were not at all specific
12 on what they were looking for.

13 Q. Well, in Exhibit 51, you asked the
14 question, "What information is required by staff to
15 reach a ruling on the expenses associated with the
16 UCG and the commercial energy code? "And do you
17 recall that part of staff's response was that staff
18 has no knowledge of the, quote-unquote, of the
19 information in the company's possession?

20 A. Yes. I see that as staff's response.
21 Again, we were trying to ask in both 722, 723 and 726.
22 Three times we asked what information is needed about
23 the Utility Code Group in 722, which is Exhibit 51.
24 In 723 the question was "please provide a detailed
25 explanation of staff's unresolved concerns about the

1 nonprofit entities. In 726, we said "please provide a
2 list of the specific detail needed by staff that have
3 not already been provided regarding the 1994 budgets
4 and actual expenses for both of those nonprofit
5 entities, and all we have been provided in terms of
6 the data we would need to provide would be these
7 questions in 722, Exhibit 51.

8 JUDGE HAENLE: Please concentrate on
9 speaking more slowly. Be sure the reporter can get
10 it.

11 Q. Exhibit 99, staff's request No. 137, you
12 were asked to please provide a detailed breakdown of
13 these into categories of expenses and a description of
14 the nature of the expense.

15 A. And we have provided a breakdown of the
16 expenses for training, for enforcement, for inspection
17 and for evaluation.

18 Q. But this doesn't indicate to us, for
19 example, the administrative overhead associated with
20 each of these, does it?

21 A. It has not been broken out that way. The
22 administrative costs are all included in these totals.

23 Q. And these are just totals. We don't know,
24 for example, what the training or technical assistance
25 -- we see \$688,796. We don't know looking at this

1 where those dollars are spent. Isn't that true?

2 A. That is true, yes.

3 Q. Is it your testimony here this morning that
4 you're capable of giving staff a breakdown, a more
5 detailed breakdown, of these expenses?

6 A. I would have to go to UCG, which is not
7 just Puget, it is all the other utilities, including
8 Bonneville Power Administration who are spending this
9 \$688,000 and get from their board information as to
10 what the breakdown of these costs are. I don't have
11 this information at Puget. This is UCG information.

12 MS. JOHNSTON: Your Honor, although it may
13 be extraordinary I would like a record requisition.

14 JUDGE HAENLE: How could it possibly be
15 useful at this stage in the proceeding or how would
16 you propose to use it?

17 MS. JOHNSTON: We obviously don't have time
18 to use this information in this stage of the
19 proceeding given that oral argument is to take place
20 Thursday afternoon but staff is interested in having a
21 detailed breakdown of these expenses. Mr. Banister is
22 president of the UCG. So far this information has not
23 been forthcoming.

24 A. Most of these are not in PRAM, not expenses
25 that staff is challenging for this case.

1 JUDGE HAENLE: We're still working on the
2 request, I think. Because I don't see that we could
3 possibly use it before the end of the time, can I
4 suggest that you make that request of Puget outside of
5 this case for the next time? I'm concerned that if
6 there's an outstanding request in this case that there
7 might be something procedural left hanging, and I
8 would prefer to have it outside of this case if we're
9 not going to be able to to get it and use it by that
10 time. I would encourage the company to provide a very
11 detailed breakdown since the company has the burden of
12 demonstrating where this money does go.

13 THE WITNESS: For Puget's share of this
14 money I would suspect or is this for all of UCG which
15 involves, again, Washington Natural Gas, Pacific
16 Power, Water Power, Bonneville and all the other
17 utilities.

18 JUDGE HAENLE: Why don't you work the
19 details of this out after the hearing is over.

20 Q. Like to switch topics now. Talk a little
21 bit about WHITS. On June 30, 1994 you provided a
22 response to staff data request No. 20 which indicated
23 that the number of water heater insulation kits or
24 WHITS, installed in the May 1993 through April 194
25 period was 7,287. Do you recall that number?

1 A. Yes. And we have provided a supplemental
2 response and which we overlooked when we pulled up the
3 test, we didn't pull up all the accounts of WHITS. We
4 just pulled up the accounts dealing with the WHITS
5 that are distributed by mail at customer request.
6 There are additional WHITS that were distributed, paid
7 for by the company, installed by contractors, and we
8 supplemented that response to indicate that the number
9 for 1993 was not 7,287 but 19,764.

10 Q. And that supplemental response was provided
11 on August 23rd, 1994. Is that true?

12 A. I would have to accept that. I'm not sure
13 of the date.

14 Q. And then subsequent to that supplemental
15 response, in response to staff data request No. 149,
16 you were asked to support this correction and you
17 provided a printout which showed ESS WHITS installed
18 for the same time period as being 12,477. Do you
19 recall that?

20 A. What was the data request, please?

21 Q. 149.

22 A. Yes, that's correct. I believe that plus
23 the 7,000 adds up to the 19,000.

24 Q. Please turn to page 15 of your rebuttal
25 testimony. There you indicate that the company would

1 like to have the option of working with the technical
2 collaborative group. Does the company believe the
3 technical collaborative process has been detrimental
4 to the development of schedule 83?

5 A. The option is to work with the technical
6 collaborative group if schedule 83 had to be filed by
7 November 1st of 1994. Working with the technical
8 collaborative group does take a lot of time, and to
9 refile the schedule 83 including all of the issues
10 that have been raised by staff, including those in
11 this proceeding about administrative costs, which have
12 not yet been discussed in the technical collaborative
13 group, a number of other issues that have been
14 raised by the technical collaborative group as well as
15 pointed out by the company that it needs to revise in
16 schedule 83, to get all of that work done in the
17 technical collaborative process by November 1st is
18 unlikely to be able to be accomplished. If we're
19 being asked to refile by November 1, it would need to
20 be at the company's option.

21 Q. So does the company believe that the
22 technical collaborative process has been detrimental
23 to the development of schedule 83, time requirements
24 notwithstanding?

25 A. I would not characterize it as the word

1 detrimental. I would certainly say that it has been a
2 process which has not been easy.

3 Q. Is the company asking the Commission to
4 order in this proceeding that the technical
5 collaborative group be disbanded?

6 A. No.

7 Q. Based on what you just said, does the
8 company agree that a November 1st, 1994 refiling date
9 cannot likely be achieved?

10 A. No. We could achieve it, but again, if we
11 use the technical collaborative process as it has been
12 used in the past year, in particular on development of
13 issues in schedule 83 and concerns raised by both
14 staff and public counsel in those meetings, it would
15 be very unlikely to be dealt with. I will point out
16 that when this tariff which the company did withdraw
17 in August on the basis of staff's indicating to us
18 that they would suspend the tariff and that we would
19 have the option to withdraw that there was about two
20 months until October -- excuse me -- November 1st,
21 September and October. In that two-month period we
22 understand staff has arranged for a meeting of the
23 technical collaborative group. One month has gone by
24 or just about gone by, and we haven't had a meeting
25 yet. So we have one remaining month to do the work

1 that needs to get done.

2 Q. It was the company's decision to withdraw
3 the filing; isn't that true?

4 A. Based on a conversation with staff a few
5 days prior which indicated that they would suspend it,
6 yes, the company then withdrew.

7 Q. It was already suspended, wasn't it?

8 A. It had been suspended. The filing was
9 filed in end of June with a 30-day response time.
10 Staff indicated they were going to suspend it because
11 they didn't have enough time to work on the heat pump
12 issue, so after 30 days it was suspended with the
13 condition, our understanding from staff, that it would
14 be brought back at the next available time. The next
15 available time was the August 24th meeting. That's
16 nearly 60 days from when we filed, and at that point
17 in time the issues raised by staff were not only heat
18 pumps but also the utility code expenditures, and they
19 said that they would suspend it based on not enough
20 information and that we had the option to withdraw, so
21 that's the basis we made our decision.

22 Q. What is the company's proposal for a date
23 certain that schedule 83 will be refiled which will
24 address all of the changes which have occurred since
25 the February 1993 filing?

1 A. As we stated at the August 24, we fully
2 intend to do that by the end of this year. We do not
3 yet have a date certain. Part of that will be
4 determined by some of the issues that may arise out of
5 this proceeding.

6 MS. JOHNSTON: Thank you. That's all I
7 have.

8 JUDGE HAENLE: Commissioners, do you have
9 questions?

10 CHAIRMAN NELSON: No.

11 COMMISSIONER HEMSTAD: No.

12 JUDGE HAENLE: Any redirect of the witness?

13 MR. VAN NOSTRAND: Just have a couple of
14 exhibits to put in, Your Honor.

15 JUDGE HAENLE: You handed me two documents
16 which I have marked as follows. Marked as 100 for
17 identification, a one-page document entitled company
18 -- Response to Company Data Request No. 723. Marked
19 as 101 for identification a one-page document entitled
20 Response to Company Data Request No. 726.

21 (Marked Exhibits 100 and 101.)

22

23 REDIRECT EXAMINATION

24 BY MR. VAN NOSTRAND:

25 Q. Ms Smith, do you have before you what's

1 been marked for identification as Exhibit 100?

2 A. Yes.

3 Q. Do you recognize this as the staff response
4 to company request No. 723?

5 A. Yes, I do.

6 Q. And this is a request that in an answer
7 that you just referred to in your testimony regarding
8 backup for activities of the Utility Code Group?

9 A. That's correct.

10 Q. Do you have before you what's been marked
11 for identification as Exhibit 101?

12 A. Yes.

13 Q. And you recognize this as the staff
14 response to 726?

15 A. Yes, I do.

16 Q. And this is the question and answers which
17 you just referred in your testimony regarding the
18 Utility Code Group expenditure information?

19 A. Yes, that's correct.

20 MR. VAN NOSTRAND: Your Honor, move the
21 admission of 100 and 101.

22 JUDGE HAENLE: Any objection?

23 MS. JOHNSTON: Well, yes, I'm going to
24 object. These clearly weren't prepared by Ms. Smith.
25 These could have been offered through Ms. Kelly during

1 her direct testimony or her cross-examination. I
2 don't understand why these data request responses are
3 being offered through a Puget witness when they were
4 prepared by staff, so on that basis I am going to
5 object.

6 JUDGE HAENLE: Mr. Van Nostrand?

7 MR. VAN NOSTRAND: Well, this is the
8 dialogue that Ms. Smith was testifying about regarding
9 the back and forth between staff and the company on
10 the UCG expenditures and it's been explored very
11 thoroughly with this witness. She's referred directly
12 to these questions and answers in her testimony.
13 These are just the documents to which she referred
14 which complete the record.

15 JUDGE HAENLE: I'm going to overrule the
16 objection and enter 100 and 101 into the record.
17 There was quite a bit of cross-examination and it
18 seemed to focus on what the wording of the requests
19 were, so I think they do add to the record by giving
20 the specific wording of the requests.

21 (Admitted Exhibits 100 and 101.)

22 MR. VAN NOSTRAND: I have no further
23 questions, Your Honor.

24 JUDGE HAENLE: Anything more of the
25 witness? Commissioners, anything more?

1 CHAIRMAN NELSON: No.

2 JUDGE HAENLE: You may step down. Let's go
3 off the record to allow the next witness to assume the
4 stand.

5 (Recess.)

6 Whereupon,

7 JOHN STORY,

8 having been previously duly sworn, was called as a
9 witness herein and was examined and testified
10 further as follows:

11 JUDGE HAENLE: Let's be back on the record.
12 During the time we were off the record a different
13 company witness assumed the stand. I would remind
14 you, Mr. Story, that you were previously sworn in this
15 matter and remain under oath. Also during the time we
16 were off the record I marked two documents for
17 identification as follows: Marked as Exhibit T-102
18 for identification, a five-page document JHS-7
19 prefiled rebuttal testimony. And marked as 103 for
20 identification in one page, JHS-8. Your witness is
21 sworn, Mr. Van Nostrand.

22 (Marked Exhibits T-102 and 103.)

23

24 DIRECT EXAMINATION

25 BY MR. VAN NOSTRAND:

1 Q. Mr. Story, do you have before you what's
2 been marked for identification as Exhibit T-102?

3 A. Yes, I do.

4 Q. Do you recognize that as your prefiled
5 rebuttal testimony in this case?

6 A. Yes.

7 Q. Do you have any additions or corrections to
8 make to that exhibit at this time?

9 A. No.

10 Q. If I asked you the questions set forth in
11 Exhibit T-102 today, would you give the answers as set
12 forth in that exhibit?

13 A. Yes.

14 Q. Do you also have before you what's been
15 marked for identification as Exhibit 103?

16 A. Right.

17 Q. Was this exhibit prepared under your
18 direction or supervision?

19 A. Yes.

20 Q. Do you have any additions or corrections to
21 make to Exhibit 103?

22 A. No.

23 Q. Is it true and correct to the best of your
24 knowledge?

25 A. Yes.

1 MR. VAN NOSTRAND: Your Honor, move the
2 admission of Exhibits T-102 and 103 and Mr. Story is
3 available for cross-examination.

4 JUDGE HAENLE: Any objection?

5 MS. JOHNSTON: No.

6 JUDGE HAENLE: T-102 and 103 will be
7 entered into the record.

8 (Admitted Exhibits T-102 and 103.)

9

10 CROSS-EXAMINATION

11 BY MS. JOHNSTON:

12 Q. Mr. Story, at page 4 of your rebuttal
13 testimony, on line 17 you state that the impacts of a
14 voluntary separation and early retirement measures on
15 earnings per share for March and June 1994 are seven
16 cents and 17 cents respectively?

17 A. Yes.

18 Q. If the earnings per share figures are
19 adjusted for these, would you accept subject to check
20 that the March number would be \$1.91 and the June
21 number would be \$1.85?

22 A. I will accept that.

23 MS. JOHNSTON: Your Honor, like to have
24 this marked as the next exhibit in line.

25 JUDGE HAENLE: You've handed me a one-page

1 document. Caption at the top, Table 1, Summary of
2 Financial Results. I will mark this as 104 for
3 identification.

4 (Marked Exhibit 104.)

5 Q. This is page 6 of Mr. Sonstelie's rebuttal
6 testimony in the decoupling case docket UE 901183
7 which was admitted as Exhibit T 79 in that case.
8 Directing your attention to table 1 of the exhibit, is
9 it true that the figures appearing on line 5 represent
10 the company's financial model projections of earnings
11 per share for the years 1991, 1992, 1993?

12 A. No, they weren't projections. They were
13 forecasts.

14 Q. Is it true that these projects and
15 forecasts represent the company's then expectations of
16 the earnings per share for those years under the
17 assumption that the Commission would accept the PRAM
18 mechanism as filed by the company in that docket?

19 A. That's correct.

20 Q. Turn back to your chart of actual earnings
21 per share achieved by the company, a simple comparison
22 for the periods December 1991, 1992 and 1993 with the
23 corresponding figures that Mr. Sonstelie expected
24 three years ago. It's true, isn't it, that the actual
25 earnings exceeded the projections or forecasts in each

1 circumstance?

2 A. That's correct. The company's been
3 undergoing quite a few cost cuts.

4 MS. JOHNSTON: Your Honor, move the
5 admission of Exhibit 104.

6 JUDGE HAENLE: Any objection?

7 MR. VAN NOSTRAND: No.

8 JUDGE HAENLE: Exhibit 104 is entered.

9 MS. JOHNSTON: Thank you.

10 (Admitted Exhibit 104.)

11 Q. Please turn to page 2 of your rebuttal
12 testimony. Starting on line 7 you state that in
13 support of your request for interest on PRAM deferrals
14 and to illustrate the drag on company earnings as a
15 result of, among other things, the nonrecovery of the
16 carrying costs, the company cited the shortfall in
17 actual versus allowed returns on rate base. Is that a
18 fair reading?

19 A. Yes.

20 Q. Now, this drag on the company's earnings
21 you contend is due to carrying costs, nonrecovery and
22 other things. On page 4, you refer to downward
23 pressure due to the allowed rate of return being
24 decreased from 10.16 to 8.94 as of October 1993. Is
25 it the company's position that the company should be

1 relieved of this pressure by increasing the allowed
2 rate of return from 8.94 to a higher level in this
3 docket?

4 A. No. I was just indicating one of the
5 things that was putting downward pressure on the
6 earnings, but there is a trend downwards. Without
7 even looking at that you can see that from the prior
8 exhibit I had from the original filing.

9 Q. Besides nonrecovery of carrying costs and
10 allowed rate of return reduction, what are these other
11 things you have in mind that are causing this drag on
12 company earnings?

13 A. Well, there's a lot of things. When you
14 look at PRAM, recall that you're only getting growth
15 on -- customer growth on only a piece of what's
16 allowed in rates and that's on the base side. Under
17 normal rates you would have growth on all your
18 kilowatt hours on all costs. Now, there's a lot of
19 things offsetting that within PRAM that you can't just
20 say specifically this thing would have been treated in
21 normal rates for growth on kilowatt hours and under
22 PRAM it's not. There's growth in rate base.

23 If you look at the PRAM calculation for
24 rate base at this time for PRAM 4, we should have
25 about 2 billion-one in rate base. We actually have

1 about 2 billion-two, so that means we have an
2 additional 70, 80 million dollars additional rate base
3 that is putting a drag on earnings.

4 There's no specific things you can look at.
5 I mean, I can take dollars per customer on a
6 particular item and compare it to dollars per
7 customers now for that item, but you have to look at
8 it in total when you're in between general rate cases.

9 Q. But you haven't quantified any of these
10 other things that you just discussed, have you?

11 A. That's why we give the general indicators.
12 To try to get into the detail, as a general rate case
13 -- we're showing the trend on earnings is going down.
14 All costs together are taking our earnings down. Now,
15 to have the opportunity to earn our return, if we have
16 a major section of our rate base that we're not
17 getting any recovery on, like interest on PRAM, that's
18 a drag on earnings. You do not get the opportunity to
19 earn your return.

20 Q. So it's true that you haven't quantified,
21 you don't have any objective evidence?

22 A. I think this is objective. It's in total.
23 It shows that all costs are increasing faster than the
24 net operating income.

25 Q. On page 3 of your testimony, you refer to

1 Mr. Martin's table for rate of return. It's true,
2 isn't it, that on that table the rate of return earned
3 by the company as adjusted for extraordinary
4 write-offs and corrections for each period from
5 December 1993 through June 1994 has not gone down to
6 the level of authorized rate of return of 8.94?

7 A. No. But if you take a weighted average of
8 the return, every month but June it was lower than
9 what we would expect.

10 Q. And as you agreed during the cross of your
11 direct testimony, the numbers used to calculate the
12 rates of return are per books, not normalized or
13 proformed, except for those adjustments mentioned. Is
14 that true?

15 A. That's right.

16 Q. Regarding the rate base amount used in the
17 calculation, is it correct that the December 1993 rate
18 base was not adjusted for the amount plant held for
19 future use which was disallowed by this Commission in
20 the last general rate case?

21 A. Well, it was adjusted. We wrote the plant
22 off in October and November. It will take a year to
23 run through there. Just like it's not adjusted for
24 conservation immediately. Conservation phases in over
25 the same time.

1 Q. Would you agree that if the disallowed
2 plant held for future use is adjusted from rate base
3 the resulting rate of return would improve?

4 A. Sure.

5 Q. Is it true that this disallowed plants
6 remaining in the rate base for purposes of calculating
7 a rate of return constituted a drag and pressure on
8 the rate of return?

9 A. Just like conservation does, the opposite
10 way. There's a lot of adjustments that go back and
11 forth. Again, you've got to remember that these are
12 the actual results that get reported to the financial
13 community. There's a lot of argument that there's a
14 lot of pro forma adjustments that come through on
15 actual results, but normally there's not too many
16 adjustment son net operating income and rate base
17 other than the new plant coming in. If you have a
18 major plant or something, you go back through the last
19 few general rate cases and there's not big adjustments
20 to operating income.

21 MS. JOHNSTON: Thank you. That's all I
22 have.

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

25 CHAIRMAN NELSON: No.

1 COMMISSIONER HEMSTAD: No.

2 JUDGE HAENLE: I had one question. Your
3 proposal for interest on the unamortized net PRAM
4 deferrals would result in additional deferrals during
5 the PRAM 4 period; is that right?

6 THE WITNESS: That's correct.

7 JUDGE HAENLE: For the first in/first out
8 method of deferral recovery, would additional
9 deferrals associated with the interest on PRAM
10 deferrals be a part of current deferrals or a part of
11 the deferrals the interest is accrued on?

12 THE WITNESS: Current deferrals.

13 JUDGE HAENLE: Thank you. Anything more of
14 the witness?

15 MR. VAN NOSTRAND: No, Your Honor.

16 JUDGE HAENLE: Anyone?

17 All right. Thank you, sir, you may step
18 down. Does that complete the company's rebuttal
19 witnesses, Mr. Van Nostrand?

20 MR. VAN NOSTRAND: Yes.

21 JUDGE HAENLE: Anything else we need to
22 cover? We will recess at this time, then. We will
23 reconvene at 9:30 in the morning on Thursday.
24 Remember that at 9:30 we'll take the public testimony
25 here in Olympia and then at 1:30 we'll take the oral

1 argument. Thank you.

2 (Hearing adjourned at 9:50 a.m.)

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