

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

WUTC v. Puget Sound Energy

February 6, 2020

WITH CORRECTIONS SUBMITTED
BY PUGET SOUND ENERGY ON
MARCH 19, 2020



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BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

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

)
Complainant,)

vs.)

)
PUGET SOUND ENERGY,)

)
Respondent.)

EVIDENTIARY HEARING, VOLUME IV

Pages 172 - 453

ADMINISTRATIVE LAW JUDGE RAYNE PEARSON

February 6, 2020

1:07 p.m.

Washington Utilities and Transportation Commission
621 Woodland Square Loop Southeast
Lacey, Washington 98503

REPORTED BY: CRYSTAL R. McAULIFFE, RPR, CCR 2121

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A P P E A R A N C E S

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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-190529; UG-190530;
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.

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 of AWEC.

11 MR. FFITCH: Simon ffitich representing The
12 Energy 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, Assistant ~~tee~~ Attorneys General.

24 THE COURT: Okay. Thank you.

25 And Ms. Liotta.

1 MS. LIOTTA: Yes, Your Honor. Rita Liotta
2 with the Federal Executive Agencies.

3 THE COURT: Mr. Boehm.

4 MR. BOEHM: ~~K~~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 En~~e~~rgery 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.

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

1 parties.

2 MS. CARSON: Your Honor, would you like us
3 to have the attrition panel come on up now?

4 JUDGE PEARSON: I was just going to say
5 that.

6 If the attrition panel could make their way
7 to the witness panel while we take a recess, I will go
8 and get the Commissioners; and then I will swear you all
9 in as soon as we reconvene.

10 So with that, we will take a short recess
11 and I will go and get the Commissioners.

12 (A recess was taken from 1:14 p.m. to 1:20 p.m.)

13 JUDGE PEARSON: Okay. We'll be back on the
14 record following a short recess. I am joined by Chair
15 Danner, Commissioner Rendahl, and Commissioner Balasbas.

16 The parties have stipulated to the admission
17 of all the pre-filed exhibits including the
18 cross-examination exhibits.

19 So let's just briefly go around the room and
20 take short appearances again beginning with the Company.

21 MS. CARSON: Good afternoon, Commissioners.

22 Sherry Sheree Strom Carson with Perkins Coie representing Puget
23 Sound Energy. And also here with me today representing
24 Puget Sound Energy are Jason Kuzma, Donna Barnett, and
25 David Steele.

1 MS. BARLOW: Good afternoon. Marie Barlow,
2 with Sanger Law representing Northwest Energy Coalition.

3 MR. PEPPLER: Tyler Pepple with Davison
4 Van Cleve representing the Alliance of Western Energy
5 Consumers.

6 MR. COLEMAN: Brent Coleman also with
7 Davison Van Cleve on behalf of the Alliance of Western
8 Energy Consumers.

9 MR. BOEHM: Good afternoon. Kurt Boehm
10 appearing on behalf of The Kroger Company and Fred Meyer
11 Stores.

12 MR. FFITCH: Good afternoon. Simon ffitch
13 on behalf of The Energer Project.

14 MS. PAISNER: Ann Paisner on behalf of the
15 Washington State Attorney General, Public Counsel Unit.

16 MS. GAFKEN: Good afternoon. Lisa Gafken,
17 Assistant Attorney General, appearing on behalf of
18 Public Counsel.

19 MR. ROBERSON: Jeff Roberson, AAG, for
20 Staff.

21 MS. CAMERON-RULKOWSKI: Good afternoon.
22 Jennifer Cameron-Rulkowski, Assistant Attorney General,
23 court commission staff. And with me on this case are
24 Nash Callahan, Harry Fukano, Joe Dallas, and Daniel
25 Teimouri.

Dan Doyle by Commissioner Balasbas

1 JUDGE PEARSON: And Ms. Liotta?

2 MS. LIOTTA: Good afternoon. Rita Liotta
3 representing the Federal Executive Agencies.

4 THE COURT: Okay. Thank you.

5 So the attrition panel is assembled at the
6 witness table. If you could all please stand and raise
7 your right hand. I'll swear you in simultaneously.

8 (Panel Sworn)

9 THE COURT: Okay. Please be seated.

10 Ms. Carson, if you please introduce your
11 witnesses.

12 MS. CARSON: Certainly.

13 We will start at the top there with
14 Mr. Piliaris, Jon Piliaris; Dan Doyle; David Mills; Josh
15 Kensok; Ron Amen; ~~K~~Carl Rábago; Susan Free; Cathy Koch;
16 and Matt Marcelia.

17 THE COURT: Thank you. And I understand
18 that AWEC has waived its cross-examination of this
19 panel. So we will go straight to the questions from the
20 Commissioners.

21 COMMISSIONER BALASBAS: All right. Good
22 afternoon, everyone.

23 So I will direct this question to whoever
24 would like to take a stab at the answer.

25 So throughout this -- throughout the

Dan Doyle by Commissioner Balasbas

1 testimony from the company on the need for an attrition
2 adjustment, there was a lot of discussion and
3 preponderance of costs being beyond the company's
4 control as well as costs that maybe the company
5 potentially may not be able to control.

6 What I did not see in the testimony, though,
7 is any -- or very little, if any, mention about cost
8 controls.

9 So if the company -- or if the Commission
10 were to grant an attrition adjustment in this case, what
11 assurance can you give to the commission that the
12 company will do everything it can to control costs going
13 forward?

14 MR. DOYLE: I guess I'll take that one,
15 Commissioner Balasbas.

16 Dan Doyle, Chief Financial Officer.

17 I think that there was some testimony in --
18 in my pre-file direct which talked about the savings
19 that we harvested during the rate plan period 2013
20 through 2017, if I'm getting my dates right, and the
21 programs that continued thereafter.

22 In particular, what I would cite in terms of
23 cost control and capital -- broader capital
24 allocation-type protocols, we continue to limit our
25 growth in OPEX, O&M expenditures, to the rate of

Dan Doyle by Commissioner Balasbas

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

Dan Doyle by Commissioner Balasbas

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 --

Dan Doyle by Chairman Danner

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,

Dan Doyle by Chairman Danner

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 ~~s~~Snowmagge~~n~~den-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?

David Mills by Commissioner Rendahl

1 MR. MILLS: Correct.

2 COMMISSIONER RENDAHL: It's not captured in
3 any sort of a number of years that the attrition is
4 supposed go out; so it's not a multiyear rate plan?

5 MR. MILLS: It is not a multiyear rate plan.

6 COMMISSIONER RENDAHL: Okay. Is your mike
7 on?

8 MR. MILLS: Maybe it's not close enough.

9 That's correct. It is not a multiyear rate
10 plan.

11 COMMISSIONER RENDAHL: So if the Commission
12 were to authorize the attrition adjustment in this case
13 or the attrition plan that you've requested in this
14 case, customers would see this amount in the rates as if
15 it were base rates; right? They're not going to see a
16 different line item that says "attrition."

17 MR. PILIARIS: I'm maybe better suited to
18 answer that question.

19 The answer would be no, it is not going to
20 be a separate amount on their bill. It would be covered
21 through base rates.

22 COMMISSIONER RENDAHL: Okay. So customers
23 would then pay those rates into the rate effective
24 period, however long that is; correct? Whether it's one
25 year or beyond.

Jon Piliaris by Commissioner Rendahl

1 MR. PILIARIS: Until rates are changed
2 subsequently; isn't that correct?

3 COMMISSIONER RENDAHL: So the amount that
4 you're requesting for all the various projects, there's
5 no indication of how far into the future, so to speak,
6 that -- that those expenses will continue to be in
7 customers' rates until the company files another rate
8 case and you make a decision; correct?

9 MR. PILIARIS: I think it is consistent with
10 even traditional practice where rates are set for a
11 particular level of expenditure, a particular level of
12 rate base, a particular assumption about the revenues
13 that will be collected and the loads that will be
14 served, and that relationship is assumed to hold until
15 the rates are changed. So there will be more
16 expenditures going forward into the rate year and
17 beyond.

18 Obviously, those will be replaced by costs
19 that roll off. So plant that gets depreciated and
20 retires and gets replaced with new plant, it gets added.

21 So as long as that relationship holds, those
22 rates should be sufficient to cover them.

23 It's just a matter of whether or not that
24 relationship does hold as new expenditures are made over
25 time.

Jon Piliaris by Commissioner Rendahl

1 COMMISSIONER RENDAHL: And so has -- maybe
2 this -- whoever this is for, does the company have plans
3 for a future general rate case within another couple of
4 years? What is that plan for the future?

5 MR. PILIARIS: Yeah. The company's
6 five-year plan currently contemplates the need for yet
7 another rate case filed sometime within -- within a year
8 of the conclusion of this case.

9 COMMISSIONER RENDAHL: All right. So with
10 the attrition going forward beyond the test year and
11 then into the rate year, I'm assuming most of you or
12 some of you may have read the policy statement that we
13 just issued.

14 What appropriate review should the
15 Commission engage in if we approve the attrition plan?

16 MR. PILIARIS: So the company is -- has read
17 the policy statement. Of course, we're still digesting
18 it. It's fairly fresh.

19 CHAIRMAN DANNER: Just for the record,
20 you're talking about the Used and Useful Policy
21 Statement?

22 MR. PILIARIS: That's correct, Chair Danner.
23 Thank you very much.

24 We read with interest the requirement for
25 reporting after rates go into effect using an attrition

Jon Piliaris by Commissioner Rendahl

1 mechanism or multiyear rate plan.

2 The company is committed to reporting to the
3 extent the Commission requests in the form the
4 Commission requests, we haven't contemplated exactly
5 what that may look like. So we would appreciate
6 guidance to the extent that the Commission has specific
7 things that it would like to see as part of that
8 reporting.

9 But we take the policy statement to suggest
10 that there is an interest in knowing that the -- that
11 the expenditures that form the basis for rates actually
12 did occur in the rate effective period and to be able to
13 validate that.

14 That is probably more to the used component
15 of the used and useful discussion.

16 The useful element of that is more the
17 prudence of those expenditures. But post hoc prudence.

18 And we would expect that those would, at
19 least currently, envision those to be reviewed in a
20 future rate case similar to the way in our previous
21 multiyear rate plan that the Commission approved back in
22 2013 we provided -- we acknowledge that there would be
23 an opportunity for parties and the Commission to review
24 all of our expenditures over that rate plan period to
25 determine the prudence of those after the fact.

Jon Piliaris by Commissioner Rendahl

1 COMMISSIONER RENDAHL: But none of that --
2 granted you didn't have the Use and Useful Policy
3 Statement. But you reference the statute repeatedly.
4 So none of that post-review period is included in any of
5 your testimony; correct?

6 Any of the Company's testimony?

7 MR. PILIARIS: To my knowledge, a specific
8 reporting plan has not been put forth.

9 CHAIRMAN DANNER: So this is a question for
10 Mr. Doyle.

11 In your rebuttal testimony, and specifically
12 I'm talking about DAD-17 -- 7T at page 22.

13 You propose a change in the company's
14 earning sharing mechanism. And you call it an
15 "incremental customer protection" for an attrition
16 adjustment in the case.

17 And basically the proposal is setting
18 sharing bands in an increment of 3 percent of the net
19 operating income based on PSE's initial revenue.

20 My question is -- basically, is the
21 structure of this proposal of the 3 percent increment,
22 is that applicable to any attrition adjustment that
23 might be authorized in that case? In other words, if
24 it's less or more than what you request, is that still
25 the number that you're looking at?

KCarl Rábago by Commissioner Rendahl

1 MR. DOYLE: That's a good question,
2 Commissioner Danner. I'm proposing that sharing band
3 protection which biases more of excess earnings
4 obviously toward customers as you move through the
5 range, as a replacement of the current 50/50 excess
6 earning sharing mechanism.

7 CHAIRMAN DANNER: Okay. So I would take
8 that as a "yes."

9 MR. DOYLE: Yes.

10 COMMISSIONER RENDAHL: I have a question for
11 Mr. Rábago. Aren't you glad you're here?

12 So in your testimony you have Exhibit, which
13 is your KRR-3.

14 MR. RÁBAGO: Yes.

15 COMMISSIONER RENDAHL: Which is very
16 instructive --

17 (Off-record discussion regarding microphone.)

18 MR. RÁBAGO: Hi.

19 COMMISSIONER RENDAHL: Hi. So do you have
20 your Exhibit KRR-3?

21 MR. RÁBAGO: Yes.

22 COMMISSIONER RENDAHL: Okay. So this is a
23 very illustrative exhibit of -- sort of the entire set
24 of, I guess what you would call in your testimony the
25 transformational investments that need to be made for

Carl Rábago by Commissioner Rendahl

1 the company.

2 MR. RÁBAGO: Yes, ma'am.

3 COMMISSIONER RENDAHL: Okay. So if you look
4 in the column that says "rate ~~year~~ forecast." The
5 largest amount of those investments occur in what we
6 might call the programmatic investments; correct?

7 MR. RÁBAGO: Yes.

8 COMMISSIONER RENDAHL: That 300 -- sorry,
9 the print is very small -- 323-point-something --

10 MR. RÁBAGO: Point nine.

11 COMMISSIONER RENDAHL: -- million dollars.

12 And those are for high molecular weight, worst
13 performance circuits, et cetera; correct?

14 MR. RÁBAGO: Yes.

15 COMMISSIONER RENDAHL: So those are the --
16 so for -- this is where the attrition kicks in, in your
17 mind, is allowing those transformative investments to be
18 made.

19 MR. RÁBAGO: Yes. And in ensuring that
20 there's adequate earnings to support those expenditures
21 for those foundational-type investments.

22 COMMISSIONER RENDAHL: Because without that,
23 in your mind, the company would lose earnings?

24 MR. RÁBAGO: And without this -- these kinds
25 of costs are going to come due anyway in terms of

KCarl Rábago by Commissioner Rendahl

1 upgrading and improving the condition of the system and
2 other things in the future, like CETA implementation are
3 going to necessitate, if you will, a healthy grid.

4 So these are -- as -- as I described sort of
5 foundational investments that have come due, if you
6 will, and need to be done in order to prepare the
7 utility for the future.

8 COMMISSIONER RENDAHL: Thank you.

9 JUDGE PEARSON: Okay. I think that
10 concludes questions from the bench. So you all may go
11 back to your seats. Some of you will be recalled again
12 later.

13 And so my understanding is that there are no
14 questions for the cost of capital panel from the bench.

15 So I think we're going to move straight to
16 the cost of service rate spread and rate design panel.

17 MS. GAFKEN: And Dr. ~~Moore~~ Morin may be excused.
18 I believe, he is on the telephone.

19 MS. CAMERON-RULKOWSKI: And, Your Honor, I
20 would ask the same for David Parcell who's also on the
21 phone.

22 MR. PARCELL: Thank you, Your Honor.

23 JUDGE PEARSON: So, Mr. Piliaris, you are
24 already sworn in.

25 If the rest of you could please stand and

John Taylor by Ms. Gafken

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**

John Taylor by Ms. Gafken

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.

John Taylor by Ms. Gafken

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.

John Taylor by Ms. Gafken

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.

John Taylor by Ms. Gafken

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. PEPPLER: 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

John Taylor by Ms. Gafken

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 where~~ we're not adjusting plant for inflation, but using
24 the ~~emim~~ embedded cost of that plant.

25 So there's going to be a difference between the

John Taylor by Ms. Gafken

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**

Jon Piliaris by Ms. Gafken

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?**

Jon Piliaris by Ms. Gafken

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, parity
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 whiterate**
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

Jon Piliaris by Ms. Gafken

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

Jon Piliaris by Ms. Gafken

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.

Jon Piliaris by Ms. Gafken

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.

Jon Piliaris by Ms. Gafken

1 (A recess was taken from 2:00 p.m. to 2:03 p.m.)

2 THE COURT: We'll go back on the record and
3 proceed.

4 BY MS. GAFKEN:

5 **Q. Mr. Piliaris, if you could please refer to**
6 **page 8 of Exhibit JAP-6, which presents your rate spread**
7 **summary.**

8 A. I'm there.

9 **Q. Column F, row 1, shows a proposed revenue**
10 **increase of 7.68 percent for the residential class;**
11 **correct?**

12 A. Proposed revenue increase; correct.

13 **Q. And PSE's proposed system-wide increase is 143**
14 **million or a system-wide increase of 7.16 percent;**
15 **correct?**

16 A. Correct.

17 **Q. If we divide your residential 6.8 [verbatim]**
18 **percent increase by the overall system increase of 7.16,**
19 **we get 107.3 percent of the system average percent**
20 **increase; is that correct? Subject to check.**

21 A. Subject to check.

22 **Q. If you refer to the issues list, the effective**
23 **table -- rate spread table shows 107 -- 107.3 percent**
24 **for the residential class; correct? The effective**
25 **table.**

Jon Piliaris by Ms. Gafken

1 A. Correct.

2 **Q. Now I would like to focus on the idea of applied**
3 **rate spread.**

4 **Turning back to your Exhibit JAP-6 on page 8,**
5 **column E at row 1, the residential class is listed at**
6 **100 percent; correct?**

7 A. Correct.

8 **Q. I know you provided an explanation earlier, but**
9 **isn't that amount still applied to the \$143 million**
10 **increase?**

11 **In other words, what does that 100 percent mean?**
12 **How is that 100 percent used to develop the 7.6 percent**
13 **increase in column F?**

14 A. I believe it's what you had -- I think it was
15 you that described this earlier.

16 Once the -- the rate groups that have their --
17 either ones that already have explicitly calculated
18 rates or get greater or less than the average increase,
19 the remaining classes that have 100 percent essentially
20 get the average of the remainder.

21 So it's somewhat of a complicated calculation to
22 explain, but it's essentially a goal-seeking
23 calculation; that it iterates on itself.

24 So that those that are getting an --
25 quote/unquote, a hundred percent of the average increase

Jon Piliaris by Ms. Gafken

1 are getting consistent increase amongst themselves. And
2 it's proportional, essentially. It preserves some
3 proportionality between those that are 75 percentage of
4 the average, 125 percent of the average, or the average.

5 **Q. So the 100 percent, again, it's not 100 percent**
6 **of the system average, but it's 100 percent of what's**
7 **left over.**

8 A. Essentially, yes.

9 **Q. And just so I'm sure that we're clear -- that I**
10 **think I understand this.**

11 **The residential class under your proposal would**
12 **not receive 100 percent of the overall percentage**
13 **increase but rather a 107.3 percent of the overall**
14 **percentage increase; is that correct?**

15 A. I believe that's what the -- this particular
16 analysis shows.

17 MS. GAFKEN: That is all of my very painful
18 cross. Thank you.

19 JUDGE PEARSON: Ms. Barnett, did you have
20 any redirect?

21 MS. BARNETT: No, Your Honor.

22 JUDGE PEARSON: And, Mr. Boehm, this is the
23 cross that you waived; is that correct?

24 MR. BOEHM: That's correct, Your Honor.

25 JUDGE PEARSON: Is there any questions?

Jon Piliaris by Mr. Roberson

1 Oh, staff has a few. That's right. Sorry.

2 I promptly forgot what you told me,

3 Mr. Roberson.

4 MR. ROBERSON: It was off the record. It
5 never happened.

6 CROSS-EXAMINATION

7 BY MR. ROBERSON:

8 **Q. Good afternoon, Mr. Piliaris. How are you?**

9 A. Good afternoon.

10 **Q. Does your binder of doom have your rebuttal**
11 **testimony?**

12 A. It does.

13 **Q. Could you turn to it? It is Exhibit JAP-18T.**

14 A. I'm there.

15 **Q. Page 18. I just have a few questions about the**
16 **conjunctive demand pilot.**

17 **I guess, initially, does PSE consider this as a**
18 **pilot or a temporary offering?**

19 A. I would consider it a pilot with the -- the
20 intention of making it permanent and perhaps also
21 expanding it.

22 **Q. Okay. So on lines 12 through 16, you note that**
23 **the pilot isn't readily susceptible to the concept of**
24 **internal validity; correct?**

25 A. I note the term "internal validity." I cannot

Jon Piliaris by Mr. Roberson

1 claim with certainty that I fully understand how it was
2 intended to be used by staff.

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.

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.

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?**

15 A. I'm not sure that I would necessarily
16 interpret -- I didn't interpret it that way.

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?**

20 A. Yes. Correct.

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?**

24 A. Not necessarily.

25 **Q. How do you use the term "pilot"?**

Jon Piliaris by Mr. Roberson

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.

7 Just, is it working the way you intended it to
8 work?

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.

12 **Q. Would you say that's not what you're intending**
13 **with this pilot?**

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?**

19 A. No, that wasn't the intent of that particular --

20 **Q. Could you explain what you meant then?**

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.

25 And the general point was not all of the various

Birud Jhaveri by Commissioner Balasbas

1 factors that were raised are applicable in every
2 situation or for every pilot.

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.

7 **Q. Fair enough. That's all the questions I have.**

8 **Thank you.**

9 **JUDGE PEARSON: Thank you. Any redirect?**

10 MS. BARNETT: No, Judge Pearson.

11 JUDGE PEARSON: Okay. Thank you.

12 So other questions from the bench for
13 Mr. Piliaris?

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.

17 COMMISSIONER BALASBAS: All right. So this
18 question is for Mr. Jhaveri.

19 Good afternoon. Mr. Jhaveri.

20 MR. JHAVERI: Good afternoon.

21 COMMISSIONER BALASBAS: In your Exhibit
22 **BDBJ-6** in your testimony, that is a comparison table of
23 various parity-parity 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.

Birud Jhaveri by Commissioner Balasbas

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?

6 MR. JHAVERI: The short answer is "yes."
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.

15 COMMISSIONER BALASBAS: Thank you.

16 My next question for you relates to the
17 incorporation of carbon prices in the P-peak credit
18 methodology.

19 MR. JHAVERI: Yes.

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?

24 MR. JHAVERI: That is correct.

25 COMMISSIONER BALASBAS: Do you recall,

Birud Jhaveri by Commissioner Balasbas

1 roughly, what the emissions cost numbers were used in
2 the 2017 general rate case?

3 MR. JHAVERI: Off the top of my head, I do
4 not recall. But I do understand that they were -- I do
5 recall that they were far lower than what the social
6 cost of carbon is -- is mandated to be going forward.

7 COMMISSIONER BALASBAS: Okay. You mentioned
8 one of the reasons for incorporating the social cost of
9 carbon in this case today is that it was legislatively
10 mandated.

11 Could you explain, or do you have a specific
12 reference to the statute that requires the use of social
13 cost of carbon that would require its use here in cost
14 of service study?

15 MR. JHAVERI: Yes. Give me just a second.

16 So I'm not sure if this is part of the
17 record. It was submitted as a data request. It was --
18 it's part of the -- I believe this is part of the
19 statutory language from the Senate Bill 5116.

20 Section 14 subsection (3)(a) states that "An electric
21 utility shall consider the social cost of greenhouse gas
22 emissions as determined by the Commission for
23 investor-owned utilities pursuant to Section 15 of this
24 Act and, the department for consumer-owned utilities, and

25 and when developing integrated resource plans

Birud Jhaveri by Commissioner Balasbas

1 and clean energy action plans.”; “Aan electric utility must
2 incorporate the social cost of greenhouse gas emissions
3 as a cost addert~~or~~ when evaluating and selecting
4 conservation policy programs and targets to developing
5 integrated resource plans and clean energy action
6 plans.”

7 COMMISSIONER BALASBAS: Thank you. I'm
8 aware of that statutory reference.

9 Again, I would reiterate my question and
10 say, in that language, where does it require that it was
11 used to cure the cost of service study?

12 MR. JHAVERI: So the language itself does
13 not necessarily point out that it needs to be used in a
14 cost of service study.

15 What it does state is that it should be
16 utilized when developing your integrated resource plans
17 and clean energy action plans.

18 The Ppeak credit model utilizes numerous data
19 pointspoint from the integrated resourceceourse plan. Going forward,
20 as the integrated resource plan is mandated to use the
21 social cost of carbon, it would only make sense that
22 as -- currently, at least in the 2017 GRC, I believe,
23 there was a placeholder used for the social -- for the
24 cost of carbon. It was an estimated cost. Now that we
25 know what the known and required costs are, those costs

Jon Piliaris by Commissioner Rendahl

1 were just replaced by those.

2 JUDGE PEARSON: Thank you.

3 COMMISSIONER RENDAHL: So, Mr. Piliaris, I
4 have a question for you about the conjunctive~~ea~~ demand
5 pilot. Back to that topic.

6 So your initial testimony, JAP-1T, on
7 page 37, starting -- you say you have little
8 information -- I'm looking for the line number here.

9 On line 20. Let me just ask this question.
10 This is about the issue of recovering revenue losses,
11 potential revenue losses from this pilot. And you had
12 stated that you would wait to recover lost revenue until
13 the next rate case. Is that -- is that a correct
14 summary of your testimony?

15 MR. PILIARIS: Generally, I would say that
16 that determination has not yet been made. I think we
17 need to determine whether it's material or not before
18 going down that path.

19 So the only point in my testimony was that
20 we will revisit that issue later once we have a better
21 understanding if there really is a significant revenue
22 loss.

23 COMMISSIONER RENDAHL: So the plan is to
24 track, as this pilot goes along, to see what that
25 revenue loss looks like~~?~~.

Jon Piliaris by Commissioner Rendahl

1 MR. PILIARIS: And that's actually a
2 fundamental piece of the pilot itself in its evaluation.

3 I know elsewhere in my testimony that that's
4 actually -- one of the criteria of whether or not the
5 pilot is successful, is that whether or not customers
6 are achieving any bill savings as a result of the pilot.

7 COMMISSIONER RENDAHL: So if the program is
8 successful and the company -- or the customers that are
9 taking part in the pilot do save money, if that results
10 in not recovering revenue from those customers that
11 otherwise would have been recovered, and that would
12 result in those schedules under-collecting their
13 allocated share of revenue requirement; correct?

14 MR. PILIARIS: Yes, that's correct.

15 COMMISSIONER RENDAHL: So as a part of your
16 evaluation of the pilot, would PSE commit to documenting
17 the calculation of those lost revenues and assigning
18 those to the participating schedules in a future rate
19 case? Do you have a way to recover those costs?

20 MR. PILIARIS: Absolutely. I mean the point
21 is, is that there's a certain amount of cost -- as the
22 Commission knows, there's a certain amount of costs that
23 are allocated to each schedule and then you design rates
24 to recover that revenue.

25 And then if you were changing the way you're

Jon Piliaris by Commissioner Rendahl

1 designing rates to recover revenue from that schedule
2 and if you have a pilot, for example, that reduces
3 revenue collection, then the rest should be recovered
4 from the remainder within that class of customers.

5 COMMISSIONER RENDAHL: Okay. And then in
6 terms of the evaluation of the pilot. This is -- I
7 think going to somewhat of the area that staff was
8 discussing. If you go to your rebuttal testimony,
9 JAP-18T, and look at page 11 through 19 where this is
10 discussed.

11 You're responding to Staff's design and
12 evaluation elements. Specifically on page 14, you're
13 talking about Staff's design and evaluation of elements
14 that provide useful guidance.

15 If -- if the Commission were to approve the
16 pilot in this docket, are there any specific design in
17 evaluation elements that can be applied in the
18 evaluation report, or is that something you would like
19 the Commission to direct, or is that something you would
20 like the company to determine on its own?

21 MR. PILIARIS: In a perfect world, it would
22 probably be somewhere in between. The Company would
23 likely have some ideas, but if the Commission has things
24 that it specifically would like to be examined, the
25 Company would very much appreciate knowing that so that

Jon Piliaris by Chairman Danner

1 it can provide an evaluation that is a value to the
2 Commission.

3 COMMISSIONER RENDAHL: Thank you.

4 CHAIRMAN DANNER: Are we calling
5 Mr. Piliaris back?

6 JUDGE PEARSON: It's up to you.

7 CHAIRMAN DANNER: Well, I have a question
8 for you regarding your on-bill repayment.

9 So, Mr. Piliaris, Northwest Energy Coalition
10 recommends the Commission to direct the company to
11 design and develop an on-bill repayment program.

12 And in their testimony Ms. Gerlitz says that
13 they recommend PSE design and implement an on-bill
14 repayment program by December 31st, 2020.

15 If the Commission were to direct Puget to
16 design and implement such a program, is that date a
17 feasible timeline for such an effort? And if not, what
18 kind of timeline do you think would be reasonable?

19 MR. PILIARIS: As I noted in my testimony,
20 if the Commission were to direct the Company to pursue
21 such a program, I think it would be helpful to
22 incorporate the -- the advice and suggestions of the
23 "CRAG" as they would be knowledgeable and directly
24 impacted by the program.

25 As the Commission is aware, that might take

Jon Piliaris by Chairman Danner

1 some time.

2 And as I noted in my testimony, there's
3 going to need to be a fair amount of IT and process
4 development based on whatever is ultimately decided.

5 So I think it would be aggressive to -- to
6 assume that we could get -- with all of that to gain
7 meaningful stakeholder input and have enough time to
8 actually implement the program by the end of the year;
9 that might be an aggressive schedule.

10 So the Company has laid out a year --
11 one-year schedule as a -- as a reasonable timeline.

12 CHAIRMAN DANNER: So December 31st of 2020
13 this year is -- you see that as too aggressive, but a
14 couple months later is okay.

15 MR. PILIARIS: It could be done. But I
16 think what would end up happening is that we would
17 likely need to -- the -- I think the stakeholder input
18 would suffer as a result of that to allow enough time
19 for implementation.

20 CHAIRMAN DANNER: So another timeline we
21 had, though, Staff, in their cross-answering testimony
22 suggested that we -- that you have an alternative
23 proposal just for the Commission to -- to study the cost
24 effectiveness of the program.

25 And they recommend a brief report of the

Jon Piliaris by Chairman Danner

1 program within three months of the effected date of the
2 final order in this case. Is that enough time?

3 MR. PILIARIS: Just to make sure I heard you
4 correctly. The three months was to evaluate,
5 essentially, the cost and benefits of pursuing that
6 program not actually implementing?

7 CHAIRMAN DANNER: That's right. It's
8 four -- as I understand the Staff's report, their
9 recommendation is that the company provide a brief
10 report of the program within three months of the
11 effective date of the final order.

12 So if we were to do that, my question to you
13 is would that be sufficient time? And if not, what kind
14 of timeline would you prefer or suggest?

15 MR. PILIARIS: Again, I think three months.

16 As I think the Commission can appreciate
17 with everythinganything that's going on getting on everyanybody's
18 calendar within a three-month time frame can be somewhat
19 challenging with everything that's going on.

20 I would respectfully submit that maybe
21 six months might be a safer timeline to allow, again,
22 meaningful input and a time for the analysis to actually
23 occur.

24 CHAIRMAN DANNER: Okay. Those are my
25 questions. Thank you.

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.

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.

Cathy Koch by Ms. Paisner

1 So then --

2 MR. PEPPLER: 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's advanced metering**

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-6I~~0~~?

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.

Cathy Koch by Ms. Paisner

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?**

5 A. Yes, I talk about that.

6 **Q. Please turn now to cross Exhibit CAK-8X. This**
7 **is your response to Public Counsel data request 256.**

8 A. Okay.

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.**

12 A. Yes. The question was around the electric meter
13 equipment, yes.

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 fFocus AXS4 was open through December 1st,**
18 **2019; is that correct?**

19 A. Yes.

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?**

23 A. Yes.

24 **Q. And the date listed at the bottom of this**
25 **document is May 29th, 2019; is that the date of this**

Cathy Koch by Ms. Paisner

1 **document?**

2 A. That's the date of this document.

3 And just to be clear, this is a final notice
4 from Landis+Gyr on the sale of that product.

5 **Q. Okay. Thank you.**

6 **Please turn to Attachment B of this exhibit,**
7 **please.**

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?**

11 A. Yes, that's what it says.

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?**

15 A. (Nods head).

16 **Q. Similarly, for this document, the date printed**
17 **at the bottom is February 14, 2019.**

18 **Is that the date of this document?**

19 A. Yes.

20 **Q. Please turn to Attachment C of -- of the same**
21 **document.**

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?**

25 A. Mm-hmm.

Cathy Koch by Ms. Paisner

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?**

5 A. Yes.

6 **Q. So, lastly, please turn to Attachment E, same**
7 **document.**

8 A. Okay.

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?**

12 A. Yes, that's --

13 **Q. And the date --**

14 A. -- of this notice.

15 **Q. Right. And the date at the bottom of this**
16 **announcement is stated as January 6, 2020?**

17 A. Yes.

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?**

22 A. Yes. These are the ones that you chose **but** 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.

Cathy Koch by Ms. Paisner

1 And so we have a network and a gas system as
2 well with ~~this-dis~~continued equipment.

3 **Q. Okay. Thank you.**

4 **Now, going back to page 13 of PSE Exhibit CAK-4.**

5 A. Page 14 -- okay. Page 13, CAK-4.

6 **Q. I apologize, that's -- page 1, line -- I**
7 **apologize. Page --**

8 A. CAK?

9 **Q. Page 2 of CAK-4. I apologize.**

10 A. This is going to get complicated.

11 **Q. Where you state that the total present value**
12 **revenue requirement of the AMI project is \$258 million.**

13 A. Yes.

14 **Q. So -- and that's a portion of the entire project**
15 **which was estimated to be 668 million over a**
16 **20-year-life of the AMI asset?**

17 A. No. The project is estimated at 473 million.
18 The benefits are 668 million.

19 **Q. Okay. Thank you.**

20 **So now please turn to cross Exhibit CAK-9X.**

21 **This is your Public Counsel data request 257.**

22 **COMMISSIONER BALASBAS: I'm sorry, could I have**
23 **that site again?**

24 MS. PAISNER: Cross Exhibit CAK-9X.

25 COMMISSIONER BALASBAS: Thank you.

Cathy Koch by Ms. Paisner

1 THE WITNESS: CAK-9. This is 257.

2 BY MS. GAFKEN:

3 **Q. Yes. This data request refers to your rebuttal**
4 **testimony page 4, line 19, where you characterize the**
5 **AMR obsolescence by describing PSE's need to perform**
6 **reprogramming of devices because different network**
7 **equipment must be installed.**

8 You discuss how in 2017, which you describe is
9 the last full year before AMI meters, gas modules, are
10 installed, there were a total of 139 AMR devices that
11 were reprogrammed; is that correct?

12 A. Yeah, that was responsive to the question.

13 **Q. Right.**

14 And you explain here that the total cost for
15 that reprogramming for all of 2017 was \$139,000; is that
16 correct?

17 A. That's what the response says.

18 **Q. Okay. So please turn to PSE Exhibit CAK-4 at**
19 **page 4. Starting at line 13.**

20 A. CAK-4. Page --

21 **Q. -- 4, line 13.**

22 Is it true that in the 2013 analysis discussed
23 here, PSE discovered that the AMR electric meters were
24 failing at a rate of 1.6 percent per year?

25 A. Yes. The response goes on to talk about what

Cathy Koch by Ms. Paisner

1 was going on with the gas AMR batteries and modules as
2 well as both residential and commercial as well as the
3 failure rates of the network, so...

4 **Q. Right.**

5 **In that same spot, I believe you discuss that**
6 **the AMR network equipment was failing at 4 percent; is**
7 **that correct?**

8 A. Yes.

9 **Q. And going on to page 5 you discuss how**
10 **commercial gas modules were failing at 11 percent per**
11 **year; correct?**

12 A. Yes.

13 **Q. And then for all gas modules the failure rate**
14 **was four times 0.5.**

15 **So was that 2 percent for all gas modules; is**
16 **that correct?**

17 A. Yes. It looks like it is closer to 2.6. I
18 think if you -- if you refer to the business case, which
19 is Appendix A of that. It defines that a bit more and
20 it talks about potentially as high as 20 percent.

21 **Q. Okay. Now, please turn to cross Exhibit**
22 **CAK-10X. This is your response to Public Counsel data**
23 **request 261.**

24 **This data request refers to your rebuttal**
25 **testimony at pages 5 to 6 at the bottom of page 5 where**

Cathy Koch by Ms. Paisner

1 **you state that because the AMR network is failing and**
2 **deficient it requires 50- to 60,000 meters to be**
3 **manually read monthly, which is an additional monthly**
4 **expense that would not be required for a properly**
5 **functioning system.**

6 A. Yeah. The 50- to 60,000 was a historical
7 average of what PSE had experienced in the past.

8 **Q. Okay. And you also state in the last paragraph**
9 **of your response in this document that PSE would have**
10 **paid the same to Landis+Gyr whether they provided an**
11 **automated read or a manual read; is that correct?**

12 A. That's what it says, but I think I need to
13 explain it a bit as well.

14 So I think the question was -- let me go back.
15 Confirm the cost of this. And at the time of the
16 business case, that was prior to 2016, Landis+Gyr owned
17 all the equipment, managed the system for us.

18 So Landis+Gyr was obligated to provide
19 appropriate adequate reads irrespective of whether it
20 came through digital or whether it came through manual.
21 It was their system. They managed it.

22 After 2016, as we moved through contract
23 negotiations, PSE, in the business case and the
24 testimony talks about this, PSE took ownership of that
25 equipment after that time; therefore, the manual meter

Cathy Koch by Ms. Paisner

1 reading would have cost more if PSE wasn't performing
2 maintenance obligation.

3 Therefore, for example, not repairing things
4 timely; not taking care of their system. And so those
5 costs are different than what was experienced prior to
6 2016 where it was kind of agnostic from a cost
7 standpoint.

8 **Q. Okay. You also explain in this document that**
9 **the manual meter reads were not accounted for in the**
10 **benefit represented by the \$230 million of avoided AMR**
11 **investment that were discussed here?**

12 A. Yes, because -- for the reasons I cited prior to
13 Landis+Gyr owned it.

14 **Q. Now, please turn to cross Exhibit CAK-11XC. And**
15 **this also -- to my questions will also relate to**
16 **CAK-13X. Both are cross-exhibits.**

17 A. Is this 265?

18 **Q. Yes, 265 and 269 respectively. And again, my**
19 **question will not state any confidential information**
20 **here.**

21 **In this exhibit you discuss net book value of**
22 **AMR assets for years 2019 through 2023; is that correct?**

23 A. Yes.

24 **Q. Are any of these AMR assets for each of the**
25 **years shown still in use by customers?**

Cathy Koch by Ms. Paisner

1 A. Are any of the assets in --

2 **Q. Represented by those values.**

3 A. Well, this is forward-looking. So today, yes,
4 they are.

5 **Q. In those years will they be in use?**

6 A. Well, this is -- 2023 is when we are completed
7 with our AMI transition. And so all AMR assets will be
8 retired.

9 **Q. So those values -- at least for 2023 represent**
10 **assets that are not in use; is that correct?**

11 A. Correct. No AMR will be in use after we
12 complete our transition.

13 **Q. Okay. Is the net book value of these assets as**
14 **shown in this exhibit still in rates now?**

15 A. I'm -- part of this response is with my
16 witness/partner Susan Free, so as it relates to rates, I
17 would like to get a better answer.

18 MS. FREE: I'm happy to answer that
19 question, if that's okay.

20 JUDGE PEARSON: Sure.

21 MS. FREE: Can you repeat the question
22 actually?

23 **CROSS-EXAMINATION**

24 **BY MS. PAISNER:**

25 **Q. Sure. Is the net book value of the assets that**

Susan Free by Ms. Paisner

1 are referenced in this exhibit, is the net book value of
2 these assets still in rates now?

3 A. Yes. The net book value as of December 31,
4 2018, is -- is still in the rate case, yes.

5 **Q. Is it still in rates going forward?**

6 A. Yes. As long as they are used and useful, they
7 will be in rates.

8 And at the point that they reach the end of the
9 rollout period and there's still net book value left, at
10 that point we will be asking for a regulatory asset
11 treatment.

12 **Q. Is PSE requesting to collect carrying charges on
13 removed AMR assets in rates including return on?**

14 A. The -- we anticipate that the assets as they are
15 in use will stay in rate base, which would earn a
16 return. And that the regulatory asset we will be
17 requesting also be in rate base, which will earn a rate
18 of return.

19 **Q. Okay. And these carrying charges are associated
20 with the removed assets that would not be in ~~serve~~service going
21 forward.**

22 A. Yes. This is similar to treatment we've had on
23 other regulatory assets where a plant has been removed
24 from service before the depreciation life has been fully
25 recovered.

Susan Free and Ms. Koch by Ms. Paisner

1 **Q. Okay. Thank you.**

2 **How long were the value of those AMR assets**
3 **still be in rates that the customers will pay? You may**
4 **have answered that.**

5 A. That would be dealt with when the regulatory
6 asset is requested. So regulatory assets can be
7 recovered over -- it doesn't have to be a set life; it
8 can be determined at the time of the request.

9 **CROSS-EXAMINATION**

10 **BY MS. PAISNER**

11 **Q. Okay. These -- the AMR assets removed, as of**
12 **today and also going forward, were or will any of these**
13 **assets be still functional when they are removed?**

14 A. Well, I think the bulk of them might not be,
15 because the system's failing. So there's likely some
16 that would still be providing an automated read.

17 But due to the need to transition in an
18 appropriate time and prevent more failure from impacting
19 customers, some likely will be.

20 **Q. Okay. Now, please turn to cross Exhibit**
21 **CAK-12X. This is your response to Public Counsel data**
22 **request 267.**

23 A. Okay.

24 **Q. In this exhibit, you discuss how PSE was limited**
25 **in terms of equipment choices in that other**

Ms. Koch by Ms. Paisner

1 **manufacturers' equipment was incompatible with the AMR**
2 **system; is that correct?**

3 A. Mm-hmm.

4 **Q. You explain on the second page that considering**
5 **other options that were not compatible would have**
6 **required replacement of the L+G communication equipment**
7 **and system; is that correct?**

8 A. Yes.

9 **Q. Is it true that not considering those other**
10 **incompatible options gave PSE the ability to do a less**
11 **extensive transition than it would otherwise have to do**
12 **if it had used other manufacturers' equipment?**

13 A. Can you restate the question?

14 **Q. Sure.**

15 **Not considering those other incompatible**
16 **options, is it true that this gave PSE the ability to do**
17 **a less extensive transition replacement of the AMR, less**
18 **extensive?**

19 A. By going to AMI?

20 **Q. By avoiding other incompatible manufacturers'**
21 **equipment? Other manufacturers' incompatible equipment.**

22 MR. STEELE: I'm going to object to this
23 line. I think counsel is misstating Ms. Koch's
24 testimony here. I'm not sure she ever stated that.

25 JUDGE PEARSON: Ms. Paisner, can you point

Ms. Koch by Ms. Paisner

1 to where that is in her testimony?

2 MS. PAISNERGAFKEN: Sure. This is in Exhibit
3 CAK-12X, on the second page. Ms. Koch discusses that
4 PSE would need to replace the L+G communication
5 equipment system with regard to -- if they were to
6 consider solutions that were not compatible with the
7 current AMR system.

8 And so my questioning was designed to
9 clarify that.

10 MS. KOCH: So because the -- I don't know
11 that I understand your question the way it was phrased,
12 in all honesty.

13 But what this is trying to say is PSE's
14 existing system, which dates back to 1998, is a
15 proprietary system from Landis+Gyr and it is not
16 compatible with anybody else's system, which is what is
17 posing concerns with it failing.

18 So given that it's not compatible, a
19 wholesale change must be made. The idea of replacing it
20 wholesale with another vender's AMR system or an AMI
21 system would be equivalent.

22 BY MS. PAISNER:

23 **Q. Okay. Thank you.**

24 **Please turn to page 2 of cross Exhibit CAK-14X,**
25 **which is Public Counsel data request 270. Your**

Ms. Koch by Ms. Paisner

1 **response.**

2 A. 270?

3 **Q. 270. In your response you provide a table**
4 **preparing costs of the AMI system versus those of**
5 **continuing of the AMR system. And on the fifth row you**
6 **provide a benefits value of \$436 million for the AMI**
7 **versus zero dollars for the AMR.**

8 **Does this \$436 million amount refer to**
9 **conservation voltage reduction or CVR?**

10 A. Yes. It's associated with conservation voltage
11 reduction and the ability to implement distribution
12 automation from a reliability standpoint using the AMI
13 network.

14 **Q. Okay. So is it true that looking at the table,**
15 **the cost of the AMI system would be closer to the cost**
16 **amount listed for continuing with the AMR if that value**
17 **was not subtracted from a cost calculation listed in the**
18 **table?**

19 A. So in interpreting your question meaning is 473
20 closer to 378 off the table; is that what you are
21 asking?

22 **Q. It looks in the table as though that**
23 **\$436 million was subtracted from the other costs due to**
24 **the minus sign in front of it.**

25 A. It is.

Ms. Koch by Ms. Paisner

1 So let me just explain what this table is just
2 so we understand.

3 So this -- this is a very simple table. It is
4 not a full analysis. But what it was attempting to do
5 is demonstrate that the benefits that are achieved with
6 AMI far outweigh, continue to outweigh, continuing with
7 an AMR system.

8 And, specifically, in this case, this comparison
9 has gross assumptions that we could continue an AMR
10 system. And given what we know today and lack of
11 supply, that's not realistic.

12 But it was really just intended to continue
13 to -- to address what I perceived Mr. Alvarez was trying
14 to get to in his questions around book value. But to
15 continue to demonstrate that the benefits of getting to
16 AMI are very sound.

17 **Q. Okay. Is it true that PSE's AMI deployment**
18 **installs approximately 1,000 meter units per circuit?**

19 A. Say that again.

20 **Q. Is it true that PSE's AMI system deployment**
21 **would install approximately 1,000-meter units per**
22 **circuit?**

23 A. I think the numbers --

24 **Q. You would have to check?**

25 A. Yeah. I don't know. I think it's a higher

Ms. Koch by Ms. Paisner

1 number than that.

2 **Q. Did PSE assume a percentage reduction in energy**
3 **use from CVR in its business case?**

4 A. We did.

5 **Q. And is it true that in the Mercer Island pilot a**
6 **similar percentage was delivered with only 30 AMI meters**
7 **on 10 circuits?**

8 A. No. Actually, the business case estimates are
9 much higher than that. And they actually line up with
10 what industry utilities are seeing.

11 And they were based on more than just the Mercer
12 Island pilot. They were based on four or five
13 additional pilots that were performed.

14 **Q. Okay. Do you know what a line sensor is?**

15 A. Yes.

16 **Q. Is it true that a line sensor functions to**
17 **measure and report voltage?**

18 A. It can be used that way.

19 **Q. So does PSE's system use line sensors today?**

20 A. It has some.

21 **Q. Okay. Now, please turn to cross Exhibit CA --**

22 A. Can I offer something, though, on that though?

23 **Q. Sure.**

24 A. I think the line of questioning -- I would like
25 to remind that we're not -- there is a benefit to what

Ms. Koch by Ms. Paisner

1 we gain with the AMI installation relative to being able
2 to implement conservation voltage reduction. But that's
3 not the only -- that's not why we're doing it.

4 We're doing it so we can have a reliable
5 metering system that is a result of the fail -- the
6 failing system, which requires reliable, fully functioning
7 meters at every house.

8 Once that's achieved, you can continue to take
9 advantage of that. So I just want to make sure that
10 that's -- it's clearly understood.

11 **Q. Please turn to cross Exhibit CAK-15X, which is**
12 **your response to Public Counsel data request 274.**

13 A. Yes.

14 **Q. Your DR response at Item V discusses how PSE is**
15 **not willing to commit to reductions in a revenue**
16 **requirement for benefits from AMI investment associated**
17 **with remote disconnect and reconnect, because as you**
18 **state certain benefits are not quantifiable at this**
19 **time.**

20 A. Yeah, I think that the -- the full answer
21 addresses the -- the issue that there's AMIAMR rulemaking
22 going on which may have influence on those benefits.
23 And it's hard to know how to quantify those at that time
24 and submit what that full benefit may be.

25 My partner, Josh Jacobs, who these benefits fall

Ms. Koch by Ms. Paisner

1 under relative to Get To Zero could offer, if necessary.

2 **Q. I don't think that will be necessary.**

3 A. Okay.

4 **Q. Are reconnect and disconnect cost benefits**
5 **estimated in CAK-4, Attachment G?**

6 A. The AMI business case, which is -- yes, does
7 provide a preliminary estimate of those.

8 In the business case, it fully acknowledges that
9 those evaluations need to continue but that the potential is
10 there. Those evaluations need to continue as it relates
11 to Get To Zero.

12 **Q. Okay. Are reconnect and disconnect -- sorry --**
13 **move-ins and move-outs avoided cost benefits, are those**
14 **also estimated in the same attachment?**

15 A. There -- are you talking about the spreadsheet?

16 **Q. Yes.**

17 A. Yes. The benefits are captured in the
18 spreadsheet. The calculation captures the benefits.

19 **Q. Okay. Thank you.**

20 **Do you believe PSE should be responsible for**
21 **maximizing smart meter benefits?**

22 A. Absolutely. And I think what we're doing is
23 demonstrating that. We're actually already realizing
24 benefits today from the AMI system relative to the
25 benefits that we've outlined.

Ms. Koch by Mr. Steele

1 MS PAISNER: Thank you. I don't have any
2 other questions.

3 JUDGE PEARSON: Thank you.

4 Is there anyone else have questions -- any
5 redirect?

6 MR. STEELE: Yes, Your Honor.

7 JUDGE PEARSON: Okay.

8 REDIRECT EXAMINATION

9 BY MR. STEELE:

10 **Q. Ms. Koch, a few moments ago Ms. Paisner asked**
11 **you questions about the discontinuance documents you**
12 **received from Landis+Gyr which were attached to PSE's**
13 **response Public Counsel data request 256.**

14 A. Yes.

15 **Q. And can you describe the process for how the**
16 **company receives a notice of discontinuance from**
17 **Landis+Gyr?**

18 A. So Landis+Gyr has been PSE's partner for over a
19 decade and there's continual ongoing conversations with
20 them. PSE also attends their annual user group
21 meetings. And through those there are many
22 conversations around Landis+Gyr products and future
23 sunsetting. When Landis+Gyr finalizes that, they
24 publish the documents as a final notice.

25 But before that, PSE has lots of opportunities

Ms. Koch by Mr. Steele

1 to understand what the life of its products are.

2 **Q. So to be clear, does the company ever know that**
3 **a discontinuance is coming before receiving a document**
4 **like Attachments A, B, C, and E to -- to PSE's response**
5 **to Public Counsel data request 256?**

6 A. Absolutely. Through many users groups,
7 absolutely.

8 **Q. And is that what occurred in this case for the**
9 **equipment identified in Attachments A, B, C, and E?**

10 A. Yes.

11 **Q. Did the Company know that discontinuance of the**
12 **equipment identified in Attachments A, B, C, and E would**
13 **occur in 2016 at the time of the AMI business case?**

14 A. Did I know that they would occur in 2016?

15 **Q. Did the Company know that discontinuance of the**
16 **equipment identified in Attachments A, B, C, and E would**
17 **occur at the time of the AMI business case?**

18 A. Yes. Yes.

19 MR. STEELE: No further questions.

20 JUDGE PEARSON: Okay. Thank you.

21 And, Ms. Gafken, did you have questions for
22 Mr. Jacobs?

23 MS. GAFKEN: I do. Thank you.

24 CROSS-EXAMINATION

25 BY MS. GAFKEN:

Joshua Jacobs by Ms. Gafken

1 **Q. Good afternoon, Mr. Jacobs.**

2 A. Good afternoon.

3 **Q. Would you please turn to your rebuttal testimony**
4 **Exhibit JJJ-11T. If you could go to page 24, line 17**
5 **through 19.**

6 MR. STEELE: Could you state that once more
7 for me?

8 MS. GAFKEN: Yes, of course. Exhibit
9 JJJ-11T, page 24 line 17 through 19.

10 MR. STEELE: Is that page 4?

11 MS. GAFKEN: Twenty-four.

12 MR. STEELE: Twenty-four, I'm sorry.

13 MR. JACOBS: I'm there.

14 BY MS. GAFKEN:

15 **Q. There you testify that PSE has invested in**
16 **17.5 million in the Get To Zero program between July 1st**
17 **and November 30th, 2019; is that correct?**

18 A. That's correct.

19 **Q. And then on the following page, page 25.**
20 **Essentially, the entire page lines 4 through 21 you**
21 **describe two projects; the energy assistance and meter**
22 **upgrade enhancements projects.**

23 **Did those two projects make up the entire**
24 **17.5 million described on page 24?**

25 A. That's correct.

Susan Free by Mr. Roberson

1 MS. GAFKEN: Thank you. I have no further
2 questions.

3 JUDGE PEARSON: Any redirect?

4 MR. STEELE: No, Your Honor. Thank you.

5 JUDGE PEARSON: Mr. Pepple? Or, I'm sorry,
6 Mr. Roberson, did you have questions of --

7 CROSS-EXAMINATION

8 BY MR. ROBERSON:

9 **Q. Good afternoon, Ms. Free. How are you?**

10 A. I'm well, sir. How are you?

11 **Q. Doing all right.**

12 **Do you have a copy of your rebuttal testimony?**

13 A. I do.

14 **Q. Which is SEF-17T.**

15 A. Yes.

16 **Q. I'm going to ask you some questions generally**
17 **about the 30s, if you want to turn there.**

18 A. I thought you were asking if I was in my 30s,
19 which I am not.

20 **Q. I would like to start on page 37 of your**
21 **testimony where you discuss the functionalization of**
22 **plant in terms of assigning a materiality threshold.**

23 A. Yes.

24 **Q. You state that that's a more appropriate way to**
25 **assign a threshold; correct?**

Susan Free by Mr. Roberson

1 A. Correct.

2 **Q. Are you aware that the Commission has rejected**
3 **that method as ripe for abuse?**

4 A. I am not.

5 **Q. We'll move on then.**

6 **Page 34 and 35 of your rebuttal testimony, you**
7 **talk about changes to the method for -- Seth's method**
8 **for setting a threshold for a common plant; correct?**

9 A. Yes.

10 **Q. And this is just for my clarification.**

11 **The way you recommend doing it, the size of the**
12 **net plant for gas will always drive the threshold;**
13 **correct?**

14 A. I -- I don't necessarily think that that's true.

15 I think it depends on the allocation factors that are
16 used to allocate --

17 **Q. Fair enough.**

18 **Under the current allocation factors, it's**
19 **always going to be the gas rate base, correct?**

20 A. In this example I've provided; that's right.

21 **Q. Do those allocation factors change on a regular**
22 **basis?**

23 A. They -- they are looked at once a year and
24 they -- they are derived for every rate case.

25 **Q. Okay. How are the allocation factors derived?**

Susan Free by Mr. Roberson

1 A. This particular allocation factor that's used to
2 allocate plant is called the four factor allocator, and
3 it contains four metrics that are used to determine
4 at -- that are blended together evenly to determine the
5 factor. They look at direct assigned plant. So labor
6 allocators that are direct assigned, and I can't
7 remember them all off the top of my head.

8 **Q. Given the disparity between the size of PSE's**
9 **electric and gas rate bases, I mean, can you imagine a**
10 **situation where the allocator isn't going to be heavily**
11 **weighted towards electric?**

12 A. I think -- I think historically the electric
13 allocator is above 50 percent.

14 **Q. Okay. I would like to move on to Get To Zero,**
15 **which I guess mostly I want to start with page 39 of**
16 **your rebuttal testimony.**

17 **You testified the Get To Zero should be treated**
18 **as a single adjustment; correct?**

19 A. I think for purposes of pro forma adjustments
20 and deferrals, Get To Zero should be viewed as a program
21 and should be treated together.

22 **Q. What is the difference between a program and a**
23 **project?**

24 A. I'm not a project manager, but --

25 **Q. Are you a program manager?**

Susan Free by Mr. Roberson

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.

Susan Free by Mr. Roberson

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 PSC 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**

Susan Free by Mr. Roberson

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.

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

Susan Free by Mr. Pepple

1 provided.

2 **Q. But the Commission over and over again has said**
3 **pro forma plant adjustments should meet some reasonable**
4 **definition of major; correct?**

5 A. Yes. It's also said other things, like, if it's
6 material to the company and a certain impact to their
7 financials that it can be considered.

8 **Q. Okay. So in PSE's view of the law, anything**
9 **that's material is subject for inclusion in rates of pro**
10 **forma adjustment?**

11 A. I don't know if that's the only consideration.
12 I do -- in terms of what we put forth as pro forma
13 adjustments, I believe we followed Commission guidance.

14 MR. ROBERSON: Okay. I think I have no
15 further questions. Thank you.

16 JUDGE PEARSON: Okay. Any redirect?

17 MS. CARSON: No, Your Honor.

18 JUDGE PEARSON: Okay. And AWEC?

19 CROSS-EXAMINATION

20 BY MR. PEPPLER:

21 **Q. Good afternoon, Ms. Free.**

22 A. Good afternoon, Mr. Pepple.

23 **Q. I had some questions for you about Colstrip.**
24 **Could you turn to your Exhibit SEF-29?**

25 A. I'm there.

Susan Free by Mr. Pepple

1 **Q. And just for background on this exhibit, AWEC's**
2 **witness, Mr. Mullins, has proposed that the remaining**
3 **unrecovered investment at Colstrip Units 1 and 2 be**
4 **removed from rate base and offset with monetized**
5 **production tax credits.**

6 **Do you recall that?**

7 A. I do.

8 **Q. And this exhibit provides various scenarios if**
9 **the Commission decides to accept Mr. Mullins' proposal,**
10 **or at least some variation of that proposal that you**
11 **have described in your testimony.**

12 A. That's correct. I continue to believe that our
13 proposal in the rate case is reasonable. But in the
14 event that the Commission were to decide with
15 Mr. Mullins, I've provided some corrections to what he
16 had in his response testimonies and some alternative
17 scenarios.

18 **Q. Okay. So just looking at page 1 of SEF-29, this**
19 **page shows the revenue requirement impact if the**
20 **Commission updated the Colstrip 1 and 2 plant balances**
21 **to December 31, 2019, but did not offset any of their**
22 **production tax credits. That's one scenario; correct?**

23 A. Yes. In that scenario, the need for -- the
24 reason not to bring in the PTCs is because they are
25 already accruing interest, which is the same impact --

Susan Free by Mr. Pepple

1 it has the same impact as including them in the rate
2 case.

3 **Q. And do you -- do you, by any chance, have**
4 **Mr. Mullins' cross-answering exhibits?**

5 A. Over there.

6 **Q. I have some copies. I'm happy --**
7 **I'm looking at Exhibit 13C. And I have copies**
8 **for others.**

9 **And this is a confidential exhibit, but I'm**
10 **going to keep my questions nonconfidential.**

11 A. I do have it. Thank you.

12 **Q. So in your rebuttal testimony you identified**
13 **several errors that Mr. Mullins made in his rebuttal --**
14 **his response testimony in calculating the Colstrip plant**
15 **balances.**

16 **Do you recall that?**

17 A. Yes.

18 **Q. Okay. And so can you turn -- so this exhibit**
19 **updates Mr. Mullins' calculations --**

20 A. Yes.

21 **Q. -- after he was provided with certain**
22 **corrections and supplements that PSE provided.**

23 **So if you turn to page 1 of that exhibit.**

24 **CHAIRMAN DANNER: What exhibit are we**
25 **talking about?**

Susan Free by Mr. Pepple

1 MR. PEPPLER: This is BGM-13C.

2 BY MR. PEPPLER:

3 **Q. And if you look at the total rate base number**
4 **there, 111,946,494, and then compare that to the total**
5 **rate bus number that you have on line 28 of page 1 of**
6 **SEF-29, those -- that's the same number; is that right?**

7 A. Correct.

8 **Q. And then if you look at page 2 of BGM-13C, he**
9 **shows a number for the unrecovered investment in**
10 **Colstrip 1 and 2.**

11 **Do you see that?**

12 A. I do.

13 **Q. And that number is not exactly the same number**
14 **you have on line 35 of SEF-29, but it's pretty close.**

15 **Would you agree?**

16 A. Yes.

17 **Q. Okay. So -- so now that we have updated**
18 **information from PSE, the numbers for -- between AWEC**
19 **and PSE are at least comparable.**

20 A. I agree.

21 **Q. So just focusing back on SEF-29. At the top of**
22 **this page on line 5, you show what the overall revenue**
23 **requirement -- requirement impact would be if the**
24 **unrecovered investment in Colstrip 1 and 2 is updated to**
25 **the end of 2019, which is approximately \$1.3 million**

Susan Free by Mr. Pepple

1 **reduction. Correct?**

2 A. Correct.

3 **Q. Okay. And then page 2 of this exhibit, this is**
4 **a different scenario where again the Colstrip 1 and 2**
5 **plant balances are calculated as of the end of 2019, but**
6 **now it's offset with PTCs that were monetized on PSE's**
7 **2018 tax return which was filed in September of 2019;**
8 **correct?**

9 A. That's correct.

10 **Q. Okay. And this scenario has -- on line 18, it**
11 **says, "Include ADF IT on monetized PTCs." And there's a**
12 **number of about 17.3 million.**

13 **Do you see that?**

14 A. I do.

15 **Q. Can you just explain what that is? Why is there**
16 **ADF IT on monetized PTCs?**

17 A. That would be a better question for
18 Mr. Marcelia.

19 **Q. Okay. I will hold that question for him then.**

20 **Maybe one other follow-up question on this and**
21 **you can take it to Mr. Marcelia if you need to. But do**
22 **you know if that deferred tax asset, if PSE is holding**
23 **it in rate base?**

24 A. I believe that it's either in working capital or
25 rate base. I'm not exactly sure.

Susan Free by Mr. Pepple

1 **Q. Okay. But PSE is earning a return on that tax**
2 **asset. Do you understand that?**

3 A. I'm not -- I'm not sure.

4 **Q. Is that something Mr. Marcelia would know?**

5 A. No, it is not.

6 **Q. Is that something any PSE witness would know?**

7 A. This one should.

8 **Q. Okay. Okay. That's fine. I can deal with**
9 **that. Okay. So -- so just going back to the top of**
10 **page 2 of SEF-29.**

11 **So the revenue requirement impact in this**
12 **scenario on line 1 has a \$7.8 million reduction. But**
13 **then that is offset by some pro forma adjustments that**
14 **you propose be included, if this scenario is accepted;**
15 **correct?**

16 A. That's correct.

17 **Q. What is the basis for including these additional**
18 **pro forma adjustments?**

19 A. Because if you were to include the PTCs and --
20 that weren't monetized on September tax return, that's
21 beyond the pro forma period for planned adjustments we
22 used in this case, as well as moving the rate base for
23 the units out to a regulatory asset of December 2019 is
24 also beyond the pro forma period.

25 And so there are other pro forma adjustments

Susan Free by Mr. Pepple

1 within our case that if you updated those to September
2 as well you would see the impacts that I show on this
3 page.

4 **Q. So -- so I think it was -- it's your testimony**
5 **that moving the Colstrip plant balances to December of**
6 **2019, is itself a pro forma adjustment?**

7 A. Yes.

8 **Q. So how come those pro forma adjustments aren't**
9 **included on page 1 of SEF?**

10 A. If they were, it would result in a revenue
11 requirement increase.

12 **Q. Well, there's a revenue requirement increase on**
13 **page 2 of SEF.**

14 A. Yes. So I think that I was tying the pro forma
15 adjustments to the PTC treatment.

16 **Q. Okay.**

17 A. But I do believe it's appropriate that they
18 could be also considered for the regulatory asset
19 treatment being moved to December 2019.

20 **Q. Okay. And -- okay. So then just to close the**
21 **exhibit out, page 3 is another scenario. And this**
22 **scenario is if the Commission accepted Mr. Mullins'**
23 **proposal in full, which is that PTCs are monetized when**
24 **Puget uses them on an estimated tax payment rather than**
25 **when they are included on an annual tax payment.**

Susan Free by Mr. Pepple

1 **So this includes additional PTCs because Puget**
2 **included PTCs in 2019 estimated taxes. Is that your**
3 **understanding?**

4 A. That's my understanding of Mr. Mullins' position,
5 yes.

6 **Q. And that's what this --**

7 A. Yes.

8 **Q. What it reflects. Okay.**

9 **And then -- so the impact here is an**
10 **\$11.3 million revenue requirement reduction on line 1;**
11 **and if you include the pro forma adjustments you**
12 **proposeal, it's a \$1.5 million reduction?**

13 A. Correct.

14 **Q. Okay. And then can you turn to page 44 of your**
15 **rebuttal testimony, please.**

16 A. I'm there.

17 **Q. And I'm looking at line 19. And there you say,**
18 **PSE has appropriately not reflected Colstrip Units 1 and**
19 **2 as a regulatory asset as of December 31, 2019, because**
20 **the date is outside of the plant pro forma period of**
21 **June 2019.**

22 **Do you see that?**

23 A. Yes.

24 **Q. It is a fact, isn't it, that PSE has now**
25 **transferred the remaining plant balance of Colstrtip 1**

Susan Free by Mr. Pepple

1 **and 2 to a regulatory asset?**

2 A. Correct.

3 **Q. That's all my questions.**

4 **JUDGE PEARSON: Thank you.**

5 **Any redirect?**

6 MS. CARSON: No, Your Honor.

7 JUDGE PEARSON: Okay. Questions from the
8 bench?

9 Okay. So we're going to go ahead and take a
10 recess now before we continue. Yes, we'll come back
11 with this panel. Ten minutes. Okay. So we'll take a
12 10-minute recess.

13 (A recess was taken from 3:24 p.m. to 3:39 p.m.)

14 JUDGE PEARSON: We'll be back on the record
15 following the recess. In just one moment we'll have
16 questions from the bench for the witnesses.

17 MR. PEPPLER: Your Honor, one quick -- just
18 before the questions from the Commission.

19 PSE did confer during the break and Ms. Free
20 was able to get an answer to the one question I asked.

21 Would it be possible for her to put that on
22 the record?

23 JUDGE PEARSON: Absolutely.

24 MR. PEPPLER: Should I ask the question
25 again?

Susan Free by Commissioner Rendahl

1 JUDGE PEARSON: That would be helpful, yes.

2 CROSS-EXAMINATION (Continued)

3 BY MR. PEPPLER:

4 **Q. So the question was whether the deferred tax**
5 **asset associated with monetized PTCs whether PSE was**
6 **earning a return on it or not?**

7 A. No, it is not ain rate base.

8 **Q. Okay. Thank you.**

9 **COMMISSIONER RENDAHL: Can I just follow up**
10 **on that?**

11 **So I think your question is, is it earning a**
12 **return just in rate base or whether it's investor**
13 **supplied working capital or a regulatory asset, is it**
14 **also earning a rate base in those?**

15 MS. FREE: It is not -- it is included in
16 nonoperating, so it is not earning a return in any
17 fashion.

18 COMMISSIONER RENDAHL: Thank you. Yes.

19 JUDGE PEARSON: Okay. Thank you.

20 COMMISSIONER BALASBAS: All right. This
21 question is directed to Ms. Hopkins.

22 Good afternoon, Ms. Hopkins.

23 MS. HOPKINS: Good afternoon.

24 COMMISSIONER BALASBAS: So, Ms. Hopkins, can
25 you talk about what level of coordination there is among

Margaret Hopkins by Commissioner Balasbas

1 all the various IT investments at PSE and maybe provide
2 some specific examples of both project and executive
3 oversight.

4 MR. TAYLORMS. HOPKINS: Certainly. So in terms of the
5 level of coordination, all of the IT investments stem,
6 first and foremost, from a business strategy.

7 So when we're planning for a five-year
8 planning exercise, all of the officers are involved in
9 discussions with respect to priorities for the company
10 as they relate to customer need, business need,
11 reliability, et cetera.

12 And so once the business priorities are
13 established from that flows a conversation of whether or
14 not there's technology associated with meeting that
15 demand or that business need.

16 So as priorities are determined at that
17 level, we then work inside of the IT organization to
18 determine if there's a technology investment required to
19 support, and we provide estimates initially in the
20 planning phase to place IT investments into the
21 five-year plan.

22 Once they are in the plan and during a
23 calendar year, when we embark on -- you know, an IT
24 project, we go through a pretty rigorous process that we
25 call -- it is a business case to some degree, but we

Margaret Hopkins by Commissioner Balasbas

1 call it our "corporate spending authorizationty." It's a CSA.

2 And it has multiple phases by which you determine the
3 value of an investment.

4 And that CSA process is signed off by two
5 officers, so there's a business officer, an executive
6 who puts forth the need, they sign off on this business
7 case, and then I sign off on it as well. And it takes
8 multiple levels of management review before it goes
9 through each of the phases.

10 So there's quite a bit of analysis that goes
11 into the early phases to determine the value, whether it
12 is something that we, ifin fact, want to do for the
13 company. Sometimes we assess multiple alternatives and
14 determine that, in fact, maybe we should not proceed.

15 So it -- it -- I would say that in every
16 step of the process of a technology investment, we have
17 multiple levels of management reviewing the costs and
18 the benefits and signing off on those throughout.

19 COMMISSIONER BALASBAS: So I can understand
20 that process and analysis for a single IT investment.

21 But how does that -- or -- but then how -- how does the
22 analysis and management and oversight of each individual
23 IT project then get coordinated with all the different
24 projects that are ongoing at the same time-?

25 MS. HOPKINS: Is your question that if -- if

Margaret Hopkins by Commissioner Balasbas

1 one project over here has to coordinate across to
2 another project.

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?

8 And which leads me to a related question
9 which is then how -- you know, given all the different
10 accounting ~~positions~~ petitions 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-?

15 MS. HOPKINS: Okay. So two-step question.
16 I just want to break it down to two.

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 --

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

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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-?

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 by and
10 large are the ones we put forth in our testimony.

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.

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.

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

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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.

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.

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.

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.

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

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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.

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.

14 MS. HOPKINS: My commentary would have
15 related to not duplication of services; correct.

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.

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?

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1 MR. JACOBS: I think I do. So let me try it
2 this way with an example.

3 So our web redesign project, it was a
4 re-platform of our website and there were many different
5 parts to that. It was a large transformational project
6 that was the first web project in a series of a few web
7 projects for us.

8 So that went into service in the fall of
9 2018 under an order number, and that order number was
10 closed when it went into service and was used ~~in~~and useful
11 for customers.

12 As we look to build upon that platform with
13 new features and functions, we'll have new order numbers
14 that represent the work associated with that business
15 case or corporate spending authorization and we will
16 manage that work under that order number to represent
17 the work streams associated with that business case.

18 CHAIRMAN DANNER: All right. Let me ask
19 this question, Ms. Hopkins.

20 In your initial testimony you state that a
21 number of PSE's IT applications are to take advantage of
22 hosted services such as cloud computer, and then you
23 state that the design of the new data center is
24 anticipated in corporate discretion transition to the
25 cloud.

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1 Did PSE investigate -- did PSE investigate
2 the option of fully switching the hosted services when
3 considering alternatives through replacement of the
4 private data centers?

5 MS. HOPKINS: Yes. We did. And the most
6 important thing to understand about our IT systems is
7 that there are IT systems that we have at PSE that
8 cannot operate in the cloud.

9 By and large, those are our IT systems and
10 assets that fall under NERC/CIP's compliance.

11 There is not a single cloud provider today
12 or a single data center provider today who can meet the
13 NERC/CIP's obligations and many of the providers like
14 Microsoft and Amazon are trying very hard to find a way
15 to certify themselves in this area but they cannot.

16 And so for the foreseeable future, PSE will
17 have a physical data center that has on-premise systems
18 because they cannot actually operate in the cloud.

19 CHAIRMAN DANNER: So if you can give me kind
20 of -- well, a general idea of, you know, if you break it
21 down, is most of this in the data center? Is most of
22 this on the cloud? I mean how --

23 MS. HOPKINS: So today about 20 percent of
24 our IT solutions are currently operating in the cloud.

25 Our ~~k~~new pse.com service that -- when we Get

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1 To Zero is operating in Amazon web services in the
2 cloud.

3 So the way we go ~~are~~ about determining
4 whether or not a service is suitable for the cloud, is
5 first and foremost whether it can operate there. That's
6 the first question. Some can; some cannot.

7 The second question you have to ask is
8 whether or not the cloud provider can operate it in a
9 secure manner.

10 The fact that we're a critical
11 infrastructure, our cyber security requirements are so
12 stringent and so critical to the operation of the gas
13 and the electric system, if the cloud providers cannot
14 meet the cyber security requirements, then we take a
15 position that we, first and foremost, will make sure
16 that the services are secure. That is a high priority
17 for us.

18 If it's a low priority system, then we may
19 provide some leniency there, but we -- we are very
20 strong in our position on our cyber security stance.

21 And then, third, while marketing materials
22 might try to appear that cloud services are more cost
23 effective, we have a responsibility to ensure that the
24 services we provide are the lowest cost solution for our
25 customers to the best of our abilities. And oftentimes

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1 the cloud solutions are not the most cost effective.

2 So the third assessment is, is it cost
3 neutral? Is it more cost effective to put it in the
4 cloud? Or it is more cost effective to put it on the
5 ground?

6 And so those are the criteria that we use to
7 determine. And then once that determination is made,
8 then we make the decision to put it in the data center
9 or not.

10 We do anticipate eventually more and more
11 services will transition to the cloud, as that makes
12 more sense.

13 As I stated, we're about 20 percent there
14 today. And when we built the data centers, we actually
15 reduced our square footage from about 20,000 combined
16 square feet to 2400 combined square feet.

17 CHAIRMAN DANNER: I'm sorry, give me those
18 again.

19 MS. HOPKINS: From about 20,000 square feet
20 to 2400 combined square feet, because we don't
21 anticipate the need to expand the data centers in scale
22 at the rate that we used to in the past.

23 CHAIRMAN DANNER: All right. Well, thank
24 you.

25 And then you testified in rebuttal that of

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1 the 79.3 million of the data set or costs that you're
2 seeking to recover, 46.1 million was updating the
3 existing IT systems to meet the current standards
4 required by the Emergency Management Systems, and the
5 configuration testing of the migration of the systems to
6 to the new facilities.

7 Were these expenditures exclusively related
8 to the data center disaster recovery plan?

9 MS. HOPKINS: Those expenditures were
10 related to standing up a new platform to enable disaster
11 recovery.

12 And what I mean by that is on the inside of
13 the data center -- if you exclude the facilities
14 themselves, on the inside of the data centers you have
15 network connectivity; you have telecommunications; you
16 have servers; you have storage. And all of that
17 equipment needed to be built out to accommodate disaster
18 recovery capabilities. So it was a replatforming, if
19 you will, inside the data centers.

20 So that equipment cost approximately
21 \$31 million.

22 The other \$14 million were the cost to
23 convert our applications to work on the new platform so
24 that they had the disaster recovery capabilities that
25 they needed.

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1 So the 14 million was largely labor cost for
2 the software developers to convert over to the new
3 systems.

4 CHAIRMAN DANNER: Okay. So I'm trying to
5 get -- where is the nexus to the AMI and Get To Zero?
6 Is -- between that and the emergency management stuff,
7 is there -- is there overlap there?

8 MS. HOPKINS: There is no overlap between
9 the data center project and the AMI project and Get To
10 Zero. So I don't believe there is any overlap.

11 What I will say is that when we built Get To
12 Zero, rather than putting the cost of disaster recovery
13 for Get To Zero into the data center project, we built
14 disaster recovery capabilities as part of the build out.

15 For instance, pse.com, while it's in the
16 cloud, it has its own disaster recovery capability
17 already built into the cloud platform.

18 CHAIRMAN DANNER: Can you tell me -- your
19 last data centers lasted a decade?

20 MS. HOPKINS: That is correct.

21 Well, let me just correct you. The Bellevue
22 data center lasted 15 years. The ~~Bothell~~ data center
23 lasted a decade.

24 CHAIRMAN DANNER: Okay. So looking forward,
25 I mean, when do we expect you to come back either for a

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1 new data centers or --

2 MS. HOPKINS: We think it is a really fair
3 question.

4 The challenge that we've had in this
5 industry -- I've been doing this for 32 years and I've
6 built many data centers.

7 The challenge that we've had with data
8 centers facilities, those traditional data centers like
9 ~~Bothell~~ ~~Bothel~~ and Bellevue were, is that they cannot keep pace
10 with technology. The heating and cooling requirements
11 are outpacing them as well as the density that -- that
12 goes on ~~in~~ and the weight requirements.

13 And so it's a consequence of that -- these
14 traditional data centers that years and years ago we
15 thought would last us 20 years have averaged about seven
16 to ten.

17 The promise of modulare data center was
18 supposed to be the solution to building out a data
19 center that's going to last longer than that.

20 So the modulare data center concept started
21 about 10 years ago. And it was really early in its
22 infancy.

23 As we've just built out our modular data
24 centers, they've gotten to be excellent. And we believe
25 that they will last 15 to 20 years.

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1 And the reason we believe that is because
2 the parts are interchangeable and they can scale much
3 better with how technology is changing. And that seems
4 to be proving out.

5 With that said, we're only ten years, as an
6 industry, into the modular data center. And in about
7 five years we'll know for sure whether or not they're
8 going to make it 15 or 20. It's the best shot we've
9 got.

10 CHAIRMAN DANNER: So get your crystal ball
11 out.

12 Do you see cloud computing security
13 characteristics improving? Is there a chance that you
14 will be moving more to the cloud and some of these
15 things even NERC or -- will be changing their standards
16 to allow you to move that way?

17 MS. HOPKINS: I don't see NERC changing
18 their standards or falling back on their standards. I
19 actually anticipate that they will get a little
20 stricter.

21 The cyber threat landscape is driving us to
22 be more and more risk averse and I think rightly so. I
23 don't think NERC will lift their standards.

24 What I do think may happen in the future,
25 five to ten years out, is that companies like Microsoft,

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1 companies like Amazon, will find a way to work with WECC
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.

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.

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.

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.

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.

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

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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.

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.

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

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1 because it's failing and has a fundamental reliability
2 concern.

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 --

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.

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 --

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1 irrespective of Clean Energy Transformation Act, I think
2 that's the third layer of potential benefits that AMI
3 provides like microgrids and those sort of things.

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. FREEKOCH: Yes, they are.

19 COMMISSIONER BALASBAS: And if "yes," do you
20 have those dollar amounts?

21 MS. FREEKOCH: 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

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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

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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

Joshua Jacobs by Chairman Danner

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 SQI 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

Cathy Koch by Chairman Danner

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

Cathy Koch by Chairman Danner

1 how do we -- how do we ensure that if we're going to
2 invest all this money in this platform that this
3 platform is going to be used to the fullest extent that
4 it can be for getting benefits to the customer.

5 MS. KOCH: So -- so we're spending a lot of
6 money to put --

7 CHAIRMAN DANNER: I know.

8 MS. KOCH: -- to put a system in. And
9 that's really important.

10 We're clearly moving forward with CVR. And
11 one of the things that isn't on your list is leveraging
12 ~~at-re~~ distribution automation to improve reliability.

13 Some of these other ones, as you point out
14 and I -- definitely depend on strong customer
15 participation, and so we -- we've been thinking very
16 mindful of how to gain that so that pilots like these
17 can be successful.

18 I think we are actually talking about some
19 time of use pilots. I think your Staff, UTC Staff would
20 like us to try some peak pilots or peak pricing pilots
21 as well.

22 So with examples like Get To Zero that take
23 the basic foundation of AMI and begin to leverage it, I
24 think it is a demonstration of PSE continuing to look at
25 what this foundation offers.

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1 I'll also offer that we have a group
2 in-house that's talking about how to enable data. Data
3 enablement. And we're -- we've continued to put
4 additional use cases together to test out and pilot
5 further uses with AMI.

6 But we also need to be very mindful and
7 thoughtful as we do that so that we can maximize thoroughly rough
8 those benefits.

9 I'd suggest that we're going to be one of
10 those at the top of the list. Because it really does
11 have a lot of value -- not just for customers and
12 there's a lot of -- there's a lot of customer in-a
13 facing value there, but there's a lot of system stuff,
14 CVR being a great example where customers get the
15 benefit of things that we can do on the grid with AMI
16 that -- it's not necessarily requiring customer
17 participation. So the more that we can factor that in
18 as well.

19 CHAIRMAN DANNER: So there's been a lot of
20 talk over the last few years about performance-based
21 rate making.

22 Is there a way that, you know, if -- if
23 we -- we look at something like these use cases or maybe
24 there's an advisory group that's put together to develop
25 these use cases, can we -- should we be tracking the

Cathy Koch by Chairman Danner

1 benefits that -- that we're getting or not getting
2 and -- and figure out if we should be determining
3 recovery based on the optimization.

4 MS. KOCH: So I think -- ~~I am not you have met~~ Jon
5 Piliaris, but I do believe that there's been
6 conversations about performance base rate making and
7 that's something we're interested in talking more about.

8 Even in this rate case, I think UTC Staff
9 asked how -- how has benefits been realized with what --
10 what we've already got. And we were able to demonstrate
11 that even -- even just with half the system that we have
12 in today, we're receiving benefits.

13 Measure us? You should do that. We're
14 measuring ourselves, and so I think that's an
15 appropriate ~~feature~~action.

16 CHAIRMAN DANNER: All right. Thank you.

17 COMMISSIONER RENDAHL: So, Ms. Koch, I have
18 some questions for you about AMR and AMI. So we're back
19 to that topic.

20 And this has to do with the depreciable life
21 of the assets. So in your rebuttal testimony on page 6.
22 And I'll wait until you get there.

23 MS. KOCH: Okay. I'm there, 6.

24 COMMISSIONER RENDAHL: I'm sorry. ~~Pretrial~~Prefiled
25 direct.

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1 MS. KOCH: Okay. Page 6.

2 COMMISSIONER RENDAHL: I'm looking at --
3 actually, it's rebuttal. It says "~~pretrial~~ prefiled direct" on
4 the bottom.

5 MS. KOCH: Yeah, yeah. I notice that.

6 COMMISSIONER RENDAHL: But, yeah, it's
7 actually rebuttal. So it is Exhibit CAK-6T at page 6,
8 starting at -- on line 18.

9 MS. KOCH: Yes.

10 COMMISSIONER RENDAHL: Okay. So you
11 referred to the AMR system has a design life of
12 15 years.

13 So that's the system had a design life or
14 the meters themselves had a design life?

15 MS. KOCH: The meters and the modules both
16 have a design life of 15 years. So, in essence, it's
17 the system.

18 COMMISSIONER RENDAHL: Okay. And I think
19 you were looking at a cross-exhibit from Public Counsel.
20 I think it was CAK-11CX that identified sort of the
21 remaining -- the remaining book value and the amount of
22 depreciation expense still for some of these AMR assets;
23 correct?

24 MS. KOCH: Mm-hmm. DR ~~27~~-65, yes:

25 COMMISSIONER RENDAHL: So PSE started

Cathy Koch and Susan Free by Commissioner Rendahl

1 putting these assets, the AMR assets into place in 1998
2 or 1999.

3 MS. KOCH: '98, yes.

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?

9 MS. KOCH: I'm going to say "yes," but I'm
10 going to pass it to my --

11 COMMISSIONER RENDAHL: Okay. That's why
12 you're all up here together so you didn't have to do
13 this.

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 plant. So it's
19 been retired over the years, but it's also been added
20 to.

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.

24 So for those meters that you're removing,
25 the AMR meters that you're removing as you replace them

Cathy Koch and Susan Free by Commissioner Rendahl

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?

4 MS. FREE: They -- they stopped
5 depreciating. So the AMI will start depreciating and
6 the AMR will stop depreciating.

7 The book value of the AMR essentially gets
8 frozen in your rate base at that point.

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.

13 And that usually -- and for mass assets,
14 like AMR would get trued up in the next ~~depression~~depreciation
15 study.

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 regulatory asset treatment given for the unrecovered
20 balance of the asset.

21 COMMISSIONER RENDAHL: So your plan is to
22 put it into a regulatory asset account?

23 MS. ~~FREEKOGH~~: Yes.

24 COMMISSIONER RENDAHL: And then will that
25 amount reduce over time as the -- even though they are

Cathy Koch and Susan Free by Commissioner Rendahl

1 not depreciating.

2 MS. FREEKoch: We would request recovery through
3 amortization of that regulatory asset.

4 COMMISSIONER RENDAHL: Okay. But that has
5 not --

6 MS. FREE: That's how it would reduce.

7 COMMISSIONER RENDAHL: That has not been
8 done yet?

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.

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?

15 MS. FREE: Yes. I would anticipate it will
16 be something we're looking at in our next rate case.
17 The treatment.

18 COMMISSIONER RENDAHL: Okay. And then for
19 the new AMI meters, what is the depreciable life of
20 those meters?

21 MS. FREE: They are -- I believe --

22 COMMISSIONER RENDAHL: Maybe that's
23 Ms. Koch.

24 MS. FREE: -- Ms. Koch would understand the
25 design life. Which the depreciable life should be sort

Cathy Koch and Susan Free-Koch by Commissioner Rendahl

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-depreciation~~ study.

5 Our last ~~depression-depreciation~~ 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.

9 MS. KOCH: The design life for the AMI is 20
10 years.

11 COMMISSIONER RENDAHL: Why don't we get a
12 mic to you.

13 MS. KOCH: The design life for the AMI
14 meters and modules are 20 years.

15 COMMISSIONER RENDAHL: Twenty years. Okay.
16 Thank you.

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.

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?

Susan-Cathy Koch by Chairman Danner

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

Susan Cathy Koch by Chairman Danner

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.

Joshua Jacobs by Chairman Danner

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.

Joshua Jacobs by Chairman Danner

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 years 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~~last
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

Joshua Jacobs by Chairman Danner

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 your programs. But that's not my question.

Joshua Jacobs by Commissioner Rendahl

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~~dunning 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

Joshua Jacobs by Commissioner Rendahl

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 Energy 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

Andrew Wappler by Commissioner Rendahl

1 the existing aid and help programs that are out ~~that are~~there
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 ~~outrage~~outreach 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 or~~ \$1.4 million,
24 whichever is greater.

25 Are you familiar with that testimony by

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~~-H.E.L.P. 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 Energy 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.

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:

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 to reconcile~~ 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 characterizatione 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

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 to~~ 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.

Dan Doyle by Ms. Gafken

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.

7 **Q. Okay. My next question is really a foundational**
8 **question.**

9 A. Okay.

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?**

15 **If we need to, we can refer to your rebuttal**
16 **testimony at Exhibit DAD-7T, page 26, lines 1 through 3.**

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.

20 One is, we amortize the excess deferred taxes
21 during that period of time.

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.

25 If you're talking about capturing those excess

Dan Doyle by Ms. Gafken

1 deferred taxes, recording a new regulatory liability,
2 and then passing those back through rates, that would be
3 a normalization violation.

4 So I don't know which angle you're coming at in
5 your question, Counselor.

6 **Q. Well, I'm not coming at it from an angle. I**
7 **just wanted you to answer the question.**

8 **May I have a minute to pull up the exhibit?**

9 **I thought I had it in paper form, but apparently**
10 **I need to pull it up in electronic form.**

11 **If you could go to Exhibit DAD-7T, page 26,**
12 **lines 1 through 3.**

13 A. Can you repeat that, Ms. Gafken?

14 **Q. Absolutely. Exhibit DAD-7T, page 26, lines 1**
15 **through 3.**

16 A. So I have DAD-7TR.

17 **Q. Oh, yes.**

18 **So we have to take the negative inference.**

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."**

24 **So is it fair to say that you believe that**
25 **Public Counsel's position with respect to the amounts**

Dan Doyle by Ms. Gafken

1 **with that time period would violate the normalization**
2 **rules?**

3 A. Correct.

4 **Q. Okay.**

5 A. Sorry, I could have worded that a little
6 differently.

7 **Q. The IRS has not issued guidance regarding the**
8 **application of the TCJA normalization requirements;**
9 **correct?**

10 **And if you need to, you can refer to Exhibit**
11 **DAD-17, page 26, lines 16 through 17.**

12 A. That is correct. The guidance has not yet been
13 issued.

14 **Q. The same IRS normalization rules apply to PSE**
15 **that also apply to the other Washington investor-owned**
16 **utilities; correct?**

17 A. Correct.

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?**

21 A. Correct.

22 **Q. Thank you.**

23 MS. GAFKEN: I have no further questions for
24 Mr. Doyle.

25 JUDGE PEARSON: Thank you.

Dan Doyle by Ms. Cameron-Rulkowski

1 Any redirect for this witness? Okay.

2 Ms. Cameron-Rulkowski.

3 MS. CAMERON-RULKOWSKI: Thank you, Your
4 Honor.

5 CROSS-EXAMINATION

6 BY MS. CAMERON-RULKOWSKI:

7 **Q. Good afternoon, Mr. Doyle.**

8 A. Good afternoon.

9 **Q. I have a few questions for you on excess
10 deferred income tax.**

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?**

14 A. (Witness nods head.)

15 I do.

16 **Q. Thank you.**

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?**

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.

24 Number one, we don't have a-the guidance. Number
25 two --

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. Marcelia 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.**

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?**

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 not
24 practical in a regulatory sense. I just don't think
25 it's practical.

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.

Dan Doyle by Ms. Cameron-Rulkowski

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

Dan Doyle by Ms. Cameron-Rulkowski

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

Dan Doyle by Ms. Cameron-Rulkowski

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

Dan Doyle by Ms. Cameron-Rulkowski

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**

Dan Doyle by Ms. Cameron-Rulkowski and Mr. Kuzma

1 **it. And so I'll just ask the same question.**

2 **Is it the intent of PSE to pass back to rate**
3 **payers as close as possible dollar for dollar the entire**
4 **amortized EDIT ultimately?**

5 A. As close as possible as a proper application of
6 the normalization rules in the context of the timing of
7 our rate changes will allow.

8 MS. CAMERON-RULKOWSKI: No further
9 questions.

10 Thank you.

11 JUDGE PEARSON: Thank you.

12 Any redirect for this witness?

13 MR. KUZMA: Yes, Your Honor.

14 REDIRECT EXAMINATION

15 BY MR. KUZMA:

16 **Q. Mr. Doyle, you had mentioned that excess**
17 **deferred income taxes were not going dollar for dollar.**

18 **Does plant depreciation and deferred DIFIT, which**
19 **require similar treatment, it would cover dollar for**
20 **dollar?**

21 A. No, they do not.

22 **Q. And so on the dollar for dollar on the EDIT, is**
23 **that -- so the rate impact would not necessarily be the**
24 **dollar for dollar; is that what you were referring to?**

25 A. Correct.

Dan Doyle by Commissioner Balasbas

1 MR. KUZMA: Thank you. That's all I have.

2 JUDGE PEARSON: Okay. Thank you.

3 COMMISSIONER BALASBAS: So, Mr. Doyle, I'm
4 going to actually ask Ms. Cameron-Rulkowski's question
5 again, and I want a one-word answer. And I want a "yes"
6 or a "no."

7 Is the company planning to return amortized
8 EDIT as close as possible to the dollar to rate payers;
9 yes or no?

10 MR. DOYLE: Yes.

11 COMMISSIONER BALASBAS: Thank you.

12 JUDGE PEARSON: We're just going to talk
13 amongst ourselves for about 30 seconds.

14 (Pause in the proceedings.)

15 JUDGE PEARSON: We're going to take a
16 five-minute recess right now. So we'll be off the
17 record.

18 (A recess was taken from 5:01 p.m. to 5:15 p.m.)

19 JUDGE PEARSON: All right. So we'll be back
20 on the record.

21 And Mr. Marcelia is up and ready to testify.
22 If you would please stand and raise your right hand I
23 will swear you in.

24 MR. MARCELIA: Again?

25 JUDGE PEARSON: Did I swear you in earlier?

Matt Marcelia by Mr. Pepple

1 MR. MARCELIA: You did.

2 JUDGE PEARSON: Okay. Then never mind.

3 That's right, you are still under oath.

4 And it looks like just Mr. Pepple has

5 questions for Mr. Marcelia.

6 CROSS-EXAMINATION

7 BY MR. PEPPLER:

8 **Q. Could you turn to your rebuttal testimony to**
9 **Exhibit MRM-11T, page 9, please.**

10 A. Okay. I'm there.

11 **Q. And just to set a little background. So this**
12 **section of your testimony, this is Section B here,**
13 **you're responding to AWEC's witness Mr. Mullins'**
14 **proposal to offset the Colstrip 1 and 2 plant balances**
15 **with production tax credits that PSE has included in**
16 **estimated tax payments, but has not yet included on an**
17 **annual tax filing; correct?**

18 A. Correct.

19 **Q. And lines 17 through 19 of this page, you argue**
20 **that Mr. Mullins' proposal is inconsistent with prior**
21 **Commission orders and settlements addressing how and**
22 **when PTCs may be utilized.**

23 **Do you see that?**

24 A. That's correct. It is.

25 **Q. And then to the next page, the next Q&A starting**

Matt Marcellia by Mr. Pepple

1 **on 3, you discuss these prior orders in settlements that**
2 **you're talking about.**

3 A. Yes.

4 **Q. And so my understanding of the history of this**
5 **issue is that PSE used to provide the value of PTCs to**
6 **customers in the year that they were generated**
7 **regardless of whether any of those PTCs could actually**
8 **be used by ~~PTC~~ PSE [verbatim] on its tax returns?**

9 A. That's right. That was the original treatment
10 back in 2005 to 2010.

11 **Q. Okay. And so that's -- that's the circumstance**
12 **that led to the creation of this large deferred tax**
13 **asset that PSE had is that it was providing value to**
14 **customers in a year but not getting the same value back**
15 **from the IRS in the same year?**

16 A. Yeah. That's correct.

17 **Q. Okay. And so is it your understanding that**
18 **Mr. Mullins' proposal is to use PTCs to offset Colstrip**
19 **plant balances that have not even been used on an**
20 **estimated tax return?**

21 A. The -- the orders and the rules that we're
22 operating under now require that PTCs to be used on the
23 tax return to be monetized; that is the annual tax
24 return. Not the estimates but the annual tax return.

25 **Q. Okay. But it seems like there is a difference**

Matt Marcellia by Mr. Pepple

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 unknown~~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

Matt Marcelia by Mr. Pepple

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 ~~reliability~~liability for PTC.

9 So we have this regulatory liability and we
10 are -- the treatment that we're using for the regulatory
11 ~~reliability~~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**

Matt Marcellia by Mr. Pepple

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 and become 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

Matt Marcelia by Mr. Pepple

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~~ balance 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 and 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 and measurable. But, yeah,
24 we have estimates. Lots of them.

25 **Q. Right. But -- but it sounds like you can get**

Matt Marcellia by Mr. Pepple

1 **pretty close to an --**

2 A. Close but still an estimate.

3 **Q. Yes. Okay.**

4 A. Right?

5 **Q. Okay. And were you in the room -- just one**

6 **other question.**

7 **Were you in the room when I was cross-examining**

8 **Ms. Free?**

9 A. Yes, I was.

10 **Q. Okay. And did you hear how she wantonly threw**

11 **you under the bus?**

12 A. I did. Susan Free is my friend. She meant it

13 nicely.

14 **Q. So I'll ask you the question that she deferred**

15 **to you which is why there is EDIT associated with**

16 **monetized PTCs?**

17 A. That is a great question.

18 So it starts -- back in the day, when we created

19 the PTC -- the PTCs are generated. At that point in

20 time -- so this goes back when the wind farms were first

21 placed in service because -- direct PTCs over the first

22 ten years of the wind farm.

23 And so we recorded those PTCs as a deferred tax

24 asset because it's a tax credit that we're entitled to.

25 When we do that, we create a regulatory

Matt Marcelia by Mr. Pepple

1 liability at that point in time.

2 The creation of the regulatory liability, when
3 the PTCs are generated, triggers a deferred tax asset as
4 an offset. Okay?

5 So our whole stack of -- our whole regulatory
6 liability for PTCs has a deferred tax asset against
7 them. All right?

8 **Q. So that -- can I interrupt you for a second?**

9 A. Sure.

10 **Q. That remains true even though you were passing**
11 **the value of PTCs back to the customers?**

12 A. Yes. Yes. Because the regulatory liability is
13 attached -- sorry, the deferred tax asset that we're
14 talking about is attached to the regulatory liability
15 for the PTCs. Okay?

16 So when the PTCs are monetized -- so, for
17 example, we monetize the amount that's being applied
18 against Colstrip 1 and 2. We took part of that
19 regulatory liability of the whole balance and it got
20 re-classed over to offset the Colstrip plant. When we
21 re-classed it over there, its deferred tax asset went
22 with it. Okay?

23 **Q. Can I interrupt you one more time?**

24 A. Sure.

25 **Q. When you say you -- you used it to offset the**

Matt Marcellia by Mr. Pepple

1 **plant balance, you're speaking in hypotheticals; right?**

2 A. It's recorded gross, so the plant balance is
3 still there and this reg liability for the PTC, it's
4 still there.

5 But because we are calculating the interest
6 component against that, because obviously the -- the
7 Colstrip balance is in rates, it is part of rate base.

8 We monetized this -- this amount for PTC when we
9 filed the 2018 tax return. That occurred after rates
10 were set. And so we're charging interest on that. Kind
11 of the carrying cost. So that basically we're
12 offsetting the Colstrip balance ~~for~~ with the regulatory
13 liability for the PTCs, in essence.

14 When we did that, we moved the regulatory
15 liabilities for the PTCs that had been monetized. We
16 moved that out of the big bucket into a little bucket.
17 And when we did that movement, the regulatory -- I'm
18 sorry, the deferred tax asset needs to slide over with
19 it.

20 Because at the end of time, we're going to take the
21 Colstrip plant and the reg liabilities of PTCs and we'll
22 merge them together, and then we'll take the -- the
23 deferred tax asset that's all in the PTCs and the
24 deferred tax liability that's on the Colstrip plant,
25 merge those together.

Matt Marcelia by Mr. Pepple

1 So it will all come together. Right? All --
2 the deferred taxes will have an offsetting effect. The
3 plant will have an offsetting effect.

4 Does that make sense?

5 **Q. It makes sense enough, I think.**

6 A. Okay.

7 **Q. That was my worst grade in law school, was tax.**

8 **All right. Those are all my questions. Thank**
9 **you.**

10 **JUDGE PEARSON: Any redirect?**

11 MR. KUZMA: No, Your Honor.

12 JUDGE PEARSON: Okay. Do any other parties
13 have questions for this witness? No.

14 And there is a question from Commissioner
15 Balasbas.

16 COMMISSIONER BALASBAS: All right. Good
17 evening, Mr. Marcelia.

18 MR. MARCELIA: Good evening.

19 COMMISSIONER BALASBAS: So in the 2017
20 Avista general rate case, they estimated that their
21 protected plus EDIT amortization period under the
22 average rate assumption method -- average rate
23 assumption method was 36 years.

24 Has -- under -- so under the average rate
25 assumption method, what would be PSE's amortization

Matt Marcelia by Commissioner Balasbas

1 timeline?

2 MR. MARCELIA: I don't know exactly -- it
3 would be in the ballpark of 36 years, something like
4 that. It depends on how long -- take the book life of
5 the longest asset that we have, and that's kind of
6 what -- that's the longest.

7 But it ebbs and flows. It's not a constant,
8 you know, X million dollars every year. It flows
9 because assets enter reversal, and so it's -- it will be
10 a long period. So 36 years is probably ballpark.

11 COMMISSIONER BALASBAS: I would like to make
12 a bench request for the best estimate that you have
13 under the average rate assumption.

14 MR. MARCELIA: Okay.

15 COMMISSIONER BALASBAS: That's it.

16 JUDGE PEARSON: That's it. Okay.

17 You're excused. Thank you.

18 MR. MARCELIA: Can I make a correction to
19 something my CFO said? Is that legal? I'm just asking.

20 JUDGE PEARSON: That's fine. Go ahead.

21 MR. MARCELIA: So -- the one of the
22 questions you asked was the final question -- you asked
23 a yes-or-no question. And I wanted to clarify
24 something.

25 So there's also a question about

Matt Marcelia by Commissioner Balasbas

1 dollar-for-dollar return of the excess deferred taxes.

2 So to be clear, the excess deferred taxes
3 will be amortized dollar to dollar to the penny. And we
4 can tell you that exact number at any point in time you
5 would like to know, because we have software that tracks
6 all of this. So that answer is "yes."

7 The issue as to whether -- how that goes
8 into rate. That's a rate-making question. And
9 rate-making questions are inherently messy because
10 there's not practically a dollar-for-dollar return of
11 anything.

12 So, if you recall, excessed deferred taxes
13 are reversed because of book depreciation expense. And
14 so there's a correlation.

15 If book's depreciation on an asset ceases
16 for some reason, the excess deferred tax ceases to
17 reverse because it is caused by book depreciation.

18 So then if you look at how do you recover
19 book depreciation and rates? Do we recover it dollar
20 for dollar? No, we don't recover it dollar for dollar,
21 because there's -- there's different timing involved as
22 to when an asset actually goes into rates.

23 So as a result, the excess deferred tax will
24 have that same lumpiness when it goes into rates so that
25 there's two elements. There's the amortization which

Matt Marcelia by Commissioner Balasbas

1 will occur dollar for dollar just like it does for book
2 depreciation. But then when you set rates on a
3 historical test, you go: What depreciation incurred in
4 my historical test year? That's what's going to be set
5 into rates.

6 What excess deferred tax reversed during a
7 historical test year? That's what's going to be set
8 into rates.

9 Will it all equal dollar for dollar?

10 Probably not. But it will be reversed dollar for dollar
11 because assets get depreciated to zero. Excess deferred
12 taxes will reverse to zero. But rate making will occur
13 whenever rate making occurs using whatever rate-making
14 techniques are permissible.

15 So I wanted to kind of clarify that because
16 there's two elements. And the consistency requirement
17 is such -- which Mr. Doyle was referring to -- such that
18 however you treat book depreciation is how you would
19 treat EDIT, or however you treat rate ~~basis~~base is how you
20 would treat the accumulated deferred income taxes.

21 All those things need to be treated the same
22 in a rate-making context. In addition to how we're
23 doing --

24 Your question about ARAM is about the length
25 of time things will be amortized. That covers the time

Matt Marcelia by Ms. Cameron-Rulkowski

1 that the excess deferred will be put into tax expense.

2 That tax expense will then go into cost of service for

3 some period, and that will then come into a rate case.

4 Perhaps this one. Perhaps another one.

5 But it will -- it is then available -- once

6 it hits tax expense, it's available for rate making.

7 And so you will set rates based on that.

8 But excess deferred tax isn't available to

9 just be -- have its own amortization because it's a tax.

10 It's a tax on something. This is being driven by book

11 depreciation expense.

12 So I wanted to kind of clarify a little bit.

13 Hopefully that helped.

14 MS. CAMERON-RULKOWSKI: Your Honor, could I

15 please ask Mr. Marcelia a cross question, based on what

16 he has just said?

17 JUDGE PEARSON: That's fine.

18 CROSS-EXAMINATION

19 BY MS. CAMERON-RULKOWSKI:

20 **Q. Mr. Marcelia, one question. I hope.**

21 **EDIT is made up of -- entirely of dollars**

22 **collected from rate payers; correct?**

23 A. Through the rate-making process.

24 **Q. Thank you. I have no further questions.**

25 A. Okay.

Susan Free by Commissioner Balasbas

1 JUDGE PEARSON: Thank you.

2 Okay. And at this time we would like to
3 call Ms. Free back up because we do have another
4 question from the bench for her.

5 COMMISSIONER BALASBAS: Good evening,
6 Ms. Free. Keeping on the EDIT theme.

7 Would you please turn to your Exhibit
8 SEF-26?

9 MS. FREE: I'm there.

10 COMMISSIONER BALASBAS: I just want to
11 confirm is that -- on line 34 of this exhibit.

12 So is this demonstrating that PSE's books of
13 account includes EDIT in a regulatory liability account?

14 MS. FREE: That is for GAAP purposes. It is
15 in a regulatory liability account.

16 COMMISSIONER BALASBAS: Okay. Thank you.

17 JUDGE PEARSON: Thank you.

18 Okay. And, Ms. Gafken, the time estimate
19 shows here you have questions for Mr. Hunt; is that
20 correct?

21 MS. GAFKEN: I do.

22 JUDGE PEARSON: Okay. So, Mr. Hunt, if you
23 could please approach the witness table.

24 MS. GAFKEN: My cross might go a tad bit
25 more than 15 minutes, but I don't think it will go too

Thomas Hunt by Ms. Gafken

1 much longer.

2 JUDGE PEARSON: Please raise your right
3 hand.

4 (Sworn)

5 JUDGE PEARSON: Please be seated.

6 CROSS-EXAMINATION

7 BY MS. GAFKEN:

8 **Q. Good evening, Mr. Hunt.**

9 A. Hi.

10 **Q. Would you please turn to your Exhibit TMH-7 and**
11 **go to page 1?**

12 A. Okay. Yes, I'm there.

13 **Q. Toward the bottom of the page there's a chart**
14 **entitled "Short-term incentive plan."**

15 **With respect to PSE's short~~te~~-term incentive plan,**
16 **~~eating meeting~~ 90 percent of EBIDTA, E-B-I-D-T-A, is a threshold**
17 **for payment of an incentive; correct?**

18 A. That's one of the two thresholds for payment.

19 **Q. And the other ~~finding funding~~ threshold is achieving at**
20 **least six out of ten operational goals; correct?**

21 A. That's safety and SQI, yes.

22 **Q. Is it accurate to call them operational goals?**

23 **I did that as a shorthand in my questions, but I**
24 **do understand that it's SQI and safety goals.**

25 A. Probably quality and reliability as a shorthand

Thomas Hunt by Ms. Gafken

1 rather than "operational."

2 JUDGE PEARSON: Ms. Gafken, can I get a page
3 number? Sorry.

4 MS. GAFKEN: Sorry. We're still looking at
5 page 1 of Exhibit TMH-7.

6 JUDGE PEARSON: Okay. Thank you.

7 BY MS. GAFKEN:

8 **Q. I'm sorry, Mr. Hunt, you took some exception**
9 **with my shorthand of "operational goals."**

10 **Could you give me the term that you would rather**
11 **hear?**

12 A. Customer service and reliability.

13 **Q. If PSE achieves at least six-out-of-ten customer**
14 **service and reliability goals and achieved at least**
15 **90 percent of EBIDTA, incentives are paid under the**
16 **plan; correct?**

17 A. Yes.

18 **Q. And financial goals are capped at lower**
19 **performance levels for the customer service and**
20 **reliability goals but are also reduced for financial**
21 **performance below 100 percent EBIDTA?**

22 A. I'm sorry. I'm not sure I followed your
23 question.

24 **Q. We'll try it again.**

25 **So financial goals are capped at lower**

Thomas Hunt by Ms. Gafken

1 **performance levels for the customer service and**
2 **reliability goals, but they are also reduced for**
3 **financial performance below 100 percent EBIDTA; correct?**

4 A. Yes, that's correct.

5 **Q. Would you please turn to cross Exhibit TMH-10X.**

6 A. Could you let me know which of the data requests
7 numbers that is?

8 **Q. Sure. So cross Exhibit TMH-10X is a copy of PSE**
9 **response to Public Counsel data request to number 278.**

10 A. Okay. I have it.

11 **Q. In subsection B, the response says that PSE has**
12 **met both of the funding thresholds in the past ten-year**
13 **period; correct?**

14 A. That's correct. Each year both thresholds were
15 met for each of the ten years.

16 **Q. And, in particular, there has been no year in**
17 **the past ten-year period where PSE has not achieved at**
18 **least six of the customer service and reliability goals;**
19 **correct?**

20 A. Correct.

21 **Q. Would you please turn to cross Exhibit TMH-12X,**
22 **which is a copy of Puget Sound Energy's response to**
23 **Public Counsel data request 281.**

24 A. Okay. I have it.

25 **Q. The chart provided in the response shows PSE's**

Thomas Hunt by Ms. Gafken

1 **two threshold results over the past ten-year period;**
2 **correct?**

3 A. That's correct.

4 **Q. Now, would you please turn to cross Exhibit**
5 **TMH-11X, which is a copy of Puget Sound Energy's**
6 **response to Public Counsel data request 279.**

7 A. Okay.

8 **Q. The response says that performance of EBIDTA**
9 **below the funding threshold could still result in a**
10 **payment of incentives if low performance was caused by**
11 **extenuating circumstances; correct?**

12 A. Yeah. Yes. The -- the data request asked a
13 hypothetical question.

14 One, that hasn't occurred. But in that
15 hypothetical situation it's possible that the plans
16 still could fund if -- if the CEO used that rule that
17 said there were some extenuating circumstances.

18 **Q. By that rule, you're talking about Rule 8 that**
19 **is set out in the response?**

20 A. Correct. That's -- that is an abstract from the
21 plan document which was also shared as -- as my exhibit
22 TMH-7, that we were looking at. That same one. The
23 rules are shown on page 5 of that Exhibit TMH-7 has 14
24 different rules, many of which are just to clarify for
25 employees how the plan would work.

Thomas Hunt by Ms. Gafken

1 **Q. Would you please turn to your rebuttal testimony**
2 **which is Exhibit TMH-8T. And please go to page 5, lines**
3 **18 through 19.**

4 A. Okay.

5 **Q. There -- there you state that you did not find**
6 **examples of other utilities with dual funding thresholds**
7 **and a funding table like PSE's when reviewing the**
8 **example cited by Public Counsel witness Mr. Garrett;**
9 **correct?**

10 A. Correct.

11 **Q. The examples used by Mr. Garrett included**
12 **American Electric Power, Southwestern Public Service**
13 **Company, CenterPoint, and Entergy; correct?**

14 A. I don't remember all the names, but if you say
15 they were included, I would not be surprised.

16 **Q. I should have asked earlier. I can provide a**
17 **copy of Mr. Garrett's testimony. I don't think it will**
18 **be necessary to go through pages of his testimony. But**
19 **I suppose that's something that could be accepted**
20 **subject to check. To make sure that I didn't misstate**
21 **them, if you so choose.**

22 MS. CARSON: Well, I would say that
23 Mr. Garrett's testimony says what it says. And if -- if
24 we need to verify it. If Mr. Hunt needs to verify it,
25 he can. I'm not sure that needs to be done here.

Thomas Hunt by Ms. Gafken

1 MS. GAFKEN: Okay.

2 BY MS. GAFKEN:

3 **Q. Mr. Hunt, have you studied the short-term**
4 **incentive plan of American Electric Power?**

5 A. I'm not sure that I've studied it.

6 We did review the -- the report from
7 Mr. Garrett's that was included in the data request
8 and is an exhibit in my TMH-9.

9 **Q. Did you review the plan from the company?**

10 Let me clarify that question.

11 **Did you review the short-term incentive plan**
12 **that American Electric Power has?**

13 A. I don't recall reviewing the entire plan. But
14 I --

15 **Q. Okay. Have you studied the short-term incentive**
16 **plan of CenterPoint?**

17 A. No.

18 **Q. Have you reviewed the short-term incentive plan**
19 **of Southwestern Public Service Company?**

20 A. I don't recall.

21 **Q. Let me ask you this question.**

22 **Do you recall that Southwestern Public Service**
23 **Company's plan is based on both financial and**
24 **operational measures?**

25 A. I'm -- I'm aware of other plans that have more

Thomas Hunt by Ms. Gafken

1 than one measure, but not that have a matrix where the
2 two measures are tied together like PSE's plan.

3 **Q. Have you studied the short-term intensive plan**
4 **of Entergy?**

5 A. When you say "studied," that's -- there's
6 information about the plans in some of the -- the SEC
7 materials that companies share. But I haven't studied
8 it in -- in a sense of having extensively looked at it.

9 MR. KUZMA: Your Honor, if I could ask a
10 clarifying question?

11 I'm assuming you're referring to Entergy
12 Arkansas, the one that was mentioned by Mr. Garrett's --
13 Entergy has multiple companies.

14 MS. GAFKEN: That's correct.

15 MR. KUZMA: Okay.

16 MS. GAFKEN: Thank you for that
17 clarification. I didn't include the states in my
18 questions. But that is correct, it is Entergy Arkansas.

19 Okay. I think that concludes my questions
20 for Mr. Hunt.

21 JUDGE PEARSON: Okay. Thank you.

22 Any redirect?

23 MS. CARSON: Yes, Your Honor.

24 REDIRECT EXAMINATION

25 BY MS. CARSON:

Thomas Hunt by Ms. Carson

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.

Thomas Hunt by Chairman Danner

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~~and 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 ~~p~~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

Thomas Hunt by Chairman Danner

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.

Duane Henderson by Commissioner Rendahl

1 COMMISSIONER RENDAHL: So the questions I'm
2 going to ask are about the Tacoma LNG+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 LNG+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 LNG+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

Duane Henderson by Commissioner Rendahl

1 admit.

2 COMMISSIONER RENDAHL: I have a copy that I
3 can give to you.

4 Are you familiar that the fact that there is
5 an allocation of costs to PSE and to the PSE LNGL+G --

6 MR. HENDERSON: And to the plant, yes.

7 COMMISSIONER RENDAHL: So regardless of
8 whether there's a deferral or whether it applies to
9 rates for these two -- for upgrade number one and
10 upgrade number three, is the Company intending to apply
11 the common cost allocator that the Commission approved
12 as a part of that settlement agreement?

13 Or if you're not the right witness, who
14 would be the right witness for that?

15 MR. HENDERSON: I'm not sure I am the right
16 witness. It would be the --

17 COMMISSIONER RENDAHL: Looks like Ms. Free
18 is coming up again.

19 MS. FREE: May I approach?

20 JUDGE PEARSON: You may.

21 MS. FREE: Look, another panel.

22 COMMISSIONER RENDAHL: We're just having so
23 much fun.

24 Do you understand my question?

25 MS. FREE: I do understand your question.

Susan Free by Commissioner Rendahl

1 This is like my third strike because I don't
2 know the answer, but I think we could get it to you in a
3 bench request.

4 COMMISSIONER RENDAHL: Okay. So the bench
5 request would be, just to be clear, whether this is
6 included in rates or as a deferral for upgrade number
7 one and upgrade number three whether the company would
8 be applying the common cost allocator to those two
9 upgrades.

10 Is that clear?

11 MS. FREE: That makes sense.

12 COMMISSIONER RENDAHL: Okay. Thank you.

13 That's bench request number --

14 JUDGE PEARSON: Six.

15 COMMISSIONER RENDAHL: -- 6. Thank you.

16 So, Mr. Henderson, that's all I had. You
17 got, you know, your lifeline there.

18 Oh, I'm sorry. You're not released yet.
19 Somebody has a question of you.

20 COMMISSIONER BALASBAS: Almost,
21 Mr. Henderson.

22 So, Mr. Henderson, for upgrades one and
23 three, you mentioned in your testimony that they are in
24 service today; is that correct?

25 MR. HENDERSON: That is correct.

Duane Henderson by Commissioner Balasbas

1 COMMISSIONER BALASBAS: Could you describe
2 in more detail how you believe those upgrades are used
3 and useful for your customers today?

4 MR. HENDERSON: So again, they are in
5 service. Upgrade three might be the easier one to
6 explain, which was primarily upsizing of a gate station
7 on our South Tacoma supply system.

8 I think as I mentioned in my -- my testimony
9 that -- that South Tacoma supply system not only -- once
10 we interconnect with upgrade two being installed,
11 supplies a high growth area from Tacoma southward down
12 through JBLM and the DuPont area, a very high growth
13 area.

14 Once that increase in the gate station
15 capacity**ilities** was installed, we actually saw that the
16 flow from that gate station exceeded the design flow of
17 the previous gate station. The gate station before
18 those upgrades were in effect.

19 So there, I think, is a clear example where
20 the existing customers are benefitting from that.

21 In the case of the four mile -- the upgrade
22 number one, which is the four mile pipeline that goes --
23 extends to the plant location.

24 As I said, it is currently in service. It
25 is capable of being used. Even though the customer

Duane Henderson by Chairman Danner

1 there isn't ready to receive -- receive the gas because
2 of delays on the plant construction and we believe that
3 it meets -- those requirements of its in service and is
4 capable of being used.

5 CHAIRMAN DANNER: So it's capable of taking
6 product to and from the ~~L+GLNG~~ facility that's not in
7 service. So yet you're saying it is in service.

8 MR. HENDERSON: Well, it's connected to the
9 gas system. It is pressurized today. And so as soon as
10 that customer is ready to either receive gas or put gas
11 back into the system, it's -- it's available and ready
12 to go.

13 CHAIRMAN DANNER: Okay. Thank you.

14 JUDGE PEARSON: Okay. Thank you. The
15 next -- yes, you are excused.

16 And Paul Wetherbee is our next witness.

17 Please raise your right hand.

18 (Sworn)

19 JUDGE PEARSON: Okay. Please be seated.

20 Looks like just Staff has questions for Mr. Wetherbee.

21 CROSS-EXAMINATION

22 BY MS. CAMERON-RULKOWSKI:

23 **Q. Good evening, Mr. Wetherbee.**

24 A. Good evening.

25 **Q. I would like to discuss hydro data in power cost**

Paul Wetherbee by Ms. Cameron-Rulkowski

1 **modeling.**

2 A. Okay.

3 **Q. PSE uses the AURORA model to forecast power**
4 **costs; correct?**

5 A. Yes.

6 **Q. And one of the inputs into the model is**
7 **hydropower generation; right?**

8 A. Yes.

9 **Q. Historically, PSE would run the model for each**
10 **year of hydro data; right?**

11 A. Mm-hmm.

12 **Q. And that data now totals 80 years' worth;**
13 **correct?**

14 A. Yes. That's right.

15 **Q. Now, in this case, PSE is proposing that it use**
16 **a single average of hydro generation from those years of**
17 **hydro data instead of running the model for each of**
18 **those years and generating an average from those model**
19 **runs; correct?**

20 A. That's right.

21 **Q. In your rebuttal testimony, you discuss the**
22 **hydro capacity logic in the AURORA model and raise the**
23 **issue that running AURORA results in violation of a**
24 **capacity constraints; correct?**

25 A. That's correct.

Paul Wetherbee by Ms. Cameron-Rulkowski

1 **Q. Would you say that overall AURORA software**
2 **produces accurate results despite the fact that it may**
3 **occasionally violate the minimum and capacity**
4 **restraints?**

5 A. I think that's -- generally that's right. But
6 we do quantify in our rebuttal that there's an
7 underestimate of the power cost.

8 **Q. And, actually, I'm going there. You note on --**
9 **you can refer to it if you need to.**

10 **You note on page 7 of -- of your rebuttal, which**
11 **is Exhibit PKW-34CT.**

12 A. I'm sorry.

13 **Q. So that's page 7.**

14 A. Thank you.

15 **Q. At lines 9 to 10.**

16 A. Okay. Thank you.

17 **Q. Now, you note there that, on average, a capacity**
18 **constraint was violated 1.7 percent of total hours;**
19 **right?**

20 A. That's right.

21 **Q. Do you believe AURORA's hydro capacity violation**
22 **rate of 1.7 percent is a valid reason for the single run**
23 **that PSE is proposing?**

24 A. I would agree that that's -- that's small.

25 However, it also -- you get additional benefits with

Paul Wetherbee by Ms. Cameron-Rulkowski

1 going with a simplified approach.

2 One, you remove ~~somebody~~ some of the out -- out of model
3 analysis that we had to do and we were able to
4 consolidate into one model. Open model system.

5 It also improves the efficiency of running the
6 model system.

7 **Q. Now, do you think that the difference in power**
8 **costs using the 80 runs that Staff is suggesting versus**
9 **a single run is entirely due to AURORA's high-capacity**
10 **violations?**

11 A. No. There's -- there's other factors going in
12 the model analysis for that.

13 **Q. And do you have -- can you provide the dollar**
14 **impact of the -- of all of the capacity violations in**
15 **that series of the 80 runs?**

16 A. I don't have that off the top of my head.

17 **Q. Are you aware -- are you aware of any ways that**
18 **PSE can prevent AURORA from violating the maximum hydro**
19 **capacity?**

20 A. In the current piece of software that we're
21 using, it's -- and we've researched it and talked with
22 the folks that make AURORA and there's -- we can't do
23 that right -- with the current system we cannot.

24 With the new version that comes out, we do
25 understand there will be a workaround to this problem.

Paul Wetherbee by Ms. Cameron-Rulkowski

1 **Q. And when does that new version come out?**

2 A. I do not know.

3 **Q. Now, you were -- in a couple of answers back,**
4 **you -- you were alluding to the two-zone run that PSE is**
5 **proposing, and this involves running the model twice.**

6 **Is that right?**

7 A. That's right.

8 **Q. All right. And this means running the model**
9 **once to get the projected power costs and then**
10 **ultimately to -- to actually get the forecasted power**
11 **costs; is that right?**

12 A. No. The first one is to establish the market
13 price.

14 **Q. Right.**

15 A. And it is a WEC-wide system.

16 And the second run is just with the PSE system
17 using that first run input to establish PSE's power
18 costs.

19 **Q. That's what I thought I said, but thank you for**
20 **clarifying.**

21 **Now, you were talking about efficiencies. It's**
22 **possible you -- when -- you were just talking about**
23 **efficiencies, and I think you were talking about -- with**
24 **a two-zone run having to run the model twice for each of**
25 **the data years. Is -- is that right?**

Paul Wetherbee by Ms. Cameron-Rulkowski

1 A. Yes.

2 **Q. All right. Is it possible, however, to use a**
3 **spreadsheet at the end of the 80 model runs that staff**
4 **is proposing instead of using the model a second time**
5 **with each run to calculate the rate your power costs?**

6 A. Right. That's what we were trying to avoid was
7 use the -- the capacity of the model to -- to calculate
8 some of these contingency reserves type costs which you
9 get at with the two-zone model.

10 So instead of just doing one run, the old way
11 was to do 80 runs, run through spreadsheets to
12 average -- you know, create one average from those
13 outputs.

14 **Q. And so what I'm getting at is -- if the company**
15 **used the spreadsheet, it would be 80 runs and not 160**
16 **runs; correct?**

17 A. It would be 160 runs, because you would have to
18 run it twice for each of the different years.

19 **Q. Now, if you used the spreadsheet, however, then**
20 **you would only have to run it -- you wouldn't have to**
21 **run the model twice for each of the -- each of the hydro**
22 **years; right?**

23 A. I'm tracking you. So your assumption -- so the
24 answer to that would be "yes." If you did not also use
25 the model to calculate some of the contingency reserve

Paul Wetherbee by Chairman Danner

1 to calculate cost. So you would go all the way back to
2 the old way.

3 MS. CAMERON-RULKOWSKI: Thank you. That's
4 all my questions.

5 JUDGE PEARSON: Okay. Any redirect?

6 MR. KUZMA: No, Your Honor.

7 JUDGE PEARSON: Okay. Thank you.

8 Questions from the bench?

9 CHAIRMAN DANNER: Yeah, I have a question.

10 Mr. Wetherbee, in your rebuttal testimony
11 you write that the wind turbines have achieved an
12 availability score, which you say is a measure of their
13 readiness to produce power, and that score is 97 to
14 99 percent.

15 I was wondering if you could explain that
16 score in how it's derived, what the criteria are,
17 et cetera.

18 MR. WETHERBEE: Boy. A -- a -- within the
19 operations piece -- so we've queried our options group
20 and the wind group to pull together that information on
21 the availability.

22 I would have to check with -- with my
23 colleague, Ron Roberts, on the internal -- the
24 calculation of that number.

25 CHAIRMAN DANNER: Okay. Maybe that is a

William Einstein by Commissioner Rendahl

1 bench request as well.

2 JUDGE PEARSON: Number 7.

3 CHAIRMAN DANNER: All right. Thank you.

4 JUDGE PEARSON: Okay. I believe that's it.

5 You are excused.

6 And the next witness is William Einstein. I

7 believe we have bench questions for Mr. Einstein.

8 Raise your right hand.

9 (Sworn)

10 JUDGE PEARSON: Please be seated.

11 COMMISSIONER RENDAHL: Good evening,
12 Mr. Weinstein -- Mr. Einstein. Excuse me. It's been a
13 long hearing. Long day.

14 Okay. So related to the water heater rental
15 program.

16 MR. EINSTEIN: Yes.

17 COMMISSIONER RENDAHL: Okay. So I
18 understand from the testimony you expect a sale on the
19 water heater rental program to close after the
20 conclusion of this rate case unless you have new
21 information today.

22 MR. EINSTEIN: Yes, it will conclude after.

23 We're still in the process of negotiating
24 the -- the final details of the sale with the proposed
25 buyer, and then the -- we expect that it would close,

William Einstein by Commissioner Rendahl

1 yes, I believe after that.

2 COMMISSIONER RENDAHL: Okay. So in that
3 case, how and when does the company propose handling the
4 outstanding negative reserve of approximately \$~~16~~88,000
5 associated with the amortization of unrecovered
6 depreciation for the gas conversion burner program, as I
7 understand they were linked a bit in this case.

8 MR. EINSTEIN: I would defer that to
9 Ms. Free, I believe, is to how we're going to account
10 for that.

11 COMMISSIONER RENDAHL: She is not free.

12 MR. EINSTEIN: She is here.

13 COMMISSIONER RENDAHL: Would you mind coming
14 up?

15 Do you want me to repeat the question?

16 MS. FREE: I think I would appreciate it if
17 you could repeat the question.

18 COMMISSIONER RENDAHL: Okay. So given that
19 the sale of the water heater rental program is going to
20 close after this rate case, how does the company propose
21 handling the outstanding negative reserve which is about
22 \$688,000 -- 688, yeah, thousand dollars associated with
23 the amortization of unrecovered depreciation of the gas
24 conversion burner program and the initial assumption was
25 they would be kind of handled together in this case.

Susan Free by Commissioner Rendahl

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

William Einstein by Commissioner Rendahl

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

William Einstein by Commissioner Rendahl

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

Susan Free by Chairman Danner

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.

Jon Piliaris by Chairman Danner

1 CHAIRMAN DANNER: Good evening.

2 MR. PILIARIS: So the question was again?

3 Can you clarify?

4 CHAIRMAN DANNER: Okay. So the question
5 was: In Ms. Free's testimony, she proposes a tracking
6 reporting procedures for the Green Direct program.

7 And my question to Mr. Einstein was: Does
8 the record demonstrate that the Company's proposed
9 revenue requirement does not include collecting the
10 costs of the Green Direct program through general rates?

11 She punted the question -- he punted the
12 question to Ms. Free. Ms. Free answered that: Well, in
13 fact, there are components, the PPAs, in base rates.

14 And so I asked the question: Is this
15 program self-sufficient? And the answer was: Over
16 time.

17 And so I'm just wondering if you can help me
18 understand all that.

19 MR. PILIARIS: Okay. So as Ms. Free noted,
20 the cost of the PPAs are included in -- in the portfolio
21 costs.

22 You might recall in 139 there's a credit, an
23 energy credit. And that's meant to represent the value
24 of the foregone power that would no longer be used to
25 serve those 139 customers, Green Direct~~redirect~~ customers. Instead

Jon Piliaris by Chairman Danner

1 they would be used -- they would be served by the Green
2 Direct PPAs.

3 So I believe Ms. Free is correct that we
4 didn't include 139 revenue in the calculation because we
5 were not also including the credit as well.

6 And if you -- if you look at the cost of the
7 PPA relative to the cost of the credit, there is a very,
8 very minor difference between the two. So they are
9 essentially a push.

10 If truth and beauty were to prevail, we
11 probably would throw the -- the 139 schedule rate
12 revenue into the analysis, and then we would credit
13 the -- the credit in 139, and that very small delta
14 would produce the precise result that the 139 customers
15 are paying for the entirety of the -- of the PPA cost,
16 or at least as close -- as they are required to under
17 the 139 tariff.

18 CHAIRMAN DANNER: So why didn't you? I
19 mean, truth --

20 MR. PILIARIS: Yeah. I think, honestly --
21 to be very honest about it, it was, I think, an
22 oversight initially. But as we thought about it, it was
23 a distinction without any difference at the end of the
24 day.

25 I don't think that it would -- you wouldn't

Jon Piliaris by Commissioner Balasbas

1 even show ~~up as of a~~ grounding, as an impact to other
2 customers in their rate. It would literally be that
3 small.

4 But for sake of transparency, we would be
5 happy to include that as part of the compliance filing
6 to make it transparent and clear that all those revenues
7 are included and -- so it's clear how those revenues
8 match up with the PPA cost.

9 CHAIRMAN DANNER: All right. Thank you for
10 the offer. I'm not sure if it's necessary or -- we'll
11 see.

12 MR. PILIARIS: We're open to it.

13 CHAIRMAN DANNER: Thank you.

14 COMMISSIONER BALASBAS: So, Mr. Piliaris,
15 just to follow up on that, though, if the costs of the
16 PPAs are included in base rates, I mean, is that
17 effectively, if you will, I guess, like, a one-time
18 subsidy until the costs of 139 and the rates charged to
19 139 customers cover those costs within there?

20 I mean -- I'm just trying to understand what
21 you mean when the cost of PPAs are included in base
22 rates but the revenues and the credits from schedule 139
23 are not.

24 Because, to me, that seems like you have
25 a -- you're not, as you said just a minute ago, maybe

Jon Piliaris by Commissioner Balasbas

1 not showing the full, if you will, akin to a balance
2 sheet of the schedule 139 costs and revenues there.

3 So I'm just -- so help me out here to, you
4 know, maybe put my mind at ease that by including the
5 cost of the PPAs in base rates that all customers are
6 not subsidizing the 139 customers.

7 MR. PILIARIS: So maybe the easiest way to
8 think about this -- and this is not the way -- the way
9 it's been modeled.

10 But if you carved out the energy from the
11 PPA apart from the portfolio, and it's -- it's at the
12 PPA rates that we're paying, and you gross it up for
13 revenue-sensitive taxes, so it's a rate adjusted number,
14 and you compare that against the 139 revenues, then it's
15 clear from that standpoint that the 139 revenues
16 essentially cover the PPA costs.

17 When you do that, the load associated with
18 serving the 139 are no longer in the portfolio. And
19 when you reduce the load served in the portfolio, you
20 are reducing the cost in the portfolio. And so those
21 costs go away as well.

22 Now, do the costs that go away equal the
23 cost of those PPAs? No, they are different. They are
24 very different. It's more or less market purchases that
25 are no longer used to serve the remaining load.

Jon Piliaris by Commissioner Balasbas

1 So it's sort of tricky but it's the PPA that
2 Green Direct customers are in fact covering 100 percent
3 of their Green Direct costs. It's very similar to the
4 way conservation works, in that you reduce load from
5 conservation.

6 What happens to our -- our portfolio,
7 portfolio resources? They reduce. They are reduced and
8 you're trading the cost of conservation for the avoided
9 cost of the power in -- in existing rates. And there's
10 a difference. There's a big difference.

11 And this goes back to our lost margin
12 discussions of several rate cases ago.

13 It's the same concept except we're talking
14 about power supply displacement rather than conservation
15 displacement for the same purpose.

16 JUDGE PEARSON: Thank you very much.

17 Okay. We'd like Ms. Scanlan to come up now
18 and take her out of order because it is a follow-up
19 question on Green Direct.

20 (Sworn)

21 JUDGE PEARSON: Okay. Thank you.

22 CHAIRMAN DANNER: All right. Good evening,
23 Ms. Scanlan.

24 So you heard Mr. Piliaris, Ms. Free, and
25 Mr. Einstein. I just wanted to follow up. You heard

Katie Scanlan by Chairman Danner

1 their explanation of this, and I just want to know is
2 Staff satisfied with PSE's proposals and does your
3 recommendation remain that the Company should just work
4 with stakeholders after the conclusion of this case?

5 MS. SCANLAN: Yes, my recommendation remains
6 the same.

7 I also want to point you to my colleague,
8 Jing Liu, who also testified on power costs related to
9 Green Direct.

10 CHAIRMAN DANNER: Okay. So I will go back
11 and look at that again.

12 But, basically, you're satisfied with what
13 you just heard now that you feel that over time that
14 this program is self-sufficient and we're not basically
15 subsidizing the program from general rates?

16 MS. SCANLAN: Again, my colleague, Jing Liu,
17 did testify to the power cost portion of that. That is
18 included in these rates.

19 COMMISSIONER RENDAHL: So can I just jump in
20 and say your testimony related to the tracking of the --
21 of costs and the revenues and the need for transparency
22 and you still, as you said, recommend -- you still
23 recommend that there needs to be more process --

24 MS. SCANLAN: Correct.

25 COMMISSIONER RENDAHL: -- or discussion?

Ronald Roberts by Ms. Cameron-Rulkowski

1 MS. SCANLAN: Yes.

2 JUDGE PEARSON: Thank you.

3 Okay. The last Company witness is Ronald
4 Roberts.

5 (Sworn)

6 JUDGE PEARSON: Okay. Please be seated.

7 MR. ROBERTS: First of all, I know nothing
8 about taxes.

9 JUDGE PEARSON: Can you turn your microphone
10 on?

11 MR. ROBERTS: I can probably do that.

12 JUDGE PEARSON: Okay. And Staff,
13 Ms. Cameron-Rulkowski, whenever you are ready.

14 MS. CAMERON-RULKOWSKI: Thank you, Your
15 Honor.

16 CROSS-EXAMINATION

17 BY MS. CAMERON-RULKOWSKI:

18 **Q. Good evening, Mr. Roberts. We're not going to**
19 **talk about taxes. Instead I would like to talk about**
20 **operating and maintenance expense at Colstrip.**

21 A. Okay. Great.

22 **Q. Colstrip Units 1 and 2 just closed at the end of**
23 **the year; right?**

24 A. Correct. Actually, they shut down January 3rd
25 and 4th, just slightly after the end of '19.

Ronald Roberts by Ms. Cameron-Rulkowski

1 **Q. Thank you for that clarification.**

2 **In this case, PSE shifted over a million dollars**
3 **in O&M costs from Colstrip Units 1 and 2 to Units 3 and**
4 **4; right?**

5 A. Correct.

6 **Q. And PSE is asking for recovery of these costs;**
7 **right?**

8 A. Correct.

9 **Q. Colstrip 1 and 2 are in a decommissioning phase;**
10 **correct?**

11 A. That is true.

12 **Q. And so it's true, isn't it, that there is a**
13 **portion of the common expenses that will continue to be**
14 **associated with Colstrip 1 and 2. For example, expenses**
15 **for roads and grounds keeping.**

16 A. Some small minor expenses, yes.

17 **Q. Now, I want to discuss Units 3 and 4.**

18 **Regarding Unit 4, in your Exhibit RJR-3C, you**
19 **mention the super heat section of Colstrip Unit 4 and**
20 **you -- you mention that it's showing signs of wear and**
21 **degradation estimated at \$20 million for replacement;**
22 **correct?**

23 A. Correct.

24 **Q. And PSE plans to sell Colstrip 4; right?**

25 A. That is the intention.

Ronald Roberts by Ms. Cameron-Rulkowski

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?**

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.

9 **Q. All right. And so you were just referring to**
10 **the sale; correct --**

11 A. Correct.

12 **Q. -- in the answer you just gave?**

13 A. Correct.

14 CHAIRMAN DANNER: Mr. Roberts, could you
15 speak into the microphone?

16 MR. ROBERTS: Certainly. Thank you.

17 BY MS. CAMERON-RULKOWSKI:

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?**

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.

Ronald Roberts by Ms. Cameron-Rulkowski

1 **Q. And is it fair to say that -- that those very**
2 **things could impact the difference between budgeted and**
3 **actual costs?**

4 A. They could. However, when we do budgets at
5 Colstrip, it's usually just a one-year approval.

6 And on Units 3 and 4, historically, we've been
7 close to budget to what we actually spend.

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.

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?**

17 A. That's correct.

18 **Q. I would like you to take a look at JL-15C. Take**
19 **a second to find that.**

20 A. Did you say "JL"?

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?**

Ronald Roberts by Ms. Cameron-Rulkowski

1 A. Correct.

2 **Q. And as I mentioned, the numbers in the exhibit**
3 **are confidential.**

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.**

8 **So you didn't talk about confidential numbers in**
9 **your testimony, but you provided an average; correct?**

10 A. Correct.

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.**

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?**

17 A. Yes.

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?**

21 A. Correct.

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?**

Ronald Roberts by Ms. Cameron-Rulkowski

1 A. Yes.

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?**

7 A. That is close; yes.

8 **Q. Thank you. I don't have any further questions.**

9 **JUDGE PEARSON: Thank you.**

10 **Any redirect?**

11 MR. KUZMA: No, Your Honor.

12 JUDGE PEARSON: Okay. Do we have any
13 questions from the bench for this witness? Nope. Okay.
14 You're excused. Thank you.

15 MR. ROBERTS: Thank you.

16 JUDGE PEARSON: Next we will call staff
17 witness, Chris McGuire.

18 (Sworn)

19 JUDGE PEARSON: Please be seated.

20 Just have some bench questions for you,
21 Mr. McGuire.

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

Chris McGuire by Commissioner Balasbas

1 costs associated with Colstrip Units 3 and 4 is a
2 tracking and true-up mechanism; is that correct?

3 MR. McGUIRE: That's correct.

4 COMMISSIONER BALASBAS: So why not do
5 that -- why not establish that tracking mechanism now in
6 this proceeding versus waiting until a future
7 proceeding?

8 MR. McGUIRE: The reason why we didn't make
9 that recommendation in this proceeding is because we
10 believed that it was dependent on the Commission
11 interpreting -- it was dependent upon a specific
12 interpretation of CETA.

13 And until the Commission makes that
14 interpretation, we believed that it was inappropriate to
15 force something upon the Commission that maybe the
16 Commission didn't want.

17 CHAIRMAN DANNER: So specifically what in
18 CETA -- what is the discretion that we have or the
19 uncertainty that we have?

20 MR. McGUIRE: There are a couple of things
21 that are uncertain.

22 One of them is CETA requires that coal-fired
23 facilities be removed from rates by 2025. But it
24 explicitly says that D&R, decommissioning and
25 remediation costs don't need to be accelerated to 2025.

Chris McGuire by Commissioner Balasbas

1 D&R is typically recovered through
2 depreciation over the life of an asset. But CETA allows
3 for recovery of D&R beyond 2025.

4 There's also a question about whether or not
5 the term "prudently incurred" means something specific.

6 One could interpret the term "prudently
7 incurred" to -- to be a past-tense word. So D&R~~F~~ -- that
8 the Commission has to allow all prudently incurred D&R
9 to be recovered.

10 Well, decommissioning and remediation costs
11 typically don't happen until after a facility has
12 closed.

13 So if decommissioning and remediation costs
14 aren't going to occur until after 2025, and the costs
15 must be prudently incurred in order to be recovered
16 through rates, there's an argument that maybe we can't
17 recover decommissioning and remediation costs before
18 they're prudently incurred, i.e., before 2025.

19 But, again, that explanation depends on a
20 specific interpretation of a term within CETA that may
21 be incorrect. "Prudently incurred" may not actually
22 refer to costs beyond 2025.

23 That's it.

24 CHAIRMAN DANNER: So we don't -- we don't
25 know what the closure date -- even though we know what

Chris McGuire by Commissioner Balasbas

1 the deadline for closure is, we don't know the closure
2 date.

3 So, I mean, are we going to be ready to, you
4 know, when the time comes when the decommissioning of
5 the remediation costs start that we'll be ready to track
6 them?

7 MR. McGUIRE: That's a good question.

8 If, for example, the facility were closed
9 tomorrow, it may be problematic not to have some
10 tracking and true-up mechanism in place which argues for
11 potentially setting up a tracking and true-up mechanism
12 now to protect against the possibility that the plant
13 just closes much earlier than we thought.

14 It's -- I wouldn't say that we would be in a
15 particularly precarious position at that point. Because
16 if we do nothing now through rates, the company is
17 recovering decommissioning and remediation costs. And
18 it is -- it is accumulating a reserve for
19 decommissioning and remediation costs, and that will
20 exist when facility is closed.

21 And at that point we're just left with the
22 question of what to do with the amount -- the estimated
23 amount that has not yet been recovered, and at that
24 point you could set up a mechanism to deal with that
25 situation.

Chris McGuire by Commissioner Balasbas

1 CHAIRMAN DANNER: Another option is the --
2 while Puget is not using the power from Colstrip, that
3 Colstrip continues to operate. And so under that
4 scenario, D&R costs might be pushed out. So, basically,
5 your recommendation is just wait?

6 MR. McGUIRE: Yes. My recommendation is to
7 wait because there are a number of uncertainties. The
8 one you just referred to being one of them. The one you
9 referred to previously. The early closure is another
10 one. The actual amount of -- of decommissioning and
11 remediation cost is another one.

12 PSE's estimates of decommissioning or
13 remediation are -- there's a wide range of potential
14 costs associated with D&R.

15 I think -- well, this is why I had
16 recommended that PSE submit a plan in its next general
17 rate case so that we could think a little bit more
18 carefully about how to handle this issue and allow the
19 company a little bit more time to narrow -- narrow down
20 the range of potential costs, as well as the
21 availability of certain liabilities, like, production
22 tax credits to offset some of those costs. There's just
23 a lot of questions. And a little bit of time, I think,
24 would be helpful. So that -- that the Company and other
25 interested parties could try to think of a solution.

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**

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.

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 true-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

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 **you had ~~you~~ any redirect?**

10 MR. CALLAGHAN: No, Your Honor.

11 JUDGE PEARSON: Next witness is Christina
12 **StewardStewart**. Jason Ball, sorry.

13 MS. **STEWARDSTEWART**: 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 --

Jason Ball by Commissioner Rendahl

1 rate increases equally across the two existing energy
2 blocks and is open to exploring an expansion of the
3 first block energy rate from 600 kilowatt hours to
4 800 kilowatt hours.

5 Do you also support exploring that
6 modification?

7 MR. BALL: I do.

8 COMMISSIONER RENDAHL: Okay. And so
9 should -- is it your recommendation that the Commission
10 implement that proposal in this case or to consult with
11 a low income advisory group or CRAG to review and make a
12 proposal in a future rate case?

13 MR. BALL: I believe consulting with the
14 CRAG would be a wise choice.

15 COMMISSIONER RENDAHL: Okay. Do you have
16 concerns about this change?

17 MR. BALL: Not necessarily. The original
18 600-kilowatt-hour block was used to share equitably the
19 low cost of power across the region.

20 If we're going to set a new block for -- to
21 address issues -- if we're going to set a new block
22 based upon a fundamentally different premise, then I
23 would just suggest that we spend a little bit more time
24 researching and understanding the fundamentals that led
25 to that block number.

Jason Ball by Commissioner Rendahl

1 COMMISSIONER RENDAHL: And whether they
2 still hold?

3 MR. BALL: Correct. And whether 600
4 kilowatt hours is the correct amount for the first block
5 as a lifeline rate.

6 COMMISSIONER RENDAHL: Okay. Thank you.
7 That's all I have.

8 JUDGE PEARSON: That's it.
9 Thank you, Mr. Ball. You're excused.

10 And the next witness is Glen Watkins for
11 Public Counsel.

12 MS. GAFKEN: Judge Pearson, it is
13 approaching 10 o'clock on the east coast, so I had told
14 him that he could drop off.

15 JUDGE PEARSON: Okay. We're fine. Okay.
16 We're fine.

17 MS. GAFKEN: Do you want to talk to him
18 tomorrow?

19 JUDGE PEARSON: We're going to finish
20 tonight. If we need anything we can issue a bench
21 request after the fact.

22 So next is Shawn Collins from The Engery
23 Project.

24 MR. FFITCH: Your Honor, while Mr. Collins
25 is coming up, do you want me to introduce the witness?

Shawn Collins by Mr. Ffitch

1 JUDGE PEARSON: If you would like to that's.

2 MR. FFITCH: After you swear him.

3 (Sworn in)

4 EXAMINATION

5 BY MR. FFITCH:

6 **Q. Good evening, Mr. Collins.**

7 A. Good evening.

8 **Q. Could you please state your name and spell your**
9 **last name for the record?**

10 A. Shawn Collins, C-o-l-l-i-n-s.

11 **Q. What is your current position?**

12 A. Director of The Engery Project at the
13 Opportunity Council.

14 **Q. Have you filed testimony in this case that's**
15 **been marked SMC-1T and SMC-2?**

16 A. I have.

17 MR. FFITCH: And, Your Honor, those have
18 been admitted into the record by stipulation.

19 BY MR. FFITCH:

20 **Q. Mr. Collins, do you have any changes or**
21 **corrections to your testimony?**

22 A. No, I do not.

23 MR. FFITCH: Your Honor, Mr. Collins is
24 available for questions.

25 JUDGE PEARSON: Thank you.

Shawn Collins by Chairman Danner

1 CHAIRMAN DANNER: Good evening, Mr. Collins.

2 The Energy Project proposed the Commission
3 order residential rate increases to be spread equally
4 across energy uses blocks but does not provide a
5 calculation to illustrate the recommendation.

6 What's your proposed method for equal
7 percentage allocations?

8 MR. COLLINS: We did not specify the
9 methodology there. My expectation was that potentially
10 that would be discussed similarly to the block rate
11 adjustment with -- with a CRAG. So, specifically, I do
12 not have a recommendation for that.

13 CHAIRMAN DANNER: Okay. Do you agree with
14 Puget's understanding of this agreement with your
15 proposal?

16 MR. COLLINS: We do. Our concern,
17 primarily, was focused on the -- the -- the tier 2 -- a
18 third-tier addition or higher usage adding the costs for
19 that. So we're in agreement with -- with Piliaris'
20 trial testimony.

21 CHAIRMAN DANNER: Let me ask another
22 question. This is among your recommendations. You
23 propose that Puget develop and submit a disconnection
24 reduction plan for approval.

25 Can you expand a little bit on both process

Shawn Collins by Chairman Danner

1 and the timeline for this kind of plan?

2 MR. COLLINS: Sure. Based on the data
3 requests that we submitted, it appears that as much as
4 50 percent of disconnections are prevented from the last
5 knock and from collection for payments at the time of
6 disconnection.

7 And so our concern is with the policies
8 for -- for disconnections and wanting to minimize those
9 to the extent possible.

10 And so for us, I think as I understood,
11 within a year of the closure of this rate case would be
12 acceptable to us in terms of formulating a plan, the
13 sooner the better, in my opinion, though.

14 CHAIRMAN DANNER: Okay. That's all I had.

15 JUDGE PEARSON: Thank you. You're excused.

16 And our last witness is Brian Collins.

17 If you raise your right hand.

18 (Sworn)

19 JUDGE PEARSON: Okay. Please be seated.

20 Mr. Pepple, you don't have a microphone. I don't know
21 if you want to introduce your witness.

22 Go ahead.

23 EXAMINATION

24 BY MR. COLEMAN:

25 Q. Good evening, Mr. Collins.

Brian Collins by Mr. Coleman and Ms. Gafken

1 A. Good evening.

2 **Q. Are you the same Brian Collins who caused to be**
3 **filed Exhibit BCC-1T in this case?**

4 A. I am.

5 **Q. Do you have any changes or corrections to that**
6 **document?**

7 A. I do not.

8 **Q. If you were to be asked those questions today,**
9 **would you provide the same answers?**

10 A. I would.

11 MR. COLEMAN: Your Honor, Mr. Collins is
12 available for cross-examination.

13 JUDGE PEARSON: Thank you.

14 Ms. Gafken.

15 MS. GAFKEN: Thank you.

16 CROSS-EXAMINATION

17 BY MS. GAFKEN:

18 **Q. Good evening, Mr. Collins.**

19 A. Good evening.

20 **Q. Would you please turn to your cross-answering**
21 **testimony BCC-1T, page 5, and go to lines 8 through 10.**

22 A. Okay. I'm there.

23 **Q. There you state: "The direct assignment of**
24 **costs best reflects cost causation and that direct**
25 **assignment should be used when information is**

Brian Collins by Ms. Gafken

1 **available"; correct?**

2 A. That is correct.

3 **Q. Further down the page -- further down the page,**
4 **beginning at line 27 and continuing on to page 6,**
5 **line 2, you quote the Maverick [verbatim] manual on**
6 **direct costs; correct?**

7 A. That's correct.

8 **Q. At page of 6, lines 10 through 15, you discuss**
9 **PSE's use of its GIS system to determine costs**
10 **associated with its special contractors; correct?**

11 A. That's correct.

12 **Q. Did you hear Mr. Taylor's testimony earlier in**
13 **the hearing where Mr. Taylor testified that the Mains**
14 **serve a multitude of customers and that special customer**
15 **contracts were allocated a portion of the Mains?**

16 A. I did hear that earlier today, yes.

17 **Q. PSE's GIS study did not result in a direct**
18 **assignment of dedicated facilities but rather it**
19 **resulted in an allocation of common use mains that**
20 **served special contract customers among others; correct?**

21 MR. PEPPLER: I'm going to object to that I
22 don't think that was Mr. Taylor's testimony. I think
23 that mischaracterizes what he said.

24 MS. GAFKEN: I'm not asking about
25 Mr. Taylor's testimony. I'm asking Mr. Collins to

Brian Collins by Ms. Gafken

1 evaluate the premise of the testimony.

2 MR. COLLINS: I guess I would disagree with
3 you.

4 JUDGE PEARSON: Hold on a second.

5 Mr. Pepple, did you want to respond to that?
6 The microphone.

7 MR. PEPPLER: It just died.

8 As long as Mr. Collins understand that he's
9 not adopting Mr. Taylor's testimony, that he's -- he's
10 not speaking to what Mr. Taylor testified to.

11 JUDGE PEARSON: Okay. Is that clear,
12 Mr. Collins?

13 MR. COLLINS: Yes.

14 JUDGE PEARSON: Go ahead, Ms. Gafken, when
15 you get your mic back.

16 BY MS. GAFKEN:

17 **Q. I'll reask the question.**

18 A. Okay.

19 **Q. PSE's GIS study did not result in a direct**
20 **assignment of dedicated facilities, but rather it**
21 **resulted in an allocation of common use mains that**
22 **served special contract customers among others; correct?**

23 A. I would agree that those mains do serve other
24 customers besides those special contract customers.

25 **Q. And a portion of those mains was allocated in**

Brian Collins by Ms. Gafken

1 **the special contract customers; correct?**

2 A. That's my understanding.

3 **Q. The next two questions I'm asking about your**
4 **understanding of PSE's GIS study.**

5 **PSE did not use a similar systemwide GIS**
6 **analysis applied to the entire utility, did it?**

7 A. I'm not aware of them doing such an analysis.

8 **Q. And PSE did not use a similar GIS analysis to**
9 **trace other customer classes from the meter to city**
10 **gate, but only applied that analysis to special contract**
11 **customers; correct?**

12 A. It's my understanding they applied it only to
13 the special contract class and no other customer
14 classes.

15 **Q. And you did not conduct a separate GIS analysis**
16 **with respect to special contract customers -- other**
17 **customers or the entire utility, did you?**

18 A. I did not.

19 **Q. Thank you. Those are my questions.**

20 **JUDGE PEARSON: Thank you. Is there any**
21 **redirect?**

22 MR. COLEMAN: No, Your Honor.

23 JUDGE PEARSON: Okay. Then -- any questions
24 from the bench for Mr. Collins?

25 Okay. Then you are excused. Thank you.

1 MR. COLLINS: Thank you very much.

2 JUDGE PEARSON: That brings us to the end of
3 our witness list.

4 Is there anyone else you have questions for?

5 No. Okay.

6 So there's just a few housekeeping matters
7 that I want to address before we adjourn.

8 Would the parties like me to -- I have all
9 the bench requests recorded here, I could go over them
10 or I could send them in an e-mail to all the parties?

11 MS. CARSON: E-mail would be good.

12 JUDGE PEARSON: Okay. I will do that,
13 because it would probably take ten minutes to read these
14 into the record. All right.

15 Is there anything else?

16 Oh, Ms. Gafken, public comments.

17 MS. GAFKEN: Yes. I was just going to chime
18 up about that.

19 So usually I request about a week. In this
20 case I would like to request just a tad more --

21 JUDGE PEARSON: That's fine.

22 MS. GAFKEN: -- than that.

23 So I would propose Tuesday, February 18th.

24 JUDGE PEARSON: Okay.

25 MS. GAFKEN: Thank you.

1 JUDGE PEARSON: That works. And we will
2 designate that as a bench exhibit. It looks like it
3 will be bench Exhibit 11. So we'll expect to receive
4 that on the 18th.

5 And, actually, I would like to just take a
6 couple of minutes to consult with the Commissioners
7 before we get to the post-hearing briefs.

8 So we'll be off the record for just a couple
9 of minutes.

10 (A recess was taken from 6:57 p.m. to 7:01 p.m.)

11 JUDGE PEARSON: Okay. Let's be back on the
12 record. We were just having a conversation about page
13 limits for briefs.

14 For initial briefs, which are due on
15 March 17th, we'll allow the full 60 pages. And then for
16 reply briefs, which are due on March 27th, we're going
17 to have a 20-page limit.

18 Are there any -- any questions from the
19 parties?

20 MS. CARSON: So that includes what's allowed
21 with the consolidation of the additional dockets?

22 JUDGE PEARSON: Correct.

23 MS. CARSON: Because I think 60 is usually
24 the standard.

25 JUDGE PEARSON: It is the standard.

1 Sometimes we go shorter than that, though.

2 MS. CARSON: I would just say with a fully
3 contested case, we have no settlement here.

4 JUDGE PEARSON: How many extra pages do you
5 think you need for the accounting petitions?

6 MS. CARSON: Maybe ten extra pages.

7 JUDGE PEARSON: You mean just in the initial
8 briefs?

9 MS. CARSON: I think 10 in the initial brief
10 and 5. So it would be 25 in the reply brief.

11 MS. CAMERON-RULKOWSKI: So Staff has an
12 alternative recommendation. We would need 5. We would
13 suggest 5 in the initial brief and 3 in the reply. But
14 it's up to you.

15 MS. CARSON: Staff is primarily responding
16 to the Company and we respond to eight different
17 parties.

18 JUDGE PEARSON: Okay. We'll go with 70 and
19 25.

20 MS. CARSON: Thank you.

21 JUDGE PEARSON: Okay. Is there anything
22 else that we need to address tonight?

23 Okay. Hearing nothing. Thank you all,
24 parties, the witnesses, and the representatives, we
25 really appreciate your willingness to push through and

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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