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1 BEFORE THE WASHINGTON

2 UTILITIES AND TRANSPORTATION COMMISSION

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5 ) Pages 37 - 318

Complainant, )

6 )

v. )

7 )

WASTE CONTROL, INC., )

8 )

Respondent. )

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10 HEARING, VOLUME II

11 PAGES 37 - 318

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MARCH 11, 2015

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17 Washington Utilities and Transportation Commission

1300 South Evergreen Park Drive Southwest, Room 206

18 Olympia, Washington 98504-7250

19

20

REPORTED BY: RYAN ZIEGLER, RPR, CCR #3348

21

Buell Realtime Reporting, LLC

22 1325 Fourth Avenue

Suite 1840

23 Seattle, Washington 98101

206.287.9066 | Seattle

24 360.534.9066 | Olympia

800.846.6989 | National

25 www.buellrealtime.com

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1

A P P E A R A N C E S

2

3 ADMINISTRATIVE LAW JUDGE:

4 MARGUERITE E. FRIEDLANDER

Utilities and Transportation Commission

5 PO Box 47250

1300 South Evergreen Drive Southwest

6 Olympia, Washington 98504

360.664.1136

7

8 FOR COMMISSION STAFF:

9 BRETT P. SHEARER

Assistant Attorney General

10 PO Box 40128

1400 South Evergreen Park Drive Southwest

11 Olympia, Washington 98504

360.664.1187

12 bretts@utc.law.gov

13

FOR WASTE CONTROL, INCORPORATED:

14

DAVID W. WILEY

15 Williams Kastner

601 Union Square, Suite 4100

16 Seattle, Washington 98101

206.628.6600

17 dwiley@williamskastner.com

18

FOR INTERVENOR WASHINGTON REFUSE & RECYCLING ASSOCIATION:

19

JAMES K. SELLS

20 General Counsel

Washington Refuse & Recycling Association

21 PMB 22, 3110 Judson

Gig Harbor, Washington 98335

22 360.981.0168

jamessells@comcast.net

23

24 \* \* \* \* \*

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1 OLYMPIA, WASHINGTON; MARCH 11, 2015

2 10:01 A.M.

3 --o0o--

4

5 JUDGE FRIEDLANDER: We'll go on the record.

6 This hearing will come to order. It's March 11th, 2015,

7 and this is the time and place the Commission has set for

8 an evidentiary hearing in Docket TG-140560, the general

9 rate case and tariff revision filings of Waste Control,

10 Inc. I'm Judge Marguerite Friedlander.

11 Pursuant to Order 10, the parties are limited

12 in their scope of examination today to the four contested

13 issues that remain in this case after the partial

14 settlement was reached. They are: shared utilities

15 expense, affiliate land rents, rate case cost, and

16 investigation fees.

17 Further, the parties will only be conducting

18 cross-exam and redirect. I don't anticipate any recross.

19 At this point, why don't we go ahead and take

20 appearances? We already have all of your information on

21 file. Let's just go ahead and do names, spelling last

22 names, and who you represent, beginning with Mr. Wiley.

23 MR. WILEY: Yes, Your Honor. David W. Wiley

24 appearing today on behalf of the respondent, Waste Control,

25 Inc.

0046

1 JUDGE FRIEDLANDER: Thank you.

2 Mr. Shearer?

3 MR. SHEARER: Brett Shearer, Assistant

4 Attorney General. I'm appearing on behalf of Commission

5 Staff.

6 JUDGE FRIEDLANDER: Thank you.

7 And Mr. Sells?

8 MR. SELLS: Thank you, Your Honor. James

9 Sells, attorney appearing on behalf of interventor,

10 Washington Refuse and Recycling Association.

11 JUDGE FRIEDLANDER: Thank you.

12 Is there anyone else today who wishes to put

13 in an appearance?

14 All right. Hearing nothing, let's go ahead

15 and begin. Mr. Wiley?

16 I'm sorry. I apologize. Mr. Shearer?

17 MR. SHEARER: Yes, Your Honor. I'd like to

18 begin cross with Mr. Layne Demas.

19 JUDGE FRIEDLANDER: Okay. And if you'll just

20 remain standing and raise your right hand.

21

22 LAYNE DEMAS, witness herein, having been

23 first duly sworn on oath,

24 was examined and testified

25 as follows:

0047

1 JUDGE FRIEDLANDER: Thank you. You can be

2 seated.

3 THE WITNESS: Is this on?

4 JUDGE FRIEDLANDER: Mr. Shearer?

5 MR. SHEARER: Thank you, Judge Friedlander.

6 Good morning, Mr. Demas.

7 I'm sorry, Your Honor. Did you want me to

8 ask for spelling and some more clarification, or should we

9 have --

10 JUDGE FRIEDLANDER: You know what? Because

11 we don't have direct, let's go ahead and get the

12 formalities out of the way.

13 MR. SHEARER: And would you like me to do it,

14 or Mr. Wiley for his own witness?

15 JUDGE FRIEDLANDER: You know, it's your

16 witness. Let's go -- why don't we have you get the

17 information that we need for the record?

18 MR. WILEY: Do you want the background

19 information that's --

20 JUDGE FRIEDLANDER: That's all on file.

21 MR. WILEY: Yes.

22 JUDGE FRIEDLANDER: Let's just go ahead with

23 name --

24 MR. WILEY: Address?

25 JUDGE FRIEDLANDER: -- position, exactly.

0048

1 Yeah.

2 BY MR. WILEY:

3 Q. Good morning, Mr. Demas. Not that the Commission

4 is unaware of your name, but could you please state and

5 spell your last name and provide your business address for

6 the record?

7 A. My last name is Demas, D-E-M-A-S. My business

8 address would be my home address: 3715 North Proctor in

9 Tacoma, Washington.

10 MR. WILEY: Thank you.

11 JUDGE FRIEDLANDER: Thank you.

12 And Mr. Shearer?

13 C R O S S - E X A M I N A T I O N

14 BY MR. SHEARER:

15 Q. Good morning, Mr. Demas. Are you the same Layne

16 Demas who filed testimony in this case?

17 A. Yes, I am.

18 Q. And you're appearing as the Company's accounting

19 expert, regulatory accounting expert; is that correct?

20 A. One of them. There's another, Jackie, that is

21 also.

22 Q. So one of --

23 A. Probably more so.

24 Q. One of two experts? Thank you.

25 I'm going to ask that you begin by turning to page

0049

1 2 of your supplemental testimony --

2 A. Okay.

3 Q. -- which is exhibit -- has been marked as LD-2T.

4 A. Yes.

5 JUDGE FRIEDLANDER: And which page did you

6 say?

7 MR. SHEARER: Page 2.

8 JUDGE FRIEDLANDER: Okay. Thank you.

9 BY MR. SHEARER:

10 Q. I'm generally going to ask you to refer to lines 3

11 through 20, just a general reference.

12 A. Okay.

13 Q. Now, in this section of your supplemental

14 testimony, you criticize Staff's proposed allocation factor

15 for utility expenses; is that correct?

16 A. That's correct.

17 Q. Now, in your opinion, has the Company put forward

18 an alternative allocation methodology and adequately

19 supported it on this record?

20 A. Not that I'm aware of.

21 Q. Thank you, Mr. Demas.

22 I'm going to move on now down to the bottom of

23 that section, roughly lines 15 through 20.

24 A. Oh, I see. You're talking about Company -- well,

25 that, okay. Yes, I see it.

0050

1 Q. In fact, in 15 through 20 --

2 A. Mm-hmm.

3 Q. -- here, your criticism of Staff's recommended

4 utilities expense allocator is that the allocation is

5 inconsistent, and you in particular note the operations of

6 one affiliate to the regulated entity, which is Waste

7 Control Recycling, or WCR.

8 A. Right.

9 Q. Is that correct?

10 A. Yes.

11 Q. So you are familiar with WCR's operations; is that

12 correct?

13 A. You know, as an overview, yes. They're the

14 recycling operation. They have the MRF and lots of other

15 assets, and that's -- but not in depth, detail, their

16 operation.

17 Q. Does the UTC regulate WCR's operations?

18 A. No.

19 Q. Now, specifically referring to lines 18 through 20

20 on page 2 of your supplemental testimony --

21 A. Mm-hmm.

22 Q. -- you criticize Staff's allocator because it

23 excludes from the utility expenses most of those utility

24 costs paid separately by WCR; is that correct?

25 A. Yes.

0051

1 Q. Now, are you aware that the vast majority of those

2 separate utilities expenses paid by WCR are associated with

3 facilities that WCR uses exclusively?

4 A. Correct.

5 Q. So those utility costs that you speak to on lines

6 18 through 20 of your testimony, those are utilities

7 expenses that are not associated with shared facilities or

8 facilities that WCR shares with the regulated entity --

9 A. That's --

10 Q. -- is that correct?

11 A. That's correct.

12 Q. So your position is that the Commission should

13 reduce the affiliate WCR's allocation of shared utilities

14 expenses on the basis of costs it incurs in nonshared

15 facilities where WCR conducts nonregulated activity; is

16 that correct?

17 A. That's one method that was, I would say,

18 discussed. I said Staff would need to. I didn't say that

19 we must do that.

20 Q. But that's the method you put forward in your

21 testimony; is that correct?

22 A. That's -- I -- I bring out that one method, yes.

23 There's two methods, basically.

24 Q. Okay. Thank you, Mr. Demas.

25 And did you propose -- which method did you

0052

1 propose? Are they mutually exclusive or --

2 A. Well, I would say that the -- the method that we

3 looked at primarily was to include all of the utility costs

4 if we're going to use the three-factor system and include

5 all the Waste Control Recycling's company, and that would

6 be unique, but in -- you know, we're -- we're still

7 defending this three-factor allocation, when in fact a more

8 objective approach is -- is -- would be preferrable.

9 MR. SHEARER: Excuse me, your Honor.

10 Mr. Demas, is your mic on? I'm just having

11 trouble hearing you.

12 JUDGE FRIEDLANDER: I am too.

13 THE WITNESS: I think it's on now.

14 MR. SHEARER: Okay.

15 BY MR. SHEARER:

16 Q. I'm going to ask that you turn to page 2. At the

17 very bottom of the page -- I remain on page 2 -- I want you

18 to turn to the very bottom of the page, which -- the very

19 last line, which then continues onto the top of page 3.

20 A. Mm-hmm.

21 Q. Now, here your testimony states, and I quote,

22 "Those costs have never been analyzed, let alone

23 demonstrated, by Staff;" is that correct?

24 A. That's correct. It was just a discussion-only

25 comment.

0053

1 Q. So is this -- is it your position that Staff

2 carries the burden to demonstrate in this case?

3 A. The demons- -- well, the Staff -- it's the

4 Company's burden to demonstrate, but it's Staff's -- but

5 in -- in the case of the three-factor allocator, which is a

6 Staff invention, then I think it would be up to Staff to

7 demonstrate that that's an appropriate method --

8 Q. But you'd --

9 A. -- and they haven't.

10 Q. But you do acknowledge the Company has the burden

11 of proof?

12 A. Burden of proof to --

13 Q. And the burden of --

14 A. -- determine, right --

15 Q. -- persuasion?

16 A. -- the -- which al- -- which utility expenses are

17 allocated and why, but they don't -- you know, but they

18 can't necessarily be held hostage by -- by that

19 three-factor allocation method that Staff invented unless

20 Staff can defend it appropriately.

21 Q. Just let me clarify to make sure I --

22 A. Okay.

23 Q. -- understand. So Staff does not have the burden

24 of proof in this proceeding. Do you agree with that

25 statement? Is that correct?

0054

1 A. I would say that's -- yeah. The Company always

2 has the burden of proof to prove that the utility expenses

3 are there and that they're allocated correctly.

4 Q. And you testified earlier that you're not aware of

5 whether or not the Company has proposed and supported an

6 appropriate allocator for utilities expenses in this case.

7 Does that -- that remains correct?

8 A. Yeah. I believe they wanted to include all

9 expenses. If -- they agreed to the three-factor

10 methodology, provided the entire set of utility expenses

11 are included. That was the proposal that Staff has -- the

12 Company has made.

13 Q. And that was after Staff filed its testimony?

14 A. No. It's in my testimony here. It's right there

15 on the page.

16 Q. Well, we can move on, Mr. Demas.

17 A. Okay.

18 Q. We don't have to search for it, and actually

19 that's a nice segue into my next question.

20 On page 3, lines 20 through 22, your testimony

21 says, "Yes, but only on the condition," and it goes on --

22 A. Mm-hmm.

23 Q. -- from there; is that correct?

24 A. Yes.

25 Q. And so, in line with what you were just saying

0055

1 about the -- what you perceive as the Company agreed to, I

2 would ask, to what or to whom are you conditioning your

3 response in your testimony?

4 A. To what or to whom?

5 Q. Yeah.

6 A. Well, this was in my testimony addressing the

7 Company's position, at least as I understand the Company's

8 position.

9 The Company does -- does not, on its face, agree

10 with the three-factor allocator system, but for purposes of

11 this case and this -- this expense, they would agree to it

12 if all of the utilities expenses were included.

13 And the main reason for that is because in the

14 three-factor, all of Waste Control Recycling revenues, net

15 book value, and employees are included in that -- that

16 allocator, so they think, "Well, we can't take all of one

17 and part of another."

18 That's -- you know, and -- but even that, like I

19 said, that's -- that's assuming that, like I say, we're

20 accepting the three-factor.

21 Q. So again, I would just ask: What -- to whom are

22 we presenting this condition of acceptance? Is it a

23 negotiation in your testimony? Are you -- is this an

24 attempt --

25 A. No.

0056

1 Q. -- to negotiate a position?

2 A. Well, I suppose, yeah, that was part of the

3 negotiation settlement there was to -- to accept the

4 three-factor was to, you know, if we're going to do that,

5 you know, let's -- let's be consistent with the approach.

6 Q. But you're not conditioning the -- I'm sorry.

7 A. Personally, we would rather -- you know, we'd

8 rather have a more objective allocator of utility costs,

9 which may, therefore -- which could eliminate some of those

10 expenses, but they would be crossed over to all three

11 companies on a different, objective approach, not a

12 three-factor approach.

13 Q. So is it a -- I'm going to go back to this

14 language again. Is the -- so are you conditioning your

15 proposal on the Commission's actions? Is this a -- are you

16 claiming there's some legal bounds or some accounting

17 bounds by which --

18 A. I --

19 Q. -- the Commission can't act in a certain way?

20 A. Well, I suppose, you know, this is just -- I write

21 in the testimony there, to set up parameters for acceptance

22 of the three-factor. It's up to someone else to determine

23 whether or not that's accepted or not. It's just my -- my

24 present -- my position based on discussions with the

25 Company.

0057

1 Q. Thank you, Mr. Demas.

2 I'm going to ask that you turn to page 6 of your

3 testimony, Table 2 -- which I've labeled as Table 2.

4 A. Okay. Yeah.

5 Q. Here, there's a table, and it documents the Staff

6 and Company's positions on shared utilities expenses; is

7 that correct? That's --

8 A. Yes.

9 Q. -- its intended purpose?

10 And you have -- on the left, I'm looking, you

11 have, "Company position," and, "Staff position," and on the

12 right, you have, in the corresponding rows --

13 A. Mm-hmm.

14 Q. -- the dollar figures; is that correct?

15 A. Right.

16 Q. And under Staff's position, you have the figure

17 $15,424.04; is that correct?

18 A. That's correct.

19 Q. And on what did you base your statement here of

20 $15,424?

21 A. Well, that was a --

22 Q. Staff's position?

23 A. There was -- after the settlement meeting we had,

24 there was an e-mail from Ms. Cheesman that came out with

25 revised numbers on the utility expense, and what it

0058

1 specifically -- if you go back to page 5, and you'll see

2 this 1150 3rd Avenue, and you'll see, "Amount allowed by

3 Staff," there's a $6,200 amount.

4 Now, that was -- at the time I wrote this

5 testimony, that was my understanding, based on that e-mail

6 and the worksheet that was provided, that that was included

7 in -- it was going to be included by Staff as an allocated

8 expense.

9 You take that 6,200 and multiply it by

10 23.4 percent and you'll come up with a difference from a

11 low -- earlier, lower number of 13,900-something up to the

12 15,400. That's it. It's based on knowledge at the time

13 the testimony was written that we had that that was

14 accepted by Ms. Cheesman.

15 Q. So -- correct me if I'm wrong -- your testimony is

16 that this $15,424.04 figure came from an e-mail that

17 derived from settlement discussions with Staff?

18 A. That's correct.

19 Q. Thank you, Mr. Demas.

20 MR. SHEARER: I have no further questions,

21 Your Honor.

22 JUDGE FRIEDLANDER: Thank you. Is there any

23 redirect?

24 MR. WILEY: Yes, there's a little bit, Your

25 Honor.

0059

1 R E D I R E C T E X A M I N A T I O N

2 BY MR. WILEY:

3 Q. Mr. Demas, could you summarize -- you were asked a

4 number of questions about why you disagreed with the Staff

5 allocators and utility rents. Could you just synthesize or

6 summarize that for us right now?

7 A. Oh, you mean my disagreement with the three-factor

8 allocation method?

9 Q. Right.

10 A. Well, it's -- you know, where do I start?

11 There's -- there's -- first one or one of them is revenues.

12 Well, revenues is not homogenous to all companies.

13 You have companies with several different rates,

14 customers, and the revenues are going to be different and

15 not measurable, not between companies. You have a -- Waste

16 Control Recycling's revenues are a lot different than Waste

17 Control, Inc.

18 If you just take the total -- take the company

19 divided by into the total and say, "There. There's the

20 allocator," that is not always correct. I suppose there's

21 some circumstances.

22 Then, you've got the net book value, which is

23 probably even further away from appropriate methodology,

24 because you've got three different companies, three

25 different sets of assets, costs -- some cases, lives. One

0060

1 company may have fully depreciated assets; another one's

2 got newer assets.

3 It's not really measuring anything between the

4 three, to take those -- that in -- a percentage of each one

5 of those companies, of the total, and apply it to common

6 costs like utility. A company with all new assets would

7 get a majority of the utility costs according to that, so

8 that's one of my main -- that's the main objection to that

9 three-factor.

10 The number of employees, that has -- that is

11 applicable in some allocators for overhead costs. Same as,

12 you know, square footage of building. Generally, when I

13 approach allocation of common costs, use it like a cost

14 accounting, where you've got the widget going through the

15 prediction line, its costs being added to it, and you've

16 got direct costs and indirect.

17 Indirect is allocated cost. Well, they usually

18 use some kind of measurement. How much room did the -- did

19 the prediction line take, how much energy did they use, and

20 a more measurable aspect. It's -- but I could not find

21 any -- any part of the three-factor -- or those two parts

22 acceptable.

23 Q. You were a solid waste analyst with the Commission

24 for approximately 24 or 25 years; is that correct?

25 A. That's correct.

0061

1 Q. During that time, have you ever seen such a

2 proposal for allocating utility expenses advocated by any

3 solid waste analyst on the Commission Staff?

4 A. Well, not for solid waste, no. I mean, energy has

5 something similar, but it's on a more generic scale, taking

6 energy plant, which is transmission, and -- or, you know,

7 generation, and you apply that to the customers. You're

8 going to have a -- you may -- you may find a more

9 applicable approach that way.

10 But then, you're not taking three disparate

11 companies and trying to mix and match their totally

12 different assets and you come up with -- with a good

13 allocator. It just doesn't work.

14 Q. In your -- Mr. Shearer asked you about, you know,

15 what you were doing in terms of accepting for the purposes

16 of your testimony the three-factor allocator. You accepted

17 it to resolve it; is that correct?

18 A. Well, that was sort of -- the Company's position

19 was, "Well, okay. This is not a large amount of money.

20 You know, we'll go ahead and accept it," but -- because it

21 would probably be way too cumbersome to try to attempt to

22 carve out parts of Waste Control Recycling to make it

23 smaller enough to match the amount of utilities that are

24 being accepted.

25 You say, "Okay. We'll go ahead and accept that,

0062

1 and then -- but we at least think that the -- if you're

2 going to have all of Waste Control Recycling as an

3 allocator, then we should use all of the utilities as the

4 allocated -- -able expense."

5 Q. Mr. Shearer asked you about the Staff -- where you

6 came up with the number in Table 2 of your testimony. If

7 the figure that the Staff has put forward is $13,975, we're

8 not talking about a very material difference there, are we?

9 A. No, but he asked how I got that 15,000 number, and

10 I explained to him that it was because of my perception,

11 based on e-mail, that that $6,200 was included. Just that

12 simple.

13 Q. And during that phase where there were back and

14 forths about calculating these costs, that -- the Company

15 was actually at a higher figure than what you've proposed,

16 at 27,749, correct? Wasn't it a figure of 28,926 at that

17 time?

18 A. Oh, that's some -- yeah. Something like that, but

19 I don't have that in front of me right now.

20 MR. WILEY: Thank you.

21 No further questions, Your Honor.

22 JUDGE FRIEDLANDER: Thank you, and I don't

23 have any clarification questions, so you're dismissed.

24 Thank you for your testimony, Mr. Demas.

25 THE WITNESS: Okay.

0063

1 JUDGE FRIEDLANDER: All right. Ms. Davis, I

2 believe, is up -- or no. I'm sorry. Mr. Willis --

3 MR. WILEY: Mr. Willis.

4 JUDGE FRIEDLANDER: -- is up next. And if

5 you want to remain standing, and I'll administer the oath.

6

7 JOSEPH WILLIS, witness herein, having been

8 first duly sworn on oath,

9 was examined and testified

10 as follows:

11

12 JUDGE FRIEDLANDER: Okay. Thank you. You

13 can sit down, and we'll proceed.

14 MR. SHEARER: Do you have a copy of the

15 exhibits that Staff filed yesterday for cross-examination

16 with you there?

17 THE WITNESS: I do not believe so.

18 MR. SHEARER: Okay.

19 THE WITNESS: Do you want -- do I need to say

20 my name?

21 MR. SHEARER: You will.

22 MR. WILEY: Yeah. If we could have the

23 witness have one?

24 JUDGE FRIEDLANDER: Yeah. I think we need to

25 have -- provide you with your exhibits, too.

0064

1 MR. WILEY: I've got them. Ms. Cheesman,

2 too.

3 MR. SHEARER: Your Honor, I'm just going to

4 give these to Mr. Willis.

5 JUDGE FRIEDLANDER: That's fine. Thank you.

6 MR. WILEY: Those are the three --

7 MR. SHEARER: Oh, I'm sorry. These are the

8 Company's cross-exhibits. I apologize. I have my copy. I

9 don't have --

10 MR. WILEY: I'll see --

11 COURT REPORTER: Are we off the record?

12 JUDGE FRIEDLANDER: Yeah. Go ahead. We'll

13 go off the record while we sort this out.

14 (Pause in the proceedings.)

15 JUDGE FRIEDLANDER: We'll go back on the

16 record now that the witness has the appropriate documents.

17 And Mr. Wiley, if you want to introduce the

18 witness.

19 BY MR. WILEY:

20 Q. Good morning, Mr. Willis. Would you please state

21 and spell you last name for the record and provide your

22 business address?

23 A. Willis, W-I-L-L-I-S. 1150 3rd Avenue, Longview,

24 Washington.

25 Q. And with what company are you associated, please?

0065

1 A. Waste Control, Incorporated, is one of them.

2 Q. And how long have you been an owner or a principal

3 of Waste Control, Inc., the respondent Company?

4 A. Well, I -- my father started gifting us stock

5 clear back in two thousand -- or excuse me, 1987.

6 MR. WILEY: Okay. Thank you. The witness is

7 tendered.

8 C R O S S - E X A M I N A T I O N

9 BY MR. SHEARER:

10 Q. Good morning, Mr. Willis.

11 A. Good morning.

12 Q. I'm going to begin by asking you to turn to page 1

13 of your supplemental testimony. I'm going to refer you to

14 lines 23 through 25. Now, this portion of your testimony

15 recounts a dispute Waste Control had in 2009 with then

16 Staff members; is that correct?

17 A. That's correct.

18 Q. And in that case, your Company had a discussion

19 with then Staff about consolidating or commingling -- I'll

20 use the terms synonymously -- the capital structures of WCI

21 and its various affiliates; is that correct?

22 A. That's correct.

23 Q. And how many affiliates does WCI have?

24 A. There's five corporations total. Only -- I guess

25 there's some kind of relationship between four of those,

0066

1 but very small relationships.

2 The regulated company, which is Waste Control,

3 Inc., was the very first company that my dad started in

4 1949, and we incorporated that several years later. He

5 also started a recycling company in 1974. That be- -- was

6 incorporated also, and that became Waste Control Recycling.

7 Now Waste Control, Inc., brought in recyclables to

8 Waste Control Recycling and basically was charged a sorting

9 fee by Waste Control Recycling, so that's the relationship

10 between Waste Control Recycling and Waste Control,

11 Incorporated.

12 In 1989, we bid the City of Longview, and we

13 eventually bought the City of Kelso and the City of

14 Woodland. Those contracts are under Waste Control

15 Equipment. The only relationship between those -- between

16 Waste Control, Inc., and Waste Control Equipment, Inc., is

17 that we rent some trucks as spares from Waste Control

18 Equipment.

19 Other than that, there's not a whole lot.

20 However, those two companies, the contract company that

21 holds the city contracts and Waste Control, Inc., are

22 relatively the same in size.

23 And then there's Heirborne Investments, which owns

24 all the land and buildings. That was set up many years ago

25 because that was how I -- our father did it. It made it

0067

1 very easy for estate planning and things like that, and it

2 would just rent the land and buildings to all the

3 companies, and it would take the risk for that, so that's

4 the intercompany relationship.

5 Q. So I counted four in there. Is there one more?

6 A. Yeah. There's one more called waste -- West Coast

7 Paper Fibers, and that's just the brokerage company that

8 brokers the paper from recycling and other companies in the

9 Northwest. It has one employee. Very small.

10 Q. And are --

11 A. And there's --

12 Q. Is there one Heirborne Investments?

13 A. There used to be just one company, but when we

14 sold the tax-exempt bonds for the big project of the

15 transfer station in 2006, the bank -- at that time, it was

16 Wells Fargo. We have since then switched to the Union

17 Bank -- they required us to pull anything that did not have

18 to do with solid waste out of and move it to a different

19 corporation because they didn't want the risk of owning

20 other properties that weren't related to the solid waste.

21 They did not want the risk of having something go wrong

22 with that and then be a drag on the solid waste companies.

23 Q. So now I'm at six. Six affiliates; is that

24 correct?

25 A. No. There's only -- there's five.

0068

1 Q. I counted six.

2 A. Oh. Oh, Heirborne II, yeah. I'm -- I --

3 Q. Two --

4 A. -- apologize. You're right.

5 Q. -- separate legal entities.

6 A. There used to be five. I still view it as five,

7 but it's -- we -- we did incorporate, called Heirborne

8 Investments No. 2, and we put everything that was not solid

9 waste related into that, so you're right.

10 Q. So the Company has -- just so I'm clear -- six

11 affiliates or five other affiliates? There's six total

12 companies, and WCI and those various affiliates are all

13 separate legal entities; is that --

14 A. Yes.

15 Q. -- correct?

16 A. There is -- they're not -- they're sister

17 companies. They're not parent comp- -- there's --

18 Heirborne's not a parent company, nor is Waste Control,

19 Inc., a parent company.

20 Q. And your dispute with the Staff in 2009's rate

21 case, that was, again, over consolidating or commingling

22 the capital structures of WCI and these five various

23 affiliates for purposes of the Lurito-Gallagher revenue

24 requirement model; is that correct?

25 A. Correct.

0069

1 Q. And just for clarity for the record, the Lurito --

2 the Lurito-Gallagher mathematical formula, it's a

3 mathematical regression used at the Commission, used to set

4 waste revenue requirements; is that correct?

5 A. As far as I know. I -- it's very technical.

6 Q. Is that your understanding?

7 A. Yeah.

8 Q. That that's what that --

9 A. I mean --

10 Q. -- that's what the model's used for?

11 A. Yes.

12 Q. Okay. Now I'm going to turn to page 3 of your

13 supplemental testimony, Mr. Willis, specifically refer you

14 to lines 4 through 6. Now, here you discuss your dispute

15 in this present case on the issue of affiliate land rents;

16 is that correct?

17 A. That is correct.

18 Q. And is it your understanding in this case that

19 Staff is consolidating or commingling the various capital

20 structures of all the separate legal entities that are

21 WCI's affiliates?

22 A. Okay. Now, I don't -- I want to make sure I

23 answer this correctly, so say that again.

24 Q. Is it your understanding, from this discussion and

25 your testimony, that Staff is somehow proposing to

0070

1 consolidate the capital structures of WCI and its various

2 affiliates, which are all separate legal entities?

3 A. As it relates to the rent, correct.

4 Q. So it is your understanding that Staff is

5 proposing to consolidate the various legal entities?

6 A. Not -- for not --

7 Q. To consolidate the capital structures --

8 A. For the capital --

9 Q. Excuse me.

10 A. -- structure. Not for the Lurito-Gallagher, but

11 for the re- -- getting the return on investment for our

12 land rents.

13 Q. So your understanding --

14 A. We were --

15 Q. -- is they are consolidating --

16 A. Yes. We --

17 Q. -- the various separate legal entities; is that

18 correct?

19 A. No, that's not correct.

20 Q. Thank you.

21 And is it -- you mentioned the Lurito-Gallagher

22 and the affiliate land rents. Is it your understanding

23 that those are the same issue?

24 A. They -- those are not the --

25 Q. The same regulatory accounting issue?

0071

1 A. There's the Lurito-Gallagher curve that you plug

2 the numbers into, and then there is a whole -- whole new

3 system for de- -- determining fair and reasonable rents,

4 and that's where the -- that's where the problem is

5 right --

6 Q. In this case --

7 A. -- right -- yes.

8 Q. -- you're referring to?

9 A. We -- we would not be here if it wasn't for that,

10 because we have had -- four years ago, and in 2009, that

11 issue was dropped, so we thought we were done with that

12 issue.

13 Q. But we just -- I'm sorry. Now I'm unclear in your

14 testimony. So the issue four years ago, you just

15 testified, was consolidating the various capital structures

16 of WCI and its affiliated entities --

17 MR. WILEY: Your Honor --

18 BY MR. SHEARER:

19 Q. -- but that's not what's happening in this case,

20 you just testified?

21 MR. WILEY: Your Honor, I'm going to -- the

22 form of the questions are confusing to me. I think what

23 Mr. Shearer's asking is, for the purpose of

24 Lurito-Gallagher ratemaking in 2009, that the Staff was

25 proposing consolidated capital structures.

0072

1 Mr. Willis has just testified about an

2 analogous premise for land rents, and I think the question

3 is confusing him the way it's framed.

4 MR. SHEARER: I would disagree. All of the

5 terms are coming straight out of Mr. Willis's testimony,

6 Your Honor.

7 JUDGE FRIEDLANDER: Okay. And I will

8 overrule the objection, because I am able to understand the

9 question.

10 If you need further clarification, though,

11 please do ask Mr. Shearer for that.

12 THE WITNESS: Well, the -- the issue for me

13 is that I'm not an accountant and he's asking me an

14 accounting-type question, where I'm -- I would -- I'd go to

15 Jackie and say, "Is that exactly what's going on?" because

16 I don't -- I -- I don't live in an accounting world like --

17 I mean, Brett is an accountant, Jackie's an accountant,

18 Melissa.

19 So I -- so when he's -- one term kind of

20 throws me off, and I'm trying to answer the question, but

21 it's -- the -- the confusing part is they -- four years

22 ago, they commingled everything into one.

23 JUDGE FRIEDLANDER: And I think it's actually

24 six years ago. People keep saying --

25 MR. SHEARER: Six years --

0073

1 JUDGE FRIEDLANDER: -- four.

2 THE WITNESS: Well, 2009. Yeah.

3 JUDGE FRIEDLANDER: Right. Right. Right.

4 THE WITNESS: Yeah.

5 MR. SHEARER: Whenever the --

6 JUDGE FRIEDLANDER: I'm sure that when we

7 began the case, it was four years ago.

8 MR. SHEARER: That's true.

9 JUDGE FRIEDLANDER: But please continue. I

10 understand what you're saying, that -- about the 2009 case.

11 THE WITNESS: Okay. So the -- the issue

12 still was taking the capital structure of a nonregulated

13 company and applying it to the regulated company. That --

14 we thought that that had been resolved. Ann Solwick came

15 back and said to us that, "Okay. We're going to drop it."

16 JUDGE FRIEDLANDER: And you'll have a chance

17 to explain and explore all of this on redirect. Really, at

18 this point, we need to have Mr. Shearer asking you the

19 cross-examination questions, so if you don't understand the

20 question, please ask him to rephrase it.

21 BY MR. SHEARER:

22 Q. So I'm going to go back here. Your understanding

23 of the case in 2009 that's articulated in your supplemental

24 testimony here, that you've presented to the Commission,

25 your understanding of what happened in 2009 was that Staff

0074

1 proposed to commingle capital structures of the various

2 entities, WCI and all of its various affiliated entities,

3 into one entity for purposes of the Lurito-Gallagher

4 ratemaking?

5 A. In 2009, that's correct.

6 Q. That's your understanding.

7 But that's not -- you just testified that that is

8 not your understanding of what is occurring in this case;

9 is that correct?

10 A. Correct. Do you want me --

11 Q. No.

12 A. Should I read it?

13 Q. No. I just --

14 A. Okay.

15 Q. -- want to confirm that.

16 And you also testified that the

17 affiliate-land-rents issue is a separate regulatory

18 accounting item from the Lurito-Gallagher ratemaking

19 methodology; is that correct?

20 A. I don't know if it is or not. I mean, is it?

21 You -- you're asking me an auditor question, aren't you?

22 Q. Well, I'm just asking you your understanding from

23 your testimony, where you propose -- where you discuss

24 these same issues, so I'm just confirming: Do you

25 understand the affiliate rents transaction or the affiliate

0075

1 rents dispute in this case as a separate regulatory item

2 from the Lurito-Gallagher ratemaking methodology that was

3 disputed in 2009?

4 A. Correct, but what they're doing is the same thing

5 that they tried to do with the Lurito-Gallagher. They're

6 taking -- they're commingling our -- all of our companies

7 instead of just the capital structure of the regulated

8 company.

9 Why would you take something that has nothing to

10 do with picking up garbage and take that capital structure,

11 that dead equity, and apply it to some -- our rate of

12 return for our land rent for the regulated company? It's

13 basically doing the same thing with a little bit different

14 twist on it.

15 Q. Well, I don't want to beat a dead horse again, but

16 now I'm -- it seems like we're contradicting -- you're

17 contradicting your own testimony just within the last few

18 minutes.

19 So is -- Staff is not proposing to commingle the

20 various legal entities, is -- for calculating a capital

21 structure in this case. Is that your understanding?

22 MR. WILEY: For Lurito-Gallagher, is what I

23 understand --

24 MR. SHEARER: No.

25 MR. WILEY: -- you're saying now?

0076

1 MR. SHEARER: I'm not --

2 MR. WILEY: Okay.

3 MR. SHEARER: -- asking for Lurito-Gallagher.

4 BY MR. SHEARER:

5 Q. Just in the context, is Staff proposing

6 consolidating the various capital structures of WCI and its

7 legal affiliates?

8 MR. WILEY: Your Honor, I'm going to object.

9 We've been down this with so many permutations.

10 JUDGE FRIEDLANDER: I think that's why we

11 have to continue --

12 MR. SHEARER: Continue --

13 JUDGE FRIEDLANDER: -- because I'm becoming

14 confused as to what the witness's answer is, so.

15 A. Here's -- here's my testimony: Staff is

16 advocating commingling the capital structures of the

17 affiliated landlords for calculating the overall

18 rate-of-return factors on the leased properties.

19 BY MR. SHEARER:

20 Q. But didn't you just verbally testify, when I asked

21 to clarify, that your understanding was Staff is not

22 proposing to commingle --

23 A. No, they are.

24 Q. -- the various affiliates?

25 A. Not for the Lurito-Gallagher, but for the --

0077

1 Q. So your -- they -- your understanding is the Staff

2 is proposing to commingle the various legal entities in

3 this case; is that correct?

4 MR. WILEY: Could...

5 BY MR. SHEARER:

6 Q. I think we're --

7 A. Okay. So my testimony's here, and you're just

8 asking me if it's correct? You -- what --

9 Q. Well, I'm asking you because, see, my

10 understanding was, verbally, you just said that was not

11 your understanding, but your written testimony says that is

12 your understanding.

13 A. That is my understanding.

14 Q. So now I'm wondering which one is correct.

15 A. Well --

16 JUDGE FRIEDLANDER: Why don't we have the

17 witness answer it again? And I've heard two different

18 versions, but you're free to correct yourself --

19 THE WITNESS: Can I --

20 JUDGE FRIEDLANDER: -- on the record, anyway.

21 THE WITNESS: Can I read my testimony?

22 JUDGE FRIEDLANDER: Just give us what your --

23 MR. WILEY: The whole page.

24 JUDGE FRIEDLANDER: -- understanding at

25 this --

0078

1 MR. WILEY: The whole page.

2 JUDGE FRIEDLANDER: -- moment is, because we

3 already have the testimony in the record. I'm fine with

4 that. I guess what I'm asking is, and maybe I'm

5 misunderstanding what Mr. Shearer's question is: Has your

6 understanding or has your testimony changed?

7 THE WITNESS: No, not at all.

8 JUDGE FRIEDLANDER: All right. Then I think

9 that we've got our answer there.

10 MR. SHEARER: Then we can move on.

11 BY MR. SHEARER:

12 Q. Remaining on -- or going back to page 2,

13 Mr. Willis, of your supplemental testimony, I'm going to

14 refer you to lines 22 through 24. Are you there,

15 Mr. Willis?

16 A. Yes, I am.

17 Q. Now, here your testimony recounts a Staff

18 conversation involving a Ms. Ann Solwick; is that correct?

19 A. That's correct.

20 Q. Were you present during the conversation that you

21 discuss here involving Ms. Solwick?

22 A. I was in -- I was present at a meeting with Ann

23 and our accountant, and I believe Layne was there, and Gene

24 Eckhardt, but I did not -- I heard from Layne that she's

25 the one that said to drop the approach that they were

0079

1 trying to use, and that was aggregating the capital

2 structures.

3 Q. The capital structures, which we just belatedly

4 beat to death.

5 MR. WILEY: Even more.

6 BY MR. SHEARER:

7 Q. So, again, so I'm clear on this: This is

8 information you received from your accounting expert in

9 this case based on his recollection of a conversation that

10 occurred six years ago? That's the basis of your

11 testimony?

12 A. Yes.

13 Q. Thank you, Mr. Willis.

14 I'm going to move on now, back to page 3 of your

15 supplemental testimony, specifically lines -- beginning on

16 line 21, and it begins with the language, "If the Staff

17 will."

18 Here, you reference a Company proposal that

19 affiliate land rents be calculated on the basis of Waste

20 Control, Incorporated's, capital structure; is that

21 correct?

22 A. Yeah. I -- if that's what I said, that's correct.

23 Q. Well, you can review it if you need to review it.

24 A. Well, with the --

25 Q. You can take a moment.

0080

1 A. The issue for me, Brett, is I -- I don't speak

2 legalese, and I'm -- I'm concerned that you're saying

3 something that I'm not picking up, because I'm --

4 Q. Let's start --

5 A. -- one word difference makes it --

6 Q. -- over again. Well, we'll start back. I'm

7 referring to page 3, line 21, of your testimony. Are you

8 there with me?

9 A. Right.

10 Q. Now, take a moment to read that sentence that

11 begins, "If the Staff will not focus," and I'll wait for a

12 moment while you read it.

13 A. Okay. Okay.

14 Q. Now, in that sentence, you make reference to a

15 proposal by the Company in this case to calculate land

16 rents, the affiliate-land-rent dispute in this case, on the

17 basis of the regulated entity's capital structure; is that

18 correct?

19 A. Did you -- did you say regulated or not?

20 Q. Regulated.

21 A. Yes.

22 Q. And the regulated entity, just so we're clear for

23 the record, is Waste Control, Incorporated? WCI?

24 A. Correct.

25 Q. Now, does WCI hold legal title to the buildings

0081

1 that it leases?

2 A. No, it does not.

3 Q. So WCI is exclusively the tenant; is that correct?

4 A. Yes.

5 Q. And it's your position that the Commission could

6 or should calculate a cost-based rent on the basis of the

7 entity that does not own the facility; is that correct?

8 A. I'm saying that it should use the capital

9 structure of the company that is renting the piece of

10 property.

11 Q. And that entity is only the tenant, only serves as

12 the tenant? It doesn't own the facility?

13 A. No.

14 Q. Thank you, Mr. Willis.

15 I'm going to refer now to page 4 of your

16 supplemental testimony, specifically refer you to lines 9

17 through 12 or thereabouts, and there's a phrase here on the

18 third line down in that question -- I think it's line 9 --

19 where it says -- begins with the language, "WCI, since its

20 inception." Do you see that?

21 A. Yes, I do.

22 Q. You can take a moment and read that phrase if

23 that's helpful, or read your testimony.

24 A. Go -- go ahead. No, I've -- I've read it.

25 Q. Okay. Here -- now, this portion of your testimony

0082

1 states that WCI has not and does not act as an owner of

2 commercial real estate; is that correct?

3 A. That is correct.

4 Q. And the reason for that that you put forward in

5 this testimony is due to the inherent financial riskiness

6 in owning commercial real estate; is that correct?

7 A. Yes, that's correct. That's one of the issues.

8 Q. So we've already confirmed that WCI does not own

9 the commercial real estate. That's correct. I'm just

10 repeating it for my own thought, here.

11 Now, Heirborne Investments I, you made mention of

12 them earlier. They're an affiliate of Waste Control,

13 Incorporated; is that correct?

14 A. Yes. They're a separate corporation.

15 Q. And Heirborne Investments I, the principal

16 business of that entity is the owning and operation of

17 commercial real estate; is that correct?

18 A. Yes. It has no employees.

19 Q. Has WCI pledged its assets and revenues to secure

20 loans for Heirborne Investments I?

21 A. Every company has to pledge its assets. We have

22 to sign personal guarantees. You -- whenever you deal with

23 the bank, you're not going to get around that. That is

24 standard protocol.

25 Q. So that's a yes, right?

0083

1 A. That's a yes.

2 Q. WCI --

3 A. And personally, I've had to guarantee.

4 Q. So your position, again, is that it's too risky

5 for WCI to outright own commercial real estate, but it's --

6 A. It's -- it's better for the ratepayers if it does

7 not.

8 Q. But it's not overly risky for WCI to pledge its

9 assets and revenues to secure a loan --

10 A. It's not just --

11 Q. -- for another entity?

12 A. -- the land and buildings. It's for the trucks.

13 It's for the -- the pressure washer, for the roll-off, for

14 the drop boxes. It has to pledge everything for

15 everything.

16 Q. Yeah, I understand. So, but your testimony states

17 and you just reaffirmed, correct, that WCI does not own

18 commercial real estate or own those assets due to the

19 inherent riskiness in commercial real estate? Is that your

20 testimony?

21 A. That's one of the reasons why it doesn't. It's

22 not the only reason.

23 Q. So it's not too risky for -- or it is too risky --

24 excuse me. It is too risky for WCI to own commercial real

25 estate assets, but it's not overly risky for WCI to pledge

0084

1 all of its assets and revenues for a separate entity to own

2 those assets?

3 A. It's not for the separate entity. It -- it was

4 required by the bank to borrow money for Waste Control,

5 Inc.

6 Q. For Waste Control, Inc., to borrow money?

7 A. Brett, this is --

8 Q. Let's go back.

9 A. -- the world.

10 Q. Heirborne Investments I owns legal title to the

11 commercial buildings, correct?

12 A. Yes.

13 Q. And WCI has pledged its assets and revenues as

14 collateral to secure those debts, correct? The debts of

15 HBI, I'm referring to.

16 A. No, not just HBI. Waste Control, Inc.'s, debt

17 also. It has -- every corporation has to

18 cross-collateralize. That's the real world for borrowing

19 large sums of money, especially for our taxes and bonds

20 that we were able to secure in 2006.

21 When -- when that happens, they only loan to one

22 entity, so we had to funnel the money through one entity,

23 but they said, "Look forward three years. Find out

24 whatever it is you're going to need in capital equipment,

25 because over the next -- you have to spend it within the

0085

1 three years, but it's going to be your cheapest money."

2 So that's what we did. We -- we saved the

3 ratepayers -- commercially, I could probably get a

4 5.3 percent loan. Our rate right now is about 2.6. I've

5 saved the ratepayers half in that.

6 But when you do that, Brett, everything gets put

7 into the big pile, because they have to have collateral,

8 and every ounce of -- of our equipment, our land, our

9 buildings, our, like I said, pressure washer, all of that

10 has to be put in there, because if something goes haywire

11 and we can't pay the loan back, that has to be all sold

12 off, and a bank will not -- including my own house.

13 Q. So you just mentioned that -- well, does Heirborne

14 then lend money to Waste Control, Inc.?

15 A. Yes.

16 Q. And what interest rate does Heirborne I charge

17 Waste Control?

18 A. I think it's 3 percent. 2.6 --

19 Q. 3 percent?

20 A. -- or something.

21 Q. Your testimony is that it's 3 percent?

22 A. Yeah, it -- we have diff- -- different rates,

23 depending on which kind of equipment. A ten-year piece of

24 equipment's going to be a little bit higher than a

25 five-year piece of equipment because the interest rate

0086

1 market's going to go up and down.

2 Q. And your estimate of that cost is 3 percent?

3 A. Well, I -- I know right now we're about at

4 2.6 percent in -- in -- on an average of what it's costing

5 Waste Control, Inc.

6 Q. Let's turn to page --

7 A. Let me clarify something, Brett. I -- Waste --

8 Heirborne Investments is not loaning the money to Waste

9 Control, Inc. It's the conduit.

10 The money was borrowed from the rate -- from the

11 bondholders. It's only there to dole it out and then

12 receive it back and then pay it back to the bondholders.

13 It is not making all this money that it can go out and loan

14 it. It's not doing that at all.

15 The -- the interest rate is based upon what we're

16 getting paid, charged by the bondholders and the bank

17 for -- to issue the letter of credit to support the bonds.

18 Q. I'm going to turn to the bottom of page 4 or --

19 well, the entirety of page 4 and page 5 as a general

20 reference in your testimony. You can take a moment to

21 review it.

22 A. Go ahead.

23 Q. Now, in this section of your supplemental

24 testimony, you discuss your general frustration in what you

25 perceive as a change in Staff's position --

0087

1 A. Mm-hmm.

2 Q. -- and a lack of guidance from the Commission on

3 this affiliated-transaction issue; is that correct?

4 A. Well, I will -- I will say that if Ann Solwick was

5 still working for the Commission, that we wouldn't be here

6 today.

7 Q. Does Ann Solwick still work for the Commission?

8 A. No. No, she does not.

9 Q. Thank you.

10 A. I'm just -- I'm just pointing out the fact the

11 frustration comes from a change six years ago, and I

12 thought we had it all resolved, and then we're back.

13 Q. And that was based on your understanding of the

14 issues that you testified to earlier, correct?

15 A. Yes.

16 Q. How long have you owned Waste Control, Inc.,

17 Mr. Willis?

18 A. 32 years, now.

19 Q. And you do generally acknowledge that WCI's

20 affiliate rent payments to Heirborne Investments I and

21 Heirborne Investments II are affiliate transactions; is

22 that correct?

23 A. Yes, I understand that.

24 Q. And for what portion of your ownership tenure or

25 your position as an officer of the Company has the -- has

0088

1 Waste Control, Incorporated, been regulated by the UTC?

2 A. Would you ask the question again?

3 Q. For what portion of your tenure at the Company has

4 WCI been under -- or been regulated by the UTC?

5 A. It's been regulated since the 1960s, so it's been

6 the whole time I've been there.

7 Q. And as the owner and officer of a regulated

8 entity, are you generally aware of the Commission's rules

9 and regulations?

10 A. Yes, to a certain degree. I don't study them. I

11 don't read up on them, but when we do a rate case, we --

12 for 30 years, I've been doing them every three or four

13 years, and we know what rules we have to follow and

14 auditing principles. This is the first time it's ever been

15 completely different than it has been.

16 Q. I'm going to ask you --

17 A. And I might add, we have always gotten all that

18 we've asked for because we've never asked for the full

19 amount. We always know that there's going to be

20 discrepancies and things that they will not allow.

21 But I -- for the last 32 years, I have received

22 every -- not 32 years, but the last 28 years, I've received

23 everything that we've asked for and -- because we try to

24 play within the rules.

25 Q. Can you turn to the first cross-exhibit, please?

0089

1 MR. WILEY: Which is?

2 MR. SHEARER: This is a certified correct and

3 true copy of RCW 81.16.030, and I apologize for referring

4 to it as a cross-exhibit.

5 JUDGE FRIEDLANDER: That's okay.

6 MR. SHEARER: We're just going to use it for

7 questioning.

8 THE WITNESS: I don't -- what's the WAC

9 number, again?

10 BY MR. SHEARER:

11 Q. It's an RCW number. It's RCW 81.16.030.

12 A. I don't know if I have that one.

13 MS. DAVIS: Do you have two of the same

14 things or two different things?

15 JUDGE FRIEDLANDER: Let's take a moment off

16 the record and make sure that the witness has the correct

17 RCW.

18 (Pause in the proceedings.)

19 JUDGE FRIEDLANDER: We're back on the record.

20 BY MR. SHEARER:

21 Q. Do you have a copy of that, Mr. Willis?

22 A. Yes.

23 Q. Okay. Can you read the title of that RCW, please,

24 for the record? It's in bold there -- should be in bold

25 print.

0090

1 A. Will you give me the number again?

2 Q. It's 81.16.030.

3 A. Okay. The -- the writing in bold is, "Payments to

4 affiliated interest disallowed if not reasonable."

5 Q. Thank you.

6 And can you refer now to the bottom of that same

7 statute, the very last line?

8 MR. WILEY: Can I approach the witness since

9 I wasn't given --

10 JUDGE FRIEDLANDER: Sure.

11 MR. WILEY: -- a copy for the witness?

12 BY MR. SHEARER:

13 Q. Now, on this, there's a list of years in which

14 this statute was codified or amended. Could you please

15 state those years for the record?

16 A. I -- I -- I'm assuming -- I don't know how to read

17 this, but I'm assuming 1998, 1961, 1933. Is that what

18 you're referring to?

19 Q. Yes. Thank you.

20 A. Okay.

21 Q. Now I'm going to ask that you turn to the second

22 reference we gave. It's WAC 480-70-066. Are you there?

23 A. Yes, I am.

24 Q. And can you read the bold title of that Washington

25 Administrative Code section, please?

0091

1 A. "Accounting requirements."

2 Q. Now, I'll give you a moment to look over this

3 rule, if you'd like, for reference.

4 A. Okay.

5 Q. This rule generally prescribes that the Commission

6 will publish the Uniform System of Accounts, also known as

7 the USOA, as accounting guidelines for solid waste

8 carriers; is that correct?

9 A. Yes, I believe so.

10 Q. Now I'm going to ask you to turn to the third

11 document there, which is the actual Uniform System of

12 Accounts.

13 A. I have it.

14 Q. Can you turn to page -- well, here's the -- page

15 14 of the document? It's labeled as page 15 when we

16 inadvertently gave it number -- page numbers as a

17 cross-exhibit, so in the upper right corner, it's labeled

18 as page 15, but the bottom of the document is labeled as

19 page 14, and that's the page I'm referring to.

20 A. I think I have -- I'm there.

21 Q. Now, can you read -- at the bottom of that page,

22 there's a section labeled, "Section 6." Do you see that?

23 A. Yes.

24 Q. And can you read that for the record, please, the

25 bold title there?

0092

1 A. You mean out loud?

2 Q. Yes, please.

3 A. "Transactions with affiliated and subsidiary

4 companies."

5 Q. And now the last paragraph of that section, it

6 begins -- or the last sentence of that paragraph -- excuse

7 me -- in Section 6, begins with the language, "In such

8 circumstances." Do you see that?

9 A. Yes, I do.

10 Q. Could you please read that sentence for the

11 record?

12 MR. WILEY: Do we need to read it into the

13 record, Your Honor? Can't he just read it silently and ask

14 a question? I mean, it speaks for itself.

15 MR. SHEARER: I realize that, but I think,

16 you know, the substance of Mr. Willis's testimony is that

17 he's unaware of these items, so it is useful for -- to ask

18 him to read into the record.

19 JUDGE FRIEDLANDER: I think -- let's just go

20 ahead and read it into the record.

21 A. "In such circumstances, the burden of proof is on

22 the carrier to show that such transactions are just and

23 reasonable," which we --

24 BY MR. SHEARER:

25 Q. Thank you, Mr. Willis.

0093

1 A. -- which we have done for 30 years.

2 Q. Okay. I understand.

3 And now I'm going to ask that you go to the cover

4 page of this document, please.

5 A. I'm there.

6 Q. Of the Uniform System of Accounts?

7 A. Yes.

8 Q. In what year was this document last revised?

9 A. 1992.

10 Q. Thank you, Mr. Willis.

11 MR. SHEARER: I have no further questions

12 for -- well, hold on.

13 MR. WILEY: Hi, Mr. Willis. Do you have your

14 testimony in front of you?

15 THE WITNESS: Yes.

16 MR. WILEY: Your supplemental testimony?

17 JUDGE FRIEDLANDER: Just a second. I believe

18 they were --

19 MR. SHEARER: Yeah.

20 JUDGE FRIEDLANDER: Are you --

21 MR. SHEARER: We're conferring as to whether

22 we have --

23 JUDGE FRIEDLANDER: Okay.

24 MR. SHEARER: -- an additional question.

25 MR. WILEY: Oh.

0094

1 JUDGE FRIEDLANDER: All right.

2 MR. SHEARER: Just one moment, please.

3 JUDGE FRIEDLANDER: He prematurely said he

4 may have not had any more questions.

5 MR. SHEARER: I have no further questions,

6 Your Honor.

7 JUDGE FRIEDLANDER: Okay. Thank you.

8 Mr. Wiley, redirect?

9 MR. WILEY: Yes, just a few, Your Honor.

10 R E D I R E C T E X A M I N A T I O N

11 BY MR. WILEY:

12 Q. Mr. Willis, you have your --

13 A. Yes.

14 Q. By the way, this has been a fairly protracted

15 case, hasn't it?

16 A. This has gone on way too long, and I just reread

17 my testimony on the way down here. It's been a long time

18 since we put this down.

19 Q. And during the course of those many months, it's

20 sort of hard to keep track of what iteration of what detail

21 is being asked about; is that correct?

22 A. That's true.

23 Q. Okay.

24 A. I actually don't live here (indicating). I live

25 running the companies and daily -- on a daily basis, I

0095

1 don't spend any time on this.

2 Q. Okay. Let's go back -- without beating a dead

3 horse, hopefully, let's go back to page 3, and you were

4 asked about the use -- rue the day -- of the verb

5 "commingled." Do you also see your testimony at lines 13

6 through 17 on page 3? You weren't asked about that by

7 Mr. Shearer, but do you see that testimony?

8 A. Yes, I do.

9 Q. And does that explain in additional detail the

10 point you're making above, to your knowledge?

11 A. Yes, it does.

12 Q. Okay. And going over to page 4 of your testimony,

13 do you see a question on line 4 through 6? It uses the

14 term "aggregated capital structure approach." Is that

15 perhaps a better verb than "commingled" in this context?

16 A. Yes.

17 Q. You were asked by Mr. Shearer about whether it was

18 risky to pledge assets to lenders. In your 32 years of

19 experience in the business world, do companies have -- if

20 they want access to capital, do they have much discretion

21 to object to cross-collateralizing loans?

22 A. No. We've -- we've tried before, because I do not

23 want to sign a personal guarantee. I don't want to have to

24 cross-collateralize because that causes us problems, but

25 you can't get around it, especially when you borrow those

0096

1 kinds of sums of money.

2 Q. The expression that's been used is "firstborn

3 child." Isn't it true that lenders sometimes want to

4 collateralize everything, including your firstborn child?

5 A. Yeah.

6 MR. SHEARER: Your Honor, I'm going to object

7 to the nature of the questions as being very leading.

8 JUDGE FRIEDLANDER: Mr. Wiley --

9 MR. WILEY: Yes. Mr. -- that was slightly

10 leading.

11 MR. SHEARER: Yes.

12 BY MR. WILEY:

13 Q. Mr. Willis, do you want to -- could you describe

14 what circumstances banks use, basically, to secure their

15 loans?

16 A. Well, I'm going to go back to the bonding. I've

17 never sold tax-exempt bonds before, but this project was

18 very large. Just the transfer station alone was about

19 $5 million, and because we went out and we looked at how

20 many pieces of equipment, how many more trucks we're going

21 to need in the future, it ended up being up to 11 million.

22 When you go out and borrow that kind of money,

23 nobody is going to not let -- nobody's going to loan you

24 that kind of money, including bondholders, unless

25 everything is secured and tight, as tight as they can

0097

1 possibly get it.

2 So when -- the day we signed the bonds, I'm -- I'm

3 not kidding, there was stacks of paper basically saying,

4 you know, "We pledge everything that we have, and what --

5 and our future," and all of that.

6 If all we did -- if I would have known this was

7 going to be used against me to lower my rents, I -- we

8 would have looked at doing it structurally a different way,

9 because it -- it did not -- it would not have been good

10 business to do it that way, but we -- there was nothing

11 that -- that said if we use Heirborne as a conduit for the

12 money, then they're going to take some of the -- that debt

13 and use it against us.

14 And that is what this whole argument has been

15 about, and if I would -- if -- if they can retroactively do

16 that mid- -- midstream -- because they couldn't do it four

17 years ago, now they're trying to do it -- I -- it looks to

18 me like it's policy from the bottom up and not policy from

19 the top down.

20 And if we could have a discussion about that with

21 the Commission, then we can plan our business over time,

22 but to just go in for an audit one day and to have

23 something hit us from the side -- I don't know. That's why

24 we're here. We had to fight it.

25 Q. Mr. Willis, based on your experience of 32 years

0098

1 as a businessman, is there a degree of risk that you have a

2 preference for? And by that, I mean, what's riskier in

3 your view: owning real estate or crass --

4 cross-collateralizing loans?

5 A. Well, owning real estate. There's always risk.

6 If -- if you believe in your companies and you have the

7 strength, then cross-collateralizing isn't going to be an

8 issue for you. It's -- it's part of what you have to do to

9 be in the game.

10 Q. And without that cross-collateralization, can you

11 have access to capital?

12 A. No. You would -- you would -- they -- the bank

13 would say, "Well, if you're not going to sign this, then

14 the deal's off."

15 MR. WILEY: No further questions, Your Honor.

16 JUDGE FRIEDLANDER: Thank you, and I have no

17 clarification questions, so you're dismissed. Thank you

18 for your testimony.

19 And I believe -- we can either take a

20 break -- okay. Let's take a five-minute break. We'll be

21 off the record.

22 (A break was taken from 11:09 a.m. to 11:18 a.m.)

23 JUDGE FRIEDLANDER: We'll go back on the

24 record, now. If everybody can take their seats.

25 MR. SHEARER: You might have to mic up.

0099

1 JUDGE FRIEDLANDER: Excuse me.

2 MS. CHEESMAN: It's a circus in here.

3 JUDGE FRIEDLANDER: If everybody can take

4 their seats now. I need a bailiff.

5 MS. CHEESMAN: Yeah, you do.

6 MR. SHEARER: And a gavel.

7 JUDGE FRIEDLANDER: If you want to raise your

8 right hand.

9

10 JACQUELINE DAVIS, witness herein, having been

11 first duly sworn on oath,

12 was examined and testified

13 as follows:

14

15 JUDGE FRIEDLANDER: Thank you. You can be

16 seated.

17 Mr. Wiley, if you want to go ahead and --

18 MR. WILEY: Oh, I'm sorry.

19 JUDGE FRIEDLANDER: -- present the witness.

20 BY MR. WILEY:

21 Q. Good morning, Ms. Davis. Would you please state

22 your name and provide your business address for the record?

23 A. Jackie Davis, D-A-V-I-S, and my business address

24 is PO Box 1429, Longview, Washington.

25 Q. And by what firm are you employed?

0100

1 A. Booth Davis.

2 Q. And how long have you been a Certified Public

3 Accountant in the State of Washington?

4 A. About 20 years.

5 Q. Thank you.

6 C R O S S - E X A M I N A T I O N

7 BY MR. SHEARER:

8 Q. Yes, it is still morning. Good morning,

9 Ms. Davis.

10 A. Good morning.

11 Q. I'm going to begin by asking you to refer to

12 page 1 of your supplemental testimony, which is documented

13 in the record as JD-53T.

14 A. Okay. I think I'm in the right place.

15 Q. Now, specifically on lines approximately 12

16 through 20, you answer a question here, and you recount

17 that you -- the Company received its first formal

18 communication of Staff's case in July of 2014; is that

19 correct?

20 A. Yes.

21 Q. And to clarify, you are not saying here that you

22 did not have any contact with Staff or any communications

23 with Staff prior to July 2014; is that correct?

24 A. Correct.

25 Q. Is it your understanding that Staff is somehow

0101

1 required to provide that formal position prior to filing of

2 its testimony?

3 A. No.

4 Q. So under your understanding, Staff's actions were

5 proper within the context of this general rate case?

6 A. They were allowable.

7 Q. I'm going to next ask you to refer to page 2 of

8 that same document, and at lines, approximately, 8 through

9 13 -- are you there?

10 A. Yes.

11 Q. This section of your testimony states that in

12 2009, the Commission Staff stated that the Company no

13 longer needed to separate revenues for regulated and

14 nonregulated operations; is that correct?

15 A. That is correct.

16 Q. Did this 2009 Commission Staff member tell this

17 information directly to you?

18 A. No. That would have been Layne Demas, and I was

19 not involved in the prior case. It was my partner, Gerrie

20 Booth, and she made note of it, that we should not be

21 filing that way in subsequent filings, we did not need to

22 separate Kalama because it was only 5 percent of the

23 revenue of the Company, and so to just go ahead and file

24 with everything together.

25 Q. So the basis of your testimony on this issue is

0102

1 based on, again, what someone else told you about someone's

2 recollection from 2009; is that correct?

3 A. Basically, I -- I think we had some documentation

4 in our file that I had to review from the 2009 case.

5 However, if you remember back to the beginning of the case,

6 my partner, Gerrie Booth, originally prepared the filing,

7 and then she became ill and I stepped in for her, so she

8 submitted that original case filing with Kalama included.

9 Q. But the basis of your testimony is someone else's

10 recollection recounted to you; is that correct?

11 A. It would be my notes and me reading file notes in

12 our prior case file.

13 Q. That were prepared by someone else, correct?

14 A. Yes.

15 Q. Thank you.

16 Now, let's move on to page 3, please, of that same

17 document. I'm going to specifically point you to lines 15

18 and 16.

19 A. Okay.

20 Q. This section of your testimony states that Staff

21 proposed to separate regulated and nonregulated operations;

22 is that correct?

23 A. That's true.

24 Q. So do you oppose the separation of regulated from

25 nonregulated operations in the context of a general rate

0103

1 filing?

2 A. No.

3 Q. So, again, and this is another instance where

4 you'll acknowledge that Staff acted appropriately?

5 A. Well, I think --

6 Q. Is that correct?

7 A. -- it was just a confusing course of events, so we

8 filed and we left Kalama included in our filing, and

9 sometime around November, we received a pro forma from

10 Staff, and we --

11 Q. I'm sorry. Which filing are we referring to?

12 MR. WILEY: 131794.

13 A. 131.

14 BY MR. SHEARER:

15 Q. The very first initial filing?

16 A. Yeah.

17 Q. Okay.

18 A. So I'm just trying to go back through the events

19 so -- so this makes sense. So then in November, we

20 received a separation of the Kalama from Staff, proposed by

21 Staff, which they said, you know, "We understand there's

22 this 10 percent rule, but we would like to separate Kalama.

23 Here it is."

24 So as we evaluated the separation, it had a fairly

25 minimal impact on the revenue requirement. I think it was

0104

1 about $4,000. So we looked at that separation and how

2 small Kalama was, and in or out, we were okay with it. We

3 just wanted to move forward with other issues in the case

4 that we felt were much more significant.

5 So we went on with that same separation left in

6 there through the end of the year in the suspended filing,

7 and then we had -- the case dismissal came next, so we --

8 my partner, Mary Spencer, and I had to refile the case

9 within ten days once it was dismissed.

10 And at that time, and in consultation with those

11 around us, we had had -- we've been through a series of

12 just too many issues to list that were contested issues in

13 the case, and we wanted, in the interest of time and saving

14 costs in the rate case, to just focus on the issues that

15 were still significant to the case.

16 So in this beginning filing period that led up

17 through November, where we'd kind of gone back and forth

18 with Staff, each sending each other spreadsheets and

19 versions and proposals, we picked the items that Staff had

20 proposed to us, one being Kalama, and we weren't going to

21 argue with them in our next case.

22 So we thought, in the interest of cooperation, we

23 would include all the Staff-proposed adjustments in our new

24 filing. So when we filed our new refiling, which is the

25 current docket, we included Kalama exactly how Staff had

0105

1 separated it, even though we'd intended to just file it

2 commingled.

3 It wasn't very significant, but the Company had

4 worked under the assumption that we wouldn't be needing to

5 separate it, so we didn't have the greatest records for

6 that 5 percent of revenue of how it was separate from the

7 rest.

8 Well, then in the dismissed case, we started

9 receiving a lot of data requests on the Kalama separation

10 we'd done, because now it's our case, where really, Staff

11 had originally separated it for us.

12 So they wanted us to support everything that we

13 did to separate Kalama, because they said, "This is the

14 case you filed; you need to support it," which technically,

15 it was, but it had been done originally by Staff.

16 So we were doing our best to answer those data

17 requests, again feeling like this was a fairly minor issue,

18 and then we received that Staff case on July 18th, and the

19 change to Kalama, which represents -- it's 225,000 of

20 revenue, so in that July 18th report that we received,

21 Kalama had been significantly adjusted and the impact of

22 Kalama alone decreased the revenue requirement by $168,000.

23 So now this $225,000 revenue item is enormously

24 impacting our whole case. So at that point, we had to take

25 a lot of steps to try to justify the separation much more.

0106

1 Q. I'm going to reask the question, just to make sure

2 we have an answer, because I know that was a long answer --

3 A. Okay. And I'm -- thank you.

4 Q. -- and a long chronology of the events, and we all

5 know that this case includes a long chronology of events.

6 A. Yes.

7 Q. So again, the question was that removing Kalama

8 rate -- nonregulated operations for the purpose of

9 calculating a regulated revenue requirement is appropriate;

10 is that correct?

11 A. I believe that it can go either way. It's not

12 required is --

13 Q. Not required?

14 A. -- my understanding of the rule. If it's under

15 10 percent, it can be left in.

16 Q. Now, as an accounting expert, is it appropriate,

17 from a financial perspective, though, to include what you

18 know to be nonregulated operations to calculate a regulated

19 revenue requirement?

20 MR. WILEY: I'm going to --

21 BY MR. SHEARER:

22 Q. Is that --

23 MR. WILEY: -- object to the form of the

24 question to the extent that it appears to contravene the

25 rule. Is he asking that question? That's how I understood

0107

1 the question.

2 MR. SHEARER: I'm not asking if it

3 contravenes the rule. I'm not even referring to the rule.

4 I'm simply asking, in Ms. Davis's expert opinion, whether

5 including nonregulated operations in a regulated revenue

6 requirement is a proper practice or accurately reflects --

7 accurately reflects the economic reality.

8 JUDGE FRIEDLANDER: Proper practice from an

9 accounting standpoint?

10 MR. WILEY: Yeah.

11 BY MR. SHEARER:

12 Q. Yeah, from an accounting standpoint, not

13 necessarily with gap -- I mean, does it accurately capture

14 the regulated revenue requirement?

15 A. Well, I think that you would probably have to look

16 to every situation that you're encountering to answer that

17 question.

18 In the case of Kalama, it's billed at the

19 regulated rates and it's a very small portion of the

20 activity that's conducted in the same way, which is

21 probably why we were recommended to leave it in to begin

22 with, and ultimately, as we know, Staff decided to leave it

23 commingled in.

24 I think that the -- the rule is written to allow

25 that where it's appropriate, and there's probably times

0108

1 where leaving nonregulated revenue in the rate case is

2 completely not appropriate, so I guess that could go either

3 way, subject to interpreting the rule.

4 Q. Okay. And I'm going to move on now to page 3,

5 lines 18 through 21. Here your testimony states that Staff

6 based Kalama analysis on city it received from -- or I'm

7 sorry -- it received on -- on data it received from the

8 City of Kalama; is that correct?

9 A. Yes, I believe -- yes. They received information

10 directly from the City of Kalama and incorporated into the

11 case, along with our information.

12 Q. And that's what your testimony recounts as well;

13 is that correct?

14 A. Yes.

15 Q. Now, had the Company previously provided Staff

16 with carefully monitored and detailed costs and analysis of

17 Kalama operations?

18 A. Yes.

19 Q. It had?

20 I'm going to ask that you turn to page 2 of your

21 testimony, and I'm specifically referring to lines 11

22 through 13. Here your testimony states that -- and I

23 quote, "We did not carefully monitor and detail costs and

24 expenses in Kalama."

25 A. Yes, but --

0109

1 Q. Is that correct?

2 A. -- after we started getting data requests, we went

3 back and were trying to put all those together as best as

4 we could, the best, most accurate records we could make

5 available.

6 But we were very forthright in the fact that,

7 "Hey, we're trying to go back and get this data that, for

8 the rate test period, wasn't accumulated," and what we did

9 offer to do, at that point, right away, was, "Let's" -- we

10 were very -- you know, we communicated with Staff and said,

11 "We'll do another route study, and let's see where it comes

12 out."

13 And Staff had no objections to that, and the

14 Company hired independent contractors. So we did this the

15 first week of August in a big rush, at great expense to the

16 Company, having someone ride with all their drivers. We

17 completed another route study, and then we went through a

18 series of meetings and phone calls to come up with

19 appropriate allocators with the Staff and try to get Kalama

20 to a good spot that was reasonable.

21 Anyone looking at what they'd done with Kalama

22 could see that it was completely unreasonable. There's no

23 way that something so small could have such a great impact

24 on rates. So we were, in a reactionary way, doing the very

25 best we could to continue to work with the Staff and find

0110

1 resolution.

2 It wasn't until I saw this supplemental testimony,

3 I believe, that they said the route study was unacceptable

4 because it was more than a year outside of the test period,

5 which if that had been the case, it would have been nice to

6 have been communicated, "Don't undergo all that expense."

7 You know, there was never any feeling of working

8 together, I guess. It would have been nice to have some

9 cooperation: "Let's develop a plan. Let's get to these

10 issues and work them out." That -- that was what was

11 sorely lacking throughout the process.

12 Q. So I just want to, again, confirm your testimony.

13 Your testimony is that the Company did not have accurate,

14 detailed data on Kalama operations --

15 A. When we originally filed.

16 Q. -- is that correct?

17 A. Yes.

18 Q. And then you worked to try to recreate as much of

19 that data as quickly as possible; is that correct?

20 A. Yes.

21 Q. And in attempting to recreate that data and

22 providing it to Staff, did the Company provide consistent

23 data in its responses to Staff's requests?

24 A. I'm going to say -- well, and I've seen the table

25 that Melissa prepared. You know, it wasn't perfect data.

0111

1 Q. I can't hear you.

2 A. Oh, okay. Is it on? The microphone?

3 Q. I don't know.

4 JUDGE FRIEDLANDER: I think it is.

5 MR. WILEY: The red light will go --

6 THE WITNESS: It's on. Yeah. I'm just

7 quiet, I guess.

8 A. We -- the data we provided, we were developing and

9 testing and trying to find answers to the questions that

10 Ms. Cheesman -- I'm sorry -- was asking, and the data we

11 provided was not perfect.

12 You know, I went through just in looking at the

13 reasonableness of the data. Again, we're talking about

14 5 percent of the revenue, and there was maybe an 18 percent

15 variance in the information we -- we provided, and applying

16 that to the rate case in total, it's less than 1 percent.

17 It just felt like a lot -- a lot of hours and

18 focus was being put on something that shouldn't have been

19 as significant as it ended up being. And obviously, at the

20 end of the day, it was left to be commingled, so it felt

21 like an exercise in futility that we spent such a vast

22 amount of time working on this small part of their

23 operations.

24 You know, we -- in my opinion of working on a

25 project like this, there should be times where someone

0112

1 says, "You know, we believe that there's enough differences

2 in Kalama. It should be separated. We propose this as,

3 you know, a solution for you."

4 "In your -- in your next case, please keep careful

5 track of the Kalama operations, because it doesn't seem to

6 have a material impact on rates in any way from all" -- and

7 that's the conclusion that -- that they came to at the end

8 of the day.

9 It just -- every -- everything just became such a

10 monumental issue to try and overcome. It felt like there

11 could have been a more expeditious way to reach solutions.

12 BY MR. SHEARER:

13 Q. Now, you just testified that there was a

14 significant variance, approximately 18 percent, in the

15 various iterations of data related to Kalama that the

16 Company provided to Staff; is that correct?

17 A. In the -- in the spreadsheet that was in

18 Ms. Cheesman's testimony, I believe that was about the

19 number when I looked at it. I can't swear that's the exact

20 number, but just when I looked at it in my mind.

21 Q. So the -- let me make sure I understand, again.

22 The Company did provide data that was inconsistent

23 regarding Kalama operations to Staff?

24 A. We did, throughout the course of answering the

25 data requests, modify some things about the Kalama activity

0113

1 as we got it fine-tuned to an accurate place. I believe we

2 ended up in a very accurate spot with Kalama, which was

3 supported by our second route study, agreeing to our first

4 route study.

5 Q. And we'll get to that, too, Ms. Davis.

6 And do you know or can you estimate the number of

7 iterations that you did provide Staff with?

8 A. No.

9 Q. I'm talking Kalama. You just know it was more

10 than one; is that correct?

11 A. Well, it -- everything in the -- the case tended

12 to go back and forth between what they proposed and what we

13 proposed. Our iterations of Kalama never varied very

14 significantly in total dollar amount compared to the one

15 that was proposed by Staff.

16 Q. Yes, but you just testified to an approximate

17 18 percent variance in the data, correct, and that was

18 Kalama?

19 A. Yes.

20 Q. We're speaking --

21 A. In the chart.

22 Q. -- as to Kalama --

23 A. In the chart.

24 Q. -- and so I'm just asking: How many versions of

25 Kalama data did you provide?

0114

1 A. Well, we -- I think we had five data requests, so

2 we probably answered all of them.

3 Q. And they're --

4 A. And I believe there was one significant issue

5 that -- that resulted in the -- the data changing. You

6 know, we did have something not calculated correctly or

7 included, and we revised that as soon as we were able.

8 But again, remember that we went into this case

9 under Staff guidance that we didn't need to be separating

10 Kalama, and then we were happy to do our very best to

11 separate it, and that's what we stuck to.

12 Q. So were -- I just want to confirm. You provided

13 responses to five data requests that you can recall for

14 Kalama?

15 A. Well, no, I can't recall that specifically. I

16 read it in the testimony. There's been so many data

17 requests, I couldn't begin to count how many, and many of

18 them were duplicate.

19 We would get the same data request in the middle

20 of another data request and just send the previous one we'd

21 already sent in, so it was that kind of case. So to ask me

22 for numbers and amounts and iterations, you know, there

23 were so many things on the table that to try to explain to

24 everyone in the room the complexity and the small change to

25 this and, "Can you resend it?" you know, it -- it makes it

0115

1 sound like we totally mismanaged everything we were doing,

2 when it reality, we were working hard to accommodate the

3 requests.

4 Q. And the questions don't include any allegations of

5 misconduct or laziness. I'm simply asking if you could

6 estimate the number of versions of data that you provided

7 to Staff in relation to Kalama operation.

8 A. And -- and no. From memory, I can't, and I don't

9 even know what versions of -- of data you mean, because one

10 might be, you know, one set of questions about Kalama,

11 where the next is a totally different set, and so I don't

12 know if you're asking me in total how many questions I

13 answered or what -- what exactly you're trying to get at.

14 Q. I'm just trying to understand how many versions

15 of -- or how much -- how many versions of Kalama-related

16 data the Company provided to Staff, how many different

17 versions --

18 A. And I --

19 Q. -- and I'm trying --

20 A. I wouldn't --

21 Q. -- to get an estimate of that.

22 A. I wouldn't be able to give you an estimate. I'm

23 sorry.

24 Q. And -- but you're -- you can confirm it's more

25 than one, correct?

0116

1 A. Yes, I believe so.

2 Q. I'm going to continue on page 4, lines 2 and 3,

3 please. And you broached on this subject a little bit in

4 your testimony today. This is the portion of your

5 supplemental testimony that discusses the minor flaws that

6 were included in your original route study; is that

7 correct?

8 A. Correct. I -- I see that.

9 Q. Now, is it possible to conduct a route study

10 without those minor flaws?

11 A. Yes, and we -- and we did, subsequently.

12 Q. And --

13 A. The problem with our route study was trying to

14 identify the Kalama operations that hadn't been tracked in

15 such detail to begin with.

16 Q. And in the next sentence on page 4 -- or actually

17 it's the same sentence, but on the next line in page 4, you

18 go on to assert that the flawed route study was not

19 completely unreliable; is that correct?

20 A. I said we had never been told it was completely

21 unreliable. So I didn't say anything about its

22 reliability. I was talking about what we were told by

23 Staff.

24 Q. So from your perspective, it was completely

25 unreliable, or --

0117

1 A. No. No, not at all. I felt like it ended up --

2 the second route study supported the first route study had

3 been fine to begin with in a material basis.

4 Q. But given the acknowledgment of flaws in the route

5 study, is it still reliable to base regulated rates and

6 assign costs on the basis of a known flaw? Does that -- is

7 that reasonable?

8 A. It depends on the size of the flaw. In looking at

9 the materiality and the effect on the revenue requirement

10 by the possible flaws in the route study, you know, I don't

11 believe that they were significant enough to make the case

12 not resolvable --

13 Q. So basically --

14 A. -- by any means.

15 Q. -- on my question, though, you would need more

16 information than that to make a determination as to whether

17 or not it was reasonable or not, correct? Is that --

18 A. If there was --

19 Q. -- what you just testified?

20 A. -- a flaw.

21 Q. Now, still remaining on page 4, can we turn to

22 lines 6 through 9? Here you discuss that the Company

23 commissioned a new route study, a second route study -- you

24 previously referred to that today -- for Kalama; is that

25 correct?

0118

1 A. Yes. That was the result of Staff not wanting to

2 accept our first route study, as I remember it.

3 Q. And just to be clear, we -- your testimony states

4 and you just acknowledged that there were minor flaws, what

5 you term "minor flaws," with that initial route study; is

6 that correct?

7 A. I believe just regarding the separation of the

8 Kalama revenue, which, remember, these are all route

9 studies by drivers who are just picking up containers out

10 on a route. You know, they don't know whether the one next

11 to the other is regulated or nonregulated, possibly.

12 Q. Yeah. They're --

13 A. And when that hadn't --

14 Q. -- driving garbage trucks.

15 A. -- been made a focus of our first route study,

16 that was the difficult part, then going back through their

17 memory and us looking at records to try and determine

18 exactly which ones had been nonregulated.

19 And again, in this -- in my mind, issue that never

20 have grown to the significance that it did, we agreed to

21 have someone go around and ride with all the drivers and

22 clearly count what was exactly regulated, nonregulated, and

23 get it all straight once and for all, thinking that that

24 would attempt us to -- resolve this.

25 Q. So the -- let me make sure I understood what you

0119

1 just said. The initial route study was based on the

2 memories of the drivers?

3 A. No.

4 Q. Was that a --

5 A. It was -- the initial -- that's how the route

6 study records are -- are taken. The drivers take record of

7 what they're picking up, and so then they took note of what

8 was regulated or nonregulated.

9 But in our original filing, we weren't -- we were

10 leaving Kalama commingled, so we hadn't paid as much

11 attention to that area of the study, and that was what

12 became the issue of the route study as I remember it.

13 And just to make sure that everyone could be very

14 comfortable with what was being picked up, that's why, in

15 good faith, we agreed to do another route study, you know

16 what -- because we have to keep trying to work together and

17 get to an end place here, and it didn't seem like anything

18 we offered was ever good enough.

19 Q. So I'm going to turn back to your discussion of

20 the second route study that was conducted after Staff filed

21 its testimony in July.

22 A. Yes.

23 Q. And is that correct, that -- those dates I just

24 provided? The second route study was commissioned after

25 Staff filed its testimony?

0120

1 A. Correct. Yes, because that's what we came --

2 became aware that that -- that Staff filing impacted rates

3 by the change in Kalama by $168,000.

4 Q. And prior to that second route study, the data

5 available related to Kalama was based on your firm's

6 attempts and the Company's attempts to recreate Kalama data

7 that had not previously been tracked or accounted for in a

8 significant amount of time; is that correct?

9 A. You know, I can't -- I can't recall the details of

10 what exactly I looked at originally and how we were trying

11 to go back and fix it, honestly. There's been too much

12 time, and I know that the -- I remember from going forward,

13 the regulated, nonregulated had some issues, but what we

14 originally based it on exactly down to the letter, it's

15 just been hundreds and hundreds of hours, and I can't

16 recall that detail.

17 Q. And my question is, though, that that was what --

18 not specifically what the detail was or the specific data

19 was, but that data -- all of the Kalama data was based on

20 your firm's attempts to recreate Kalama operations or

21 review Kalama operations; is that correct?

22 A. So, what -- what Kalama data are you referring to?

23 Q. So you testified here today and your testimony

24 states that the Company stopped maintaining detailed

25 records of its Kalama operations after 2009; is that

0121

1 correct?

2 A. Yes.

3 Q. So the data available in this case prior to the

4 Company's second route study was based on information that

5 the Company and your firm went back to try to, for lack of

6 a better term, put together?

7 A. I believe --

8 MR. WILEY: How about "reconstruct," Your

9 Honor?

10 BY MR. SHEARER:

11 Q. Reconstruct.

12 A. I believe some of it was already tracked that way,

13 still. I mean, I -- I think certain things were separated

14 and available, and I -- and the details of what we had to

15 go back and reconstruct or do, I just -- I don't recall

16 specifically.

17 Q. I just want to make sure that that's -- but that's

18 all that was available at the time?

19 A. What do you mean, "all that was available"?

20 Q. That when we're talking about Kalama-related

21 information, information on Kalama operations, now, before

22 the Company did its route study, its second route study in

23 August or July of 2014, prior to that, the only information

24 available related to Kalama operations was the data that

25 the Company and your firm attempted to reconstruct during

0122

1 the discovery process of this case; is that correct?

2 Was there other -- there wasn't another route

3 study or a -- or any other information?

4 A. I -- I guess I'm not sure if there was some other

5 resource we could have drawn on or not. We used what we

6 had. We felt like we got to a good spot with it that

7 should have been acceptable. Was there other available

8 somewhere --

9 Q. No.

10 A. -- there? I don't know.

11 Q. Not necessarily whether it was available. I'm

12 saying: Did -- is --

13 A. That's what you asked me.

14 Q. -- that what you -- available between -- for Staff

15 as well, as part of this case?

16 A. Well, obviously, everything we submitted is all

17 Staff had available.

18 Q. And everything you submitted --

19 A. And I don't know what else --

20 Q. -- is based, so we all --

21 A. -- we had available to -- maybe it wasn't

22 submitted. You know, you're asking me fine details of a

23 long time ago, and it's hard to answer. I don't want to

24 say the wrong thing.

25 Q. That's good advice for any one of us.

0123

1 So there was a first route study, and I'll refer

2 to it as an "initial route study" or whatever.

3 A. Correct.

4 Q. That was a part of this case in discovery?

5 A. Yes. In 2013, I believe.

6 Q. The route study was conducted in 2013? Is that

7 what you're testifying to?

8 A. I believe so, and I can't be held to that, but

9 yeah. At the time the case was filed was --

10 Q. That's your estimate?

11 A. -- when the original route study was done.

12 Q. And that's the same route study you refer to in

13 your testimony as having minor flaws?

14 A. Correct.

15 COURT REPORTER: Please speak one at a time.

16 Thank you.

17 MR. SHEARER: Do we need to repeat that for

18 the record, or --

19 COURT REPORTER: No.

20 BY MR. SHEARER:

21 Q. Let's move on, Ms. Davis, to page 5 of your

22 supplemental testimony. I'm specifically going to look at

23 lines 14 through the end of the page there on 25, 14

24 through 25.

25 A. Okay. The whole paragraph?

0124

1 Q. Yeah. And if you need a moment to review it,

2 please do that now.

3 A. Sure. Just to the bottom of the page, right?

4 Yeah, I'm good.

5 Q. Now, here's where you discussed time spent on

6 Kalama --

7 A. Uh-huh.

8 Q. -- operations in July and August, and these are

9 reflecting of accounting expenses that were experienced

10 in -- during that time; is that correct?

11 A. Correct.

12 Q. Now, is it -- to your knowledge and to your

13 understanding, is Staff disputing the amount of time you

14 spent on Kalama operations in July and August?

15 A. No. No, I don't believe so.

16 Q. I'm going to move on now to page 6 of your

17 testimony, lines 4 and 5, Ms. Davis. This section of your

18 testimony states that, as you've testified here today, that

19 Kalama is a fairly minor segment of the Company's overall

20 operations; is that correct?

21 A. Yes.

22 Q. And you approximate that as 5 and a half percent

23 of overall revenue; is that correct?

24 A. Correct.

25 Q. Given that it's such a minor portion of the

0125

1 Company's business operations, why was it so difficult to

2 provide consistent data or conduct a route study in this

3 case?

4 A. I think one of the problems was that, while we

5 were originally willing to accept Staff's proposal and then

6 we refiled our case in the interest of cooperating and only

7 arguing issues that were still, we felt, contested, we

8 incorporated that data.

9 Then Staff made it very clear it was our job to

10 support what -- the separation that was done by Staff,

11 which was never ours to begin with, and -- and yes, that

12 was a difficult task.

13 And then we assumed that we were just providing

14 support to leave Kalama how Staff had originally separated

15 it, and not until July did we become aware that it was

16 going to have that impact on the revenue requirement, which

17 any reasonable person, looking at that adjustment as an

18 accountant, would know it was an impossibility.

19 Q. So you refer there to Staff's proposal, again, for

20 Kalama's operations, and you were adopting Staff's

21 proposal. So is it your position that, based on Staff's --

22 your discussions in a prior case, that you were somehow

23 obligated to file in a certain way, or that -- I'll stop

24 there.

25 A. I'm -- no. I clearly felt that I was -- we

0126

1 were -- the Company was filing that way in good faith to

2 concentrate on what we felt were remaining issues at that

3 time.

4 Kalama was never identified as a question mark in

5 the first docket; therefore, we thought, "We'll leave it

6 alone. It's not having a significant impact on rates." It

7 never occurred to us that we would circle back around and

8 have many, many data requests and arguments on things that

9 had been resolved in the first case, but that's, in fact,

10 what happened.

11 Everything that Staff had suggested as a proposed

12 settlement in the first case that we allowed to be in, even

13 at a reduced amount in our refiled case, we then had to

14 support Staff's amount through various data requests, and

15 yes, it was difficult when it wasn't our proposal to begin

16 with, something that we had filed in this unusual

17 circumstance to try to focus the remaining issues.

18 We were always interested in getting to the

19 substance of the case, and we were always impeded from

20 actually discussing issues at any time, and -- and always

21 asking to resupport this or that or things that we felt

22 shouldn't have been -- they weren't very relevant and they

23 were significantly adding to the costs of the case.

24 Q. You just mentioned that -- your perception that,

25 you know, the 2013 rate case that was ultimately dismissed,

0127

1 that you felt the Kalama issue had been resolved. Can you

2 explain how it was resolved in that case?

3 A. Well, Staff made a proposal to us to separate

4 Kalama and sent us a pro forma, and we evaluated it and

5 chose not to argue with it. I think it -- it had a minimal

6 impact on our rates, and -- and I'm not -- and again, now

7 you're asking me to remember back approximately 18 months.

8 So I don't recall there being outstanding issues

9 about Kalama, and clearly, you know, we can debate the

10 circumstance of the dismissal, but no one understood the

11 rule about what was in the record or not in the record.

12 And all we were trying to do was get to an end

13 result. I mean, that was always our goal. And leaving in

14 things that Staff adjusted, which were mostly decreases to

15 our revenue requirement that we didn't want to contest, was

16 purely meant to facilitate resolving what we felt were the

17 remaining issues.

18 And if we did anything that we shouldn't have

19 done, we've been certainly taken to task for that. It

20 was -- on an administrative level, you know, maybe those

21 did become our numbers when we refiled them, but we

22 complied in all ways to try to then support them as we were

23 asked, and everything we did was in trying to get a

24 resolution to the case in the -- in a manner that could

25 reduce the ultimate cost, and that's exactly why we refiled

0128

1 with certain things included that way.

2 In retrospect, would we have filed that way?

3 Probably not, but we thought that we were going to work

4 with Staff and only focus on our remaining issues.

5 Q. Based on the description you just gave, I -- I'm

6 still having difficulty understanding how it was resolved,

7 how that accounting issue was resolved.

8 A. What accounting issue?

9 Q. Did the Commi- -- the issue on Kalama, with your

10 filing. Did the Commission ever weigh in on that issue?

11 A. No, but we had identified a list of issues in

12 between us, with Staff, that we were still working on, and

13 I don't believe Kalama was on that list.

14 Q. So it just wasn't on a list that was included in

15 discussions between you and Staff?

16 A. Correct.

17 Q. Thanks.

18 A. And then we were told when we refiled our case,

19 "Everything's back on the table."

20 Q. And do you understand, when you file a rate case,

21 that it is the Company's burden of proof to support its

22 filing?

23 A. I do, but I -- I feel like it was an unnecessary

24 move by the Staff to dismiss our filing, because everyone

25 in this room knew that the records were there and

0129

1 available, and because they weren't included on some list,

2 our entire case was dismissed. We had to start over. It

3 became our new case, and we had to start from ground zero

4 with data requests when we'd already complied.

5 Q. Let me just -- I want to clarify again for the

6 record. You stated there that Staff dismissed the case.

7 A. Filed a motion to dismiss.

8 Q. Filed a motion to dismiss, and the Commission made

9 that ultimate determination, you understand?

10 A. Correct.

11 Q. Let me move on now to page 6 and, towards the

12 bottom of the page, lines 21 and 22.

13 A. Okay.

14 Q. Here you discuss your perception that Staff

15 rejected the concept of audit sampling in this case; is

16 that correct?

17 A. Yes, that's what it states.

18 Q. And by "audit sampling," you're referring to

19 taking representative samples in certain accounts or

20 reviewing certain issues --

21 A. Yeah. And many times, we offered to supply a

22 sample of items. And part of why it was so burdensome is

23 because we -- like, for instance, at the site visit,

24 offered to have all the landfill tickets available and

25 certain other items that are in a lot of bulk, and then you

0130

1 could go through those.

2 And we were told, "No. Nothing can be made

3 available that isn't part of the record, so you have to

4 make a copy of every single item." So for every single

5 thing that we had to substantiate, we also had to provide a

6 photocopy of a scan of that document.

7 It was just very burdensome, which is why I felt

8 like a sample of some of those items, if they showed no

9 deviation, would have been much easier.

10 I mean, we spent a lot of time just copying

11 copious amounts of records to support items, and it was

12 just another example of what led to a lot of hours in this

13 case that, in some ways, I think, could have been curtailed

14 a little bit.

15 Q. So is your testimony an allegation of Staff

16 misconduct on that issue?

17 A. No. Certainly not. I believe Staff tried to act

18 within the letter of every rule, down to the finest detail,

19 and was so focused on that that we lost any hope of getting

20 to substance and all we did is resubmit things to try to

21 get them in a compliant format.

22 And I just remember always thinking, "Can we ever

23 get to talk about an issue in this case?" because

24 everything was just, you know, going down the -- being

25 compliant with what we turned in, and I -- I do believe

0131

1 it's allowed, but I -- I think it went to the extent where

2 I would call it abusive.

3 Q. What -- but you're not making an allegation of

4 misconduct?

5 A. No.

6 Q. Just abusive?

7 A. Because I think it is allowed by the -- the rules.

8 You know, everything that Staff did was within the rules.

9 I don't -- just don't think that's the way they're meant to

10 be interpreted.

11 Q. Now, you just mentioned having to provide

12 documents for the record in response to data requests or

13 for Staff's records. Do you -- can Staff or the Company

14 rely on documents that aren't in the record or that aren't

15 provided?

16 A. Well, it seems to me when -- when you do --

17 perform certain procedures, you can look at documents, make

18 conclusions, and you don't need to take them with you, but

19 that was never an option in this case.

20 Q. Are you aware that the Commission's a public

21 agency?

22 A. Yes.

23 Q. I'm going to move on down to page 7 of your

24 supplemental testimony, at lines 8 through 9 -- 7 through

25 9.

0132

1 A. Okay.

2 Q. Here, you refer to what you term as a "new

3 perspective on affiliate land rents;" is that correct?

4 A. A new perspective, yes.

5 Q. Is your testimony that the theory of

6 lower-cost-of-market or cost-plus-return methodologies

7 somehow represent a new perspective?

8 A. It was new to our case. We'd never had to do --

9 calculate affiliated rents during -- under those

10 methodologies before, and I'm sure, as you'll recall, early

11 on in the case, we worked with you to develop spreadsheets

12 of every single asset in Heirborne and allocating it to

13 where -- where it belonged for rents.

14 So it was certainly new to this case and added a

15 significant amount of time, and I think that's what I meant

16 for "new perspective." In any prior case, rents had been

17 calculated not on depreciated cost, is how I understand it,

18 so that -- that was a significant amount of work and

19 understanding to get to this new methodology of calculating

20 rents, and there are so many aspects of that whole rent

21 calculation that became issues.

22 Q. So is it fair to say that you were unfamiliar with

23 those regulatory accounting principles of -- let me make

24 sure I get the same term -- for lower cost of market or

25 cost plus return?

0133

1 A. No, I wouldn't say I was unfamiliar. I was

2 unfamiliar with them being used in this case.

3 Q. In this case?

4 A. Yeah.

5 MR. SHEARER: Thank you, Ms. Davis.

6 I don't have any further questions, Your

7 Honor.

8 JUDGE FRIEDLANDER: Thank you.

9 Mr. Wiley, do you have a lot of redirect?

10 MR. WILEY: Yeah. I was -- I wanted to say,

11 I have more than I expected I would.

12 JUDGE FRIEDLANDER: Okay.

13 MR. WILEY: So if you want to break for lunch

14 now, that's fine.

15 JUDGE FRIEDLANDER: I think that would

16 probably be best, and we'll come back at maybe five

17 after 1.

18 MR. WILEY: Okay. Thank you.

19 JUDGE FRIEDLANDER: We'll go off the record.

20 Thank you.

21 (A luncheon recess was taken from 12:04 p.m. to

22 1:09 p.m.)

23 JUDGE FRIEDLANDER: We'll go back on the

24 record, and I believe, Mr. Wiley, you were going to begin

25 with redirect of Ms. Davis.

0134

1 MR. WILEY: Yes, Your Honor.

2 R E D I R E C T E X A M I N A T I O N

3 BY MR. WILEY:

4 Q. Ms. Davis, you were asked about the Kalama

5 separation, initially finding out that it was separated on

6 July 18th with the Staff's initial testimony. Do you think

7 the issue of Kalama separation could have been communicated

8 before that time, in your view?

9 A. Yes. I -- I, overall, think that communication

10 could have made the case be resolved more expeditiously

11 with less cost.

12 Q. You were asked at page 2, lines 11 through 13, to

13 talk about the fact that you had not carefully monitored --

14 I believe that was your term in your testimony -- Kalama

15 after 2009 because of the advice from Staff in the 2009

16 case.

17 What was it like -- just in general, you know, not

18 too lengthy, but what was it like to reconstruct Kalama

19 when you hadn't maintained separate data since 2009?

20 A. Well, it was definitely more time-consuming to

21 undergo that work, which we were -- we -- we did. It

22 just -- it made it more difficult, because under -- in the

23 2009 case, we were told, "Hey, do it this way going

24 forward," and then in the next case that we were in, they

25 said, "No, no, no. Go back and do it the way you

0135

1 originally used to do it," so it would just be nice to have

2 consistent guidance.

3 Q. Did that have an impact, at least initially, on

4 the accuracy of the data when you hadn't contemporaneously

5 measured it?

6 A. I believe it did.

7 Q. You also were asked about multiple iterations of

8 the Kalama separation and the multiple data requests, et

9 cetera, in May of 2014. You've generally -- the Company's

10 been criticized by the Staff in its testimony about

11 duplicative, confusing iterations. Do you have any

12 response to that with respect to worksheets and pro formas?

13 A. Well, you know, I -- we began the -- the first

14 case, the 131794 case, and that was my only experience to

15 go on, and the way that was working is we were exchanging

16 information and someone would update something and send it

17 back, whether it be a pro forma or support for an expense

18 item, and we were exchanging spreadsheets freely between

19 both parties.

20 And in the -- just in trying to cooperate, we

21 continued to respond, and -- to the new case in the same

22 manner with providing things in order to be helpful. For

23 instance, you know, when we originally filed our new case,

24 I think some things needed to be clarified for Ms. Cheesman

25 regarding affiliated interests, and she asked us to correct

0136

1 the wording on that page in our pro forma and resubmit it,

2 so we did.

3 So on both sides, I think there was a little bit

4 of lack of understanding that you don't want to be refiling

5 things all the time in a formal case, and had I known that,

6 I certainly wouldn't file multiple versions.

7 And on the iterations of Kalama, I'm not quite

8 sure what the iterations are that we're referring to, but

9 everything was in the spirit of cooperating and answering a

10 data request, the same as had been done in the prior case.

11 You know, we received from Staff multiple versions

12 of land rent, price outs for our tariff. You know, I -- I

13 filled in one whole price out from the Staff, and they

14 called and said, "You know, we don't like those numbers,"

15 and I stayed over the weekend and put the temporary rate

16 increase into the tariff, because they didn't like how

17 they'd originally done it.

18 You know, I think in such a complex case, there's

19 going to be adjustments to information, and it's just how

20 those are conveyed and communicated, and we all need to

21 work to make that be a process that's going to be the most

22 efficient for everyone.

23 Q. So those weren't duplicative in your view; they

24 were successive?

25 A. I would say so.

0137

1 Q. You talked on cross about the route study -- and

2 we won't go into a whole lot of detail here -- in Kalama,

3 but I don't think for the -- at least the Commission's

4 benefit, could you describe generally routes -- you know,

5 what route studies entail? They are not the most

6 cyber-friendly scientific exercise, are they?

7 A. No. I mean, from my experience, they rely on the

8 driver to keep records while he's performing his route, and

9 then the -- the second one, there was actually a second

10 person assisting to make the data more accurate, you know,

11 hopefully, because it takes time when you're trying to

12 record everything and you're doing your job.

13 However, I will say that even though they're not

14 very scientific, they seem to come out to fairly reasonable

15 places in both instances, so I felt that they did a

16 reasonable job.

17 Q. And that happened in this case in terms of the

18 reasonableness of what the route study derived?

19 A. I believe so.

20 Q. You mentioned a swing in revenue on the original

21 Staff filing on Kalama of 168,000. We've been all through

22 that. Was there any other surprise in that filing that

23 caused you to be concerned based on the recommended revenue

24 requirement by the Staff in July of 2014?

25 A. I believe there were several things that -- that

0138

1 were still surprising and -- and contested, but I don't --

2 I didn't bring a list of them today.

3 Q. What I'm specifically asking you is whether a

4 recommendation on the bottom line, that after the temporary

5 disposal rates were implemented, the Company was

6 overearning by $32,000 by that testimony. Was that a

7 surprise?

8 A. Yes.

9 Q. I want -- there's been testimony about the prior

10 case throughout. You've talked about 13194 [sic]. What --

11 is it correct to say that even though the reference in

12 Mr. Shearer's question to the prior case or a different

13 case, that 131794 and 140560 are essentially the same case,

14 and, if so, how are they the same case?

15 A. Well, they're the same case in progress. You

16 know, we had the dismissal and subsequent refiling, but

17 it's been part of the entire same process, you know, from

18 my perspective, that I started originally back in September

19 of 2013. Really, my partner started it, and I very soon

20 thereafter joined in.

21 So it's been a progressive work to get to a

22 reasonable rate requirement that we can agree upon, so --

23 and when I think about this case, it's all one project that

24 I've worked on. It's not really two in my mind, even

25 though, from a legal perspective, I guess it is two.

0139

1 But yes, I believe that all the work from the

2 original case was relied on into the second case even by

3 the Staff to an extent where they didn't feel they needed

4 to retest certain things they'd looked at in the first

5 case.

6 Q. You were asked by Mr. Shearer about the audit

7 sampling that you made, and I believe you responded, but I

8 wasn't clear. I'm going back now to Ms. Cheesman's

9 testimony where she says, quote, "Staff didn't" -- this is

10 at page 14, line 11, beginning at line 10.

11 "Staff did not use audit sampling because Staff is

12 not preparing to communicate an opinion on whether WCI's

13 financial statements are free from material misstatement."

14 JUDGE FRIEDLANDER: Is that --

15 MR. SHEARER: Yeah. I was going to ask

16 which --

17 JUDGE FRIEDLANDER: -- Ms. Cheesman's

18 supplemental testimony?

19 MR. WILEY: It's --

20 JUDGE FRIEDLANDER: Do you know what page --

21 MR. WILEY: Yes, it is. Page 13.

22 JUDGE FRIEDLANDER: Okay.

23 MR. WILEY: MC-13T -- excuse me. Page 14.

24 JUDGE FRIEDLANDER: Okay.

25 MR. WILEY: Page 14, beginning at line 10.

0140

1 BY MR. WILEY:

2 Q. And did you hear my question in terms of what the

3 Staff said about audit sampling? Do you want me to repeat

4 the sentence?

5 A. Well, I heard the statement, but what was the

6 question?

7 Q. The question is: In your experience of 20 years

8 plus as a Certified Public Accountant, is the only reason

9 you would use audit sampling to prepare an opinion on

10 whether someone's financial statements are free from

11 material misstatement?

12 A. Well, I -- I think that each situation can be

13 evaluated for the proper accounting techniques to apply to

14 it. Certainly, sampling applies to more work we do than

15 just auditing, so I guess that would be my answer. The

16 basis is, you're trying to get to the most reasonable

17 approach to satisfy yourself that the numbers you're

18 looking at are valid.

19 Q. And, in your experience, is audit sampling often a

20 reasonable approach in doing a review of filings, et

21 cetera?

22 A. It often is, but it depends on the circumstance.

23 Q. Was there any reason for you not to believe that

24 audit sampling wasn't appropriate in this rate case?

25 A. I think it would have been appropriate in a

0141

1 variety of instances. I think that the overall feeling

2 that we all had who were on the other side of responding to

3 the case was that the data requests and -- and things asked

4 of the Company were excessive, and the means to fix that

5 could be a variety.

6 But -- but overall, it -- it was just very

7 burdensome to respond in the ways that we were required to

8 respond, and I -- and it's unlike anything that's ever been

9 previously experienced in a rate case by the Company, and

10 it got to a point where it just felt very dysfunctional.

11 Q. You were asked if you were accusing the Staff of

12 misconduct in the approach to this audit. I want to be

13 very clear in asking you, are you making such an

14 accusation?

15 A. No.

16 Q. And it was your -- how would you view their

17 interpretation of the rules? You said they were within the

18 letter of the rules. How would you view that approach that

19 they used?

20 A. Well, it was such a strict application of every

21 rule that it seemed that we would never get through the

22 case because every rule was interpreted in a way it had

23 never been interpreted to the Company before, and we

24 couldn't -- we couldn't quite -- we were attempting to

25 comply, but it was very burdensome.

0142

1 Q. I don't want to get into a whole lot of detail,

2 but there was a question by Mr. Shearer with respect to the

3 prior case and dismissal on the motion of the Staff, et

4 cetera. My question to you in response is: When you, in

5 behalf of the Company, file something with the records

6 center, do you assume that that goes into the official file

7 at the Commission?

8 A. That was my understanding, yes.

9 Q. You were also asked if you acknowledged that the

10 Staff was not contesting the amount and time incurred by

11 the Company in defending its rate case, and you answered

12 yes, you understood they weren't.

13 Do you -- but alternatively, do you have a view as

14 to whether the recommended disallowance of 50 percent of

15 all the rate case costs on this case defense since

16 Christmas Eve, 2013, is fair or justified?

17 A. Well, I -- I strongly disagree with that, because

18 I believe we attempted to comply at every step of the way

19 and the same courtesy was not extended back. Wherever

20 there could be a wall thrown up to impede our progress or

21 interpret something or file a motion to strike or dismiss

22 or compel or -- you know, I'd ask for assistance, and I'd

23 be told the Staff cannot assist the Company in presenting

24 its case.

25 We -- you know, we couldn't find a way to work

0143

1 through everything and get things resolved, and I've never

2 had an experience like that before in all my years of

3 practice. Usually, there's a way to work together, and I

4 kept searching for that.

5 Q. Another question I don't want to get into a lot of

6 depth on, but you indicated in response to Mr. Shearer's

7 question that you had learned indirectly about the source

8 of the rejection of that capital -- commingled --

9 commingled-capital-structure-in-2009 issue secondhand, and

10 you said, essentially, yes.

11 A. That's the Kalama issue?

12 Q. Have you personally questioned Mr. Demas, the rate

13 auditor in that case, about the meeting that Mr. Shearer

14 referred to in his question to confirm the veracity of that

15 statement?

16 A. I think what Mr. Shearer asked me about was

17 regarding Layne -- Mr. Demas, was the Kalama commingling

18 and how we were told to -- to leave it in.

19 And that resulted from Mr. Demas advising my

20 partner, Ms. Booth, not to commingle Kalama, that it wasn't

21 required, and he's since confirmed that with me, that yes,

22 he does -- did -- does advise that, so he was the auditor

23 on the prior case, and so that should no longer be in

24 question.

25 Q. And have you similarly confirmed the original 2009

0144

1 rate case issue by asking Mr. Demas about that meeting?

2 A. Which meeting?

3 Q. The meeting that's referred to at the Commission

4 with the Company and Commission Staff.

5 A. Yes. Yes.

6 Q. And you confirmed that?

7 A. Yes, I did.

8 Q. Okay. One final question. Looking at your

9 testimony, at the end of the testimony, you were asked by

10 Mr. Shearer about the reference to "new perspective," I

11 believe, or "new approach."

12 Can you please talk -- tell us -- just elaborate a

13 little bit better about what you understand that new

14 perspective, particularly with respect to the land rent

15 computation issue, was?

16 A. So, I think that, in general, what I'm talking

17 about is just the additional time encompassed in the case

18 and trying to apply new theories in -- in the case.

19 So, we originally prepared and filed our case

20 under the accepted methodologies that had been used in the

21 prior case, and many new methodologies were introduced and

22 suggested in this case, all amounting to a significant

23 amount of time.

24 So for the example of land rents, we'd had a

25 return-on-investment approach in the past, where we looked

0145

1 at debt and equity and just a -- a return on investment,

2 where this case, the Staff recommended that all the assets

3 be looked at on a depreciated basis.

4 So we had a remaining net investment, plus our

5 costs, and then that was then subjected to a capital

6 structure. Well, just getting to those amounts was fairly

7 time-consuming, and then every component of that added

8 another layer of complexity, such as what capital structure

9 would be used, which we recommended following, as in the

10 BKA case, an asset-specific structure.

11 We had various suggestions of what capital

12 structure, and the Staff ended up recommending Heirborne's

13 capital structure for anything rented by Heirborne, and

14 then Heirborne II's for the warehouse that -- that they

15 own.

16 And the trouble we've always had with that was

17 that Heirborne took on enormous amount of debt, that wasn't

18 loaned out to other companies, to build its transfer

19 station, so its debt-to-equity ratio changed drastically by

20 the result of that one transaction for Waste Control

21 Recycling.

22 So if you looked at -- under their scenario, at

23 the rent on the office Waste Control, Inc., would be

24 eligible for before that transaction and after, it's

25 greatly reduced, because there was no new debt acquired or

0146

1 no new money put into that office building. It was the

2 same depreciated asset, but yet you're applying such a --

3 the capital structure that's 93 percent debt and 7 percent

4 equity to it.

5 So it's getting very little return, and it doesn't

6 seem to me reasonable that -- that that transaction should

7 impact the allowable rent for -- for a different building

8 owned by Heirborne. So that's why we asked for the

9 asset-specific structure, and going around and around on

10 that took a great deal of time.

11 There's also been questions about their allowable

12 return-on-investment percentage for affiliated rents, and

13 so that has been something that added a lot of time that

14 Staff asked us to do different analysis to establish why

15 15 percent was reasonable. 15 percent's what's always been

16 used in the past.

17 So each layer took more work, and this -- again,

18 like Kalama's just one issue in this case with just layers

19 and layers of complexity.

20 The -- another -- the three-factor allocator that

21 was developed by Staff was then applied to our land rent,

22 which, for the buildings used by all three companies, has

23 typically been one third. I didn't realize till late, I

24 think, in the case that they were applying that also, not

25 only to utilities, but to land rents.

0147

1 And then trying to evaluate, it's hard to -- it's

2 a hard concept to grasp, but if you're using 100 percent of

3 a company's drivers for their allocator and then only a

4 tiny portion of that company is actually in any shared

5 space, it creates a very unreasonable allocation of rent to

6 that larger entity who's not truly occupying all that

7 space.

8 Because, for instance, Waste Control Recycling

9 has, you know, I think, 70 percent of its operations in its

10 own facility, so you have to remove that from -- from an

11 allocation factor to get a reasonable rent.

12 It feels like the picking part of one allocation

13 method that would work and then combining in another one

14 with it, the two don't go together to yield a reasonable

15 result.

16 So we just -- we spent a -- my point is each thing

17 that we came up against just caused a lot of time and

18 research, and they were all things we'd never encountered

19 before, and they were in so many different areas of the

20 case, it added up a significant amount of time that doesn't

21 feel like it was at the Company's fault.

22 MR. WILEY: Thank you.

23 No further questions, Your Honor.

24 JUDGE FRIEDLANDER: Thank you. And I have no

25 clarification questions --

0148

1 THE WITNESS: Great.

2 JUDGE FRIEDLANDER: -- so the witness is

3 dismissed.

4 THE WITNESS: Thank you.

5 JUDGE FRIEDLANDER: Thank you so much for

6 your testimony.

7 And I believe, Mr. Shearer, if we can call

8 Ms. Cheesman up to the stand, I'll go ahead and swear her

9 in.

10

11 MELISSA CHEESMAN, witness herein, having been

12 first duly sworn on oath,

13 was examined and testified

14 as follows:

15

16 JUDGE FRIEDLANDER: Okay. Thank you, and you

17 can be seated.

18 Mr. Shearer, if you want to begin.

19 BY MR. SHEARER:

20 Q. Good afternoon, Ms. Cheesman.

21 A. Good afternoon.

22 Q. Can you please state your name and then spell your

23 last name for the record?

24 A. Melissa Cheesman, C-H-E-E-S-M-A-N.

25 Q. And are you the same Melissa Cheesman who has

0149

1 filed testimony in this case?

2 A. Yes.

3 MR. SHEARER: Thank you, Ms. Cheesman.

4 Your Honor, the witness is prepared for

5 cross-examination.

6 JUDGE FRIEDLANDER: Great. Thank you.

7 Mr. Wiley? And I would note that you did,

8 Mr. Wiley, provide a proposed cross-exam --

9 MR. WILEY: Yes.

10 JUDGE FRIEDLANDER: -- exhibits list.

11 MR. WILEY: That's -- thank you for reminding

12 me.

13 JUDGE FRIEDLANDER: Yeah. And so looking at

14 it, the -- I won't mark separately the pieces of evidence

15 that we already have into --

16 MR. WILEY: Right.

17 JUDGE FRIEDLANDER: -- give them a separate

18 designation because I think that might be a little bit

19 confusing.

20 MR. WILEY: Yes.

21 JUDGE FRIEDLANDER: I do appreciate the fact

22 that you copied one or so pages from each one so --

23 MR. WILEY: Right.

24 JUDGE FRIEDLANDER: -- that we have it, and

25 as we get to, say, DR requests or data request responses,

0150

1 those we will mark, because the Commission does not have

2 those, into record.

3 MR. WILEY: Okay.

4 JUDGE FRIEDLANDER: Thank you.

5 MR. WILEY: And you'll let me know when that

6 happens?

7 JUDGE FRIEDLANDER: I absolutely will.

8 MR. WILEY: Thank you.

9 C R O S S - E X A M I N A T I O N

10 BY MR. WILEY:

11 Q. Ms. Cheesman, I'm handing you a copy of these

12 exhibits. You probably already printed them out, but --

13 A. Thank you.

14 Q. Yeah.

15 So, like Ms. Davis, this is your first fun

16 experience testifying in a Commission proceeding, I

17 understand, correct?

18 A. Yes. Yes, it is.

19 Q. And please feel free to stop me. I -- we're

20 trying to make a record, so if I'm asking for a yes or no,

21 I'm trying to get a yes or no and then an explanation, so

22 we'll kind of work on that as we go.

23 The first question I wanted to ask you actually

24 does start with the first exhibit, which is Workpaper

25 No. 12, utilities, as kind of a reference. Do you -- and I

0151

1 want to make sure you have that. You've seen that before,

2 obviously?

3 A. Yes.

4 Q. Okay. As to the current positions of the parties,

5 meaning Staff and Company, is it a correct understanding

6 that, on utility expense, there currently is two

7 disagreements? And if you need me to list them before you

8 answer, I can do that.

9 A. Yes. Would you please list them?

10 Q. Okay. The first one is the disallowance of all

11 utility expenses associated with the office building at

12 1150 3rd Avenue, which is down towards the bottom of that

13 workpaper. You see that?

14 A. I do.

15 Q. Yes. So that's still in dispute; is it not?

16 A. That's correct.

17 Q. Okay. And the other major dispute that I

18 understand we still have is whether all the utility

19 expenses paid by Waste Control Recycling -- I'll call it

20 WCR -- for its exclusive-use buildings should be included

21 or excluded from your computation, correct?

22 A. The remaining utilities expense, yes.

23 Q. Okay.

24 A. The remaining utilities expense that are not

25 shared by WCI --

0152

1 Q. Correct.

2 A. -- incurred by WCR --

3 Q. Correct.

4 A. -- are not included.

5 Q. Okay. By Staff. And we're --

6 A. That's correct. By Staff.

7 Q. Okay. And that amounts -- subject to check, and

8 correct me if I'm wrong, and that amounts to the Company

9 suggesting that 27,749, which you heard from Mr. Demas

10 earlier today, should be allowed in utility expense, and

11 the Staff, as I understand it, based on Bench Request

12 Response No. 1, is asserting that it's 13,975.

13 Does that sound about right?

14 A. That -- yes, subject to check.

15 Q. Yeah. No problem. So assuming that's about

16 right, by my math, that's about 13- or 14,000 dollars'

17 discrepancy right now on the two positions, correct?

18 A. Yes, subject to check.

19 Q. By the way, that 1150 3rd Avenue building is Waste

20 Control, Inc.'s, building where it bases its operation?

21 The regulated company, correct?

22 A. The --

23 Q. Office building?

24 A. Can you say that again? You --

25 Q. Yes. I'm saying that 1150 3rd Avenue apart- --

0153

1 property is where the Company offices, meaning Waste

2 Control, Inc., offices, correct?

3 A. That is one facility that's at that address.

4 There's also the transfer station booth, the employee --

5 the office parking, the wash station or the older wash

6 station.

7 Q. I guess my question is if Waste Control listed its

8 business address, and you heard Mr. Willis do that this

9 morning, that's the mailing and main address for the

10 regulated company, correct?

11 A. That's correct. The main office is also at that

12 address.

13 Q. Yes. And so -- and it shares that office building

14 with other companies, doesn't it? Other affiliates?

15 A. Three other companies.

16 Q. Yes.

17 A. Or two other companies.

18 Q. How -- in terms of the expense that is at issue,

19 what is your reason for not including those utility costs

20 in your formula, currently? In other words, you heard this

21 morning about the $6,200. Why aren't you including that?

22 A. I believe I addressed that in my testimony,

23 supplemental testimony.

24 Q. Could you cite us to that, please?

25 A. Give me just one moment, please.

0154

1 Q. Sure.

2 A. I'm looking at page 3.

3 Q. This is where you recap all the contested

4 adjustments?

5 A. Yes, sir. Lines 7 through 12.

6 Q. Can you explain to me how you would -- I guess I'm

7 looking for a little bit more literal reference to why you

8 weren't including those utility costs in your formula.

9 A. Because they're --

10 MR. SHEARER: Your Honor, I'm going to ask

11 to -- counsel to clarify which utility costs we're

12 referring to.

13 BY MR. WILEY:

14 Q. We're talking about the expenses for utilities

15 paid by -- paid at the building, and there were three

16 months of expenses, as you can see, that are not allowed in

17 the column, that were paid by WCR; is that correct?

18 A. That's correct.

19 Q. Okay. And why -- my question, again, goes to why

20 those weren't included by you.

21 A. The information was provided during settlement

22 discussions. Staff did not change its position because we

23 did not settle on -- on the utility tax expense, so Staff

24 maintained its original position as stated in its

25 additional testimony filed July 18th and again restated

0155

1 here in supplemental testimony filed January 2nd.

2 Q. Okay. But it wasn't my question about -- I'm just

3 asking you now: If WCR paid those expenses for WCI for the

4 utility costs, why didn't you allow them for WCI, because

5 they were paid for their benefit?

6 A. Staff did not change its position based on

7 settlement discussions.

8 Q. But that's not my question, Ms. Cheesman. I'm

9 just saying: If you acknowledge that they were paid for by

10 WCR for WCI, why wouldn't you include those in your

11 calculations about overall utility expense?

12 A. I'm -- I'm -- I'm -- I'm afraid I've -- I feel

13 like I've answered the question. I didn't include them

14 because the information was provided in settlement, and

15 Staff did not change its original position as filed in its

16 direct testimony.

17 Q. But that addressed your positions. I'm just

18 asking you today, sitting here: Can you tell us why you

19 didn't include those?

20 A. That's why I didn't.

21 Q. So, in other words, it -- you basically were

22 dealing with a settlement issue and you wanted to retract

23 it for tactical reasons? I don't see what you're saying.

24 A. No. Staff just didn't change its position,

25 Staff's initial position as filed on July 18th and then

0156

1 again restated in its supplemental testimony.

2 Q. Okay. Let me ask it this way: You're not

3 disputing that WCR paid that amount of money for WCI's

4 utility costs, are you?

5 A. No, sir.

6 Q. Okay. Thank you.

7 A. But I would like to qualify, but -- that the

8 expense was also shared by WCE and WCR.

9 Q. In the overall building, you're saying?

10 A. Correct.

11 Q. Okay. But those expenses were paid by WCR for

12 WCI, weren't they?

13 A. And WCE, yes.

14 Q. As to Waste Control Recycling, isn't it also true

15 that you are not also even including some utility charges

16 on that shared building if WCR paid them? In other words,

17 following up my question, so you're -- if WCR paid them but

18 they were for another company, you still didn't include

19 them; is that correct?

20 A. In this one instance for the three months that --

21 Q. Yeah.

22 A. -- you just asked about, that is correct.

23 Q. But in acknowledging that, can you tell me why you

24 believe that would be consistent even with your premise in

25 your supplemental testimony that only shared building

0157

1 expenses can be subject to utility cost allocation?

2 A. Staff was not aware that it can change its

3 position based on settlement discussions. We have what we

4 agreed upon, and that's also outlined in Staff's narrative

5 in support of settlement.

6 Q. I understand what your settlement position might

7 have been or was, but my question today is: Under your

8 premise where you say that only shared building expenses

9 can be subject to utility cost allocation, why wouldn't you

10 have included those three months? Because you already

11 acknowledged they were shared, they were paid for by WCR

12 for WCI, but you're not including them?

13 A. I didn't include them because the information was

14 provided during settlement discussions. Staff didn't

15 change its position based -- based on those settlement

16 discussions. Staff maintains its -- Staff maintains its

17 position in filed -- as filed on July 18th, 2014.

18 Q. So are you saying that you believe they should not

19 be included now?

20 A. I'm not saying that.

21 Q. What are you saying, then? I'm not clear.

22 A. I'm saying in my testimony that shared utility

23 expenses should be allocated to WCI using the three-factor

24 allocation.

25 Q. And thus, that would include the $6,200 that you

0158

1 didn't include because of your settlement position,

2 correct?

3 A. That I didn't include because the information was

4 provided during settlement, that is correct.

5 Q. What portion of the overall utilities expense in

6 the test year for WCI are you allowing, again? Is it that

7 13,000-odd figure? 13,975?

8 A. I can look that up real quick.

9 Q. Okay. I don't want to confuse your settlement

10 position here, so I want to make sure I understand.

11 A. You're asking me for the settlement position?

12 Q. No. I said I don't want to confuse it --

13 A. Okay. Yeah.

14 Q. -- with a settlement position.

15 A. Right.

16 Q. I'm asking you today, which you acknowledged that

17 some of your testimony is not necessarily going to be

18 settlement-positioned based, it's just going to be what

19 your testimony is, right?

20 A. That's correct.

21 Q. Okay. So I'm asking you today to tell us what you

22 are proposing for an overall utility expense allocation in

23 the test year for WCI.

24 A. So, that's included in my supplemental testimony,

25 page 2, lines 20 to 21. "Staff recommends the Commission

0159

1 allow WCI to recover a total allocation of $13,975 in

2 shared utilities expense."

3 Q. And that's your position today?

4 A. Yes, sir.

5 Q. Okay. Thank you.

6 And in your three-factor allocation for utility

7 expense, one element of which is revenues, correct?

8 A. Adjusted revenues.

9 Q. Yeah. Are you including revenue sources for all

10 companies? You are, aren't you? Meaning WCI, WCE, and

11 WCR. You're including the revenues for all companies?

12 A. I'm including the adjusted -- yes. I'm including

13 the adjusted revenue for WCI -- or Waste Control Recycling,

14 Waste Control Equipment, and Waste Control, Incorporated.

15 Q. And you're making a point about adjusted revenue,

16 which is removing pass-through and some other expenses that

17 are neutralled, correct?

18 A. That -- that's correct.

19 Q. Okay. And these, all those revenues and expenses,

20 were provided to you during the course of discovery,

21 correct?

22 A. Yes.

23 Q. Okay. In your supplemental testimony, you

24 cross-reference your initial brief and defend your

25 allocation method by saying, quote, "Staff's proposed

0160

1 calculation assigns shared utility expense in a fair,

2 transparent manner that is consistent with the regulatory

3 principle of cost causation."

4 Do you remember that statement?

5 A. Could you please point me to where --

6 Q. Yes.

7 A. -- in the testimony you're quoting?

8 Q. You incorporated by reference in your -- at

9 page 5, and it -- you're referring to your initial brief.

10 In your supplemental testimony, Ms. Cheesman, you do

11 incorporate by reference many sections of the initial brief

12 and your original testimony, correct, by footnote?

13 A. Yes, I do.

14 Q. Okay. So I'm saying that in -- that your

15 initial -- your supplemental testimony cross-references

16 your initial brief in which you said, "Staff's proposed

17 calculation assigns shared utility expense in a fair,

18 transparent manner that is consistent with the regulatory

19 principle of cost causation."

20 Does that sound familiar, at least?

21 A. Can you please point me to where in the record you

22 are -- you are...

23 Q. Will you accept for the purposes of -- subject to

24 check, that that's what you say in terms of the initial

25 brief and your supplemental testimony?

0161

1 A. So, I didn't write the initial brief, and it would

2 be really important to point me to where we're discussing.

3 Q. You cross-reference it.

4 A. I do.

5 Q. Yeah.

6 A. I do cross-reference the initial brief.

7 Q. So we're going to go off the record. I'm going to

8 find the...

9 A. Yes, sir.

10 JUDGE FRIEDLANDER: Okay. We're off the

11 record.

12 (Pause in the proceedings.)

13 JUDGE FRIEDLANDER: We'll go back on the

14 record.

15 BY MR. WILEY:

16 Q. Do you agree, Ms. Cheesman, that your calculation

17 in general assigns utility expense in a fair and

18 transparent manner?

19 A. I do, and supported.

20 Q. Okay. And that it's consistent with the concept

21 of cost causation that you cite to quite frequently in your

22 testimony? Cost-causation concept?

23 A. Yes, I do.

24 Q. Okay. Yet for utility expense allocations, you're

25 not allocating any utility expenses paid by WCR in their

0162

1 own facilities, and that amounts to almost $60,000, does it

2 not?

3 A. I don't -- I don't know how much -- I'm -- I'm --

4 I would have to check how much --

5 Q. Okay.

6 A. -- the Company is including.

7 Q. Well, there was a table referenced this morning in

8 Mr. Demas's testimony where we saw -- it was either

9 table -- I think it was Table 1 -- excuse me, Table 1 or 2,

10 and it talked about 118 versus 66, so I -- I'm just

11 saying --

12 A. I don't have that table on me.

13 Q. Okay. Do you want it in front of you?

14 A. Yes, please.

15 Q. I would hope you would have everybody's

16 supplemental testimony, the initial brief, and your

17 testimony.

18 A. I do. I will --

19 Q. All my witnesses did.

20 A. I will. I have --

21 Q. Can we have it in front of you, please?

22 A. Yes. I will go get it right now.

23 (Pause in the proceedings.)

24 BY MR. WILEY:

25 Q. Ms. Cheesman, maybe while you're doing that, I can

0163

1 ask it this way: You did receive, during the informal

2 settlement or informal discussions -- there's been a

3 question as to whether it was settlement or just informal

4 discussions -- you received copies of all of Waste Control

5 Recycling's utility bills, didn't you? You requested them,

6 and you received them?

7 A. Waste Control's --

8 Q. Recycling's --

9 A. Recycling's --

10 Q. -- utility bills.

11 A. -- utility bills.

12 Q. In August of 2014.

13 A. Do you remember what data request that was?

14 Q. I don't have that specific number. I can check

15 for it. But do you -- you don't have any recollection of

16 receiving them?

17 A. Well, it's been a while.

18 Q. Well, I know.

19 A. But I do believe I've asked for invoices, yes.

20 Q. And do you recall receiving the Waste Control

21 Recycling invoices in addition to the Waste Control, Inc.,

22 and Waste Control Equipment?

23 A. Yes.

24 Q. Okay. So my question assumes that those totals

25 are sixty -- are 59,215. You can answer it subject to

0164

1 check, but you're not -- and I say that's roughly half of

2 the aggregate utility expenses for all three companies --

3 you are not including that component in your calculation,

4 are you?

5 A. That's correct. I am not including expenses that

6 Waste Control Recycling incurred for its facilities that

7 aren't shared with WCI --

8 Q. Right.

9 A. -- with the exception of the 6,000 that you

10 underlined earlier.

11 Q. Yeah. And that you've told us that you did not --

12 A. Have not changed --

13 Q. -- allow because of settlement --

14 A. -- my position.

15 COURT REPORTER: I'm sorry. I need you to

16 speak one at a time, please.

17 MR. WILEY: Good point.

18 A. Sorry. I was -- I wasn't actually really done.

19 That I did not include in -- or update my position to

20 reflect.

21 BY MR. WILEY:

22 Q. In other words, my question was: That, you didn't

23 include because it's your settlement position, which you

24 haven't changed, correct? That's what you said?

25 A. No.

0165

1 Q. Isn't it?

2 A. No. I said I haven't changed my initial position

3 based on information provided in settlement.

4 Q. Okay. And so you are not including that now,

5 presently, right?

6 A. That's correct.

7 Q. Okay. Now, would you tell us why you view, in an

8 allocation formula, why it's fair to not include or

9 allocate the utility expenses for separate facilities for

10 WCR?

11 A. Well, I believe Mr. Shearer's initial brief

12 discusses that, but in my own personal opinion, normally,

13 we do not include in rates expenses that the regulated

14 company did not help to incur.

15 Q. But when you're developing an allocation formula

16 and trying to assign cost to cost drivers and you're

17 including all the revenues, why wouldn't you include all

18 the expenses?

19 A. Because WCI did not help to incur those

20 revenues -- or those expenses. Excuse me.

21 Q. So that's your answer?

22 A. That's correct.

23 Q. Okay. So I take it by that answer that you

24 believe you should allocate -- you should only allocate

25 expenses for shared facilities; is that correct?

0166

1 A. We are -- that is correct. I'm only allocating

2 expenses related to shared ex- -- facilities.

3 Q. But in assigning an appropriate allocator, as you

4 propose, you do that based on a combination of total

5 revenues generated by all three companies, correct?

6 A. No.

7 Q. You do not?

8 MS. DAVIS: Adjusted.

9 A. Thank you. It's adjusted revenue.

10 MS. DAVIS: Adjusted.

11 BY MR. WILEY:

12 Q. Excuse me. Adjusted revenues.

13 And please accept that when I ask you about

14 revenues, I'm implying or suggesting adjusted revenues,

15 which you made clear in your testimony.

16 So my question is: But in assigning an

17 appropriate allocator, you do that based on a combination

18 of total adjusted revenues generated by all three

19 companies, correct?

20 A. And the number of customer -- or number of

21 employees and book value.

22 Q. Yeah. We know about the three factors. I'm only

23 asking you about the revenue factor here.

24 A. All right.

25 Q. Is the answer yes?

0167

1 A. Yes.

2 Q. Okay. Tell me, though, Ms. Cheesman, how can you

3 exclude costs incurred for utilities by a company in an

4 exclusive-use facility to arrive at an appropriate

5 percentage allocator if you are also including all of that

6 company's revenues as an essential element in your

7 three-factor allocation formula?

8 A. It's a very complicated answer, but I think I can

9 do it in just a couple sentences. The -- most of the

10 facilities that are shared are administrative, employee

11 parking, that sort of thing.

12 In order to allocate expenses to WC- -- W -- Waste

13 Control, Incorporated, I had to understand or at least know

14 the scope of the companies -- each company and their

15 con- -- contribution to consuming recourses, and the only

16 way to do that was to use the total -- the total company

17 adjusted revenue, number of customers, and book value of

18 assets.

19 Q. Well, I understand that you used all three of

20 those factors in your three-factor, but my question only

21 went to the revenue element of your three-factor and asked

22 you how you could exclude costs and include revenues.

23 Adjusted revenues.

24 A. Ex- -- exclude costs?

25 Q. Yeah. Okay. I'll read the question again.

0168

1 A. Please -- yeah. Please restate it.

2 Q. How can you exclude costs incurred for utilities

3 by a company in exclusive-use facilities to arrive at an

4 appropriate percentage allocator if you are also including

5 all of that company's revenues as an essential element or

6 factor in your three-factor allocation?

7 A. Staff does -- Staff uses adjusted revenue, the

8 total -- each total company's adjusted revenue, because it

9 reflects, on a basic level, the level of activity of each

10 company.

11 And yes, it varies from price to -- the different

12 outputs, which is price and quantity, but it generally

13 speaks to the level of activity of each company, and since

14 the buildings that are -- that are shared are admin

15 buildings, those buildings generally orchestrate the entire

16 organization.

17 Q. But in following up that statement, Waste Control

18 Recycling is the company that has the most exclusive-use

19 facilities, correct?

20 A. No. I did not notice that in my site visit.

21 Q. Well, have you subsequently come to any view on

22 that, based on your knowledge of all the data request

23 responses and discussions throughout, that Waste Control

24 Recycling has by far the most exclusive-use buildings of

25 the three companies?

0169

1 A. No.

2 Q. Okay. So you have no knowledge on that.

3 Let me ask the question this way, possibly:

4 Conversely, how can you include all revenues generated by

5 WCR but not all the utility expenses incurred by WCR, even

6 in exclusive-use buildings, and have a consistent and

7 accurate three-factor allocation?

8 A. I'm sorry. Can you restate the question?

9 MR. WILEY: Can I have the question read

10 back, Your Honor?

11 JUDGE FRIEDLANDER: Sure.

12 (Question was read back.)

13 MR. SHEARER: I'm sorry to object, Your

14 Honor, as asked and answered. I think we've flipped the

15 terms around in the sentence, but it sounds like the exact

16 same question that she's previously answered.

17 MR. WILEY: Well, Your Honor, I'm just asking

18 the flip side of it, and I think it's fair, based on that

19 last question, to follow up with that question, which I --

20 her response was unresponsive in my view.

21 JUDGE FRIEDLANDER: I'll allow it.

22 THE WITNESS: Could you please restate the

23 question?

24 BY MR. WILEY:

25 Q. I said --

0170

1 A. I don't understand the question.

2 Q. Okay.

3 A. Can you please clarify?

4 Q. Conversely, how can you include all revenues

5 generated by WCR but not all the utility expenses incurred

6 by WCR, even in exclusive-use buildings, and have a

7 consistent three-factor allocation?

8 A. The three-factor allocation was designed to

9 allocate shared utilities expenses. As far as it not -- I

10 don't share the same opinion that it -- it somehow puts

11 other companies at a disadvantage.

12 Like I said, I -- I allocated base -- I

13 allocated -- I used the share -- or sorry. I used the

14 three-factor allocation on three principles, and they are a

15 combination that the combination itself is what's

16 allocating these expenses, the shared utilities expense and

17 the shared depreciation.

18 Q. So when you -- it comes to one of the factors,

19 revenues, you're not being consistent, though, in including

20 them all, are you?

21 A. I've used all of the revenues, adjusted

22 appropriately.

23 Q. And you're using all the utility expenses?

24 A. All the utilities expenses incurred by all three

25 companies.

0171

1 Q. But not in any shared-use building, correct --

2 exclusive-use building?

3 A. That's correct.

4 Q. Okay. Wouldn't a more consistent approach,

5 Ms. Cheesman, be that either all WCR's revenues and

6 expenses need to be included for allocation purposes or

7 that WCR revenues would have to be proportionately reduced

8 to match with or conform to the exclusive-use utility

9 expenses you removed?

10 A. I can't speak to that, You- -- Your Honor. I

11 haven't fully reviewed it or analyzed the data to make an

12 informed decision about that.

13 Q. So you would at least acknowledge the possibility

14 that there may be a more consistent approach in order to

15 reach your allocation factor accurately?

16 A. No. I will admit that there are different factors

17 we could have used to build a three-factor allocation and

18 that it's the average percentage together that makes it

19 reasonable, not any one factor.

20 Q. So you're saying that you don't have to be

21 consistent in your computation of revenues and expenses in

22 order to have an accurate three-factor allocation?

23 MR. SHEARER: Objection, Your Honor. That's

24 argumentative.

25 MR. WILEY: Follow-up, Your Honor.

0172

1 JUDGE FRIEDLANDER: But can you rephrase it,

2 maybe?

3 MR. WILEY: Yes.

4 BY MR. WILEY:

5 Q. So are you saying that you don't have to be

6 consis- -- don't have to include all the revenues and all

7 of the expenses to be consistent with your three-factor

8 allocation?

9 A. No.

10 Q. Okay. Let's go to land rents. You've talked --

11 and I can cite you to where in the initial brief you cite

12 to it, if you want. At page 14, Section 32, of the initial

13 brief, you say --

14 A. Sorry. What page? And I didn't say this, again.

15 Q. Page 14. We all are dealing with the initial

16 briefs because those are on the contested issues, and

17 they're largely incorporated by reference in your

18 testimony, but that's why I'm asking.

19 At page 14, Section 32 of your initial brief, you

20 state as follows: "Regardless of the Commission's

21 preference for a company-wide or asset-specific capital

22 structure, a fair calculation of each facility's capital

23 structure in this case must reflect the Company's overall

24 debt ratios."

25 Is that your statement? The Staff's statement?

0173

1 A. That is my attorney's statement.

2 Q. Well, you weren't involved in helping the concepts

3 that went into the brief? My clients were in our brief.

4 You weren't in yours?

5 A. I'm not the one that wrote this initial brief.

6 Q. We understand you're not a lawyer, but you did

7 participate in inputting on the topics, I assume?

8 A. Yes.

9 Q. Okay.

10 A. Based on my supplemental tes- -- based on my

11 testimony.

12 Q. Okay. So you do say that statement in the brief,

13 meaning Staff says that, correct? Staff says that in its

14 brief?

15 A. So let's see. Give me a moment to read --

16 Q. Sure.

17 A. -- paragraph 33.

18 Okay. Can you please reask your question?

19 Q. Yes. I said, you say -- my question is: Do you

20 say there that "regardless of the Commission's preference

21 for a company-wide or asset-specific capital structure, a

22 fair calculation of each facility's capital structure in

23 this case must reflect the Company's overall debt ratios."

24 Does Staff say that there? That's a yes or no.

25 A. No, I -- I get that. I'm -- I'm reading the first

0174

1 sentence where Brett wrote, "Staff's testimony points out

2 that Heirborne I and Heirborne II's company-wide capital

3 structure reflects the companies actual risk profile and

4 cost-to-capital."

5 Q. Okay. I didn't ask about that question. I asked

6 about the subsequent question, and is it true it says

7 that -- what I read?

8 A. I'm sorry. I didn't see where you were reading.

9 Q. It's section -- at page 14, Section 32, of the

10 initial brief.

11 A. Forgive me. I was on the wrong paragraph. I

12 thought I followed it up with Section 33, but I wasn't

13 corrected.

14 Q. It's the last sentence in Section 32, page 14 of

15 the initial brief.

16 A. Okay. Just give me one moment to read that.

17 Q. Sure.

18 A. Okay. I'm ready, sir.

19 Q. So the answer's yes or no. You say that there,

20 correct?

21 A. Yes.

22 Q. Okay. Thank you.

23 By that statement, isn't Staff at least tacitly

24 acknowledging that there's no precedent in the solid waste

25 general rate case field for capital structure analysis on

0175

1 land rents that you propose?

2 A. Could you please clarify that question?

3 Q. Yeah. By that statement, which I just read,

4 aren't you at least tacitly acknowledging that there's no

5 precedent in the solid waste general rate field for the

6 capital struction on -- capital structure analysis on land

7 rents you propose here?

8 A. Yes.

9 Q. Okay. And in other words, you'd agree with the

10 Company's observation on rebuttal testimony, would you not,

11 that the Staff premise here is unprecedented? For solid

12 waste general rate cases --

13 A. For solid -- yes. For solid waste general rate

14 cases.

15 Q. We'll get into the utility analogy later.

16 A. It is precedented that total company capital

17 structures are used to calculate returns, but Heirborne I

18 and Heirborne II are not solid waste collection companies.

19 Q. That wasn't my question. My question was: In the

20 regulated solid waste ratemaking field at the Commission,

21 would you acknowledge that your approach for land rent

22 computation for cost and return on affiliated rents is

23 unprecedented? That's a yes or no, Ms. Cheesman.

24 A. I'm trying to think of an example, so at this

25 point in time, I'd like to say no.

0176

1 Q. That -- so you're saying -- can you give me an

2 example, then? If it is precedented, I'd sure like to

3 know, because I've searched for it.

4 A. I actually can't think of a case where there

5 was -- an adjudicated case where there was affiliate land

6 rents.

7 Q. Treated the way you treat it here, correct?

8 A. At lower cost of market?

9 Q. No, that's not what I said. I said the

10 cost-plus-return analysis that you use here, there's no

11 precedent for that in the solid waste field, is there? You

12 were asked in data requests about that and said no.

13 A. Right.

14 Q. Okay.

15 A. In -- in the solid waste industry, there is no

16 precedent for using lower cost of market or cost plus the

17 return for pricing affiliate transactions.

18 Q. During the course of this case, it's true that

19 Waste Control cited Bremerton-Kitsap Airporter that we've

20 all spent a lot of time talking about in pleadings and in

21 the course of this case in support of the premise that the

22 Commission had previously looked at asset-specific capital

23 structures, correct?

24 Waste Control cited BKA in support of saying,

25 "Hey, we don't like your approach. We think the

0177

1 asset-specific approach used by Bremerton-Kitsap Airporter

2 is an alternative to the company-wide capital structure"?

3 A. Bremerton-Kitsap Airporter did not use an

4 asset-specific capital structure.

5 Q. That -- my question was whether we cited to it,

6 not what the case did, but did we cite to it in support of

7 looking at the asset-specific structure?

8 A. I believe so, several times.

9 Q. Thank you.

10 In your initial brief at page 15, you actually say

11 that we required the use of asset-specific capital

12 structures or that it should apply universally to all

13 affiliate rent transactions.

14 Isn't it true, Ms. Cheesman, that we cited BKA as

15 an alternative when your rather onerous land rent

16 computation was proposed, and we said, "Hey, in a

17 transportation -- in a Title 81 case, this is what the

18 Commission did in looking at cost plus market and a return

19 on that for the owner"?

20 MR. SHEARER: Objection, Your Honor. Again,

21 that was -- I had a hard time following that question, and

22 it -- if Mr. Wiley could at least --

23 MR. WILEY: Sure.

24 MR. SHEARER: -- on some of these long-winded

25 ones, ask the question in a positive, just so the record's

0178

1 clear.

2 MR. WILEY: Sure.

3 BY MR. WILEY:

4 Q. Is it true that the Company cited BKA for the

5 proposition that the Company -- that the Commission, in a

6 Title 81 case, had looked at asset-specific capital

7 structures, in support of its argument that your approach

8 on land rents was not preferred?

9 A. Yes.

10 Q. Okay. To your knowledge, do other privately held

11 solid waste companies in Washington have nonregulated

12 affiliates?

13 A. Yes.

14 Q. And subject to check, would you accept that there

15 are privately held companies in the Washington marketplace

16 with numerous nonregulated affiliates who either own

17 transfer stations, recycling centers, or MRFs?

18 A. Yes.

19 Q. Okay. Then in applying your nonregulated capital

20 structure on the cost-plus-returns for computations of

21 affiliate rent, did you find any previous rate filing by a

22 regulated Washington privately held solid waste company

23 where your premise of using nonregulated capital structures

24 to compute rent had been employed or validated?

25 A. Not to my memory or recollection.

0179

1 Q. It's true, is it not, that -- we've gone over the

2 differential between the Staff and the Company on utility

3 expense. It's true, is it not, that on land rents, we

4 remain very far apart; is that correct?

5 A. Can you please ask the question in a positive?

6 Q. In a positive. I -- you know, I -- this is

7 cross-examination, so you're asking me to put on another

8 hat, Ms. Cheesman.

9 But is it true that, aside from the utility

10 expense disagreement that we've been over and completed,

11 that in land rents, from a monetary standpoint, the Company

12 and the Staff remain very far apart?

13 A. Yes.

14 Q. I'm going to -- let's look at the next exhibit in

15 line, which should be Mr. Demas's table from his original

16 testimony. Do you have that?

17 A. I do.

18 Q. I'm trying to find it now. I -- hopefully, I'll

19 get it okay.

20 A. I can give you back your copy.

21 Q. Yes. I -- so you -- do you recognize that

22 document?

23 A. I do.

24 Q. Okay. And in looking over the specific properties

25 listed, it's correct, is it not, that Staff is impressing a

0180

1 hypothetical capital structure on all the nonregulated

2 affiliates listed?

3 A. No.

4 Q. Okay. What -- could you clarify that, then,

5 please?

6 A. So, I give an explanation of my capital structure

7 in my initial testimony filed July 18th, 2014, on page --

8 Q. But -- are you saying this in response to my

9 question about the -- what capital structure and what

10 buildings you're impressing?

11 A. Well, you asked -- the question, I understood to

12 be about what Staff's capital structure is.

13 Q. No. I said look at the table that Mr. Demas

14 developed, and I'm saying: Is it true that you are

15 impressing a hypothetical capital structure on all the

16 properties owned by the nonregulated affiliates in that

17 list?

18 We can go back to Workpaper 12 if we need to

19 divine which ones are which, but I assumed that you were.

20 Was that incorrect?

21 A. That's incorrect.

22 Q. Okay.

23 A. No, I did not use hypothetical capital structures

24 in calculating each Heirborne I and Heirborne II's capital

25 structure.

0181

1 Q. Okay. But what is a hypothetical capital

2 structure?

3 A. Something other than the capital structure that is

4 apparent on the balance sheet, which is the actual debt of

5 the company and the total equity of a company.

6 Q. Couldn't that be also described as any structure

7 that is not related to the actual debt or capital structure

8 that's encumbering the property or relative to the

9 property?

10 A. Not to my knowledge.

11 Q. Okay. Again, how do you define capital structure

12 for our purposes so that I can contrast it with our folks

13 in terms of how you define it?

14 A. Again, capital structure is the actual debt on the

15 balance sheet and total equity.

16 Q. So it's actual, it's not in any way hypothetical,

17 even on properties that appear to have different

18 debt-equity structures in reality in looking at the debt

19 than you suggest; is that correct?

20 A. I'm sorry. Can you re- -- I'm -- can you clarify

21 the question? I don't understand it.

22 Q. Yeah. Maybe I can ask it that way -- this way:

23 I'm trying to understand your answer about what hypoth- --

24 you're saying it's actual capital structure, and we're

25 asking: Did you, in fact, impress or impose or suggest a

0182

1 capital structure that was different than actual on any of

2 the properties shown in Table No. 1?

3 A. No.

4 Q. Okay. So you're saying that you impressed actual

5 capital structures on all of the properties?

6 A. I im- -- yes. I imposed the actual capital

7 structure of Heirborne I on all the properties it owns and

8 Heirborne II on the property it owns that it rents that --

9 all these properties are rented to Waste Control, Inc., the

10 regulated company.

11 Q. Couldn't -- okay. So you answered my question

12 that a hypothetical structure is one that's not related to

13 the actual structure. You've said that you didn't do that.

14 Is using hypothetical capital structures in solid

15 waste cases a recognized policy or case precedent that

16 you're aware of?

17 A. Yes. I am aware of one instance wherein -- I

18 believe it's Sno-King -- it is adequate to use a

19 hypothetical capital structure in -- where there is a

20 diminishing return when equity goes above 60 percent, and

21 so that would cap 60 percent as input into the

22 Lurito-Gallagher.

23 Q. Are --

24 A. Their actual debt remains the case.

25 Q. Are you referring to the 1991 Sno-King case that

0183

1 adjusted recycling rates based on the Waste

2 Management/Sno-King facts?

3 A. I'm referring to the Sno-King case.

4 Q. And so -- and you're talking about the

5 Lurito-Gallagher debt-to-equity; is that true?

6 A. That is correct.

7 Q. Okay. You're not -- I'm talking about the land

8 rents. Are you saying they're one and the same?

9 A. No, I am not.

10 Q. Okay. Well, how do you distinguish that? My

11 question goes: For land rents, are you aware -- for

12 calculating affiliate land rents and return, are you aware

13 of any Commission final order which had established a

14 hypothetical capital structure for computing affiliate land

15 rents?

16 A. Any order?

17 Q. Any final order from the Commission that had

18 established Commission precedent in allowing a hypothetical

19 capital structure for computation of affiliate land rents

20 and return thereon?

21 A. Yes. In the Bremerton-Kitsap case.

22 Q. That's not a solid waste case, is it?

23 A. I thought you said -- oh. No. You're right, sir.

24 That is a transportation case.

25 Q. Okay. And so --

0184

1 A. There is no precedent in solid waste.

2 Q. That's what my question went to.

3 And so it -- you've cited in some of your

4 testimony to energy and other utility Commission cases

5 where they have authorized hypothetical capital structures,

6 correct?

7 A. Can you please point me to where in my

8 testimony --

9 Q. Okay.

10 A. -- I say that, please?

11 Q. I want to make sure it's not the initial brief.

12 You cite to the Avista case. I think it may be the initial

13 brief. Yes. Let me go -- let me find it.

14 Yes. It's at Footnote 24, page 7, of your initial

15 brief. Staff cites to utility cases on the issue of

16 calculating return on rents and other elements, do they

17 not?

18 A. Again, I didn't write this, so I'm going to need a

19 minute to review the --

20 Q. Sure.

21 A. -- information on this page.

22 Q. All I'm asking you is to look at Footnote 24 at

23 page 7.

24 A. Right. And I also want to know what --

25 Q. Sure.

0185

1 A. -- it's also ref- -- what it's footnote to.

2 Okay. Can I please have your question again?

3 Q. In that footnote, the Staff cites to some

4 utility -- it says, "Multi-state utilities under the

5 Commission's jurisdiction allocate certain costs based on

6 the basis of fixed asset book value."

7 That's one of the formulas you use in your

8 land-rents three-factor allocations, correct?

9 A. Yes, it's one of the factors used in the

10 three-factor.

11 Q. Okay. So I'm asking you there if, in fact, those

12 cases, those companies that you cite to in that footnote

13 are all publicly traded companies.

14 A. Your Honor, I did not write this. Brett -- my

15 attorney, Brett Shearer, wrote this, and he's the one that

16 made these referrals. I have --

17 Q. Staff --

18 A. -- not studied these cases.

19 Q. Can we interpret my question to be Staff? You:

20 Staff. "Staff" is general, and I'm saying you cite to

21 those cases, they appear to all be publicly traded

22 companies, are they not?

23 A. I can say yes, subject to check.

24 Q. Okay. Fine.

25 And they would have far different interaction and

0186

1 dynamics with their respective capital markets than a

2 privately held garbage company would, wouldn't they?

3 A. Yes.

4 Q. Isn't it true, in looking at the capital structure

5 on the leased facilities, and as documented by various

6 exhibits and workpapers in this record, that most of the

7 properties being rented by Waste Control, Inc., have no

8 acquisition debt component? Is that correct?

9 THE WITNESS: Your Honor, can I please have

10 the question stated in a positive?

11 BY MR. WILEY:

12 Q. Do the companies -- do the facilities that are

13 reflected in the record owned by the three companies, and

14 here the -- the one, that most of the properties being

15 rented by Waste Control, Inc., have no acquisition debt

16 component? Based on the lists of all the properties, et

17 cetera, isn't it true that most of the companies that WCI

18 leases don't have any acquisition debt component in their

19 capital structure?

20 A. So there were multiple questions. Can I have the

21 first one read back to me, please? I -- I'm sorry. I

22 heard two questions. The first one was: Do the facilities

23 owned by three companies --

24 Q. Let me rephrase it for you.

25 JUDGE FRIEDLANDER: Okay.

0187

1 BY MR. WILEY:

2 Q. Is it true that most of the properties being

3 rented by Waste Control, Inc., have no acquisition debt

4 component?

5 A. Yes. Those three -- most of those properties do

6 not have debt associated with them.

7 Q. If that is so, would you agree that even

8 properties enjoying an 100 percent equity with no debt

9 component associated with them should be able to also

10 receive a return on equity of the entire value of that

11 leased property?

12 A. No, because all of the properties are held as

13 collateral for that debt, for the total debt for

14 Heirborne I.

15 Q. So your answer is that no, it isn't, because of

16 the cross-collateralization by Waste Control, Inc., of all

17 of the debt of all of the companies?

18 A. Yes, that is one. And then two, for determining a

19 reasonable return to Heirborne I and Heirborne II, Staff

20 used the total -- or each company's capital structure in

21 calculating that return.

22 Q. That point's made -- been made very clear on your

23 case, but it's not what I'm asking here. I've -- you've

24 answered my question, and my follow-up to that is: How is

25 it ever reasonable to assign a debt structure component to

0188

1 a debt-free asset?

2 A. It's not a debt -- it's -- okay. It's not a

3 debt-free asset. In a situation where there is no debt

4 associated with that asset, then the company's capital

5 structure would reflect that as well.

6 Q. Well, if the -- if Waste Control, Inc., doesn't

7 have any debt, how can you say vis-à-vis Waste Control,

8 Inc., "It's not a debt-free asset"?

9 A. If Waste Control, Inc., doesn't have any debt on

10 its books, then it doesn't have any debt.

11 Q. Like the office building which we've talked about,

12 the 1150 3rd Avenue, if it doesn't have any debt on its

13 books, why is it reasonable to assign debt to it?

14 A. It -- it does not have any direct debt associated

15 with those -- with the older assets, but they are held as

16 collateral for the Company's total -- or for Heirborne, I

17 should say, not total, for Heirborne's debt.

18 Q. So do you think it's reasonable to employ a

19 subjective approach in assigning debt?

20 MR. SHEARER: Objection. That was

21 argumentative, Your Honor, by assigning a "subjective"

22 component to it, which Ms. Cheesman may or may not agree

23 with.

24 MR. WILEY: Well, Your Honor, she's just

25 testified that she's made a decision, you know, in terms of

0189

1 rearranging the capital structure. I'm just saying: Is it

2 reasonable to employ a subjective as opposed to an

3 objective approach in assigning debt?

4 JUDGE FRIEDLANDER: And Ms. Cheesman can

5 answer whether or not she thinks that's subjective.

6 A. I do not. And then also, Staff -- Staff used each

7 company's capital structure. I didn't use a hypothetical

8 capital structure.

9 BY MR. WILEY:

10 Q. When you said, "I do not," I took it that you were

11 saying that you don't think it's reasonable to employ a

12 subjective approach in assigning debt; is that correct?

13 Yes or no.

14 A. I do not think it's reasonable to use a subjective

15 approach.

16 Q. And by that, I mean: Should an auditor be

17 permitted to just conclude that an affiliate is making too

18 much from the affiliate rent in their view and offset that

19 by imputing debt on the property in question?

20 A. No.

21 Q. What if the property is owned by an unrelated

22 third party, though? Hypothetically, it's an unrelated

23 third -- and was paying a market rate. There, as an

24 auditor, as I understand your testimony, you would allow a

25 considerably higher rent in rates rather than the

0190

1 fixed-asset return on asset-based rates for affiliate rent;

2 is that correct?

3 A. That is correct, but also needs to be clarified.

4 In that situation, there's an arm's-length transaction, and

5 RCW 81.16 states in the lack of arm's-length transaction,

6 that we bear more scrutiny on affiliate transactions, and

7 what Staff did was price it at cost plus a return.

8 Q. Isn't it also true that here we have calculated

9 and the Staff has now accepted, for Lurito computation

10 purposes, a 60 percent equity for the Company, which is

11 also owned by the same principals you are attempting in

12 your land-rents computation to allow only a 6 percent

13 equity return for five of the six properties in question?

14 Do you want me to repeat the question?

15 A. Yes, and also in a positive, please.

16 Q. I'm just going to ask it the way I am, and we'll

17 decide if there's an objection.

18 Isn't it true that we have calculated and the

19 Staff has now accepted, for Lurito-Gallagher ratemaking

20 purposes, a 60 percent equity percentage for the Company?

21 Is it true?

22 THE WITNESS: Your Honor, can I have the

23 question in a positive?

24 JUDGE FRIEDLANDER: Can somebody explain to

25 me what having it in a positive means?

0191

1 MR. WILEY: I don't know either.

2 THE WITNESS: Well, because if -- if he asks

3 the question, "Isn't it true," then the answer would be no.

4 If he says, "Is it true," the answer would be yes.

5 MR. WILEY: I mean, I've been doing this for

6 35 years. I've never been asked to rephrase in that

7 fashion, Your Honor. I'm just having a little difficulty

8 rephrasing and getting the same context.

9 JUDGE FRIEDLANDER: Right. Okay. Well, why

10 don't we go with -- you've obviously understood the

11 question, so you've said in both ways what the answer would

12 be. If you need to clarify either of those answers, go

13 ahead, but I think then we can move on, because you have

14 answered the question in both ways.

15 THE WITNESS: Yes, ma'am.

16 JUDGE FRIEDLANDER: Okay.

17 MR. SHEARER: Yes, Your -- I just wanted to

18 clarify. I think what -- meaning when we refer to "a

19 positive," it's just an attempt to avoid double negatives

20 in a sentence. That's all.

21 JUDGE FRIEDLANDER: Okay. Thank you.

22 BY MR. WILEY:

23 Q. So you answered my question that you did agree on

24 a 60 percent equity percentage for Lurito, correct? Is

25 that what I just heard you say?

0192

1 A. Yes, at settlement.

2 Q. Okay. And that -- the Company that you agreed

3 for -- upon that on was Waste Control, Inc., and that is

4 owned by the same group, is it not, the same principals,

5 that, under your land rent analysis, you are trying to

6 allow -- or allowing a 6 percent equity percentage for five

7 of the six properties in question? Is that correct?

8 A. Yes.

9 Q. Okay. Is that logical in your view --

10 A. Yes.

11 Q. -- and if so, why?

12 A. Yes. Sorry for mis- -- overtalking. Yes, and

13 because the 60 percent, again, is authorized by the

14 Sno-King final order fourth and fifth, capping equity

15 re- -- the equity of a capital structure at 60 percent.

16 Q. But that -- my question is directed to the

17 6 percent in the second part of my question, which is: How

18 is that logical to allow only a 6 percent equity percentage

19 for five of the six properties that are owned by the

20 nonregulated affiliate?

21 A. There is no precedent for Staff to use as a

22 baseboard to adjust the Company's actual capital structure.

23 Q. Meaning the regulated company's; is that correct?

24 A. Meaning Heirborne I and Heirborne II's capital

25 structures.

0193

1 Q. And why's that relevant? If you'd just explain

2 your answer a little better, maybe I will understand it.

3 There's no precedent for adjusting Heirborne I and II. How

4 did that relate to my question about the 6 percent equity

5 percentage on five of the six properties?

6 A. Can we get the question reasked, please, or

7 restated? Could you read it back, please?

8 Q. It was a follow-up question, Ms. Cheesman, asking

9 you why your testimony about the 60 percent equity

10 percentage had any bearing on the 6 percent nonregulated

11 affiliate return that you allow on five out of six of the

12 properties. I was just trying to understand what your

13 testimony was.

14 A. The -- Waste Control, Incorporated's, capped

15 60 percent has no bearing on Heirborne I's 6 percent

16 equity.

17 Q. You say in your supplemental testimony that on the

18 issue of capital structure for land rents, in looking at

19 the regulated Company's capital structure, the Staff is

20 calculating a cost plus return on the basis of the landlord

21 rather than the tenant status, correct?

22 A. Yes.

23 Q. Okay. But in your own capital structure rendition

24 for HBI and HBII, aren't you, in fact, imputing cumulative

25 debt onto the landlord's property for projects and

0194

1 investments that have no bearing on the property's actual

2 use by WCI?

3 A. No. No.

4 Q. You're not impressing cumulative debt onto the

5 HBI/HBII property for projects and investments that have no

6 bearing on the use of the property by WCI? Is that your

7 testimony?

8 A. Is that in my testimony?

9 Q. Is that your testimony?

10 A. No. I mean, yes. No. They do not have -- I'm

11 not implying debt onto an asset specifically that is

12 debt-free.

13 Q. Well, in your proposed capital structure, aren't

14 you also, in fact, diluting all the allowable rents paid

15 by -- paid because of the affiliates' debts on unrelated

16 assets?

17 A. No. I'm calculating a fair return based on the

18 Company's -- Heirborne's capital structure or Heirborne

19 II's capital structure.

20 Q. But my question went to allowable rents, and it

21 said: Under your hyp- -- your capital structure premise,

22 aren't you, in fact, diluting all the allowable rents paid

23 because of the affiliates' debts on unrelated assets?

24 A. No.

25 Q. You're not diluting rents?

0195

1 A. No.

2 Q. Can you explain why you say that?

3 A. The return -- so we -- we agree that there should

4 be an addition. The Company and Staff agree that the

5 expense and average investment be included, so we've added

6 cost, and in that portion of the investment, it -- we

7 calculate a return for Heirborne I and Heirborne II based

8 on their total company capital structure. In this way, it

9 represents a fair picture of Heirborne I and Heirborne II's

10 financial risk.

11 Q. But my question went to the allowable rents that

12 were paid by the regulated affiliate, and aren't -- I'm

13 saying: Aren't you reducing that rent because of the

14 affiliate landlord's debt on unrelated assets, unrelated to

15 WCI? You're saying you -- you aren't doing that?

16 A. Reducing the income statement expense by Staff's

17 calculation for rent or cost plus the return, yes.

18 Q. So the answer to my question is you are reducing

19 the allowable rents?

20 A. No. I'm asking that what be allowed is Staff's

21 calculation and Staff reduce what the Company booked for

22 its rents.

23 Q. I think you've answered my question.

24 Another area of dispute on land rents is obviously

25 the return on equity; isn't it?

0196

1 A. Yes.

2 Q. Okay. Would you agree that on an 100 percent

3 equity property, the Company has suggested a 15 percent

4 return?

5 A. That's the Company's position?

6 Q. Yes. I'm asking you: Is the Company's position

7 that it should get an ROE of 15 percent on an 100 percent

8 equity property?

9 A. Yes, that is the Company's position.

10 Q. So let's walk through this a little bit. So if,

11 for instance, a property is worth $100,000, the annual

12 return at 15 percent would be $15,000, and this would mean,

13 by your calculations -- or by our calculations, $1,250 in

14 monthly rent, then, which would be allowed, because you --

15 you'd multiply -- you'd divide, rather, 15,000 by 12 and

16 get 1,250 per month; is that correct? Are my numbers

17 correct?

18 A. Subject to check.

19 Q. Okay.

20 A. I can agree to that, subject to check.

21 Q. Going back to Mr. Demas's table, where you said

22 you're not impressing a hypothetical capital structure,

23 isn't it true that the Staff has, in turn, advocated

24 calculations that the test -- that would return

25 approximately 6.33 percent equity percentage with a

0197

1 12.5 percent on equity -- 12.52 percent on equity and a

2 concomitant 93.67 percent of debt incurred using a

3 1.93 percent of cost of debt?

4 And I'm cal- -- I'm asking you to look at the

5 calculations in Table 1 on the left side, which source the

6 assumptions as Staff Data Request Response No. 5.

7 A. So, yes, Staff is advocating a 6.33 percent for

8 equity.

9 Q. For the sake of discussion -- and again, subject

10 to check -- is it true that the scenario you have advocated

11 would then result, under the numbers that I just showed

12 you, in allowable rent for that same $100,000 building of

13 $2,600 per year? Subject to check.

14 A. Sub- -- I can -- subject to check.

15 Q. Okay. Do you have any reason now to doubt that

16 calculation? You're willing -- you're free to do it right

17 now.

18 A. Well, I -- I would have to look at what you're

19 looking at and then do the calculation.

20 Q. Yeah. I'm not looking at a computation. I'm just

21 looking at a question that I wanted to ask you about this,

22 and I'm saying: $100,000 building at your -- at 6.33

23 equity per -- return, you would get allowable rent of 2,600

24 per year?

25 A. $100,000 building at 6.33 percent --

0198

1 Q. -- returns $2,600 per year under your

2 recommendation?

3 A. Again, subject to check.

4 Q. Okay. So --

5 MR. SHEARER: Your Honor, I'd just like to

6 request clarification. When we're mixing the terms "rents"

7 and "returns," I mean, those terms aren't synonomous --

8 MR. WILEY: Excuse me?

9 MR. SHEARER: -- for the -- for me, for the

10 record.

11 MR. WILEY: Okay.

12 MR. SHEARER: So I'm just -- I'm not sure

13 which one we're talking about when.

14 MR. WILEY: We're talking about return on

15 equity and the kind of return that the Staff wants to allow

16 the owner of the property to earn.

17 JUDGE FRIEDLANDER: Which you're deriving

18 from the return on equity divided by 12 equals the rent.

19 MR. WILEY: Right. Right, Your Honor.

20 MR. SHEARER: Is it -- it's the rent or the

21 return?

22 MR. WILEY: The allowed rent in my latest

23 question. Allowable rent. Allowed rent.

24 BY MR. WILEY:

25 Q. So that $100,000 building, Ms. Cheesman, has

0199

1 $2,600 per year in allowable rent, and divided by 12, that

2 would be $216 a month, wouldn't it?

3 A. Yes.

4 Q. Okay. Would you agree that that's a 2.6 -- you

5 agree, then, that's a 2.6 return, calculated on a monthly

6 basis now of $216, under my scenario?

7 A. You said 2.6 return --

8 Q. $216 a month allowable rent under your formula?

9 A. Right, subject to check.

10 Q. Okay. You cite under the affiliated-transaction

11 rule interpretation your cost-plus return or market,

12 whichever is less, correct?

13 A. That's correct.

14 Q. Okay. We would not -- in this circumstance, I

15 believe you said we wouldn't be looking or you've implied

16 that we wouldn't be looking at market value as being less,

17 we'd be looking at cost plus return for affiliated

18 transactions; is that correct?

19 A. I'm -- I'm -- I don't recall ever saying that, and

20 if it is in my testimony, would you please direct me to it?

21 Q. No. Just for the purposes of my question now,

22 assume that that's a hypothetical, then. You've said that

23 cost-plus return or market, whichever is less, is the

24 mantra on an affiliated-transaction rule, correct?

25 A. That's correct.

0200

1 Q. Okay. If we are looking at market value, are --

2 would it be fair to say that a property, a commercial

3 property, in downtown Longview would likely rent for more

4 than $216 per month?

5 A. I have no idea.

6 Q. Can you, just based on your review of -- can

7 you -- is it a fair assumption, then? Is that a fair

8 assumption?

9 A. I guess, subject to check. I -- I have no -- I

10 have -- I have not reviewed market values for downtown

11 Longview.

12 Q. Well, then how do you know that cost plus return

13 is lower than market value?

14 A. I did look at market values for industrial

15 properties, where -- that could house recycling -- or not

16 recycling, garbage collection operations.

17 Q. Did you come to any conclusion as to whether cost

18 plus return or market for industrial properties was a lower

19 cost?

20 A. My initial reviews showed that the market was

21 higher.

22 Q. So the market would be higher, so you'd use cost

23 plus return?

24 A. That's correct.

25 Q. Okay. Were you -- when you were setting your

0201

1 cost-plus-return affiliate rents computations into play,

2 did you ever investigate commercial properties in the

3 Longview/Kelso area?

4 A. Yes.

5 Q. You said, "Industrial;" now you've -- you're

6 saying that you did --

7 A. Those are -- to -- to qualify "industrial," those

8 include commercial properties.

9 Q. Okay. So we usually talk about residential,

10 commercial, and industrial real estate. So you're saying

11 that, for the purposes of your answer, commercial and

12 industrial are the same?

13 A. That's correct.

14 Q. Okay. So -- but isn't it true, other than the one

15 property that you talked about, that you just assumed cost

16 plus return would be lower than market in a generalized

17 sense?

18 A. Isn't it true --

19 Q. -- that you assumed cost plus return would be

20 lower than market in your analysis?

21 A. I assumed cost plus the return would be lower than

22 market, no.

23 Q. You didn't make any assumptions?

24 A. I did not assume that.

25 Q. So, but you used cost plus return throughout, not

0202

1 market, correct?

2 A. That is correct.

3 Q. Okay. Under either a cost-plus return or a market

4 analysis, can you say that a 2.6 percent return on an 100

5 percent equity building, a building without debt, is a fair

6 return for an investor?

7 A. I -- I don't know.

8 Q. So the answer is you don't know?

9 A. The -- my answer is I don't know.

10 Q. Have you ever heard of 2.6 percent for commercial

11 property being a good return that investors would want?

12 A. For return on investment?

13 Q. For real property, commercial real property.

14 You looked at REITs, didn't you, in your

15 discounted cash flow analysis, so you know what the market

16 is bearing. It's a lot more than 2.6 percent, isn't it?

17 A. Right. My DCF calculation looked at the cost of

18 equity, which is a cost of the return on investment, and

19 the 2-point that Mr. Wiley's referring to is the return on

20 investment using that DCF, 12.5 --

21 Q. That's not --

22 A. -- percent.

23 Q. -- my question. My question is: When you looked

24 at the REITs and you used those in an example, did you see

25 the kind of returns that real estate investment trusts

0203

1 typically generate on equity?

2 A. No.

3 Q. Excuse me?

4 A. Sorry. No.

5 Q. Okay. Returning to your testimony on the cost of

6 equity or return on equity, is it true that you performed a

7 discounted cash flow calculation to arrive at what you

8 recommended for HBI and HBII for return on equity?

9 A. Yes.

10 Q. You remind us in your supplemental testimony that

11 the Commission has recently -- or excuse me. You remind

12 us, as you first said in your initial brief, reminding us

13 in your supplemental testimony, that the Commission has

14 recently said that DCF analyses that relied on historical

15 rather than forward-looking figures was acceptable; is that

16 correct? In other words, that the Commission has approved

17 that?

18 A. Can you please --

19 Q. Yeah.

20 A. -- point me to where --

21 Q. Let -- let me just ask you this question. Have

22 you said or have you suggested that DCF analyses that

23 relied on forward-looking figures rather than historical

24 ones had been approved by the Commission?

25 A. Yes.

0204

1 Q. Okay. But that dealt with a utility case, did it

2 not? Your reference?

3 A. Yes, ma'am.

4 Q. And that -- utilities would have widely available

5 capital markets, wouldn't they?

6 A. Yes, they would.

7 Q. Okay. You aren't, for instance, saying that

8 small, privately held Washington solid waste companies have

9 similar capital access, do -- are you?

10 A. No, I'm not.

11 Q. Okay. You're also not saying that the Commission

12 has formally articulated related theories in DCF updates

13 for solid waste Company ratemaking purposes, are you?

14 A. No, I'm not.

15 Q. Okay. You completed -- in both of your

16 testimonies and in the initial brief, you talk about this

17 calculation that you engaged in for discounted cash flow.

18 Do you recall testifying about that?

19 A. Yes, ma'am.

20 Q. Okay. You meant, "sir"?

21 A. I mean, yes. Yes, sir.

22 Q. Thank you.

23 A. I -- I looked at the -- Your Honor, and I -- I'm

24 sorry. Yeah. Yes, sir.

25 Q. You also say in a footnote from your supplemental

0205

1 testimony at page 5 that that was taken from a Value Line

2 and SEC website. Do you recall that?

3 A. Yes.

4 Q. Okay. And those -- the companies that are shown

5 in that reference are Annaly Capital and Realty Income

6 Corporation; is that correct?

7 A. That's correct.

8 Q. Did you select or otherwise choose those two

9 companies to represent the maximum equity returns you would

10 recommend the Company should earn?

11 A. Yes.

12 Q. And again, your original exhibit, MC-6, shows that

13 to be Annaly Capital and Realty Income Corporation, and I'm

14 asking you: What is Annaly Capital, please?

15 A. It's a real estate investment company that

16 specializes in security-backed mortgages.

17 Q. And, in fact, is Realty Income Corporation also a

18 REIT which the web -- the Internet appears to say is "The

19 Monthly Dividend Company"? Do you know if it's a REIT

20 that's known as "The Monthly Dividend Company"?

21 A. Are you talking about the other company, you mean?

22 Q. Yeah. I'm talking about the Realty Income

23 Corporation.

24 A. Realty Income Corporation, I've not heard that,

25 but they are a commercial property company.

0206

1 Q. And subject to check, would you accept that

2 Wikipedia talks about that and its habit of paying

3 investors dividend on a monthly, rather than a quarterly,

4 basis?

5 A. Subject to check, but I would just like to say for

6 the record that Wikipedia is not a primary source for data.

7 Q. Well, just in case it is in this circumstance --

8 MR. SHEARER: I was going to --

9 MR. WILEY: -- you can --

10 MR. SHEARER: -- object on relevance grounds,

11 but --

12 BY MR. WILEY:

13 Q. So getting back to the mechanics of what you did,

14 you did not do any discounted cash flow calculations

15 yourself, but instead took the calculations from a Value

16 Line analysis of two REITs and added them together,

17 correct?

18 A. That's correct.

19 Q. Okay. Could you tell me how two humongous real

20 estate investment trusts can be compared to a small,

21 privately held garbage company in your view?

22 A. So both, again, were publicly traded -- because

23 Heirborne I and Heirborne II are privately held, they don't

24 have the same data available in the market or by Value Line

25 or SEC, so Staff used data that was available.

0207

1 Staff selected five companies, two of which are

2 the ones that Mr. Wiley outlined, and compared capital

3 structures between the companies that are publicly traded

4 and the companies -- and the two, Heirborne I and

5 Heirborne II. The companies that had the closest capital

6 structure to Heirborne I and Heirborne II were selected.

7 Q. So, and those were Annaly Capital, for which you

8 recommend a 12.5 percent return on equity, correct, for

9 HBI?

10 A. That's correct.

11 Q. And that's actually -- your calculation really

12 has -- we won't -- we won't go through your calculation,

13 but you come to 12.5; is that correct?

14 A. Yes, sir.

15 Q. So you said that you selected those two REITs.

16 Why would you select billion-dollar REITs as being

17 comparable?

18 A. I wanted to give the -- Heirborne I and

19 Heirborne II the fairest market cost-to-capital available.

20 Q. And you thought in selecting two billion-dollar

21 REITs, that was doing that; is that correct?

22 A. That is correct.

23 Q. Okay. You -- now, getting to the return on equity

24 for HBII, you add the Realty Income Corporation's earning

25 growth of 8.65 percent to the Value Line dividend yield of

0208

1 4.5 percent to arrive at 13.5 percent return on equity; is

2 that correct?

3 A. That is correct.

4 Q. Can you explain again how those computations from

5 those REITs relate to Waste Control's interactions with its

6 nonregulated companies for returns -- for recommended

7 returns on equity? Why do you think they're comparable?

8 A. I try -- I think they're comparable because I --

9 again, and based on capital structure and these -- both

10 companies are in the real estate -- real estate investment

11 business.

12 Q. And they're REITs, and I'm citing -- I cited

13 before to Wikipedia. I also went on Google, and would it

14 surprise you to learn that Realty Income Corporation had

15 approximately $12.6 billion in assets in 2014 and a net

16 income of $203 million?

17 A. Subject to check, that's very interesting.

18 Q. And Annaly Capital is one of the -- in the

19 Fortune 1000 and is the sixth fastest-growing company in

20 the Fortune 1000?

21 A. That's very interesting. That -- I guess, for me,

22 that means that the returns that I gave were pretty good.

23 Q. And that's because you think that those companies

24 are profitable and you're allowing that kind of return on

25 equity for the nonregulated affiliates for a Washington

0209

1 privately held garbage company?

2 A. Yes.

3 Q. So are you testifying that returns on equity of

4 these real estate investment trusts and their discounted

5 cash flow analyses are applicable to regulated Washington

6 solid waste collection companies?

7 A. No. The Lurito-Gallagher determines the return

8 for a solid waste collection company.

9 Q. Okay. But you've used that in recommending return

10 for nonregulated landlords, have you not?

11 A. No. Heirborne I and Heirborne II are not solid

12 waste collection companies.

13 Q. But they are part of a solid waste company family,

14 are they not? You've made that point throughout your

15 testimony, how closely related they are.

16 A. They are affiliates, closely related affiliates,

17 to solid waste collection companies, but themselves are

18 property investment companies.

19 Q. So I take it that, in answer to my question, you

20 believe that the returns on equities of these REITs are or

21 are not applicable to the Waste Control families in terms

22 of the discounted cash flow analysis and the return on

23 equity?

24 A. Staff's discounted flow cash -- discounted cash

25 flow calculation for Heirborne I and Heirborne II are only

0210

1 applicable to property investment companies.

2 Q. Including REITs?

3 A. Including REITs?

4 Q. Yes.

5 A. Including REITs. It's a private -- if it's a

6 public -- if it's a -- it's in the industry of property

7 investment, then it would be included.

8 Q. So private or public, you'd analogize; is that

9 what you're saying?

10 A. That's correct.

11 Q. Okay.

12 A. With the lack of anything else supporting a

13 cost -- a cost -- a cost of equity, Staff tried to sup- --

14 provide a supported -- well, not tried. Staff included a

15 supported calculation of cost of equity based on market

16 conditions of companies comparable by capital structure.

17 Q. And that included publicly traded companies?

18 A. It only included publicly traded companies.

19 Q. Wouldn't it be true that returns on equity for

20 closely held asset companies would typically yield

21 considerably higher returns on equity than publicly traded

22 entities?

23 A. I'm not sure about that. I -- I wouldn't know.

24 Q. Did your return-on-equity recommendation also

25 evaluate factors that generally bear on the rate of return,

0211

1 such as whether higher amounts of debt equate to higher

2 risk factors, necessitating a higher rate of return?

3 A. So the reason why Staff used total --

4 MR. WILEY: Your Honor, if I could have a yes

5 or no to that question and then an explanation?

6 THE WITNESS: I'm sorry.

7 MR. WILEY: Do you want the question read

8 back?

9 THE WITNESS: Yes, please.

10 MR. WILEY: If she allows it.

11 JUDGE FRIEDLANDER: Please.

12 (Question was read back.)

13 A. Yes.

14 BY MR. WILEY:

15 Q. And what was the result of that?

16 A. The result of that is...

17 Q. You rejected 15 percent, which is higher?

18 A. Right.

19 Q. What -- how did you result in a higher rate of

20 return for a privately held company based on my question --

21 I don't understand your answer -- is my question to you,

22 now.

23 A. Well, then, I guess I misunderstood your question.

24 I thought you were talking about in soc- -- in association

25 to debt.

0212

1 Q. No. I'm saying, did you -- did your

2 return-on-equity recommendation also evaluate factors that

3 generally bear on the rate of return, such as whether

4 higher amounts of debt equate to higher risk factors,

5 necessitating a higher rate of return?

6 A. No, and apologies for my last answer. I was

7 confused.

8 Q. Fair enough. Thank you.

9 By the way, do you know -- before we leave the

10 world of REITs, which has been fascinating, do you know how

11 real estate investment trusts function in terms of their

12 income flow and tax obligations?

13 A. No.

14 Q. Well, could you acknowledge that it -- a REIT is a

15 corporation that typically avoids federal income tax by

16 paying out at least 90 percent of its income to

17 shareholders?

18 A. No. I'm not -- I do not know that.

19 Q. Subject to check, assuming that's accurate, how

20 would that organizational structure of paying out

21 90 percent of income to shareholders, avoiding tax, be

22 relevant to HBI and HBII in terms of how they operate?

23 A. I don't know.

24 Q. And assuming that I was correct that they do pay

25 out -- REITs generally pay out part -- most of their income

0213

1 to avoid taxes to the investors, would you acknowledge that

2 they're not really comparable in operational structure to

3 HBI and HBII, based on your knowledge of HBI and HBII?

4 A. I don't know.

5 Q. Do you have any independent proof to refute

6 Mr. Demas's testimony that the Commission has long

7 employed, in solid waste cases, a 15 percent return on

8 equity for approved affiliate transactions such as rent?

9 A. Yes, I refute that.

10 Q. That's not what I asked. I said, "Do you have

11 independent proof?" I understand you don't agree with it,

12 but what's your independent proof?

13 A. That there -- there is no order authorizing a

14 15 percent return for solid waste companies' affiliates'

15 return on equity or cost of equity.

16 Q. So we've heard your dispute of the BKA case on

17 that issue. Is it -- isn't it true that there's some other

18 indications in this record -- for instance, Staff notes in

19 the 2009 rate case and other -- and you've probably heard

20 of stakeholder sessions with solid waste companies in the

21 '90s where 15 percent return on equity was discussed as a

22 fairly obvious standard?

23 A. No, I'm not aware of those.

24 Q. Did you research that when you were finding that

25 the Company was contesting the 15 percent return on equity?

0214

1 A. No, I did not.

2 Q. Can I take it further that, by your testimony

3 and -- both original and supplemental and your initial

4 brief, that you feel that Staff, on its own, can make,

5 quote, "temporal adjustments," unquote, to recommendations

6 such as issues like return on equity?

7 Can the Staff, on its own, say, "You know, that's

8 kind of outdated. I want X"?

9 A. So yes, Staff made a recommen- -- Staff made a

10 recommendation based on temporal information of the market.

11 Q. That's not my question. My question is more

12 basic. It is: Do you feel that Staff unilaterally and on

13 its own can make temporal adjustments to items such as

14 return on equity?

15 A. Yes.

16 Q. Okay. But couldn't some adjustments just as

17 easily made -- be made to risk premiums, temporally

18 adjusting them higher because of privately held company

19 debt or other reasons why risk factors are elevated?

20 A. Yeah.

21 Q. You didn't do so in this case, did you?

22 A. No.

23 Q. Didn't you at least implicitly criticize

24 Lurito-Gallagher's data points as needing temporal updates?

25 A. No.

0215

1 Q. Okay. To your knowledge, has the Commission, by

2 final order, ever approved temporal updates since Sno-King

3 in 1991?

4 A. No.

5 Q. Would you, then, have any view as to whether the

6 current rule-making on Lurito-Gallagher might be a more

7 appropriate place for Staff to propose a 15 percent return

8 on equity and temporal adjustments, rather than

9 unilaterally making them in isolated cases?

10 A. No.

11 Q. So you believe that unilateral adjustments in

12 isolated cases is fully appropriate?

13 A. No.

14 Q. Then what do you believe, based on your answer?

15 A. I believe that I made a recommendation to the

16 Commission, and that it's not unirat- -- unilateral.

17 Q. And you understand that that's being contested in

18 this case? For instance, the return-on-equity adjustment?

19 A. Yes.

20 Q. For allocating depreciation and average investment

21 in a cost-plus-return land rents calculation, you also

22 propose and resuscitate your three-factor allocation, do

23 you not?

24 A. Yes, I do employ the three-factor allocation.

25 Q. And you did that in utility expense allocation;

0216

1 you're also recommending it on those same factors for those

2 two issues in land rents?

3 A. For those shared facilities.

4 Q. Yeah. As I understand it in your original

5 testimony and your original brief, the three-factor

6 allocator that you use is employees, fixed assets per book

7 value, and revenues, correct? Those three factors?

8 A. Yes, those are the three factors.

9 Q. Okay. You -- I assume you also read the rebuttal

10 testimony of Mr. Demas on this issue?

11 A. I did.

12 Q. You -- okay. I'm calling your attention to the

13 exhibit next in line.

14 JUDGE FRIEDLANDER: And that's the exhibit

15 that we don't already have in the record, so I'll mark that

16 as --

17 MR. WILEY: Okay.

18 JUDGE FRIEDLANDER: -- MC-14.

19 MR. WILEY: Okay. Thank you for noting that,

20 Your Honor.

21 JUDGE FRIEDLANDER: And that would be the --

22 MR. WILEY: I'm not keeping track of that.

23 JUDGE FRIEDLANDER: Sure. And that's Staff's

24 response to Company Data Request 13.

25

0217

1 BY MR. WILEY:

2 Q. You -- for both land rents and utilities, you've

3 acknowledged, have you not, that you don't know of any

4 other recent solid waste cases where these allocation

5 factors have been adopted; is that correct?

6 A. That's correct.

7 Q. Okay. You've said in your pleadings and in your

8 testimony that that kind of allocation, the three-factor

9 allocation, is a reasonable estimate of each entity's

10 relative size and scope of operations, which in turn

11 estimates each entity's impact on common resources. Those

12 are the phrases that were artfully stated by you. Do you

13 recall that?

14 A. I do.

15 Q. Do you recall, though, the critique by Mr. Demas

16 about why revenue is not a good allocator?

17 A. No.

18 Q. You don't --

19 A. I know we discussed it earlier. I can refer to it

20 in his testimony.

21 Q. Okay. But would you accept for the purpose of my

22 question that he critiqued revenue as an inapplicable

23 allocator in general?

24 A. Yes.

25 Q. For instance, when affiliated companies have

0218

1 different customer bases and unrelated operational

2 activities -- you've talked about real estate investment as

3 one such activity -- you would assume that that makes cost

4 allocation somewhat problematic, doesn't it, just on its

5 face, when they have differing --

6 A. For each one by -- each factor by itself, yes,

7 makes it problematic if we were to allocate on each one by

8 themselves.

9 Q. Okay. And I'm talking about revenues now, so

10 I'm --

11 A. Yes.

12 Q. Yes. So --

13 A. Yes.

14 Q. So at least for revenues, you would admit that

15 when the companies have asymmetrical operations or

16 functions, that's not a great basis to allocate on revenue?

17 A. That is correct, but in this case, the three

18 companies are all in the solid waste industry, whether

19 regulated or unregulated.

20 Q. Well, I know you've --

21 A. Or nonregulated.

22 Q. -- said that, and we haven't disputed it, but

23 you've talked about real estate investment and landlords

24 and commercial property as an activity by some of the

25 companies.

0219

1 Yes. They -- as a whole, the companies are in the

2 solid waste industry, but you've mentioned, have you not,

3 some disparate activities and functions? Real estate

4 investment?

5 A. By Heirborne I and Heirborne II --

6 Q. And they're a part of --

7 A. -- which are not being allocated, apportioned, or

8 used in the three-factor allocation.

9 Q. That's not what I'm asking. I'm just asking:

10 Looking at revenues as an element of the factors of

11 three-factor allocations, if companies have dissimilar or

12 asymmetrical operations or pursuits or activities, that

13 creates a problem on using revenues as a comparator,

14 correct?

15 A. And I -- I said yes.

16 Q. Okay.

17 A. But in this case, to clarify, the three

18 companies --

19 Q. Well, can we do --

20 A. -- on this --

21 Q. -- that on follow-up, maybe? Because you've

22 answered my question.

23 JUDGE FRIEDLANDER: No, I think --

24 MR. WILEY: For now, I just --

25 JUDGE FRIEDLANDER: Let's allow her to --

0220

1 MR. WILEY: Oh, you want her to -- okay.

2 JUDGE FRIEDLANDER: Let's allow her to

3 finish.

4 A. So, yes, it would be problematic if the two

5 companies were, let's say, a solid waste company and an

6 investment company. But in this case, the allocation is

7 applied to operations that are similar in that they are all

8 three in the solid waste company -- or solid waste

9 industry.

10 One is a regulated hauler; another is a

11 nonregulated hauler; and the other is a solid waste -- or

12 recycling operations.

13 BY MR. WILEY:

14 Q. So in answer to my question, you're not addressing

15 the real estate investment side of the businesses or the

16 fact that the transfer station and other facilities are

17 exclusively used or operated, are you? You're just saying

18 that they're all in the garbage business, as far as you're

19 concerned, so you can use revenues? Isn't that what you're

20 saying?

21 A. Yes.

22 Q. Okay. For allocating depreciation and average

23 investment in a cost-plus-return land-rents calculation,

24 you also -- no. Excuse me. Excuse me. Strike that.

25 Sorry.

0221

1 How do you reconcile fixed assets per book value

2 as a credible allocator for depreciation and average net

3 investment for cost-plus-return computation purposes?

4 A. For allocating costs, net book value is a good

5 indicator of the size and scope of each related company.

6 Q. So in -- you know, if each affiliate owns

7 different types of equipment, admittedly some own

8 garbage -- like WCI and WCE own garbage equipment -- and

9 differing properties, real properties with varying lives

10 and dissimilar dates of entering service, how do you find

11 anything uniform in that circumstance to measure those

12 separate entities paying their fair share of common costs?

13 A. That's why Staff used the book -- the book value

14 of fixed assets in order to get a snapshot of what the

15 scope of the operations are that have not yet been

16 expensed. So anything that was purchased today -- or not

17 today. Anything that was purchased right before the end of

18 the balance sheet date would be included.

19 Anything that was removed from depreciation would

20 not be included, so it just gives effect, a really general

21 effect, to the size and scope of each company's operations.

22 Q. And again, that's based on your premise that

23 they're all in the same line of work; is that correct?

24 A. Correct. It is based on the premise that they are

25 all in the solid waste industry.

0222

1 Q. While you critique the Company's allocation of

2 costs based on the number of entities sharing the facility

3 as overly simplistic, how is your use of net book value of

4 aggregated fixed assets better when it's clear that many of

5 those assets are not shared, have differing lives, and in

6 many cases, have no relationship to each other in terms of

7 fixed assets and a completely different entity?

8 A. So, in my testimony, I don't say that it's overly

9 simplistic, and that's subject to check. I do use the

10 adjective "unsupported," and the reason why, again, I

11 used -- I don't think it's overly simplistic to use the

12 book value of assets because it does take into account that

13 they're -- each company, on its books, has different assets

14 that aren't shared.

15 Q. Well, placed into service at vastly different

16 times or at vastly different uses?

17 A. And re- -- yes, and removed from service at

18 different times during the year as well.

19 Q. Rather than conjure up factors for allocation,

20 wouldn't it just be better to eliminate net book value of

21 assets as an allocator because of all of these

22 dissimilarities and peculiarities as a factor?

23 A. No.

24 Q. And why's that?

25 A. Because net book value is a reasonable indication

0223

1 of the size and scope of a company. It is not fabricated

2 and/or just made up or picked out of -- out of the air. I

3 mean, it -- it -- it does -- it's a -- generally, it's a

4 general acceptance of idea that it gives a picture or

5 paints a picture, as of a certain date, the size and scope

6 of an operation that has yet to be expensed.

7 Q. And you say it's a theory. It's one that you came

8 up with, correct? On the net book value aspect of

9 three-factor allocation for land rents? Didn't you derive

10 the theory?

11 A. I sel- -- yes. I selected --

12 Q. Yep.

13 A. -- that -- I selected that -- that factor, but

14 it's not a theory.

15 Q. Well, it's an application that you use in the

16 case; is that fair?

17 A. That is fair to say, yes.

18 Q. Are the assets that are being depreciated using

19 the same methods and lives for all three companies under

20 your formula?

21 A. No, they are not.

22 Q. How is that justifiable?

23 A. Each company has its own policy on how it's going

24 to depreciate its assets.

25 Q. And so, based on that differentiation, you still

0224

1 believe you can use net book values and come up with a

2 clean allocation; is that true? For land rents?

3 A. Yes, as long as it is combined with the other two

4 allocation factors.

5 MR. WILEY: Okay, Your Honor. This would

6 probably be a good place to take a break. I'm about

7 halfway through.

8 JUDGE FRIEDLANDER: Okay. And then when we

9 come back -- let's go off the record.

10 (A break was taken from 3:08 p.m. to 3:20 p.m.)

11 JUDGE FRIEDLANDER: Why don't we go back on

12 the record?

13 Mr. Wiley, if you'll continue.

14 MR. WILEY: Yes.

15 BY MR. WILEY:

16 Q. Ms. Cheesman, on the issue of a one-third land

17 rent approximation allocation by the Company, did you do

18 any research to see whether the one-third allocation

19 methodology and 15 percent return on equity, based on

20 related companies occupying properties, had been used in

21 all previous rate cases for the Company?

22 A. No. I mean, yes, I did review, and no, I don't

23 believe that they used a one-third in the last rate case.

24 I'm...

25 Q. Okay. Well, how about the 15 percent return on

0225

1 equity?

2 A. Yeah, I'm not sure that that was used either.

3 Q. Okay. Would you look at Company Data Request

4 No. 1?

5 MR. WILEY: Which, Your Honor, needs to be

6 marked. Is that Exhibit 15?

7 JUDGE FRIEDLANDER: Yes. It'll be

8 Exhibit MC-15.

9 BY MR. WILEY:

10 Q. You recall providing that response to the Company

11 in the previous filing, do you not?

12 A. Yes.

13 Q. And I've attached some workpapers that I admit are

14 kind of hieroglyphics, but in answer to my question, did

15 you see on page 3 of that exhibit a 15 percent ROI

16 indicated in the margins of the Staff workpaper?

17 A. I did.

18 Q. Okay. And is it your testimony that you didn't

19 ask or didn't find whether one-third allocations for shared

20 affiliate rents was the methodology used in that filing?

21 A. So I haven't analyzed, but I have reviewed, and...

22 Q. So I understood your testimony that you didn't

23 find that it was allocated one-third, one-third, one-third?

24 A. So on your second page, I saw for Waste Control,

25 .34; Waste Control Equipment, .31; and Waste Control

0226

1 Recycling, .34.

2 Q. And that's roughly one-third, one-third,

3 one-third, isn't it?

4 A. Yes.

5 Q. Okay.

6 A. It's also based on -- it's a calculation of the --

7 when I did see this, it looked like it was the calculation

8 of the rent paid by the Company divided by the total number

9 charged between the three of them.

10 Q. Did you make any other inquiry as to whether the

11 approximate one-third rent allocation per company was used

12 in 2009?

13 A. No.

14 Q. Okay. Did you ever consider adopting that

15 one-third allocation methodology in establishing land rents

16 in this case and advising the Company to develop, in your

17 opinion, more relevant allocators in any future filing?

18 A. I don't recall.

19 Q. So you're saying you may have told -- you may have

20 accepted the one-third allocation for affiliated rents and

21 informed the Company to develop more relevant allocators

22 the next time they file?

23 A. In -- in what -- in this case?

24 Q. Yes.

25 A. File 140- --

0227

1 Q. Yes. 140560.

2 A. No. I don't believe we had that conversation in

3 140506 [sic]. I think there was a conversation -- of

4 course, almost 18 months ago -- in 131794.

5 Q. It's your test- --

6 A. In the informal -- in the -- I'm sorry. I'm not

7 done. In the informal part of that case, not the litigated

8 part of that case.

9 Q. So is it your testimony that in 131794, you

10 accepted one-third allocation for affiliated land rents?

11 A. No.

12 Q. Getting back to your three-factor allocators as

13 we've discussed about your utilities three-factor formula,

14 it's -- you do not -- you only apply it to cost for shared

15 facilities under your methodology, correct?

16 A. Yes.

17 Q. You refuse to include utility expenses for

18 nonshared facilities, correct?

19 A. Yes.

20 Q. Okay. But then on your three-factor allocation

21 methodology for land rents to establish cost plus return

22 for depreciation and net investment, one of the factors you

23 use is average net investment, correct?

24 A. One of the factors I use in the three-factor --

25 Q. Yes.

0228

1 A. -- is average net investment?

2 Q. Yes.

3 A. Yes.

4 Q. Okay. Do you see any contradiction here because

5 many of the depreciable assets involved are used and owned

6 exclusively by the affiliate company and for the use, most

7 part, of the regulated company -- not for the use of the

8 regulated company?

9 A. No.

10 Q. You don't see any inconsistency with that?

11 A. No, I don't.

12 Q. In other words, few of the assets are shared, yet

13 for land rents, your three-factor allocation includes all

14 of their valuation in getting to average net investment and

15 depreciation, correct?

16 A. For which company? For -- for the calculation --

17 for -- Heirborne I and Heirborne II's calculation includes

18 average net investment.

19 Q. Okay. So in other words, few of the assets are

20 shared, yet for the land-rents three-factor allocation, you

21 include all of their valuation in getting to average net

22 investment and depreciation, correct? That's a yes, isn't

23 it?

24 A. For -- I'm sorry. I don't understand the

25 question.

0229

1 Q. Okay. This is --

2 A. Are you -- are we talking about --

3 Q. -- all --

4 A. -- Heirborne and the --

5 Q. No.

6 A. -- calculation of rents? Or the calculation of

7 the three-factor?

8 Q. I'm talking about the calculation of the three

9 factors, how you comprise and compose your three factors,

10 and I'm saying: You acknowledge that few of the assets are

11 shared, do you not? For instance, the WCR facilities.

12 Those aren't shared, correct?

13 A. WCR does share facilities with WCI.

14 Q. But we've gone through this on the utilities

15 analysis, and many of the buildings by WCR are

16 exclusive-use buildings, correct?

17 A. That's correct.

18 Q. Okay. So taking that testimony on the utility

19 allocation, applying it to the land rents and your

20 three-factor, you include all of the valuation of those

21 assets in getting to average net investment and

22 depreciation, correct?

23 A. For Waste Control Recycling.

24 Q. You're doing it -- I -- you parse it the way you

25 want, but I want to understand what you're doing.

0230

1 A. Well, I just want to understand which company

2 we're talking about.

3 Q. Okay. Do you see --

4 A. For --

5 Q. Let me ask it --

6 A. Okay.

7 Q. -- this way.

8 A. Okay.

9 Q. Do you see any inconsistency when you are trying

10 to properly allocate cost drivers and then you disregard

11 the fact that most of the depreciable net assets involved

12 in your analysis for land rents on the cost-plus-return

13 issue are not, in fact, shared? Do you see any

14 inconsistency in that?

15 A. No. No, I don't see any inconsistencies.

16 Q. Why is that?

17 A. Because Staff's allocation, three-factor, looks at

18 average -- or not averaging -- looks at book value, and

19 that book value is one thing management looks at when

20 reviewing its operations. I use that in -- combined with

21 the other three, which are also revenues, another thing

22 that management looks at.

23 Q. When you say, "three," you mean two, don't you?

24 A. No. There's three --

25 Q. Three factors.

0231

1 A. -- factors. The three-factor has three

2 components. It has adjusted revenue, booked assets, and --

3 Q. Number of employees.

4 A. -- number of employees.

5 Q. Right.

6 A. And none, by themselves -- and I know I've said

7 this already, but I think it's important to say that no --

8 none -- none of these factors on their own, I think, would

9 provide a fair result, but because they are combined and

10 they are weighted equally, they do.

11 Q. So you're saying you lump them all together, shake

12 them around, and that comes up with an accurate assessment,

13 even though, in isolation, when we've gone through each

14 factor, there's inherent inconsistencies that you've

15 acknowledged?

16 A. I have not -- I don't -- I don't recollect

17 acknowledging any inconsistencies.

18 Q. Okay. You -- for instance, in revenues, when you

19 did your utility allocation, you didn't include -- you

20 included all the revenues and expenses; you didn't include

21 the expenses for the exclusive-use buildings?

22 A. Right, because we're only allocating to ratepayers

23 a portion of shared facilities and shared utilities.

24 Q. But on your formula, you're trying to hypothesize

25 a way to identify cost drivers, and you're doing it based

0232

1 on revenues and expenses, and you have to add all revenues

2 and all expenses for all companies to get to that, don't

3 you?

4 A. No. Not necessarily. Again, the three factors

5 were selected because they tell a different story about the

6 size and scope of each company that is sharing facilities

7 and each -- sorry -- each size in sharing the facilities

8 and their demands on shared resources.

9 Most of the places that WCI shares with WCR and

10 WCE -- and I'm sorry for using the acronyms -- are

11 administrative facilities. WCI doesn't have a dedicated

12 storage area just for WCI. WCI does not have a dedicated

13 storage place for solid waste transfer.

14 Their -- they -- the facilities that they share

15 are shared by all three companies, and all three companies

16 need to be reviewed for their effects on the resources that

17 are consumed, the shared resources they consume.

18 Q. Even under that explanation, wouldn't you agree

19 that you should have included the utility expenses paid by

20 WCR for WCI's occupancy and use?

21 MR. SHEARER: Objection, Your Honor. Asked

22 and answered.

23 A. I'm just --

24 MR. WILEY: She's -- she's telling me --

25 A. I said no.

0233

1 MR. WILEY: -- that it's consistent, and I'm

2 asking how that's consistent.

3 MR. SHEARER: She's already -- it just seems

4 like we're speaking on terminology now. The substance is

5 clear on both parties' positions.

6 JUDGE FRIEDLANDER: I think we should move

7 on.

8 MR. WILEY: Okay. Yeah.

9 BY MR. WILEY:

10 Q. And that was your settlement position; is that

11 correct? The answer to my question was because that was in

12 a settlement position, on the utility expense nonallocation

13 to WCI?

14 Mr. Shearer just asked -- said that it's been

15 asked and answered, and I said, "Isn't the reason you

16 didn't do it because you -- that was your settlement

17 position?"

18 A. I'm sorry. Didn't do what?

19 Q. Didn't allocate utility expense that WCR paid for

20 WCI in the three months in Utility Workpaper 12?

21 A. Oh, the -- yes. The 6,000 of -- and this is

22 subject to check -- approximately 28,000 of the expense

23 that the Company provided during settlement, Staff did not

24 change its initial position based on information provided

25 in settlement.

0234

1 MR. WILEY: Let's move on to investigation

2 fees, Your Honor.

3 BY MR. WILEY:

4 Q. Ms. Cheesman, we're on investigation fees now.

5 You want to flip to that?

6 A. Where would you like me to flip to?

7 Q. Just be familiar with your testimony on --

8 A. Oh, wonderful.

9 Q. -- investigation fees in your supplemental

10 testimony and your initial brief. You've got both the

11 initial brief and your supplemental testimony there?

12 A. I do.

13 Q. Great.

14 Your testimony advocated, in addition to a

15 six-figure reduction in rate case cost, that a statutory

16 investigation fee of some $43,000 in sanctions for what you

17 term -- bluntly term "complicated, duplicative, and

18 unsupported filings," be imposed on this Company; is that

19 correct?

20 A. Can you please point me specifically in the

21 testimony you are referring?

22 Q. How about subject to check, it's there, okay? I

23 didn't come up with those terms. Those are terms that you

24 use. I can spend time to do that, but subject to check,

25 can you accept that I -- that you referred to them as

0235

1 "complicated, duplicative, and unsupported"? You've

2 already used the --

3 A. Yeah.

4 Q. -- term "unsupported" yourself here.

5 A. Right.

6 Q. Okay.

7 A. And the Company has also -- in their oral

8 testimonies, have admitted to the complication in --

9 complicated matter of this case.

10 MR. WILEY: Move to strike that, Your Honor.

11 That's not responsive whatsoever to what I just asked. She

12 added a whole com- -- additional passage, and -- and can I

13 ask my question again --

14 JUDGE FRIEDLANDER: Please.

15 MR. WILEY: -- so I can get an answer?

16 JUDGE FRIEDLANDER: Please.

17 BY MR. WILEY:

18 Q. Ms. Cheesman, in your testimony, in addition to a

19 six-figure reduction in rate case costs, you sought to

20 impose a $43,000-odd investigation fee in this case,

21 correct? You recommend that that be imposed, correct?

22 A. I did recommend --

23 Q. Okay.

24 A. -- that --

25 Q. And it --

0236

1 A. -- that --

2 Q. -- it --

3 A. -- an investigation fee --

4 COURT REPORTER: I'm sorry. I need you to

5 speak one --

6 MR. WILEY: Sorry.

7 COURT REPORTER: -- at a time.

8 A. I did recommend that an investigation fee to the

9 amount of -- that's right here. And for reference, it's on

10 supplemental testimony page 7, line 8. I did recommend

11 the -- imposing investigation fees for $43,818.82.

12 BY MR. WILEY:

13 Q. Thank you.

14 And is it true that the basis for that

15 recommendation is largely because -- or in part because

16 you've -- you have viewed TG-140560 as unduly complicated,

17 duplicative, and unsupported?

18 A. That is correct. And I believe --

19 Q. What --

20 A. -- the reference to that is in Staff's initial

21 testimony filed July 18th, 2014 --

22 Q. Well, it's also --

23 A. -- page -- starting on page 55.

24 Q. Ms. Chees- -- are you through?

25 A. Sorry? I'm sorry. It's starting on page 54,

0237

1 lines 21 all the way to page 56, lines 12.

2 Q. Well, Ms. Cheesman, if we're getting specific,

3 look at page 7, line 15, of Exhibit MC-13T, your

4 supplemental testimony, and you describe the Company's

5 complicated, duplicative, and unsupported filings there as

6 well, do you not?

7 A. Yes, and then the footnote references what I just

8 pointed out.

9 Q. Thank you. So we've got all the specific

10 references now, correct?

11 A. Yes.

12 Q. Okay. Where in the statute, rules, or case law do

13 you find any authorization for what's, in effect, a double

14 dipping of rate case costs denial and investigation fees to

15 this degree?

16 A. So Staff used our -- in Staff's testimony on page

17 55, lines 5 through 10, Staff makes reference to

18 RCW 81.21.02 --

19 Q. 02.

20 A. -- 07, but that does not have any language

21 regarding double dipping.

22 Q. I didn't say that. I didn't cite it to the

23 statute. What I said is: The effect of your

24 recommendation is to seek an investigation fee and deny

25 rate case costs to the six-figure level. Do you understand

0238

1 that that's, in effect, a double dip?

2 A. No. I think they're two separate issues.

3 Q. Okay. And since -- where -- since being asked in

4 a data request last summer, have you found any reference to

5 the Commission ordering an investigation fee be imposed on

6 a solid waste general rate case proponent?

7 A. To which data request are you referring?

8 Q. Well, I'm just asking you in general, and then

9 we're going to get specific. You're kind of stealing my

10 thunder here, Ms. Cheesman. Let me ask it the way I can.

11 Okay?

12 A. I would prefer to be able to look at the data

13 request so that I can answer appropriately.

14 MR. WILEY: Your Honor, we're going to get to

15 that. I had an introduction -- introductory question.

16 JUDGE FRIEDLANDER: Go ahead.

17 MR. WILEY: Yes.

18 JUDGE FRIEDLANDER: Just move to it much

19 quicker.

20 MR. WILEY: I'm doing it right away, Your

21 Honor.

22 BY MR. WILEY:

23 Q. Since last summer, have you ever found any

24 precedent for the Commission authorizing an investigation

25 fee to be imposed on a solid waste general rate case

0239

1 proponent?

2 A. No.

3 Q. Okay. Now, going to DR-18, which would be Exhibit

4 MC-16?

5 JUDGE FRIEDLANDER: Exactly.

6 A. Just one moment to get there, please.

7 All right.

8 BY MR. WILEY:

9 Q. That was my predecessor question to you that you

10 alluded to. Do you recognize that? Please read it so

11 that...

12 A. Okay. I'm ready.

13 Q. Do you recognize that?

14 A. I do.

15 Q. And do you understand your answer that you were

16 not aware from present memory of any circumstance where the

17 Commission itself or the Staff advocated for imposition of

18 a statutory investigation fee on a general rate -- solid

19 waste general rate case proponent?

20 A. That's correct. I am not aware.

21 Q. Do you contend, alternatively, that the

22 Commission, in its orders of suspension or in any other

23 formal notification to the Company in this proceeding,

24 notified it it could be subject to an investigation fee

25 here?

0240

1 A. I'm sorry. I -- I didn't -- I don't understand

2 the question.

3 MR. WILEY: Do you want to -- should I have

4 it read back? Do you want me to say it or --

5 JUDGE FRIEDLANDER: Yeah. Go ahead and have

6 it read back.

7 (Question was read back.)

8 A. I'm not aware.

9 BY MR. WILEY:

10 Q. So the answer is no?

11 A. No. I am not aware.

12 Q. Isn't it also true that while you objected to

13 answering the question about researching other cases where

14 an investigation fee was imposed -- you wanted to do it

15 only on memory -- you do make some characterizations in

16 your pleadings and in your testimony about how rate cases

17 have historically been treated at the Commission?

18 A. Where, specifically, in my testimony are -- are

19 you referring?

20 Q. Well, let's go to the exhibit next in line.

21 A. Number 16?

22 MR. WILEY: Is that 17, Your Honor?

23 JUDGE FRIEDLANDER: No. Actually, I'm not --

24 yes. That's right.

25 MR. WILEY: Oh, excuse me. That's right.

0241

1 JUDGE FRIEDLANDER: That's right. The

2 initial brief, we're not going to mark.

3 MR. WILEY: Yeah. That's right. Thank you.

4 JUDGE FRIEDLANDER: Yep.

5 BY MR. WILEY:

6 Q. Ms. Cheesman, calling your attention to the page

7 that I've duplicated as an exhibit, which is the initial

8 brief on behalf of Commission Staff at page 6, do you see

9 the first sentence in Footnote 20?

10 A. I do.

11 Q. And do you see -- could you read what you say in

12 that sentence, please?

13 A. Just give me a moment to read it first.

14 Q. Sure.

15 A. Okay. "Nearly every docket before the Commission

16 contains some allocation on the basis of cost

17 causation/avoiding cross-subsidies. For representative

18 examples across regulated industries" --

19 Q. Just the first sentence is all I needed.

20 A. Oh.

21 Q. Thanks.

22 A. The comment didn't indicate an end. Sorry.

23 Q. Yes. "Subsidies" is where I'd ended.

24 A. Okay.

25 Q. If you can make that type of broad

0242

1 characterization of various dockets there, why do you think

2 it's overly burdensome to ask for pertinent support or lack

3 thereof about any past general rate case filing as opposed

4 to a complaint case where the Staff has sought to impose

5 the investigation fee?

6 MR. SHEARER: Objection, Your Honor. Calls

7 for a legal conclusion as to Ms. Cheesman's belief as to

8 the objections in the data requests. The propriety of

9 those objections is a legal conclusion.

10 JUDGE FRIEDLANDER: Do you want to try to --

11 THE WITNESS: Oh.

12 JUDGE FRIEDLANDER: Let's -- can you read the

13 question back for me?

14 (Question was read back.)

15 JUDGE FRIEDLANDER: Yeah. I don't think that

16 calls for a legal conclusion. In the data request, she's

17 already said it's overly burdensome.

18 MR. SHEARER: And that was the legal

19 objection to the data request. In the data request, that

20 was the grounds for objecting.

21 MR. WILEY: She answered it, Your Honor.

22 It's -- it names her as the Staff.

23 JUDGE FRIEDLANDER: Right. Yeah. I'm going

24 to allow it. Objection overruled.

25 THE WITNESS: So --

0243

1 JUDGE FRIEDLANDER: Can you answer how you

2 think this is overly burdensome?

3 A. Oh, how this is overly burdensome? It would

4 require me to review several -- or not several, multitude

5 of filings and orders that I -- I would not have been able

6 to do and be able to review the -- the Company's

7 complicated filing.

8 BY MR. WILEY:

9 Q. Well, in that context, Ms. Cheesman, how can the

10 Staff say, "Nearly every docket before the Commission

11 contains some allocations on the basis of cost causation

12 slash avoiding cost subsidies"?

13 What is that based on? Review of every docket

14 that the Commission has?

15 MR. SHEARER: Again, objection, Your Honor.

16 Ms. Cheesman didn't write this document. She didn't author

17 it. This is, again, a legal commentary on an initial brief

18 prepared by counsel, so to the extent he's asking

19 Ms. Cheesman to confirm what counsel wrote, she's not able

20 to do that.

21 JUDGE FRIEDLANDER: And I think that that

22 distinction is well made and well taken.

23 Ms. Cheesman, you obviously didn't prepare

24 the initial brief, I'm assuming?

25 THE WITNESS: That's correct, ma'am.

0244

1 JUDGE FRIEDLANDER: I would ask Staff: Who

2 came up with the research for Footnote 20?

3 THE WITNESS: Mr. Brett Shearer.

4 MR. SHEARER: Yeah. It was down in the AG's

5 office as part of counsel --

6 JUDGE FRIEDLANDER: Okay. That makes sense.

7 MR. WILEY: Can I put him on the stand, Your

8 Honor?

9 JUDGE FRIEDLANDER: I'm afraid not.

10 BY MR. WILEY:

11 Q. Okay. So your -- so at least in response --

12 MR. SHEARER: You don't want me on the stand.

13 BY MR. WILEY:

14 Q. -- to my data request, you said it was overly

15 burdensome. The brief that your testimony cross-references

16 liberally, maybe not this footnote, but liberally, does

17 talk about review of every docket, does it not? "Nearly

18 every docket": Does it say that or not is my question.

19 A. It does not say, "Every docket."

20 Q. I said, "Does it say, 'Nearly every docket'?"

21 A. Yes, it does.

22 Q. Okay.

23 A. Nearly every docket.

24 Q. Thank you.

25 Would you acknowledge, then, that as far as you

0245

1 are aware, this may, in fact, be a first, where the Staff

2 has sought to impose an investigation fee on a general rate

3 case filing proponent?

4 A. Yes, for a solid waste case.

5 Q. Thank you.

6 Let's go to, now, rate case costs.

7 A. All right.

8 Q. And we're on the home stretch, I hope.

9 In your supplemental testimony at page 6, for the

10 first time, you recommend an alternative rate case cost

11 amortization period of 10 to 20 years?

12 A. Yes. Starting at line 19 on page 6.

13 Q. Yes. Okay. And where, to your knowledge, has

14 Staff ever recommended a rate case cost amortization

15 interval based on a regulated, industry-wide adjudication

16 benchmark?

17 A. I am unaware.

18 Q. Excuse me?

19 A. Sorry. I am unaware.

20 Q. So to your knowledge, there isn't one; is that

21 correct? When you say you're unaware, what do you mean?

22 A. I --

23 Q. Do you have any other case where the Commission

24 Staff has recommended that rate case costs be amortized

25 over a benchmark for the industry based on adjudications?

0246

1 A. I -- I do not know, but this here is not an

2 industry-wide -- well, yes, I do make reference --

3 Q. You're --

4 A. And if I can -- I mean, I would like to direct to

5 actual Staff's testimony in its description here from

6 line -- page 6 to line 19 through page 7 to line 3.

7 MR. WILEY: Your Honor, I -- this is my turn

8 to ask questions. They can redirect, but the witness is

9 now suggesting how we should direct testimony. I'm --

10 THE WITNESS: I'm sorry.

11 MR. WILEY: I have a problem with it.

12 THE WITNESS: I was trying to clarify my

13 que- -- my answer.

14 JUDGE FRIEDLANDER: Right.

15 MR. WILEY: And I'm going to --

16 JUDGE FRIEDLANDER: And I understand.

17 BY MR. WILEY:

18 Q. Because you didn't answer yes or no, and I need

19 you to tell me: Where, to your knowledge, has Staff ever

20 recommended a rate case cost amortization interval based on

21 a regulated, industry-wide adjudication benchmark?

22 A. I don't.

23 JUDGE FRIEDLANDER: Now you can go ahead

24 and --

25 THE WITNESS: Thank you.

0247

1 JUDGE FRIEDLANDER: -- explain.

2 BY MR. WILEY:

3 Q. So where are you refer --

4 A. Right. So the Commission's normal practice is to

5 look at the reasonable result and the reasonable amount of

6 time between rate cases or occurrences of the expense

7 expected to incur.

8 So what Staff has written here is basically,

9 again, just restating that this is a really unusual

10 situation for the Company, and in all of its filings, WCI,

11 there has not been a litigated rate case and therefore a

12 longer amortization period would be reasonable.

13 Q. Well, that's -- Ms. -- Ms. Cheesman, we're not

14 disputing that the Company files rate cases about every

15 four years or five years as you've suggested on your

16 original amortization premise.

17 My question, then, goes -- and listen to this --

18 it goes to the industry-wide adjudication, not the

19 Company's experience, and my question asks you to tell me

20 how you can use an industry-wide benchmark to apply here to

21 the individual company.

22 How is that fair, and what precedent have you

23 found where the Commission has done or the Staff has even

24 argued to it?

25 MR. SHEARER: I'm going to object to the form

0248

1 of the question. I don't think Ms. Cheesman ever stated

2 anything to that effect, to the premises that were assumed

3 in the question, that there's an industry benchmark in her

4 recommendation at all.

5 THE WITNESS: Hmm-mm.

6 MR. WILEY: Well, Your Honor, I'm reading the

7 same testimony, and I am certainly seeing that it's based

8 on an industry-wide premise, because we already know that

9 this Company files rate cases about every 4 or 5 years, so

10 the 10 to 20 years is because this is -- they -- this is a

11 litigated, adjudicated solid waste case.

12 There hasn't been one since Sno-King, that's

13 what she said, and that there hasn't been one because of

14 dismissal factor, so I think it's a fair question.

15 MR. SHEARER: I'm not objecting, necessarily,

16 to the substance of the question. I'm just objecting to

17 the argumentative nature that she's presumed or accepted

18 the premise that her recommendation is based on some

19 industry-wide standard. I don't find that in her testimony

20 or that she's said that here today.

21 MR. WILEY: That's a leading objection, Your

22 Honor, and I -- my question was pretty clear. It just asks

23 her to say -- I'm exploring the 10 to 20 years, which is

24 the first time we've ever heard this in supplemental

25 testimony, and I'm testing what it's based on.

0249

1 JUDGE FRIEDLANDER: Then ask that.

2 MR. SHEARER: So ask that.

3 JUDGE FRIEDLANDER: That -- ask that.

4 MR. WILEY: Fine.

5 BY MR. WILEY:

6 Q. Ms. Cheesman, isn't it true that the 10 to 20

7 years that you argue should -- that this rate case cost

8 should be amortized alternatively is based on the last time

9 there was an adjudicated solid waste rate case at the

10 Commission?

11 A. Yes. There has not been a litigated case in over

12 20 years, yes, and I'm qualifying that with there has not

13 been -- that my statement here in my supplemental testimony

14 says there hasn't been a litigated case in over 20 years.

15 Q. And doesn't that then imply that one of the bases

16 for your recommendation is based on the frequency of a

17 litigated rate case in the solid waste field? Your lines

18 itself that say, "Because WCI's filings in TG-blank-blank

19 are the first litigated solid waste cases in over 20

20 years," then you add other factors, but isn't that one of

21 the factors?

22 A. Yes.

23 Q. Okay. So now your alternative proposition that

24 you've advanced in your supplemental testimony is for the

25 Company to receive only approximately 50 percent of its

0250

1 rate case costs from December 24th, 2013, on, amortized

2 over a decade or two?

3 A. No. I simply was giving an alternative to an

4 amortization period for the Commission's review.

5 Q. Oh. So are you saying, then -- with that

6 suggesting that you weren't still maintaining your

7 50 percent reduction?

8 A. No. I'm merely giving another alternative in

9 Staff's view as far as the amortization period.

10 Q. Okay. But what impact does that have on your

11 50 percent reduction in addition to the 10- to 20-year

12 amortization period? Aren't you saying that one of your

13 alternative theories is that we allow only 50 percent of

14 the rate case costs from that point on and that you

15 amortize that over 10 to 20 years?

16 A. No.

17 Q. Okay. What are you saying?

18 A. I'm saying that if the Commission decides to do

19 something else, that they consider also a different

20 amortization period, other than five years.

21 Q. But you don't say that specifically in your

22 testimony, do you?

23 A. I -- well, I def- -- well, my testimony doesn't --

24 I mean, my testimony simply states that Staff believes that

25 this amortization period is reasonable, and then states why

0251

1 it's reasonable. It doesn't say, "In conjunction with its

2 current recommendation to the Commission."

3 Q. And that was my question. I was saying, "Is that

4 coupled with the 50 percent rate case cost reduction?"

5 A. And I said no, it's not.

6 Q. Okay. Thank you.

7 So isn't it true that -- by the way, that the

8 50 -- the 20-year benchmark is for the King County versus

9 Rabanco Recycling rate design case that you cite from 1994?

10 That's where you get the 20 years, isn't it?

11 A. Yes. It's roughly 22 years ago.

12 Q. Did you understand -- and I don't know if you went

13 to that case. Did you understand it wasn't a general rate

14 case, it was a complaint case brought by King County

15 against the rates that Rabanco had gotten approved at the

16 Commission?

17 A. I wasn't there, and I do understand the premise,

18 but it is still the last solid waste litigated case.

19 Q. But if we were actually going to solid waste rate

20 cases, not complaint cases brought by the county, but rate

21 cases, we'd have to go back to Sno-King and, under your

22 formula, we'd be 24 years of amortization, wouldn't we?

23 A. Yes.

24 Q. You know, my question on this alternative theory

25 is how that recognizes or reflects the timeliness or the

0252

1 unique importance of contested issues such as land rents

2 for closely held companies.

3 In other words, this is a first-time issue that's

4 been raised, you've said. Isn't -- by suggesting that you

5 go back to the last general rate case that was litigated by

6 the Commission, are you recognizing the uniqueness or the

7 controversy raised by that issue?

8 A. No, and I'm not going back to the last litigated

9 rate case. Otherwise it would say, "24," or, "22." I'm --

10 and I'm not also saying that it's over the history -- it

11 should be over the history of WCI, which is 30 -- 60 years.

12 I'm simply saying that, based on the fact that

13 these sets of situations are very unique, 10 to 20 years is

14 a reasonable amortization period for expenses that it --

15 for all intents and purposes, are infrequent.

16 Q. But shouldn't you use the Company's measurement of

17 how frequently they file rate cases to amortize rate case

18 costs? Isn't that the traditional method?

19 A. No. That's just one of the different measurements

20 that we look at the reasonable cost being included in

21 rates.

22 Q. Okay. Can you cite me to any case that the

23 Commission has decided where the frequency of the rate

24 filing interval by the proponent was not the time increment

25 measurement?

0253

1 A. I believe there was an American Water Resource

2 case.

3 Q. That's a -- that's a Title 81 water case? Is --

4 or Title 80 water case, you're saying?

5 A. Yes.

6 Q. And do you have any other cases to support your

7 premise? Any solid waste cases?

8 A. I believe the Sno-King case also had a section on

9 rate case costs and amortization periods.

10 Q. It certainly did, but it doesn't propose 10 or 20

11 years, Ms. Cheesman. Subject to check, would you accept

12 that?

13 A. Subject to check, of course, but --

14 Q. Okay. Let's --

15 A. -- we are also talking about the matrix in which

16 the Commission makes a decision on what that amortization

17 period would be.

18 Q. When you use the term -- since you're testifying,

19 I've -- I've got some cross that. What do you mean by

20 "matrix"?

21 A. So the -- I guess a better word would be the

22 different criterias. There's at least two main criterias.

23 Q. You're --

24 A. They're looking at the reasonable result at the

25 end and the effect on rates, and then one -- one portion

0254

1 can be the time between -- or the interval between filings.

2 Q. Okay. And those are based on the Company, and are

3 you saying that 20 years is a reasonable time period?

4 A. For recovery in rates?

5 Q. Yes.

6 A. Yes.

7 Q. You say that WCI, in your supplemental

8 testimony -- I don't have the page, but it's there.

9 Subject to check, if you'll allow me to paraphrase or

10 quote, it says that WCI's requesting the Commission to

11 allow full recovery of two formal general rate cases.

12 A. I --

13 Q. Is that really true? First, by that, I mean, you

14 don't acknowledge by that statement that the Company has

15 received documented write-offs of time, discounts and

16 write-offs of time, that are reflected in JD-48. You don't

17 acknowledge that there, do you?

18 A. So I'm referring to Staff's testimony, that

19 you're -- that you're referring to on page 12. It's --

20 forgive me, one moment please.

21 Q. So without referring to your testimony, can I just

22 ask you this, because it'll speed this up? Can I ask you:

23 Is it true that you're saying that the Company is trying to

24 recover two full general rate cases in its request?

25 A. The statement is: "Recovery of two full, formal

0255

1 adjudicated rate cases." Page 12, line 16.

2 Q. Thank you for that specific reference, but isn't

3 it -- the answer to my question is yes?

4 A. Yes.

5 Q. Okay. Does that statement in and of itself

6 acknowledge that the Company received documented discounts

7 and write-offs of time as reflected in Exhibit JD-48?

8 A. No.

9 Q. And that would suggest that the Company and

10 ratepayers are being offered reductions off the actual cost

11 of the rate case; isn't that correct? When you said no

12 about JD-48, that would also acknowledge that ratepayers

13 and the Company are being offered reductions in the actual

14 rate case costs incurred; isn't that true?

15 A. Oh.

16 Q. The Company -- okay.

17 A. Yes. Being imposed by the -- or being proposed by

18 the Company --

19 Q. Yeah.

20 A. -- in JD-49.

21 Q. 48, I believe it is, but --

22 A. Oh, 48. I'm sorry. Subject to check.

23 Q. I'm going to rely on Her Honor.

24 You also say -- and I will cite you. It's page

25 12, lines 13 through 15. You also say that your theory for

0256

1 rate case cost recovery is, quote, "logical and

2 reasonable," essentially because recovery -- half-recovery

3 of two general rate cases equals one full recovery for a

4 fully supported adjudicated rate case, correct? Isn't that

5 essentially what you're saying?

6 A. No.

7 Q. What are you saying, then?

8 A. Well, to quote it verbatim --

9 Q. No. That's not what I'm asking you.

10 A. Well, you said, "Two general rate cases," and I

11 said here, "Each formal adjudicated rate case."

12 Q. I am not citing to your specific testimony for the

13 purposes of this question. I'm saying, in effect, aren't

14 you saying that your theory is that half-recovery of two

15 general rate cases -- fully adjudicated, whatever you want

16 to use as a term -- equals one fully supported adjudicated

17 rate case cost in your theory?

18 A. Yes.

19 Q. Okay. Does that broad theory include any actual

20 analysis of when the incremental timing of those rate cost

21 costs were incurred?

22 A. No. It is without regard to the actual costs

23 incurred by the Company.

24 Q. And, in other words, that recommendation doesn't

25 account for the fact that the significant majority of the

0257

1 rate case costs were incurred in 2014, after your proposed

2 50 percent reduction benchmark of December 24, 2013?

3 A. For -- in Case 140560?

4 Q. Yeah.

5 A. Yes.

6 Q. And you would acknowledge that most of the rate --

7 that more of the rate case costs were incurred in this

8 proceeding?

9 A. Yes, ma'am.

10 Q. Okay.

11 A. I mean yes, sir. I'm sorry. Yes, sir. I'm

12 sorry. It's hard.

13 Q. It's been a long day.

14 A. Yeah. I'm sorry.

15 Q. So you'd acknowledge that they're considerably

16 higher now than those incurred in the earlier costs which

17 you're recommending -- case which you're recommending

18 100 percent recovery for?

19 A. In the informal process of 131, yes.

20 Q. Okay. Looking at the exhibit next in line --

21 JUDGE FRIEDLANDER: Which is MC-17.

22 MR. WILEY: Thank you. And that's MC-17.

23 JUDGE FRIEDLANDER: And that's the data

24 request responses to No. 10 and No. 4.

25

0258

1 BY MR. WILEY:

2 Q. How much time have you spent on this case since

3 2013?

4 A. I don't have that number off the top of my head.

5 Q. We do have the accounting numbers that you've

6 recorded through June 2014 through Data Request Response 10

7 in 131794 and 4 in 140560, don't we?

8 A. It -- in response to the Company's data requests,

9 yes. Here and here.

10 Q. Aren't you required to record your time associated

11 with each rate filing?

12 A. Yes, sir.

13 Q. Okay. You say you don't have that information

14 available. Can you estimate how much time you have

15 recorded since fall 2013 on the Waste Control filings?

16 A. Maybe on a weekly basis, I guess my estimate would

17 be -- subject to check, of course -- anywhere from 20 to 40

18 hours a week.

19 Q. How much time in 2015 would you estimate you've

20 put in to date? March 11th -- from January 1 to March 11?

21 A. Again, subject to check, approximately 10 to 30

22 hours a week with -- excluding this last two weeks, of

23 course, because those --

24 Q. I hear you.

25 A. -- those are really the outliers. Yeah.

0259

1 Q. Okay. You like to be referred to your

2 supplemental testimony, so look at lines 7 through 8, page

3 13, of your supplemental testimony.

4 And it's just one sentence, so I don't think

5 it's -- it will take much time, but it says -- you make a

6 rather bold, declarative statement there, do you not, where

7 you say, "The extraordinary general rate case costs

8 associated with TG-131794 and TG-140560 are the fault of

9 the Company."

10 Is that still your unqualified opinion?

11 A. Can you direct me to the line, please?

12 Q. Excuse me?

13 A. I'm sorry. Can you direct me to the line?

14 Q. Yes. It's lines 7 through 8, page 13, of your

15 supplemental testimony, which is Exhibit 13T on page 13.

16 A. I'm on the completely wrong page. Just give me

17 one moment, please.

18 Q. It's just one sentence, isn't it? I'm sorry to --

19 just concerned about time, here.

20 A. That's okay.

21 Q. That's -- and my question to you is: Is that

22 rather bold statement still your unqualified opinion?

23 A. No. It is my qualified opinion.

24 Q. Okay. Good.

25 Well, do you recall, in the course of this

0260

1 proceeding, any admonitions or observations by the

2 Commission suggesting, at a minimum, more of a two-way

3 street on this issue than would be suggested by that

4 statement?

5 A. I do recall a -- I do recall discussion about

6 taking responsibility for communicating with the Company.

7 I believe it was the Com- -- the Commission's -- I can't

8 remember the order number, but it was in response to

9 Staff's motion to compel.

10 Q. Looking at the exhibit next in line, which we're

11 not going to mark as an exhibit, let's look at the order

12 that's actually cited in your initial brief, and in the

13 initial -- in your supplemental testimony at Footnote 9,

14 page 6, you quote this order.

15 And you quote paragraph 20 -- or you cite

16 approvingly to it, but you fail to reference on that exact

17 same page Section 22. Do you see that?

18 A. I do see it, but I didn't fail to reference it.

19 Q. Okay. Well, when you say that in support of the

20 kind of position that it's all the Company's fault on rate

21 case costs, do you acknowledge that Section 22 does, in

22 fact, raise concerns about the Staff's cooperation with the

23 Company during the audit phase?

24 A. May I please have a moment to read paragraph 22?

25 JUDGE FRIEDLANDER: Sure. Go ahead.

0261

1 THE WITNESS: Okay. I'm ready.

2 BY MR. WILEY:

3 Q. Would you acknowledge that that language appears

4 to suggest, at a minimum, a shared responsibility for delay

5 and attendant increases in general rate case costs?

6 A. I do acknowledge the first part, but not

7 necessarily that that was the contribution or the --

8 contributing to greater general rate case costs.

9 Q. So you're saying that delays in communication and

10 cooperation in responses don't cause rate case costs to

11 increase in your view?

12 A. No. I'm saying that this is in reference to a

13 two-week gap in communication, and two weeks over 18 months

14 is immaterial.

15 Q. Well, it's also in reference to a technical

16 conference that was unilaterally canceled, according to the

17 order, correct?

18 A. Yes, sir.

19 Q. So are you aware of any other rulings by the

20 Commission in this proceeding which suggest, at a minimum,

21 shared attribution of general rate case cost increases?

22 A. Shared -- shared between whom?

23 Q. Between the Company and the Staff.

24 A. Yes.

25 Q. Okay. And what is that example, please? You said

0262

1 it was all our fault, and I'm asking you what else you're

2 noting here.

3 A. Right. So when Staff says -- when Staff

4 references, "It's -- it's all the Company's fault," or, if

5 I were to quote it -- oh, did I go somewhere else? Yeah.

6 MR. WILEY: Your Honor, some of these delays

7 are causing my time estimate to get affected. I'm sorry.

8 I'm trying to go --

9 A. I'm sorry.

10 So the statement was, "The extraordinary general

11 rate case costs associated with 131 and 140 are the fault

12 of the Company. Staff will take responsibility for

13 submitting motions in response to Company's actions or lack

14 of actions."

15 Specifically, for TG-131, Staff's motion was to

16 strike, and I -- and Staff and Staff's attorney, yes, we --

17 we filed that motion, but it was only in response to the

18 Company's actions. The motion to compel, again, is -- was

19 in response to the Company not responding to data requests.

20 BY MR. WILEY:

21 Q. Well, in that same order you're referring to,

22 which is Order 5, there was also a discovery conference

23 ordered because of cooperative problems in discovery on

24 both sides, was there -- was there not?

25 A. Yes.

0263

1 Q. Okay. And you've cited to -- you said that --

2 131794 in reference to an order. I think you -- on the

3 motion to strike. I think you meant 140560, and the next

4 page in line in your exhibit is a reprint of that page from

5 that order. Do you recognize that?

6 A. I'm sorry. You're right. I misspoke. It wasn't

7 the motion to strike in 131; it was the motion to dismiss.

8 The motion to strike is in 140.

9 Q. Okay. And in the motion to strike in 140, do you

10 recall that decision and the references once again that are

11 based on communication attempts by the Company to advise

12 the Staff about what its intentions were and what the

13 result was?

14 A. It's been a while since I read this order, so

15 would you point me --

16 Q. Okay. Yes.

17 A. -- precisely to the conversation?

18 Q. If we could do -- let's look at page 6,

19 Section 14 --

20 A. Okay.

21 Q. -- of that order, and would you note the last two

22 sentences in that section?

23 A. Okay.

24 Q. Okay. Would you acknowledge that the Commission

25 was troubled by the lack of cooperation or the lack of

0264

1 communication that was going on there between -- on the

2 Staff's part?

3 A. No. I read that as the -- the Commission was

4 troubled that the filing of -- should have not been a

5 surprise to Staff based on e-mail exchanges between the

6 counsels, both parties.

7 Q. And that suggests that communication had already

8 occurred, correct?

9 A. Right.

10 Q. Okay. And with those formal Commission rulings

11 noted that you've just seen, do you still maintain that the

12 rate case costs increasing in this proceeding was the

13 unequivocal or unqualified fault of the Company?

14 A. I do.

15 Q. Okay. Is there -- do you have any other example?

16 You alluded generally to a problem on cooperation. Do you

17 recall in your testimony that you cited earlier, your

18 original testimony, where you address communication

19 problems between the parties? And they begin at

20 approximately page 55 or 56 of your original testimony.

21 A. Starts on page 57 on line 7.

22 Q. Okay. Without having to read that testimony now,

23 do you recall what it says? I can tell you in summary form

24 if that helps.

25 A. Yeah. It -- it -- in summary form, it

0265

1 acknowledges there was a momentary lapse of communication

2 at the end of May due -- mostly due to not having public

3 counsel.

4 Q. So "momentary lapse," by your own testimony, was

5 over a two-week period at a critical point in the

6 proceeding, wasn't it?

7 A. It -- yes, and not --

8 Q. So that --

9 A. -- within the control of Staff.

10 Q. Okay. So that was -- certainly wasn't in control

11 of the Company, though, was it?

12 A. Right.

13 Q. Okay. Now, you've acknowledged -- you talked

14 about the e-mails, you referenced the order where it was --

15 where the Company reached out to the Staff. Do you also

16 acknowledge that, even to avoid the original dismissal of

17 TG-131794, the Company reached out to the Staff to try to

18 head off concerns about formatting of its case in chief?

19 A. I do recall that counsel reached out to Staff

20 counsel.

21 Q. And that would be Exhibit JD-42, dated

22 February 6th, 2014, would it not?

23 A. What number is it --

24 MR. WILEY: We won't be --

25 A. -- in your cross-exhibits?

0266

1 MR. WILEY: -- marking that, Your Honor.

2 JUDGE FRIEDLANDER: Let me take a look.

3 BY MR. WILEY:

4 Q. Second paragraph.

5 A. Oh. JD-42, number. All right.

6 Q. Do you recall the question?

7 A. No.

8 Q. I asked you if one of those attempts to

9 communicate with Staff on the part of the Company related

10 to the original filing of its case, its testimonial case,

11 in 131794. Yes or no?

12 A. Yes.

13 Q. Okay. And are you aware if that e-mail was ever

14 answered with respect to the question raised?

15 A. I am unaware.

16 Q. Okay. Thanks.

17 A. I cannot speak for -- counsel --

18 Q. That's all I asked you.

19 A. -- is not here. I'm also qualifying my answer. I

20 am unaware. I cannot speak for counsel.

21 Q. And to that point in February, by the way, you had

22 performed extensive audit, reviews of the filing, made site

23 visits to Waste Control; isn't that correct?

24 A. Prior to the date of this e-mail, that is correct.

25 Q. Okay. Do you view these attempts as equivalent to

0267

1 asking the Staff's assistant to present the Company's

2 case -- assistance to present the Company's case, or do

3 you, in fact, potentially view that as an effort to resolve

4 disputes between the Company and the Staff prior to filing

5 its case in chief?

6 A. I see it as the Company seeking or soliciting

7 advice on how to file its case.

8 Q. So you stand by your prior testimony, then?

9 A. What -- I don't recall -- what testimony are you

10 referring to?

11 Q. So your testimony that you continued to blame the

12 Company entirely for --

13 A. Yes.

14 Q. -- the increase in rate case costs, including

15 examples of communication by the Company with the Staff

16 after --

17 A. Yes.

18 Q. -- reviewing those?

19 A. Yes.

20 Q. Okay. So acknowledging your lapse in

21 communication in a critical period in May of 2014 that your

22 testimony elaborates on at some length, is it fair for you

23 to state again that all of the extraordinary general rate

24 case costs are the fault of the Company?

25 A. Yes.

0268

1 Q. And that includes all of the examples that I've

2 just shown you that you've acknowledged were fault of the

3 Company, you still maintain that position; is that correct?

4 A. I do.

5 Q. Okay. You -- and we're on the home stretch, I

6 believe.

7 Your supplemental testimony also seems to suggest

8 that, in your defense of not audit sampling, one of the

9 reasons that you didn't do that was because of the

10 review -- because of "WCI used the same test year and

11 included adjustments based on Staff's review of selected

12 amount [sic]." That's MC-13T lines 15 to 17.

13 A. Page --

14 Q. Isn't that one of your defenses there for not

15 audit sampling?

16 A. Page 14?

17 Q. Page -- lines -- excuse me. It's one -- lines --

18 I'll have to get the page reference. I left that out, and

19 boy --

20 MR. SHEARER: Page 14.

21 MR. WILEY: -- I don't want that -- page 14?

22 MR. SHEARER: Yeah.

23 MR. WILEY: Thank you.

24 MR. SHEARER: Are you talking about

25 audit-sampling testimony?

0269

1 MR. WILEY: Yeah.

2 JUDGE FRIEDLANDER: And then line -- lines 9

3 through --

4 MR. SHEARER: Page 14 of --

5 MR. WILEY: It's page --

6 COURT REPORTER: I'm sorry. I need you to

7 speak one at a time.

8 MR. WILEY: I'm sorry. It's --

9 MR. SHEARER: I was speaking --

10 MR. WILEY: -- been a long day.

11 MR. SHEARER: -- off the record, but --

12 BY MR. WILEY:

13 Q. Page 14, beginning at paragraph -- at line 9, and

14 it's the last sentence in that section that I'm asking

15 about.

16 I'm just asking about the last sentence. Are

17 you --

18 A. I know. I'm reading.

19 Q. Okay. "The Staff did not select additional

20 accounts." Question -- and I'm asking you if that's

21 correct, that you used that as a -- one of the reasons you

22 didn't use audit sampling. One of the reasons.

23 A. No. That -- those are not reasons for why Staff

24 didn't use audit sampling.

25 Q. Okay. So I'm confused, because the topic is

0270

1 "Audit sampling" in that paragraph. Why -- what the --

2 does that last sentence, then, have to do in context?

3 A. The context is what Staff reviewed in the rate

4 case.

5 Q. But isn't audit sampling a part of review?

6 That's -- why would you put that sentence in that paragraph

7 if it didn't deal with audit sampling?

8 A. So Staff stated -- why I did that was because I

9 wanted to state why -- what Staff did instead of audit

10 sampling.

11 Q. Okay. So, again, that was one of the reasons you

12 didn't do audit sampling, based on that reason? We're

13 saying the same thing, aren't we? Can't we just agree

14 we're saying the same thing and move --

15 A. Well, no. Staff didn't use audit sampling because

16 Staff -- and it's in my -- same page, page 14, lines 9

17 through --

18 Q. I'm very familiar with that --

19 A. -- 12.

20 Q. -- testimony. What I'm asking about is the last

21 sentence and how that relates to the topic of that section,

22 which is "Audit sampling." Are you saying it shouldn't

23 have been included in that paragraph?

24 A. No. I'm -- I'm not saying that at all.

25 Q. Okay. So isn't it true that one of the reasons

0271

1 you don't use audit sampling is because of this process --

2 you're talking about the mechanical process where you

3 didn't select additional accounts because WCI used the same

4 test year and included adjustments based on the previous

5 rate filing in the selected accounts?

6 A. It is not true. Again, the -- I think the Staff's

7 testimony is pretty clear. It didn't use audit sampling as

8 defined, and I've made a footnote under "Audit sampling,"

9 Section 250.

10 What Staff did instead was it selected a limited

11 number of accounts based on a trend analysis. It reviewed

12 all of the restating and pro forma adjustments and fi- --

13 and affiliate transactions. Staff did not select

14 additional accounts to review in 131 based on its referring

15 again to Staff's trend analysis because the Company had

16 used the same test year.

17 Q. You've read your testimony, and I still have the

18 same question. Isn't that an element of audit sampling,

19 your last sentence? And if you're saying no, fine, but

20 don't reread your testimony, because I can read it.

21 A. Right.

22 Q. I just don't think the last sentence, then,

23 relates to the topic of the paragraph at all. Is that a

24 fair understanding, based on what you've just said?

25 A. No, I don't think it's a fair understanding.

0272

1 Q. Okay. So let me ask it this way: Is there some

2 value -- don't you see some value and an efficiency when

3 you've got the same test period in reducing costs and

4 avoiding the expense of changes to a test year and thus you

5 didn't have -- there were some efficiencies posed by the

6 refiling using the same test period, is what I'm saying,

7 that affected your analysis of audit sampling, whether you

8 used it or not?

9 A. Yes.

10 Q. Okay. You seem to critique, at page 13 of your

11 supplemental testimony, the Company for refiling exhibits

12 from what you again use as the term "failed case" in the

13 current case, correct?

14 A. Yes.

15 Q. Okay. Since the Company had ten business days

16 under the order of dismissal on March 25, 2014, to refile

17 the case and preserve the increased disposal fee

18 requirement, are you saying it should have used a different

19 test period or come up with all new workpapers in that

20 interval by that statement?

21 A. I'm not saying that.

22 Q. Okay. And you would acknowledge, also, that

23 April, the filing in early April, is at the height of the

24 tax return season, too, correct?

25 A. Yes. That's what my mother tells me.

0273

1 Q. She's an accountant, huh?

2 A. She is.

3 Q. Okay. So you're not criticizing the Company for

4 using the same work period -- workpapers in the same test

5 period under these circumstances, correct? Just asking you

6 to interpret what you're saying so that I can understand if

7 you're criticizing the Company for refiling using similar

8 workpapers.

9 A. I am. I am criticizing that the Company, in

10 addition to its revised results of operations, submitted

11 a -- the old results of operations from the dismissed case.

12 Q. That's a procedural issue we can address legally,

13 but --

14 A. But this --

15 Q. -- other than that example, are you criticizing

16 the Company for filing revised workpapers? You apparently

17 thought that was confusing or it shouldn't have been

18 associated procedurally, but I'm just saying, other than

19 that reference, do you have any other reason to criticize

20 the Company for refiling the same workpapers?

21 A. And then also -- yes. Additionally, the -- the

22 way that the Company submitted its direct case, it was --

23 it supplemented. Instead of having one cohesive document

24 for Staff to review, it had to review two and then fold

25 them together.

0274

1 Q. You've criticized us in your testimony on that,

2 but I'm asking about the workpapers per se?

3 A. Per se? Yes. And they were -- there were

4 duplicative workpapers, just like the results of operations

5 and the Lurito-Gallagher that were included.

6 Q. But when there's a duplicative filing for all

7 intents and purposes using the same test period with only

8 minor adjustments, wouldn't you think that some of those

9 documents would be duplicates?

10 A. No. I would only file one set.

11 Q. Okay. We're now on to Kalama, and I think we're

12 on the home stretch.

13 You seem to suggest in your supplemental testimony

14 that failing to identify the Staff auditor in 2009 renders

15 the testimony of Ms. Davis unsupported and suspect. We

16 didn't identi- -- we just said, "Staff said." Do you

17 recall that?

18 Just assume, subject to check, that you criticize

19 us for not identifying who on Staff made certain

20 recommendations.

21 I know you're from Missouri about "show me," but

22 please allow me just to say: Subject to check, you

23 criticize the Company for not identifying the Staff auditor

24 in 2009?

25 A. I criticized, yes --

0275

1 Q. Okay.

2 A. -- for not supporting its statement.

3 Q. And by -- again, for not identifying the Staff

4 auditor; that's my question. That's --

5 A. Right.

6 Q. -- the statement that you are criticizing?

7 A. Right.

8 Q. Okay. Are you saying that verbal interchanges --

9 for instance, with a prior auditor or in a rate case --

10 should not be cited or otherwise relied upon, even if a

11 case isn't formally adjudicated by the Company and

12 proceeding forward?

13 A. No, I'm not saying that.

14 Q. You also say in your testimony that we didn't

15 identify the Staff auditor who said we didn't have to

16 commingle Kalama. You recall that?

17 A. Yes.

18 MR. WILEY: Okay. The exhibit next in line,

19 are we marking that officially, Your Honor?

20 JUDGE FRIEDLANDER: No.

21 MR. WILEY: Okay.

22 JUDGE FRIEDLANDER: We're not.

23 MR. WILEY: Exhibit --

24 JUDGE FRIEDLANDER: I'll take official notice

25 of it, though, and add it to the list.

0276

1 MR. WILEY: Okay.

2 BY MR. WILEY:

3 Q. Ms. Cheesman, the exhibit next in line, I really

4 only have a question -- one question on that.

5 A. I just need to find it real quick.

6 Q. Okay.

7 A. And that is?

8 Q. It's about two thirds slash three quarters of the

9 way through the packet.

10 A. Is it the --

11 Q. Comes right after --

12 A. -- Staff general rate case memo?

13 JUDGE FRIEDLANDER: Yes.

14 BY MR. WILEY:

15 Q. Yes. It's called a Staff memo for the open

16 meeting.

17 A. Okay.

18 Q. You see that now?

19 A. I do.

20 Q. Okay. And there -- you know, looking at that

21 exhibit, there's no mystery about who the Staff auditor was

22 in 2009 for the Waste Control case; is there?

23 A. No.

24 Q. You, yourself, knew exactly who the auditor was in

25 that case, didn't you?

0277

1 A. In the 13- -- or TG-901653 [sic], yes.

2 Q. Okay. And, you know, you knew it was Mr. Demas;

3 so did we. Why would you just then describe this auditor

4 as unidentified or unacknowledged?

5 A. Because that's -- that -- it was not identified in

6 the Company's testimony.

7 Q. And that's because we use the reference "Staff,"

8 don't we?

9 A. Well, that could be anybody.

10 Q. Yeah. Okay. But we use the reference "Staff,"

11 don't we?

12 A. You do use the reference "Staff," yes.

13 Q. Okay. And looking at page 9 of your testimony --

14 A. Page 9.

15 Q. -- isn't it true, just the -- right after you

16 critique us for this, right after that, you refer to

17 "Staff" at the top of page 9, don't you? You use the term

18 "Staff"?

19 A. Yes. "Staff's response to general rate case costs

20 related to Kalama."

21 Q. And when you use the term "Staff," you are

22 referring to yourself as the auditor on the case, aren't

23 you?

24 A. I am.

25 Q. Okay. And don't we all use the term "Staff" in

0278

1 these proceedings kind of in the "royal we" kind of

2 vernacular?

3 A. No. In the testimony of -- I've actually seen my

4 name, "Ms. Cheesman," not "Staff."

5 Q. Okay. But you used the term "Staff" in your

6 testimony, and we used the term "Staff," and my question to

7 you is: Is there anything nefarious or unsupported about

8 that, or are we just referring to Staff generally, both

9 sides?

10 A. No, because usually the -- when the Company uses

11 the word "Staff," it's first preceded by "Ms. Cheesman,"

12 and therefore, there's no -- there's no need to repeat

13 "Ms. Cheesman" over and over and over again.

14 Q. So you're --

15 A. The Company identifies the Staff member first.

16 Q. So you're saying that when we use the term "Staff"

17 generically, that's inappropriate, that we should identify

18 which auditor we're always referring to, and that when you

19 use it, it's been introduced earlier, so it's acceptable;

20 is that correct?

21 A. No. What I'm saying is the Company did not

22 identify the Staff member that advised them in 2009.

23 Q. Do you believe there was any need to do that,

24 since there was no question about who it was?

25 A. I didn't know who it was, and yeah.

0279

1 Q. I thought you just said you did know who it was --

2 A. You --

3 Q. -- that he was the auditor --

4 A. The memo show --

5 Q. -- in the 2009 --

6 A. You showed me --

7 Q. -- rate case --

8 A. -- an exhibit --

9 Q. Let me finish.

10 A. I'm sorry.

11 Q. I thought you just said that you did know who it

12 was, that he was the auditor in the 2009 rate case, that it

13 was referring -- that Ms. Davis was referring to the advice

14 of the auditor in the 2009 rate case and nobody had a

15 question about who that was. I thought that's what you

16 said. You didn't?

17 A. I -- so you showed me a memo from the last rate

18 case. The Company specifically says, "After the last rate

19 case." I couldn't assume that that was Layne Demas.

20 Q. That wasn't my question at all, and you know that.

21 My question was, really, who the auditor was in the 2009

22 rate case who gave advice about not commingling Kalama.

23 A. I didn't assume it was Mr. Layne Demas. The

24 Company, and I -- and in my testimony on page 8, starting

25 on line 7, in my supplemental testimony, it says, "Jackie

0280

1 Davis' supplemental testimony filed November 7, 2014,

2 states, 'After the 2009 rate case,'" and then I provide the

3 quote.

4 Q. Did you --

5 A. So I just -- I didn't -- I personally didn't

6 assume it was Layne Demas.

7 Q. Did you ever ask the Company in a data request who

8 the unidentified auditor was in the 2009 rate case who

9 asked us not to -- who told us to commingle -- advised us

10 to commingle Kalama?

11 A. No.

12 Q. Okay.

13 A. Because the Company provided -- and to qualify,

14 the Company provided that information in rebuttal in

15 August 20.

16 Q. So then why do you attack us in your supplemental

17 testimony about unsupported auditor references when you

18 knew who it was?

19 A. I didn't know who it was.

20 Q. Well, I think your con- -- your testimony's

21 contradictory on that regard, but I'll move on.

22 A. All right.

23 Q. Do you now know who the unidentified and

24 unacknowledged prior auditor was to -- directing Kalama to

25 be filed commingled from here on?

0281

1 A. I do. I heard it from Jackie Davis in her oral

2 testimony.

3 Q. And that would be Mr. Demas; is that correct?

4 A. I heard Jackie Davis say --

5 Q. Well --

6 A. -- Layne Demas.

7 Q. -- she's not an auditor for the Commission. My

8 question is: Do you now know who the unidentified auditor

9 was at the Commission who asked us to commingle -- to --

10 instructed us to commingle Kalama for the future for rate

11 case filings?

12 A. And I said yes, based on Jackie Davis's oral

13 testimony today.

14 Q. So today was the first time you learned that?

15 A. Yes.

16 Q. Okay. Did you ever look in the file -- you found

17 workpapers. Didn't you ever connect the dots on -- you

18 gave us the workpapers. Didn't you ever look to see who

19 had done the audit? And if they were a current employee, I

20 assume you would have gone to them and talked to them,

21 right?

22 A. So I did re- -- and the question, I did review --

23 I did a review of 13- -- or this case, the -- the second to

24 last rate case, TG-09- or the 2009 rate case, and in the

25 top amenable file, that does have a discussion of general

0282

1 items that are contentious or going forward. There was no

2 discussion about not separating Kalama.

3 Q. That isn't my question. My question is: Did you

4 ever ask who the prior auditor was on the 2009 rate case

5 who instructed the Company to file Kalama on a commingled

6 basis going forward from 2009? Did you ever ask?

7 A. No.

8 Q. Okay.

9 A. I --

10 Q. Thank you. And I --

11 A. And I need to qualify that, because I didn't find

12 out until August 20th, 2014, when the Company filed its

13 rebuttal testimony. They did not inform Staff at the

14 beginning of the rate case when Staff proposed to separate

15 Kalama.

16 Q. But you never asked them is my question, and you

17 said you didn't?

18 A. No, I -- I never asked who the identified auditor

19 was.

20 Q. Okay. Isn't it true, about Kalama, that -- your

21 testimony seems to not acknowledge that, on the original

22 filing of the Company's rate case in September of 2013, the

23 Company filed Kalama and regulated operations combined?

24 A. Yes, they did.

25 Q. Okay. Did you read Ms. Davis and hear Ms. Davis's

0283

1 explanation at length today about the background to and how

2 that came to be separated from commingled?

3 A. I did not read, but I listened to Ms. Davis's oral

4 testimony about that background.

5 Q. You didn't read her supplemental testimony about

6 Kalama and how it came to be commingled and separated and

7 commingled?

8 A. Oh, yes. If you're referring directly to her --

9 Q. Yes.

10 A. -- supplemental testimony as well, yes.

11 Q. I was.

12 A. I did read that.

13 Q. Do you dispute her rendition, particularly that

14 the Staff was the one who initially separated Kalama from

15 regulated operations in the fall of 2013?

16 A. I do not. In fact, I am the one that personally

17 separated regulated --

18 Q. And --

19 A. -- operations and nonregulated operations, not the

20 Company.

21 Q. Thank you.

22 And there are some exhibits that have been

23 identified as cross-exhibits in this that I would like to

24 call your attention to. They begin with the Summary No. 1,

25 then there's an e-mail from you to Ms. Davis, and then

0284

1 there's a Schedule 2 and a pro forma.

2 Is that what you're generally referring to in

3 terms of Staff's work product separating Kalama? Generally

4 referring to.

5 JUDGE FRIEDLANDER: And I believe this would

6 be MC-18.

7 MR. WILEY: Thank you.

8 A. Yes. This is one of the many documents that Staff

9 communicated with the Company during the informal process

10 of 131794.

11 BY MR. WILEY:

12 Q. Your supplemental testimony appears to be critical

13 of the Company, at least facetiously at least, about

14 ignoring the previous auditor's directive to not separate

15 Kalama when they filed the case in chief in February of

16 2013. Is that a correct inference?

17 A. No, it's not.

18 Q. So --

19 A. I was not critical. I'm sorry. I want to -- I

20 want to clarify. I was not critical. I merely made the

21 statement that they ignored that advice when they filed the

22 direct cases.

23 Q. But you know why they ignored the advice, don't

24 you? They had already come to a separation with you and

25 the revenue requirement variation was approximately $4,000.

0285

1 You heard Ms. Davis's testimony today that they filed the

2 case so as not to contest an issue that they didn't think

3 was material. They accepted your separation at that point;

4 isn't that true?

5 A. That is true.

6 Q. In your view, in order not to ignore the advice of

7 Mr. Davis [sic], should we have contested your separation

8 at that stage in February of 2014?

9 A. Staff had not filed a position on February -- as

10 of February 12th, 2014. The Company could have filed

11 whatever case it wanted to file, with or without a

12 separation of Kalama.

13 Q. Do you challenge its assertion that once -- in the

14 audit process, once issues had been resolved with Staff, it

15 didn't contest those issues in its subsequent filing in

16 February when it thought it wouldn't be a material

17 difference? Do you contest that position that Staff --

18 that the Company testified to today?

19 A. Do I contest -- I do not contest the Company's

20 position.

21 Q. Did you ever contest the Company's decision to

22 accept that Kalama separation until your testimony was

23 filed formally in July of 2014?

24 A. Correct.

25 Q. Okay. Would it be a fair assumption in your view

0286

1 that filing Kalama aligned in February of 2014 would have

2 been the least controversial route to obtain Staff approval

3 of how Kalama was treated upon its filing of testimony in

4 February 2014?

5 A. No.

6 Q. Okay. If the rule at -- the workpaper rule that

7 we all know at 480-07-520, 4(d), on separation of revenues

8 and expenses, if you understand that it's less than -- that

9 Kalama -- you don't contest that it's less than 10 percent

10 of those gross revenues of the regulated company, do you?

11 A. I do not. It -- in fact, I believe it's 5.5.

12 Q. Okay. And do you maintain that Staff was

13 authorized in any way, shape, or form to require that the

14 separation of Kalama be provided?

15 A. No. I did not require the Company to provide me

16 with a separation of Kalama.

17 Q. You did it yourself?

18 A. That's correct.

19 Q. Okay. And do you suggest that the Company, if you

20 as the auditor wanted them to separate, that you could do

21 that in light of the rule?

22 A. Yes. And I want to -- I'd like to qualify that

23 with --

24 Q. Can I have a follow-up question before you

25 qualify, because I think I know where you're going.

0287

1 A. Okay.

2 Q. Are you referring to the minimum requirements

3 provision of the general rate case workpaper rule in

4 supporting that ability to ask for that?

5 A. No.

6 Q. Okay. What are you relying on?

7 A. So that -- the revenue requirement calculated by

8 the Lurito-Gallagher only reflects regulated operations.

9 Q. What does that have to do with the separation

10 issue under the workpaper rule in your view?

11 A. It doesn't.

12 Q. Okay. Well, that was what my question was going

13 to, so I'm trying to put your answer in context.

14 Are you aware of any other Commission final order

15 that interprets the general rate case -- general workpaper

16 rule to require a company to perform the nonregulated

17 separation that we're talking about?

18 A. No.

19 Q. Okay. Under all of these circumstances, then,

20 would you be surprised that the Company would separate

21 Kalama operation when it files both of its direct cases?

22 Is that surprising to you?

23 A. No.

24 Q. Okay. Was Kalama, in your view, a material

25 revenue requirement issue in this filing?

0288

1 A. Yes.

2 Q. And would you -- and by that, you mean what,

3 please?

4 A. Its impact on the revenue requirement.

5 Q. Okay. And by that --

6 MR. WILEY: And we are on the last two pages,

7 Your Honor --

8 BY MR. WILEY:

9 Q. And by that, are you saying that 5.5 percent of

10 overall revenue is material? Is that what you're saying?

11 Are you talking about your proposal in July that the

12 revenue requirement should be reduced by 168,000 for

13 Kalama?

14 A. The latter, yes.

15 Q. So you do acknowledge, then, that the 168,000 that

16 you proposed for the first time in your July 18th filing

17 was a material change from anything that had been discussed

18 with the Company before that?

19 A. That is correct.

20 Q. So then you would understand, would you not, that

21 that change was a material element of the rebuttal

22 presentation and the focus of the Company after your

23 testimony and case was formally filed?

24 A. No. It was based on the allocation factors used

25 and the assumption Staff had were different than what was

0289

1 in the informal process.

2 Q. That's not my question. My question is: Looking

3 at it as a hundred and eighty -- sixty-eight thousand

4 dollar revenue requirement reduction, would you acknowledge

5 that because of your proposal to reduce the revenue

6 requirement in July in your testimony filing was a material

7 change that caused focus on that subject by the Company in

8 response?

9 A. Yes.

10 Q. Okay. As a matter of fact, you list a number of

11 factors in your testimony at page 11 about why you

12 ultimately decided to commingle Kalama. You say in -- you

13 know, for instance, you say the route study was unreliable

14 because it was outside the test period.

15 But because your testimony where it first raised

16 that issue was in July of 2014, how could we have done a

17 route study in response to the Staff's testimony that we

18 saw for the first time in July within the test period when

19 your testimony was filed 13 months after the end of the

20 test period?

21 A. The Company would not be able to.

22 Q. Okay. But you understand why it attempted to do

23 that, do you not, in response?

24 A. Other than what was mentioned in Jackie Davis's

25 testimony, yes, what was mentioned in her testimony. I

0290

1 understand what she wrote.

2 Q. Okay. And one of the factors, the sixth factor

3 that you cite, is that the fact that Kalama only

4 represented 5.5 percent of the total company revenues led

5 you to allow it to be combined.

6 Doesn't that then come full circle to the original

7 rule requirement in your view? I mean, you knew about the

8 rule. It was always in the rule. You never disputed that

9 Kalama was under 10 percent. Don't we just come full

10 circle there?

11 A. No. I don't believe we come full circle there,

12 because that by itself would not have stopped me or from

13 asking the Company to provide data relevant so that I could

14 separate regular -- or nonregulated operations so they

15 would not be included in the calculation for the revenue

16 requirement for the regulated company.

17 Q. Okay. But in addition to that rule exemption that

18 we've talked a lot about, did you ever contemplate or

19 consider how such a small segment of an annual revenue --

20 $225,000, to be sure -- could have caused, at least in your

21 initial recommendation, a swing of $168,000 in the revenue

22 requirement?

23 A. I'm sorry. Can you please restate the question?

24 MR. WILEY: Can I have it read back?

25 JUDGE FRIEDLANDER: Sure.

0291

1 MR. WILEY: Okay. Two more, I am done.

2 (Question was read back.)

3 A. No.

4 BY MR. WILEY:

5 Q. Wouldn't that be a red flag when you see something

6 like that? $225,000 in revenue and $168,000 swing in the

7 revenue requirement?

8 A. No. It was not a red flag. To me, it just meant

9 that, based on the allocation factors I used, it appeared

10 that regulated operations was subsidizing nonregulated

11 operations.

12 Q. But that was the premise that you subsequently

13 accepted as not being correct by allowing Kalama to be

14 commingled, correct?

15 A. No. The reason why Staff, in settlement, agreed

16 to commingle regulated and nonregulated operations are set

17 forth in the test- -- in testimony, supplemental testimony,

18 which Mr. Wiley's pointed out as page 11, starting from --

19 Q. The factors?

20 A. -- lines 7 through 17.

21 Q. I've read that thoroughly, Ms. Cheesman, but I'm

22 asking you --

23 A. And it's -- okay.

24 Q. I'm asking you: Didn't an alarm go off when you

25 saw that kind of swing on $225,000 in revenue requirement?

0292

1 It had to -- the operating ratio would have to be hugely

2 high and unprofitable. Didn't that cause a concern on your

3 part as an auditor to propose that?

4 A. No.

5 MR. WILEY: No further questions.

6 JUDGE FRIEDLANDER: Thank you.

7 Mr. Sells, do you have any cross-examination?

8 MR. SELLS: Very few.

9 JUDGE FRIEDLANDER: Okay.

10 MR. SELLS: There's very few stones left

11 unturned here, Your Honor.

12 C R O S S - E X A M I N A T I O N

13 BY MR. SELLS:

14 Q. Ms. Cheesman, just a couple of questions, one to

15 make sure I understood a word you used earlier with -- in

16 answering Mr. Wiley's questions, and this regards the

17 two-or-whatever-it-was weeks in May when there was no

18 communication or lack of responsiveness, I think. You

19 described that as "immaterial." Is that -- did I hear that

20 correctly?

21 A. Yes, sir. Immaterial compared to the 18 months

22 that this -- both cases, 131 and 140, have gone on for.

23 Q. During that two-or-so-week time, did you make any

24 communication with Ms. Davis or anybody at the -- I'm

25 sorry, anybody at the Company saying, "We've got a problem

0293

1 up here. We can't return your calls. We don't have a

2 lawyer," whatever it was?

3 A. It's not my -- no, I didn't.

4 Q. Okay. That's all --

5 A. It's --

6 Q. That's all I need.

7 A. Just to qualify real quick --

8 Q. Wait a minute.

9 A. Just to qualify real quick, it's --

10 Q. Wait a minute.

11 A. Okay.

12 Q. That's all I needed to know. If there is recross,

13 your lawyer will bring that out. Okay?

14 JUDGE FRIEDLANDER: Actually, we've been

15 allowing her to --

16 MR. SELLS: I know that, Your Honor.

17 JUDGE FRIEDLANDER: -- explain, so she can

18 explain her -- and qualify her answer.

19 THE WITNESS: Thank you. Thank you, Your

20 Honor.

21 A. During adjudicated process, I don't be- -- I

22 didn't think that that -- my resp- -- I could contact the

23 Company without being represented by an attorney, just like

24 I wouldn't expect Ms. Davis to talk to me without first

25 making sure her attorney was okay with that.

0294

1 BY MR. SELLS:

2 Q. Well, you didn't take Mr. Smith or another lawyer

3 along with you when you did the site visit, for example,

4 did you?

5 A. No. I had another auditor with me.

6 Q. Not a lawyer?

7 A. No. That was -- that's correct, and it was during

8 the informal process of 131794.

9 Q. And when you were talking on all these phone

10 conferences we had over this whole thing, did you always

11 have a lawyer in your office with you?

12 A. During 140560, I believe so, yes.

13 Q. Every conversation, you had a lawyer sitting

14 there?

15 A. Unless authorized -- well, sorry. Every

16 conference call, no. We were usually authorized by

17 attorneys to call. For instance, there would be a

18 conversation between the attorneys between subject matter,

19 and they would say, "Let the experts deal with it," and

20 then they would allow us to talk to each other.

21 Q. All right. Would you please direct your answers

22 to me instead of the judge? I need to look at you when

23 I'm -- when -- is that okay?

24 A. Yes, that's fine. Yes.

25 Q. The 50 percent on the rate case costs, who came up

0295

1 with that 50 percent?

2 A. I did.

3 Q. Anybody else involved in that decision?

4 A. Well, I talked to several different Staff members

5 to think -- just discuss, kick around, the re- --

6 reasonability of that 50 percent.

7 Q. So it was your idea, though?

8 A. Yes, sir.

9 Q. Okay. How come 50 percent? Why not 40? 60? 70?

10 30?

11 A. Again, and that's highlighted in my supplemental

12 testimony, we were just talking about that.

13 Q. Do you recall without looking at your testimony?

14 A. Well, no. I -- I would like to refer you to my

15 testimony --

16 Q. Well, I know --

17 A. -- in response.

18 Q. -- what your testimony says. Please try to answer

19 the question. Why 50 percent and not some other

20 percentage?

21 A. And again, my answer to that question is on

22 page fif- -- 12 of my supplemental testimony, lines 13 to

23 lines 15.

24 Q. What is your answer here today?

25 A. My answer here today is that 50 percent of one

0296

1 failed litigated rate case and 50 percent of this

2 complicated rate case makes one -- the cost for one fully

3 litigated rate case, and then also in my -- my dir- --

4 testimony filed July -- July 18th, 2014, we are also trying

5 to balance both the ratepayer and the Company's interests.

6 Q. Very well.

7 Is that -- was that based upon any rule, any

8 policy, any memorandum here within the Commission, that

9 that's something that should happen, the 50 percent?

10 A. No, sir.

11 Q. Was it based upon any statute that you were made

12 aware of?

13 A. No, sir.

14 Q. Was it based upon any portion of the Washington

15 Administrative Code?

16 A. No, sir.

17 Q. All right. Have you received any complaints from

18 ratepayers in connection with this -- with either one of

19 these two dockets?

20 A. Not in 13- -- or not in 140, because it didn't go

21 to an open hearing, and so I don't have access to all that.

22 That's -- but in 131, I did see a comment -- two comments,

23 one for and one against.

24 Q. So they kind of evened out, then?

25 A. Yes.

0297

1 Q. Did you receive any requests from any

2 ratepayers -- and I guess I'm thinking about larger

3 commercial ratepayers -- saying that they think they're

4 paying too much and they didn't want to pay for lawyers and

5 they didn't want to pay for accountants? Anything like

6 that?

7 A. No, sir.

8 Q. Are you saying here today that the Company acted

9 in any manner in bad faith in either one of these dockets?

10 A. No. I -- I am not implying any negative

11 connotation of the Company's character.

12 Q. All right. No cheating, no trying to get

13 something by the ratepayers?

14 A. No, sir.

15 Q. Just a disagreement on what is appropriate as far

16 as rate setting and these other peripheral issues?

17 A. Yes, sir.

18 MR. SELLS: Thank you. That's all I have,

19 Your Honor. Thank you.

20 JUDGE FRIEDLANDER: Thank you.

21 Mr. Shearer, do you have any redirect?

22 MR. SHEARER: Of course, Your Honor, after

23 four hours of cross.

24 MR. WILEY: Three and a half.

25 MR. SHEARER: We'll do our best --

0298

1 MR. WILEY: Three and a half.

2 MR. SHEARER: Or three and a half. We will

3 do our best to expedite this along.

4 R E D I R E C T E X A M I N A T I O N

5 BY MR. SHEARER:

6 Q. Ms. Cheesman, you were asked by Mr. Wiley about

7 the utilities allocation expense. Do you recall that?

8 A. I do.

9 Q. And there was some discussion about your proposed

10 disallowance of certain utilities costs that were paid by

11 one of the affiliates, WCR. Do you remember that?

12 A. I do.

13 Q. Now, there was a portion of those costs WCR paid

14 that related to a shared facility, if I'm remembering the

15 questions correctly. When did the Company document that

16 portion of those -- of costs that WCR paid for the shared

17 facility?

18 A. During settlement discussions.

19 Q. And can you remember approximately when that

20 happened, on the calendar?

21 A. I want to say between -- at least an estimate,

22 subject to check, between August -- you know what? I don't

23 have to guess. I can look this up. Hold on real quick.

24 Okay. So the -- oh. I'm sorry. I wasted your

25 time. I pointed to the wrong place. Approximately between

0299

1 August 26th and September 4th.

2 Q. Of what year?

3 A. 2014.

4 Q. 2014. And how long had the case -- this case been

5 going by then?

6 A. For over a year.

7 Q. Approximately?

8 A. Approximately over a year.

9 Q. And you just mentioned those discussions took

10 place in settlement meetings. So is it your perception

11 that settlement meetings are confidential?

12 A. Yes, ma'am -- or yes, sir. I'm sorry.

13 THE WITNESS: I keep looking at you.

14 MR. SELLS: Getting pretty Freudian here.

15 BY MR. SHEARER:

16 Q. And material produced during those discussions,

17 it's your perception that those are confidential as well?

18 A. Yes.

19 Q. Thank you.

20 Now moving on to your three-factor allocation.

21 There was extensive discussion on the three-factor

22 allocator. What did the Company propose as a substitute?

23 A. They -- they proposed to just allocate the expense

24 three ways.

25 Q. And what was the basis for allocating three ways?

0300

1 A. Management's estimates.

2 Q. Was there any additional data or cost analysis?

3 A. No.

4 Q. Now, on the details of your three-factor

5 allocator, what was the general purpose of the three-factor

6 allocator? The general idea?

7 A. The general idea was that utility costs -- or in

8 developing the three-factor allocation, Staff felt that

9 W- -- the Waste -- the regulated company, Waste Control,

10 Inc., did incur utilities expenses, did incur some portion

11 of rent, and Staff wanted a fair, reasonable, and supported

12 way to do so.

13 The premise behind the three-factor was to be able

14 to provide a supported calculation to allocate shared

15 expenses among affiliates Waste Control, Inc., Waste

16 Control Recycling, and Waste Control Equipment.

17 Q. What type of -- when you use the three-factor

18 allocator, what type of facilities were you applying the

19 allocation to?

20 MR. WILEY: Your Honor, if I could just

21 clarify. Is this on utilities or land rents or both?

22 MR. SHEARER: I'm referring generally to

23 utilities, but it's both for practical purposes.

24 A. So yeah. I -- I applied the three-factor

25 differently to different addresses. Not all -- or no.

0301

1 Sorry. For utility expenses, yes, it was all the same.

2 BY MR. SHEARER:

3 Q. But what was the commonality in the facilities

4 that you were applying the factor to? I mean, did you

5 apply it -- so let me start over.

6 There was some discussion with Mr. Wiley and some

7 questioning about the types of facilities where these

8 companies operate. Do you recall that discussion?

9 A. I do.

10 Q. And about the consistency of your allocator, so

11 what type of -- I guess, what were the facilities that you

12 applied this to? And I'm speaking to utilities expenses

13 more generally.

14 A. The type of facilities were administrative

15 facilities or shared parking facilities, shared covered

16 parking for garbage truck facilities, shared storage areas.

17 That's also part of -- part of those allocations that any

18 of these companies could be using.

19 Q. So shared facilities is --

20 A. Yes.

21 Q. -- what I'm getting from that.

22 And there was also some discussion back and forth

23 about the size and scope estimate you were -- the use of

24 the three-factor to estimate the size and scope of an

25 entity's operation. Do you recall that discussion?

0302

1 A. I do.

2 Q. Can you please explain why an estimate of a

3 company's size and scope is important in your three-factor

4 allocator?

5 A. The size and scope of a company is an indicator of

6 how each company consumes resources or helps contribute to

7 incurring those costs that are shared by all three

8 company -- all three companies.

9 Q. And, now, there was also some discussion, fairly

10 extensive discussion, about net book value and depreciated

11 assets, and you used net book value as one of the factor --

12 one of your three factors in your three-factor allocator.

13 Does net book value represent each company's investments

14 and assets?

15 A. It does.

16 Q. And as a tangent, does it then serve as a useful

17 estimate of management's attention level to those various

18 entities?

19 A. It does.

20 Q. And you touched on this a little bit in some of

21 your various responses, but I'm going to ask just to

22 clarify: Is Staff recommending in any way the use of any

23 single allocator to allocate shared expenses?

24 A. No. Staff is recommending that all three of these

25 allocators have equal weight, and by doing so, we have an

0303

1 average that we can apply for allocating shared expenses.

2 Q. Thank you.

3 I'm going to move on to land rents now,

4 Ms. Cheesman. The discussion started and lasted a

5 significant amount of time on capital structure. Can you

6 explain what a company's capital structure is?

7 A. A company's capital structure is a snapshot on a

8 balance sheet of its debt and equity.

9 Q. And how do you calculate it?

10 A. I calculate it using actual debt and total equity.

11 Q. So is it fair to say that a company's capital

12 structure reflects its financing sources?

13 A. That's correct.

14 Q. Do individual assets have capital structure?

15 A. No, they do not.

16 Q. There was also subsequent discussion on

17 hypothetical capital structures and debt levels. Just for

18 clarity, which entity owns the buildings that are leased to

19 WCI?

20 A. Heirborne I and Heirborne II.

21 Q. What is, approximately, Heirborne I's actual

22 capital structure?

23 A. Heirborne I's approximate capital structure,

24 subject to check, is 93 -- or ninety- -- 94 percent debt,

25 total debt, total actual debt, and approximately 6 percent

0304

1 equity.

2 Q. And that actual capital structure for Heirborne I

3 reflects the company's financial documents?

4 A. Yes. Its financial position and its financial

5 risk.

6 Q. So is there anything -- can you -- is there

7 anything hypothetical about that?

8 A. Absolutely not.

9 Q. There was also some discussion about acquisition

10 debt in reference to the buildings that are leased to WCI.

11 Do you recall that discussion?

12 A. I do.

13 Q. Are those buildings encumbered?

14 A. They are.

15 Q. Please explain.

16 A. All those build- -- all of Heirborne I's assets,

17 including the ones being rented to WCI and its affiliates,

18 are encumbered by its debt. In other words, the debt that

19 it has on its books uses all these properties as

20 collateral, and therefore, they are encumbered.

21 MR. WILEY: Your Honor, I want the record to

22 be clear. Encumbered and cross-collateralized, I believe,

23 is what the question -- if they're synonymous, that's the

24 answer that I had, and I think you need to be clear if

25 you're talking about cross-collateralization.

0305

1 The form that I -- the form of the question

2 is unclear, the way it -- the interchange between counsel

3 and the witness, Your Honor.

4 JUDGE FRIEDLANDER: Ms. Cheesman, are we

5 talking about cross-collateralization?

6 MR. SHEARER: We can call it -- for purposes

7 of -- well, I'll clarify the question, then, on

8 cross-collateralization.

9 BY MR. SHEARER:

10 Q. Do creditors hold -- do creditors have a claim

11 against the buildings?

12 A. Yes.

13 Q. So can you please explain what are the differences

14 between -- and I'm talking about substantive economic

15 differences. What are the substantive economic differences

16 between mortgaging a building directly and using --

17 pledging a building as security for a loan and then using

18 rents to repay that loan?

19 A. There are none.

20 Q. There was also significant discussion on return on

21 equity. Do you remember that discussion, Ms. Cheesman?

22 A. I do.

23 Q. There was some confusion over the terminology, and

24 perhaps it was just my own, but in -- synonymously -- are

25 you referring synonymously to allowable rent and rent

0306

1 returns? Are those the same -- is that the same thing?

2 A. No.

3 Q. Can you please explain the distinction?

4 A. Rent is the sum of the return and the cost

5 associated, so we included depreciation and some operating

6 costs allocated to those buildings from WC- -- from

7 Heirborne I, so it's -- it's cost plus a return, and that

8 is the total rent.

9 Q. And then there was some discussion about the DCF

10 analysis you performed or the discounted cash flow

11 analysis. Do you remember that discussion?

12 A. I do.

13 Q. And what analysis did the Company put forward to

14 support its proposed ROE?

15 A. None.

16 Q. Is the cost of equity a temporal number?

17 A. Yes, it is.

18 Q. Can you explain why?

19 A. Because the cost of equity changes over time and

20 based on different economic constraints on an economy. So,

21 like, right now, interest rates are very low, whereas 20

22 year ago -- 20 years ago, they were high.

23 Right now, the -- the cost of equity -- I haven't

24 done the analysis -- could be extremely different than what

25 I proposed based on the information that I collected in

0307

1 2012 for -- for the period of 2012. It just -- it changes.

2 Q. And then there was a discussion about your sample

3 group and the real estate companies that you used in your

4 DCF analysis. What were the sources you used in your -- to

5 collect your -- the data for your DCF analysis?

6 A. I selected five companies based on availability on

7 the SEC website for financially -- financially -- or

8 fin- -- publicly traded companies, and then also if they

9 had available information through Value Line for forecasts

10 info- -- forecasted information.

11 Q. Are Value Line and the SEC generally credible

12 sources --

13 A. They are --

14 Q. -- of information?

15 A. -- primary sources. Yes, they are.

16 Q. And can you discuss what alternative sample group

17 the Company put forward to support its analysis?

18 A. They did not.

19 Q. They did not what?

20 A. They did not provide any sample sources.

21 Q. Then I just want to clarify one point on the

22 three-factor allocator as it relates to rents. There was

23 some confusion as to whether you were allocating costs to

24 different lines of business, including real estate

25 businesses. Do you remember that discussion?

0308

1 A. I do.

2 Q. Just to be clear, did Staff -- does Staff

3 recommend allocating those costs in the three-factor to the

4 real estate companies?

5 A. No, I do not.

6 Q. I'm going to move on to rate case costs.

7 What is your recommendation for rate case costs

8 and amortization schedule?

9 A. So, in my supplemental testimony, filed

10 February 2nd, page 6, lines 1 through 5 -- or lines 1

11 through 6, Staff recommends that the Company be recov- --

12 allowed to recover 100 percent of the informal process

13 prior to the prehearing not- -- notice con- -- PHC or

14 prehearing notice conference dated December 25th,

15 50 percent of its failed litigated case in 131794, and

16 50 percent of its complicated, duplicative, and unsupported

17 case in -- or yes, in 140560, and that be amortized over

18 five years.

19 Q. There was also significant discussion of Staff's

20 contributions to the length and the complexity in this

21 case. Do you recall that?

22 A. Yes.

23 Q. Can you please summarize what Staff has

24 acknowledged in this case?

25 A. Staff has acknowledged that there was a

0309

1 communication lapse in the last two weeks of May 2014.

2 Staff acknowledges that it did file motions when it seemed

3 prudent for Staff to do so in both 131 and 140. The Staff

4 asked data requests and sometimes had to reask data

5 requests to get a complete answer from the Company.

6 Q. And I wanted to clarify one other item. There was

7 a lot of discussion about page 13 in your supplemental

8 testimony, so that's Exhibit MC-13T and page 13, and this

9 was the line, and I'm going to quote, "The extraordinary

10 general rate case costs associated with TG-131794 and

11 TG-140560 are the fault of the Company."

12 Do you remember that extensive discussion around

13 that item?

14 A. I do.

15 Q. Now, does -- where, in this sentence, could you

16 point me that you are referring to "all" rate case costs?

17 A. I'm not. I cannot.

18 Q. So what costs are you referring to?

19 A. Just the extraordinary rate case costs incurred in

20 131 and 140, and then it's followed up by an explanation of

21 what those costs were -- or what Staff aligns those costs

22 with, but nothing specific, so I'm not talking about a

23 specific invoice dollar amount.

24 Q. And then lastly, or as we head down our home

25 stretch, there was some discussion about the separation of

0310

1 Kalama operations, and there was consistent reference to a

2 rule. Do you remember -- do you recall that conversation?

3 A. I do.

4 Q. And can you provide some context to that rule for

5 clarity?

6 A. So the rule does not require the Company to file

7 its -- the minimum filing requirements does not require the

8 Company to file a separation of regulated and nonregulated

9 operations if the nonregulated operations are less than

10 10 percent.

11 It doesn't prohibit -- there is no mention --

12 that's just the filing requirement. There are no rules

13 that prohibit Staff from filing -- or separating regulated

14 and nonregulated for the purposes of calculating a revenue

15 requirement for the regulated operations.

16 And then also, the next WAC after that for filing

17 requirements was that the Company needed to describe in

18 detail all its nonregulated operations, and that was

19 without regard to any revenue require- -- or less or more

20 than 10 percent, and the Company did not do that in its

21 initial filing. It did not meet that rule in this initial

22 filing for 14- -- for 140560.

23 Q. And just to clarify the record, for everybody's

24 reference, will you accept, subject to check, the rule

25 you're referring to is WAC 480-07-520?

0311

1 A. I will accept it that for subject -- subject to

2 check.

3 Q. And then moving on to Mr. Sells' cross-examination

4 questions, there was some discussion, again, about the lack

5 of responsiveness on Staff's part, which was acknowledged

6 also by the Commission, from approximately mid-May to the

7 end of the month or the first week of June, somewhere in

8 there.

9 Approximately how long was Staff nonresponsive?

10 A. Approximately two weeks.

11 Q. And how long had this case gone at that time?

12 A. At that time -- Case 140 was filed in April, so

13 that would be approximately two months. If you're talking

14 about including the dismissed case, 14- -- 131, eight

15 months.

16 Q. Thank you.

17 And there was also some discussion about Staff's

18 proposal to recommend 50 percent of rate case costs in the

19 formal adjudication for 131794 and 50 percent of rate case

20 costs in 140560, and Mr. Sells asked you about whether

21 there was any statutory authority or regulatory authority

22 for your proposal. Do you recall that?

23 A. I do.

24 Q. What is the Commission's primary statutory duty in

25 setting general rates?

0312

1 MR. WILEY: Objection --

2 A. To determ- --

3 MR. WILEY: -- Your Honor. That calls for a

4 legal conclusion the way it's phrased. I may not have an

5 objection if there's one surrounding her role, but --

6 MR. SHEARER: I can attempt to rephrase, Your

7 Honor.

8 JUDGE FRIEDLANDER: Okay. Thank you.

9 BY MR. SHEARER:

10 Q. Are you aware of any statutory authority setting

11 forth the Commission's duty, primary duty, or among its

12 primary duties, in setting general rates?

13 A. Yes. I'm aware that the general duty is to review

14 expenses so that -- or so that expenses are prudent and

15 reasonable, and those are the rates -- those are expenses

16 that are allowed into rates.

17 MR. SHEARER: Thank you, Ms. Cheesman.

18 I don't have any additional redirect, Your

19 Honor.

20 JUDGE FRIEDLANDER: Thank you, and I don't

21 have any clarification questions, so you're dismissed.

22 Thank you for your testimony.

23 THE WITNESS: Thank you, Your Honor.

24 JUDGE FRIEDLANDER: I think we probably need

25 some housekeeping -- I guess we should go through some

0313

1 housekeeping issues.

2 MR. WILEY: Yes.

3 JUDGE FRIEDLANDER: First of all, I saw the

4 joint motion many moons ago for admission of the exhibits.

5 I've provided the parties with a proposed exhibit list. If

6 you're all okay with it, we can admit those exhibits and

7 the Cross-Examination Exhibits MC-14 through MC-18.

8 MR. WILEY: Your Honor, I think you mean 13

9 for her testimony, don't you?

10 JUDGE FRIEDLANDER: That wouldn't be the

11 cross-examination exhibits, and --

12 MR. WILEY: Oh, okay. I'm sorry.

13 JUDGE FRIEDLANDER: -- that's all I'm on

14 here. Yeah. So --

15 MR. WILEY: Do you -- 13T, we do want to come

16 in.

17 JUDGE FRIEDLANDER: Absolutely. Absolutely.

18 MR. WILEY: Yeah.

19 JUDGE FRIEDLANDER: And so that would be

20 under the direct exhibits, and then in addition to that,

21 the Cross-Exam Exhibits MC-14 through -18. So if everyone

22 is okay with that?

23 I'm seeing nods from Mr. Sells, Mr. Wiley.

24 MR. SHEARER: Yes, I'm fine with it, Your

25 Honor.

0314

1 JUDGE FRIEDLANDER: All right. Thank you.

2 So those are admitted.

3 And also, Mr. Wiley, just so that you know --

4 and I'm sure you're aware of this anyway -- all the

5 exhibits that you did use, MC-14 through -18, need to be

6 filed with the Commission, original and three, just so we

7 have it on the record and, obviously, we want that in the

8 cases on the website.

9 MR. WILEY: Yes.

10 JUDGE FRIEDLANDER: So one last reminder from

11 my perspective: Briefs are due, if you're going to be

12 filing them, March 27th, and that really is it for my

13 housekeeping matters.

14 Is there anything else that the parties wish

15 to raise?

16 MR. WILEY: Yes, Your Honor.

17 MR. SHEARER: I have --

18 MR. WILEY: We do. Oh, I'm sorry. Do you

19 want --

20 MR. SHEARER: No.

21 MR. WILEY: -- to go first?

22 MR. SHEARER: You can go first. I --

23 MR. WILEY: We do have a housekeeping issue

24 related to the motion for temporary rates.

25 JUDGE FRIEDLANDER: Sure.

0315

1 MR. WILEY: We've resolved, and off record, I

2 understood from a number of sources, I -- that the price

3 out that the Company filed, that originally it filed in the

4 records center that was not associated with the file, is

5 now officially associated with the file.

6 That then brings up our concern about

7 responding, which you currently have set for Friday at noon

8 for a response. I had indicated in our status conference

9 with Mr. Shearer and Mr. Sells and yourself that Ms. Davis

10 has asked for a little bit of respite, because of tax

11 filing deadline for corporations on the 15th, to have --

12 which falls on the 16th, to have till the 18th, and I --

13 that appears to be acceptable. You can ask people on

14 record.

15 But my concern, as of late yesterday, Your

16 Honor, is that I am told -- I have not verified this --

17 that in the Staff's price out, there are external linked

18 sources referenced and not provided. This obviously has

19 been a recurring theme on both sides of this case. That

20 creates problems for us, and we want the Staff to address

21 them, please.

22 MS. CHEESMAN: If -- Your Honor, if I may,

23 the external links are part of the record. There's a link

24 to Bench Request 1's -- there's a file that was provided in

25 Bench Request 1, and I believe the other file is also in

0316

1 the record or -- in the record as part of one of Staff's

2 exhibits.

3 MR. WILEY: Your Honor, I would like a formal

4 e-mail addressing this before I ask for additional time.

5 We -- obviously, it's not in the Company's best interest to

6 have this decision delayed, so we don't want to do that,

7 but I can only rely on my accounting experts right now, and

8 that's what I've been told.

9 I would like there to be an exchange on that

10 so we can resolve it tomorrow, hopefully, and if it gets

11 resolved, I would then ask for 5:00 on Wednesday, the

12 18th -- and I could do 12. I know you like 12 noon, so

13 I'll be amenable to 12.

14 MS. CHEESMAN: I don't have a problem

15 providing those e-mails before I leave -- or an e-mail with

16 those two files before I leave tonight. I just wanted to

17 make the statement that it is already part of the record,

18 those files.

19 MR. WILEY: I understand your statement, but

20 I need to hear what our accounting experts say in response

21 to what we've asked for.

22 JUDGE FRIEDLANDER: Sure. And if this

23 becomes a further issue, I'm sure you all will let me know.

24 Is there anything further before we adjourn?

25 MR. SHEARER: I --

0317

1 JUDGE FRIEDLANDER: Mr. Shearer?

2 MR. SHEARER: I had a housekeeping matter,

3 Judge Friedlander. We had planned to expedite the record

4 to Wednesday the 18th, but in light of all the "subject to

5 checks" in this afternoon session, I would ask that we

6 expedite it further because we have to verify the subject

7 to check, I believe, within five business days, so by -- I

8 don't know --

9 JUDGE FRIEDLANDER: That's --

10 MR. SHEARER: -- by this Friday?

11 JUDGE FRIEDLANDER: That's fine with me. We

12 can discuss off the record with the court reporter how soon

13 we can have the transcript available.

14 MR. SHEARER: Okay. Thank you, Your Honor.

15 JUDGE FRIEDLANDER: Sure. Is there anything

16 further before we go?

17 MR. WILEY: No.

18 JUDGE FRIEDLANDER: Okay. Hearing nothing,

19 we are adjourned. Thank you.

20 (Proceedings concluded at 5:22 p.m.)

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1 C E R T I F I C A T E

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3 STATE OF WASHINGTON

4 COUNTY OF KING

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6 I, Ryan Ziegler, a Certified Shorthand Reporter in

7 and for the State of Washington, do hereby certify that the

8 foregoing transcript of the proceedings held March 11, 2015,

9 is true and accurate to the best of my knowledge, skill, and

10 ability.

11 IN WITNESS WHEREOF, I have hereunto set my hand

12 and seal this March 16, 2015.

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RYAN ZIEGLER, RPR, CCR

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