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BEFORE THE WASHINGTON

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UTILITIES AND TRANSPORTATION COMMISSION

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WASHINGTON UTILITIES AND) DOCKET NO. TG-140560
TRANSPORTATION COMMISSION,) Volume II

5

) Pages 37 - 318

6

Complainant,)

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v.)

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WASTE CONTROL, INC.,)

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Respondent.)

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HEARING, VOLUME II

11

PAGES 37 - 318

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ADMINISTRATIVE LAW JUDGE MARGUERITE E. FRIEDLANDER

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10:01 A.M.

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MARCH 11, 2015

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1 OLYMPIA, WASHINGTON; MARCH 11, 2015

2 10:01 A.M.

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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 preferable.

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

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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

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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.

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.

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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

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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.

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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

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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

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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

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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

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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.

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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 --

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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

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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,

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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

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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 --

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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- --

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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.

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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

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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

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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 structure 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 preceded 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 Airpporter 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 synonymous --

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 unilat- -- 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

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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

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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

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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.

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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.

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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?

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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

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.

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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

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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 --

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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?

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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.

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?

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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

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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

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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?

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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?

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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

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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.

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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.

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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

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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 --

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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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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

12

IN WITNESS WHEREOF, I have hereunto set my hand
and seal this March 16, 2015.

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RYAN ZIEGLER, RPR, CCR

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