

Docket Nos. UE-190529 and UG-190530
(Consolidated) - Vol. IV

WUTC v. Puget Sound Energy

February 6, 2020



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1 BEFORE THE WASHINGTON
 2 UTILITIES AND TRANSPORTATION COMMISSION

4 WASHINGTON UTILITIES AND) DOCKETS UE-190529 and
 TRANSPORTATION COMMISSION,) UG-190530 (Consolidated)

5 Complainant,)
 6 vs.)
 7 PUGET SOUND ENERGY,)
 8 Respondent.)

11 EVIDENTIARY HEARING, VOLUME IV
 12 Pages 172 - 453
 13 ADMINISTRATIVE LAW JUDGE RAYNE PEARSON

15 February 6, 2020
 16 1:07 p.m.

18 Washington Utilities and Transportation Commission
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14	BGM-11C Bradley G. Mullins, 1/15/20 ***CONFIDENTIAL*** Response to AWEC Data Request 50		14	WMG-4 Wendy M. Gerlitz, 11/22/19, PSE Response to NWECC Data Request No. 014 Attach A; Financing RFI's, PSE RFI Craft 3 Response 053017	
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16	BGM-12 Bradley G. Mullins, 1/15/20, Revisions and Responses to Data Requests		16	WMG-5 Wendy M. Gerlitz, 11/22/19, Clean Energy Works. What is Inclusive Financing and Why Are Some of the Largest States in the Country Calling for it Now?	
17	BGM-13C Bradley G. Mullins, 1/15/20 ***CONFIDENTIAL*** Colstrip Retirement Accounting Tables		17		
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19	Brian C. Collins, Principal of Brubaker & Associates, Inc.		19	The Engery Project	
20			20	Shawn M. Collins, Director of The Engery Project	
21	BCC-1T Brian C. Collins, 1/15/20, Cross-Answering Testimony (12 pages)		21	SMC-1T Shawn M. Collins, 11/22/19, Responsive Testimony (31 pages)	
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23	BCC-2 Brian C. Collins, 1/15/20, Professional Qualifications		23	SMC-2 Shawn M. Collins, 11/22/19, Professional Qualifications	
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3	NWEC		3	The Federal Executive Agencies	
4	Amy E. Wheelless, Policy Associate, NWEC		4	Ali Al-Jabir, Energy Advisor and Associate with Brubaker & Associates, Inc.	
5	AEW-1T Amy E. Wheelless, 11/22/19 Direct Testimony (23 pages)		5	AZA-1T Ali Al-Jabir, 11/22/19, Responsive Testimony (46 pages)	
6	AEW-2 Amy E. Wheelless, 11/22/19, PSE Response to NWECC Data Request No. 007, Attachment B		6		
7			7	AZA-2 Ali Al-Jabir, 11/22/19, Professional Qualifications	
8	AEW-3 Amy E. Wheelless, 11/22/19, PSE Response to NWECC Data Request No. 002, Attachment A		8	AZA-3 Ali Al-Jabir, 11/22/19, Cost of Service Study Results Parity Ratios	
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10	AEW-4 Amy E. Wheelless, 11/22/19, PSE Response to NWECC Data Request No. 018, Attachment A		10	AZA-4 Ali Al-Jabir, 11/22/19, Electric Class Cost of Service Study Results at Present and Company Proposed Rates Under the Company's Cost of Service Study	
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12	AEW-5 Amy E. Wheelless, 11/22/19, PSE Response to NWECC Data Request No. 002, Attachment D		12	AZA-5 Ali Al-Jabir, 11/22/19, FEA's Proposed Electric Revenue Distribution	
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14	AEW-6 Amy E. Wheelless, 11/22/19, In re Revision to Tariff WN U-2 to Establish a New Line Extension Policy, Docket No. UG-161268, PSE Cover Letter (Dec. 6, 2016)		14	AZA-6T Ali Al-Jabir, 1/15/20 Cross-Answering Testimony (24 pages)	
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16	AEW-7 Amy E. Wheelless, 11/22/19, In re Investigation of Natural Gas Distribution Infrastructure Expansion, Docket No. UG-143616, Comments of Avista Utilities (Sept. 17, 2015)		16	AZA-7 Ali Al-Jabir, 1/15/20, Comparison of Basis Differential Under Various Revenue Allocation Proposals	
17			17	The Kroger Co.	
18	AEW-8 Amy E. Wheelless, 11/22/19, In re Investigation of Natural Gas Distribution Infrastructure Expansion, Docket No. UG-143616, Presentation by Avista Utilities (Sept. 23, 2015)		18	Kevin C. Higgins, Principal at Energy Strategies, LLC.	
19			19	KCH-1T Kevin C. Higgins, 11/22/19, Responsive Testimony (20 pages)	
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21	AEW-9 Amy E. Wheelless, 11/22/19, PSE Response to Staff Data Request No. 015, Attachment A		21	KCH-2 Kevin C. Higgins, 11/22/19, Comparison of PSE Proposed Rate Spread	
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23			23	KCH-3T Kevin C. Higgins, 1/15/20, Cross-Answering Testimony (12 pages)	
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1 LACEY, WASHINGTON; FEBRUARY 6, 2020
 2 1:07 P.M.
 3 --o0o--
 4 P R O C E E D I N G S
 5
 6 JUDGE PEARSON: So let's be on the record.
 7 If you're ready.
 8 Good afternoon. Today is Thursday,
 9 February 6, 2020. The time is approximately 1:07 p.m.
 10 My name is Rayne Pearson, I'm the
 11 Administrative Law Judge with the Washington Utilities
 12 and Transportation Commission, and I will be presiding
 13 in this matter along with the Commissioners who will
 14 join us in a few moments.
 15 We're here today for an evidentiary hearing
 16 in consolidated dockets: UE-1190529; UG-1909530;
 17 UE-190274; UG-190275; UE-190991; UG-190992; UE-171225;
 18 and UG-171226, which are PSE's Electric and Natural Gas
 19 general rate case and also its accounting petitions
 20 related to Get To Zero, the Green Direct Program, and
 21 the Tax Cuts and Jobs Act.
 22 So let's take short appearances starting
 23 with PSE, and then we'll go around the room.
 24 MS. CARSON: Good afternoon, Your Honor.
 25 Sheree Strom Carson with Perkins Coie representing PSE.

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1 And also here with me today from Perkins Coie
 2 representing PSE are Jason Kuzma, Donna Barnett, and
 3 David Steele.
 4 MS. BARLOW: This is Marie Barlow
 5 representing the Northwest Energy Coalition.
 6 MR. PEPPLER: Tyler Pepple, with Davison
 7 Van Cleve representing the Alliance of Western Energy
 8 Consumers.
 9 MR. COLEMAN: Brent Coleman also with
 10 Davison Van Cleve for -- on about behalf AWEC.
 11 MR. FFITCH: Simon ffitich representing The
 12 Engery Project.
 13 MS. PAISNER: Ann Paisner with the Public
 14 Counsel Unit with the Washington State Attorney General.
 15 MS. GAFKEN: Lisa Gafken, Assistant Attorney
 16 General, appearing on behalf of public counsel.
 17 MR. ROBERSON: Jeff Roberson, AAG, appearing
 18 for Staff.
 19 MS. CAMERON-RULKOWSKI: Jennifer
 20 Cameron-Rulkowski, Assistant Attorney General, appearing
 21 on behalf of staff. And with me in the case are also
 22 Harry Fukano, Joe Dallas, Nash Callaghan, and Daniel
 23 Teimouri, Assistance Attorneys General.
 24 THE COURT: Okay. Thank you.
 25 And Ms. Liotta.

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1 MS. LIOTTA: Yes, Your Honor. Rita Liotta
 2 with the Federal Executive Agencies.
 3 THE COURT: Mr. Boehm.
 4 MR. BOEHM: Curt Boehm, appearing on behalf
 5 of The Kroger Company, doing business as Fred Meyer
 6 stores.
 7 THE COURT: Great. Thank you.
 8 So now that we're on the record I will ask
 9 again if the parties stipulate to the admission of all
 10 of the pre-filed exhibits and testimony?
 11 MS. CAMERON-RULKOWSKI: Commission staff so
 12 stipulates.
 13 MS. GAFKEN: Public Counsel stipulates.
 14 MR. FFITCH: The Engery Project stipulates.
 15 MR. COLEMAN: AWEC stipulates.
 16 MS. BARLOW: NWECC stipulates.
 17 MS. CARSON: PSE stipulates.
 18 THE COURT: And, Ms. Liotta, you do as well;
 19 correct?
 20 MS. LIOTTA: Yes, FEA so stipulates.
 21 THE COURT: And Mr. Boehm.
 22 MR. BOEHM: Kroger so stipulates.
 23 THE COURT: So I will provide a copy of the
 24 exhibit list with the court reporter so it will be made
 25 part of the record.

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1 And just to let everyone know, I have made
 2 all of the corrections identified by the parties. And I
 3 will circulate the final exhibit list to the parties
 4 after the hearing is over.
 5 MS. CAMERON-RULKOWSKI: Your Honor?
 6 THE COURT: Yes.
 7 MS. CAMERON-RULKOWSKI: May I have your
 8 attention?
 9 I know that Nucor Steel has been excused
 10 from the hearing, but we do have an e-mail indicating
 11 that Nucor also stipulates to the admission of all of
 12 the exhibits.
 13 THE COURT: Okay. Thank you. I appreciate
 14 that.
 15 Okay. So is there anything else we need to
 16 discuss before we turn to the schedule for today's
 17 hearing?
 18 Okay. Hearing nothing.
 19 After the Commissioners join us, we'll begin
 20 cross-examination.
 21 So first we'll convene the attrition panel,
 22 followed by the cost of capital panel, the cost service
 23 rate spread and rate design panel, and then finally the
 24 IT investment panel. After that, we will call
 25 individual witnesses in the order agreed to by the

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<p>1 parties.</p> <p>2 MS. CARSON: Your Honor, would you like us</p> <p>3 to have the attrition panel come on up now?</p> <p>4 JUDGE PEARSON: I was just going to say</p> <p>5 that.</p> <p>6 If the attrition panel could make their way</p> <p>7 to the witness panel while we take a recess, I will go</p> <p>8 and get the Commissioners; and then I will swear you all</p> <p>9 in as soon as we reconvene.</p> <p>10 So with that, we will take a short recess</p> <p>11 and I will go and get the Commissioners.</p> <p>12 (A recess was taken from 1:14 p.m. to 1:20 p.m.)</p> <p>13 JUDGE PEARSON: Okay. We'll be back on the</p> <p>14 record following a short recess. I am joined by Chair</p> <p>15 Danner, Commissioner Rendahl, and Commissioner Balasbas.</p> <p>16 The parties have stipulated to the admission</p> <p>17 of all the pre-filed exhibits including the</p> <p>18 cross-examination exhibits.</p> <p>19 So let's just briefly go around the room and</p> <p>20 take short appearances again beginning with the Company.</p> <p>21 MS. CARSON: Good afternoon, Commissioners.</p> <p>22 Sherry Strom Carson with Perkins Coie representing Puget</p> <p>23 Sound Energy. And also here with me today representing</p> <p>24 Puget Sound Energy are Jason Kuzma, Donna Barnett, and</p> <p>25 David Steele.</p>	<p>Dan Doyle by Commissioner Balasbas</p> <p>1 JUDGE PEARSON: And Ms. Liotta?</p> <p>2 MS. LIOTTA: Good afternoon. Rita Liotta</p> <p>3 representing the Federal Executive Agencies.</p> <p>4 THE COURT: Okay. Thank you.</p> <p>5 So the attrition panel is assembled at the</p> <p>6 witness table. If you could all please stand and raise</p> <p>7 your right hand. I'll swear you in simultaneously.</p> <p>8 (Panel Sworn)</p> <p>9 THE COURT: Okay. Please be seated.</p> <p>10 Ms. Carson, if you please introduce your</p> <p>11 witnesses.</p> <p>12 MS. CARSON: Certainly.</p> <p>13 We will start at the top there with</p> <p>14 Mr. Piliaris, Jon Piliaris; Dan Doyle; David Mills; Josh</p> <p>15 Kensok; Ron Amen; Carl Rábago; Susan Free; Cathy Koch;</p> <p>16 and Matt Marcelia.</p> <p>17 THE COURT: Thank you. And I understand</p> <p>18 that AWEC has waived its cross-examination of this</p> <p>19 panel. So we will go straight to the questions from the</p> <p>20 Commissioners.</p> <p>21 COMMISSIONER BALASBAS: All right. Good</p> <p>22 afternoon, everyone.</p> <p>23 So I will direct this question to whoever</p> <p>24 would like to take a stab at the answer.</p> <p>25 So throughout this -- throughout the</p>
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<p>1 MS. BARLOW: Good afternoon. Marie Barlow,</p> <p>2 with Sanger Law representing Northwest Energy Coalition.</p> <p>3 MR. PEPPLER: Tyler Pepple with Davison</p> <p>4 Van Cleve representing the Alliance of Western Energy</p> <p>5 Consumers.</p> <p>6 MR. COLEMAN: Brent Coleman also with</p> <p>7 Davison Van Cleve on behalf of the Alliance of Western</p> <p>8 Energy Consumers.</p> <p>9 MR. BOEHM: Good afternoon. Kurt Boehm</p> <p>10 appearing on behalf of The Kroger Company and Fred Meyer</p> <p>11 Stores.</p> <p>12 MR. FFITCH: Good afternoon. Simon ffitch</p> <p>13 on behalf of The Engery Project.</p> <p>14 MS. PAISNER: Ann Paisner on behalf of the</p> <p>15 Washington State Attorney General, Public Counsel Unit.</p> <p>16 MS. GAFKEN: Good afternoon. Lisa Gafken,</p> <p>17 Assistant Attorney General, appearing on behalf of</p> <p>18 Public Counsel.</p> <p>19 MR. ROBERSON: Jeff Roberson, AAG, for</p> <p>20 Staff.</p> <p>21 MS. CAMERON-RULKOWSKI: Good afternoon.</p> <p>22 Jennifer Cameron-Rulkowski, Assistant Attorney General,</p> <p>23 court commission staff. And with me on this case are</p> <p>24 Nash Callahan, Harry Fukano, Joe Dallas, and Daniel</p> <p>25 Teimouri.</p>	<p>Dan Doyle by Commissioner Balasbas</p> <p>1 testimony from the company on the need for an attrition</p> <p>2 adjustment, there was a lot of discussion and</p> <p>3 preponderance of costs being beyond the company's</p> <p>4 control as well as costs that maybe the company</p> <p>5 potentially may not be able to control.</p> <p>6 What I did not see in the testimony, though,</p> <p>7 is any -- or very little, if any, mention about cost</p> <p>8 controls.</p> <p>9 So if the company -- or if the Commission</p> <p>10 were to grant an attrition adjustment in this case, what</p> <p>11 assurance can you give to the commission that the</p> <p>12 company will do everything it can to control costs going</p> <p>13 forward?</p> <p>14 MR. DOYLE: I guess I'll take that one,</p> <p>15 Commissioner Balasbas.</p> <p>16 Dan Doyle, Chief Financial Officer.</p> <p>17 I think that there was some testimony in --</p> <p>18 in my pre-file direct which talked about the savings</p> <p>19 that we harvested during the rate plan period 2013</p> <p>20 through 2017, if I'm getting my dates right, and the</p> <p>21 programs that continued thereafter.</p> <p>22 In particular, what I would site in terms of</p> <p>23 cost control and capital -- broader capital</p> <p>24 allocation-type protocols, we continue to limit our</p> <p>25 growth in OPEX, O&M expenditures, to the rate of</p>

Page 240	<p>Dan Doyle by Commissioner Balasbas</p> <p>1 customer growth which is -- depending upon whether 2 you're talking electric or gas, it's one to one and a 3 half percent per year, which trend is about a hundred 4 basis points under where we're seeing inflation. 5 That's been very, very effective for us in 6 terms of making sure that our OPEX dollars are going to 7 the highest priority expenditure categories benefitting 8 customers and -- and basically maintaining our plant 9 equipment across the board. 10 When you get to CAPEX -- and I also should 11 mention that we also -- we have a program called "Be 12 Excellent Program." Not my favorite title, but it is 13 what it is. 14 It's a program that really goes in and looks 15 at a lot of different areas in the company that are not 16 significant in any one way, shape, or form. It could be 17 a hundred thousand dollars here or a million dollars 18 there, half a million dollars. 19 But what it does culturally, is it basically 20 sets the tone in the organization that no dollar is too 21 small to chase. So that would be the other side of -- 22 of the OPEX. 23 When you get to the CAPEX side of the 24 equation, I lay out six or seven categories of spend 25 that we look at. And in any one year, the competition</p>	Page 242	<p>Dan Doyle by Chairman Danner</p> <p>1 that's on the O&M side, not on the CAP side? 2 MR. DOYLE: It can bleed over to the capital 3 side, Commissioner, as well. And if you look at a 4 particular program, one that comes to mind, we were 5 looking at -- and I'm not really sure if this even goes 6 to the capital side, but it was looking at mobile 7 devices. And we had a lot of duplication that we just 8 changed policy, paired back on it. 9 But to the extent dollars would get 10 allocated into a clearing account from those 11 expenditures, it could end up in the capital account. 12 CHAIRMAN DANNER: Okay. So when you 13 mentioned all of these things: What is the corporate 14 capacity? What is the inside rate and all those things? 15 For everything that you've asked on the 16 capital side in this general rate case, are you saying 17 that they have all gone through that kind of scrutiny so 18 anything that you're asking for in terms of recovery of 19 a capital expenditure has gone through that kind of 20 es quizo [verbatim]. 21 MR. DOYLE: Yes. So basically what we will 22 do is we will run a five-year plan. We look at capital 23 across that five-year plan. And I would say the highest 24 amount of rigor that I talked about would be applied 25 probably early -- in the earlier years of that plan,</p>
Page 241	<p>Dan Doyle by Commissioner Balasbas</p> <p>1 for capital can be one and a half to two times of what 2 we can ultimately spend in terms of prudent financial 3 parameters and metrics in operating the business 4 prudently. 5 So in -- in any given -- in any given year, 6 you know, there's a lot of projects that will get pushed 7 out as we look at things on a strategic level. Number 8 one, corporate capacity. 9 Do we have the capacity to do all the things 10 we want to do strategically? 11 What are the impact on customer rates? 12 What are the impact on credit metrics? 13 How fast are we harvesting strategic benefit 14 for the -- for the benefit of customers in terms of a 15 reliability or the G to Z in terms of interfacing with 16 our customers, those sorts of things. 17 And then we kind of go down into some of the 18 operational areas from there and -- and prioritize based 19 on different criteria across the business, but trying to 20 get that portfolio of spend which gives us the biggest 21 bang for the buck. So it's a fairly rigorous process. 22 I'll stop there and see if you have any 23 follow-up. 24 CHAIRMAN DANNER: So just to be clear, the 25 Be Excellent Program is focused on the operational --</p>	Page 243	<p>Dan Doyle by Chairman Danner</p> <p>1 only because you've got a line-of-sight timeline-wise. 2 It's very difficult -- very difficult to apply that 3 rigor and say year five. 4 So give you an example. We don't budget 5 capital for storms. To the extent in year three, we 6 were to get a Hanukkah-Eve-type storm, a 7 snowmaggenden-type storm. I think those are our 8 acronyms for our 2012 storm. 9 And the Hanukkah Eve would be -- you know, 10 was \$110 million dollars in 2006. That would be a 11 \$250 million storm this year. 12 So that's probably 25 or 30 percent of our 13 overall capital budget. If that happened in year three, 14 that's going to change and shift the amount of capital 15 that we would be able to spend during that period of 16 time and still meet our financial metrics. It just 17 makes you shift and move things around. 18 So the rigor is applied earlier in the plan. 19 And certainly every time we set a new plan, the first 20 two years have pretty much gone through that. 21 COMMISSIONER RENDAHL: So this question is 22 for Mr. Mills, but could be for anybody else who wants 23 to answer this question as well. 24 So the way this case is structured is this 25 is a -- a traditional rate case plus attrition; correct?</p>

Page 244	<p>David Mills by Commissioner Rendahl</p> <p>1 MR. MILLS: Correct.</p> <p>2 COMMISSIONER RENDAHL: It's not captured in</p> <p>3 any sort of a number of years that the attrition is</p> <p>4 supposed go out; so it's not a multiyear rate plan?</p> <p>5 MR. MILLS: It is not a multiyear rate plan.</p> <p>6 COMMISSIONER RENDAHL: Okay. Is your mike</p> <p>7 on?</p> <p>8 MR. MILLS: Maybe it's not close enough.</p> <p>9 That's correct. It is not a multiyear rate</p> <p>10 plan.</p> <p>11 COMMISSIONER RENDAHL: So if the Commission</p> <p>12 were to authorize the attrition adjustment in this case</p> <p>13 or the attrition plan that you've requested in this</p> <p>14 case, customers would see this amount in the rates as if</p> <p>15 it were base rates; right? They're not going to see a</p> <p>16 different line item that says "attrition."</p> <p>17 MR. PILIARIS: I'm maybe better suited to</p> <p>18 answer that question.</p> <p>19 The answer would be no, it is not going to</p> <p>20 be a separate amount on their bill. It would be covered</p> <p>21 through base rates.</p> <p>22 COMMISSIONER RENDAHL: Okay. So customers</p> <p>23 would then pay those rates into the rate effective</p> <p>24 period, however long that is; correct? Whether it's one</p> <p>25 year or beyond.</p>	Page 246	<p>Jon Piliaris by Commissioner Rendahl</p> <p>1 COMMISSIONER RENDAHL: And so has -- maybe</p> <p>2 this -- whoever this is for, does the company have plans</p> <p>3 for a future general rate case within another couple of</p> <p>4 years? What is that plan for the future?</p> <p>5 MR. PILIARIS: Yeah. The company's</p> <p>6 five-year plan currently contemplates the need for yet</p> <p>7 another rate case filed sometime within -- within a year</p> <p>8 of the conclusion of this case.</p> <p>9 COMMISSIONER RENDAHL: All right. So with</p> <p>10 the attrition going forward beyond the test year and</p> <p>11 then into the rate year, I'm assuming most of you or</p> <p>12 some of you may have read the policy statement that we</p> <p>13 just issued.</p> <p>14 What appropriate review should the</p> <p>15 Commission engage in if we approve the attrition plan?</p> <p>16 MR. PILIARIS: So the company is -- has read</p> <p>17 the policy statement. Of course, we're still digesting</p> <p>18 it. It's fairly fresh.</p> <p>19 CHAIRMAN DANNER: Just for the record,</p> <p>20 you're talking about the Used and Useful Policy</p> <p>21 Statement?</p> <p>22 MR. PILIARIS: That's correct, Chair Danner.</p> <p>23 Thank you very much.</p> <p>24 We read with interest the requirement for</p> <p>25 reporting after rates go into effect using an attrition</p>
Page 245	<p>Jon Piliaris by Commissioner Rendahl</p> <p>1 MR. PILIARIS: Until rates are changed</p> <p>2 subsequently; isn't that correct?</p> <p>3 COMMISSIONER RENDAHL: So the amount that</p> <p>4 you're requesting for all the various projects, there's</p> <p>5 no indication of how far into the future, so to speak,</p> <p>6 that -- that those expenses will continue to be in</p> <p>7 customers' rates until the company files another rate</p> <p>8 case and you make a decision; correct?</p> <p>9 MR. PILIARIS: I think it is consistent with</p> <p>10 even traditional practice where rates are set for a</p> <p>11 particular level of expenditure, a particular level of</p> <p>12 rate base, a particular assumption about the revenues</p> <p>13 that will be collected and the loads that will be</p> <p>14 served, and that relationship is assumed a hold until</p> <p>15 the rates are changed. So there will be more</p> <p>16 expenditures going forward into the rate year and</p> <p>17 beyond.</p> <p>18 Obviously, those will be replaced by costs</p> <p>19 that roll off. So plant that gets depreciated and</p> <p>20 retires and gets replaced with new plant, it gets added.</p> <p>21 So as long as that relationship holds, those</p> <p>22 rates should be sufficient to cover them.</p> <p>23 It's just a matter of whether or not that</p> <p>24 relationship does hold as new expenditures are made over</p> <p>25 time.</p>	Page 247	<p>Jon Piliaris by Commissioner Rendahl</p> <p>1 mechanism or multiyear rate plan.</p> <p>2 The company is committed to reporting to the</p> <p>3 extent the Commission requests in the form the</p> <p>4 Commission requests, we haven't contemplated exactly</p> <p>5 what that may look like. So we would appreciate</p> <p>6 guidance to the extent that the Commission has specific</p> <p>7 things that it would like to see as part of that</p> <p>8 reporting.</p> <p>9 But we take the policy statement to suggest</p> <p>10 that there is an interest in knowing that the -- that</p> <p>11 the expenditures that form the basis for rates actually</p> <p>12 did occur in the rate effective period and to be able to</p> <p>13 validate that.</p> <p>14 That is probably more to the used component</p> <p>15 of the used and useful discussion.</p> <p>16 The useful element of that is more the</p> <p>17 prudence of those expenditures. But post hoc prudence.</p> <p>18 And we would expect that those would, at</p> <p>19 least currently, envision those to be reviewed in a</p> <p>20 future rate case similar to the way in our previous</p> <p>21 multiyear rate plan that the Commission approved back in</p> <p>22 2013 we provided -- we acknowledge that there would be</p> <p>23 an opportunity for parties and the Commission to review</p> <p>24 all of our expenditures over that rate plan period to</p> <p>25 determine the prudence of those after the fact.</p>

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<p style="text-align: center;">Jon Piliaris by Commissioner Rendahl</p> <p>1 COMMISSIONER RENDAHL: But none of that --</p> <p>2 granted you didn't have the Use and Useful Policy</p> <p>3 Statement. But you reference the statute repeatedly.</p> <p>4 So none of that post-review period is included in any of</p> <p>5 your testimony; correct?</p> <p>6 Any of the Company's testimony?</p> <p>7 MR. PILIARIS: To my knowledge, a specific</p> <p>8 reporting plan has not been put forth.</p> <p>9 CHAIRMAN DANNER: So this is a question for</p> <p>10 Mr. Doyle.</p> <p>11 In your rebuttal testimony, and specifically</p> <p>12 I'm talking about DAD-17 -- 7T at page 22.</p> <p>13 You propose a change in the company's</p> <p>14 earning sharing mechanism. And you call it an</p> <p>15 "increment customer protection" for an attrition</p> <p>16 adjustment in the case.</p> <p>17 And basically the proposal is setting</p> <p>18 sharing bands in an increment of 3 percent of the net</p> <p>19 operating income based on PSE's initial revenue.</p> <p>20 My question is -- basically, is the</p> <p>21 structure of this proposal of the 3 percent increment,</p> <p>22 is that applicable to any attrition adjustment that</p> <p>23 might be authorized in that case? In other words, if</p> <p>24 it's less or more than what you request, is that still</p> <p>25 the number that you're looking at?</p>	<p style="text-align: center;">Carl Rábago by Commissioner Rendahl</p> <p>1 the company.</p> <p>2 MR. RÁBAGO: Yes, ma'am.</p> <p>3 COMMISSIONER RENDAHL: Okay. So if you look</p> <p>4 in the column that says "rate your forecast." The</p> <p>5 largest amount of those investments occur in what we</p> <p>6 might call the programmatic investments; correct?</p> <p>7 MR. RÁBAGO: Yes.</p> <p>8 COMMISSIONER RENDAHL: That 300 -- sorry,</p> <p>9 the print is very small -- 323-point-something --</p> <p>10 MR. RÁBAGO: Point nine.</p> <p>11 COMMISSIONER RENDAHL: -- million dollars.</p> <p>12 And those are for high molecular weight, worst</p> <p>13 performance circuits, et cetera; correct?</p> <p>14 MR. RÁBAGO: Yes.</p> <p>15 COMMISSIONER RENDAHL: So those are the --</p> <p>16 so for -- this is where the attrition kicks in, in your</p> <p>17 mind, is allowing those transformative investments to be</p> <p>18 made.</p> <p>19 MR. RÁBAGO: Yes. And in ensuring that</p> <p>20 there's adequate earnings to support those expenditures</p> <p>21 for those foundational-type investments.</p> <p>22 COMMISSIONER RENDAHL: Because without that,</p> <p>23 in your mind, the company would lose earnings?</p> <p>24 MR. RÁBAGO: And without this -- these kinds</p> <p>25 of costs are going to come due anyway in terms of</p>
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<p style="text-align: center;">Carl Rábago by Commissioner Rendahl</p> <p>1 MR. DOYLE: That's a good question,</p> <p>2 Commissioner Danner. I'm proposing that sharing ban</p> <p>3 protection which biases more of excess earnings</p> <p>4 obviously toward customers as you move through the</p> <p>5 range, as a replacement of the current 50/50 excess</p> <p>6 earning sharing mechanism.</p> <p>7 CHAIRMAN DANNER: Okay. So I would take</p> <p>8 that as a "yes."</p> <p>9 MR. DOYLE: Yes.</p> <p>10 COMMISSIONER RENDAHL: I have a question for</p> <p>11 Mr. Rábago. Aren't you glad you're here?</p> <p>12 So in your testimony you have Exhibit, which</p> <p>13 is your KRR-3.</p> <p>14 MR. RÁBAGO: Yes.</p> <p>15 COMMISSIONER RENDAHL: Which is very</p> <p>16 instructive --</p> <p>17 (Off-record discussion regarding microphone.)</p> <p>18 MR. RÁBAGO: Hi.</p> <p>19 COMMISSIONER RENDAHL: Hi. So do you have</p> <p>20 your Exhibit KRR-3?</p> <p>21 MR. RÁBAGO: Yes.</p> <p>22 COMMISSIONER RENDAHL: Okay. So this is a</p> <p>23 very illustrative exhibit of -- sort of the entire set</p> <p>24 of, I guess what you would call in your testimony the</p> <p>25 transformational investments that need to be made for</p>	<p style="text-align: center;">Carl Rábago by Commissioner Rendahl</p> <p>1 upgrading and improving the condition of the system and</p> <p>2 other things in the future, like CETA implementation are</p> <p>3 going to necessitate, if you will, a healthy grid.</p> <p>4 So these are -- as -- as I described sort of</p> <p>5 foundational investments that have come due, if you</p> <p>6 will, and need to be done in order to prepare the</p> <p>7 utility for the future.</p> <p>8 COMMISSIONER RENDAHL: Thank you.</p> <p>9 JUDGE PEARSON: Okay. I think that</p> <p>10 concludes questions from the bench. So you all may go</p> <p>11 back to your seats. Some of you will be recalled again</p> <p>12 later.</p> <p>13 And so my understanding is that there are no</p> <p>14 questions for the cost of capital panel from the bench.</p> <p>15 So I think we're going to move straight to</p> <p>16 the cost of service rate spread and rate design panel.</p> <p>17 MS. GAFKEN: And Dr. Moore may be excused.</p> <p>18 I believe, he is on the telephone.</p> <p>19 MS. CAMERON-RULKOWSKI: And, Your Honor, I</p> <p>20 would ask the same for David Parcell who's also on the</p> <p>21 phone.</p> <p>22 MR. PARCELL: Thank you, Your Honor.</p> <p>23 JUDGE PEARSON: So, Mr. Piliaris, you are</p> <p>24 already sworn in.</p> <p>25 If the rest of you could please stand and</p>

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<p style="text-align: center;">John Taylor by Ms. Gafken</p> <p>1 raise your right hand. 2 (Panel sworn) 3 JUDGE PEARSON: Ms. Barnett, are you 4 introducing these witnesses? 5 MS. BARNETT: Yes. Thank you. 6 I'll introduce Jon Piliaris. But next to 7 him is Birud Jhaveri, and Mr. Amen as you met, and 8 Mr. John Taylor. 9 JUDGE PEARSON: Okay. Thank you. 10 So Ms. Gafken. 11 MS. GAFKEN: Thank you. 12 My plan is to pose questions to two of the 13 panel witnesses. And I'll just take them one at a time. 14 I would like to start with Mr. Taylor and 15 then move on to Mr. Piliaris. 16 CROSS-EXAMINATION 17 BY MS. GAFKEN: 18 Q. Good afternoon, Mr. Taylor. 19 A. Good afternoon. 20 Q. Would you please turn to your direct testimony, 21 Exhibit JDT-1T at page 12, line 17. 22 A. Yes. I'm there. 23 Q. Beginning there and continuing through page 13, 24 line 3, you describe that "mains costs are assigned a 25 special contract customers using PSE's geographic</p>	<p style="text-align: center;">John Taylor by Ms. Gafken</p> <p>1 Q. So Mains Plant is shown as Account 376; correct? 2 A. Yes. 3 Q. And there are two entries for Mains Plant, 4 Account 376, and those two lines are associated with 5 peak and average mains; correct? 6 A. Correct. 7 Q. Average mains shows a total of \$855,521; 8 correct? 9 A. Yes. 10 Q. And peak mains shows a total amount of 11 \$1,798,521; correct? 12 A. Yes. 13 Q. Would you accept, subject a check, that the sum 14 of those two numbers is approximately 2.6 million? 15 A. Yes. 16 Q. So switching gears. 17 You present your cost -- I'm sorry, you present 18 your gas cost of service study in Exhibit JDT-3; 19 correct? 20 A. Yes, that's the summary of the study. It 21 provides information at a higher level where the other 22 exhibits provide some more details. 23 Q. You submitted work papers related to JDT-3; is 24 that correct? 25 A. Correct.</p>
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<p style="text-align: center;">John Taylor by Ms. Gafken</p> <p>1 information system or GIS; correct? 2 A. Correct. 3 Q. Will you please turn to page 16 lines 15 through 4 16 of the same exhibit, JDT-1T. 5 A. Yep, I'm there. 6 Q. There you state that 0.1315 percent of Mains 7 were directly assigned to special contract customers 8 based on the study of Mains; correct? 9 A. Yes. 10 Q. Would you please turn to Exhibit JDT-4. 11 And for this exhibit, I'll have two different 12 reference points; one for the physical copy and then one 13 for electronic copy depending on how people are looking 14 at it. 15 On the print copy of JDT-4, would you please 16 turn to page 8. 17 On the electronic copy, it's columns "BB" as in 18 "boy, boy" or -- through "BH." 19 A. Okay. I'm on page 8 of JDT-4. 20 Q. Okay. So page 8 shows data related to special 21 contracts; correct? 22 A. Yes. 23 Q. Sir, we're going to stay with JDT-4 for the next 24 few questions and we'll stay on page 8. 25 A. Okay.</p>	<p style="text-align: center;">John Taylor by Ms. Gafken</p> <p>1 Q. Do you have your work papers with you or access 2 to them? 3 A. Some but not all of them. Which one? 4 Q. I do have a paper copy if we need it. 5 But I'm looking at the tab, "Mains cost." It 6 was the last tab in the electronic copy. 7 A. Of which work paper? 8 Q. The work paper for JDT-3. 9 JUDGE PEARSON: Ms. Gafken, do we have that 10 in evidence? 11 MS. GAFKEN: I did not make it an exhibit. 12 I just wanted to ask him about two numbers on it. 13 I do have paper copies, if it's useful for 14 the witness to look at it. And I have copies for others 15 if they would like to see it as well. 16 JUDGE PEARSON: Just go ahead. That's fine. 17 MR. TAYLOR: I'll take a paper copy. It 18 might be quicker. 19 MS. GAFKEN: Okay. 20 MR. TAYLOR: I have it here now. 21 BY MS. GAFKEN: 22 Q. Okay. In your work papers, you show the cost of 23 Mains attributed to various types and sizes of mains 24 under a tab called "Mains costs"; correct? 25 A. Correct.</p>

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1 **Q. I don't know if you need to check this -- or**
 2 **accept it subject to check, but I'm happy to have that**
 3 **be a condition of this.**
 4 **But would you accept that your work paper shows**
 5 **the amount of Mains Plant allocated direct to Boeing is**
 6 **\$4,893,490?**
 7 A. That's the -- I wouldn't depict -- I wouldn't
 8 say that was allocated to Boeing. That's the result of
 9 the special study that is utilizing, as you can see in
 10 the column, 2018 dollars. So just to spend a minute
 11 here.
 12 MR. PEPLER: I'm sorry. Can I interrupt
 13 for a second?
 14 I believe this is a confidential work paper.
 15 I just wanted to --
 16 CHAIRMAN DANNER: Whether it's confidential
 17 or not, I'm just trying to figure out if we should be
 18 having a conversation on it.
 19 JUDGE PEARSON: Ms. Gafken, if you intend to
 20 rely on this in your brief in any way, we will need it
 21 offered and entered into the record, so -- and if it is
 22 confidential, then can we check that?
 23 MS. GAFKEN: Okay. I will definitely check
 24 that. I did not think it was confidential.
 25 So my apologies. I did not mean to disclose

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1 anything that shouldn't have been disclosed.
 2 MR. TAYLOR: I might be able to help,
 3 though.
 4 Do you want me to help for a second here to
 5 describe what I did and where these numbers are derived
 6 from?
 7 BY MS. GAFKEN:
 8 **Q. Sure.**
 9 A. Okay. All right. So -- so the methodology that
 10 was used for the work paper that you're citing that you
 11 provided a copy for was to look at 2018 dollars. So
 12 everything has been adjusted for inflation using a
 13 Handy-Whitman index.
 14 So the dollars that you see in this work paper,
 15 because plants have been invested over the history of
 16 the asset, you know, you have an asset that was put in
 17 service in 1970. Well, to have a comparison that's
 18 relevant, you have to bring it all in the same dollar
 19 units and so we use 2018 dollars.
 20 So the amount that is in this work paper that
 21 shows that's direct to the special contract customer is
 22 in 2018 dollars, whereas in the cost of service study
 23 were we're not adjusting plant for inflation, but using
 24 the imbedded cost of that plant.
 25 So there's going to be a difference between the

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1 total dollar seen in any cost of service work paper from
 2 that and which is in the special study.
 3 **Q. Okay. Let's return to your direct testimony**
 4 **Exhibit JDT-1T, page 12, line 17 through page 13,**
 5 **line 3.**
 6 A. Okay. I'm there.
 7 **Q. The GIS study tracked all Mains utilized by the**
 8 **special contracts from the customers' meters back to the**
 9 **city gate; is that correct?**
 10 A. Correct.
 11 **Q. And some of these Mains were tracked from the**
 12 **customers' meters back to the city gate are used by a**
 13 **multitude of customers; is that correct?**
 14 A. Yes, some are.
 15 **Q. So some of these mains captured by the GIS study**
 16 **are common use Mains that serve residential customers or**
 17 **commercial customers or a variety of customers; correct?**
 18 A. Yeah. And that was accounted for in the study.
 19 **Q. But they are not used for the sole purpose of**
 20 **servicing special contract customers; correct?**
 21 A. Only a portion of the Mains were in the special
 22 study direct assigned to the special contract facilities
 23 based on the design day, peak usage of that portion of
 24 Mains for the special contracts load.
 25 **Q. Would it be correct to say that the Mains**

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1 **identified in the study are not wholly dedicated**
 2 **facilities but rather the study allocated a portion of**
 3 **these Mains to the special contract customer?**
 4 A. Yes. It would be a portion. Yeah.
 5 **Q. Thank you.**
 6 MS. GAFKEN: I don't have any further
 7 questions for Mr. Taylor. I'll move on to Mr. Piliaris.
 8 CROSS-EXAMINATION
 9 BY MS. GAFKEN:
 10 **Q. Good afternoon, Mr. Piliaris.**
 11 A. Good afternoon, Ms. Gafken.
 12 **Q. Are you familiar with the issues list prepared**
 13 **by the parties in this matter?**
 14 A. Generally speaking.
 15 **Q. I do want to refer to the -- one of the tabs in**
 16 **the issues list.**
 17 **I have a copy of the spreadsheets that are**
 18 **included in the issues list. I don't think that needs**
 19 **to be an exhibit. But if need be, we can pass those out**
 20 **too.**
 21 **So, generally speaking, for the electric and**
 22 **national gas cost of service study and rate spread tab**
 23 **of the issues list, the issues list generally shows the**
 24 **parties' cost of survey study results and proposal rate**
 25 **spreads; is that correct?**

Page 260	<p style="text-align: center;">Jon Piliaris by Ms. Gafken</p> <p>1 A. It would be easier for me to confirm that if I 2 had a copy of it in front of me. 3 Before me, I'm looking at a sheet that in the 4 lower left corner states: "Gas cost of service and rate 5 spread"; and the bottom right corner "page 1 of 2"; and 6 at the top includes "line, gas, cost of service, parody 7 ratios, PSE rebuttal" and on down the line. 8 Is this the correct sheet? 9 Q. I think that is similar. I have some questions 10 about the electric cost of service study and white 11 spread. 12 A. I only have gas in front of me. 13 MS. BARNETT: I'll point out that this is 14 not again -- again, not an exhibit and is not in the 15 record. So I would like to make that clear. I don't 16 think the issues list states expressly that it's not in 17 the record. 18 So I'm curious as to the extent we're going 19 to be questioning Mr. Piliaris on the issues list. 20 JUDGE PEARSON: I'm wondering if you can ask 21 your questions without the issues list. 22 MS. GAFKEN: We might be able to ask the 23 questions without referring to the issues list. 24 There's a concept that I -- that I'd like to 25 have explained. And I'm fairly certain that</p>	Page 262	<p style="text-align: center;">Jon Piliaris by Ms. Gafken</p> <p>1 is -- let me back up. 2 Normally, when a company does rate spreads, 3 traditionally, it performs that spread on base rates 4 only. And so that is what you see in the applied rate 5 spread, so that's why the numbers are generally very 6 round. 7 For example, for PSE rebuttal, you see 8 residential rate spread of a hundred percent, secondary 9 general service of a hundred percent and on down the 10 line. 11 The -- my interpretation of the effective rate 12 spread is that it not only incorporates the spread in 13 the applied rate spread of base rates, but it also 14 incorporates the changes to the other riders that would 15 be effected by the change in rate spread as a result of 16 this case. 17 So it incorporates probably more of a look from 18 a bill impact perspective rather than just solely on 19 base rates. 20 Q. Okay. Under the applied table, you mentioned 21 that's the table with the relatively rounder numbers. 22 If a rate class receives 100 percent allocation, 23 that does not mean that the rate class receives the 24 system average increase; correct? 25 A. That's correct.</p>
Page 261	<p style="text-align: center;">Jon Piliaris by Ms. Gafken</p> <p>1 Mr. Piliaris will be helpful in that regard, so -- 2 JUDGE PEARSON: Do you have a copy of it for 3 him? 4 MS. GAFKEN: I do have a copy of the issues 5 list. Or -- well, that tab, the electric cost of 6 service rates by tab that I can provide to him. 7 MS. BARNETT: Is that the entire tab? 8 MS. GAFKEN: No, it's just the -- the two 9 parts. The effective rate spread and applied rate 10 spread charts. 11 MS. BARNETT: If I can approach and provide 12 Mr. Piliaris the full tab, electronically, maybe that 13 will be easier. 14 THE COURT: That's fine. 15 BY MS. GAFKEN: 16 Q. For "rate spread" the issues list shows an 17 effective rate spread and applied rate spread; correct? 18 A. Yes. 19 Q. The effective rate spread is intended to show 20 each rate class -- I'm sorry, let me start that over 21 again. 22 The effective rate spread is intended to show 23 each rate class' increase as a percentage of the system 24 average percentage increase; correct? 25 A. The way I'd interpret the effective rate spread</p>	Page 263	<p style="text-align: center;">Jon Piliaris by Ms. Gafken</p> <p>1 Q. The 100 percent simply means that the class is 2 receiving an equal percentage increase of the remaining 3 dollar increase after the increases to those classes 4 receiving greater or less than a hundred percent as 5 allocated; correct? 6 A. And as well as certain other classes that don't 7 actually receive an allocation, per se, but are more 8 directly calculated. But, generally speaking, that's 9 correct. 10 Q. I'd like to walk through an example, if I could. 11 Looking at your Exhibit JAP-6. If you could 12 turn to page 8 of JAP-6. And the electronic version 13 that's the page found in tab -- Exhibit JAP, dash, rate 14 spread. 15 JUDGE PEARSON: Ms. Gafken, could I just 16 interrupt you for one moment. We don't have the paper 17 exhibit, so we would like to take a short recess. 18 MS. GAFKEN: I can also -- 19 Do you have the electronic exhibit? 20 JUDGE PEARSON: I do. The Commissioners do 21 not. 22 MS. GAFKEN: Oh, okay. In that case -- 23 THE COURT: We'll take a short recess. 24 MS. GAFKEN: -- I'll stop. Yeah. 25 THE COURT: Thank you.</p>

Page 264	<p>Jon Piliaris by Ms. Gafken</p> <p>1 (A recess was taken from 2:00 p.m. to 2:03 p.m.)</p> <p>2 THE COURT: We'll go back on the record and</p> <p>3 proceed.</p> <p>4 BY MS. GAFKEN:</p> <p>5 Q. Mr. Piliaris, if you could please refer to</p> <p>6 page 8 of Exhibit JAP-6, which presents your rate spread</p> <p>7 summary.</p> <p>8 A. I'm there.</p> <p>9 Q. Column F, row 1, shows a proposed revenue</p> <p>10 increase of 7.68 percent for the residential class;</p> <p>11 correct?</p> <p>12 A. Proposed revenue increase; correct.</p> <p>13 Q. And PSE's proposed system-wide increase is 143</p> <p>14 million or a system-wide increase of 7.16 percent;</p> <p>15 correct?</p> <p>16 A. Correct.</p> <p>17 Q. If we divide your residential 6.8 [verbatim]</p> <p>18 percent increase by the overall system increase of 7.16,</p> <p>19 we get 107.3 percent of the system average percent</p> <p>20 increase; is that correct? Subject to check.</p> <p>21 A. Subject to check.</p> <p>22 Q. If you refer to the issues list, the effective</p> <p>23 table -- rate spread table shows 107 -- 107.3 percent</p> <p>24 for the residential class; correct? The effective</p> <p>25 table.</p>	Page 266	<p>Jon Piliaris by Ms. Gafken</p> <p>1 are getting consistent increase amongst themselves. And</p> <p>2 it's proportional, essentially. It preserves some</p> <p>3 proportionality between those that are 75 percentage of</p> <p>4 the average, 125 percent of the average, or the average.</p> <p>5 Q. So the 100 percent, again, it's not 100 percent</p> <p>6 of the system average, but it's 100 percent of what's</p> <p>7 left over.</p> <p>8 A. Essentially, yes.</p> <p>9 Q. And just so I'm sure that we're clear -- that I</p> <p>10 think I understand this.</p> <p>11 The residential class under your proposal would</p> <p>12 not receive 100 percent of the overall percentage</p> <p>13 increase but rather a 107.3 percent of the overall</p> <p>14 percentage increase; is that correct?</p> <p>15 A. I believe that's what the -- this particular</p> <p>16 analysis shows.</p> <p>17 MS. GAFKEN: That is all of my very painful</p> <p>18 cross. Thank you.</p> <p>19 JUDGE PEARSON: Ms. Barnett, did you have</p> <p>20 any redirect?</p> <p>21 MS. BARNETT: No, Your Honor.</p> <p>22 JUDGE PEARSON: And, Mr. Boehm, this is the</p> <p>23 cross that you waived; is that correct?</p> <p>24 MR. BOEHM: That's correct, Your Honor.</p> <p>25 JUDGE PEARSON: Is there any questions?</p>
Page 265	<p>Jon Piliaris by Ms. Gafken</p> <p>1 A. Correct.</p> <p>2 Q. Now I would like to focus on the idea of applied</p> <p>3 rate spread.</p> <p>4 Turning back to your Exhibit JAP-6 on page 8,</p> <p>5 column E at row 1, the residential class is listed at</p> <p>6 100 percent; correct?</p> <p>7 A. Correct.</p> <p>8 Q. I know you provided an explanation earlier, but</p> <p>9 isn't that amount still applied to the \$143 million</p> <p>10 increase?</p> <p>11 In other words, what does that 100 percent mean?</p> <p>12 How is that 100 percent used to develop the 7.6 percent</p> <p>13 increase in column F?</p> <p>14 A. I believe it's what you had -- I think it was</p> <p>15 you that described this earlier.</p> <p>16 Once the -- the rate groups that have their --</p> <p>17 either ones that already have explicitly calculated</p> <p>18 rates or get greater or less than the average increase,</p> <p>19 the remaining classes that have 100 percent essentially</p> <p>20 get the average of the remainder.</p> <p>21 So it's somewhat of a complicated calculation to</p> <p>22 explain, but it's essentially a goal-seeking</p> <p>23 calculation; that it iterates on itself.</p> <p>24 So that those that are getting an --</p> <p>25 quote/unquote, a hundred percent of the average increase</p>	Page 267	<p>Jon Piliaris by Mr. Roberson</p> <p>1 Oh, staff has a few. That's right. Sorry.</p> <p>2 I promptly forgot what you told me,</p> <p>3 Mr. Roberson.</p> <p>4 MR. ROBERSON: It was off the record. It</p> <p>5 never happened.</p> <p>6 CROSS-EXAMINATION</p> <p>7 BY MR. ROBERSON:</p> <p>8 Q. Good afternoon, Mr. Piliaris. How are you?</p> <p>9 A. Good afternoon.</p> <p>10 Q. Does your binder of doom have your rebuttal</p> <p>11 testimony?</p> <p>12 A. It does.</p> <p>13 Q. Could you turn to it? It is Exhibit JAP-18T.</p> <p>14 A. I'm there.</p> <p>15 Q. Page 18. I just have a few questions about the</p> <p>16 conjunctive demand pilot.</p> <p>17 I guess, initially, does PSE consider this as a</p> <p>18 pilot or a temporary offering?</p> <p>19 A. I would consider it a pilot with the -- the</p> <p>20 intention of making it permanent and perhaps also</p> <p>21 expanding it.</p> <p>22 Q. Okay. So on lines 12 through 16, you note that</p> <p>23 the pilot isn't readily susceptible to the concept of</p> <p>24 internal validity; correct?</p> <p>25 A. I note the term "internal validity." I cannot</p>

Page 268	<p>Jon Piliaris by Mr. Roberson</p> <p>1 claim with certainty that I fully understand how it was 2 intended to be used by staff.</p> <p>3 My interpretation of the term "internal 4 validity" was in the context of applying some pricing 5 schedule to -- to broader groups of customers 6 particularly residential-type customers.</p> <p>7 And the -- my recollection was that the 8 attention behind that statement was that if you're going 9 to apply it, it works well for many different customers 10 within that group. And that was the way I was 11 interpreting the internal validity.</p> <p>12 Q. On a more general level, I guess a definition of 13 internal validity is the strength of a correlation 14 between a cause and effect; right?</p> <p>15 A. I'm not sure that I would necessarily 16 interpret -- I didn't interpret it that way.</p> <p>17 Q. Okay. On lines 14 through 16, you seem to 18 indicate that customer-specific factors may prevent the 19 extrapolation of principles to other customers; correct?</p> <p>20 A. Yes. Correct.</p> <p>21 Q. As I understand a pilot, a pilot is a program 22 intended to measure whether or not to roll out a program 23 to a broader customer base; correct?</p> <p>24 A. Not necessarily.</p> <p>25 Q. How do you use the term "pilot"?</p>	Page 270
Page 269	<p>Jon Piliaris by Mr. Roberson</p> <p>1 A. Well, my interpretation of pilot is it is a 2 learning exercise. It can -- the pilot will ask many 3 different questions. And one question may be that 4 whether or not it could be applicable to more customers, 5 maybe that it's only dedicated to a specific group of 6 customers.</p> <p>7 Just, is it working the way you intended it to 8 work?</p> <p>9 In which case you have an opportunity to gain 10 some learnings and, perhaps, adjust the offering so that 11 it more -- it works the way it was intended.</p> <p>12 Q. Would you say that's not what you're intending 13 with this pilot?</p> <p>14 I understand your testimony in lines 14 through 15 16 as saying you are not going to be able to decide 16 whether or not to rule it out based on what happens with 17 these customers, because you can't extrapolate the data 18 from them?</p> <p>19 A. No, that wasn't the intent of that particular --</p> <p>20 Q. Could you explain what you meant then?</p> <p>21 A. The -- the context from this general area of my 22 testimony was that staff offered many interesting and 23 sometimes helpful suggestions in how to go about 24 developing a pilot.</p> <p>25 And the general point was not all of the various</p>	Page 271
Page 270	<p>Birud Jhaveri by Commissioner Balasbas</p> <p>1 factors that were raised are applicable in every 2 situation or for every pilot.</p> <p>3 And my interpretation of this internal validity, 4 I was making the point that I didn't think, at least the 5 way I understood that term to be used, didn't seem to be 6 as apropos for this particular pilot necessarily.</p> <p>7 Q. Fair enough. That's all the questions I have.</p> <p>8 Thank you.</p> <p>9 JUDGE PEARSON: Thank you. Any redirect?</p> <p>10 MS. BARNETT: No, Judge Pearson.</p> <p>11 JUDGE PEARSON: Okay. Thank you.</p> <p>12 So other questions from the bench for 13 Mr. Piliaris?</p> <p>14 And I will say that there's no other parties 15 that have cross for him. So if you have questions, we 16 could ask him outside of recalling him later.</p> <p>17 COMMISSIONER BALASBAS: All right. So this 18 question is for Mr. Jhaveri.</p> <p>19 Good afternoon. Mr. Jhaveri.</p> <p>20 MR. JHAVERI: Good afternoon.</p> <p>21 COMMISSIONER BALASBAS: In your Exhibit 22 BBJ-6 in your testimony, that is a comparison table of 23 various parody ratios from different methods proposed in 24 the case -- both PSE's proposed as well as the current 25 method and some of the other parties' methods.</p>	Page 271
Page 271	<p>Birud Jhaveri by Commissioner Balasbas</p> <p>1 My question for you is if the Commission 2 were to not accept PSE's proposed method here in this 3 case, given other things with cost of service rulemaking 4 and other factors, would the company accept the current 5 25 percent/75 percent allocation?</p> <p>6 MR. JHAVERI: The short answer is "yes."</p> <p>7 And the -- the reason the answer is "yes" is because in 8 my rebuttal testimony, I also noted that there were -- 9 there were other rulemakings that we're looking into 10 changing the cost of service methodology that is 11 currently being utilized, and it may be beneficial for 12 us to hold the course steady until we have a better idea 13 of where these new methodologies will take us in terms 14 of calculation for cost of service.</p> <p>15 COMMISSIONER BALASBAS: Thank you.</p> <p>16 My next question for you relates to the 17 incorporation of carbon prices in the P credit 18 methodology.</p> <p>19 MR. JHAVERI: Yes.</p> <p>20 COMMISSIONER BALASBAS: And in the company's 21 proposal you include the social cost of carbon rather 22 than previous projected emissions costs from the 2017 23 general rate case; is that correct?</p> <p>24 MR. JHAVERI: That is correct.</p> <p>25 COMMISSIONER BALASBAS: Do you recall,</p>	Page 271

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<p>Birud Jhaveri by Commissioner Balasbas</p> <p>1 roughly, what the emissions cost numbers were used in</p> <p>2 the 2017 general rate case?</p> <p>3 MR. JHAVERI: Off the top of my head, I do</p> <p>4 not recall. But I do understand that they were -- I do</p> <p>5 recall that they were far lower than what the social</p> <p>6 cost of carbon is -- is mandated to be going forward.</p> <p>7 COMMISSIONER BALASBAS: Okay. You mentioned</p> <p>8 one of the reasons for incorporating the social cost of</p> <p>9 carbon in this case today is that it was legislatively</p> <p>10 mandated.</p> <p>11 Could you explain, or do you have a specific</p> <p>12 reference to the statute that requires the use of social</p> <p>13 cost of carbon that would require its use here in cost</p> <p>14 of service study?</p> <p>15 MR. JHAVERI: Yes. Give me just a second.</p> <p>16 So I'm not sure if this is part of the</p> <p>17 record. It was submitted as a data request. It was --</p> <p>18 it's part of the -- I believe this is part of the</p> <p>19 statutory language from the Senate Bill 5116.</p> <p>20 Section 14 subsection (3)(a) states that "An electric</p> <p>21 utility shall consider the social cost of greenhouse gas</p> <p>22 emissions as determined by the Commission for</p> <p>23 investor-owned utilities pursuant to Section 15 of this</p> <p>24 Act, the department for consumer-owned utilities.</p> <p>25 "When developing integrated resource plans</p>	<p>Jon Piliaris by Commissioner Rendahl</p> <p>1 were just replaced by those.</p> <p>2 JUDGE PEARSON: Thank you.</p> <p>3 COMMISSIONER RENDAHL: So, Mr. Piliaris, I</p> <p>4 have a question for you about the conjunctiva demand</p> <p>5 pilot. Back to that topic.</p> <p>6 So your initial testimony, JAP-1T, on</p> <p>7 page 37, starting -- you say you have little</p> <p>8 information -- I'm looking for the line number here.</p> <p>9 On line 20. Let me just ask this question.</p> <p>10 This is about the issue of recovering revenue losses,</p> <p>11 potential revenue losses from this pilot. And you had</p> <p>12 stated that you would wait to recover lost revenue until</p> <p>13 the next rate case. Is that -- is that a correct</p> <p>14 summary of your testimony?</p> <p>15 MR. PILIARIS: Generally, I would say that</p> <p>16 that determination has not yet been made. I think we</p> <p>17 need to determine whether it's material or not before</p> <p>18 going down that path.</p> <p>19 So the only point in my testimony was that</p> <p>20 we will revisit that issue later once we have a better</p> <p>21 understanding if there really is a significant revenue</p> <p>22 loss.</p> <p>23 COMMISSIONER RENDAHL: So the plan is to</p> <p>24 track, as this pilot goes along, to see what that</p> <p>25 revenue loss looks like.</p>
Page 273	Page 275
<p>Birud Jhaveri by Commissioner Balasbas</p> <p>1 and clean energy action plans, an electric utility must</p> <p>2 incorporate the social cost of greenhouse gas emissions</p> <p>3 as a cost at or when evaluating and selecting</p> <p>4 conservation policy programs and targets to developing</p> <p>5 integrated resource plans and clean energy action</p> <p>6 plans."</p> <p>7 COMMISSIONER BALASBAS: Thank you. I'm</p> <p>8 aware of that statutory reference.</p> <p>9 Again, I would reiterate my question and</p> <p>10 say, in that language, where does it require that it was</p> <p>11 used to cure the cost of service study?</p> <p>12 MR. JHAVERI: So the language itself does</p> <p>13 not necessarily point out that it needs to be used in a</p> <p>14 cost of service study.</p> <p>15 What it does state is that it should be</p> <p>16 utilized when developing your integrated resource plans</p> <p>17 and clean energy action plans.</p> <p>18 The P credit model utilizes numerous data</p> <p>19 point from the integrated recourse plan. Going forward,</p> <p>20 as the integrated resource plan is mandated to use the</p> <p>21 social cost of carbon, it would only make sense that</p> <p>22 as -- currently, at least in the 2017 GRC, I believe,</p> <p>23 there was a placeholder used for the social -- for the</p> <p>24 cost of carbon. It was an estimated cost. Now that we</p> <p>25 know what the known and required costs are, those costs</p>	<p>Jon Piliaris by Commissioner Rendahl</p> <p>1 MR. PILIARIS: And that's actually a</p> <p>2 fundamental piece of the pilot itself in its evaluation.</p> <p>3 I know elsewhere in my testimony that that's</p> <p>4 actually -- one of the criteria of whether or not the</p> <p>5 pilot is successful, is that whether or not customers</p> <p>6 are achieving any bill savings as a result of the pilot.</p> <p>7 COMMISSIONER RENDAHL: So if the program is</p> <p>8 successful and the company -- or the customers that are</p> <p>9 taking part in the pilot do save money, if that results</p> <p>10 in not recovering revenue from those customers that</p> <p>11 otherwise would have been recovered, and that would</p> <p>12 result in those schedules under-collecting their</p> <p>13 allocated share of revenue requirement; correct?</p> <p>14 MR. PILIARIS: Yes, that's correct.</p> <p>15 COMMISSIONER RENDAHL: So as a part of your</p> <p>16 evaluation of the pilot, would PSE commit to documenting</p> <p>17 the calculation of those lost revenues and assigning</p> <p>18 those to the participating schedules in a future rate</p> <p>19 case? Do you have a way to recover those costs?</p> <p>20 MR. PILIARIS: Absolutely. I mean the point</p> <p>21 is, is that there's a certain amount of cost -- as the</p> <p>22 Commission knows, there's a certain amount of costs that</p> <p>23 are allocated to each schedule and then you design rates</p> <p>24 to recover that revenue.</p> <p>25 And then if you were changing the way you're</p>

Page 276	<p>Jon Piliaris by Commissioner Rendahl</p> <p>1 designing rates to recover revenue from that schedule</p> <p>2 and if you have a pilot, for example, that reduces</p> <p>3 revenue collection, then the rest should be recovered</p> <p>4 from the remainder within that class of customers.</p> <p>5 COMMISSIONER RENDAHL: Okay. And then in</p> <p>6 terms of the evaluation of the pilot. This is -- I</p> <p>7 think going to somewhat of the area that staff was</p> <p>8 discussing. If you go to your rebuttal testimony,</p> <p>9 JAP-18T, and look at page 11 through 19 where this is</p> <p>10 discussed.</p> <p>11 You're responding to Staff's design and</p> <p>12 evaluation elements. Specifically on page 14, you're</p> <p>13 talking about Staff's design and evaluation of elements</p> <p>14 that provide useful guidance.</p> <p>15 If -- if the Commission were to approve the</p> <p>16 pilot in this docket, are there any specific design in</p> <p>17 evaluation elements that can be applied in the</p> <p>18 evaluation report, or is that something you would like</p> <p>19 the Commission to direct, or is that something you would</p> <p>20 like the company to determine on its own?</p> <p>21 MR. PILIARIS: In a perfect world, it would</p> <p>22 probably be somewhere in between. The Company would</p> <p>23 likely have some ideas, but if the Commission has things</p> <p>24 that it specifically would like to be examined, the</p> <p>25 Company would very much appreciate knowing that so that</p>	Page 278	<p>Jon Piliaris by Chairman Danner</p> <p>1 some time.</p> <p>2 And as I noted in my testimony, there's</p> <p>3 going to need to be a fair amount of IT and process</p> <p>4 development based on whatever is ultimately decided.</p> <p>5 So I think it would be aggressive to -- to</p> <p>6 assume that we could get -- with all of that to gain</p> <p>7 meaningful stakeholder input and have enough time to</p> <p>8 actually implement the program by the end of the year;</p> <p>9 that might be an aggressive schedule.</p> <p>10 So the Company has laid out a year --</p> <p>11 one-year schedule as a -- as a reasonable timeline.</p> <p>12 CHAIRMAN DANNER: So December 31st of 2020</p> <p>13 this year is -- you see that as too aggressive, but a</p> <p>14 couple months later is okay.</p> <p>15 MR. PILIARIS: It could be done. But I</p> <p>16 think what would end up happening is that we would</p> <p>17 likely need to -- the -- I think the stakeholder input</p> <p>18 would suffer as a result of that to allow enough time</p> <p>19 for implementation.</p> <p>20 CHAIRMAN DANNER: So another timeline we</p> <p>21 had, though, Staff, in their cross-answering testimony</p> <p>22 suggested that we -- that you have an alternative</p> <p>23 proposal just for the Commission to -- to study the cost</p> <p>24 effectiveness of the program.</p> <p>25 And they recommend a brief report of the</p>
Page 277	<p>Jon Piliaris by Chairman Danner</p> <p>1 it can provide an evaluation that is a value to the</p> <p>2 Commission.</p> <p>3 COMMISSIONER RENDAHL: Thank you.</p> <p>4 CHAIRMAN DANNER: Are we calling</p> <p>5 Mr. Piliaris back?</p> <p>6 JUDGE PEARSON: It's up to you.</p> <p>7 CHAIRMAN DANNER: Well, I have a question</p> <p>8 for you regarding your on-bill repayment.</p> <p>9 So, Mr. Piliaris, Northwest Energy Coalition</p> <p>10 recommends the Commission to direct the company to</p> <p>11 design and develop an on-bill repayment program.</p> <p>12 And in their testimony Ms. Gerlitz says that</p> <p>13 they recommend PSE design and implement an on-bill</p> <p>14 repayment program by December 31st, 2020.</p> <p>15 If the Commission were to direct Puget to</p> <p>16 design and implement such a program, is that date a</p> <p>17 feasible timeline for such an effort? And if not, what</p> <p>18 kind of timeline do you think would be reasonable?</p> <p>19 MR. PILIARIS: As I noted in my testimony,</p> <p>20 if the Commission were to direct the Company to pursue</p> <p>21 such a program, I think it would be helpful to</p> <p>22 incorporate the -- the advice and suggestions of the</p> <p>23 "CRAG" as they would be knowledgeable and directly</p> <p>24 impacted by the program.</p> <p>25 As the Commission is aware, that might take</p>	Page 279	<p>Jon Piliaris by Chairman Danner</p> <p>1 program within three months of the effected date of the</p> <p>2 final order in this case. Is that enough time?</p> <p>3 MR. PILIARIS: Just to make sure I heard you</p> <p>4 correctly. The three months was to evaluate,</p> <p>5 essentially, the cost and benefits of pursuing that</p> <p>6 program not actually implementing?</p> <p>7 CHAIRMAN DANNER: That's right. It's</p> <p>8 four -- as I understand the Staff's report, their</p> <p>9 recommendation is that the company provide a brief</p> <p>10 report of the program within three months of the</p> <p>11 effective date of the final order.</p> <p>12 So if we were to do that, my question to you</p> <p>13 is would that be sufficient time? And if not, what kind</p> <p>14 of timeline would you prefer or suggest?</p> <p>15 MR. PILIARIS: Again, I think three months.</p> <p>16 As I think the Commission can appreciate</p> <p>17 with anything that's going on getting on anybody's</p> <p>18 calendar within a three-month time frame can be somewhat</p> <p>19 challenging with everything that's going on.</p> <p>20 I would respectfully submit that maybe</p> <p>21 six months might be a safer timeline to allow, again,</p> <p>22 meaningful input and a time for the analysis to actually</p> <p>23 occur.</p> <p>24 CHAIRMAN DANNER: Okay. Those are my</p> <p>25 questions. Thank you.</p>

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1 JUDGE PEARSON: So you are all excused.
 2 Thank you very much.
 3 And at this time we'll assemble the IT
 4 investment panel, which is PSE witnesses Jacobs, Free,
 5 Wappler, Koch, and Hopkins.
 6 MR. PEPPLE: Judge Pearson, just a quick
 7 procedural issue while the panel is gone.
 8 I was wondering if it would be possible to
 9 collect the work paper that Ms. Gafken handed around. I
 10 believe there may be some confidential information in
 11 there, and it would be appropriate to...
 12 JUDGE PEARSON: Okay. Sure. Thank you.
 13 MS. CARSON: Judge Pearson?
 14 JUDGE PEARSON: Yes.
 15 MS. CARSON: We were wondering if Mr. Rábago
 16 could be excused or is excused.
 17 JUDGE PEARSON: Yes, that's fine.
 18 MS. CARSON: Thank you very much.
 19 JUDGE PEARSON: Okay. So will you all
 20 please stand and raise your right hand. I'll swear you
 21 in.
 22 (Panel sworn)
 23 JUDGE PEARSON: Okay. Please be seated.
 24 So, Ms. Carson, if you would like -- sorry,
 25 is it going to be Mr. Steele? Okay.

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1 If you could introduce the witnesses please.
 2 MR. STEELE: In the very front we've got
 3 Margaret Hopkins, Joshua Jacobs, Susan Free, Cathy Koch,
 4 and Andrew Wappler.
 5 JUDGE PEARSON: Okay. Thank you.
 6 So Public Counsel has indicated
 7 cross-examination for Jacobs and Koch.
 8 So, Ms. Gafken, would you like to ask those
 9 questions now or would you like to cross-examine them
 10 individually later?
 11 MS. GAFKEN: So we can ask those questions
 12 now.
 13 Ms. Paisner will ask the questions for
 14 Ms. Koch, and then I will ask the questions for
 15 Mr. Jacobs.
 16 JUDGE PEARSON: Okay. So before we do that,
 17 Staff, I have the same question for you with respect to
 18 Ms. Free.
 19 MS. ROBERSON: I can ask Ms. Free my
 20 questions now if you'd prefer.
 21 JUDGE PEARSON: Okay. And then Mr. Pepple,
 22 same for you? Mr. Coleman?
 23 MR. COLEMAN: Your Honor, I think I'm able
 24 to waive my cross of Ms. Hopkins.
 25 JUDGE PEARSON: Waive. Okay.

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Cathy Koch by Ms. Paisner
 1 So then --
 2 MR. PEPPLE: I did have question for
 3 Ms. Free. I'm happy to ask those during the panel.
 4 JUDGE PEARSON: Okay. That sounds good.
 5 Thank you.
 6 Ms. Paisner, whenever you're ready.
 7 CROSS-EXAMINATION
 8 BY MS. PAISNER:
 9 **Q. This is Ann Paisner on behalf of Public Counsel.**
 10 **Good afternoon, Ms. Koch.**
 11 A. Good afternoon.
 12 **Q. Do you have a copy of your rebuttal testimony**
 13 **which is PSE Exhibit CAK-6TR?**
 14 A. Yes. Just a sec.
 15 **Q. Just to clarify while I may ask questions that**
 16 **relate to confidential information some of the**
 17 **cross-exhibits.**
 18 **My questions will not disclose any confidential**
 19 **information and should not require you to discuss it.**
 20 A. I will try not to as well.
 21 **Q. Okay. Do you have a copy of PSE Exhibit CAK-4**
 22 **at page 1?**
 23 A. Exhibit CAK-4, which is. Okay. That's my
 24 direct testimony. Correct. Yes.
 25 **Q. On page 1 you discuss PSE advance metering**

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Cathy Koch by Ms. Paisner
 1 **infrastructure project which began in 2016; correct?**
 2 A. Yes.
 3 **Q. You discuss how 2016 was the year in which**
 4 **installation of the AMI network began.**
 5 A. Yes.
 6 **Q. But 2018 is the year in which installation of**
 7 **new AMI meters and gas modules began; is that correct?**
 8 A. Yes.
 9 **Q. On line 12, same page, you state that full**
 10 **deployment of the AMI network and electric meters and**
 11 **gas modules will be completed in 2022 to 2023; is that**
 12 **correct?**
 13 A. Yes.
 14 **Q. Please turn now to your rebuttal testimony,**
 15 **which -- on page 4, beginning on line 6.**
 16 A. Is this Exhibit CAK-60?
 17 **Q. It is.**
 18 A. Page 6.
 19 **Q. Page 4, line 6, please.**
 20 A. Page 4, line 6.
 21 **Q. This is where you describe obsolescence of AMR**
 22 **as PSE's primary reason for its decision to transition**
 23 **to advance metering infrastructure or AMI.**
 24 A. Yes, that I addressed the obsolescence of AMR
 25 being the driver for changing.

Page 284	<p>Cathy Koch by Ms. Paisner</p> <p>1 Q. In the second bullet item on that page at 2 line 15 you describe PSE's inability to obtain new 3 electric replacement equipment as they have been 4 discontinued; is that correct?</p> <p>5 A. Yes, I talk about that.</p> <p>6 Q. Please turn now to cross Exhibit CAK-8X. This 7 is your response to Public Counsel data request 256.</p> <p>8 A. Okay.</p> <p>9 Q. In this data request you were asked to provide 10 documentation regarding the types of AMR electric 11 equipment that had been discontinued.</p> <p>12 A. Yes. The question was around the electric meter 13 equipment, yes.</p> <p>14 Q. Attachment A of this exhibit states that a 15 window of time in which to purchase the Series 4 16 communication technology modules associated with 17 equipment item focus AXS4 was open through December 1st, 18 2019; is that correct?</p> <p>19 A. Yes.</p> <p>20 Q. This attachment states that Landis+Gyr would 21 continue to provide support for the Series 4 endpoints 22 as of the date of the document; is that correct?</p> <p>23 A. Yes.</p> <p>24 Q. And the date listed at the bottom of this 25 document is May 29th, 2019; is that the date of this</p>	Page 286
Page 285	<p>Cathy Koch by Ms. Paisner</p> <p>1 document?</p> <p>2 A. That's the date of this document.</p> <p>3 And just to be clear, this is a final notice 4 from Landis+Gyr on the sale of that product.</p> <p>5 Q. Okay. Thank you.</p> <p>6 Please turn to Attachment B of this exhibit, 7 please.</p> <p>8 This attachment states that Landis+Gyr would no 9 longer be producing new Focus AL one-way endpoints 10 beyond January 18, 2019; is that correct?</p> <p>11 A. Yes, that's what it says.</p> <p>12 Q. And this attachment also states that Landis+Gyr 13 will work on a customized plan to support maintenance 14 and growth operations for each customer; yes?</p> <p>15 A. (Nods head).</p> <p>16 Q. Similarly, for this document, the date printed 17 at the bottom is February 14, 2019.</p> <p>18 Is that the date of this document?</p> <p>19 A. Yes.</p> <p>20 Q. Please turn to Attachment C of -- of the same 21 document.</p> <p>22 This attachment states: "A last-time-to-buy 23 opportunity for 4,000 units of the Focus AX USC product 24 expiring on December 1st, 2019; correct?</p> <p>25 A. Mm-hmm.</p>	Page 287
Page 286	<p>Cathy Koch by Ms. Paisner</p> <p>1 Q. This attachment states that Landis+Gyr will 2 continue to offer field support for units. And at the 3 bottom, September 6th, 2019, is the date of this 4 document; correct?</p> <p>5 A. Yes.</p> <p>6 Q. So, lastly, please turn to Attachment E, same 7 document.</p> <p>8 A. Okay.</p> <p>9 Q. This attachment announces a last time to buy 10 window for Series 4KV 2C communications modules expiring 11 on March 31st, 2020; is that correct?</p> <p>12 A. Yes, that's --</p> <p>13 Q. And the date --</p> <p>14 A. -- of this notice.</p> <p>15 Q. Right. And the date at the bottom of this 16 announcement is stated as January 6, 2020?</p> <p>17 A. Yes.</p> <p>18 Q. So all these expiration dates, January 2019, 19 December 2019, and March of 2020 are after 2018 which is 20 the year in which you began to replace the AMR equipment 21 with AMI?</p> <p>22 A. Yes. These are the ones that you chose because 23 there's a couple other attachments there that have dates 24 prior to that, as well as there's -- this is just 25 relative to electric meters.</p>	Page 287

Page 288	<p>Cathy Koch by Ms. Paisner</p> <p>1 THE WITNESS: CAK-9. This is 257.</p> <p>2 BY MS. GAFKEN:</p> <p>3 Q. Yes. This data request refers to your rebuttal</p> <p>4 testimony page 4, line 19, where you characterize the</p> <p>5 AMR obsolescence by describing PSE's need to perform</p> <p>6 reprogramming of devices because different network</p> <p>7 equipment must be installed.</p> <p>8 You discuss how in 2017, which you describe is</p> <p>9 the last full year before AMI meters, gas modules, are</p> <p>10 installed, there were a total of 139 AMR devices that</p> <p>11 were reprogrammed; is that correct?</p> <p>12 A. Yeah, that was responsive to the question.</p> <p>13 Q. Right.</p> <p>14 And you explain here that the total cost for</p> <p>15 that reprogramming for all of 2017 was \$139,000; is that</p> <p>16 correct?</p> <p>17 A. That's what the response says.</p> <p>18 Q. Okay. So please turn to PSE Exhibit CAK-4 at</p> <p>19 page 4. Starting at line 13.</p> <p>20 A. CAK-4. Page --</p> <p>21 Q. -- 4, line 13.</p> <p>22 Is it true that in the 2013 analysis discussed</p> <p>23 here, PSE discovered that the AMR electric meters were</p> <p>24 failing at a rate of 1.6 percent per year?</p> <p>25 A. Yes. The response goes on to talk about what</p>	Page 290
Page 289	<p>Cathy Koch by Ms. Paisner</p> <p>1 was going on with the gas AMR batteries and modules as</p> <p>2 well as both residential and commercial as well as the</p> <p>3 failure rates of the network, so...</p> <p>4 Q. Right.</p> <p>5 In that same spot, I believe you discuss that</p> <p>6 the AMR network equipment was failing at 4 percent; is</p> <p>7 that correct?</p> <p>8 A. Yes.</p> <p>9 Q. And going on to page 5 you discuss how</p> <p>10 commercial gas modules were failing at 11 percent per</p> <p>11 year; correct?</p> <p>12 A. Yes.</p> <p>13 Q. And then for all gas modules the failure rate</p> <p>14 was four times 0.5.</p> <p>15 So was that 2 percent for all gas modules; is</p> <p>16 that correct?</p> <p>17 A. Yes. It looks like it is closer to 2.6. I</p> <p>18 think if you -- if you refer to the business case, which</p> <p>19 is Appendix A of that. It defines that a bit more and</p> <p>20 it talks about potentially as high as 20 percent.</p> <p>21 Q. Okay. Now, please turn to cross Exhibit</p> <p>22 CAK-10X. This is your response to Public Counsel data</p> <p>23 request 261.</p> <p>24 This data request refers to your rebuttal</p> <p>25 testimony at pages 5 to 6 at the bottom of page 5 where</p>	Page 291
Page 290	<p>Cathy Koch by Ms. Paisner</p> <p>1 you state that because the AMR network is failing and</p> <p>2 deficient it requires 50- to 60,000 meters to be</p> <p>3 manually read monthly, which is an additional monthly</p> <p>4 expense that would not be required for a properly</p> <p>5 functioning system.</p> <p>6 A. Yeah. The 50- to 60,000 was a historical</p> <p>7 average of what PSE had experienced in the past.</p> <p>8 Q. Okay. And you also state in the last paragraph</p> <p>9 of your response in this document that PSE would have</p> <p>10 paid the same to Landis+Gyr whether they provided an</p> <p>11 automated read or a manual read; is that correct?</p> <p>12 A. That's what it says, but I think I need to</p> <p>13 explain it a bit as well.</p> <p>14 So I think the question was -- let me go back.</p> <p>15 Confirm the cost of this. And at the time of the</p> <p>16 business case, that was prior to 2016, Landis+Gyr owned</p> <p>17 all the equipment, managed the system for us.</p> <p>18 So Landis+Gyr was obligated to provide</p> <p>19 appropriate adequate reads irrespective of whether it</p> <p>20 came through digital or whether it came through manual.</p> <p>21 It was their system. They managed it.</p> <p>22 After 2016, as we moved through contract</p> <p>23 negotiations, PSE, in the business case and the</p> <p>24 testimony talks about this, PSE took ownership of that</p> <p>25 equipment after that time; therefore, the manual meter</p>	Page 291
Page 291	<p>Cathy Koch by Ms. Paisner</p> <p>1 reading would have cost more if PSE wasn't performing</p> <p>2 maintenance obligation.</p> <p>3 Therefore, for example, not repairing things</p> <p>4 timely; not taking care of their system. And so those</p> <p>5 costs are different than what was experienced prior to</p> <p>6 2016 where it was kind of agnostic from a cost</p> <p>7 standpoint.</p> <p>8 Q. Okay. You also explain in this document that</p> <p>9 the manual meter reads were not accounted for in the</p> <p>10 benefit represented by the \$230 million of avoided AMR</p> <p>11 investment that were discussed here?</p> <p>12 A. Yes, because -- for the reasons I cited prior to</p> <p>13 Landis+Gyr owned it.</p> <p>14 Q. Now, please turn to cross Exhibit CAK-11XC. And</p> <p>15 this also -- to my questions will also relate to</p> <p>16 CAK-13X. Both are cross-exhibits.</p> <p>17 A. Is this 265?</p> <p>18 Q. Yes, 265 and 269 respectively. And again, my</p> <p>19 question will not state any confidential information</p> <p>20 here.</p> <p>21 In this exhibit you discuss net book value of</p> <p>22 AMR assets for years 2019 through 2023; is that correct?</p> <p>23 A. Yes.</p> <p>24 Q. Are any of these AMR assets for each of the</p> <p>25 years shown still in use by customers?</p>	Page 291

<p>Page 292</p> <p>Cathy Koch by Ms. Paisner</p> <p>1 A. Are any of the assets in --</p> <p>2 Q. Represented by those values.</p> <p>3 A. Well, this is forward-looking. So today, yes,</p> <p>4 they are.</p> <p>5 Q. In those years will they be in use?</p> <p>6 A. Well, this is -- 2023 is when we are completed</p> <p>7 with our AMI transition. And so all AMR assets will be</p> <p>8 retired.</p> <p>9 Q. So those values -- at least for 2023 represent</p> <p>10 assets that are not in use; is that correct?</p> <p>11 A. Correct. No AMR will be in use after we</p> <p>12 complete our transition.</p> <p>13 Q. Okay. Is the net book value of these assets as</p> <p>14 shown in this exhibit still in rates now?</p> <p>15 A. I'm -- per this response is with my</p> <p>16 witness/partner Susan Free, so as it relates to rates, I</p> <p>17 would like to get a better answer.</p> <p>18 MS. FREE: I'm happy to answer that</p> <p>19 question, if that's okay.</p> <p>20 JUDGE PEARSON: Sure.</p> <p>21 MS. FREE: Can you repeat the question</p> <p>22 actually?</p> <p>23 CROSS-EXAMINATION</p> <p>24 BY MS. PAISNER:</p> <p>25 Q. Sure. Is the net book value of the assets that</p>	<p>Page 294</p> <p>Susan Free and Ms. Koch by Ms. Paisner</p> <p>1 Q. Okay. Thank you.</p> <p>2 How long were the value of those AMR assets</p> <p>3 still be in rates that the customers will pay? You may</p> <p>4 have answered that.</p> <p>5 A. That would be dealt with when the regulatory</p> <p>6 asset is requested. So regulatory assets can be</p> <p>7 recovered over -- it doesn't have to be a set life; it</p> <p>8 can be determined at the time of the request.</p> <p>9 CROSS-EXAMINATION</p> <p>10 BY MS. PAISNER</p> <p>11 Q. Okay. These -- the AMR assets removed, as of</p> <p>12 today and also going forward, were or will any of these</p> <p>13 assets be still functional when they are removed?</p> <p>14 A. Well, I think the bulk of them might not be,</p> <p>15 because the system's failing. So there's likely some</p> <p>16 that would still be providing an automated read.</p> <p>17 But due to the need to transition in an</p> <p>18 appropriate time and prevent more failure from impacting</p> <p>19 customers, some likely will be.</p> <p>20 Q. Okay. Now, please turn to cross Exhibit</p> <p>21 CAK-12X. This is your response to Public Counsel data</p> <p>22 request 267.</p> <p>23 A. Okay.</p> <p>24 Q. In this exhibit, you discuss how PSE was limited</p> <p>25 in terms of equipment choices in that other</p>
<p>Page 293</p> <p>Susan Free by Ms. Paisner</p> <p>1 are referenced in this exhibit, is the net book value of</p> <p>2 these assets still rates now?</p> <p>3 A. Yes. The net book value as of December 31,</p> <p>4 2018, is -- is still in the rate case, yes.</p> <p>5 Q. Is it still in rates going forward?</p> <p>6 A. Yes. As long as they are used and useful, they</p> <p>7 will be in rates.</p> <p>8 And at the point that they reach the end of the</p> <p>9 rollout period and there's still net book value left, at</p> <p>10 that point we will be asking for a regulatory asset</p> <p>11 treatment.</p> <p>12 Q. Is PSE requesting to collect carrying charges on</p> <p>13 removed AMR assets in rates including return on?</p> <p>14 A. The -- we anticipate that the assets as they are</p> <p>15 in use will stay in rate base, which would earn a</p> <p>16 return. And that the regulatory asset we will be</p> <p>17 requesting also be in rate base, which will earn a rate</p> <p>18 of return.</p> <p>19 Q. Okay. And these carrying charges are associated</p> <p>20 with the removed assets that would not be in serve going</p> <p>21 forward.</p> <p>22 A. Yes. This is similar to treatment we've had on</p> <p>23 other regulatory assets where a plant has been removed</p> <p>24 from service before the depreciation life has been fully</p> <p>25 recovered.</p>	<p>Page 295</p> <p>Ms. Koch by Ms. Paisner</p> <p>1 manufacturers' equipment was incompatible with the AMR</p> <p>2 system; is that correct?</p> <p>3 A. Mm-hmm.</p> <p>4 Q. You explain on the second page that considering</p> <p>5 other options that were not compatible would have</p> <p>6 required replacement of the L+G communication equipment</p> <p>7 and system; is that correct?</p> <p>8 A. Yes.</p> <p>9 Q. Is it true that not considering those other</p> <p>10 incompatible options gave PSE the ability to do a less</p> <p>11 extensive transition than it would otherwise have to do</p> <p>12 if it had used other manufacturers' equipment?</p> <p>13 A. Can you restate the question?</p> <p>14 Q. Sure.</p> <p>15 Not considering those other incompatible</p> <p>16 options, is it true that this gave PSE the ability to do</p> <p>17 a less extensive transition replacement of the AMR, less</p> <p>18 extensive?</p> <p>19 A. By going to AMI?</p> <p>20 Q. By avoiding other incompatible manufacturers'</p> <p>21 equipment? Other manufacturers' incompatible equipment.</p> <p>22 MR. STEELE: I'm going to object to this</p> <p>23 line. I think counsel is misstating Ms. Koch's</p> <p>24 testimony here. I'm not sure she ever stated that.</p> <p>25 JUDGE PEARSON: Ms. Paisner, can you point</p>

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<p>Ms. Koch by Ms. Paisner</p> <p>1 to where that is in her testimony?</p> <p>2 MS. GAFKEN: Sure. This is in Exhibit</p> <p>3 CAK-12X, on the second page. Ms. Koch discusses that</p> <p>4 PSE would need to replace the L+G communication</p> <p>5 equipment system with regard to -- if they were to</p> <p>6 consider solutions that were not compatible with the</p> <p>7 current AMR system.</p> <p>8 And so my questioning was designed to</p> <p>9 clarify that.</p> <p>10 MS. KOCH: So because the -- I don't know</p> <p>11 that I understand your question the way it was phrased,</p> <p>12 in all honesty.</p> <p>13 But what this is trying to say is PSE's</p> <p>14 existing system, which dates back to 1998, is a</p> <p>15 proprietary system from Landis+Gyr and it is not</p> <p>16 compatible with anybody else's system, which is what is</p> <p>17 posing concerns with it failing.</p> <p>18 So given that it's not compatible, a</p> <p>19 wholesale change must be made. The idea of replacing it</p> <p>20 wholesale with another vender's AMR system or an AMI</p> <p>21 system would be equivalent.</p> <p>22 BY MS. PAISNER:</p> <p>23 Q. Okay. Thank you.</p> <p>24 Please turn to page 2 of cross Exhibit CAK-14X,</p> <p>25 which is Public Counsel data request 270. Your</p>	<p>Ms. Koch by Ms. Paisner</p> <p>1 So let me just explain what this table is just</p> <p>2 so we understand.</p> <p>3 So this -- this is a very simple table. It is</p> <p>4 not a full analysis. But what it was attempting to do</p> <p>5 is demonstrate that the benefits that are achieved with</p> <p>6 AMI far outweigh, continue to outweigh, continuing with</p> <p>7 an AMR system.</p> <p>8 And, specifically, in this case, this comparison</p> <p>9 has gross assumptions that we could continue an AMR</p> <p>10 system. And given what we know today and lack of</p> <p>11 supply, that's not realistic.</p> <p>12 But it was really just intended to continue</p> <p>13 to -- to address what I perceived Mr. Alvarez was trying</p> <p>14 to get to in his questions around book value. But to</p> <p>15 continue to demonstrate that the benefits of getting to</p> <p>16 AMI are very sound.</p> <p>17 Q. Okay. Is it true that PSE's AMI deployment</p> <p>18 installs approximately 1,000 meter units per circuit?</p> <p>19 A. Say that again.</p> <p>20 Q. Is it true that PSE's AMI system deployment</p> <p>21 would install approximately 1,000-meter units per</p> <p>22 circuit?</p> <p>23 A. I think the numbers --</p> <p>24 Q. You would have to check?</p> <p>25 A. Yeah. I don't know. I think it's a higher</p>
<p>Page 297</p> <p>Ms. Koch by Ms. Paisner</p> <p>1 response.</p> <p>2 A. 270?</p> <p>3 Q. 270. In your response you provide a table</p> <p>4 preparing costs of the AMI system versus those of</p> <p>5 continuing of the AMR system. And on the fifth row you</p> <p>6 provide a benefits value of \$436 million for the AMI</p> <p>7 versus zero dollars for the AMR.</p> <p>8 Does this \$436 million amount refer to</p> <p>9 conservation voltage reduction or CVR?</p> <p>10 A. Yes. It's associated with conservation voltage</p> <p>11 reduction and the ability to implement distribution</p> <p>12 automation from a reliability standpoint using the AMI</p> <p>13 network.</p> <p>14 Q. Okay. So is it true that looking at the table,</p> <p>15 the cost of the AMI system would be closer to the cost</p> <p>16 amount listed for continuing with the AMR if that value</p> <p>17 was not subtracted from a cost calculation listed in the</p> <p>18 table?</p> <p>19 A. So in interpreting your question meaning is 473</p> <p>20 closer to 378 off the table; is that what you are</p> <p>21 asking?</p> <p>22 Q. It looks in the table as though that</p> <p>23 \$436 million was subtracted from the other costs due to</p> <p>24 the minus sign in front of it.</p> <p>25 A. It is.</p>	<p>Page 299</p> <p>Ms. Koch by Ms. Paisner</p> <p>1 number than that.</p> <p>2 Q. Did PSE assume a percentage reduction in energy</p> <p>3 use from CVR in its business case?</p> <p>4 A. We did.</p> <p>5 Q. And is it true that in the Mercer Island pilot a</p> <p>6 similar percentage was delivered with only 30 AMI meters</p> <p>7 on 10 circuits?</p> <p>8 A. No. Actually, the business case estimates are</p> <p>9 much higher than that. And they actually line up with</p> <p>10 what industry utilities are seeing.</p> <p>11 And they were based on more than just the Mercer</p> <p>12 Island pilot. They were based on four or five</p> <p>13 additional pilots that were performed.</p> <p>14 Q. Okay. Do you know what a line sensor is?</p> <p>15 A. Yes.</p> <p>16 Q. Is it true that a line sensor functions to</p> <p>17 measure and report voltage?</p> <p>18 A. It can be used that way.</p> <p>19 Q. So does PSE system use line sensors today?</p> <p>20 A. It has some.</p> <p>21 Q. Okay. Now, please turn to cross Exhibit CA --</p> <p>22 A. Can I offer something, though, on that though?</p> <p>23 Q. Sure.</p> <p>24 A. I think the line of questioning -- I would like</p> <p>25 to remind that we're not -- there is a benefit to what</p>

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<p>Ms. Koch by Ms. Paisner</p> <p>1 we gain with the AMI installation relative to being able</p> <p>2 to implement conservation voltage reduction. But that's</p> <p>3 not the only -- that's not why we're doing it.</p> <p>4 We're doing it so we can have a reliable</p> <p>5 metering system that as a result of the fail -- the</p> <p>6 failing system, which requires reliable, fully function</p> <p>7 meters at every house.</p> <p>8 Once that's achieved, you can continue to take</p> <p>9 advantage of that. So I just want to make sure that</p> <p>10 that's -- it's clearly understood.</p> <p>11 Q. Please turn to cross Exhibit CAK-15X, which is</p> <p>12 your response to Public Counsel data request 274.</p> <p>13 A. Yes.</p> <p>14 Q. Your DR response at Item V discusses how PSE is</p> <p>15 not willing to commit to reductions in a revenue</p> <p>16 requirement for benefits from AMI investment associated</p> <p>17 with remote disconnect and reconnect, because as you</p> <p>18 state certain benefits are not quantifiable at this</p> <p>19 time.</p> <p>20 A. Yeah, I think that the -- the full answer</p> <p>21 addresses the -- the issue that there's AMR rulemaking</p> <p>22 going on which may have influence on those benefits.</p> <p>23 And it's hard to know how to quantify those at that time</p> <p>24 and submit what that full benefit may be.</p> <p>25 My partner, Josh Jacobs, who these benefits fall</p>	<p>Ms. Koch by Mr. Steele</p> <p>1 MS PAISNER: Thank you. I don't have any</p> <p>2 other questions.</p> <p>3 JUDGE PEARSON: Thank you.</p> <p>4 Is there anyone else have questions -- any</p> <p>5 redirect?</p> <p>6 MR. STEELE: Yes, Your Honor.</p> <p>7 JUDGE PEARSON: Okay.</p> <p>8 REDIRECT EXAMINATION</p> <p>9 BY MR. STEELE:</p> <p>10 Q. Ms. Koch, a few moments ago Ms. Paisner asked</p> <p>11 you questions about the discontinuance documents you</p> <p>12 received from Landis+Gyr which were attached to PSE's</p> <p>13 response Public Counsel data request 256.</p> <p>14 A. Yes.</p> <p>15 Q. And can you describe the process for how the</p> <p>16 company receives a notice of discontinuance from</p> <p>17 Landis+Gyr?</p> <p>18 A. So Landis+Gyr has been PSE's partner for over a</p> <p>19 decade and there's continual ongoing conversations with</p> <p>20 them. PSE also attends their annual user group</p> <p>21 meetings. And through those there are many</p> <p>22 conversations around Landis+Gyr products and future</p> <p>23 sunseting. When Landis+Gyr finalizes that, they</p> <p>24 publish the documents as a final notice.</p> <p>25 But before that, PSE has lots of opportunities</p>
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<p>Ms. Koch by Ms. Paisner</p> <p>1 under relative to Get To Zero could offer, if necessary.</p> <p>2 Q. I don't think that will be necessary.</p> <p>3 A. Okay.</p> <p>4 Q. Are reconnect and disconnect cost benefits</p> <p>5 estimated in CAK-4, Attachment G?</p> <p>6 A. The AMI business case, which is -- yes, does</p> <p>7 provide a preliminary estimate of those.</p> <p>8 In the business case, it fully acknowledges that</p> <p>9 those evaluations need to continue that the potential is</p> <p>10 there. Those evaluations need to continue as it relates</p> <p>11 to Get To Zero.</p> <p>12 Q. Okay. Are reconnect and disconnect -- sorry --</p> <p>13 move-ins and move-outs avoided cost benefits, are those</p> <p>14 also estimated in the same attachment?</p> <p>15 A. There -- are you talking about the spreadsheet?</p> <p>16 Q. Yes.</p> <p>17 A. Yes. The benefits are captured in the</p> <p>18 spreadsheet. The calculation captures the benefits.</p> <p>19 Q. Okay. Thank you.</p> <p>20 Do you believe PSE should be responsible for</p> <p>21 maximizing smart meter benefits?</p> <p>22 A. Absolutely. And I think what we're doing is</p> <p>23 demonstrating that. We're actually already realizing</p> <p>24 benefits today from the AMI system relative to the</p> <p>25 benefits that we've outlined.</p>	<p>Ms. Koch by Mr. Steele</p> <p>1 to understand what the life of its products are.</p> <p>2 Q. So to be clear, does the company ever know that</p> <p>3 a discontinuance is coming before receiving a document</p> <p>4 like Attachments A, B, C, and E to -- to PSE's response</p> <p>5 to Public Counsel data request 256?</p> <p>6 A. Absolutely. Through many users groups,</p> <p>7 absolutely.</p> <p>8 Q. And is that what occurred in this case for the</p> <p>9 equipment identified in Attachments A, B, C, and E?</p> <p>10 A. Yes.</p> <p>11 Q. Did the Company know that discontinuance of the</p> <p>12 equipment identified in Attachments A, B, C, and E would</p> <p>13 occur in 2016 at the time of the AMI business case?</p> <p>14 A. Did I know that they would occur in 2016?</p> <p>15 Q. Did the Company know that discontinuance of the</p> <p>16 equipment identified in Attachments A, B, C, and E would</p> <p>17 occur at the time of the AMI business case?</p> <p>18 A. Yes. Yes.</p> <p>19 MR. STEELE: No further questions.</p> <p>20 JUDGE PEARSON: Okay. Thank you.</p> <p>21 And, Ms. Gafken, did you have questions for</p> <p>22 Mr. Jacobs?</p> <p>23 MS. GAFKEN: I do. Thank you.</p> <p>24 CROSS-EXAMINATION</p> <p>25 BY MS. GAFKEN:</p>

Page 304	<p>Joshua Jacobs by Ms. Gafken</p> <p>1 Q. Good afternoon, Mr. Jacobs.</p> <p>2 A. Good afternoon.</p> <p>3 Q. Would you please turn to your rebuttal testimony</p> <p>4 Exhibit JJJ-11T. If you could go to page 24, line 17</p> <p>5 through 19.</p> <p>6 MR. STEELE: Could you state that once more</p> <p>7 for me?</p> <p>8 MS. GAFKEN: Yes, of course. Exhibit</p> <p>9 JJJ-11T, page 24 line 17 through 19.</p> <p>10 MR. STEELE: Is that page 4?</p> <p>11 MS. GAFKEN: Twenty-four.</p> <p>12 MR. STEELE: Twenty-four, I'm sorry.</p> <p>13 MR. JACOBS: I'm there.</p> <p>14 BY MS. GAFKEN:</p> <p>15 Q. There you testify that PSE has invested in</p> <p>16 17.5 million in the Get To Zero program between July 1st</p> <p>17 and November 30th, 2019; is that correct?</p> <p>18 A. That's correct.</p> <p>19 Q. And then on the following page, page 25.</p> <p>20 Essentially, the entire page lines 4 through 21 you</p> <p>21 describe two projects; the energy assistance and meter</p> <p>22 upgrade enhancements projects.</p> <p>23 Did those two projects make up the entire</p> <p>24 17.5 million described on page 24?</p> <p>25 A. That's correct.</p>	Page 306	<p>Susan Free by Mr. Roberson</p> <p>1 A. Correct.</p> <p>2 Q. Are you aware that the Commission has rejected</p> <p>3 that method as ripe for abuse?</p> <p>4 A. I am not.</p> <p>5 Q. We'll move on then.</p> <p>6 Page 34 and 35 of your rebuttal testimony, you</p> <p>7 talk about changes to the method for -- Seth's method</p> <p>8 for setting a threshold for a common plant; correct?</p> <p>9 A. Yes.</p> <p>10 Q. And this is just for my clarification.</p> <p>11 The way you recommend doing it, the size of the</p> <p>12 net plant for gas will always drive the threshold;</p> <p>13 correct?</p> <p>14 A. I -- I don't necessarily think that that's true.</p> <p>15 I think it depends on the allocation factors that are</p> <p>16 used to allocate --</p> <p>17 Q. Fair enough.</p> <p>18 Under the current allocation factors, it's</p> <p>19 always going to be the gas rate base, correct?</p> <p>20 A. In this example I've provided; that's right.</p> <p>21 Q. Do those allocation factors change on a regular</p> <p>22 basis?</p> <p>23 A. They -- they are looked at once a year and</p> <p>24 they -- they are derived for every rate case.</p> <p>25 Q. Okay. How are the allocation factors derived?</p>
Page 305	<p>Susan Free by Mr. Roberson</p> <p>1 MS. GAFKEN: Thank you. I have no further</p> <p>2 questions.</p> <p>3 JUDGE PEARSON: Any redirect?</p> <p>4 MR. STEELE: No, Your Honor. Thank you.</p> <p>5 JUDGE PEARSON: Mr. Pepple? Or, I'm sorry,</p> <p>6 Mr. Roberson, did you have questions of --</p> <p>7 CROSS-EXAMINATION</p> <p>8 BY MR. ROBERSON:</p> <p>9 Q. Good afternoon, Ms. Free. How are you?</p> <p>10 A. I'm well, sir. How are you?</p> <p>11 Q. Doing all right.</p> <p>12 Do you have a copy of your rebuttal testimony?</p> <p>13 A. I do.</p> <p>14 Q. Which is SEF-17T.</p> <p>15 A. Yes.</p> <p>16 Q. I'm going to ask you some questions generally</p> <p>17 about the 30s, if you want to turn there.</p> <p>18 A. I thought you were asking if I was in my 30s,</p> <p>19 which I am not.</p> <p>20 Q. I would like to start on page 37 of your</p> <p>21 testimony where you discuss the functionalization of</p> <p>22 plant in terms of assigning a materiality threshold.</p> <p>23 A. Yes.</p> <p>24 Q. You state that that's a more appropriate way to</p> <p>25 assign a threshold; correct?</p>	Page 307	<p>Susan Free by Mr. Roberson</p> <p>1 A. This particular allocation factor that's used to</p> <p>2 allocate plant is called the four factor allocator, and</p> <p>3 it contains four metrics that are used to determine</p> <p>4 at -- that are blended together evenly to determine the</p> <p>5 factor. They look at direct assigned plant. So labor</p> <p>6 allocators that are direct assigned, and I can't</p> <p>7 remember them all off the top of my head.</p> <p>8 Q. Given the disparity between the size of PSE's</p> <p>9 electric and gas rate bases, I mean, can you imagine a</p> <p>10 situation where the allocator isn't going to be heavily</p> <p>11 weighted towards electric?</p> <p>12 A. I think -- I think historically the electric</p> <p>13 allocator is above 50 percent.</p> <p>14 Q. Okay. I would like to move on to Get To Zero,</p> <p>15 which I guess mostly I want to start with page 39 of</p> <p>16 your rebuttal testimony.</p> <p>17 You testified the Get To Zero should be treated</p> <p>18 as a single adjustment; correct?</p> <p>19 A. I think for purposes of pro forma adjustments</p> <p>20 and deferrals, Get To Zero should be viewed as a program</p> <p>21 and should be treated together.</p> <p>22 Q. What is the difference between a program and a</p> <p>23 project?</p> <p>24 A. I'm not a project manager, but --</p> <p>25 Q. Are you a program manager?</p>

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1 A. No, I'm not.

2 I would say that the program is a collection of

3 projects that when taken together you can derive

4 benefits out of implementing them and managing them

5 together as one program.

6 **Q. So a program consists of sub projects?**

7 A. Correct.

8 **Q. And in Get To Zero's case, those -- those**

9 **projects are aimed at different things; correct?**

10 **Some of them are aimed at billing. Some of them**

11 **are aimed at customer interface. Some at PSE's**

12 **workflow, things like that. Correct?**

13 A. I'm not the witness to tell you about what the

14 projects are. I would say at a high level they are

15 aimed at transforming the customer experience and it is

16 all customer-facing.

17 **Q. If one of them is PSE workflow or data**

18 **analytics, how is that customer-facing?**

19 **That's probably not a fair question for you.**

20 **Never mind.**

21 **The Get To Zero projects that we're concerned**

22 **with here, they started going into service in 2016,**

23 **thereabouts?**

24 A. I'm not -- that sounds correct. I don't know

25 the exact.

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1 **Q. And they are going to go into service for the**

2 **foreseeable future of 2021-ish?**

3 A. Yes.

4 **Q. So they are going into service over a five-year**

5 **span?**

6 A. Correct. I think that's a little different than

7 you've seen in PSE's capital portfolio in the past, I

8 think it used to be that we could -- a lot of our

9 projects that we pro form into a rate case, with like a

10 plant, would have one in-service date.

11 But the spending pattern is different now and

12 these projects you can't hold them all up together until

13 a certain point. They need to be deployed in a series

14 so that they can leverage off of each other.

15 **Q. Okay. So if they are hypothetically aimed at**

16 **different things and they go into service over a**

17 **five-year span of time, the only thing tying them**

18 **together is the fact that PCE grouped them into the Get**

19 **To Zero program; correct?**

20 A. I think that -- again, I don't think I'm the

21 witness to speak to that. But I do know that the Get To

22 Zero program is driven by business needs. It's looked

23 at in terms of an objective and it's not an

24 indiscriminate combination of projects.

25 **Q. Okay. Could PSE create a project and dump a**

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1 **bunch of indiscriminate stuff in there and then seek a**

2 **single pro forma adjustment like you did here?**

3 A. I don't think PSE would do that.

4 **Q. But it could be under the theory that your**

5 **espousing; right?**

6 A. I don't think that -- I think, in the policy

7 statement that just came out, that I don't know a lot

8 about. But it does envision programmatic spending and

9 it envisions, you know, identification of that in the

10 beginning and look back on it after the spending

11 happens. And so I don't think there would be a lot of

12 opportunity for that kind of treatment.

13 **Q. But the programmatic spending envisioned there**

14 **is something like it would pull a replacement project;**

15 **correct? Where PSE every year is replacing wood poles**

16 **as part of a single project.**

17 A. That is the example that was given in the policy

18 statement. But I believe it was also indicated it would

19 be flexible as to what it would treat as a program.

20 **Q. Okay. Well, just more generally, I guess I'm**

21 **looking for the limiting principle.**

22 **If PSE can amalgamate a bunch of projects, how**

23 **is the Commission to decide whether or not it's properly**

24 **one project or many projects?**

25 A. I think it can be taken on a case-by-case basis.

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Susan Free by Mr. Roberson

1 I don't think that PSE would ever bring so many programs

2 that it wouldn't be something that could be focused on

3 and decided.

4 **Q. But it could?**

5 A. I -- I don't think it would.

6 **Q. Okay. In a similar vein, on page 33 and 39 of**

7 **your testimony, you seem to suggest that the Get To Zero**

8 **project should be incorporated in rates because**

9 **collectively they are material.**

10 **Is that a fair statement of your testimony?**

11 A. Yes, it is.

12 **Q. If the major plant standard is there to limit**

13 **the number of projects that parties have to consider**

14 **after the test year, doesn't kind of grouping them**

15 **together defeat the purpose of that standard?**

16 A. I don't really -- I don't really see that

17 there's a hard standard.

18 So I think that -- that looking on a

19 programmatic basis is appropriate if it's material to

20 the company.

21 **Q. There is a standard there; correct? A major**

22 **plant standard.**

23 A. I don't -- I don't read the guidance that way.

24 I -- I read the guidance to say that there -- it's

25 specific to the cases that the order was -- was

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<p>Susan Free by Mr. Pepple</p> <p>1 provided.</p> <p>2 Q. But the Commission over and over again has said</p> <p>3 pro forma plant adjustments should meet some reasonable</p> <p>4 definition of major; correct?</p> <p>5 A. Yes. It's also said other things, like, if it's</p> <p>6 material to the company and a certain impact to their</p> <p>7 financials that it can be considered.</p> <p>8 Q. Okay. So in PSE's view of the law, anything</p> <p>9 that's material is subject for inclusion in rates of pro</p> <p>10 forma adjustment?</p> <p>11 A. I don't know if that's the only consideration.</p> <p>12 I do -- in terms of what we put forth as pro forma</p> <p>13 adjustments, I believe we followed Commission guidance.</p> <p>14 MR. ROBERSON: Okay. I think I have no</p> <p>15 further questions. Thank you.</p> <p>16 JUDGE PEARSON: Okay. Any redirect?</p> <p>17 MS. CARSON: No, Your Honor.</p> <p>18 JUDGE PEARSON: Okay. And AWEC?</p> <p>19 CROSS-EXAMINATION</p> <p>20 BY MR. PEPPLA:</p> <p>21 Q. Good afternoon, Ms. Free.</p> <p>22 A. Good afternoon, Mr. Pepple.</p> <p>23 Q. I had some questions for you about Colstrip.</p> <p>24 Could you turn to your Exhibit SEF-29?</p> <p>25 A. I'm there.</p>	<p>Susan Free by Mr. Pepple</p> <p>1 it has the same impact as including them in the rate</p> <p>2 case.</p> <p>3 Q. And do you -- do you, by any chance, have</p> <p>4 Mr. Mullins' cross-answering exhibits?</p> <p>5 A. Over there.</p> <p>6 Q. I have some copies. I'm happy --</p> <p>7 I'm looking at Exhibit 13C. And I have copies</p> <p>8 for others.</p> <p>9 And this is a confidential exhibit, but I'm</p> <p>10 going to keep my questions nonconfidential.</p> <p>11 A. I do have it. Thank you.</p> <p>12 Q. So in your rebuttal testimony you identified</p> <p>13 several errors that Mr. Mullins made in his rebuttal --</p> <p>14 his response testimony in calculating the Colstrip plant</p> <p>15 balances.</p> <p>16 Do you recall that?</p> <p>17 A. Yes.</p> <p>18 Q. Okay. And so can you turn -- so this exhibit</p> <p>19 updates Mr. Mullins' calculations --</p> <p>20 A. Yes.</p> <p>21 Q. -- after he was provided with certain</p> <p>22 corrections and supplements that PSE provided.</p> <p>23 So if you turn to page 1 of that exhibit.</p> <p>24 CHAIRMAN DANNER: What exhibit are we</p> <p>25 talking about?</p>
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<p>Susan Free by Mr. Pepple</p> <p>1 Q. And just for background on this exhibit, AWEC's</p> <p>2 witness, Mr. Mullins, has proposed that the remaining</p> <p>3 unrecovered investment at Colstrip Units 1 and 2 be</p> <p>4 removed from rate base and offset with monetized</p> <p>5 production tax credits.</p> <p>6 Do you recall that?</p> <p>7 A. I do.</p> <p>8 Q. And this exhibit provides various scenarios if</p> <p>9 the Commission decides to accept Mr. Mullins' proposal,</p> <p>10 or at least some variation of that proposal that you</p> <p>11 have described in your testimony.</p> <p>12 A. That's correct. I continue to believe that our</p> <p>13 proposal in the rate case is reasonable. But in the</p> <p>14 event that the Commission were to decide with</p> <p>15 Mr. Mullins, I've provided some corrections to what he</p> <p>16 had in his response testimonies and some alternative</p> <p>17 scenarios.</p> <p>18 Q. Okay. So just looking at page 1 of SEF-29, this</p> <p>19 page shows the revenue requirement impact if the</p> <p>20 Commission updated the Colstrip 1 and 2 plant balances</p> <p>21 to December 31, 2019, but did not offset any of their</p> <p>22 production tax credits. That's one scenario; correct?</p> <p>23 A. Yes. In that scenario, the need for -- the</p> <p>24 reason not to bring in the PTCs is because they are</p> <p>25 already accruing interest, which is the same impact --</p>	<p>Susan Free by Mr. Pepple</p> <p>1 MR. PEPPLA: This is BGM-13C.</p> <p>2 BY MR. PEPPLA:</p> <p>3 Q. And if you look at the total rate base number</p> <p>4 there, 111,946,494, and then compare that to the total</p> <p>5 rate bus number that you have on line 28 of page 1 of</p> <p>6 SEF-29, those -- that's the same number; is that right?</p> <p>7 A. Correct.</p> <p>8 Q. And then if you look at page 2 of BGM-13C, he</p> <p>9 shows a number for the unrecovered investment in</p> <p>10 Colstrip 1 and 2.</p> <p>11 Do you see that?</p> <p>12 A. I do.</p> <p>13 Q. And that number is not exactly the same number</p> <p>14 you have on line 35 of SEF-29, but it's pretty close.</p> <p>15 Would you agree?</p> <p>16 A. Yes.</p> <p>17 Q. Okay. So -- so now that we have updated</p> <p>18 information from PSE, the numbers for -- between AWEC</p> <p>19 and PSE are at least comparable.</p> <p>20 A. I agree.</p> <p>21 Q. So just focusing back on SEF-29. At the top of</p> <p>22 this page on line 5, you show what the overall revenue</p> <p>23 requirement -- requirement impact would be if the</p> <p>24 unrecovered investment in Colstrip 1 and 2 is updated to</p> <p>25 the end of 2019, which is approximately \$1.3 million</p>

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<p style="text-align: center;">Susan Free by Mr. Pepple</p> <p>1 reduction. Correct?</p> <p>2 A. Correct.</p> <p>3 Q. Okay. And then page 2 of this exhibit, this is</p> <p>4 a different scenario where again the Colstrip 1 and 2</p> <p>5 plant balances are calculated as of the end of 2019, but</p> <p>6 now it's offset with PTCs that were monetized on PSE's</p> <p>7 2018 tax return which was filed in September of 2019;</p> <p>8 correct?</p> <p>9 A. That's correct.</p> <p>10 Q. Okay. And this scenario has -- on line 18, it</p> <p>11 says, "Include ADF IT on monetized PTCs." And there's a</p> <p>12 number of about 17.3 million.</p> <p>13 Do you see that?</p> <p>14 A. I do.</p> <p>15 Q. Can you just explain what that is? Why is there</p> <p>16 ADF IT on monetized PTCs?</p> <p>17 A. That would be a better question for</p> <p>18 Mr. Marcellia.</p> <p>19 Q. Okay. I will hold that question for him then.</p> <p>20 Maybe one other follow-up question on this and</p> <p>21 you can take it to Mr. Marcellia if you need to. But do</p> <p>22 you know if that deferred tax asset, if PSE is holding</p> <p>23 it in rate base?</p> <p>24 A. I believe that it's either in working capital or</p> <p>25 rate base. I'm not exactly sure.</p>	<p style="text-align: center;">Susan Free by Mr. Pepple</p> <p>1 within our case that if you updated those to September</p> <p>2 as well you would see the impacts that I show on this</p> <p>3 page.</p> <p>4 Q. So -- so I think it was -- it's your testimony</p> <p>5 that moving the Colstrip plant balances to December of</p> <p>6 2019, is itself a pro forma adjustment?</p> <p>7 A. Yes.</p> <p>8 Q. So how come those pro forma adjustments aren't</p> <p>9 included on page 1 of SEF?</p> <p>10 A. If they were, it would result in a revenue</p> <p>11 requirement increase.</p> <p>12 Q. Well, there's a revenue requirement increase on</p> <p>13 page 2 of SEF.</p> <p>14 A. Yes. So I think that I was tying the pro forma</p> <p>15 adjustments to the PTC treatment.</p> <p>16 Q. Okay.</p> <p>17 A. But I do believe it's appropriate that they</p> <p>18 could be also considered for the regulatory asset</p> <p>19 treatment being moved to December 2019.</p> <p>20 Q. Okay. And -- okay. So then just to close the</p> <p>21 exhibit out, page 3 is another scenario. And this</p> <p>22 scenario is if the Commission accepted Mr. Mullins'</p> <p>23 proposal in full, which is that PTCs are monetized when</p> <p>24 Puget uses them on an estimated tax payment rather than</p> <p>25 when they are included on an annual tax payment.</p>
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<p style="text-align: center;">Susan Free by Mr. Pepple</p> <p>1 Q. Okay. But PSE is earning a return on that tax</p> <p>2 asset. Do you understand that?</p> <p>3 A. I'm not -- I'm not sure.</p> <p>4 Q. Is that something Mr. Marcellia would know?</p> <p>5 A. No, it is not.</p> <p>6 Q. Is that something any PSE witness would know?</p> <p>7 A. This one should.</p> <p>8 Q. Okay. Okay. That's fine. I can deal with</p> <p>9 that. Okay. So -- so just going back to the top of</p> <p>10 page 2 of SEF-29.</p> <p>11 So the revenue requirement impact in this</p> <p>12 scenario on line 1 has a \$7.8 million reduction. But</p> <p>13 then that is offset by some pro forma adjustments that</p> <p>14 you propose be included, if this scenario is accepted;</p> <p>15 correct?</p> <p>16 A. That's correct.</p> <p>17 Q. What is the basis for including these additional</p> <p>18 pro forma adjustments?</p> <p>19 A. Because if you were to include the PTCs and --</p> <p>20 that weren't monetized on September tax return, that's</p> <p>21 beyond the pro forma period for planned adjustments we</p> <p>22 used in this case, as well as moving the rate base for</p> <p>23 the units out to a regulatory asset of December 2019 is</p> <p>24 also beyond the pro forma period.</p> <p>25 And so there are other pro forma adjustments</p>	<p style="text-align: center;">Susan Free by Mr. Pepple</p> <p>1 So this includes additional PTCs because Puget</p> <p>2 included PTCs in 2019 estimated taxes. Is that your</p> <p>3 understanding?</p> <p>4 A. That's my understand of Mr. Mullins' position,</p> <p>5 yes.</p> <p>6 Q. And that's what this --</p> <p>7 A. Yes.</p> <p>8 Q. What it reflects. Okay.</p> <p>9 And then -- so the impact here is an</p> <p>10 \$11.3 million revenue requirement reduction on line 1;</p> <p>11 and if you include the pro forma adjustments you</p> <p>12 proposal, it's a \$1.5 million reduction?</p> <p>13 A. Correct.</p> <p>14 Q. Okay. And then can you turn to page 44 of your</p> <p>15 rebuttal testimony, please.</p> <p>16 A. I'm there.</p> <p>17 Q. And I'm looking at line 19. And there you say,</p> <p>18 PSE has appropriately not reflected Colstrip Units 1 and</p> <p>19 2 as a regulatory asset as of December 31, 2019, because</p> <p>20 the date is outside of the plant pro forma period of</p> <p>21 June 2019.</p> <p>22 Do you see that?</p> <p>23 A. Yes.</p> <p>24 Q. It is a fact, isn't it, that PSE has now</p> <p>25 transferred the remaining plant balance of Colstrip 1</p>

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<p style="text-align: center;">Susan Free by Mr. Pepple</p> <p>1 and 2 to a regulatory asset?</p> <p>2 A. Correct.</p> <p>3 Q. That's all my questions.</p> <p>4 JUDGE PEARSON: Thank you.</p> <p>5 Any redirect?</p> <p>6 MS. CARSON: No, Your Honor.</p> <p>7 JUDGE PEARSON: Okay. Questions from the</p> <p>8 bench?</p> <p>9 Okay. So we're going to go ahead and take a</p> <p>10 recess now before we continue. Yes, we'll come back</p> <p>11 with this panel. Ten minutes. Okay. So we'll take a</p> <p>12 10-minute recess.</p> <p>13 (A recess was taken from 3:24 p.m. to 3:39 p.m.)</p> <p>14 JUDGE PEARSON: We'll be back on the record</p> <p>15 following the recess. In just one moment we'll have</p> <p>16 questions from the bench for the witnesses.</p> <p>17 MR. PEPPLER: Your Honor, one quick -- just</p> <p>18 before the questions from the Commission.</p> <p>19 PSE did confer during the break and Ms. Free</p> <p>20 was able to get an answer to the one question I asked.</p> <p>21 Would it be possible for her to put that on</p> <p>22 the record?</p> <p>23 JUDGE PEARSON: Absolutely.</p> <p>24 MR. PEPPLER: Should I ask the question</p> <p>25 again?</p>	<p style="text-align: center;">Margaret Hopkins by Commissioner Balasbas</p> <p>1 all the various IT investments at PSE and maybe provide</p> <p>2 some specific examples of both project and executive</p> <p>3 oversight.</p> <p>4 MR. TAYLOR: Certainly. So in terms of the</p> <p>5 level of coordination, all of the IT investments stem,</p> <p>6 first and foremost, from a business strategy.</p> <p>7 So when we're planning for a five-year</p> <p>8 planning exercise, all of the officers are involved in</p> <p>9 discussions with respect to priorities for the company</p> <p>10 as they relate to customer need, business need,</p> <p>11 reliability, et cetera.</p> <p>12 And so once the business proprietaries are</p> <p>13 established from that flows a conversation of whether or</p> <p>14 not there's technology associated with meeting that</p> <p>15 demand or that business need.</p> <p>16 So as priorities are determined at that</p> <p>17 level, we then work inside of the IT organization to</p> <p>18 determine if there's a technology investment required to</p> <p>19 support, and we provide estimates initially in the</p> <p>20 planning phase to place IT investments into the</p> <p>21 five-year plan.</p> <p>22 Once they are in the plan and during a</p> <p>23 calendar year, when we embark on -- you know, an IT</p> <p>24 project, we go through a pretty rigorous process that we</p> <p>25 call -- it is a business case to some degree, but we</p>
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<p style="text-align: center;">Susan Free by Commissioner Rendahl</p> <p>1 JUDGE PEARSON: That would be helpful, yes.</p> <p>2 CROSS-EXAMINATION (Continued)</p> <p>3 BY MR. PEPPLER:</p> <p>4 Q. So the question was whether the deferred tax</p> <p>5 asset associated with monetized PTCs whether PSE was</p> <p>6 earning a return on it or not?</p> <p>7 A. No, it is not a rate base.</p> <p>8 Q. Okay. Thank you.</p> <p>9 COMMISSIONER RENDAHL: Can I just follow up</p> <p>10 on that?</p> <p>11 So I think your question is, is it earning a</p> <p>12 return just in rate base or whether it's investor</p> <p>13 supplied working capital or a regulatory asset, is it</p> <p>14 also earning a rate base in those?</p> <p>15 MS. FREE: It is not -- it is included in</p> <p>16 nonoperating, so it is not earning a return in any</p> <p>17 fashion.</p> <p>18 COMMISSIONER RENDAHL: Thank you. Yes.</p> <p>19 JUDGE PEARSON: Okay. Thank you.</p> <p>20 COMMISSIONER BALASBAS: All right. This</p> <p>21 question is directed to Ms. Hopkins.</p> <p>22 Good afternoon, Ms. Hopkins.</p> <p>23 MS. HOPKINS: Good afternoon.</p> <p>24 COMMISSIONER BALASBAS: So, Ms. Hopkins, can</p> <p>25 you talk about what level of coordination there is among</p>	<p style="text-align: center;">Margaret Hopkins by Commissioner Balasbas</p> <p>1 call it our "corporate spending authority." It's a CSA.</p> <p>2 And it has multiple phases by which you determine the</p> <p>3 value of an investment.</p> <p>4 And that CSA process is signed off by two</p> <p>5 officers, so there's a business officer, an executive</p> <p>6 who puts forth the need, they sign off on this business</p> <p>7 case, and then I sign off on it as well. And it takes</p> <p>8 multiple levels of management review before it goes</p> <p>9 through each of the phases.</p> <p>10 So there's quite a bit of analysis that goes</p> <p>11 into the early phases to determine the value, whether it</p> <p>12 is something that we, if fact, want to do for the</p> <p>13 company. Sometimes we assess multiple alternatives and</p> <p>14 determine that, in fact, maybe we should not proceed.</p> <p>15 So it -- it -- I would say that in every</p> <p>16 step of the process of a technology investment, we have</p> <p>17 multiple levels of management reviewing the costs and</p> <p>18 the benefits and signing off on those throughout.</p> <p>19 COMMISSIONER BALASBAS: So I can understand</p> <p>20 that process and analysis for a single IT investment.</p> <p>21 But how does that -- or -- but then how -- how does the</p> <p>22 analysis and management and oversight of each individual</p> <p>23 IT project then get coordinated with all the different</p> <p>24 projects that are ongoing at the same time.</p> <p>25 MS. HOPKINS: Is your question that if -- if</p>

Page 324	<p>Margaret Hopkins by Commissioner Balasbas</p> <p>1 one project over here has to coordinate across to 2 another project.</p> <p>3 COMMISSIONER BALASBAS: Well, it's not just 4 projects coordinating among themselves, but just from an 5 overall global standpoint within the company how -- how 6 do you and your division ensure that all of those IT 7 investments are being coordinated?</p> <p>8 And which leads me to a related question 9 which is then how -- you know, given all the different 10 accounting positions and other projects that are going 11 on at the company right now, how do we ensure that what 12 we approve for purposes of rate recovery, rate payers 13 are not double paying for investments or that we're not 14 double counting investments for rate making.</p> <p>15 MS. HOPKINS: Okay. So two-step question. 16 I just want to break it down to two.</p> <p>17 So re-ask me the first one so I make sure I 18 hit that one and then I will -- re-ask me the second 19 one --</p> <p>20 COMMISSIONER BALASBAS: So the first 21 question is on -- with all the different IT projects 22 going on, not only coordination among multiple projects 23 if they're say, for instance, going after the same 24 business strategy but also managing all of the different 25 IT investments at the same time and coordinating all</p>	Page 326	<p>Susan Free by Commissioner Balasbas</p> <p>1 into account as part of those reporting mechanisms. 2 So it would be difficult through that report 3 to know if there is any duplication. But I would say 4 that I personally review every IT investment that goes 5 through to a high degree of scrutiny, and I would have 6 some insight into whether or not there's any 7 duplication. And to the best of my knowledge, I have 8 not uncovered a piece of duplication to date; especially 9 in the testimony we have in front of us.</p> <p>10 COMMISSIONER BALASBAS: It looks like 11 Ms. Free wants to jump in here on this answer, so I'll 12 let Ms. Free do that.</p> <p>13 MS. FREE: I think I can address the second 14 part of the question. 15 We thought about this actually quite a bit 16 when we were filing the case, about the duplication, 17 because we have test year, we have pro forma, and we 18 have the attrition.</p> <p>19 And so the way we chose to put it together 20 to ensure there was no duplication is the -- we limited 21 the pro forma period to June, which is well before the 22 attrition analysis starts.</p> <p>23 We -- those projects we only included the 24 rate year revenue requirement for those projects at 25 June. And then the deferral was for projects that</p>
Page 325	<p>Margaret Hopkins by Commissioner Balasbas</p> <p>1 those so that we then lead to the question of how do we 2 make sure we're not double counting or layering all 3 these investments and rate payers are not paying twice 4 for the IT investment.</p> <p>5 MS. HOPKINS: Well, I guess to answer the 6 first question, we have monthly reports that are 7 reviewed particularly for our strategic projects. And 8 the strategic projects that have the most dollars 9 associated with them. So they're the ones that buy and 10 large are the ones we put forth in our testimony.</p> <p>11 There's a monthly report that goes out to 12 the entire executive team, the officers and the 13 directors that shows the status of those projects in 14 terms of their cost, their risks, their issues, their 15 benefits at every phase in their project. And so that 16 is reviewed -- in its entirety across the entire 17 executive team.</p> <p>18 So we have insight into all those projects 19 on a regular basis and the opportunity through steering 20 committees to raise issues and to, you know, halt a 21 project, if necessary, or ensure that we know whether or 22 not these cross over.</p> <p>23 So there is cross-coordination and oversight 24 through what we call our Enterprise Program Office. So 25 they provide that cross-coordination and costs are taken</p>	Page 327	<p>Susan Free by Chairman Danner</p> <p>1 qualified up into the beginning of the rate year. 2 And so there's no duplication. We made 3 it -- if you think about it on a timeline, we just made 4 sure that they were just stacked appropriately so that 5 they weren't double counted.</p> <p>6 CHAIRMAN DANNER: Just to clarify. So we're 7 talking about not just duplication of infrastructure, 8 we're talking about duplication of services that these 9 different pieces might provided? 10 You are nodding "yes." 11 MS. FREE: The services would probably be 12 Margaret. I'm just talking about how we layered in the 13 certain projects.</p> <p>14 MS. HOPKINS: My commentary would have 15 related to not duplication of services; correct.</p> <p>16 COMMISSIONER RENDAHL: So, for example -- 17 and maybe this is where Mr. Jacobs gets to say something 18 now -- where you have a number of different projects 19 under Get To Zero, some of which are foundational for 20 data center effort or maybe for the other IT projects to 21 work.</p> <p>22 How do you separate out some of those 23 foundational enterprise level IT work that is picked up 24 in Get To Zero but may also -- may be also included in 25 the data center work? Do you know what I'm saying?</p>

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<p>Joshua Jacobs by Commissioner Rendahl</p> <p>1 MR. JACOBS: I think I do. So let me try it</p> <p>2 this way with an example.</p> <p>3 So our web redesign project, it was a</p> <p>4 re-platform of our website and there were many different</p> <p>5 parts to that. It was a large transformational project</p> <p>6 that was the first web project in a series of a few web</p> <p>7 projects for us.</p> <p>8 So that went into service in the fall of</p> <p>9 2018 under an order number, and that order number was</p> <p>10 closed when it went into service and was used in useful</p> <p>11 for customers.</p> <p>12 As we look to build upon that platform with</p> <p>13 new features and functions, we'll have new order numbers</p> <p>14 that represent the work associated with that business</p> <p>15 case or corporate spending authorization and we will</p> <p>16 manage that work under that order number to represent</p> <p>17 the work streams associated with that business case.</p> <p>18 CHAIRMAN DANNER: All right. Let me ask</p> <p>19 this question, Ms. Hopkins.</p> <p>20 In your initial testimony you state that a</p> <p>21 number of PSE's IT applications are to take advantage of</p> <p>22 hosted services such as cloud computer, and then you</p> <p>23 state that the design of the new data center is</p> <p>24 anticipated in corporate discretion transition to the</p> <p>25 cloud.</p>	<p>Margaret Hopkins by Chairman Danner</p> <p>1 To Zero is operating in Amazon web services in the</p> <p>2 cloud.</p> <p>3 So the way we go are about determining</p> <p>4 whether or not a service is suitable for the cloud, is</p> <p>5 first and foremost whether it can operate there. That's</p> <p>6 the first question. Some can; some cannot.</p> <p>7 The second question you have to ask is</p> <p>8 whether or not the cloud provider can operate it in a</p> <p>9 secure manner.</p> <p>10 The fact that we're a critical</p> <p>11 infrastructure, our cyber security requirements are so</p> <p>12 stringent and so critical to the operation of the gas</p> <p>13 and the electric system, if the cloud providers cannot</p> <p>14 meet the cyber security requirements, then we take a</p> <p>15 position that we, first and foremost, will make sure</p> <p>16 that the services are secure. That is a high priority</p> <p>17 for us.</p> <p>18 If it's a low priority system, then we may</p> <p>19 provide some leniency there, but we -- we are very</p> <p>20 strong in our position on our cyber security stance.</p> <p>21 And then, third, while marketing materials</p> <p>22 might try to appear that cloud services are more cost</p> <p>23 effective, we have a responsibility to ensure that the</p> <p>24 services we provide are the lowest cost solution for our</p> <p>25 customers to the best of our abilities. And oftentimes</p>
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<p>Margaret Hopkins by Chairman Danner</p> <p>1 Did PSE investigate -- did PSE investigate</p> <p>2 the option of fully switching the hosted services when</p> <p>3 considering alternatives through replacement of the</p> <p>4 private data centers?</p> <p>5 MS. HOPKINS: Yes. We did. And the most</p> <p>6 important thing to understand about our IT systems is</p> <p>7 that there are IT systems that we have at PSE that</p> <p>8 cannot operate in the cloud.</p> <p>9 By and large, those are our IT systems and</p> <p>10 assets that fall under NERC's compliance.</p> <p>11 There is not a single cloud provider today</p> <p>12 or a single data center provider today who can meet the</p> <p>13 NERC's obligations and many of the providers like</p> <p>14 Microsoft and Amazon are trying very hard to find a way</p> <p>15 to certify themselves in this area but they cannot.</p> <p>16 And so for the foreseeable future, PSE will</p> <p>17 have a physical data center that has on-premise systems</p> <p>18 because they cannot actually operate in the cloud.</p> <p>19 CHAIRMAN DANNER: So if you can give me kind</p> <p>20 of -- well, a general idea of, you know, if you break it</p> <p>21 down, is most of this in the data center? Is most of</p> <p>22 this on the cloud? I mean how --</p> <p>23 MS. HOPKINS: So today about 20 percent of</p> <p>24 our IT solutions are currently operating in the cloud.</p> <p>25 Our knew pse.com service that -- when we Get</p>	<p>Margaret Hopkins by Chairman Danner</p> <p>1 the cloud solutions are not the most cost effective.</p> <p>2 So the third assessment is, is it cost</p> <p>3 neutral? Is it more cost effective to put it in the</p> <p>4 cloud? Or it is more cost effective to put it on the</p> <p>5 ground?</p> <p>6 And so those are the criteria that we use to</p> <p>7 determine. And then once that determination is made,</p> <p>8 then we make the decision to put it in the data center</p> <p>9 or not.</p> <p>10 We do anticipate eventually more and more</p> <p>11 services will transition to the cloud, as that makes</p> <p>12 more sense.</p> <p>13 As I stated, we're about 20 percent there</p> <p>14 today. And when we built the data centers, we actually</p> <p>15 reduced our square footage from about 20,000 combined</p> <p>16 square feet to 2400 combined square feet.</p> <p>17 CHAIRMAN DANNER: I'm sorry, give me those</p> <p>18 again.</p> <p>19 MS. HOPKINS: From about 20,000 square feet</p> <p>20 to 2400 combined square feet, because we don't</p> <p>21 anticipate the need to expand the data centers in scale</p> <p>22 at the rate that we used to in the past.</p> <p>23 CHAIRMAN DANNER: All right. Well, thank</p> <p>24 you.</p> <p>25 And then you testified in rebuttal that of</p>

Page 332	<p>Margaret Hopkins by Chairman Danner</p> <p>1 the 79.3 million of the data set or costs that you're</p> <p>2 seeking to recover, 46.1 million was updating the</p> <p>3 existing IT systems to meet the current standards</p> <p>4 required by the Emergency Management Systems, and the</p> <p>5 configuration testing of the migration of the systems to</p> <p>6 to the new facilities.</p> <p>7 Were these expenditures exclusively related</p> <p>8 to the data center disaster recovery plan?</p> <p>9 MS. HOPKINS: Those expenditures were</p> <p>10 related to standing up a new platform to enable disaster</p> <p>11 recovery.</p> <p>12 And what I mean by that is on the inside of</p> <p>13 the data center -- if you exclude the facilities</p> <p>14 themselves, on the inside of the data centers you have</p> <p>15 network connectivity; you have telecommunications; you</p> <p>16 have servers; you have storage. And all of that</p> <p>17 equipment needed to be built out to accommodate disaster</p> <p>18 recovery capabilities. So it was a replatforming, if</p> <p>19 you will, inside the data centers.</p> <p>20 So that equipment cost approximately</p> <p>21 \$31 million.</p> <p>22 The other \$14 million were the cost to</p> <p>23 convert our applications to work on the new platform so</p> <p>24 that they had the disaster recovery capabilities that</p> <p>25 they needed.</p>	Page 334	<p>Margaret Hopkins by Chairman Danner</p> <p>1 new data centers or --</p> <p>2 MS. HOPKINS: We think it is a really fair</p> <p>3 question.</p> <p>4 The challenge that we've had in this</p> <p>5 industry -- I've been doing this for 32 years and I've</p> <p>6 built many data centers.</p> <p>7 The challenge that we've had with data</p> <p>8 centers facilities, those traditional data centers like</p> <p>9 Bothel and Bellevue were, is that they cannot keep pace</p> <p>10 with technology. The heating and cooling requirements</p> <p>11 are outpacing them as well as the density that -- that</p> <p>12 goes on in the weight requirements.</p> <p>13 And so it's a consequence of that -- these</p> <p>14 traditional data centers that years and years ago we</p> <p>15 thought would last us 20 years have averaged about seven</p> <p>16 to ten.</p> <p>17 The promise of module data center was</p> <p>18 supposed to be the solution to building out a data</p> <p>19 center that's going to last longer than that.</p> <p>20 So the module data center concept started</p> <p>21 about 10 years ago. And it was really early in its</p> <p>22 infancy.</p> <p>23 As we've just built out our modular data</p> <p>24 centers, they've gotten to be excellent. And we believe</p> <p>25 that they will last 15 to 20 years.</p>
Page 333	<p>Margaret Hopkins by Chairman Danner</p> <p>1 So the 14 million was largely labor cost for</p> <p>2 the software developers to convert over to the new</p> <p>3 systems.</p> <p>4 CHAIRMAN DANNER: Okay. So I'm trying to</p> <p>5 get -- where is the nexus to the AMI and Get To Zero?</p> <p>6 Is -- between that and the emergency management stuff,</p> <p>7 is there -- is there overlap there?</p> <p>8 MS. HOPKINS: There is no overlap between</p> <p>9 the data center project and the AMI project and Get To</p> <p>10 Zero. So I don't believe there is any overlap.</p> <p>11 What I will say is that when we built Get To</p> <p>12 Zero, rather than putting the cost of disaster recovery</p> <p>13 for Get To Zero into the data center project, we built</p> <p>14 disaster recovery capabilities as part of the build out.</p> <p>15 For instance, pse.com, while it's in the</p> <p>16 cloud, it has its own disaster recovery capability</p> <p>17 already built into the cloud platform.</p> <p>18 CHAIRMAN DANNER: Can you tell me -- your</p> <p>19 last data centers lasted a decade?</p> <p>20 MS. HOPKINS: That is correct.</p> <p>21 Well, let me just correct you. The Bellevue</p> <p>22 data center lasted 15 years. The Bothel data center</p> <p>23 lasted a decade.</p> <p>24 CHAIRMAN DANNER: Okay. So looking forward,</p> <p>25 I mean, when do we expect you to come back either for a</p>	Page 335	<p>Margaret Hopkins by Chairman Danner</p> <p>1 And the reason we believe that is because</p> <p>2 the parts are interchangeable and they can scale much</p> <p>3 better with how technology is changing. And that seems</p> <p>4 to be proving out.</p> <p>5 With that said, we're only ten years, as an</p> <p>6 industry, into the modular data center. And in about</p> <p>7 five years we'll know for sure whether or not they're</p> <p>8 going to make it 15 or 20. It's the best shot we've</p> <p>9 got.</p> <p>10 CHAIRMAN DANNER: So get your crystal ball</p> <p>11 out.</p> <p>12 Do you see cloud computing security</p> <p>13 characteristics improving? Is there a chance that you</p> <p>14 will be moving more to the cloud and some of these</p> <p>15 things even NERC or -- will be changing their standards</p> <p>16 to allow you to move that way?</p> <p>17 MS. HOPKINS: I don't see NERC changing</p> <p>18 their standards or falling back on their standards. I</p> <p>19 actually anticipate that they will get a little</p> <p>20 stricter.</p> <p>21 The cyber threat landscape is driving us to</p> <p>22 be more and more risk averse and I think rightly so. I</p> <p>23 don't think NERC will lift their standards.</p> <p>24 What I do think may happen in the future,</p> <p>25 five to ten years out, is that companies like Microsoft,</p>

<p style="text-align: center;">Page 336</p> <p>Margaret Hopkins by Chairman Danner</p> <p>1 companies like Amazon, will find a way to work with WEC 2 and NERC to determine how that they can become certified 3 and that they can comply and be allowed to house these 4 assets in their data centers.</p> <p>5 And so I can foresee it. I think it will be 6 awhile. I think we're talking a five- to ten-year time 7 frame.</p> <p>8 Now, with that said, I don't think that 9 security in the cloud is getting stronger and stronger. 10 And for non-NERC assets, I do see that we'll continue to 11 migrate other systems to the cloud over time.</p> <p>12 It's highly possible that our SAP system, as 13 an example, will migrate to the cloud in four or five 14 years, because the vendors are forcing us to go there.</p> <p>15 Whether it's cost-effective or not, they may 16 force us to go there. So it's possible that a good 17 50 percent of our services could be in the cloud in the 18 next 10 years.</p> <p>19 CHAIRMAN DANNER: Thank you. 20 COMMISSIONER RENDAHL: So this question is 21 for Ms. Koch. And I'm going to refer you to your 22 testimony, your rebuttal testimony CAK-6TR. 23 Do you have that? And a microphone. 24 MS. KOCH: Okay. 25 COMMISSIONER RENDAHL: So on page 7, if you</p>	<p style="text-align: center;">Page 338</p> <p>Cathy Koch by Commissioner Rendahl</p> <p>1 because it's failing and has a fundamental reliability 2 concern.</p> <p>3 And so I think if -- as we continue to 4 understand what the ramifications of Clean Energy 5 Transformation Act is and what the expectations are. 6 What the rules are. I think that will become more clear 7 what we need to get accomplished --</p> <p>8 COMMISSIONER RENDAHL: So whoever is on the 9 bridge, could you please mute your line? 10 I'm sorry. Go ahead. 11 MS. KOCH: I think that understanding the 12 expectation of the Clean Energy Transformation Act will 13 really drive some clarity on how and what pace we need 14 to move at.</p> <p>15 From my perspective, as a utility change 16 takes a little bit longer than the Amazons and the 17 Microsofts. And so my perspective is we're behind in 18 what we need to get to. But I suggest that it's -- 19 we're progressing at a reasonable pace, but we want to 20 be adaptable. 21 COMMISSIONER RENDAHL: But you had started 22 AMI before the clean energy bill passed; correct? 23 MS. KOCH: We did, for the reasons that it 24 was failing. Right? 25 And the benefits that AMI brings --</p>
<p style="text-align: center;">Page 337</p> <p>Cathy Koch by Commissioner Rendahl</p> <p>1 look -- on line 15, actually the sentence begins on 2 line 13. You talk about PSE being behind in its ability 3 to meet growing customer expectations, new technology 4 requirements, and grid changes. And I don't think 5 you're referring just to AMI here.</p> <p>6 Are you referring just to AMI or are you 7 referring to -- being ready to meet the changes coming? 8 MS. KOCH: It includes AMI, but 9 holistically, right, the grid needs to be ready for 10 that.</p> <p>11 COMMISSIONER RENDAHL: So if PSE is behind 12 and is now trying to put in lots of different programs 13 and services to get up to speed, so to speak, does that 14 mean that the customer should bear all of this at one 15 time? 16 MS. KOCH: Well, I think what PSE has been 17 doing for a while is it has been moving us in that 18 direction. I think the arrival of the Clean Energy 19 Transformation Act has created a sense of pace that was 20 hard to foresee. 21 I think we are continuing to think about 22 aggressive but reasonable pace to improve reliability in 23 the grid. With -- but that's not the only reason we've 24 been thinking about things. 25 AMI, for example, we need to transition</p>	<p style="text-align: center;">Page 339</p> <p>Cathy Koch by Commissioner Rendahl and Balasbas</p> <p>1 irrespective of Clean Energy Transformation Act, I think 2 that's the third layer of potential benefits that AMI 3 provides microgrids and those sort of things.</p> <p>4 COMMISSIONER RENDAHL: And Get To Zero was 5 before the clean energy passed for other reasons. 6 MS. KOCH: I believe it was. I believe it 7 was, yes. 8 COMMISSIONER RENDAHL: All right. Thanks. 9 COMMISSIONER BALASBAS: So I believe this 10 question is for Ms. Free. 11 So, Ms. Free, given that we have had, as the 12 questions that Commissioner Rendahl just asked about the 13 timing of the AMI and Get To Zero investments, given 14 that these are continuous investments -- before we 15 consider the Company's proposed pro forma adjustments, 16 are there AMI and Get To Zero expenses including 17 depreciation baked into the test year? 18 MS. KOCH: Yes, they are. 19 COMMISSIONER BALASBAS: And if "yes," do you 20 have those dollar amounts? 21 MS. KOCH: No, I do not. 22 COMMISSIONER BALASBAS: I would like to make 23 that a bench request. 24 CHAIRMAN DANNER: So, Mr. Jacobs, I wanted 25 to ask you -- in your testimony you said utility</p>

<p style="text-align: center;">Page 340</p> <p style="text-align: center;">Joshua Jacobs by Chairman Danner</p> <p>1 customers experience higher satisfaction when they are 2 provided with mobile, web, e-mail, and IVR channels as 3 compared to a phone call. 4 And I'm just wondering if you broke that 5 down, is -- if you were to take each of those 6 separately -- mobile, web, e-mail, and IVR -- would you 7 find the same level of satisfaction? 8 In other words, I'm -- what I'm getting at 9 is do customers prefer IVR to a phone call? 10 And your testimony is on page 6 of your -- 11 MR. JACOBS: Yeah. I'm going to Exhibit -- 12 in my rebuttal -- JJJ-12, which is the J.D. Power 13 survey, which I believe that's where that statement 14 comes from. 15 Which -- which shows a higher level of 16 customer satisfaction across a number of different 17 channels that customers can engage with us on. 18 CHAIRMAN DANNER: Right. But I mean 19 that's -- and that's the suite. 20 So, on balance, people like the suite. But 21 are there individual items on that -- on that list or in 22 that suite that they actually have higher levels of -- 23 MR. JACOBS: Yeah, I think based on -- 24 CHAIRMAN DANNER: -- on others they don't. 25 MR. JACOBS: Based on the survey results, it</p>	<p style="text-align: center;">Page 342</p> <p style="text-align: center;">Joshua Jacobs by Chairman Danner</p> <p>1 provide accurate realtime information so they can manage 2 their account when it's convenient for them. 3 We're not recommending any change to SQL 5, 4 which is what would dictate our staffing levels to make 5 sure that we meet that service level. 6 CHAIRMAN DANNER: So -- and right now -- so 7 if I decide I need to call Puget after looking at the 8 web and not finding what I need, I can make that phone 9 call, I will get -- IVR will give me a menu and 10 somewhere at the end of that menu it will say press to 11 speak to an human being. 12 MR. JACOBS: Absolutely. 13 CHAIRMAN DANNER: How long does it take to 14 get to that point on the menu? 15 MR. JACOBS: I don't know that for certain. 16 I can say that part of what we delivered within Get To 17 Zero is a complete revamp of our menu system for 18 customers to make it easier and more convenient to 19 navigate through that path more quickly than they would 20 have otherwise. 21 CHAIRMAN DANNER: Okay. All right. Thank 22 you very much. All right. This is a question for 23 Ms. Koch. 24 I don't know if you saw on January 13th of 25 this year, Utility Dive published an article that</p>
<p style="text-align: center;">Page 341</p> <p style="text-align: center;">Joshua Jacobs by Chairman Danner</p> <p>1 shows that there is a higher level of satisfaction 2 through desktop, mobile app, and then communicating with 3 them via text, chat, social media. Actually, IVR is the 4 lowest of the different channels. 5 CHAIRMAN DANNER: And -- 6 MR. JACOBS: It does not have an agent 7 experience represented here. 8 CHAIRMAN DANNER: Okay. So as you move 9 things more to IVR, we still have customer satisfaction 10 surveys that require -- or standards that require that 11 you reach a human being within a certain amount of time. 12 MR. JACOBS: Yeah. 13 CHAIRMAN DANNER: And from what I understand 14 the testimony you continue to meet that or you intend to 15 continue to meet those standards; is that correct? 16 MR. JACOBS: That's absolutely correct. 17 Nothing within Get To Zero is meant to reduce a 18 customer's option to pick up the phone and call and 19 spoke with a live agent. 20 Really, we're trying to make the experience 21 more convenient; however, a customer chooses to engage 22 with us. Whether it's through the IVR, with an agent, 23 on the mobile app or on the website. 24 To make sure that we have a consistent 25 cross-channelled experience for customers that can</p>	<p style="text-align: center;">Page 343</p> <p style="text-align: center;">Cathy Koch by Chairman Danner</p> <p>1 says -- the title of the article was "Most Utilities 2 aren't getting full value from smart meters report 3 warns." 4 And this was a report -- it was an article 5 about a survey conducted by the American Council of 6 Energy Efficiency -- from Energy Efficient Economy. 7 ACEEE. And they surveyed 52 utilities around the 8 country and determined to -- to see how they are 9 leveraging AMI. 10 And they captured data on six use cases. 11 And they found that basically one utility in the country 12 was -- was optimizing AMI, and that utility was not 13 Puget. 14 The six use cases were time of use rates, 15 realtime energy use feedback for customers, 16 behavior-based programs. 17 Do you want me to start over? 18 MS. KOCH: Yeah. Sorry. 19 CHAIRMAN DANNER: There's six. Time of use 20 rates, realtime energy use feedback for customers, 21 behavior-based programs, data disaggregation, grid 22 interactive efficient buildings, and volt VAR or CVR 23 optimization. 24 How do we know or how can we ensure that 25 Puget is going to optimize the benefits of -- of AMI and</p>

Page 344	<p>Cathy Koch by Chairman Danner</p> <p>1 how do we -- how do we ensure that if we're going to</p> <p>2 invest all this money in this platform that this</p> <p>3 platform is going to be used to the fullest extent that</p> <p>4 it can be for getting benefits to the customer.</p> <p>5 MS. KOCH: So -- so we're spending a lot of</p> <p>6 money to put --</p> <p>7 CHAIRMAN DANNER: I know.</p> <p>8 MS. KOCH: -- to put a system in. And</p> <p>9 that's really important.</p> <p>10 We're clearly moving forward with CVR. And</p> <p>11 one of the things that isn't on your list is leveraging</p> <p>12 at redistribution automation to improve reliability.</p> <p>13 Some of these other ones, as you point out</p> <p>14 and I -- definitely depend on strong customer</p> <p>15 participation, and so we -- we've been thinking very</p> <p>16 mindful of how to gain that so that pilots like these</p> <p>17 can be successful.</p> <p>18 I think we are actually talking about some</p> <p>19 time of use pilots. I think your Staff, UTC Staff would</p> <p>20 like us to try some peak pilots or peak pricing pilots</p> <p>21 as well.</p> <p>22 So with examples like Get To Zero that take</p> <p>23 the basic foundation of AMI and begin to leverage it, I</p> <p>24 think is a demonstration of PSE continuing to look at</p> <p>25 what this foundation offers.</p>	Page 346	<p>Cathy Koch by Chairman Danner</p> <p>1 benefits that -- that we're getting or not getting</p> <p>2 and -- and figure out if we should be determining</p> <p>3 recovery based on the optimization.</p> <p>4 MS. KOCH: So I think -- you have met Jon</p> <p>5 Piliaris, but I do believe that there's been</p> <p>6 conversations about performance base rate making and</p> <p>7 that's something we're interested in talking more about.</p> <p>8 Even in this rate case, I think UTC Staff</p> <p>9 asked how -- how has benefits been realized with what --</p> <p>10 what we've already got. And we were able to demonstrate</p> <p>11 that even -- even just with half the system that we have</p> <p>12 in today, we're receiving benefits.</p> <p>13 Measure us? You should do that. We're</p> <p>14 measuring ourselves, and so I think that's an</p> <p>15 appropriate feature.</p> <p>16 CHAIRMAN DANNER: All right. Thank you.</p> <p>17 COMMISSIONER RENDAHL: So, Ms. Koch, I have</p> <p>18 some questions for you about AMR and AMI. So we're back</p> <p>19 to that topic.</p> <p>20 And this has to do with the depreciable life</p> <p>21 of the assets. So in your rebuttal testimony on page 6.</p> <p>22 And I'll wait until you get there.</p> <p>23 MS. KOCH: Okay. I'm there, 6.</p> <p>24 COMMISSIONER RENDAHL: I'm sorry. Pretrial</p> <p>25 direct.</p>
Page 345	<p>Cathy Koch by Chairman Danner</p> <p>1 I'll also offer that we have a group</p> <p>2 in-house that's talking about how to enable data. Data</p> <p>3 enablement. And we're -- we've continued to put</p> <p>4 additional use cases together to test out a pilot</p> <p>5 further uses with AMI.</p> <p>6 But we also need to be very mindful and</p> <p>7 thoughtful as we do that so that we can maximize through</p> <p>8 those benefits.</p> <p>9 I'd suggest that we're going to be one of</p> <p>10 those at the top of the list. Because it really does</p> <p>11 have a lot of value -- not just for customers and</p> <p>12 there's a lot of -- there's a lot of customer in a</p> <p>13 facing value there, but there's a lot of system stuff,</p> <p>14 CVR being a great example where customers get the</p> <p>15 benefit things that we can do on the grid with AMI</p> <p>16 that -- it's not necessarily requiring customer</p> <p>17 participation. So the more that we can factor that in</p> <p>18 as well.</p> <p>19 CHAIRMAN DANNER: So there's been a lot of</p> <p>20 talk over the last few years about performance-based</p> <p>21 rate making.</p> <p>22 Is there a way that, you know, if -- if</p> <p>23 we -- we look at something like these use cases or maybe</p> <p>24 there's an advisory group that's put together to develop</p> <p>25 these use cases, can we -- should we be tracking the</p>	Page 347	<p>Cathy Koch by Commissioner Rendahl</p> <p>1 MS. KOCH: Okay. Page 6.</p> <p>2 COMMISSIONER RENDAHL: I'm looking at --</p> <p>3 actually, it's rebuttal. It says "pretrial direct" on</p> <p>4 the bottom.</p> <p>5 MS. KOCH: Yeah, yeah. I notice that.</p> <p>6 COMMISSIONER RENDAHL: But, yeah, it's</p> <p>7 actually rebuttal. So it is Exhibit CAK-6T at page 6,</p> <p>8 starting at -- on line 18.</p> <p>9 MS. KOCH: Yes.</p> <p>10 COMMISSIONER RENDAHL: Okay. So you</p> <p>11 referred to the AMR system has a design life of</p> <p>12 15 years.</p> <p>13 So that's the system had a design life or</p> <p>14 the meters themselves had a design life?</p> <p>15 MS. KOCH: The meters and the modules both</p> <p>16 have a design life of 15 years. So, in essence, it's</p> <p>17 the system.</p> <p>18 COMMISSIONER RENDAHL: Okay. And I think</p> <p>19 you were looking at a cross-exhibit from Public Counsel.</p> <p>20 I think it was CAK-11CX that identified sort of the</p> <p>21 remaining -- the remaining book value and the amount of</p> <p>22 depreciation expense still for some of these AMR assets;</p> <p>23 correct?</p> <p>24 MS. KOCH: Mm-hmm. DRT-65, yes:</p> <p>25 COMMISSIONER RENDAHL: So PSE started</p>

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<p>Cathy Koch and Susan Free by Commissioner Rendahl</p> <p>1 putting these assets, the AMR assets into place in 1998 2 or 1999.</p> <p>3 MS. KOCH: '98, yes.</p> <p>4 COMMISSIONER RENDAHL: And so why is there 5 still so much depreciable life of these assets? Or is 6 it you because you had to continually replace them and 7 that's restarted the depreciable life; is that why we 8 have so much left on the system?</p> <p>9 MS. KOCH: I'm going to say "yes," but I'm 10 going to pass it to my --</p> <p>11 COMMISSIONER RENDAHL: Okay. That's why 12 you're all up here together so you didn't have to do 13 this.</p> <p>14 MS. FREE: Yeah, I do believe that -- that 15 you have to continually replace the AMR. And, in fact, 16 I think we still are having to replace AMR as we're 17 building out the AMI system. And so the cost of that is 18 embedded in the -- the book value of the plan. So it's 19 been retired over the years, but it's also been added 20 to.</p> <p>21 COMMISSIONER RENDAHL: Okay. So -- and this 22 may be covered in the many exhibits and documents, but I 23 just need to refresh my memory on this.</p> <p>24 So for those meters that you're removing, 25 the AMR meters that you're removing as you replace them</p>	<p>Cathy Koch and Susan Free by Commissioner Rendahl</p> <p>1 not depreciating.</p> <p>2 MS. KOCH: We would request recovery through 3 amortization of that regulatory asset.</p> <p>4 COMMISSIONER RENDAHL: Okay. But that has 5 not --</p> <p>6 MS. FREE: That's how it would reduce.</p> <p>7 COMMISSIONER RENDAHL: That has not been 8 done yet?</p> <p>9 MS. FREE: No. Because we -- the AMR system 10 is still needed as we transition. It is still used and 11 useful where it's in service.</p> <p>12 COMMISSIONER RENDAHL: So once the AMI 13 system is fully in place and you have pulled out the 14 last AMR meter, then you will begin this process?</p> <p>15 MS. FREE: Yes. I would anticipate it will 16 be something we're looking at in our next rate case. 17 The treatment.</p> <p>18 COMMISSIONER RENDAHL: Okay. And then for 19 the new AMI meters, what is the depreciable life of 20 those meters?</p> <p>21 MS. FREE: They are -- I believe --</p> <p>22 COMMISSIONER RENDAHL: Maybe that's 23 Ms. Koch.</p> <p>24 MS. FREE: -- Ms. Koch would understand the 25 design life. Which the depreciable life should be sort</p>
<p style="text-align: center;">Page 349</p> <p>Cathy Koch and Susan Free by Commissioner Rendahl</p> <p>1 with AMI that still have -- that are being removed prior 2 to the end of their depreciable life, what is the 3 accounting treatment for those assets?</p> <p>4 MS. FREE: They -- they stopped 5 depreciating. So the AMI will start depreciating and 6 the AMR will stop depreciating.</p> <p>7 The book value of the AMR essentially gets 8 frozen in your rate base at that point.</p> <p>9 The accounting entries are to move the gross 10 plant and accumulated depreciation to reverse those out. 11 But since those two accounts are both in rate base, 12 there's no impact on rate base. It just stays there.</p> <p>13 And that usually -- and for mass assets, 14 like AMR would get trued up in the next depression 15 study.</p> <p>16 But for something like AMR which is a bit 17 larger of the piece of the plant that you're dealing 18 with. It's its own thing. We've seen that there's been 19 regulator asset treatment given for the unrecovered 20 balance of the asset.</p> <p>21 COMMISSIONER RENDAHL: So your plan is to 22 put it into a regulatory asset account?</p> <p>23 MS. KOCH: Yes.</p> <p>24 COMMISSIONER RENDAHL: And then will that 25 amount reduce over time as the -- even though they are</p>	<p style="text-align: center;">Page 351</p> <p>Susan Koch by Commissioner Rendahl</p> <p>1 of based on. It would be based on industry experience 2 of other companies and it was -- it would be something 3 that our depreciation witness will support as we do 4 another depression study.</p> <p>5 Our last depression study was done in our 6 2017 general rate case before we had started really 7 fully implementing AMI, so there wasn't a lot for him to 8 study. I'm thinking it's around 15 years.</p> <p>9 MS. KOCH: The design life for the AMI is 20 10 years.</p> <p>11 COMMISSIONER RENDAHL: Why don't we get a 12 mic to you.</p> <p>13 MS. KOCH: The design life for the AMI 14 meters and modules are 20 years.</p> <p>15 COMMISSIONER RENDAHL: Twenty years. Okay. 16 Thank you.</p> <p>17 CHAIRMAN DANNER: So, Ms. Koch, I wanted to 18 ask you about the remote disconnect. There's been a lot 19 of conversation about whether there needs to be a last 20 knock before a disconnect is made. And yet in your 21 business plan you state the company will address remote 22 disconnect but on payment.</p> <p>23 At the time you made that decision, what was 24 the basis for the assumption that there will not be a 25 last knock?</p>

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<p>Susan Koch by Chairman Danner</p> <p>1 MS. KOCH: So the business case talked about 2 remote disconnects for move-in and move-outs and 3 delinquent accounts. 4 But it also recognized that that evaluation 5 needed to be furthered with the -- the work that GTZ 6 was -- was doing. And so more analysis needed to be 7 there. 8 In all honesty, I would have to -- I would 9 have to look at the spreadsheet to deep dive into 10 whether a last knock was provided. 11 But it's doubtful that it was, because it's 12 a disconnect. So I think the assumption is that we 13 would eventually get to a place where we understood that 14 providing -- that performing a disconnect was an 15 acceptable activity. 16 But I think that is in part why that set of 17 benefits needed to be further analyzed because there's a 18 lot of -- there were a lot of things that still needed 19 to be thought out relative to that. 20 And so -- would you like to add anything 21 more? You are just staring at me. 22 CHAIRMAN DANNER: For the record, Ms. Koch 23 is looking at Mr. Jacobs. 24 MS. KOCH: But I think the assumption is -- 25 that it's the possible. There is a possibility to</p>	<p>Joshua Jacobs by Chairman Danner</p> <p>1 And do you want to address some of his concerns? I am 2 passing the microphone to Josh. 3 MR. JACOBS: Yes. So let me just provide a 4 little bit of context to the transition. 5 Get To Zero is not part of the AMI meter 6 rollout, but we are part of trying to maximize some of 7 the value streams that you identified. I think you had 8 realtime usage as one of the six value streams. 9 That's on our roadmap to explore to see how 10 we can present that in realtime for customers on our 11 digital channel so they can track their usage more 12 effectively than -- really what we provide today is one 13 monthly meter read on the website. 14 So there's certainly room for improvement 15 there. The remote disconnect-reconnect project is part 16 of the Get To Zero roadmap. If it's not in this case, 17 it will be in a subsequent case. And we have been 18 participating in the AMI rulemaking all year long to try 19 and participate in the conversation, certainly, and take 20 back components of the conversation to help inform where 21 we go with a design and functionality of our program. 22 We certainly recognize that this is a 23 difficult customer experience. It's a difficult 24 employee experience at the same time. We would prefer 25 not to disconnect anybody if we could make that work.</p>
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<p>Susan Koch by Chairman Danner</p> <p>1 leverage AMI in these manners, and it brings value. But 2 clearly that said benefits needed to be further 3 evaluated through UTC. 4 CHAIRMAN DANNER: One of the concerns I have 5 is if there is no last knock, would there be an increase 6 in the number of customers who would be disconnected 7 compared to the number that would have if there were a 8 last knock. And what is the cost of processing 9 disconnected people to get them back into service. 10 If there's an increase in bad debt due to 11 more unpaid bills because more people are disconnected, 12 do you intend to seek recovery of those costs? 13 I mean these are some of the questions that 14 are percolating. 15 And so it sounds to me like you're still in 16 the thinking mode, but there could be some dollar 17 differences in how you end up. 18 MS. KOCH: Absolutely. I think the AMI 19 business case was trying to articulate that there are 20 lots of foundational -- as using this foundational 21 technology, there's lots of other things that we can 22 leverage business cases and use cases and maximize the 23 operation of that. 24 These two particular benefits really did 25 need to be further thought out through GTZ's program.</p>	<p>Joshua Jacobs by Chairman Danner</p> <p>1 Unfortunately, if we don't manage this end 2 of the business adequately, there are incremental costs 3 that roll to the rest of our customers, and we've seen 4 increases to our bad debt year over year as we try to 5 manage the prior obligation rules that are in effect 6 today and strike a balance between how many resources, 7 manual resources we -- we throw at this issue versus how 8 we bring automation and efficiency to managing the 9 balance and striking that balance. 10 CHAIRMAN DANNER: Sure. So, you know, 11 whether or not there is a last knock is really a public 12 policy issue. And yet it's a public policy issue that's 13 going to have cost for the company. 14 And I'm just trying to figure out what 15 assumptions you're making, because if the assumptions 16 are that there will not be a last knock, obviously some 17 of the things I mentioned there's, you know, truck cost 18 to get people around, and so forth. 19 But I just wanted to -- to see if you have 20 already made up your mind that there will be no less 21 knock in your economic assumptions or if you have 22 basically hedged or if you have done the two 23 side-by-side analyses. 24 MR. JACOBS: No. I would -- I would answer 25 that by saying we have taken the feedback from the AMI</p>

<p>Page 356</p> <p>Joshua Jacobs by Chairman Danner</p> <p>1 rulemaking that there will be a component of customers, 2 the most vulnerable customers that there will be a last 3 knock to support those customers. 4 And I think that the final ruling on how you 5 define the most vulnerable customers has yet to be 6 included. But that is part of our thinking in how we'll 7 structure what we automate through AMI and what we focus 8 our -- our field resources to help support. 9 CHAIRMAN DANNER: Okay. But in your 10 economic assessments of AMI so far, you're -- you didn't 11 go one way or the other, but -- 12 MR. JACOBS: So there are two assessments. 13 So in the AMI business case there is a high 14 level assessment that -- that Cathy's team provided and 15 is part of the Get To Zero initiative. 16 We have a -- a business case, a corporate 17 spending authorization that does assess the -- the value 18 streams whether there are labor, bad debt, postage 19 associated with this rollout under Get To Zero, and we 20 are incorporating those assumptions into our business 21 case. 22 CHAIRMAN DANNER: Okay. Thank you. 23 COMMISSIONER RENDAHL: So I think you can 24 understand why we're a bit confused about the overlap of 25 our programs. But that's not my question.</p>	<p>Page 358</p> <p>Joshua Jacobs by Commissioner Rendahl</p> <p>1 if it is, you can let me know. Otherwise, it would be 2 helpful to get it in a bench request response. 3 Do you know how many customers you have 4 remotely disconnected in this fashion in the years 2018 5 and 2019 and to the present? 6 MR. JACOBS: Just for the first phase of the 7 customer initiated move-in or move-out. I don't know 8 that number but we can get that. 9 COMMISSIONER RENDAHL: That would be a bench 10 request number, I don't know what. Four. 11 Okay. And now I think this is going to 12 Mr. Wappler. You did not get spared. Sorry. 13 So The Engery Project in its testimony has a 14 proposal to create a disconnection reduction plan, and 15 then I believe that in your testimony, PSE is accepting 16 that proposal to create that plan and submit it to the 17 Commission for approval. 18 Have you given any thought to the timeline 19 and the process for that? You'll need to move the mic. 20 It is close to you. Thank you. 21 MR. WAPPLER: I have not specifically, in 22 terms of the timeline. 23 The only thing I would add is, I believe, as 24 we think about that, one of the key components should 25 be: What can we do together to broaden the awareness of</p>
<p>Page 357</p> <p>Joshua Jacobs by Commissioner Rendahl</p> <p>1 This question actually might go to 2 Mr. Wappler. See, you didn't come up here for nothing. 3 But it also might be Mr. Jacobs. But it is a question 4 you can decide who gets the mic. 5 So related to the disconnects, is PSE 6 currently conducting remote disconnections with its AMI 7 system that -- AMI meters that are currently in place 8 with -- with the rules that we currently have? The last 9 knock. 10 MR. JACOBS: Yes and no. 11 So we have a two-phased approach for the 12 rollout and the functionality for remotely disconnecting 13 and reconnecting customers. 14 Phase I, which was rolled out in October of 15 2019, was to effectuate it only for move-in and 16 move-outs or for customer-requested disconnects. That 17 helps us manage to the unauthorized energy usage 18 compliance 60-day rule. So we are using it in that 19 scenario. 20 We are not yet using it for delinquent 21 accounts or denning purposes. We would expect that 22 sometime in March of this year and are working towards 23 that timeline. 24 COMMISSIONER RENDAHL: Okay. And this may 25 be in one of your exhibits or somebody's exhibits. And</p>	<p>Page 359</p> <p>Andrew Wappler by Commissioner Rendahl</p> <p>1 the existing aid and help programs that are out that are 2 currently underutilized by customers? 3 We are offering folks some things, like, 4 last knock and all that which are very important. 5 But I would like to place real emphasis in 6 this program on the outage so that the available 7 dollars, which unfortunately often get unused, are used 8 to the maximum. And how we can bring as many customers 9 to the available programs today, and now the new 10 platform that's available today to prevent people from 11 getting into that cycle in the first place. 12 COMMISSIONER RENDAHL: So you think this 13 would be something for discussion, the low income 14 advisory group, and then bring forward to the 15 Commission. 16 MR. WAPPLER: I think that would be 17 appropriate. 18 COMMISSIONER RENDAHL: So on another topic, 19 in Staff's cross-answering testimony Ms. Liu opposes The 20 Energy Project's proposal to tie PSE's help funding 21 increases to a base rate increase, and instead 22 recommends the Commission increase funding by twice the 23 percentage of the bill increase for 1.4 million, 24 whichever is greater. 25 Are you familiar with that testimony by</p>

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Andrew Wappler by Commissioner Rendahl

1 Ms. Liu?

2 MR. WAPPLER: I am.

3 COMMISSIONER RENDAHL: Ms. Liu further

4 states that funding the health increases using a base

5 rate increase would create an inaccurate assessment of

6 actual bill changes and might result in a second

7 increase directly resulting from the ERF.

8 So do you understand her assessment?

9 MR. WAPPLER: I do not fully understand her

10 assessment. I would believe it would make sense to tie

11 it to the base rate increase.

12 COMMISSIONER RENDAHL: Okay. So at this

13 point, speaking for PSE, you would say you would not

14 agree with Ms. Lui's proposal?

15 MR. WAPPLER: That's correct.

16 COMMISSIONER RENDAHL: Okay. Thank you.

17 Maybe you can explain why.

18 MR. WAPPLER: I believe the proposal, as

19 performed by The Engery Project, made sense to tie it to

20 base rates. Seems like that would be the most related

21 to the amount of bill the customers are facing, and

22 tying available aid to that seems like that would keep

23 those in proportion.

24 COMMISSIONER RENDAHL: Okay. Thank you.

25 JUDGE PEARSON: Thank you.

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Andrew Wappler by Commissioner Rendahl

1 That's all the questions that we have for

2 this panel.

3 At this time we will call the witnesses in

4 the order indicated on the parties' witness lists.

5 Okay. And no party has indicated any

6 cross-examination for David Mills.

7 Are there any additional questions for

8 Mr. Mills from the bench? No.

9 Okay. The next witness is Daniel Doyle from

10 PSE.

11 Just to clarify whether Public Counsel has

12 cross for this witness?

13 MS. GAFKEN: Yes, we do have cross for

14 Mr. Doyle.

15 JUDGE PEARSON: Okay. Thank you.

16 Mr. Doyle, you are already sworn in. We

17 don't need to do that again. You can go ahead and take

18 a seat.

19 And then, Ms. Gafken, you may proceed

20 whenever you're ready.

21 MS. CAMERON-RULKOWSKI: Your Honor, staff

22 also does have cross-examination for Mr. Doyle.

23 JUDGE PEARSON: Okay. Thank you.

24 CROSS-EXAMINATION

25 BY MS. GAFKEN:

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Dan Doyle by Ms. Gafken

1 Q. Good afternoon, Mr. Doyle.

2 A. Good afternoon.

3 Is this working? Now it's working.

4 Q. Generally speaking, normalization is used by

5 regulated utilities directly filed the tax treatment of

6 accelerated depreciation with the regulatory

7 treatment; is that correct?

8 And not being a tax expert myself, I'm using

9 very rudimentary.

10 A. Can you ask me one more time?

11 Q. Sure.

12 A. Thank you.

13 Q. Generally speaking, normalization is used by

14 regulated utilities to reconcile the tax treatment of

15 accelerated depreciation with their regulatory

16 treatment; is that correct?

17 A. I don't think that that's an appropriate

18 characterize of normalization.

19 Q. Okay. Can you give me the appropriate

20 characterization of normalization?

21 A. I think normalization is a requirement of the

22 IRS code. There are certain aspects of normalization

23 which need to follow in the revenue requirements

24 determination for the tax attributes covered by

25 normalization. But I don't think it's a reconciling

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Dan Doyle by Ms. Gafken

1 construct. It's one where you have rules and they are

2 applied inside of the rate making.

3 Q. Okay. I agree that it's an IRS requirement, but

4 is the purpose of it to somehow deal with the utilities'

5 ability to have deferred depreciation and the different

6 treatment that regulated utilities have in terms of

7 their books and the taxes and whatnot?

8 A. So it really gets to the purpose. I've got

9 several pages in my testimony which talks about the

10 history of normalization and why it exists.

11 And the normalization rules first and foremost

12 prevent what was a prevailing practice back in the late

13 '50s and the '60s before the initial normalization rules

14 came into effect; whereby, the benefits of accelerated

15 depreciation were passed through two rate payers in the

16 form of lower rates.

17 The problem with that treatment is that it

18 created an unintended consequence inside the Treasury

19 Department. Because when Treasury puts together its

20 budget, the Government puts together its budget, it

21 looks at taxable incomes from various sectors:

22 individuals, industries, et cetera. And it didn't count

23 on the utilities using flow-through accounting.

24 So basically what it did in 1969 is basically

25 said we are going to prohibit flow-through accounting.

Page 364	<p>Dan Doyle by Ms. Gafken</p> <p>1 We are going to require you in your revenue requirements 2 to include deferred taxes on the timing differences 3 between book and tax depreciation, account for them 4 through accumulated deferred taxes and then as they turn 5 around pass them back to rate payers. That is what it 6 is all about.</p> <p>7 Q. Okay. My next question is really a foundational 8 question.</p> <p>9 A. Okay.</p> <p>10 Q. With respect to the protected EDIT amortization 11 for the period of January 1, 2018, through February 28, 12 2019, is it fair to say that PSE believes that the 13 refunds to customers would violate the IRS normalization 14 rules?</p> <p>15 If we need to, we can refer to your rebuttal 16 testimony at Exhibit DAD-7T, page 26, lines 1 through 3.</p> <p>17 A. Well, the pause is trying to sort through what 18 angle you're coming at it this from. So there's two 19 ways to look at it.</p> <p>20 One is, we amortize the excess deferred taxes 21 during that period of time.</p> <p>22 My testimony says that that was an appropriate 23 refund of those taxes to customers because of the way 24 the normalization rules work.</p> <p>25 If you're talking about capturing those excess</p>	Page 366	<p>Dan Doyle by Ms. Gafken</p> <p>1 with that time period would violate the normalization 2 rules?</p> <p>3 A. Correct.</p> <p>4 Q. Okay.</p> <p>5 A. Sorry, I could have worded that a little 6 differently.</p> <p>7 Q. The IRS has not issued guidance regarding the 8 application of the TCJA normalization requirements; 9 correct?</p> <p>10 And if you need to, you can refer to Exhibit 11 DAD-17, page 26, lines 16 through 17.</p> <p>12 A. That is correct. The guidance has not yet been 13 issued.</p> <p>14 Q. The same IRS normalization rules apply to PSE 15 that also apply to the other Washington investor-owned 16 utilities; correct?</p> <p>17 A. Correct.</p> <p>18 Q. Indeed, the same IRS normalization rules apply 19 to PSE that also applies to all of the regulated 20 utilities across the country; correct?</p> <p>21 A. Correct.</p> <p>22 Q. Thank you.</p> <p>23 MS. GAFKEN: I have no further questions for 24 Mr. Doyle.</p> <p>25 JUDGE PEARSON: Thank you.</p>
Page 365	<p>Dan Doyle by Ms. Gafken</p> <p>1 deferred taxes, recording a new regulatory liability, 2 and then passing those back through rates, that would be 3 a normalization violation.</p> <p>4 So I don't know which angle you're coming at in 5 your question, Counselor.</p> <p>6 Q. Well, I'm not coming at it from an angle. I 7 just wanted you to answer the question.</p> <p>8 May I have a minute to pull up the exhibit?</p> <p>9 I thought I had it in paper form, but apparently 10 I need to pull it up in electronic form.</p> <p>11 If you could go to Exhibit DAD-7T, page 26, 12 lines 1 through 3.</p> <p>13 A. Can you repeat that, Ms. Gafken?</p> <p>14 Q. Absolutely. Exhibit DAD-7T, page 26, lines 1 15 through 3.</p> <p>16 A. So I have DAD-7TR.</p> <p>17 Q. Oh, yes.</p> <p>18 So we have to take the negative inference.</p> <p>19 There you state that "Unlike Commission Staff, Public 20 Counsel incorrectly asserts that the refund of protected 21 EDIT amortization for the period of January 1, 2018, 22 through February 28, 2019, would not violate the IRS 23 normalization rules."</p> <p>24 So is it fair to say that you believe that 25 Public Counsel's position with respect to the amounts</p>	Page 367	<p>Dan Doyle by Ms. Cameron-Rulkowski</p> <p>1 Any redirect for this witness? Okay.</p> <p>2 Ms. Cameron-Rulkowski.</p> <p>3 MS. CAMERON-RULKOWSKI: Thank you, Your 4 Honor.</p> <p>5 CROSS-EXAMINATION</p> <p>6 BY MS. CAMERON-RULKOWSKI:</p> <p>7 Q. Good afternoon, Mr. Doyle.</p> <p>8 A. Good afternoon.</p> <p>9 Q. I have a few questions for you on excess 10 deferred income tax.</p> <p>11 In your rebuttal testimony in Exhibit DAD-7TR 12 you discuss the consistency rule in relation to the pass 13 back of excess deferred income tax; right?</p> <p>14 A. (Witness nods head.) 15 I do.</p> <p>16 Q. Thank you.</p> <p>17 And are you aware of any IRS penalties assessed 18 since the TCJA was enacted for violation of the 19 consistency rule against any utility in conjunction with 20 returning EDIT to rate payers?</p> <p>21 A. No. But my testimony is pretty clear that we 22 wouldn't have that -- we wouldn't have that information 23 at this point in time for a couple of reasons.</p> <p>24 Number one, we don't have a guidance. Number 25 two --</p>

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Dan Doyle by Ms. Cameron-Rulkowski

1 **Q. And I understand that.**

2 **But you're not aware to date that any penalties**

3 **have been assessed by the IRS; correct?**

4 A. No. That would come in the future.

5 **Q. Thank you.**

6 **Can you tell us the initial balance of PSE's**

7 **EDIT as of January 1, 2018, the effective date of the**

8 **TCJA?**

9 A. I can get -- I can get you in the ballpark. I

10 don't have the exact figures. I think the protected

11 balances were somewhere between 700 and 750 million, and

12 then the unprotected was somewhere around 130 million

13 and change.

14 Mr. Marcellia would have those numbers exactly.

15 **Q. Thank you. Ballpark is fine.**

16 **Could you repeat the number for protected EDIT,**

17 **please?**

18 A. Roughly 700 to 750 million.

19 **Q. Thank you.**

20 **Now, it's the Company's plan at a high level to**

21 **amortize this whole balance of EDIT over a number of**

22 **years; right?**

23 A. Well, we would amortize them over a number of

24 years in concert with the normalization rules.

25 **Q. Understood.**

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Dan Doyle by Ms. Cameron-Rulkowski

1 **And so we're looking at amortization over**

2 **several decades; right?**

3 A. Yeah, depending on the vintage of property,

4 could be several decades, correct.

5 **Q. Thank you.**

6 **And as EDIT is amortized, is PSE going to pass**

7 **that EDIT back to rate payers?**

8 A. Yes. It will happen through the rate making

9 process.

10 So, for example, when we went through the

11 expedited rate filing, we had rate increase on the

12 electric side, offset, I believe, almost dollar for

13 dollar with the excess deferred taxes and we had a rate

14 increases on the gas side, which was offset by the

15 amortization of excess deferred taxes. Those

16 amortizations will stay in rates until the next time we

17 change base rates.

18 However, on the books of account, timing

19 differences will continue to turn around that are not in

20 rates, and so you won't have perfect synchronization for

21 what's going on in the books and what's going on in

22 rates.

23 **Q. Now, you used the term "dollar for dollar."**

24 **Is PSE going to ultimately pass back the entire**

25 **EDIT balance dollar for dollar to rate payers?**

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Dan Doyle by Ms. Cameron-Rulkowski

1 A. I don't think that that -- I don't think that

2 that can happen unless you have perfect rate making and

3 you change your rates every time the deferred -- the

4 excess deferred -- another vintage of property goes into

5 being fully depreciated, you will never synchronize it

6 up. It's not intended to work that way.

7 **Q. Would there be a way that it could?**

8 A. One way that you could is if every time -- so

9 let me put it in this context.

10 Staff, I believe, has -- has a proposal on the

11 table which I recommend to the Commission that you not

12 adopt, because I do believe it is a normalization

13 violation where you put a tracker on excessed deferred

14 taxes and every time a new vintage of property goes into

15 turnaround status or reversal status, you then change

16 the rates. You cannot do that unless you change all of

17 the other items that are components of applying the

18 consistency rule. You can't cherry pick that piece out.

19 So what you could do is -- you could basically

20 set rates, apply the consistency rules, call it once a

21 year, once a quarter, whatever, and change rates. I

22 think that -- that could work.

23 I don't think that's regulatory practical. It's

24 practical in a regulatory sense. I just don't think

25 it's practical.

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Dan Doyle by Ms. Cameron-Rulkowski

1 **Q. So what the Company's proposing means that in**

2 **between rate cases, when the amortizations happen, the**

3 **customers would not receive a passback of that added; is**

4 **that correct?**

5 A. You're going to need to try that one on me one

6 more time.

7 **Q. Certainly.**

8 **So from what I'm understanding, the -- in**

9 **between rate cases, as the company amortizes the EDIT,**

10 **customers would lose out on that EDIT and it would not**

11 **be passed back to them; is that correct?**

12 A. Perhaps in the early years, but it would reverse

13 in the later years.

14 So you would be passing back after vintages

15 become fully -- fully depreciated for tax purposes.

16 And the point I would make here is that what the

17 company is proposing, I believe, is in strict accordance

18 with the normalization rules.

19 And it is exactly what we did from 1986, the

20 last change in tax rates to now. And it hasn't been an

21 issue. We've been just -- or amortizing these excess

22 deferred taxes back.

23 There's not perfect synchronization between

24 rates and what's happening on the books. But on

25 average, it's close.

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<p style="text-align: center;">Dan Doyle by Ms. Cameron-Rulkowski</p> <p>1 Q. So how does PSE plan to incorporate EDIT 2 amortization into rates? 3 A. So it basically goes in two components. The 4 average rate assumption method rules require us to 5 amortize those deferred taxes back in rates once each 6 vintage of property becomes fully depreciated for tax 7 purpose. So you start reversing those deferred taxes. 8 Basically, what will happen is you'll -- you'll 9 set a test year in your next GRC. You'll capture those 10 reversals or amortizations inside of -- of that test 11 year as part of setting the revenue requirement. You 12 will synchronize those amortizations or reversals with 13 current tax expense, deferred tax expense, rate base, 14 and accumulated deferred taxes, set them all in 15 alignment, appropriate with the consistency rules, and 16 then you set rates. And then it stays in effect until 17 you repeat the process. 18 Q. And under the Company's proposal, how will the 19 Commission be able to tell how much of the amortized 20 EDIT has been returned to rate payers? 21 A. Well, the way you would have to do -- in order 22 to actually reconcile it to the penny, you basically 23 have to look at the amortizations or the reversals that 24 you basically captured in a test year, follow it while 25 those rates are in effect because that's basically what</p>	<p style="text-align: center;">Dan Doyle by Ms. Cameron-Rulkowski</p> <p>1 track it and try to get it as close as you could, you 2 probably would want to basically on an annual basis, 3 quarterly basis, whatever, in between rate cases, reset 4 rates for all the components of the consistency rules. 5 Okay? Because you can't change the amortization or 6 reversal of deferred taxes and rates unless you capture 7 the other components of the consistency rules. Reset 8 rates, that complies with the normalization rules, 9 and -- and you go forward. 10 I do think it's -- it's probably a little bit 11 futile, in a sense, or -- and really inefficient at one 12 sense and maybe futile in another, because it's never 13 going to reconcile itself out. 14 The key thing to remember about all of this is, 15 during the period of January 1 of 2018, when tax rate 16 changes -- right? -- and it was the end of February of 17 2019 when we actually put the ERF rates into effect and 18 synchronized the consistency rules. 19 Pretty much any time during that time period if 20 you would have done what I'm talking about, which is 21 basically reset rates for all the components of -- of 22 the consistency rules, you're gonna have an offset that 23 pretty close gets you to zero or you are going to have a 24 rate increase that overtakes that -- that reversal. 25 That's exactly what happened with the gas rates</p>
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<p style="text-align: center;">Dan Doyle by Ms. Cameron-Rulkowski</p> <p>1 you're passing back. 2 In the meantime, you are going to be reversing 3 additional vintages of -- of property that become fully 4 depreciated for taxes; and then once you're done 5 reversing other vintages, they totally drop out. 6 So you would have to reconcile what goes on in 7 the books to what you actually captured in rates over 8 time. 9 I'm not sure I can imagine a circumstance where 10 it comes out exactly to the penny. But what I will tell 11 you is in the earlier years of -- of the process, you'll 12 capture higher levels of amortization and those will 13 carry out as vintages come down. You might over collect 14 a little bit. But toward the end of the process, it 15 reverses and it will average out over time. But it's 16 never going to be to the penny. 17 Q. So what -- so could you propose an alternative 18 to Staff's schedule -- well, to -- to Schedule 141X 19 which Staff is -- has discussed in testimony to track 20 the amortized EDIT that has been returned to rate 21 payers? 22 A. Well, I think I explained that to you in an 23 earlier question. I'll just refresh your memory on it. 24 Q. Please do. 25 A. So you -- if you really wanted to do this and</p>	<p style="text-align: center;">Dan Doyle by Ms. Cameron-Rulkowski</p> <p>1 in the ERF in February of 2019, if I got that right. 2 And then there was just -- almost a dollar for dollar 3 offset on the electric side. 4 So you can go through all these gyrations and 5 you're basically going to just end up with offsets. 6 The rules contemplate -- the rules contemplate 7 that as you give back these deferred taxes, the IRS does 8 not want its taxable income to come down, so the 9 amortization reduces taxable income to the IRS. 10 The reason that rate base is part of the 11 consistency rules is that rate base grows over time. 12 So as you reset the consistency rules into the 13 future, you're increasing rates on one side while you're 14 decreasing them for the amortization of the excess, and 15 the IRS is held harmless. 16 Q. One last question, Mr. Doyle. 17 Isn't the Company's intent to return as close as 18 possible to every dollar of amortized EDIT to rate 19 payers? 20 A. It's the Company's proposal that we're going to 21 return -- we are going to return excess deferred taxes 22 consistent with the normalization rules and the timing 23 of our rate cases. 24 Q. And I'm going to ask you again. Sorry, I said 25 it was one more question. But you didn't quite answer</p>

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<p>Dan Doyle by Ms. Cameron-Rulkowski and Mr. Kuzma</p> <p>1 it. And so I'll just ask the same question.</p> <p>2 Is it the intent of PSE to pass back to rate</p> <p>3 payers as close as possible dollar for dollar the entire</p> <p>4 amortized EDIT ultimately?</p> <p>5 A. As close as possible as a proper application of</p> <p>6 the normalization rules in the context of the timing of</p> <p>7 our rate changes will allow.</p> <p>8 MS. CAMERON-RULKOWSKI: No further</p> <p>9 questions.</p> <p>10 Thank you.</p> <p>11 JUDGE PEARSON: Thank you.</p> <p>12 Any redirect for this witness?</p> <p>13 MR. KUZMA: Yes, Your Honor.</p> <p>14 REDIRECT EXAMINATION</p> <p>15 BY MR. KUZMA:</p> <p>16 Q. Mr. Doyle, you had mentioned that excess</p> <p>17 deferred income taxes were not going dollar for dollar.</p> <p>18 Does plant depreciation and deferred DFIT, which</p> <p>19 require similars treatment, it would cover dollar for</p> <p>20 dollar?</p> <p>21 A. No, they do not.</p> <p>22 Q. And so on the dollar for dollar on the EDIT, is</p> <p>23 that -- so the rate impact would not necessarily be the</p> <p>24 dollar for dollar; is that what you were referring to?</p> <p>25 A. Correct.</p>	<p>Matt Marcelia by Mr. Pepple</p> <p>1 MR. MARCELIA: You did.</p> <p>2 JUDGE PEARSON: Okay. Then never mind.</p> <p>3 That's right, you are still under oath.</p> <p>4 And it looks like just Mr. Pepple has</p> <p>5 questions for Mr. Marcelia.</p> <p>6 CROSS-EXAMINATION</p> <p>7 BY MR. PEPPLE:</p> <p>8 Q. Could you turn to your rebuttal testimony to</p> <p>9 Exhibit MRM-11T, page 9, please.</p> <p>10 A. Okay. I'm there.</p> <p>11 Q. And just to set a little background. So this</p> <p>12 section of your testimony, this is Section B here,</p> <p>13 you're responding to AWEC's witness Mr. Mullins'</p> <p>14 proposal to offset the Colstrip 1 and 2 plant balances</p> <p>15 with production tax credits that PSE has included in</p> <p>16 estimated tax payments, but has not yet included on an</p> <p>17 annual tax filing; correct?</p> <p>18 A. Correct.</p> <p>19 Q. And lines 17 through 19 of this page, you argue</p> <p>20 that Mr. Mullins' proposal is inconsistent with prior</p> <p>21 Commission orders and settlements addressing how and</p> <p>22 when PTCs may be utilized.</p> <p>23 Do you see that?</p> <p>24 A. That's correct. It is.</p> <p>25 Q. And then to the next page, the next Q&A starting</p>
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<p>Dan Doyle by Commissioner Balasbas</p> <p>1 MR. KUZMA: Thank you. That's all I have.</p> <p>2 JUDGE PEARSON: Okay. Thank you.</p> <p>3 COMMISSIONER BALASBAS: So, Mr. Doyle, I'm</p> <p>4 going to actually ask Ms. Cameron-Rulkowski's question</p> <p>5 again, and I want a one-word answer. And I want a "yes"</p> <p>6 or a "no."</p> <p>7 Is the company planning to return amortized</p> <p>8 EDIT as close as possible to the dollar to rate payers;</p> <p>9 yes or no?</p> <p>10 MR. DOYLE: Yes.</p> <p>11 COMMISSIONER BALASBAS: Thank you.</p> <p>12 JUDGE PEARSON: We're just going to talk</p> <p>13 amongst ourselves for about 30 seconds.</p> <p>14 (Pause in the proceedings.)</p> <p>15 JUDGE PEARSON: We're going to take a</p> <p>16 five-minute recess right now. So we'll be off the</p> <p>17 record.</p> <p>18 (A recess was taken from 5:01 p.m. to 5:15 p.m.)</p> <p>19 JUDGE PEARSON: All right. So we'll be back</p> <p>20 on the record.</p> <p>21 And Mr. Marcelia is up and ready to testify.</p> <p>22 If you would please stand and raise your right hand I</p> <p>23 will swear you in.</p> <p>24 MR. MARCELIA: Again?</p> <p>25 JUDGE PEARSON: Did I swear you in earlier?</p>	<p>Matt Marcelia by Mr. Pepple</p> <p>1 on 3, you discuss these prior orders in settlements that</p> <p>2 you're talking about.</p> <p>3 A. Yes.</p> <p>4 Q. And so my understanding of the history of this</p> <p>5 issue is that PSE used to provide the value of PTCs to</p> <p>6 customers in the year that they were generated</p> <p>7 regardless of whether any of those PTCs could actually</p> <p>8 be used by PTC [verbatim] on its tax returns?</p> <p>9 A. That's right. That was the original treatment</p> <p>10 back in 2005 to 2010.</p> <p>11 Q. Okay. And so that's -- that's the circumstance</p> <p>12 that led to the creation of this large deferred tax</p> <p>13 asset that PSE had is that it was providing value to</p> <p>14 customers in a year but not getting the same value back</p> <p>15 from the IRS in the same year?</p> <p>16 A. Yeah. That's correct.</p> <p>17 Q. Okay. And so is it your understanding that</p> <p>18 Mr. Mullins' proposal is to use PTCs to offset Colstrip</p> <p>19 plant balances that have not even been used on an</p> <p>20 estimated tax return?</p> <p>21 A. The -- the orders and the rules that we're</p> <p>22 operating under now require that PTCs to be used on the</p> <p>23 tax return to be monetized; that is the annual tax</p> <p>24 return. Not the estimates but the annual tax return.</p> <p>25 Q. Okay. But it seems like there is a difference</p>

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1 between what happened before and what Mr. Mullins'
 2 proposal is -- I guess, in one sense, you would pass the
 3 value of PTCs back to customers even if you knew with
 4 near certainty that you wouldn't have any tax liability
 5 at all in a year; correct?
 6 A. That was the original back in 2005 and 2010,
 7 yes.
 8 **Q. And Mr. Mullins' proposal, as you understand it,**
 9 **correct me if I'm wrong, is to use PTCs that you, in**
 10 **fact, estimate you will use on a --**
 11 A. Yes.
 12 **Q. -- and you have used to reduce your estimated**
 13 **tax payments?**
 14 A. Yes. In that regard, that is an improvement of
 15 that situation. But the fundamental issue is still --
 16 it's an estimate. It's a no. And the value hasn't been
 17 established yet.
 18 **Q. Okay. Okay. And so setting aside the -- your**
 19 **concerns about the value -- how accurate the value is,**
 20 **are you aware of any IRS rule or other requirement that**
 21 **would prevent the Commission from recognizing PTCs that**
 22 **are -- as being monetized when they are used as an**
 23 **estimated -- on an estimated tax return?**
 24 A. The answer to that is there's no IRS rule
 25 because we're not talking about the PTC itself. We're

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1 talking about the regulatory liability for the PTC. And
 2 regulatory liability is fully in their control to do
 3 whatever they want to it.
 4 We're talking about using it in a way that's
 5 appropriate relative to the underlying economics which
 6 are focused on the PTCs.
 7 So there's two things. There's PTC. There's
 8 regulatory liability for PTC.
 9 So we have this regulatory liability and we
 10 are -- the treatment that we're using for the regulatory
 11 liability is being determined by what's happening to
 12 the underlying PTC itself.
 13 So once we use that PTC on a tax return, that
 14 means we free up some of this regulatory liability to be
 15 re-classed against the Colstrip investment.
 16 **Q. Okay. So, in other words, the Commission has**
 17 **discretion in this area?**
 18 A. Yes.
 19 **Q. Okay. And I guess the issue of when PTCs are**
 20 **monetized is -- is really only a question of timing,**
 21 **right?**
 22 **So, in other words, when PTCs are -- whether --**
 23 **whether PTCs are considered to be monetized when they**
 24 **are included in an estimated tax payment or whether they**
 25 **are included in an annual return, the total number of**

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1 **PTCs available to PSE doesn't change; correct?**
 2 A. Well, that's correct. We have a total stack of
 3 PTCs.
 4 It is theoretically possible that some of them
 5 could expire worthless if it were to get out to that
 6 time frame. Not really the issue here. But
 7 theoretically some of them could expire.
 8 **Q. But other than that?**
 9 A. Other than that; you're right.
 10 **Q. All right. And so, I guess -- so that means**
 11 **that the total value of PTCs that PSE has is known**
 12 **today.**
 13 **I guess the only uncertainty would be how much**
 14 **interest is applied based on --**
 15 A. Yeah. I would say that the total stack of PTCs
 16 is known today. But because we haven't gotten any
 17 benefit back from the IRS, there is no true benefit.
 18 It is a -- the PTCs that haven't been utilized
 19 represent future benefit in our taxes, not current
 20 benefit in our taxes.
 21 That's kind of -- that's the crux. So yes, we
 22 have this paper asset, which we've gotten no value for,
 23 but we will get it once we have taxable income and we're
 24 able to use it to reduce the tax payment.
 25 So the value of the PTC comes when it is

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1 actually used to reduce a tax payment.
 2 **Q. Right. So -- although, to be clear on that, you**
 3 **did use PTCs in your last tax return. So some of them**
 4 **have actually --**
 5 A. That's right.
 6 **Q. -- been monetized in that?**
 7 A. That's right.
 8 **Q. So, I guess, assuming that you know the**
 9 **unrecovered investment for Colstrip Units 1 and 2 with a**
 10 **reasonable degree of certainty, you can also identify**
 11 **with reasonable accuracy how many -- how much of the**
 12 **value of your PTC stack would be available to offset any**
 13 **unrecovered plant ballots for Units 3 and 4 when those**
 14 **are eventually out of rates; is that -- would you agree**
 15 **with that?**
 16 A. I would agree with that.
 17 But in terms of setting rates, we don't usually
 18 use these estimates and projections to do that.
 19 Usually, it's like a known measurable. So these are
 20 estimates. Right? Estimated Colstrip balance at
 21 closure. Estimate of PTCs that are available to use. A
 22 lot of estimates.
 23 Typically we want known measurable. But, yeah,
 24 we have estimates. Lots of them.
 25 **Q. Right. But -- but it sounds like you can get**

<p style="text-align: right;">Page 384</p> <p style="text-align: center;">Matt Marcelia by Mr. Pepple</p> <p>1 pretty close to an --</p> <p>2 A. Close but still an estimate.</p> <p>3 Q. Yes. Okay.</p> <p>4 A. Right?</p> <p>5 Q. Okay. And were you in the room -- just one</p> <p>6 other question.</p> <p>7 Were you in the room when I was cross-examining</p> <p>8 Ms. Free?</p> <p>9 A. Yes, I was.</p> <p>10 Q. Okay. And did you hear how she wantonly threw</p> <p>11 you under the bus?</p> <p>12 A. I did. Susan Free is my friend. She meant it</p> <p>13 nicely.</p> <p>14 Q. So I'll ask you the question that she deferred</p> <p>15 to you which is why there is EDIT associated with</p> <p>16 monetized PTCs?</p> <p>17 A. That is a great question.</p> <p>18 So it starts -- back in the day, when we created</p> <p>19 the PTC -- the PTCs are generated. At that point in</p> <p>20 time -- so this goes back when the wind farms were first</p> <p>21 placed in service because -- direct PTCs over the first</p> <p>22 ten years of the wind farm.</p> <p>23 And so we recorded those PTCs as a deferred tax</p> <p>24 asset because it's a tax credit that we're entitled to.</p> <p>25 When we do that, we create a regulatory</p>	<p style="text-align: right;">Page 386</p> <p style="text-align: center;">Matt Marcelia by Mr. Pepple</p> <p>1 plant balance, you're speaking in hypotheticals; right?</p> <p>2 A. It's recorded gross, so the plan balance is</p> <p>3 still there and this reg liability for the PTC, it's</p> <p>4 still there.</p> <p>5 But because we are calculating the interest</p> <p>6 component against that, because obviously the -- the</p> <p>7 Colstrip balance is in rates, it is part of rate base.</p> <p>8 We monetized this -- this amount for PTC when we</p> <p>9 filed the 2018 tax return. That occurred after rates</p> <p>10 were set. And so we're charging interest on that. Kind</p> <p>11 of the carrying cost. So that basically we're</p> <p>12 offsetting the Colstrip balance for the regulatory</p> <p>13 liability for the PTCs, in essence.</p> <p>14 When we did that, we moved the regulatory</p> <p>15 liabilities for the PTCs that had been monetized. We</p> <p>16 moved that out of the big bucket into a little bucket.</p> <p>17 And when we did that movement, the regulatory -- I'm</p> <p>18 sorry, the deferred tax asset needs to slide over with</p> <p>19 it.</p> <p>20 Because at the end of time, we're going take the</p> <p>21 Colstrip plant and the reg liabilities of PTCs and we'll</p> <p>22 merge them together, and then we'll take the -- the</p> <p>23 deferred tax asset that's all in the PTCs and the</p> <p>24 deferred tax liability that's on the Colstrip plant,</p> <p>25 merge those together.</p>
<p style="text-align: right;">Page 385</p> <p style="text-align: center;">Matt Marcelia by Mr. Pepple</p> <p>1 liability at that point in time.</p> <p>2 The creation of the regulatory liability, when</p> <p>3 the PTCs are generated, triggers a deferred tax asset as</p> <p>4 an offset. Okay?</p> <p>5 So our whole stack of -- our whole regulatory</p> <p>6 liability for PTCs has a deferred tax asset against</p> <p>7 them. All right?</p> <p>8 Q. So that -- can I interrupt you for a second?</p> <p>9 A. Sure.</p> <p>10 Q. That remains true even though you were passing</p> <p>11 the value of PTCs back to the customers?</p> <p>12 A. Yes. Yes. Because the regulatory liability is</p> <p>13 attached -- sorry, the deferred tax asset that we're</p> <p>14 talking about is attached to the regulatory liability</p> <p>15 for the PTCs. Okay?</p> <p>16 So when the PTCs are monetized -- so, for</p> <p>17 example, we monetize the amount that's being applied</p> <p>18 against Colstrip 1 and 2. We took part of that</p> <p>19 regulatory liability of the whole balance and it got</p> <p>20 re-classed over to offset the Colstrip plant. When we</p> <p>21 re-classed it over there, its deferred tax asset went</p> <p>22 with it. Okay?</p> <p>23 Q. Can I interrupt you one more time?</p> <p>24 A. Sure.</p> <p>25 Q. When you say you -- you used it to offset the</p>	<p style="text-align: right;">Page 387</p> <p style="text-align: center;">Matt Marcelia by Mr. Pepple</p> <p>1 So it will all come together. Right? All --</p> <p>2 the deferred taxes will have an offsetting effect. The</p> <p>3 plant will have an offsetting effect.</p> <p>4 Does that make sense?</p> <p>5 Q. It makes sense enough, I think.</p> <p>6 A. Okay.</p> <p>7 Q. That was my worst grade in law school, was tax.</p> <p>8 All right. Those are all my questions. Thank</p> <p>9 you.</p> <p>10 JUDGE PEARSON: Any redirect?</p> <p>11 MR. KUZMA: No, Your Honor.</p> <p>12 JUDGE PEARSON: Okay. Do any other parties</p> <p>13 have questions for this witness? No.</p> <p>14 And there is a question from Commissioner</p> <p>15 Balasbas.</p> <p>16 COMMISSIONER BALASBAS: All right. Good</p> <p>17 evening, Mr. Marcelia.</p> <p>18 MR. MARCELIA: Good evening.</p> <p>19 COMMISSIONER BALASBAS: So in the 2017</p> <p>20 Avista general rate case, they estimated that their</p> <p>21 protected plus EDIT amortization period under the</p> <p>22 average rate assumption method -- average rate</p> <p>23 assumption method was 36 years.</p> <p>24 Has -- under -- so under the average rate</p> <p>25 assumption method, what would be PSE's amortization</p>

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<p>Matt Marcellia by Commissioner Balasbas</p> <p>1 timeline?</p> <p>2 MR. MARCELIA: I don't know exactly -- it</p> <p>3 would be in the ballpark of 36 years, something like</p> <p>4 that. It depends on how long -- take the book life of</p> <p>5 the longest asset that we have, and that's kind of</p> <p>6 what -- that's the longest.</p> <p>7 But it ebbs and flows. It's not a constant,</p> <p>8 you know, X million dollars every year. It flows</p> <p>9 because assets enter reversal, and so it's -- it will be</p> <p>10 a long period. So 36 years is probably ballpark.</p> <p>11 COMMISSIONER BALASBAS: I would like to make</p> <p>12 a bench request for the best estimate that you have</p> <p>13 under the average rate assumption.</p> <p>14 MR. MARCELIA: Okay.</p> <p>15 COMMISSIONER BALASBAS: That's it.</p> <p>16 JUDGE PEARSON: That's it. Okay.</p> <p>17 You're excused. Thank you.</p> <p>18 MR. MARCELIA: Can I make a correction to</p> <p>19 something my CFO said? Is that legal? I'm just asking.</p> <p>20 JUDGE PEARSON: That's fine. Go ahead.</p> <p>21 MR. MARCELIA: So -- the one of the</p> <p>22 questions you asked was the final question -- you asked</p> <p>23 a yes-or-no question. And I wanted to clarify</p> <p>24 something.</p> <p>25 So there's also a question about</p>	<p>Matt Marcellia by Commissioner Balasbas</p> <p>1 will occur dollar for dollar just like it does for book</p> <p>2 depreciation. But then when you set rates on a</p> <p>3 historical test, you go: What depreciation incurred in</p> <p>4 my historical test year? That's what's going to be set</p> <p>5 into rates.</p> <p>6 What excess deferred tax reversed during a</p> <p>7 historical test year? That's what's going to be set</p> <p>8 into rates.</p> <p>9 Will it all equal dollar for dollar?</p> <p>10 Probably not. But it will be reversed dollar for dollar</p> <p>11 because assets get depreciated to zero. Excess deferred</p> <p>12 taxes will reverse to zero. But rate making will occur</p> <p>13 whenever rate making occurs using whatever rate-making</p> <p>14 techniques are permissible.</p> <p>15 So I wanted to kind of clarify that because</p> <p>16 there's two elements. And the consistency requirement</p> <p>17 is such -- which Mr. Doyle was referring to -- such that</p> <p>18 however you treat book depreciation is how you would</p> <p>19 treat EDIT, or however you treat rate basis is how you</p> <p>20 would treat the accumulated deferred income taxes.</p> <p>21 All those things need to be treated the same</p> <p>22 in a rate-making context. In addition to how we're</p> <p>23 doing --</p> <p>24 Your question about ARAM is about the length</p> <p>25 of time things will be amortized. That covers the time</p>
<p>Page 389</p> <p>Matt Marcellia by Commissioner Balasbas</p> <p>1 dollar-for-dollar return of the excess deferred taxes.</p> <p>2 So to be clear, the excess deferred taxes</p> <p>3 will be amortized dollar to dollar to the penny. And we</p> <p>4 can tell you that exact number at any point in time you</p> <p>5 would like to know, because we have software that tracks</p> <p>6 all of this. So that answer is "yes."</p> <p>7 The issue as to whether -- how that goes</p> <p>8 into rate. That's a rate-making question. And</p> <p>9 rate-making questions are inherently messy because</p> <p>10 there's not practically a dollar-for-dollar return of</p> <p>11 anything.</p> <p>12 So, if you recall, excess deferred taxes</p> <p>13 are reversed because of book depreciation expense. And</p> <p>14 so there's a correlation.</p> <p>15 If book's depreciation on an asset ceases</p> <p>16 for some reason, the excess deferred tax ceases to</p> <p>17 reverse because it is caused by book depreciation.</p> <p>18 So then if you look at how do you recover</p> <p>19 book depreciation and rates? Do we recover it dollar</p> <p>20 for dollar? No, we don't recover it dollar for dollar,</p> <p>21 because there's -- there's different timing involved as</p> <p>22 to when an asset actually goes into rates.</p> <p>23 So as a result, the excess deferred tax will</p> <p>24 have that same lumpiness when it goes into rates so that</p> <p>25 there's two elements. There's the amortization which</p>	<p>Page 391</p> <p>Matt Marcellia by Ms. Cameron-Rulkowski</p> <p>1 that the excess deferred will be put into tax expense.</p> <p>2 That tax expense will then go into cost of service for</p> <p>3 some period, and that will then come into a rate case.</p> <p>4 Perhaps this one. Perhaps another one.</p> <p>5 But it will -- it is then available -- once</p> <p>6 it hits tax expense, it's available for rate making.</p> <p>7 And so you will set rates based on that.</p> <p>8 But excess deferred tax isn't available to</p> <p>9 just be -- have its own amortization because it's a tax.</p> <p>10 It's a tax on something. This is being driven by book</p> <p>11 depreciation expense.</p> <p>12 So I wanted to kind of clarify a little bit.</p> <p>13 Hopefully that helped.</p> <p>14 MS. CAMERON-RULKOWSKI: Your Honor, could I</p> <p>15 please ask Mr. Marcellia a cross question, based on what</p> <p>16 he has just said?</p> <p>17 JUDGE PEARSON: That's fine.</p> <p>18 CROSS-EXAMINATION</p> <p>19 BY MS. CAMERON-RULKOWSKI:</p> <p>20 Q. Mr. Marcellia, one question. I hope.</p> <p>21 EDIT is made up of -- entirely of dollars</p> <p>22 collected from rate payers; correct?</p> <p>23 A. Through the rate-making process.</p> <p>24 Q. Thank you. I have no further questions.</p> <p>25 A. Okay.</p>

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<p>Susan Free by Commissioner Balasbas</p> <p>1 JUDGE PEARSON: Thank you.</p> <p>2 Okay. And at this time we would like to</p> <p>3 call Ms. Free back up because we do have another</p> <p>4 question from the bench for her.</p> <p>5 COMMISSIONER BALASBAS: Good evening,</p> <p>6 Ms. Free. Keeping on the EDIT theme.</p> <p>7 Would you please turn to your Exhibit</p> <p>8 SEF-26?</p> <p>9 MS. FREE: I'm there.</p> <p>10 COMMISSIONER BALASBAS: I just want to</p> <p>11 confirm is that -- on line 34 of this exhibit.</p> <p>12 So is this demonstrating that PSE's books of</p> <p>13 account includes EDIT in a regulatory liability account?</p> <p>14 MS. FREE: That is for GAAP purposes. It is</p> <p>15 in a regulatory liability account.</p> <p>16 COMMISSIONER BALASBAS: Okay. Thank you.</p> <p>17 JUDGE PEARSON: Thank you.</p> <p>18 Okay. And, Ms. Gafken, the time estimate</p> <p>19 shows here you have questions for Mr. Hunt; is that</p> <p>20 correct?</p> <p>21 MS. GAFKEN: I do.</p> <p>22 JUDGE PEARSON: Okay. So, Mr. Hunt, if you</p> <p>23 could please approach the witness table.</p> <p>24 MS. GAFKEN: My cross might go a tad bit</p> <p>25 more than 15 minutes, but I don't think it will go too</p>	<p>Thomas Hunt by Ms. Gafken</p> <p>1 rather than "operational."</p> <p>2 JUDGE PEARSON: Ms. Gafken, can I get a page</p> <p>3 number? Sorry.</p> <p>4 MS. GAFKEN: Sorry. We're still looking at</p> <p>5 page 1 of Exhibit TMH-7.</p> <p>6 JUDGE PEARSON: Okay. Thank you.</p> <p>7 BY MS. GAFKEN:</p> <p>8 Q. I'm sorry, Mr. Hunt, you took some exception</p> <p>9 with my shorthand of "operational goals."</p> <p>10 Could you give me the term that you would rather</p> <p>11 hear?</p> <p>12 A. Customer service and reliability.</p> <p>13 Q. If PSE achieves at least six-out-of-ten customer</p> <p>14 service and reliability goals and achieved at least</p> <p>15 90 percent of EBIDTA, incentives are paid under the</p> <p>16 plan; correct?</p> <p>17 A. Yes.</p> <p>18 Q. And financial goals are capped at lower</p> <p>19 performance levels for the customer service and</p> <p>20 reliability goals but are also reduced for financial</p> <p>21 performance below 100 percent EBIDTA?</p> <p>22 A. I'm sorry. I'm not sure I followed your</p> <p>23 question.</p> <p>24 Q. We'll try it again.</p> <p>25 So financial goals are capped at lower</p>
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<p>Thomas Hunt by Ms. Gafken</p> <p>1 much longer.</p> <p>2 JUDGE PEARSON: Please raise your right</p> <p>3 hand.</p> <p>4 (Sworn)</p> <p>5 JUDGE PEARSON: Please be seated.</p> <p>6 CROSS-EXAMINATION</p> <p>7 BY MS. GAFKEN:</p> <p>8 Q. Good evening, Mr. Hunt.</p> <p>9 A. Hi.</p> <p>10 Q. Would you please turn to your Exhibit TMH-7 and</p> <p>11 go to page 1?</p> <p>12 A. Okay. Yes, I'm there.</p> <p>13 Q. Toward the bottom of the page there's a chart</p> <p>14 entitled "Short-term incentive plan."</p> <p>15 With respect to PSE's shore-term incentive plan,</p> <p>16 eating 90 percent of EBIDTA, E-B-I-D-T-A, is a threshold</p> <p>17 for payment of an incentive; correct?</p> <p>18 A. That's one of the two thresholds for payment.</p> <p>19 Q. And the other finding threshold is achieving at</p> <p>20 least six out of ten operational goals; correct?</p> <p>21 A. That's safety and SQL, yes.</p> <p>22 Q. Is it accurate to call them operational goals?</p> <p>23 I did that as a shorthand in my questions, but I</p> <p>24 do understand that it's SQL and safety goals.</p> <p>25 A. Probably quality and reliability as a shorthand</p>	<p>Thomas Hunt by Ms. Gafken</p> <p>1 performance levels for the customer service and</p> <p>2 reliability goals, but they are also reduced for</p> <p>3 financial performance below 100 percent EBIDTA; correct?</p> <p>4 A. Yes, that's correct.</p> <p>5 Q. Would you please turn to cross Exhibit TMH-10X.</p> <p>6 A. Could you let me know which of the data requests</p> <p>7 numbers that is?</p> <p>8 Q. Sure. So cross Exhibit TMH-10X is a copy of PSE</p> <p>9 response to Public Counsel data request to number 278.</p> <p>10 A. Okay. I have it.</p> <p>11 Q. In subsection B, the response says that PSE has</p> <p>12 met both of the funding thresholds in the past ten-year</p> <p>13 period; correct?</p> <p>14 A. That's correct. Each year both thresholds were</p> <p>15 met for each of the ten years.</p> <p>16 Q. And, in particular, there has been no year in</p> <p>17 the past ten-year period where PSE has not achieved at</p> <p>18 least six of the customer service and reliability goals;</p> <p>19 correct?</p> <p>20 A. Correct.</p> <p>21 Q. Would you please turn to cross Exhibit TMH-12X,</p> <p>22 which is a copy of Puget Sound Energy's response to</p> <p>23 Public Counsel data request 281.</p> <p>24 A. Okay. I have it.</p> <p>25 Q. The chart provided in the response shows PSE's</p>

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<p style="text-align: center;">Thomas Hunt by Ms. Gafken</p> <p>1 two threshold results over the past ten-year period;</p> <p>2 correct?</p> <p>3 A. That's correct.</p> <p>4 Q. Now, would you please turn to cross Exhibit</p> <p>5 TMH-11X, which is a copy of Puget Sound Energy's</p> <p>6 response to Public Counsel data request 279.</p> <p>7 A. Okay.</p> <p>8 Q. The response says that performance of EBIDTA</p> <p>9 below the funding threshold could still result in a</p> <p>10 payment of incentives if low performance was caused by</p> <p>11 extenuating circumstances; correct?</p> <p>12 A. Yeah. Yes. The -- the data request asked a</p> <p>13 hypothetical question.</p> <p>14 One, that hasn't occurred. But in that</p> <p>15 hypothetical situation it's possible that the plans</p> <p>16 still could fund if -- if the CEO used that rule that</p> <p>17 said there were some extenuating circumstances.</p> <p>18 Q. By that rule, you're talking about Rule 8 that</p> <p>19 is set out in the response?</p> <p>20 A. Correct. That's -- that is an abstract from the</p> <p>21 plan document which was also shared as -- as my exhibit</p> <p>22 TMH-7, that we were looking at. That same one. The</p> <p>23 rules are shown on page 5 of that Exhibit TMH-7 has 14</p> <p>24 different rules, many of which are just to clarify for</p> <p>25 employees how the plan would work.</p>	<p style="text-align: center;">Thomas Hunt by Ms. Gafken</p> <p>1 MS. GAFKEN: Okay.</p> <p>2 BY MS. GAFKEN:</p> <p>3 Q. Mr. Hunt, have you studied the short-term</p> <p>4 incentive plan of American Electric Power?</p> <p>5 A. I'm not sure that I've studied it.</p> <p>6 We did review the -- the report from</p> <p>7 Mr. Garrett's that was included in the data request</p> <p>8 and is an exhibit in my TMH-9.</p> <p>9 Q. Did you review the plan from the company?</p> <p>10 Let me clarify that question.</p> <p>11 Did you review the short-term incentive plan</p> <p>12 that American Electric Power has?</p> <p>13 A. I don't recall reviewing the entire plan. But</p> <p>14 I --</p> <p>15 Q. Okay. Have you studied the short-term incentive</p> <p>16 plan of CenterPoint?</p> <p>17 A. No.</p> <p>18 Q. Have you reviewed the short-term incentive plan</p> <p>19 of Southwestern Public Service Company?</p> <p>20 A. I don't recall.</p> <p>21 Q. Let me ask you this question.</p> <p>22 Do you recall that Southwestern Public Service</p> <p>23 Company's plan is based on both financial and</p> <p>24 operational measures?</p> <p>25 A. I'm -- I'm aware of other plans that have more</p>
Page 397	Page 399
<p style="text-align: center;">Thomas Hunt by Ms. Gafken</p> <p>1 Q. Would you please turn to your rebuttal testimony</p> <p>2 which is Exhibit TMH-8T. And please go to page 5, lines</p> <p>3 18 through 19.</p> <p>4 A. Okay.</p> <p>5 Q. There -- there you state that you did not find</p> <p>6 examples of other utilities with dual funding thresholds</p> <p>7 and a funding table like PSE's when reviewing the</p> <p>8 example cited by Public Counsel witness Mr. Garrett;</p> <p>9 correct?</p> <p>10 A. Correct.</p> <p>11 Q. The examples used by Mr. Garrett included</p> <p>12 American Electric Power, Southwestern Public Service</p> <p>13 Company, CenterPoint, and Entergy; correct?</p> <p>14 A. I don't remember all the names, but if you say</p> <p>15 they were included, I would not be surprised.</p> <p>16 Q. I should have asked earlier. I can provide a</p> <p>17 copy of Mr. Garrett's testimony. I don't think it will</p> <p>18 be necessary to go through pages of his testimony. But</p> <p>19 I suppose that's something that could be accepted</p> <p>20 subject to check. To make sure that I didn't misstate</p> <p>21 them, if you so choose.</p> <p>22 MS. CARSON: Well, I would say that</p> <p>23 Mr. Garrett's testimony says what it says. And if -- if</p> <p>24 we need to verify it. If Mr. Hunt needs to verify it,</p> <p>25 he can. I'm not sure that needs to be done here.</p>	<p style="text-align: center;">Thomas Hunt by Ms. Gafken</p> <p>1 than one measure, but not that have a matrix where the</p> <p>2 two measures are tied together like PSE's plan.</p> <p>3 Q. Have you studied the short-term intensive plan</p> <p>4 of Entergy?</p> <p>5 A. When you say "studied," that's -- there's</p> <p>6 information about the plans in some of the -- the SEC</p> <p>7 materials that companies share. But I haven't studied</p> <p>8 it in -- in a sense of having extensively looked at it.</p> <p>9 MR. KUZMA: Your Honor, if I could ask a</p> <p>10 clarifying question?</p> <p>11 I'm assuming you're referring to Entergy</p> <p>12 Arkansas, the one that was mentioned by Mr. Garrett's --</p> <p>13 Entergy has multiple companies.</p> <p>14 MS. GAFKEN: That's correct.</p> <p>15 MR. KUZMA: Okay.</p> <p>16 MS. GAFKEN: Thank you for that</p> <p>17 clarification. I didn't include the states in my</p> <p>18 questions. But that is correct, it is Entergy Arkansas.</p> <p>19 Okay. I think that concludes my questions</p> <p>20 for Mr. Hunt.</p> <p>21 JUDGE PEARSON: Okay. Thank you.</p> <p>22 Any redirect?</p> <p>23 MS. CARSON: Yes, Your Honor.</p> <p>24 REDIRECT EXAMINATION</p> <p>25 BY MS. CARSON:</p>

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<p>Thomas Hunt by Ms. Carson</p> <p>1 Q. Mr. Hunt, you've talked about -- you did not 2 necessarily study these plans but you've reviewed them 3 and you reviewed Mr. Garrett's report; is that right? 4 A. I certainly have reviewed Mr. Garrett's report 5 and looked at other -- some of the cases that were 6 mentioned in the report. 7 Q. And you -- you distinguished that Puget's is 8 different from others that -- that have -- may look at 9 both financial and other metrics. 10 Can you just elaborate on that? 11 A. Sure. So that's -- it's still my understanding 12 is that our -- our plan which has the matrix of funding 13 as shown -- like we looked at on page 1. It ties into 14 measures together in a way that you have to accomplish 15 both at certain instances. That's separate -- you can 16 have other plans with more than one measure, but that -- 17 that was what I was saying was unique about our plan, 18 that it looks at both of them together. 19 And then, as well, it limits funding for -- if 20 the performance on the SQI and safety is not above 8 out 21 of 10, it limits the funding. Doesn't matter what 22 happens with the financial measure. There's a limit on 23 the funding for the -- for the overall plan. And I 24 don't believe I've seen other -- any other plan that 25 does it that way.</p>	<p>Thomas Hunt by Chairman Danner</p> <p>1 measure, they are all treated the same in that you miss 2 one, you drop one row down. You miss two, you drop a 3 second row down. 4 CHAIRMAN DANNER: One of the factors stated, 5 as I recall, the CEO has the discretion to change the 6 allotments among departments? 7 MR. HUNT: So that -- that is theoretically 8 possible if one department has performed extremely well. 9 The -- the funding based on the targets might be lower 10 there, but the CEO could move, and really the 11 management -- 12 CHAIRMAN DANNER: And that's just a 13 subjective determination? 14 MR. HUNT: Correct. Yep. 15 CHAIRMAN DANNER: Okay. Thank you. 16 JUDGE PEARSON: Okay. Thank you. 17 Okay. So AWEC has waived cross for 18 Mr. Henderson, but we do have some questions from the 19 bench. If he could come up. Raise your right hand. 20 (Sworn) 21 JUDGE PEARSON: Please be seated. 22 COMMISSIONER RENDAHL: Good evening, 23 Mr. Henderson. It is evening and, yes, there's a 24 spotlight on you. 25 MR. HENDERSON: It is even brighter.</p>
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<p>Thomas Hunt by Chairman Danner</p> <p>1 MS. CARSON: Thank you. No further 2 questions. 3 JUDGE PEARSON: Thank you. 4 Any questions from the bench? 5 CHAIRMAN DANNER: I would like a little 6 clarification. You know, I'm -- I read the testimony -- 7 it's still unclear to me which of these factors 8 predominantly -- even though you've got 14 factors 9 listed. It's SQI, safety, and financial performance. 10 How do -- is it -- is it a soup where it is 11 just sort of discretionary how you allot those? Or what 12 is the formula? 13 MR. HUNT: So I think it's probably easiest 14 to look back at page 1 of the testimony TMH-7. 15 The measures are really grouped into two 16 buckets. One is the EBIDTA that you see horizontally; 17 and then the second is safety in SQI results which are 18 the SQIs that the Commission -- that PSE has been 19 fulfilling and reporting on based on the Commission 20 having implemented them in the -- the merger rate case 21 of Puget's power and Washington Natural Gas. 22 And so if all nine SQIs and the safety 23 measures are met, then that's 10 out of 10. You miss 24 any one, that makes 9 out of 10. 25 So in -- as it relates to that vertical</p>	<p>Duane Henderson by Commissioner Rendahl</p> <p>1 COMMISSIONER RENDAHL: So the questions I'm 2 going to ask are about the Tacoma L+G project, and the 3 distribution systems upgrades. 4 So, as I understand from your testimony, 5 your rebuttal testimony, you're accepting Staff's 6 alternative recommendation to defer the costs associated 7 with what you've referred to as "upgrade number one," 8 the four miles of new piping connecting the L+G facility 9 to PSE's natural gas distribution system. And upgrade 10 three, which are upgrades to the Frederickson Gate 11 Station. 12 Is that a correct summary of your testimony? 13 If not, please explain. 14 MR. HENDERSON: So I think what I tried to 15 convey in the testimony is we still believe that the 16 upgrades one and three should be included in this rate 17 case. We believe that they are used and useful. But as 18 an alternative, we would accept a deferral mechanism as 19 a way to proceed or settle, settle on this case. 20 COMMISSIONER RENDAHL: Okay. So, I guess, 21 regardless of whichever proposal we accept. You are 22 familiar with the terms of the settlement agreement and 23 the Tacoma L+G facility in docket UG-151663 that applied 24 a cost allocation, an allocation of cost to the plant? 25 MR. HENDERSON: Not in great detail, I must</p>

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<p style="text-align: center;">Duane Henderson by Commissioner Rendahl</p> <p>1 admit.</p> <p>2 COMMISSIONER RENDAHL: I have a copy that I</p> <p>3 can give to you.</p> <p>4 Are you familiar that the fact that there is</p> <p>5 an allocation of costs to PSE and to the PSE L+G --</p> <p>6 MR. HENDERSON: And to the plant, yes.</p> <p>7 COMMISSIONER RENDAHL: So regardless of</p> <p>8 whether there's a deferral or whether it applies to</p> <p>9 rates for these two -- for upgrade number one and</p> <p>10 upgrade number three, is the Company intending to apply</p> <p>11 the common cost allocator that the Commission approved</p> <p>12 as a part of that settlement agreement?</p> <p>13 Or if you're not the right witness, who</p> <p>14 would be the right witness for that?</p> <p>15 MR. HENDERSON: I'm not sure I am the right</p> <p>16 witness. It would be the --</p> <p>17 COMMISSIONER RENDAHL: Looks like Ms. Free</p> <p>18 is coming up again.</p> <p>19 MS. FREE: May I approach?</p> <p>20 JUDGE PEARSON: You may.</p> <p>21 MS. FREE: Look, another panel.</p> <p>22 COMMISSIONER RENDAHL: We're just having so</p> <p>23 much fun.</p> <p>24 Do you understand my question?</p> <p>25 MS. FREE: I do understand your question.</p>	<p style="text-align: center;">Duane Henderson by Commissioner Balasbas</p> <p>1 COMMISSIONER BALASBAS: Could you describe</p> <p>2 in more detail how you believe those upgrades are used</p> <p>3 and useful for your customers today?</p> <p>4 MR. HENDERSON: So again, they are in</p> <p>5 service. Upgrade three might be the easier one to</p> <p>6 explain, which was primarily upsizing of a gate station</p> <p>7 on our South Tacoma supply system.</p> <p>8 I think as I mentioned in my -- my testimony</p> <p>9 that -- that South Tacoma supply system not only -- once</p> <p>10 we interconnect with upgrade two being installed,</p> <p>11 supplies a high growth area from Tacoma southward down</p> <p>12 through JBLM and the DuPont area, a very high growth</p> <p>13 area.</p> <p>14 Once that increase in the gate station</p> <p>15 capabilities was installed, we actually saw that the</p> <p>16 flow from that gate station exceeded the design flow of</p> <p>17 the previous gate station. The gate station before</p> <p>18 those upgrades were in effect.</p> <p>19 So there, I think, is a clear example where</p> <p>20 the existing customers are benefitting from that.</p> <p>21 In the case of the four mile -- the upgrade</p> <p>22 number one, which is the four mile pipeline that goes --</p> <p>23 extends to the plant location.</p> <p>24 As I said, it is currently in service. It</p> <p>25 is capable of being used. Even though the customer</p>
Page 405	Page 407
<p style="text-align: center;">Susan Free by Commissioner Rendahl</p> <p>1 This is like my third strike because I don't</p> <p>2 know the answer, but I think we could get it to you in a</p> <p>3 bench request.</p> <p>4 COMMISSIONER RENDAHL: Okay. So the bench</p> <p>5 request would be, just to be clear, whether this is</p> <p>6 included in rates or as a deferral for upgrade number</p> <p>7 one and upgrade number three whether the company would</p> <p>8 be applying the common cost allocator to those two</p> <p>9 upgrades.</p> <p>10 Is that clear?</p> <p>11 MS. FREE: That makes sense.</p> <p>12 COMMISSIONER RENDAHL: Okay. Thank you.</p> <p>13 That's bench request number --</p> <p>14 JUDGE PEARSON: Six.</p> <p>15 COMMISSIONER RENDAHL: -- 6. Thank you.</p> <p>16 So, Mr. Henderson, that's all I had. You</p> <p>17 got, you know, your lifeline there.</p> <p>18 Oh, I'm sorry. You're not released yet.</p> <p>19 Somebody has a question of you.</p> <p>20 COMMISSIONER BALASBAS: Almost,</p> <p>21 Mr. Henderson.</p> <p>22 So, Mr. Henderson, for upgrades one and</p> <p>23 three, you mentioned in your testimony that they are in</p> <p>24 service today; is that correct?</p> <p>25 MR. HENDERSON: That is correct.</p>	<p style="text-align: center;">Duane Henderson by Chairman Danner</p> <p>1 there isn't ready to receive -- receive the gas because</p> <p>2 of delays on the plant construction and we believe that</p> <p>3 it meets -- those requirements of its inservice and is</p> <p>4 capable of being used.</p> <p>5 CHAIRMAN DANNER: So it's capable of taking</p> <p>6 product to and from the L+G facility that's not in</p> <p>7 service. So yet you're saying it is in service.</p> <p>8 MR. HENDERSON: Well, it's connected to the</p> <p>9 gas system. It is pressurized today. And so as soon as</p> <p>10 that customer is ready to either receive gas or put gas</p> <p>11 back into the system, it's -- it's available and ready</p> <p>12 to go.</p> <p>13 CHAIRMAN DANNER: Okay. Thank you.</p> <p>14 JUDGE PEARSON: Okay. Thank you. The</p> <p>15 next -- yes, you are excused.</p> <p>16 And Paul Wetherbee is our next witness.</p> <p>17 Please raise your right hand.</p> <p>18 (Sworn)</p> <p>19 JUDGE PEARSON: Okay. Please be seated.</p> <p>20 Looks like just Staff has questions for Mr. Wetherbee.</p> <p>21 CROSS-EXAMINATION</p> <p>22 BY MS. CAMERON-RULKOWSKI:</p> <p>23 Q. Good evening, Mr. Wetherbee.</p> <p>24 A. Good evening.</p> <p>25 Q. I would like to discuss hydro data in power cost</p>

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<p style="text-align: center;">Paul Wetherbee by Ms. Cameron-Rulkowski</p> <p>1 modeling.</p> <p>2 A. Okay.</p> <p>3 Q. PSE uses the AURORA model to forecast power</p> <p>4 costs; correct?</p> <p>5 A. Yes.</p> <p>6 Q. And one of the inputs into the model is</p> <p>7 hydropower generation; right?</p> <p>8 A. Yes.</p> <p>9 Q. Historically, PSE would run the model for each</p> <p>10 year of hydro data; right?</p> <p>11 A. Mm-hmm.</p> <p>12 Q. And that data now totals 80 years' worth;</p> <p>13 correct?</p> <p>14 A. Yes. That's right.</p> <p>15 Q. Now, in this case, PSE is proposing that it use</p> <p>16 a single average of hydro generation from those years of</p> <p>17 hydro data instead of running the model for each of</p> <p>18 those years and generating an average from those model</p> <p>19 runs; correct?</p> <p>20 A. That's right.</p> <p>21 Q. In your rebuttal testimony, you discuss the</p> <p>22 hydro capacity logic in the AURORA model and raise the</p> <p>23 issue that running AURORA results in violation of a</p> <p>24 capacity constraints; correct?</p> <p>25 A. That's correct.</p>	<p style="text-align: center;">Paul Wetherbee by Ms. Cameron-Rulkowski</p> <p>1 going with a simplified approach.</p> <p>2 One, you remove somebody out -- out of model</p> <p>3 analysis that we had to do and we were able to</p> <p>4 consolidate into one model. Open model system.</p> <p>5 It also improves the efficiency of running the</p> <p>6 model system.</p> <p>7 Q. Now, do you think that the difference in power</p> <p>8 costs using the 80 runs that Staff is suggesting versus</p> <p>9 a single run is entirely due to AURORA's high-capacity</p> <p>10 violations?</p> <p>11 A. No. There's -- there's other factors going in</p> <p>12 the model analysis for that.</p> <p>13 Q. And do you have -- can you provide the dollar</p> <p>14 impact of the -- of all of the capacity violations in</p> <p>15 that series of the 80 runs?</p> <p>16 A. I don't have that off the top of my head.</p> <p>17 Q. Are you aware -- are you aware of any ways that</p> <p>18 PSE can prevent AURORA from violating the maximum hydro</p> <p>19 capacity?</p> <p>20 A. In the current piece of software that we're</p> <p>21 using, it's -- and we've researched it and talked with</p> <p>22 the folks that make AURORA and there's -- we can't do</p> <p>23 that right -- with the current system we cannot.</p> <p>24 With the new version that comes out, we do</p> <p>25 understand there will be a workaround to this problem.</p>
<p style="text-align: center;">Page 409</p> <p style="text-align: center;">Paul Wetherbee by Ms. Cameron-Rulkowski</p> <p>1 Q. Would you say that overall AURORA software</p> <p>2 produces accurate results despite the fact that it may</p> <p>3 occasionally violate the minimum and capacity</p> <p>4 restraints?</p> <p>5 A. I think that's -- generally that's right. But</p> <p>6 we do quantify in our rebuttal that there's an</p> <p>7 underestimate of the power cost.</p> <p>8 Q. And, actually, I'm going there. You note on --</p> <p>9 you can refer to it if you need to.</p> <p>10 You note on page 7 of -- of your rebuttal, which</p> <p>11 is Exhibit PKW-34CT.</p> <p>12 A. I'm sorry.</p> <p>13 Q. So that's page 7.</p> <p>14 A. Thank you.</p> <p>15 Q. At lines 9 to 10.</p> <p>16 A. Okay. Thank you.</p> <p>17 Q. Now, you note there that, on average, a capacity</p> <p>18 constraint was violated 1.7 percent of total hours;</p> <p>19 right?</p> <p>20 A. That's right.</p> <p>21 Q. Do you believe AURORA's hydro capacity violation</p> <p>22 rate of 1.7 percent is a valid reason for the single run</p> <p>23 that PSE is proposing?</p> <p>24 A. I would agree that that's -- that's small.</p> <p>25 However, it also -- you get additional benefits with</p>	<p style="text-align: center;">Page 411</p> <p style="text-align: center;">Paul Wetherbee by Ms. Cameron-Rulkowski</p> <p>1 Q. And when does that new version come out?</p> <p>2 A. I do not know.</p> <p>3 Q. Now, you were -- in a couple of answers back,</p> <p>4 you -- you were alluding to the two-zone run that PSE is</p> <p>5 proposing, and this involves running the model twice.</p> <p>6 Is that right?</p> <p>7 A. That's right.</p> <p>8 Q. All right. And this means running the model</p> <p>9 once to get the projected power costs and then</p> <p>10 ultimately to -- to actually get the forecasted power</p> <p>11 costs; is that right?</p> <p>12 A. No. The first one is to establish the market</p> <p>13 price.</p> <p>14 Q. Right.</p> <p>15 A. And it is a WEC-wide system.</p> <p>16 And the second run is just with the PSE system</p> <p>17 using that first run input to establish PSE's power</p> <p>18 costs.</p> <p>19 Q. That's what I thought I said, but thank you for</p> <p>20 clarifying.</p> <p>21 Now, you were talking about efficiencies. It's</p> <p>22 possible you -- when -- you were just talking about</p> <p>23 efficiencies, and I think you were talking about -- with</p> <p>24 a two-zone run having to run the model twice for each of</p> <p>25 the data years. Is -- is that right?</p>

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<p style="text-align: center;">Paul Wetherbee by Ms. Cameron-Rulkowski</p> <p>1 A. Yes.</p> <p>2 Q. All right. Is it possible, however, to use a</p> <p>3 spreadsheet at the end of the 80 model runs that staff</p> <p>4 is proposing instead of using the model a second time</p> <p>5 with each run to calculate the rate your power costs?</p> <p>6 A. Right. That's what we were trying to avoid was</p> <p>7 use the -- the capacity of the model to -- to calculate</p> <p>8 some of these contingency reserves type costs which you</p> <p>9 get at with the two-zone model.</p> <p>10 So instead of just doing one run, the old way</p> <p>11 was to do 80 runs, run through spreadsheets to</p> <p>12 average -- you know, create one average from those</p> <p>13 outputs.</p> <p>14 Q. And so what I'm getting at is -- if the company</p> <p>15 used the spreadsheet, it would be 80 runs and not 160</p> <p>16 runs; correct?</p> <p>17 A. It would be 160 runs, because you would have to</p> <p>18 run it twice for each of the different years.</p> <p>19 Q. Now, if you used the spreadsheet, however, then</p> <p>20 you would only have to run it -- you wouldn't have to</p> <p>21 run the model twice for each of the -- each of the hydro</p> <p>22 years; right?</p> <p>23 A. I'm tracking you. So your assumption -- so the</p> <p>24 answer to that would be "yes." If you did not also use</p> <p>25 the model to calculate some of the contingency reserve</p>	<p style="text-align: center;">William Einstein by Commissioner Rendahl</p> <p>1 bench request as well.</p> <p>2 JUDGE PEARSON: Number 7.</p> <p>3 CHAIRMAN DANNER: All right. Thank you.</p> <p>4 JUDGE PEARSON: Okay. I believe that's it.</p> <p>5 You are excused.</p> <p>6 And the next witness is William Einstein. I</p> <p>7 believe we have bench questions for Mr. Einstein.</p> <p>8 Raise your right hand.</p> <p>9 (Sworn)</p> <p>10 JUDGE PEARSON: Please be seated.</p> <p>11 COMMISSIONER RENDAHL: Good evening,</p> <p>12 Mr. Weinstein -- Mr. Einstein. Excuse me. It's been a</p> <p>13 long hearing. Long day.</p> <p>14 Okay. So related to the water heater rental</p> <p>15 program.</p> <p>16 MR. EINSTEIN: Yes.</p> <p>17 COMMISSIONER RENDAHL: Okay. So I</p> <p>18 understand from the testimony you expect a sale on the</p> <p>19 water heater rental program to close after the</p> <p>20 conclusion of this rate case unless you have new</p> <p>21 information today.</p> <p>22 MR. EINSTEIN: Yes, it will conclude after.</p> <p>23 We're still in the process of negotiating</p> <p>24 the -- the final details of the sale with the proposed</p> <p>25 buyer, and then the -- we expect that it would close,</p>
Page 413	Page 415
<p style="text-align: center;">Paul Wetherbee by Chairman Danner</p> <p>1 to calculate cost. So you would go all the way back to</p> <p>2 the old way.</p> <p>3 MS. CAMERON-RULKOWSKI: Thank you. That's</p> <p>4 all my questions.</p> <p>5 JUDGE PEARSON: Okay. Any redirect?</p> <p>6 MR. KUZMA: No, Your Honor.</p> <p>7 JUDGE PEARSON: Okay. Thank you.</p> <p>8 Questions from the bench?</p> <p>9 CHAIRMAN DANNER: Yeah, I have a question.</p> <p>10 Mr. Wetherbee, in your rebuttal testimony</p> <p>11 you write that the wind turbines have achieved an</p> <p>12 availability score, which you say is a measure of their</p> <p>13 readiness to produce power, and that score is 97 to</p> <p>14 99 percent.</p> <p>15 I was wondering if you could explain that</p> <p>16 score in how it's derived, what the criteria are,</p> <p>17 et cetera.</p> <p>18 MR. WETHERBEE: Boy. A -- a -- within the</p> <p>19 operations piece -- so we've queried our options group</p> <p>20 and the wind group to pull together that information on</p> <p>21 the availability.</p> <p>22 I would have to check with -- with my</p> <p>23 colleague, Ron Roberts, on the internal -- the</p> <p>24 calculation of that number.</p> <p>25 CHAIRMAN DANNER: Okay. Maybe that is a</p>	<p style="text-align: center;">William Einstein by Commissioner Rendahl</p> <p>1 yes, I believe after that.</p> <p>2 COMMISSIONER RENDAHL: Okay. So in that</p> <p>3 case, how and when does the company propose handling the</p> <p>4 outstanding negative reserve of approximately \$188,000</p> <p>5 associated with the amortization of unrecovered</p> <p>6 depreciation for the gas conversion burner program, as I</p> <p>7 understand they were linked a bit in this case.</p> <p>8 MR. EINSTEIN: I would defer that to</p> <p>9 Ms. Free, I believe, is to how we're going to account</p> <p>10 for that.</p> <p>11 COMMISSIONER RENDAHL: She is not free.</p> <p>12 MR. EINSTEIN: She is here.</p> <p>13 COMMISSIONER RENDAHL: Would you mind coming</p> <p>14 up?</p> <p>15 Do you want me to repeat the question?</p> <p>16 MS. FREE: I think I would appreciate it if</p> <p>17 you could repeat the question.</p> <p>18 COMMISSIONER RENDAHL: Okay. So given that</p> <p>19 the sale of the water heater rental program is going to</p> <p>20 close after this rate case, how does the company propose</p> <p>21 handling the outstanding negative reserve which is about</p> <p>22 \$688,000 -- 688, yeah, thousand dollars associated with</p> <p>23 the amortization of unrecovered depreciation of the gas</p> <p>24 conversion burner program and the initial assumption was</p> <p>25 they would be kind of handled together in this case.</p>

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<p>Susan Free by Commissioner Rendahl</p> <p>1 MS. FREE: I think that negative reserve is 2 actually in our test year rate base. 3 And so I'm going to give you two scenarios, 4 because I don't know that for sure. 5 If it is, we could remove it at the 6 compliance filing, as it will be held over in a deferred 7 account until -- with the water heaters until that gets 8 resolved. 9 If it's not in our rate base, then there's 10 really nothing that needs to be done. 11 COMMISSIONER RENDAHL: So I guess maybe this 12 is a bench request for you all to respond and clarify 13 the treatment of that. 14 And that would be bench request 8. 15 Okay. Mr. Einstein, I still have questions 16 for you. 17 CHAIRMAN DANNER: Actually, Ms. Free. 18 MR. EINSTEIN: We've been tied at the hip 19 for a while. 20 COMMISSIONER RENDAHL: I don't think she has 21 an answer to this one, but you might be surprised. 22 CHAIRMAN DANNER: No, I have a question. 23 COMMISSIONER RENDAHL: Oh, you have a 24 question. 25 So how many of your current customers have</p>	<p>William Einstein by Commissioner Rendahl</p> <p>1 us the number of customers who have had replacement 2 water heaters installed and also the number of those 3 that have been repaired over the course of the program. 4 Does that make sense? 5 MR. EINSTEIN: The entire life of the 6 program? 7 COMMISSIONER RENDAHL: That's a good 8 question. 9 MR. EINSTEIN: You are talking 60 years. 10 COMMISSIONER RENDAHL: Probably the last 11 20 years. 12 MR. EINSTEIN: Okay. 13 COMMISSIONER RENDAHL: All right. Thank 14 you. 15 CHAIRMAN DANNER: Okay. Mr. Einstein, my 16 question won't take 20 years. 17 So -- and it's not a question for Ms. Free, 18 but basically it's based on Ms. Free's rebuttal 19 testimony. 20 So in her rebuttal testimony -- this is in 21 regard to Green Direct. She proposes a tracking and 22 reporting procedure for the Green Direct, and that just 23 sort of kicked the question to me. 24 Does the record in this case demonstrate 25 that the Company's proposed revenue requirement does not</p>
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<p>William Einstein by Commissioner Rendahl</p> <p>1 had replacement water heaters installed during the 2 course of their agreements? Do you know? Roughly. 3 MR. EINSTEIN: No, I don't know that number 4 off the top of my head. 5 COMMISSIONER RENDAHL: Okay. And do you 6 know, from the data that you gather on this program, how 7 you determine whether a water heater is replaced or 8 repaired? Do you have that different data in the 9 system? 10 MR. EINSTEIN: Well, we track -- we track -- 11 if a water heater is replaced, we track the time at 12 which that water heater is replaced; then it becomes 13 part -- that new water heater becomes part of the asset 14 class of those water heaters for that year. 15 COMMISSIONER RENDAHL: Do you know how long 16 they are actually repaired or are they just replaced? 17 Do you know if there's any repaired? 18 MR. EINSTEIN: Yes, we do do repairs, if 19 necessary, and a replacement is not required. I don't 20 know the exact number of how that occurs. But if -- if 21 a customer were to call and say something isn't working 22 correctly and we can make a repair without a 23 replacement, we would do so. 24 COMMISSIONER RENDAHL: Okay. So I guess 25 this will be bench request number nine. If you can give</p>	<p>Susan Free by Chairman Danner</p> <p>1 include collecting the cost of the Green Direct program 2 through general rates? 3 Good thing you stayed. 4 MS. FREE: We have not -- the power costs 5 for the PPAs are included in base rates. The schedule 6 139 revenues are not included. And we've also removed 7 the fixed cost. So those are not included. 8 CHAIRMAN DANNER: So does that mean that 9 this program is not self-sufficient? 10 MS. FREE: I don't believe that's what it 11 means. The rates were designed over the course of the 12 program to pay for the cost of the program. 13 CHAIRMAN DANNER: Over the course? 14 MS. FREE: Mm-hmm. 15 CHAIRMAN DANNER: So the fact that the PPAs 16 are included in base rates isn't -- I'm -- I'm having 17 trouble figuring out how that is not reaching outside of 18 the program, the program is not self-sufficient. 19 So help me with that? 20 MS. FREE: Maybe I can actually refer to Jon 21 Piliaris. It's my turn to -- 22 CHAIRMAN DANNER: Anybody who can answer 23 that. 24 MR. PILIARIS: Good evening. 25 COMMISSIONER RENDAHL: Good evening.</p>

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<p>Jon Piliaris by Chairman Danner</p> <p>1 CHAIRMAN DANNER: Good evening.</p> <p>2 MR. PILIARIS: So the question was again?</p> <p>3 Can you clarify?</p> <p>4 CHAIRMAN DANNER: Okay. So the question</p> <p>5 was: In Ms. Free's testimony, she proposes a tracking</p> <p>6 reporting procedures for the Green Direct program.</p> <p>7 And my question to Mr. Einstein was: Does</p> <p>8 the record demonstrate that the Company's proposed</p> <p>9 revenue requirement does not include collecting the</p> <p>10 costs of the Green Direct program through general rates?</p> <p>11 She punted the question -- he punted the</p> <p>12 question to Ms. Free. Ms. Free answered that: Well, in</p> <p>13 fact, there are components, the PPAs, in base rates.</p> <p>14 And so I asked the question: Is this</p> <p>15 program self-sufficient? And the answer was: Over</p> <p>16 time.</p> <p>17 And so I'm just wondering if you can help me</p> <p>18 understand all that.</p> <p>19 MR. PILIARIS: Okay. So as Ms. Free noted,</p> <p>20 the cost of the PPAs are included in -- in the portfolio</p> <p>21 costs.</p> <p>22 You might recall in 139 there's a credit, an</p> <p>23 energy credit. And that's meant to represent the value</p> <p>24 of the foregone power that would no longer be used to</p> <p>25 serve those 139 customers, redirect customers. Instead</p>	<p>Jon Piliaris by Commissioner Balasbas</p> <p>1 even show of a grounding, as an impact to other</p> <p>2 customers in their rate. It would literally be that</p> <p>3 small.</p> <p>4 But for sake of transparency, we would be</p> <p>5 happy to include that as part of the compliance filing</p> <p>6 to make it transparent and clear that all those revenues</p> <p>7 are included and -- so it's clear how those revenues</p> <p>8 match up with the PPA cost.</p> <p>9 CHAIRMAN DANNER: All right. Thank you for</p> <p>10 the offer. I'm not sure if it's necessary or -- we'll</p> <p>11 see.</p> <p>12 MR. PILIARIS: We're open to it.</p> <p>13 CHAIRMAN DANNER: Thank you.</p> <p>14 COMMISSIONER BALASBAS: So, Mr. Piliaris,</p> <p>15 just to follow up on that, though, if the costs of the</p> <p>16 PPAs are included in base rates, I mean, is that</p> <p>17 effectively, if you will, I guess, like, a one-time</p> <p>18 subsidy until the costs of 139 and the rates charged to</p> <p>19 139 customers cover those costs within there?</p> <p>20 I mean -- I'm just trying to understand what</p> <p>21 you mean when the cost of PPAs are included in base</p> <p>22 rates but the revenues and the credits from schedule 139</p> <p>23 are not.</p> <p>24 Because, to me, that seems like you have</p> <p>25 a -- you're not, as you said just a minute ago, maybe</p>
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<p>Jon Piliaris by Chairman Danner</p> <p>1 they would be used -- they would be served by the Green</p> <p>2 Direct PPAs.</p> <p>3 So I believe Ms. Free is correct that we</p> <p>4 didn't include 139 revenue in the calculation because we</p> <p>5 were not also including the credit as well.</p> <p>6 And if you -- if you look at the cost of the</p> <p>7 PPA relative to the cost of the credit, there is a very,</p> <p>8 very minor difference between the two. So they are</p> <p>9 essentially a push.</p> <p>10 If truth and beauty were to prevail, we</p> <p>11 probably would throw the -- the 139 schedule rate</p> <p>12 revenue into the analysis, and then we would credit</p> <p>13 the -- the credit in 139, and that very small delta</p> <p>14 would produce the precise result that the 139 customers</p> <p>15 are paying for the entirety of the -- of the PPA cost,</p> <p>16 or at least as close -- as they are required to under</p> <p>17 the 139 tariff.</p> <p>18 CHAIRMAN DANNER: So why didn't you? I</p> <p>19 mean, truth --</p> <p>20 MR. PILIARIS: Yeah. I think, honestly --</p> <p>21 to be very honest about it, it was, I think, an</p> <p>22 oversight initially. But as we thought about it, it was</p> <p>23 a distinction without any difference at the end of the</p> <p>24 day.</p> <p>25 I don't think that it would -- you wouldn't</p>	<p>Jon Piliaris by Commissioner Balasbas</p> <p>1 not showing the full, if you will, akin to a balance</p> <p>2 sheet of the schedule 139 costs and revenues there.</p> <p>3 So I'm just -- so help me out here to, you</p> <p>4 know, maybe put my mind at ease that by including the</p> <p>5 cost of the PPAs in base rates that all customers are</p> <p>6 not subsidizing the 139 customers.</p> <p>7 MR. PILIARIS: So maybe the easiest way to</p> <p>8 think about this -- and this is not the way -- the way</p> <p>9 it's been modeled.</p> <p>10 But if you carved out the energy from the</p> <p>11 PPA apart from the portfolio, and it's -- it's at the</p> <p>12 PPA rates that we're paying, and you gross it up for</p> <p>13 revenue-sensitive taxes, so it's a rate adjusted number,</p> <p>14 and you compare that against the 139 revenues, then it's</p> <p>15 clear from that standpoint that the 139 revenues</p> <p>16 essentially cover the PPA costs.</p> <p>17 When you do that, the load associated with</p> <p>18 serving the 139 are no longer in the portfolio. And</p> <p>19 when you reduce the load served in the portfolio, you</p> <p>20 are reducing the cost in the portfolio. And so those</p> <p>21 costs go away as well.</p> <p>22 Now, do the costs that go away equal the</p> <p>23 cost of those PPAs? No, they are different. They are</p> <p>24 very different. It's more or less market purchases that</p> <p>25 are no longer used to serve the remaining load.</p>

Page 424	<p>Jon Piliaris by Commissioner Balasbas</p> <p>1 So it's sort of tricky but it's the PPA that</p> <p>2 Green Direct customers are in fact covering 100 percent</p> <p>3 of their Green Direct costs. It's very similar to the</p> <p>4 way conservation works, in that you reduce load from</p> <p>5 conservation.</p> <p>6 What happens to our -- our portfolio,</p> <p>7 portfolio resources? They reduce. They are reduced and</p> <p>8 you're trading the cost of conservation for the avoided</p> <p>9 cost of the power in -- in existing rates. And there's</p> <p>10 a difference. There's a big difference.</p> <p>11 And this goes back to our lost margin</p> <p>12 discussions of several rate cases ago.</p> <p>13 It's the same concept except we're talking</p> <p>14 about power supply displacement rather than conservation</p> <p>15 displacement for the same purpose.</p> <p>16 JUDGE PEARSON: Thank you very much.</p> <p>17 Okay. We'd like Ms. Scanlan to come up now</p> <p>18 and take her out of order because it is a follow-up</p> <p>19 question on Green Direct.</p> <p>20 (Sworn)</p> <p>21 JUDGE PEARSON: Okay. Thank you.</p> <p>22 CHAIRMAN DANNER: All right. Good evening,</p> <p>23 Ms. Scanlan.</p> <p>24 So you heard Mr. Piliaris, Ms. Free, and</p> <p>25 Mr. Einstein. I just wanted to follow up. You heard</p>	Page 426	<p>Ronald Roberts by Ms. Cameron-Rulkowski</p> <p>1 MS. SCANLAN: Yes.</p> <p>2 JUDGE PEARSON: Thank you.</p> <p>3 Okay. The last Company witness is Ronald</p> <p>4 Roberts.</p> <p>5 (Sworn)</p> <p>6 JUDGE PEARSON: Okay. Please be seated.</p> <p>7 MR. ROBERTS: First of all, I know nothing</p> <p>8 about taxes.</p> <p>9 JUDGE PEARSON: Can you turn your microphone</p> <p>10 on?</p> <p>11 MR. ROBERTS: I can probably do that.</p> <p>12 JUDGE PEARSON: Okay. And Staff,</p> <p>13 Ms. Cameron-Rulkowski, whenever you are ready.</p> <p>14 MS. CAMERON-RULKOWSKI: Thank you, Your</p> <p>15 Honor.</p> <p>16 CROSS-EXAMINATION</p> <p>17 BY MS. CAMERON-RULKOWSKI:</p> <p>18 Q. Good evening, Mr. Roberts. We're not going to</p> <p>19 talk about taxes. Instead I would like to talk about</p> <p>20 operating and maintenance expense at Colstrip.</p> <p>21 A. Okay. Great.</p> <p>22 Q. Colstrip Units 1 and 2 just closed at the end of</p> <p>23 the year; right?</p> <p>24 A. Correct. Actually, they shut down January 3rd</p> <p>25 and 4th, just slightly after the end of '19.</p>
Page 425	<p>Katie Scanlan by Chairman Danner</p> <p>1 their explanation of this, and I just want to know is</p> <p>2 Staff satisfied with PSE's proposals and does your</p> <p>3 recommendation remain that the Company should just work</p> <p>4 with stakeholders after the conclusion of this case?</p> <p>5 MS. SCANLAN: Yes, my recommendation remains</p> <p>6 the same.</p> <p>7 I also want to point you to my colleague,</p> <p>8 Jing Liu, who also testified on power costs related to</p> <p>9 Green Direct.</p> <p>10 CHAIRMAN DANNER: Okay. So I will go back</p> <p>11 and look at that again.</p> <p>12 But, basically, you're satisfied with what</p> <p>13 you just heard now that you feel that over time that</p> <p>14 this program is self-sufficient and we're not basically</p> <p>15 subsidizing the program from general rates?</p> <p>16 MS. SCANLAN: Again, my colleague, Jing Liu,</p> <p>17 did testify to the power cost portion of that. That is</p> <p>18 included in these rates.</p> <p>19 COMMISSIONER RENDAHL: So can I just jump in</p> <p>20 and say your testimony related to the tracking of the --</p> <p>21 of costs and the revenues and the need for transparency</p> <p>22 and you still, as you said, recommend -- you still</p> <p>23 recommend that there needs to be more process --</p> <p>24 MS. SCANLAN: Correct.</p> <p>25 COMMISSIONER RENDAHL: -- or discussion?</p>	Page 427	<p>Ronald Roberts by Ms. Cameron-Rulkowski</p> <p>1 Q. Thank you for that clarification.</p> <p>2 In this case, PSE shifted over a million dollars</p> <p>3 in O&M costs from Colstrip Units 1 and 2 to Units 3 and</p> <p>4 4; right?</p> <p>5 A. Correct.</p> <p>6 Q. And PSE is asking for recovery of these costs;</p> <p>7 right?</p> <p>8 A. Correct.</p> <p>9 Q. Colstrip 1 and 2 are in a decommissioning phase;</p> <p>10 correct?</p> <p>11 A. That is true.</p> <p>12 Q. And so it's true, isn't it, that there is a</p> <p>13 portion of the common expenses that will continue to be</p> <p>14 associated with Colstrip 1 and 2. For example, expenses</p> <p>15 for roads and grounds keeping.</p> <p>16 A. Some small minor expenses, yes.</p> <p>17 Q. Now, I want to discuss Units 3 and 4.</p> <p>18 Regarding Unit 4, in your Exhibit RJR-3C, you</p> <p>19 mention the super heat section of Colstrip Unit 4 and</p> <p>20 you -- you mention that it's showing signs of wear and</p> <p>21 degradation estimated at \$20 million for replacement;</p> <p>22 correct?</p> <p>23 A. Correct.</p> <p>24 Q. And PSE plans to sell Colstrip 4; right?</p> <p>25 A. That is the intention.</p>

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<p>Ronald Roberts by Ms. Cameron-Rulkowski</p> <p>1 Q. Is it fair to say that these factors will 2 influence the actual major maintenance cost for Colstrip 3 Units 3 and 4?</p> <p>4 A. They could, but that project has not been 5 approved in the budget. So it's something that will 6 come later in time and hopefully at post-closing to our 7 disposition of Unit 4 so we would have no share in the 8 cost of that.</p> <p>9 Q. All right. And so you were just referring to 10 the sale; correct --</p> <p>11 A. Correct.</p> <p>12 Q. -- in the answer you just gave?</p> <p>13 A. Correct.</p> <p>14 CHAIRMAN DANNER: Mr. Roberts, could you 15 speak into the microphone?</p> <p>16 MR. ROBERTS: Certainly. Thank you.</p> <p>17 BY MS. CAMERON-RULKOWSKI:</p> <p>18 Q. With regard to -- to the -- the super heat 19 section replacement and any other issues with Colstrip 20 Unit 4, those factors could influence the actual major 21 maintenance costs for Colstrip -- Colstrip Units 3 and 22 4; right?</p> <p>23 A. They could. It could proportionately change our 24 share of the costs of that project going forward; so 25 that would have an impact, longer term, on the costs.</p>	<p>Ronald Roberts by Ms. Cameron-Rulkowski</p> <p>1 A. Correct.</p> <p>2 Q. And as I mentioned, the numbers in the exhibit 3 are confidential.</p> <p>4 But in your testimony, you have averaged the 5 variances between budget and actual amounts. And -- and 6 that's at the top of page 17 in your rebuttal testimony, 7 if you need to look.</p> <p>8 So you didn't talk about confidential numbers in 9 your testimony, but you provided an average; correct?</p> <p>10 A. Correct.</p> <p>11 Q. All right. I want to ask you about a specific 12 variance and I want to ask you about the percentage of 13 the variance so that we don't disclose the amounts.</p> <p>14 So I want you to please look at the -- at the 15 variance for Colstrip Units 3 and 4 for the year 2017. 16 Are you there?</p> <p>17 A. Yes.</p> <p>18 Q. Now, this amount is significantly more than 19 the -- than the average that you calculated and you used 20 in your testimony; right?</p> <p>21 A. Correct.</p> <p>22 Q. All right. Now, can we talk about -- without -- 23 without violating confidentially, can we talk about what 24 this average -- I'm sorry, about what this percentage 25 variance is?</p>
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<p>Ronald Roberts by Ms. Cameron-Rulkowski</p> <p>1 Q. And is it fair to say that -- that those very 2 things could impact the difference between budgeted and 3 actual costs?</p> <p>4 A. They could. However, when we do budgets at 5 Colstrip, it's usually just a one-year approval.</p> <p>6 And on Units 3 and 4, historically, we've been 7 close budget to what we actually spend.</p> <p>8 Now, the closure and potential disposition of 9 our interest in Unit 4, depending on what timing that 10 happens and the approvals happen with that could impact 11 that year.</p> <p>12 Q. All right. You may have just covered this, but 13 at any rate, PSE is proposing to recover in rates the 14 budgeted amounts from Talen for O&M expenses for 15 Colstrip Units 3 and 4 and not the actual amount of O&M 16 expense; is that correct?</p> <p>17 A. That's correct.</p> <p>18 Q. I would like you to take a look at JL-15C. Take 19 a second to find that.</p> <p>20 A. Did you say "JL"?</p> <p>21 Q. JL-15C. And -- thank you. This is a 22 confidential exhibit. But I'm going to avoid -- try to 23 avoid asking you about confidential information. 24 This exhibit is based on a data request response 25 from the Company; correct?</p>	<p>Ronald Roberts by Ms. Cameron-Rulkowski</p> <p>1 A. Yes.</p> <p>2 Q. All right. So it looks like the variance 3 between the budgeted amount and the actual amount is 4 about -- is about -- well, it looks like the -- the 5 variance represents an actual amount that is about 6 20 percent more than the budgeted amount; is that fair?</p> <p>7 A. That is close; yes.</p> <p>8 Q. Thank you. I don't have any further questions. 9 JUDGE PEARSON: Thank you.</p> <p>10 Any redirect?</p> <p>11 MR. KUZMA: No, Your Honor.</p> <p>12 JUDGE PEARSON: Okay. Do we have any 13 questions from the bench for this witness? Nope. Okay. 14 You're excused. Thank you.</p> <p>15 MR. ROBERTS: Thank you.</p> <p>16 JUDGE PEARSON: Next we will call staff 17 witness, Chris McGuire. 18 (Sworn)</p> <p>19 JUDGE PEARSON: Please be seated. 20 Just have some bench questions for you, 21 Mr. McGuire.</p> <p>22 COMMISSIONER BALASBAS: Good evening. 23 MR. McGUIRE: Good evening. 24 COMMISSIONER BALASBAS: So in your response 25 testimony you suggest that practical implication for D&R</p>

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<p>Chris McGuire by Commissioner Balasbas</p> <p>1 costs associated with Colstrip Units 3 and 4 is a</p> <p>2 tracking and true-up mechanism; is that correct?</p> <p>3 MR. McGUIRE: That's correct.</p> <p>4 COMMISSIONER BALASBAS: So why not do</p> <p>5 that -- why not establish that tracking mechanism now in</p> <p>6 this proceeding versus waiting until a future</p> <p>7 proceeding?</p> <p>8 MR. McGUIRE: The reason why we didn't make</p> <p>9 that recommendation in this proceeding is because we</p> <p>10 believed that it was dependent on the Commission</p> <p>11 interpreting -- it was dependent upon a specific</p> <p>12 interpretation of CETA.</p> <p>13 And until the Commission makes that</p> <p>14 interpretation, we believed that it was inappropriate to</p> <p>15 force something upon the Commission that maybe the</p> <p>16 Commission didn't want.</p> <p>17 CHAIRMAN DANNER: So specifically what in</p> <p>18 CETA -- what is the discretion that we have or the</p> <p>19 uncertainty that we have?</p> <p>20 MR. McGUIRE: There are a couple of things</p> <p>21 that are uncertain.</p> <p>22 One of them is CETA requires that coal-fired</p> <p>23 facilities be removed from rates by 2025. But it</p> <p>24 explicitly says that D&R, decommissioning and</p> <p>25 remediation costs don't need to be accelerated to 2025.</p>	<p>Chris McGuire by Commissioner Balasbas</p> <p>1 the deadline for closure is, we don't know the closure</p> <p>2 date.</p> <p>3 So, I mean, are we going to be ready to, you</p> <p>4 know, when the time comes when the decommissioning of</p> <p>5 the remediation costs start that we'll be ready to track</p> <p>6 them?</p> <p>7 MR. McGUIRE: That's a good question.</p> <p>8 If, for example, the facility were closed</p> <p>9 tomorrow, it may be problematic not to have some</p> <p>10 tracking and true-up mechanism in place which argues for</p> <p>11 potentially setting up a tracking and true-up mechanism</p> <p>12 now to protect against the possibility that the plant</p> <p>13 just closes much earlier than we thought.</p> <p>14 It's -- I wouldn't say that we would be in a</p> <p>15 particularly precarious position at that point. Because</p> <p>16 if we do nothing now through rates, the company is</p> <p>17 recovering decommissioning and remediation costs. And</p> <p>18 it is -- it is accumulating a reserve for</p> <p>19 decommissioning and remediation costs, and that will</p> <p>20 exist when facility is closed.</p> <p>21 And at that point we're just left with the</p> <p>22 question of what to do with the amount -- the estimated</p> <p>23 amount that has not yet been recovered, and at that</p> <p>24 point you could set up a mechanism to deal with that</p> <p>25 situation.</p>
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<p>Chris McGuire by Commissioner Balasbas</p> <p>1 D&R is typically recovered through</p> <p>2 depreciation over the life of an asset. But CETA allows</p> <p>3 for recovery of D&R beyond 2025.</p> <p>4 There's also a question about whether or not</p> <p>5 the term "prudently incurred" means something specific.</p> <p>6 One could interpret the term "prudently</p> <p>7 incurred" to -- to be a past-tense word. So D&F -- that</p> <p>8 the Commission has to allow all prudently incurred D&R</p> <p>9 to be recovered.</p> <p>10 Well, decommissioning and remediation costs</p> <p>11 typically don't happen until after a facility has</p> <p>12 closed.</p> <p>13 So if decommissioning and remediation costs</p> <p>14 aren't going to occur until after 2025, and the costs</p> <p>15 must be prudently incurred in order to be recovered</p> <p>16 through rates, there's an argument that maybe we can't</p> <p>17 recover decommissioning and remediation costs before</p> <p>18 they're prudently incurred, i.e., before 2025.</p> <p>19 But, again, that explanation depends on a</p> <p>20 specific interpretation of a term within CETA that may</p> <p>21 be incorrect. "Prudently incurred" may not actually</p> <p>22 refer to costs beyond 2025.</p> <p>23 That's it.</p> <p>24 CHAIRMAN DANNER: So we don't -- we don't</p> <p>25 know what the closure date -- even though we know what</p>	<p>Chris McGuire by Commissioner Balasbas</p> <p>1 CHAIRMAN DANNER: Another option is the --</p> <p>2 while Puget is not using the power from Colstrip, that</p> <p>3 Colstrip continues to operate. And so under that</p> <p>4 scenario, D&R costs might be pushed out. So, basically,</p> <p>5 your recommendation is just wait?</p> <p>6 MR. McGUIRE: Yes. My recommendation is to</p> <p>7 wait because there are a number of uncertainties. The</p> <p>8 one you just referred to being one of them. The one you</p> <p>9 referred to previously. The early closure is another</p> <p>10 one. The actual amount of -- of decommissioning and</p> <p>11 remediation cost is another one.</p> <p>12 PSE's estimates of decommissioning or</p> <p>13 remediation are -- there's a wide range of potential</p> <p>14 costs associated with D&R.</p> <p>15 I think -- well, this is why I had</p> <p>16 recommended that PSE submit a plan in its next general</p> <p>17 rate case so that we could think a little bit more</p> <p>18 carefully about how to handle this issue and allow the</p> <p>19 company a little bit more time to narrow -- narrow down</p> <p>20 the range of potential costs, as well as the</p> <p>21 availability of certain liabilities, like, production</p> <p>22 tax credits to offset some of those costs. There's just</p> <p>23 a lot of questions. And a little bit of time, I think,</p> <p>24 would be helpful. So that -- that the Company and other</p> <p>25 interested parties could try to think of a solution.</p>

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Chris McGuire by Mr. Kuzma

1 CHAIRMAN DANNER: Thank you very much.

2 JUDGE PEARSON: Is that it?

3 Thank you, Mr. McGuire.

4 Mr. McGuire, on that?

5 MR. MCGUIRE: While I have the floor,

6 there's a bunch of chocolate over there by the door and

7 I hope to say that before I got questioned so I could

8 distract you from the content of my responses. But

9 anyone who wants chocolate.

10 MR. KUZMA: I have a few follow-up

11 questions. It won't take long.

12 CROSS-EXAMINATION

13 BY MR. KUZMA:

14 **Q. So is your -- is your concern with respect to a**

15 **tracking mechanism or is your concern with respect to**

16 **allowing recovery in rates of D&R costs?**

17 A. I think my concern is more the former. It's

18 related to what seems like might be a need for a

19 tracking and true-up mechanism to -- in order for PSE to

20 comply with CETA.

21 I'm not particularly worried about recovery. I

22 just want to make sure that, essentially, PSE complies

23 with -- with CETA.

24 **Q. Okay. And then you had mentioned the prudently**

25 **incurred being a precondition to inclusion in the**

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Chris McGuire by Mr. Kuzma

1 **tracking or inclusion in rates?**

2 A. Inclusion in -- well, both, actually. The

3 latter, I think, is less of a concern.

4 I think that's not -- that's not the way I would

5 interpret the statute to preclude the company from

6 recovering decommissioning and remediation costs before

7 they are actually incurred. That's not -- that's not

8 reasonable because ordinarily we would expect customers

9 that use a facility to contribute to the decommissioning

10 and remediation costs, so why wait until those

11 expenses -- those costs are incurred to recover them

12 from rate payers.

13 So it's -- that interpretation doesn't --

14 doesn't make a lot of sense to me. So it's, again, not

15 the inclusion in rates that worries me as much as the

16 appearance that PSE can only collect exactly the dollar

17 amount of decommissioning and remediation expenses that

18 it incurs.

19 And if that's actually true, and if the

20 Commission interprets the statute in that way, that

21 we -- that PSE can't collect any more or any less than

22 the prudently incurred costs, then I think we would need

23 a tracking and true-up mechanism to ensure that that

24 actually happens. But, again, that's dependent upon an

25 interpretation of the statute.

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Chris McGuire by Mr. Kuzma

1 **Q. Right. And the statute says -- and the part**

2 **that you're mentioning -- the Commission shall allow --**

3 **nondiscretionary "shall" allow in electric rates all**

4 **decommissioning and remediation costs prudently incurred**

5 **by an investor-owned utility for a coal-fired resource?**

6 A. Correct.

7 **Q. So if it's incurred and it's prudently incurred,**

8 **the decommission or remediation cost, then the**

9 **Commission shall allow it in rates?**

10 A. Yes. It shall allow it in rates, but is it

11 prudently incurred before it is incurred?

12 Are we talking about the actual costs, the cash

13 flow associated with decommissioning and remediation or

14 are we talking about expenses that the company currently

15 books?

16 **Q. But then I thought Chairman Danner mentioned a**

17 **tracking and true-up mechanism where the prudence could**

18 **be determined sort of after the fact and could be**

19 **tracked and then the prudence determination could be**

20 **made and then tried-up accordingly to whether those**

21 **expenses were or were not prudently incurred?**

22 A. Are you asking this question with the assumption

23 that all decommissioning and remediation costs -- all

24 projected decommissioning and remediation costs are

25 collected over the life of the asset or beyond the

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Jason Ball by Commissioner Rendahl

1 closure of the asset?

2 **Q. It would be collected during the life and after**

3 **the life.**

4 A. Yes. Then I don't see why that would be an

5 issue.

6 **Q. Okay. Thank you.**

7 **JUDGE PEARSON: Thank you, Mr. McGuire.**

8 **Ms. Cameron-Rulkowski, it doesn't look like**

9 **had you any redirect?**

10 MR. CALLAGHAN: No, Your Honor.

11 JUDGE PEARSON: Next witness is Christina

12 Stewart. Jason Ball, sorry.

13 MS. STEWART: You don't need me. Sorry.

14 JUDGE PEARSON: Please raise your right

15 hand.

16 (Sworn)

17 COMMISSIONER RENDAHL: Good evening,

18 Mr. Ball.

19 MR. BALL: Good even.

20 COMMISSIONER RENDAHL: So I assume you have

21 read Mr. Piliaris' rebuttal testimony.

22 MR. BALL: I have.

23 COMMISSIONER RENDAHL: So in his testimony

24 he testifies that the company accepts the energy

25 projects proposal to spread the residential rates --

Page 440	<p>Jason Ball by Commissioner Rendahl</p> <p>1 rate increases equally across the two existing energy</p> <p>2 blocks and is open to exploring an expansion of the</p> <p>3 first block energy rate from 600 kilowatt hours to</p> <p>4 800 kilowatt hours.</p> <p>5 Do you also support exploring that</p> <p>6 modification?</p> <p>7 MR. BALL: I do.</p> <p>8 COMMISSIONER RENDAHL: Okay. And so</p> <p>9 should -- is it your recommendation that the Commission</p> <p>10 implement that proposal in this case or to consult with</p> <p>11 a low income advisory group or CRAG to review and make a</p> <p>12 proposal in a future rate case?</p> <p>13 MR. BALL: I believe consulting with the</p> <p>14 CRAG would be a wise choice.</p> <p>15 COMMISSIONER RENDAHL: Okay. Do you have</p> <p>16 concerns about this change?</p> <p>17 MR. BALL: Not necessarily. The original</p> <p>18 600-kilowatt-hour block was used to share equitably the</p> <p>19 low cost of power across the region.</p> <p>20 If we're going to set a new block for -- to</p> <p>21 address issues -- if we're going to set a new block</p> <p>22 based upon a fundamentally different premise, then I</p> <p>23 would just suggest that we spend a little bit more time</p> <p>24 researching and understanding the fundamentals that led</p> <p>25 to that block number.</p>	Page 442	<p>Shawn Collins by Mr. Ffitch</p> <p>1 JUDGE PEARSON: If you would like to that's.</p> <p>2 MR. FFITCH: After you swear him.</p> <p>3 (Sworn in)</p> <p>4 EXAMINATION</p> <p>5 BY MR. FFITCH:</p> <p>6 Q. Good evening, Mr. Collins.</p> <p>7 A. Good evening.</p> <p>8 Q. Could you please state your name and spell your</p> <p>9 last name for the record?</p> <p>10 A. Shawn Collins, C-o-l-l-i-n-s.</p> <p>11 Q. What is your current position?</p> <p>12 A. Director of The Engery Project at the</p> <p>13 Opportunity Council.</p> <p>14 Q. Have you filed testimony in this case that's</p> <p>15 been marked SMC-1T and SMC-2?</p> <p>16 A. I have.</p> <p>17 MR. FFITCH: And, Your Honor, those have</p> <p>18 been admitted into the record by stipulation.</p> <p>19 BY MR. FFITCH:</p> <p>20 Q. Mr. Collins, do you have any changes or</p> <p>21 corrections to your testimony?</p> <p>22 A. No, I do not.</p> <p>23 MR. FFITCH: Your Honor, Mr. Collins is</p> <p>24 available for questions.</p> <p>25 JUDGE PEARSON: Thank you.</p>
Page 441	<p>Jason Ball by Commissioner Rendahl</p> <p>1 COMMISSIONER RENDAHL: And whether they</p> <p>2 still hold?</p> <p>3 MR. BALL: Correct. And whether 600</p> <p>4 kilowatt hours is the correct amount for the first block</p> <p>5 as a lifeline rate.</p> <p>6 COMMISSIONER RENDAHL: Okay. Thank you.</p> <p>7 That's all I have.</p> <p>8 JUDGE PEARSON: That's it.</p> <p>9 Thank you, Mr. Ball. You're excused.</p> <p>10 And the next witness is Glen Watkins for</p> <p>11 Public Counsel.</p> <p>12 MS. GAFKEN: Judge Pearson, it is</p> <p>13 approaching 10 o'clock on the east coast, so I had told</p> <p>14 him that he could drop off.</p> <p>15 JUDGE PEARSON: Okay. We're fine. Okay.</p> <p>16 We're fine.</p> <p>17 MS. GAFKEN: Do you want to talk to him</p> <p>18 tomorrow?</p> <p>19 JUDGE PEARSON: We're going to finish</p> <p>20 tonight. If we need anything we can issue a bench</p> <p>21 request after the fact.</p> <p>22 So next is Shawn Collins from The Engery</p> <p>23 Project.</p> <p>24 MR. FFITCH: Your Honor, while Mr. Collins</p> <p>25 is coming up, do you want me to introduce the witness?</p>	Page 443	<p>Shawn Collins by Chairman Danner</p> <p>1 CHAIRMAN DANNER: Good evening, Mr. Collins.</p> <p>2 The Energy Project proposed the Commission</p> <p>3 order residential rate increases to be spread equally</p> <p>4 across energy uses blocks but does not provide a</p> <p>5 calculation to illustrate the recommendation.</p> <p>6 What's your proposed method for equal</p> <p>7 percentage allocations?</p> <p>8 MR. COLLINS: We did not specify the</p> <p>9 methodology there. My expectation was that potentially</p> <p>10 that would be discussed similarly to the block rate</p> <p>11 adjustment with -- with a CRAG. So, specifically, I do</p> <p>12 not have a recommendation for that.</p> <p>13 CHAIRMAN DANNER: Okay. Do you agree with</p> <p>14 Puget's understanding of this agreement with your</p> <p>15 proposal?</p> <p>16 MR. COLLINS: We do. Our concern,</p> <p>17 primarily, was focused on the -- the -- the tier 2 -- a</p> <p>18 third-tier addition or higher usage adding the costs for</p> <p>19 that. So we're in agreement with -- with Piliaris'</p> <p>20 trial testimony.</p> <p>21 CHAIRMAN DANNER: Let me ask another</p> <p>22 question. This is among your recommendations. You</p> <p>23 propose that Puget develop and submit a disconnection</p> <p>24 reduction plan for approval.</p> <p>25 Can you expand a little bit on both process</p>

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<p style="text-align: center;">Shawn Collins by Chairman Danner</p> <p>1 and the timeline for this kind of plan?</p> <p>2 MR. COLLINS: Sure. Based on the data</p> <p>3 requests that we submitted, it appears that as much as</p> <p>4 50 percent of disconnections are prevented from the last</p> <p>5 knock and from collection for payments at the time of</p> <p>6 disconnection.</p> <p>7 And so our concern is with the policies</p> <p>8 for -- for disconnections and wanting to minimize those</p> <p>9 to the extent possible.</p> <p>10 And so for us, I think as I understood,</p> <p>11 within a year of the closure of this rate case would be</p> <p>12 acceptable to us in terms of formulating a plan, the</p> <p>13 sooner the better, in my opinion, though.</p> <p>14 CHAIRMAN DANNER: Okay. That's all I had.</p> <p>15 JUDGE PEARSON: Thank you. You're excused.</p> <p>16 And our last witness is Brian Collins.</p> <p>17 If you raise your right hand.</p> <p>18 (Sworn)</p> <p>19 JUDGE PEARSON: Okay. Please be seated.</p> <p>20 Mr. Pepple, you don't have a microphone. I don't know</p> <p>21 if you want to introduce your witness.</p> <p>22 Go ahead.</p> <p>23 EXAMINATION</p> <p>24 BY MR. COLEMAN:</p> <p>25 Q. Good evening, Mr. Collins.</p>	<p style="text-align: center;">Brian Collins by Ms. Gafken</p> <p>1 available"; correct?</p> <p>2 A. That is correct.</p> <p>3 Q. Further down the page -- further down the page,</p> <p>4 beginning at line 27 and continuing on to page 6,</p> <p>5 line 2, you quote the Maverick [verbatim] manual on</p> <p>6 direct costs; correct?</p> <p>7 A. That's correct.</p> <p>8 Q. At page of 6, lines 10 through 15, you discuss</p> <p>9 PSE's use of its GIS system to determine costs</p> <p>10 associated with its special contractors; correct?</p> <p>11 A. That's correct.</p> <p>12 Q. Did you hear Mr. Taylor's testimony earlier in</p> <p>13 the hearing where Mr. Taylor testified that the Mains</p> <p>14 serve a multitude of customers and that special customer</p> <p>15 contracts were allocated a portion of the Mains?</p> <p>16 A. I did hear that earlier today, yes.</p> <p>17 Q. PSE's GIS study did not result in a direct</p> <p>18 assignment of dedicated facilities but rather it</p> <p>19 resulted in an allocation of common use mains that</p> <p>20 served special contract customers among others; correct?</p> <p>21 MR. PEPPLER: I'm going to object to that I</p> <p>22 don't think that was Mr. Taylor's testimony. I think</p> <p>23 that mischaracterizes what he said.</p> <p>24 MS. GAFKEN: I'm not asking about</p> <p>25 Mr. Taylor's testimony. I'm asking Mr. Collins to</p>
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<p style="text-align: center;">Brian Collins by Mr. Coleman and Ms. Gafken</p> <p>1 A. Good evening.</p> <p>2 Q. Are you the same Brian Collins who caused to be</p> <p>3 filed Exhibit BCC-1T in this case?</p> <p>4 A. I am.</p> <p>5 Q. Do you have any changes or corrections to that</p> <p>6 document?</p> <p>7 A. I do not.</p> <p>8 Q. If you were to be asked those questions today,</p> <p>9 would you provide the same answers?</p> <p>10 A. I would.</p> <p>11 MR. COLEMAN: Your Honor, Mr. Collins is</p> <p>12 available for cross-examination.</p> <p>13 JUDGE PEARSON: Thank you.</p> <p>14 Ms. Gafken.</p> <p>15 MS. GAFKEN: Thank you.</p> <p>16 CROSS-EXAMINATION</p> <p>17 BY MS. GAFKEN:</p> <p>18 Q. Good evening, Mr. Collins.</p> <p>19 A. Good evening.</p> <p>20 Q. Would you please turn to your cross-answering</p> <p>21 testimony BCC-1T, page 5, and go to lines 8 through 10.</p> <p>22 A. Okay. I'm there.</p> <p>23 Q. There you state: "The direct assignment of</p> <p>24 costs best reflects cost causation and that direct</p> <p>25 assignment should be used when information is</p>	<p style="text-align: center;">Brian Collins by Ms. Gafken</p> <p>1 evaluate the premise of the testimony.</p> <p>2 MR. COLLINS: I guess I would disagree with</p> <p>3 you.</p> <p>4 JUDGE PEARSON: Hold on a second.</p> <p>5 Mr. Pepple, did you want to respond to that?</p> <p>6 The microphone.</p> <p>7 MR. PEPPLER: It just died.</p> <p>8 As long as Mr. Collins understand that he's</p> <p>9 not adopting Mr. Taylor's testimony, that he's -- he's</p> <p>10 not speaking to what Mr. Taylor testified to.</p> <p>11 JUDGE PEARSON: Okay. Is that clear,</p> <p>12 Mr. Collins?</p> <p>13 MR. COLLINS: Yes.</p> <p>14 JUDGE PEARSON: Go ahead, Ms. Gafken, when</p> <p>15 you get your mic back.</p> <p>16 BY MS. GAFKEN:</p> <p>17 Q. I'll reask the question.</p> <p>18 A. Okay.</p> <p>19 Q. PSE's GIS study did not result in a direct</p> <p>20 assignment of dedicated facilities, but rather it</p> <p>21 resulted in an allocation of common use mains that</p> <p>22 served special contract customers among others; correct?</p> <p>23 A. I would agree that those mains do serve other</p> <p>24 customers besides those special contract customers.</p> <p>25 Q. And a portion of those mains was allocated in</p>

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<p style="text-align: center;">Brian Collins by Ms. Gafken</p> <p>1 the special contract customers; correct?</p> <p>2 A. That's my understanding.</p> <p>3 Q. The next two questions I'm asking about your</p> <p>4 understanding of PSE's GIS study.</p> <p>5 PSE did not use a similar systemwide GIS</p> <p>6 analysis applied to the entire utility, did it?</p> <p>7 A. I'm not aware of them doing such an analysis.</p> <p>8 Q. And PSE did not use a similar GIS analysis to</p> <p>9 trace other customer classes from the meter to city</p> <p>10 gate, but only applied that analysis to special contract</p> <p>11 customers; correct?</p> <p>12 A. It's my understanding they applied it only to</p> <p>13 the special contract class and no other customer</p> <p>14 classes.</p> <p>15 Q. And you did not conduct a separate GIS analysis</p> <p>16 with respect to special contract customers -- other</p> <p>17 customers or the entire utility, did you?</p> <p>18 A. I did not.</p> <p>19 Q. Thank you. Those are my questions.</p> <p>20 JUDGE PEARSON: Thank you. Is there any</p> <p>21 redirect?</p> <p>22 MR. COLEMAN: No, Your Honor.</p> <p>23 JUDGE PEARSON: Okay. Then -- any questions</p> <p>24 from the bench for Mr. Collins?</p> <p>25 Okay. Then you are excused. Thank you.</p>	<p>1 JUDGE PEARSON: That works. And we will</p> <p>2 designate that as a bench exhibit. It looks like it</p> <p>3 will be bench Exhibit 11. So we'll expect to receive</p> <p>4 that on the 18th.</p> <p>5 And, actually, I would like to just take a</p> <p>6 couple of minutes to consult with the Commissioners</p> <p>7 before we get to the post-hearing briefs.</p> <p>8 So we'll be off the record for just a couple</p> <p>9 of minutes.</p> <p>10 (A recess was taken from 6:57 p.m. to 7:01 p.m.)</p> <p>11 JUDGE PEARSON: Okay. Let's be back on the</p> <p>12 record. We were just having a conversation about page</p> <p>13 limits for briefs.</p> <p>14 For initial briefs, which are due on</p> <p>15 March 17th, we'll allow the full 60 pages. And then for</p> <p>16 reply briefs, which are due on March 27th, we're going</p> <p>17 to have a 20-page limit.</p> <p>18 Are there any -- any questions from the</p> <p>19 parties?</p> <p>20 MS. CARSON: So that includes what's allowed</p> <p>21 with the consolidation of the additional dockets?</p> <p>22 JUDGE PEARSON: Correct.</p> <p>23 MS. CARSON: Because I think 60 is usually</p> <p>24 the standard.</p> <p>25 JUDGE PEARSON: It is the standard.</p>
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<p>1 MR. COLLINS: Thank you very much.</p> <p>2 JUDGE PEARSON: That brings us to the end of</p> <p>3 our witness list.</p> <p>4 Is there anyone else you have questions for?</p> <p>5 No. Okay.</p> <p>6 So there's just a few housekeeping matters</p> <p>7 that I want to address before we adjourn.</p> <p>8 Would the parties like me to -- I have all</p> <p>9 the bench requests recorded here, I could go over them</p> <p>10 or I could send them in an e-mail to all the parties?</p> <p>11 MS. CARSON: E-mail would be good.</p> <p>12 JUDGE PEARSON: Okay. I will do that,</p> <p>13 because it would probably take ten minutes to read these</p> <p>14 into the record. All right.</p> <p>15 Is there anything else?</p> <p>16 Oh, Ms. Gafken, public comments.</p> <p>17 MS. GAFKEN: Yes. I was just going to chime</p> <p>18 up about that.</p> <p>19 So usually I request about a week. In this</p> <p>20 case I would like to request just a tad more --</p> <p>21 JUDGE PEARSON: That's fine.</p> <p>22 MS. GAFKEN: -- than that.</p> <p>23 So I would propose Tuesday, February 18th.</p> <p>24 JUDGE PEARSON: Okay.</p> <p>25 MS. GAFKEN: Thank you.</p>	<p>1 Sometimes we go shorter than that, though.</p> <p>2 MS. CARSON: I would just say with a fully</p> <p>3 contested case, we have no settlement here.</p> <p>4 JUDGE PEARSON: How many extra pages do you</p> <p>5 think you need for the accounting petitions?</p> <p>6 MS. CARSON: Maybe ten extra pages.</p> <p>7 JUDGE PEARSON: You mean just in the initial</p> <p>8 briefs?</p> <p>9 MS. CARSON: I think 10 in the initial brief</p> <p>10 and 5. So it would be 25 in the reply brief.</p> <p>11 MS. CAMERON-RULKOWSKI: So Staff has an</p> <p>12 alternative recommendation. We would need 5. We would</p> <p>13 suggest 5 in the initial brief and 3 in the reply. But</p> <p>14 it's up to you.</p> <p>15 MS. CARSON: Staff is primarily responding</p> <p>16 to the Company and we respond to eight different</p> <p>17 parties.</p> <p>18 JUDGE PEARSON: Okay. We'll go with 70 and</p> <p>19 25.</p> <p>20 MS. CARSON: Thank you.</p> <p>21 JUDGE PEARSON: Okay. Is there anything</p> <p>22 else that we need to address tonight?</p> <p>23 Okay. Hearing nothing. Thank you all,</p> <p>24 parties, the witnesses, and the representatives, we</p> <p>25 really appreciate your willingness to push through and</p>

1 get this finished in one day. And we are adjourned.
 2 Thank you.
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 4 (The hearing adjourned at 7:04 p.m.)
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1 CERTIFICATE
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 4 STATE OF WASHINGTON)
 5) ss.
 6 COUNTY OF KITSAP)
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 8 I, CRYSTAL R. McAULIFFE, a Certified Court
 9 Reporter in and for the State of Washington, do hereby
 10 certify that the foregoing transcript of the WUTC
 11 Evidentiary Hearing, having been reported on
 12 FEBRUARY 6, 2020, is true and accurate to the best of my
 13 knowledge, skill and ability.
 14 IN WITNESS WHEREOF, I have hereunto set my hand
 15 and seal this 19th day of February, 2020.
 16
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 18 _____
 19 CRYSTAL R. McAULIFFE, RPR, CCR #2121
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