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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

2 ----- )  
3 WASHINGTON UTILITIES AND )  
4 TRANSPORTATION COMMISSION, ) DOCKET NO. UG-940034  
5 )  
6 vs. Complainant, )  
7 ) DOCKET NO. UG-940814  
8 )  
9 WASHINGTON NATURAL GAS ) VOLUME 4  
10 COMPANY, )  
11 Respondent. ) PAGES 358 - 550  
12 ----- )

13 A hearing in the above matter was held on  
14 January 30, 1995, at 9:50 a.m. at 1300 South Evergreen  
15 Park Drive Southwest before Commissioners RICHARD  
16 HEMSTAD, WILLIAM R. GILLIS and Administrative Law  
17 Judge LISA ANDERL.

18 The parties were present as follows:

19 WASHINGTON NATURAL GAS COMPANY, by DAVID  
20 S. JOHNSON, Attorney at Law, 815 Mercer Street,  
21 Seattle, Washington 98109.

22 WASHINGTON UTILITIES AND TRANSPORTATION  
23 COMMISSION STAFF, by ROBERT CEDARBAUM and  
24 ANNE EGELER, Assistant Attorneys General, 1400 South  
25 Evergreen Park Drive Southwest, Olympia, Washington  
98504.

FOR THE PUBLIC, DONALD TROTTER, Assistant  
Attorney General, 900 Fourth Avenue, Suite 2000,  
Seattle, Washington 98164.

NORTHWEST INDUSTRIAL GAS USERS, by PAULA  
PYRON, Attorney at Law, Suite 1100, One Main Place,  
101 SW Main Street, Portland, Oregon 97204.

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25 Cheryl Macdonald, CSR  
Court Reporter

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APPEARANCES (Cont.)

PARTNERSHIP FOR EQUITABLE RATES FOR  
COMMERCIAL CUSTOMERS, by CAROL ARNOLD, Attorney at  
Law, 5000 Columbia Center, 701 Fifth Avenue, Seattle,  
Washington 98104.

SEATTLE STEAM COMPANY, by FREDERICK O.  
FREDERICKSON, Attorney at Law, 1420 Fifth Avenue, 33rd  
Floor, Seattle, Washington 98101.

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I N D E X

2 WITNESSES: D C RD RC EXAM  
RAMIREZ 374 381 519 526 501

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4 RUSSELL 534 537

5 EXHIBITS: MARKED ADMITTED

T-45 373 381

6 T-46 373 381

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T-69 534 537

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19 RECORD REQUISITIONS:

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

2 JUDGE ANDERL: Let's be on the record.

3 This hearing will please come to order. We're  
4 convened for additional cross-examination in  
5 consolidated dockets UG-940034 and UG-940814. My  
6 name is Lisa Anderl and I'm the administrative law  
7 judge presiding. Commissioners Gillis and Hemstad are  
8 on the bench today. Let's just very briefly take  
9 appearances and then we'll go back around and take the  
10 opening statements that I discussed while we were off  
11 the record. Start with the company.

12 MR. JOHNSON: My name is David S. Johnson  
13 representing Washington Natural Gas Company. My  
14 address is 815 Mercer Street, Seattle, Washington  
15 98109.

16 MS. PYRON: My name is Paula Pyron  
17 representing the Northwest Industrial Gas Users. I'm  
18 with the firm of Ball, Janik and Novack. My address  
19 is Suite 1100, One Main Place, 101 Southwest Main  
20 Street, Portland, Oregon 97204.

21 MS. ARNOLD: Carol Arnold representing the  
22 Partnership for Equitable Rates for Commercial  
23 Customers. I'm with Preston Gates and Ellis, 701  
24 Fifth Avenue, Seattle.

25 MR. FREDERICKSON: Frederick O.

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1 Frederickson of Graham and Dunn representing Seattle  
2 Steam Company. My address is 1420 Fifth Avenue, 33rd  
3 Floor, Seattle, Washington.

4 MR. TROTTER: Donald T. Trotter, assistant  
5 attorney for the public counsel section of the  
6 attorney general's office. My address is as  
7 previously noted.

8 MS. EGELER: Ann Egeler and Rob Cedarbaum,  
9 assistant attorneys general representing Commission  
10 staff. Our address is Post Office Box 40128, Olympia,  
11 Washington.

12 JUDGE ANDERL: As I asked before we started  
13 today, I would like each of the parties to give a very  
14 brief summary opening type of statement and we will  
15 start with company.

16 MR. JOHNSON: Thank you, Your Honor,  
17 Commissioners. There are two proceedings at issue  
18 here. First one that I will discuss is cost of  
19 service transportation rate design proceeding. This  
20 proceeding stems from the Commission's fourth  
21 supplemental order in docket 920840 in which the  
22 Commission requested the company to study the cost of  
23 providing transportation functions to its customers  
24 and also to file a single declining block  
25 transportation tariff supported with accounting and

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1 cost information. We have done so and we have  
2 presented a filing accordingly in this proceeding.

3           Now, because the rates have changed as we  
4 proposed for transportation service, those changes  
5 have the effect of changing other rates that we  
6 provide to our customers. It's important to recognize  
7 that this filing is not a revenue requirement or a  
8 revenue based filing. It is revenue neutral and so  
9 what we are doing is because we are proposing to  
10 modify our transportation tariff, we are also  
11 proposing modifications to our rates to other  
12 customers all with the goal of achieving the same  
13 overall revenue to the company that was approved in  
14 the settled case early last year.

15           In developing our transportation rates and  
16 in developing our overall rates, we have supported  
17 that proposal with the comprehensive cost of service  
18 study that Mr. Feingold of R. J. Rudden and Associates  
19 who's here today has prepared on behalf of the  
20 company. It is a different approach than what the  
21 Commission has applied before, but as Mr. Feingold and  
22 other company witnesses testify, it is wholly  
23 consistent with prior Commission decisions. It is a  
24 modified peak and average approach that recognizes  
25 both peak contributions and utilization through our

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1 system, the so-called commodity function. We feel  
2 that the proposal both in terms of cost of service and  
3 rate design is well founded and we've asked the  
4 Commission to approve that.

5           The second proceeding, docket 940034, is  
6 more limited in scope. It is directed at our tariff  
7 for compressed natural gas. We filed a rate proposal  
8 early last year that was suspended. Staff has argued  
9 that we should discontinue our sale of compressed  
10 natural gas to the public after a grace period. We  
11 feel that we should be continued to -- allowed to  
12 participate in the sale of compressed natural gas  
13 until competitive fuel alternatives are available  
14 within our service territory. And Mr. Berdan and our  
15 other witnesses speak to those issues.

16           JUDGE ANDERL: Thank you. Ms. Egeler.

17           MS. EGELER: Morning, Commissioners. The  
18 Commission staff case is broken down into two parts.  
19 First, Mr. Ramirez will be addressing downstream costs  
20 arising downstream from the city gate, and those would  
21 include the cost of service study and modifications to  
22 the Cascade methodology, specifically the allocation  
23 of delivery, capacity and deliveries, and the use of  
24 the average and excess methodology to some direct  
25 assignments. Mr. Russell will be addressing the

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1 upstream costs upstream of the city gate.

2           The staff sees the main areas of dispute to  
3 be first the calculation of the design day; second,  
4 the allocation of gas supply costs among the customer  
5 classes; and third as the company stated, the issue of  
6 CNG. The staff believes that the current  
7 subsidization of CNG rates is inappropriate and also  
8 illegal under current statutes. The staff would like  
9 to see CNG made a nonregulated service. They are not  
10 advocating that the sale of compressed natural gas  
11 cease but rather that that service no longer be  
12 regulated.

13           JUDGE ANDERL: Thank you, Ms. Egeler. Mr.  
14 Trotter.

15           MR. TROTTER: Good morning. My name is  
16 Donald T. Trotter. I'm an assistant attorney general  
17 from the public counsel section of the attorney  
18 general's office representing the public in this  
19 proceeding. Our assistant, Mr. Jim Lazar, I believe  
20 you're familiar with. He's testified before the  
21 Commission many times on a wide variety of energy  
22 and related topics. The Commission did order the  
23 company to file a single declining block rate for  
24 transportation. We don't know if the Commission had  
25 in mind substantial rate increases to other classes



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1 but that's what's being accomplished by this filing,  
2 and we're very concerned about that, proposing  
3 substantial rate increases to residential customers,  
4 somewhat substantial to the commercial class, and  
5 that's not full implementation of their proposal.  
6 There are more increases coming if their proposal is  
7 accepted, and given the rate history currently and  
8 upcoming we're very concerned about that.

9           This case does represent a fundamental  
10 difference in approach among the parties. The company  
11 has focused on a hypothetical design day load, peak  
12 load, for allocating its fixed costs and that's a  
13 major issue in cost studies. Our case focuses instead  
14 on a design day on the economic reason whether fixed  
15 costs are incurred, and we believe that's mainly to  
16 move volumes of gas. The company has articulated that  
17 its approach is consistent with prior Commission  
18 orders. We have suggested that it's not, and we  
19 believe our approach is the more consistent with prior  
20 Commission orders. In fact, the Commission has  
21 consistently rejected approaches similar to that  
22 proposed by the company in this case.

23           We are urging in this proceeding that the  
24 Commission reaffirm its past approach to gas cost of  
25 service, to adopt a specific methodology in this case,

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1 and direct preparation of a study that meets the  
2 Commission's policy judgments in this proceeding and  
3 then determine the appropriate rate design that will  
4 ultimately be approved. We ask that the Commission  
5 not just focus on simply issues of transportation  
6 rate design, much broader than that in its impact.

7 JUDGE ANDERL: Thank you. Ms. Pyron.

8 MS. PYRON: My name is Paula Pyron, here on  
9 behalf of the Northwest Industrial Gas Users. NWIGU,  
10 the Industrial Gas Users Association, consists as a  
11 trade association comprised of 36 industrial gas users  
12 in Oregon, Idaho, and Washington. And we will be  
13 presenting two witnesses later this week before the  
14 Commission, Don Schoenbeck, who is our cost of service  
15 witness, and Steve Lavigne, who will be speaking to  
16 issues related to balancing.

17 In this case, the company has submitted  
18 three cost studies in its filing, a modified peak and  
19 average method, which it's advocating, a study 2,  
20 which is a peak responsibility method, the Cascade  
21 method, and then the staff has come in with its  
22 version of a modified peak and average method, and the  
23 public counsel has come in with their method for cost  
24 of service methodology. NWIGU would advocate to the  
25 Commission that it adopt the study 2 in the company's

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1 filing which is a peak demand responsibility, and in  
2 implementing cost-based rates on that basis, in  
3 recognition that that involves cost realignment among  
4 all the customer classes, NWIGU would advocate to the  
5 Commission that it view this case as a first step  
6 toward moving toward cost-based rates on that basis  
7 and then adopting the company's filing results and  
8 then adopting the peak demand allocation method and  
9 fully implementing that in the next case.

10                 We have some specific concerns with the  
11 terms and conditions of transportation service for  
12 schedule 57 where we have significant differences from  
13 what the company has requested. These are primarily  
14 in the nature of monthly balancing, monthly load  
15 balancing on the system, and relate to the degree and  
16 length of a makeup period as well as the penalties  
17 that should be appropriate associated with it and the  
18 length of service for contract term for transportation  
19 customer. Thank you.

20                 JUDGE ANDERL: Thank you. Ms. Arnold, go  
21 ahead.

22                 MS. ARNOLD: The Partnership for Equitable  
23 Rates for Commercial Customers is an organization that  
24 was founded in about 1991. Its precursor was an  
25 organization of school districts. The partnership

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1 consists of a group of school districts and hospitals  
2 who are in Washington Natural Gas's commercial class  
3 groups. PERCC has had and has in this case two goals  
4 consistently. One is equitable rates for commercial  
5 customers. Traditionally commercial customers were  
6 not represented in LDC rate cases. The industrial  
7 customers generally have been represented, the  
8 residential have been represented by public counsel,  
9 but the commercial classes in the middle have been  
10 unrepresented, and as a result the commercial classes  
11 bear a larger percentage of their costs than other  
12 classes do, and consequently the revenues produce a  
13 higher rate of return than either the residential or  
14 the large industrials. So PERCC seeks to redress that  
15 inequity and seeks equitable rates in this rate case  
16 which is, as Mr. Johnson points out, has become a rate  
17 design case.

18               Secondly, the partnership seeks access to  
19 competitive gas markets. As the Commission knows,  
20 deregulation of natural gas began at the federal level  
21 in the mid 1980s and has continued to the point where  
22 today any large customer, large industrial customer,  
23 generally has access to competitive gas markets. The  
24 partnership seeks that same access for commercial  
25 customers, schools and hospitals by other supplies and

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1 commodities on a competitive basis, and natural gas is  
2 available on a competitive basis if the local  
3 distribution company offers transportations on terms  
4 and conditions that make it accessible.

5           Generally the partnership supports the  
6 company's filing because it does not impose artificial  
7 barriers to smaller customers such as schools and  
8 hospitals to transport competitive-priced gas.  
9 However, the partnership is opposed to the customer  
10 charge which at \$650 is high enough to pose a barrier  
11 to smaller transportation customers and has not been  
12 justified by the company in terms of cost basis and  
13 has not been audited or scrutinized by the staff in  
14 the same way that the company's other costs were in  
15 the last rate case.

16           So these are the two goals of the  
17 partnership. One is equitable rates for commercial  
18 customers and two is access to transportation.  
19 And I might just add that utility costs are extremely  
20 important to commercial customers. As everybody  
21 knows, hospitals and schools both are very strapped  
22 for funds right now. Just to illustrate this, Multi-  
23 care Health System, which is Tacoma General Hospital  
24 and its affiliates in the Tacoma area, their  
25 facilities budget, of that budget 30 percent goes to

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1 utilities. So what happens here before this  
2 Commission is of great importance. Thank you.

3 MR. TROTTER: Do you intend our remarks to  
4 be confined to evidence that's going to be presented  
5 in this case?

6 JUDGE ANDERL: I think that would be  
7 appropriate.

8 MR. TROTTER: Will the Commission disregard  
9 evidence that is offered by counsel that is not in the  
10 record?

11 JUDGE ANDERL: Yes.

12 MR. TROTTER: Thank you.

13 JUDGE ANDERL: Go ahead, Mr. Frederickson.

14 MR. FREDERICKSON: Morning, Commissioners.  
15 My name is Fred Frederickson. I represent intervenor  
16 Seattle Steam Company. Seattle Steam Company is a  
17 steam district operating system serving approximately  
18 220 customers in downtown Seattle. These customers  
19 include major commercial buildings, hospitals and  
20 generally everything in the downtown core. Seattle  
21 Steam Company we believe is the largest single meter  
22 on the Washington Natural Gas system, and Mr. Jim  
23 Young sitting behind me is the president and CEO of  
24 Seattle Steam Company and he is going to be our  
25 witness in this proceeding.

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1                   Seattle Steam views a primary if not the  
2 primary issue in this proceeding as the cost of  
3 transportation for all classes of customers, the cost  
4 of transporting natural gas from the Northwest  
5 Pipeline to the meter of the individual customer. We  
6 are not opposing the position that has been taken by  
7 Washington Natural Gas in this proceeding. What we  
8 would like to do is provide the Commission with what  
9 we think is a bit of a different perspective because  
10 we are a large industrial customer standing here on  
11 our own not part of any group and we would like to  
12 share with the Commission the perspective of a very  
13 large customer who is an end user and provide our  
14 views on that subject. Thank you, Your Honor.

15                   JUDGE ANDERL: Thank you very much. Thank  
16 you all for your opening remarks. During the previous  
17 days of hearing in this matter we heard the direct and  
18 cross-examination of the company's witnesses. We're  
19 now ready to proceed with the staff's case in chief.  
20 Ms. Egeler, would you like to call your first witness.

21                   MS. EGELER: Yes. Our first witness would  
22 be Mr. Ramirez.

23                   JUDGE ANDERL: While Mr. Ramirez takes the  
24 stand let me review for the record his prefiled  
25 testimony and exhibits. We did mark those and

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1 identify them as exhibits while we were off the  
2 record. I will now identify those for the record.  
3 Mr. Ramirez's prefiled direct testimony is Exhibit  
4 T-45. And just so that the record is clear, that does  
5 contain a substitute or revised page 19 which is a  
6 chart and that revision date is January 29, 1995. In  
7 accordance with the agreement at the beginning of this  
8 proceeding, each of the parties, staff, public counsel  
9 and the intervenors, were allowed to file rebuttal  
10 testimony responding to each other's position. We  
11 therefore have another piece of Mr. Ramirez's  
12 testimony which is entitled Exhibit JR Rebuttal.  
13 We've marked that now for identification as Exhibit  
14 T-46. Following those Mr. Ramirez had prefiled  
15 Exhibits JR-1 through 11. While we were off the  
16 record we marked those beginning with Exhibit No. 47  
17 through 57. And then distributed at the beginning of  
18 the proceeding today is a document entitled Summary of  
19 Rates, Margins and Gas Costs. It is a single sheet  
20 and we marked that for identification as Exhibit No.  
21 58.

22 Ms. Egeler, is that an accurate  
23 representation of what we should have for Mr. Ramirez?

24 MS. EGELER: Yes.

25 (Marked Exhibits T-45, T-46 and 47 through



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1 58.)

2 Whereupon,

3 JAIME RAMIREZ,

4 having been first duly sworn, was called as a witness

5 herein and was examined and testified as follows:

6

7 DIRECT EXAMINATION

8 BY MS. EGELER:

9 Q. Mr. Ramirez, would you state your full name  
10 and spell your last, please.

11 A. My name is Jaime Ramirez. That is R A M I  
12 R E Z.

13 Q. Referring to what has been marked for  
14 identification as Exhibits T-45 and T-46, are these  
15 exhibits your direct and rebuttal testimony in this  
16 case?

17 A. Yes, they are.

18 Q. Do you have any corrections or additions to  
19 make to those documents?

20 A. Yes, I do. On Exhibit T-45, on page 28,  
21 line 3, there is a rate of .91883 cents. That should  
22 be changed to .80765. This change actually reflected  
23 revised Exhibit No. 10.

24 Line 22 on the same page has the very same  
25 change, and page 29, line 5, there is the same change.

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1 The rebuttal testimony, Exhibit 46, page 20, lines 16,  
2 we have the same change.

3 Q. Do you have any other corrections?

4 A. No, I do not.

5 Q. With those corrections made, are those  
6 exhibits true and correct to the best of your belief  
7 and knowledge?

8 A. Yes, they are.

9 Q. In the course of your testimony is it  
10 correct that you are sponsoring Exhibits 47 through  
11 58?

12 A. I'm sorry, would you please repeat that.

13 Q. You are sponsoring Exhibits 47 through 58;  
14 is that correct?

15 A. Yes, I am.

16 Q. You have provided revisions to Exhibits 48,  
17 49, 50, 51, 53 and 56. I would like to walk through  
18 those very briefly and have you explain what revisions  
19 were made to each of those starting with Exhibit 48  
20 which would be your JR-2.

21 A. Well, I actually cannot encompass actually  
22 the revisions to Exhibit 48 through 51, they were  
23 actually caused by the same reason. In reading the  
24 rebuttal testimony filed by a couple of the  
25 intervenors, specifically Mr. Feingold's testimony, in

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1 his testimony he indicates an area of the allocation  
2 of the administrative and general expenses and in  
3 reading that I found that staff had utilized an error  
4 within the model, an allocator. What we have done in  
5 here is to correct that problem and this only -- this  
6 error did only have an impact on the distribution  
7 expenses. The expenses or the other functions, that  
8 is, transmission, storage and production, were not  
9 impacted by this. So what we have done is essentially  
10 to correct the problem that was brought up by Mr.  
11 Feingold's testimony.

12 Another minor problem was brought up by Mr.  
13 Woodruff in an allocation of accounts 902, 903, and  
14 908. It was a minor problem but we also did correct  
15 that problem on this revision. So the revised exhibit  
16 reflect these changes.

17 Q. Can you explain a little bit more what the  
18 problem that Mr. Woodruff brought to light was?

19 A. Mr. Woodruff had contended that we had  
20 double dipped the allocation of accounts 902, 903 and  
21 908. He was correct on his allegation. Although the  
22 impact of the double dipping was only around a  
23 thousand dollars, we went ahead and made the change.

24 Q. Turning to Exhibit 523, which would be your  
25 JR-7, can you explain why sheet No. 1 of that exhibit

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1 was revised.

2 A. Yeah. That exhibit was revised essentially  
3 in order to accommodate a revision that was filed by  
4 the company to data request 25. Data request 25 was  
5 data that the staff utilized in order to put that  
6 exhibit together, so what we are doing here is  
7 adjusting, or reflecting rather, the company's changes  
8 to that exhibit.

9 Q. And finally, Exhibit 56, which would be  
10 your JR-10, can you explain your revisions to that  
11 exhibit.

12 A. Yeah. On that particular exhibit, as a  
13 result of the changes that we made on the Exhibit 48  
14 through 51, there was a slight different  
15 administrative and general cost allocated to the CNG  
16 schedule. We reflected that on this calculation and  
17 the result of that was to result in a change that  
18 staff is supporting in this case in case the  
19 Commission decides to utilize it.

20 Q. You also have a final exhibit, Exhibit 58,  
21 which was not prefiled but which you are offering  
22 today. Could you please explain what this exhibit is.

23 A. Yeah. This exhibit essentially summarizes  
24 in one page what the current rates are broken down by  
25 margin and cost of gas. It also reflects staff

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1 proposed rates and the company proposed rates. We  
2 felt that there would be some benefit to have one  
3 exhibit, all the rates that are being proposed and  
4 also the current rates.

5 My understanding is that the company may be  
6 revising their rates as a result of some changes that  
7 they have. Those changes have not been reflected on  
8 the proposed company rates, but we'll be happy to  
9 revise that exhibit to accommodate those as the time  
10 comes.

11 Q. Do you have any further changes to make to  
12 any of your exhibits?

13 A. No, I do not.

14 Q. And so as they currently stand, are  
15 Exhibits 47 through 58 true and correct to the best of  
16 your belief and knowledge?

17 A. Yes, they are.

18 MS. EGELER: Your Honor, I would offer  
19 Exhibits T-45, T-46 and Exhibits 47 through 58 for  
20 admission at this time.

21 JUDGE ANDERL: Any objection to those  
22 exhibits, Mr. Johnson?

23 MR. JOHNSON: Your Honor, I have no  
24 objection to the testimony and to all of the exhibits  
25 except for a comment, perhaps, in lieu of an objection

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1 on Exhibit 57. Exhibit 57 gives reference to page 12  
2 of Mr. Ramirez's testimony and it includes a response  
3 to a data request of ours that we have since revised  
4 and in fact that revision is reflected, at least the  
5 content of that revision, is reflected in Mr.  
6 Ramirez's Exhibit 53. So my thought is either we  
7 could agree to add that additional data request, the  
8 revised data request, as an additional exhibit or  
9 simply append it to Mr. Ramirez's Exhibit 57 simply to  
10 make sure the record is clear that there is a revised  
11 data request response to No. 25 out there.

12 MS. EGELER: I think that's a good idea,  
13 Your Honor. We can provide that after the noon hour.

14 JUDGE ANDERL: Why don't we do that. I'm  
15 sure Mr. Ramirez will still be on the stand then. And  
16 we'll go ahead and give it a separate exhibit number  
17 when it's offered.

18 Any objection from any other party to these  
19 exhibits being made a part of the record?

20 MR. TROTTER: Your Honor, perhaps another  
21 comment. We've just heard today through staff that  
22 the company intends to make some revisions. We  
23 haven't seen those either. This complete redo of the  
24 cost study and with no highlighting of what the exact  
25 numbers were changed would put a tremendous burden on

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1 us and we're prepared to cross the prior exhibits, not  
2 the ones that we got today. So we would like to  
3 reserve the right to bring back Mr. Ramirez later in  
4 the week by the time, if we need it, get to the bottom  
5 of some of these changes. Sometimes changes are  
6 inevitable, but this type of thing does put pressure  
7 on parties such as ourselves, but just for the other  
8 parties we would like if there are going to be  
9 substantial revisions if we could have notice of them  
10 as early as possible.

11 JUDGE ANDERL: I'm sure that the parties  
12 will give you as much notice as they can, and you can  
13 consider this an official request to that effect.

14 MR. TROTTER: Thank you.

15 MS. EGELER: Your Honor, I would also note  
16 that Mr. Ramirez did make the effort to make calls to  
17 public counsel's witness and also to the companies on  
18 Friday as soon as he was able to let them know what  
19 changes he was making, although I would agree that's  
20 not a tremendous amount of notice.

21 MR. TROTTER: We knew they were coming but  
22 we didn't have them.

23 JUDGE ANDERL: I've found that the parties  
24 generally tend to be cooperative about this and do  
25 work together to give each other as much notice as

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1 possible. I'm sure if any problems arise we can work  
2 them out and deal with them as they come up.

3 I don't hear any objections other than  
4 comments to these exhibits. I will admit them as  
5 identified. That's T-45 through 58 inclusive. Let's  
6 go with the company for cross of this witness.

7 (Admitted Exhibits T-45, T-46 and 47  
8 through 58.)

9 MR. JOHNSON: Thank you, Your Honor.

10

11 CROSS-EXAMINATION

12 BY MR. JOHNSON:

13 Q. Good morning, Mr. Ramirez.

14 A. Morning.

15 Q. I have a few preliminary questions on one  
16 area. You sponsor a cost of service study; is that  
17 right?

18 A. Yes.

19 Q. And I believe that was numbered for  
20 identification as Exhibit 51?

21 A. Yes. 51 includes all the detail  
22 calculations on the cost of service, right.

23 Q. And that study represents a modified peak  
24 and average approach incorporating certain features  
25 that you recommend. Is that also correct?



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1 A. That is correct.

2 Q. And the modified peak and average approach,  
3 the classification of costs between demand and  
4 commodity is based on the company's system load  
5 factor; is that right?

6 A. That is correct.

7 Q. And once that classification occurs,  
8 demand-related costs are allocated to customer classes  
9 using the contribution of each class to the peak day  
10 demand?

11 A. That's correct.

12 Q. Now, the company proposes to utilize its  
13 design peak day in the calculation of the peak demand,  
14 right?

15 A. That's correct.

16 Q. Whereas you propose what you have styled as  
17 a five-day three-year average peak, correct?

18 A. Yes.

19 Q. Now, in discussing that approach in your  
20 testimony, I believe in both your direct and your  
21 rebuttal testimony, you refer to the company's -- and  
22 I am quoting here -- "most recent integrated resource  
23 plan." Do you recall that?

24 A. That is true.

25 Q. Is another word for integrated

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1 resource plan least cost plan?

2 A. That is correct.

3 Q. By most recent do you mean 1993?

4 A. Yes.

5 JUDGE ANDERL: Could you pull the mike just  
6 a little bit closer.

7 Q. Did you review that plan, Mr. Ramirez, the  
8 '93 least cost plan?

9 A. I reviewed parts of it. I didn't review  
10 the complete plan.

11 Q. But you were provided with a copy of the  
12 complete plan?

13 A. Yes.

14 MR. JOHNSON: I would like to have the next  
15 two exhibits marked for identification, please.

16 This might take a little while. You might  
17 want to be off the record.

18 JUDGE ANDERL: Let's be off the record  
19 while the exhibits are being distributed.

20 (Recess.)

21 JUDGE ANDERL: Let's be back on the record.

22 While we were off the record two exhibits were  
23 distributed. Company's 1993 Least Cost Plan is  
24 Exhibit 59 for identification and a multi-page packet  
25 beginning with the response to data request No. 11 is

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1 Exhibit 60 for identification.

2 (Marked Exhibits 59 and 60.)

3 Q. Mr. Ramirez, referring to what's been  
4 marked for identification as 59, do you recognize that  
5 document?

6 A. Yes, I do.

7 Q. Is that document the 1993 least cost plan  
8 that you testified you reviewed?

9 A. Yes, it is.

10 MR. JOHNSON: I move for admission, Your  
11 Honor.

12 JUDGE ANDERL: Any objection?

13 Hearing none Exhibit 59 will be admitted as  
14 identified.

15 (Admitted Exhibit 59.)

16 Q. Now, Mr. Ramirez, turning to what's been  
17 marked as Exhibit 60 for identification, is this  
18 document, based on your review, a compilation of staff  
19 responses to our data request numbers 11, 12, 13, 14  
20 and 30?

21 A. Yes, they are.

22 Q. Were those responses prepared by you on  
23 behalf of staff?

24 A. Yes.

25 MR. JOHNSON: Move for admission, Your

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1 Honor.

2 JUDGE ANDERL: Any objection?

3 Exhibit 60 will also be admitted as  
4 identified.

5 (Admitted Exhibit 60.)

6 Q. Referring again to Exhibit 60, Mr. Ramirez,  
7 we asked you a series of questions in data requests  
8 Nos. 11 through 13 whether the company employed the  
9 five-day three-year average peak in various activities  
10 and your response dated last December was "staff has  
11 no such knowledge." My question for you today is, is  
12 that still staff's position today?

13 A. Yes.

14 Q. Have you read, Mr. Ramirez, rebuttal  
15 testimony of Mr. Davis?

16 A. Yes, I have.

17 Q. Does that testimony in any way cause you to  
18 change the statements that you've expressed here?

19 A. No.

20 Q. Do you have any reason to question the  
21 statements made by Mr. Davis in his rebuttal testimony  
22 concerning, in particular, the use of the five-day  
23 three-year average peak?

24 A. I think we have a fundamental difference in  
25 here in regard to what is utilized for the least cost

00386

1 plan process and what is utilized for the cost of  
2 service process.

3 Q. I understand that, but my question is, do  
4 you have any reason to question the statements made by  
5 Mr. Davis concerning the five-day three-year average  
6 peak?

7 MR. TROTTER: Your Honor, I will object to  
8 the question unless I can have a statement to which  
9 counsel is referring because I don't know which of the  
10 10 pages or so of testimony he's referring to.

11 JUDGE ANDERL: Ms. Egeler, did you want to  
12 add anything?

13 MS. EGELER: That was going to be my  
14 objection.

15 JUDGE ANDERL: Mr. Johnson, I think it  
16 would make the record more clear if you could specify  
17 that.

18 Q. Would you agree or would you accept subject  
19 to your check, Mr. Ramirez, that in his rebuttal  
20 testimony Mr. Davis states that the company does not  
21 use the five-day three-year average peak in any of its  
22 activities planning, distribution system or otherwise?

23 A. Well, if he said so that's what the company  
24 has represented. I have no reason to doubt that.

25 Q. And if he does make such a statement you

00387

1 don't have any reason to question the truthfulness of  
2 that statement, do you?

3 A. No, I do not.

4 Q. Now, you state in response to data request  
5 No. 11 that the company did not use the five-day  
6 three-year approach in the least cost plan. Do you  
7 see that statement?

8 A. Right.

9 Q. From your reading of the least cost plan,  
10 which you said you've reviewed, did the company use  
11 the design day peak approach in the plan?

12 A. As I mentioned in the very beginning, I did  
13 review parts of the least cost plan. I didn't review  
14 the whole least cost plan. However, those areas where  
15 the sustained peak is mentioned in the least cost  
16 plan, yes, I did review that and the plan indicates  
17 that there is no -- that what the company uses is the  
18 design peak for the purpose of the least cost plan.

19 Q. And that's the same approach that the  
20 company presented in these proceedings, correct?

21 A. That is correct.

22 Q. Like to refer you to your direct testimony,  
23 which is Exhibit T-45, page 8, lines 19 through 20.  
24 Are you there?

25 A. Yes.

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1 Q. You state at lines 19 through 20 that the  
2 company's calculation is based on a hypothetical  
3 design degree day submitted with the company's most  
4 recently accepted least cost plan. Do you see that?

5 A. Yes.

6 Q. You're not suggesting, are you, Mr.  
7 Ramirez, that the company -- by the word  
8 "hypothetical" in your testimony that the company just  
9 somehow made up the design day to include in the least  
10 cost plan, are you?

11 A. Well, what I'm suggesting that that's not a  
12 number that has been experienced by the company in the  
13 recent years. The company utilizes that. For the  
14 purpose of planning, I suppose that it is a good  
15 number.

16 Q. You do think it's a good number for  
17 purposes of planning?

18 A. For the purposes of planning. Again, as I  
19 said before, that the fundamental difference in here  
20 is what you use for the least cost plan and what we  
21 use for the cost of service. For the least cost plan  
22 the 55 degree design day is probably a proper number  
23 to be used.

24 Q. I believe you testified that that 55 degree  
25 design day has not occurred in recent years. Are you

00389

1 testifying that it's never occurred at all?

2 A. On the data that we have reviewed I believe  
3 that the highest degree day that we have seen is 50  
4 degree days.

5 Q. That's your testimony?

6 A. Yes. That's the data that we have  
7 reviewed. Unless if you have something that is  
8 different than that, we would like to see it, but the  
9 data that we have used shows 50 degree days actually  
10 occurring on February 2 of '89.

11 Q. Isn't it a fact, Mr. Ramirez, that the  
12 company's distribution system was designed to meet  
13 firm peak load at a design temperature of 55 heating  
14 degree days?

15 A. Yeah. I have no contention with what you  
16 use for the least cost plan or in fact for the -- some  
17 of your design purposes. Again, the difference that  
18 we have in here is what you use for that purposes and  
19 what is used for the purpose of establishing cost of  
20 service rates and trying to match, let's say, the  
21 operating expenses and costs of the system to those  
22 that I utilize in the system at the present time, and  
23 be in the test period in question.

24 Q. I'm not sure I heard an answer to my  
25 question. My question again was, isn't it true that



00390

1 the company designed its distribution system to meet a  
2 firm peak load at a design temperature of 55 heating  
3 degree days?

4 A. That's what I've been talking about, the  
5 company, yes.

6 Q. So that's your understanding?

7 A. Yes.

8 Q. Isn't it also a fact that the company  
9 incurs costs to serve firm customers based on that  
10 design temperature?

11 A. In regard to the way the system has been  
12 designed and the cost that you incur --

13 Q. Correct.

14 A. I suppose that that could be, yeah, I  
15 suppose that is true.

16 Q. And lastly, Mr. Ramirez, isn't it also true  
17 that the company relies on design day demand to  
18 acquire gas supply resources needed to serve firm  
19 customers?

20 A. Yes.

21 Q. Do you know whether the company incurs  
22 costs based on the criteria and planning guidelines  
23 set forth in the least cost plan, what's been marked  
24 as Exhibit 59?

25 A. Will you repeat the question, please.

00391

1 Q. Do you know whether the company incurs  
2 costs based on the criteria and planning guidelines or  
3 planning criteria and guidelines, I should say, set  
4 forth in the least cost plan?

5 A. Well, I'm not certain on that, because the  
6 least cost plan is a 20-year document that essentially  
7 you go in to plan for certain estimated loads and  
8 estimated growth and that may change as you go  
9 throughout the years that the plan has been developed  
10 for. For instance, you may have in the least cost  
11 plan estimated that you're going to add 50,000  
12 customers and maybe those -- by the time you get there  
13 that you only added 30,000, so I don't know. I don't  
14 think I can say with certainty that that is the case.  
15 In fact I would say that while you have the least cost  
16 plan is not what you actually put in the ground.

17 Q. So you would be surprised then if you were  
18 to learn that the company does incur costs based on  
19 those guidelines?

20 A. Well, again, it would incur costs probably  
21 based upon whatever. As you move throughout the  
22 period you may incur some costs, yes, but again what  
23 you have in the plan is not -- is not everything  
24 that's going to come true, let's put it that way. I  
25 visualize the least cost plan to some extent like a

00392

1 budget. You're budgeted for certain things to occur  
2 and happen and monies that you're going to spend, and  
3 those will change. Five years from now -- in a  
4 20-year period five years from now I would be  
5 surprised that everything that you have in the least  
6 cost plan is actually what is going to occur.

7 Q. I want to shift back to the five-day  
8 three-year methodology that you advocate. You stated  
9 in response to data request -- and I can show you this  
10 if you would like, it was data request No. 5 of ours  
11 -- "five-day three-year methodology accurately  
12 measures the company's peak for purposes of allocating  
13 demand costs." Do you recall that response or would  
14 you like me to show it to you? I will help you out.  
15 It's down at the bottom of the page.

16 A. Yes.

17 Q. My question is in what way, if any, does  
18 this five-day three-year approach "accurately"  
19 measure the peak for purposes of this allocating  
20 demand costs? Could you be more specific?

21 A. Staff position in this case is that we  
22 should match or try to match the test period with  
23 demand for that period as close as possible. Our  
24 approach in taking into consideration the last or the  
25 prior three years, which includes the test period, we

00393

1 felt represented it or accurately represented the  
2 demands imposed on the system by those customers that  
3 are in fact utilizing that system during the test  
4 period. So our position is that it does accurately  
5 measure the company's peak for this particular period.

6 Q. And your testimony is that the design peak  
7 which the company uses does not accurately measure a  
8 peak for purposes of allocating demand costs?

9 A. No. I think the design peak, as for the  
10 purpose of allocated costs, does not. Again, for the  
11 purposes of the least cost plan it may be proper. But  
12 one of the reasons why staff doesn't agree with that  
13 is that the design peak to begin with assumes that  
14 there's no interruptible load on the system. Now, we  
15 have shown the evidence in data responses and from the  
16 company and what we have based our case on is that  
17 interruptible load is being utilized on days that the  
18 peaks have occurred, so for the purpose of allocating  
19 costs, therefore, we feel that is not proper to  
20 utilize the design peak day.

21 Q. I want to come back to the issue of  
22 interruptible load in a bit, but let me ask you this  
23 question. You referred to matching. Let me ask you  
24 another question. Do you think that the approach that  
25 the company uses in terms of measuring peak for

00394

1 purposes of cost allocation should be the same  
2 approach that the company applies when it incurs costs  
3 or do you have a problem if they're different?

4 A. Well, our position in this case has been  
5 that we should -- the costs should be allocated in a  
6 manner that assigns responsibility to those customers  
7 that are utilizing the system, as does the basic, say,  
8 the criteria that we have utilized in here. Now,  
9 interruptible customers, again, we have shown and the  
10 case shows that they were part or have been part of  
11 the peak days and for the purpose of cost allocation  
12 that's the way that we feel is proper to do it.

13 Q. But again, my question was, should cost  
14 allocation match cost incurrence in terms of the  
15 approach the company uses, design peak, five-day  
16 average peak, whatever?

17 A. Well, there are -- if we were to utilize  
18 that concept, the problem with that is that the  
19 utility is essentially in a dynamic process which has  
20 customers, let's say, on a given year, but those may  
21 not be the same customers that may be at a later  
22 date. What I'm trying to say is even though you incur  
23 the cost on today's basis with certain known  
24 customers, may not be the same as we move throughout  
25 time, and still what we need to do is for the cost

00395

1 allocation purpose is try to match as close as  
2 possible the cost incurred by the company in serving  
3 those customers that are at the present time on the  
4 system, and that's what our case is all about. We try  
5 to match that.

6 Q. So if I understand your testimony  
7 correctly, your position is that cost allocation need  
8 not match cost incurrence; is that right?

9 A. What I'm saying is that the cost should be  
10 matched to the customers that are receiving the  
11 benefit of the service.

12 Q. Let me repeat it one more time. It seems  
13 like a question that can be answered with a simple yes  
14 or no. In your opinion, Mr. Ramirez, do you think  
15 that cost allocation must match cost incurrence? Yes  
16 or no.

17 A. Well, I need to qualify that answer.

18 Q. What's the answer and then you can qualify  
19 it?

20 A. Well, the answer is that in theory you  
21 should be doing that, matching that cost with what you  
22 are adding today, but again, the qualification is that  
23 for the cost allocation purposes you've got to match  
24 what the costs that you have in the ground to those  
25 customers that are being served by the system.

00396

1 Customers that were probably on the system or that  
2 you added 30 years or 40 years ago they may not even  
3 be on the system today, so I suppose the company  
4 cannot go after those customers that left 20 years ago  
5 for costs that was incurred by the company to add that  
6 customer at the time, so were you to match that with  
7 the service provided within the test period, I  
8 question.

9 Q. Mr. Ramirez, the company's design day  
10 approach uses one single design day, correct?

11 A. That's correct.

12 Q. And is it correct to characterize that  
13 design day as essentially the coldest historical day  
14 on the company's system?

15 A. I would suppose that is true for those  
16 purposes. Sometimes they build the safety net, if you  
17 will, for eventualities.

18 Q. But my point is if we use one single design  
19 day or one single day for that purpose, that day is  
20 fixed. We know what that day is, correct?

21 A. Right.

22 Q. And so if we use a coldest historical day  
23 rather than days in any particular years that we  
24 measure, that day isn't going to vary from one year to  
25 the next. We have a fixed day and we work from that

00397

1 day. Would you agree with that?

2 A. Yes.

3 Q. Let me contrast your approach. As I  
4 understand the three-year five-day or three-day,  
5 five-year -- I get confused -- approach that staff  
6 advocates, at least in this proceeding you've taken  
7 the last three years, the actual peaks in each of  
8 those last three years, five days in each of those  
9 three years and incorporated that into your  
10 methodology, correct?

11 A. Right.

12 Q. So depending on what three-year period we  
13 use, that average that you compute is going to vary,  
14 correct?

15 A. Right.

16 Q. So, my question is given that your approach  
17 is going to vary, given that the company's approach  
18 using a single fixed day is not, which approach is  
19 more stable?

20 A. Well, from the standpoint that you will  
21 have the same number over a period of time it will  
22 appear to be more stable, but again, the other  
23 infirmities we use in that I already explained those,  
24 first of all the design peak day completely ignores  
25 the fact that there's some other customers utilizing



00398

1 the system.

2 Q. Did you perform any empirical studies to  
3 test the relative stability of a five-day three-year  
4 approach relative to the company's design day?

5 A. To the company's design day?

6 Q. Yes, relative to what the company proposes.  
7 Did you perform any empirical studies, any types of  
8 studies to test the stability of your approach versus  
9 our approach?

10 A. We did look at data going back over a  
11 period of time. I forget exactly the number of years  
12 now, but the indication of that data appears that  
13 there is a warming trend on the peak days, as what it  
14 appears to do -- we went back and looked at NOAA data  
15 for the last 15, 20 years and that's what we found,  
16 that there is apparently a warming trend on the  
17 weather patterns.

18 Q. And when you reviewed that data, did you  
19 put it together in the form of a study of some sort  
20 that we can obtain?

21 A. I don't think it's a formal study but I  
22 suppose that we could put something together with  
23 that, yes.

24 Q. And did that NOAA data support the use of  
25 developing data over three years as opposed to a

00399

1 longer or shorter period?

2 A. Well, no. For the purpose of what we're  
3 doing here doesn't support anything. Actually, that  
4 just an agency that gathers data. Our proposal comes  
5 out of reviewing not only prior Commission orders,  
6 what the Commission has shown an interest in seeing in  
7 regard to that type of allocator, in that we found to  
8 be still applicable in this case.

9 Q. Those prior Commission decisions that you  
10 referred to involved Washington Water Power, did they  
11 not?

12 A. That's correct.

13 Q. And I think in particular you refer to a  
14 proceeding 901459, if I have the number correct; is  
15 that right?

16 A. Yes.

17 Q. And specifically the Commission's third  
18 supplemental order in that docket, right, to your  
19 recollection?

20 A. Yes.

21 Q. Would you accept that subject to check?

22 A. Yes.

23 Q. Would you agree, Mr. Ramirez, or would you  
24 accept subject to check that Washington Water Power  
25 had not filed a least cost plan with the Commission at

00400

1 the time that docket No. 901459 had commenced? If you  
2 would like you can accept that subject to check.

3 A. I believe that's true. I'm just saying I  
4 came in here and now -- I think that case was already  
5 in progress and I think the company had not at that  
6 time as yet filed a least cost plan.

7 Q. Would you also agree or accept subject to  
8 your check that Washington Water Power in docket  
9 901459 did not propose a modified peak and average  
10 approach to the Commission?

11 A. That is correct.

12 Q. You also agree that no other party proposed  
13 that approach, including staff?

14 A. That is correct.

15 Q. Would you also agree that the Washington  
16 Water Power orders in both 901459 and 93105, the  
17 other proceeding you referred to, predated the  
18 issuance by FERC of order 636?

19 A. That is correct.

20 JUDGE ANDERL: Mr. Johnson, if you're going  
21 to change topics maybe this would be a good time for a  
22 morning break.

23 MR. JOHNSON: Just a few more questions on  
24 this issue.

25 Q. Lastly on the Water Power issue, Mr.

00401

1 Ramirez, would you agree that one of the reasons for  
2 the company's filing -- maybe the primary reason -- is  
3 the company was directed to file a cost-based  
4 transportation filing with the Commission?

5 A. Yes. I believe this goes back to sometime  
6 actually in 1989 what was become to known as the  
7 schedule 57 filing.

8 Q. My point, though -- I just want to  
9 establish that as background to, would you agree that,  
10 subject to your check, that the Washington Water Power  
11 filings were not motivated by such a directive by the  
12 Commission to file a cost-based transportation filing?

13 A. To the extent of my knowledge, yes, that is  
14 true.

15 Q. Now, you mentioned a few times that your  
16 study assumes interruptible volumes or includes  
17 interruptible volumes in the peak day calculation?

18 A. Yes, I do.

19 Q. Ask you a simple question. What possible  
20 relevance does system utilization on a particular day  
21 have to do with the manner in which the company  
22 designed its system?

23 A. Well, again, goes back to the heart also of  
24 some other issue that has been discussed here in the  
25 Commission and by the Commission's orders, and that is

00402

1 for what reason actually do you build the system. You  
2 build the system only to serve the peak load or you  
3 serve the system -- build the system to serve load  
4 that includes annual load, so --

5 Q. That's your testimony?

6 A. Yes.

7 Q. I'm now referring to your direct testimony,  
8 Mr. Ramirez, Exhibit 45 at page 12. And this gets to  
9 the subject that we talked about before you went on  
10 the stand regarding staff data request No. 25. You  
11 state at page 12, lines 12 through 14, that even on a  
12 49 degree day temperature the system was not  
13 curtailed. Do you see that?

14 A. Yes.

15 Q. Is that still your testimony?

16 A. Well, now that you point that out to me,  
17 probably I should have maybe make a revision to that.  
18 However, I made a revision to -- on Exhibit 10 that  
19 did address that change.

20 Q. You mean Exhibit 53?

21 A. I'm sorry. I was talking about JR-10.

22 JUDGE ANDERL: Exhibit JR-10 is Exhibit 56.

23 Q. I guess I'm confused as to how what you say  
24 in Exhibit 53 goes to the issue of curtailment which  
25 is the point that you make at lines 12 through 14.

00403

1 JUDGE ANDERL: I'm sorry. Are we talking  
2 about Exhibit 53 or 56?

3 MS. EGELER: I think that the witness meant  
4 to say Exhibit 53 which would be his JR-7.

5 THE WITNESS: Yes, I'm sorry.

6 JUDGE ANDERL: Thank you for that  
7 clarification.

8 A. See, when we wrote the testimony what we  
9 had was obviously the original data request 25, which  
10 had dates on that exhibit that were -- that reflected  
11 it in the year 1991, those days showing for the dates  
12 that had happened in January. Now, the original  
13 exhibit we reflected that only one day actually there  
14 was curtailment. Show that January 21 didn't have any  
15 curtailment. Now, on the revised exhibit, Exhibit 53,  
16 we have also revised that exhibit to reflect the fact  
17 that, yes, there was some curtailment on those days.

18 Q. So the days that are listed in Exhibit 53  
19 in 1990, December 18, 19, 20, 21 and 28 -- by the way  
20 that was that cold snap back in 1990, the Arctic  
21 Express, wasn't it?

22 A. I was not here but I understand that that's  
23 the case.

24 Q. You were lucky. But the point is, in fact,  
25 curtailment of the company's system did occur on those

00404

1 days, right?

2           A.     Yeah.  And that doesn't, in a sense, change  
3 the testimony that I have in here or at least the  
4 point I'm trying to put across, and that is that it's  
5 still interruptible customers are being served during  
6 those days where there's peak demand on the system.  
7 Yes, there was curtailment as we now reflect in the  
8 revised exhibit, but yet the customers are still on  
9 the line, and again, our position in here is that  
10 those that are essentially utilizing the system should  
11 pay or should contribute to the overall company's  
12 revenue needs.

13           Q.     Well, that gets to a statement that you  
14 make at page 6 of your rebuttal testimony, lines 12  
15 through 14 that in your opinion it is reasonable to  
16 assume that interruptible customers would use the  
17 system on a hypothetical design day.  Let me know when  
18 you're referring to that statement.  My question is,  
19 how is it reasonable to assume?  Is there some type of  
20 linear correlation that you make between interruptible  
21 use at one temperature and interruptible use at  
22 another temperature?

23           A.     Can you please refer me.

24           Q.     Page 6 of your rebuttal testimony, lines 12  
25 through 14 you state that it's reasonable to assume

00405

1 that interruptible customers would also use the system  
2 on a hypothetical design day which is only five  
3 degrees colder than what occurred on February 2, 1989.  
4 Do you see that?

5 A. Yes.

6 Q. My question is what is the basis for your  
7 assumption that customers would use -- interruptible  
8 customers would use the system on a design day that is  
9 colder than what was experienced on February 2? Can  
10 you point to some kind of linear correlation in the  
11 number of interruptible customers versus the number of  
12 degree days?

13 A. Well, obviously on a design day may be  
14 difficult to pinpoint what that number will be.  
15 However, the evidence shows that, like shown on  
16 Exhibit 53, interruptible sales were on the system on  
17 all those peak days. As reflected here on page 6 of  
18 the testimony, on a 50 degree day interruptible load  
19 was 25 percent of the total load. So the inference  
20 there is that it's reasonable to assume then that  
21 those customers should be at some level even on the  
22 design day. Now, I didn't see what would be that  
23 level but the inference would say that there should be  
24 some.

25 Q. Did you perform any study or any analysis



00406

1 to make that determination?

2 A. No. Like I said, all it is, just the  
3 inference made by the fact that I have in here on  
4 Exhibit 53 and in other days that the interruptible  
5 load has been on the system when there has been  
6 extreme weather conditions, including that one in  
7 1989, probably the highest peak day there, 50 degree  
8 days, and interruptible load was 25 percent of the  
9 total load.

10 Q. So really that statement at lines 12  
11 through 14 is nothing more than speculation on your  
12 part?

13 A. It's not speculation. I'm using from data  
14 that I have that would show me that that is -- the  
15 likelihood of that happening is there. I have data to  
16 support it.

17 Q. I might come back to this subject but let  
18 me finish with one other area on the modified peak and  
19 average. We talked about the peak part of the  
20 approach. The average approach as I understand it  
21 measures annual throughput volume through the  
22 company's system; is that right?

23 A. Right.

24 Q. But doesn't your peak approach which  
25 measures and uses annual peak days over a three-year

00407

1 period essentially measure utilization on the  
2 company's system as well as, you testified, both firm  
3 and interruptible?

4 A. On the demand side? I just want to clarify  
5 so I can answer.

6 Q. No, on the commodities side. Well, doesn't  
7 your peak approach the peak side of the modified peak  
8 and average equation, doesn't the peak approach  
9 essentially measure utilization as well because it  
10 looks at both firm and interruptible volumes on annual  
11 peak days, 15 actually, over a three-year period?  
12 Aren't you measuring utilization in your peak  
13 approach?

14 A. Yeah. In my approach on the load factor  
15 includes the interruptibles for the level that they --  
16 the level of throughput that they use during the  
17 period, and on the side of the demand obviously they  
18 are also at a level -- at the level that they incurred  
19 or the level that they incurred during that day.

20 Q. So don't you think that actually your  
21 approach double counts the effects of utilization by  
22 including it both on the peak side and also on the  
23 average side?

24 A. No. You are dealing with two different  
25 allocators. You allocate -- you use the average

00408

1 approach to allocate certain portion of the cost and  
2 then allocate the demand based on the demand  
3 allocator.

4 MR. JOHNSON: Actually, Your Honor, I might  
5 have just a couple of questions but I have to look at  
6 my notes so maybe now would be a good time to go off  
7 the record. Only be one or two on this subject and  
8 then we can move on to some other things.

9 JUDGE ANDERL: Let's take our morning  
10 recess at this time. We'll be back at 11:15.

11 (Recess.)

12 JUDGE ANDERL: Let's be back on the record,  
13 please, after our morning recess. Mr. Johnson, you  
14 may continue with your cross.

15 MR. JOHNSON: Thank you.

16 Q. Mr. Ramirez, just briefly again on this  
17 subject, on your direct testimony at page 12, I think  
18 you've corrected now based on the information in  
19 Exhibit 53, line 12, January 21 should be December 21,  
20 shouldn't it?

21 A. Yeah. That should be December 21, 1990.

22 JUDGE ANDERL: That's line 12?

23 THE WITNESS: Yes, Your Honor.

24 Q. Is it your testimony that the company's  
25 system was curtailed on that date?

00409

1           A.     Yes.  And like I said before, I think I  
2 reflected that on the exhibit itself, that was  
3 revised.  I show that there was curtailment during  
4 that day.

5           Q.     I want to move to another area.  Could you  
6 refer to page 14, please, of your direct testimony.  
7 I'm looking at lines 21 and 22.  There you propose --  
8 I'm quoting here -- corrections and changes to the  
9 company's seasonal and revenue allocators.  Do you see  
10 that?

11          A.     Yes.

12          Q.     And the corrections you believe should be  
13 made to the seasonal allocator are described at the  
14 bottom of that page, page 14, and the changes you  
15 believe that should be made to the revenue allocator  
16 are described on page 15, correct?

17          A.     That is correct.

18          Q.     I notice that your testimony draws a  
19 distinction between a correction on the one hand and a  
20 change on the other, right?  You refer to corrections  
21 in the context of the season allocator and changes  
22 in the context of the revenue allocator?

23          A.     Yes.

24          Q.     Would it be fair to characterize a  
25 correction as a mathematical computation but a change

00410

1 as simply the application of a different methodology?

2 A. Yes.

3 Q. Now, the table that you present on page 19,  
4 which has been revised in Exhibit 58, shows rates of  
5 return from the respective cost of service studies,  
6 right?

7 A. Right.

8 Q. And the second column in that table shows  
9 the rates that return by class according to your  
10 correction of what the company filed?

11 A. Right.

12 Q. And referring back to page 17 of your  
13 testimony, you state that the column in that table was  
14 based on a correction of the revenue allocator, right?  
15 This is at lines 20 through 23 on page 17.

16 A. Right.

17 Q. But earlier in your testimony, as we've  
18 established, you characterize it as a change to the  
19 revenue allocator not a correction and you've drawn a  
20 distinction between what a change is and what a  
21 correction is, so shouldn't the word "corrected" in  
22 that table, Exhibit 58, actually mean "changed"? In  
23 other words, that's an application of a different  
24 methodology; rather than a mathematical computation or  
25 mathematical mistake on the company's part, it's

00411

1 simply staff's application of a different methodology  
2 to develop those rates of return, isn't it?

3 A. Well, what we tried to accomplish in there  
4 was to -- what we felt was a correction to the way the  
5 company had calculated the margins associated with the  
6 authorized margins in the last rate case, which is the  
7 basis of this particular cost of service. We may be,  
8 to some extent, talking about here the wrong choice of  
9 words in regard to change and correction, but that  
10 intent of the staff in here was to correct what we  
11 felt was an error, if you will, in the company's  
12 calculation of the margins. Does that answer your  
13 question or not?

14 Q. I think so, but again, maybe I'm just  
15 indulging in semantics here.

16 A. I think so.

17 Q. You wouldn't have any objection, then, if  
18 we just changed that word "corrected" to "changed" in  
19 that column?

20 A. Well, I think from our perspective we were  
21 looking at a correction now. Now, if you feel, okay,  
22 that the company's presentation, it is a methodology,  
23 I suppose you can characterize it like that.

24 Q. Turn to page 23 of your direct testimony,  
25 please. Are you with me?

00412

1 A. Yes.

2 Q. You propose to increase the customer charge  
3 under schedule 31 from 4.50 to 10 bucks at line 18; is  
4 that right?

5 A. Right.

6 Q. What's the basis for that recommendation?

7 A. Well, essentially was the company's  
8 recommendation to that schedule.

9 Q. But you agree with it, right?

10 A. Yes.

11 Q. And why do you agree with it?

12 A. Well, I believe that the commercial  
13 schedules -- there was a twofold goal in here --  
14 one was to what I call correct a differential between  
15 the residential and the commercial commodity rate. In  
16 one way how I could accomplish that was by increasing  
17 the customer charge, that was one, and then the other  
18 way, I feel that the customer charge on the  
19 commercial, based upon the cost that was presented for  
20 that class, appears to be an appropriate customer  
21 charge.

22 Q. In arriving at staff's position to increase  
23 that charge from 4.50 to \$10, was staff attempting to  
24 make the charge under the schedule more cost-based  
25 than it is presently?

00413

1 A. You could call it that, yes.

2 Q. Have you reviewed Mr. Amen's Exhibit 16 as  
3 part of his direct testimony? Do you recall that  
4 exhibit?

5 A. Well, I know that I have gone through it.  
6 I would have to refer to it.

7 Q. Let me show you a copy. That's the exhibit  
8 of Mr. Amen that shows the customer classified rate  
9 base and customer classified expenses for the  
10 commercial and residential classes, is it not?

11 A. Right.

12 Q. Now, you didn't refute Mr. Amen's  
13 calculation in your direct testimony, did you?

14 A. No, I did not.

15 Q. And you haven't sponsored an exhibit which  
16 refutes those calculations?

17 A. No, I did not.

18 Q. Now, referring back to your direct  
19 testimony on page 23 again, you propose to keep the  
20 customer charge for residential customer at the  
21 current level of \$4; is that right?

22 A. That's correct.

23 Q. And in developing that proposal did you  
24 also review Mr. Amen's Exhibit 16 to determine the  
25 costs associated with service to the residential



00414

1 class?

2 A. I looked at it, yes.

3 Q. Did you make your decision to retain the  
4 customer charge at the current level of \$4, at least  
5 your recommendation, based at all on the data  
6 presented in Exhibit 16?

7 A. No. Again, it was a twofold goal in that  
8 particular case. One was in trying to come up with a  
9 balance shift of dollars from some classes to some  
10 other, I didn't feel that it was necessary to change  
11 the customer charge. I felt that the change in the  
12 commodity was sufficient, and also by increasing the  
13 commodity in the way we did would also help in other  
14 Commission goals of conservation sending a message to  
15 the customer in that area. So, on that one I felt  
16 that the customer charge should remain the same and  
17 the changes should be absorbed all on the commodity  
18 side.

19 Q. Look at the heading under residential  
20 R23/24. Under revenue requirement per bill, doesn't  
21 that exhibit show a customer cost-based monthly  
22 revenue requirement of \$14.45 for residential?

23 A. Yes, that's true.

24 Q. You dispute that number in any way?

25 A. Well, based upon the company's presentation

00415

1 I don't dispute it.

2 Q. So, \$4 is less than a third of that number,  
3 right?

4 A. Yes.

5 Q. So \$4 customer charge for residential  
6 doesn't come close to recovering the revenue  
7 requirement for residential, does it?

8 A. That's correct, but as I explained before,  
9 I think my goal for that particular schedule was, as I  
10 stated it before, that is, to increase whatever  
11 revenue we were shifting from some other classes to  
12 the residential classes and place that in the  
13 commodity, the dollars involved in my case were not  
14 substantial and didn't require to change the customer  
15 charge. Again, also felt by using the commodity would  
16 also help on the conservation side.

17 Q. So if I understand your testimony  
18 correctly, you're proposing a greater than 100 percent  
19 increase to the commercial customer charge but no  
20 increase at all to the residential; is that right?

21 A. On the customer charge?

22 Q. Yes.

23 A. Well, but if we go back and look at the  
24 commercial rather than -- and some other schedules we  
25 have made significant changes --

00416

1 Q. Again, my question, Mr. Ramirez, was on the  
2 customer charge. You proposed greater than 100  
3 percent increase on the commercial side and nothing at  
4 all as far as an increase to the residential?

5 A. That is correct. I looked at each  
6 individual class on its own merits and whereas that I  
7 wanted to move the revenues to accomplish what my goal  
8 was.

9 Q. I have just a couple of questions about  
10 transportation and then we'll move to the CNG area if  
11 we could. Turn to page 15 of your rebuttal testimony,  
12 please.

13 JUDGE ANDERL: Mr. Johnson, could you pull  
14 the mike a little closer.

15 MR. JOHNSON: I'm sorry.

16 JUDGE ANDERL: Thank you.

17 Q. Do you have that in front of you?

18 A. Yes, I do.

19 Q. Lines 6 through 11, you refer to the time  
20 frame allowed customers to correct any imbalance  
21 within the 5 percent no penalty band. Do you see  
22 that?

23 A. Yes.

24 Q. And the 5 percent no penalty band is one of  
25 the features of the company's transportation balancing

00417

1 proposal, is it not?

2 A. Yes.

3 Q. And then you say at lines 8 through 10 that  
4 in fact the balancing provision contained in the  
5 company's existing tariff has the same requirement  
6 with no undue burden placed upon the customers. Do  
7 you see that?

8 A. Yes.

9 Q. Isn't it true, though, that the company's  
10 current tariff has no subsequent billing period to  
11 correct within a 5 percent tolerance band?

12 A. Yeah, I believe so. I think I need to  
13 maybe look at the tariff again, but I believe what  
14 you're saying is correct.

15 Q. So in that regard, wouldn't it be fair to  
16 characterize the balancing proposal that the company  
17 has proposed in this proceeding as more lenient to  
18 customers than what's under the current tariff?

19 A. That is correct.

20 Q. I would like to turn to the topic of  
21 compressed natural gas if we could. Now, the  
22 compressed natural gas proceeding, that's docket  
23 940034; is that right?

24 A. Yes.

25 Q. And you're the staff witness on the CNG

00418

1 side of this proceeding?

2 A. I guess I am, yes.

3 Q. Good for you. Turn to page 25 of your  
4 direct testimony, please. Specifically lines 12  
5 through 20. Your recommendation to the Commission is  
6 contained in those lines, correct?

7 A. Yes.

8 Q. And specifically at lines 14 through 16 you  
9 recommend that the company discontinue the sale of CNG  
10 under tariff except for existing customers who would  
11 be able to obtain service for a temporary period not  
12 to exceed six months from the date of an order?

13 A. Yes.

14 Q. We heard earlier, Mr. Ramirez, about docket  
15 920840 as the genesis behind a lot of what we're going  
16 through here. You were a witness in that case,  
17 weren't you?

18 A. Yes, I was.

19 Q. And staff argued in that docket, as well as  
20 in this docket, that the company discontinue the sale  
21 of CNG, right?

22 A. Yes. Our recommendation in that docket was  
23 essentially the same as it is in this one.

24 Q. But isn't it true, though, that in that  
25 docket staff recommended in its final brief to the

00419

1 Commission that the Commission adopt a 90-day grace  
2 period for existing customers of CNG?

3 A. I believe so. I would have to review the  
4 document. I haven't reviewed it in a while.

5 Q. Do you recall staff's motion that was filed  
6 last September in this proceeding that sought to  
7 rehear docket 920840 for purposes of reconsidering the  
8 CNG issue?

9 A. Yes.

10 Q. So you were involved in the preparation and  
11 filing of that motion?

12 A. Yeah. I assisted our legal counsel on  
13 that, yes.

14 Q. Isn't it true that in that motion staff  
15 suggested a sunset date of not later than one year for  
16 tariffed sales of CNG?

17 A. I would have to see the document. I don't  
18 recollect that.

19 Q. I've handed you a copy of the staff motion,  
20 Mr. Ramirez. Does that refresh your recollection?

21 A. Yes.

22 Q. And it is true that in that motion staff  
23 recommended a or suggested a sunset date of not later  
24 than one year?

25 A. Yes.

00420

1           Q.     So looks to me like in 920840 staff was  
2 recommending 90 days; in the motion last September  
3 they recommended one year; and now in your testimony  
4 you recommend six months. What I'm trying to find out  
5 is why the change?

6           A.     I really don't have any answer for that.  
7 It could have been working at different points in time  
8 in that. One thing that I can tell you is that staff  
9 would be willing to work with the company in trying to  
10 come up with something that would be workable. We  
11 suggested a one year then, six months now. I have no  
12 problem of even going back to the one year. But the  
13 intent of the staff in this particular issue is to  
14 give the opportunity for those customers that are  
15 currently being served to look for alternatives to get  
16 the service from. They are getting that from the  
17 company now. We should give them ample time to find  
18 an alternative. Obviously, we have discrepancy here  
19 in the times that we have proposed but we would be  
20 willing to work with you on that and make a  
21 recommendation to the Commission on that.

22           Q.     So you don't have an explanation at this  
23 time as to why that discrepancy exists?

24           A.     No, I do not.

25           Q.     When you refer to an existing customer,

00421

1 quote-unquote, at page 25, who would qualify as an  
2 existing customer? Does that mean somebody who has  
3 through the date of the Commission's order taken a  
4 therm of CNG from the company? Does it mean a  
5 customer who has purchased natural gas vehicles in  
6 reliance upon the company having facilities to serve  
7 those needs or does it mean something else?

8 A. Well, my interpretation of that is customer  
9 that is a company's customer. If a customer is  
10 getting service from the company there should be some  
11 sort of service establishment of what is it that the  
12 company is going to provide and what is it that the  
13 company is going to bill that customer for, so there  
14 should be some sort of a record that establishes that  
15 customer as a customer.

16 Q. Well, what about a company that hasn't  
17 purchased any compressed natural gas yet from  
18 Washington Natural Gas but has made a commitment,  
19 hypothetically, to purchase natural gas vehicles and  
20 expects to purchase those vehicles with the  
21 expectation that it would be able to receive natural  
22 gas, compressed natural gas, service from Washington  
23 Natural but as of the date of the Commission's order  
24 hasn't yet purchased any CNG from the company. Is  
25 that an existing customer?



00422

1           A.     Well, obviously it's not an existing  
2 customer.  As far as I can see there is no contractual  
3 agreement, let's say, for you to provide him service  
4 with or that he's a customer of the utility.

5           Q.     Is it your testimony that a contractual  
6 agreement is necessary then for somebody to become an  
7 existing customer of CNG service?

8           A.     Maybe let me back out.  I don't want to  
9 get into the legal terminology here.  However, for me  
10 I would establish a customer with a utility is again a  
11 document that reflects that is a customer of the  
12 utility.  But my testimony here doesn't reflect that,  
13 but I have on numerous occasions discussed with the  
14 company clear back to, say, summer of '91 what is the  
15 staff position in regard to this particular issue.  
16 Our position always has been that the utility should  
17 actually be out of the compressed natural gas  
18 business, and what we have also -- what staff have  
19 communicated that we wouldn't be averse to short  
20 periods of time, and it could be six months -- and  
21 again this is something that we can work out --  
22 whereby a customer such as the one that you are  
23 mentioning now could come and become maybe an  
24 experimental customer of the utility for a short  
25 period of time to see if CNG is the type of service

00423

1 that will be economically viable for him. However,  
2 staff's position again is that we don't want subsidies  
3 to be occurring as a result of providing those  
4 services.

5 Q. Did you talk to any gasoline retailers,  
6 investors, oil companies, anybody else, to determine  
7 whether refueling alternatives to those customers are  
8 available other than from the company?

9 A. When you're talking about refueling  
10 alternatives are you talking about CNG refueling  
11 alternatives?

12 Q. That's right, refueling alternatives to  
13 what the company currently offers. Did you in  
14 developing your position talk to any retailers,  
15 investors, oil companies, anybody else, to determine  
16 whether there are any other refueling alternatives  
17 available to the public other than through Washington  
18 Natural Gas's service in our service territory?

19 A. Well, to my -- I didn't directly contact  
20 anybody like that. However, to our knowledge through  
21 some other means, the understanding that we have is  
22 there's none other than maybe Cascade Natural Gas, the  
23 only other one I think we know, that have some  
24 facilities, and maybe even Water Power back in  
25 Spokane, but we don't know of anybody else.

00424

1 Q. And those facilities aren't in the  
2 company's service territory, though, correct?

3 A. Not in yours, that's correct.

4 Q. So if I understand your testimony  
5 correctly, if at the conclusion of whatever grace  
6 period, six months, a year, three months, I'm not sure  
7 which staff is recommending, there are no other  
8 refueling alternatives within our service territory  
9 then existing customers of the company simply won't  
10 have any option as far as where to go for refueling.  
11 Is that your position?

12 A. Well, that's what it looks like. In a  
13 sense that's why we got to give them sufficient time  
14 for them to make that determination. If you're going  
15 to utilize CNG and you're experimenting with that type  
16 of service, and you're looking forward to continuing  
17 using that or after you have gone through that  
18 experimental time, well, that customer should be  
19 expecting to either get his own facilities or look for  
20 something else, but the fundamental position of the  
21 staff is that as a regulated service the company  
22 should not be providing that for the reasons stated in  
23 my testimony of subsidies and so forth because as it  
24 stands it is illegal. It goes against the statute  
25 because of subsidies and that's part of the staff's

00425

1 position.

2 Q. Mr. Ramirez, you state at page 26 of your  
3 direct testimony, lines 8 through 9, that "other  
4 potential investors may be discouraged from entering"  
5 -- I assume to be -- the CNG refueling market because  
6 of the company's presence in that market. Do you see  
7 that testimony?

8 A. Right.

9 Q. Would you identify, please, all potential  
10 investors that have been at any time or may be now  
11 discouraged from entering the market because of the  
12 company's presence?

13 A. Well, Mr. Berdan's testimony, for instance,  
14 indicates a number of organizations that have  
15 apparently looked into investing but they haven't. I  
16 can quote from Mr. Berdan's testimony if you want me  
17 to.

18 Q. Is it your testimony that what's been  
19 identified in Mr. Berdan's testimony are the  
20 organizations that have been discouraged because of  
21 the company's presence?

22 A. Well, what I'm saying is the reason for  
23 this comment right there is more than just that. One  
24 is that the rates as they stand right now, they're  
25 noncompensatory. They're not compensatory and they're

00426

1 getting a subsidy from other customers. Obviously, it  
2 would be very difficult for anybody else to compete  
3 with you on that, and that's part of the testimony.

4 Q. Mr. Berdan in his testimony refers to  
5 organizations like BP, for example, doesn't he?

6 A. Yes.

7 Q. And Texaco?

8 A. Right.

9 Q. And Chevron?

10 A. Right.

11 Q. So has Texaco contacted you to tell you  
12 that in Texaco's opinion we're discouraged from  
13 entering the market because of the company's presence?

14 A. If I look at his testimony what he's  
15 telling me is that those organizations that are not  
16 making investments --

17 MR. JOHNSON: Your Honor, Mr. Ramirez is  
18 not answering the question. I've just asked him  
19 whether they contacted him and given an opinion and  
20 he's not answering the question.

21 JUDGE ANDERL: Mr. Ramirez, listen  
22 carefully to the question.

23 A. I have not been contacted. I haven't  
24 talked to anybody like that.

25 Q. You haven't talked to anybody in fact

00427

1 that's indicated that they've been discouraged from  
2 entering the CNG refueling market. Is that a correct  
3 statement?

4 A. Yes, that's a correct statement.

5 Q. Thank you. Now, you recommend that the  
6 company continue providing CNG if it wishes to do so  
7 only through a separate and unregulated affiliate or  
8 subsidiary; is that right?

9 A. That's correct.

10 Q. I think you've also stated, though, in your  
11 testimony that the facilities that the company uses to  
12 serve outside CNG customers are also used to serve the  
13 company's vehicle fleet; is that correct?

14 A. That is correct.

15 Q. Sir, are you suggesting that somehow after  
16 this transition to a separate affiliate occurs, if it  
17 occurs, that that affiliate serve the company's  
18 vehicles as well, so the company isn't serving its own  
19 CNG needs?

20 A. I suspect that the company may have --  
21 well, there are several alternatives to do that. One  
22 is obviously that they can go buy from the subsidiary  
23 service like anybody else would. If those are the  
24 facilities that the company will transfer, let's say,  
25 to a subsidiary, if they want to transfer those

00428

1 facilities, then I suspect that the company is going  
2 to have to build additional facilities to serve those  
3 other customers. But my understanding is that those  
4 facilities to begin with were built to serve the  
5 company's vehicles. Now, so, again, I say looking at  
6 the alternatives, either the facilities stay with the  
7 company to serve their own vehicles or the company  
8 could go out and seek service as an additional  
9 customer from the subsidiary or build additional  
10 facilities.

11 Q. Do you have any idea how the company should  
12 account in its books for CNG sales to nonWNG vehicles  
13 on the one hand and CNG sales to WNG vehicles on the  
14 other hand? I mean, how is this all going to work out  
15 if we were to transfer our facilities to an  
16 unregulated subsidiary as you recommend but were  
17 continuing to serve not only outside customers but  
18 were continuing to refuel our own vehicles. How are  
19 we going to account for all of this?

20 A. I just got through saying that you will  
21 become a customer of the subsidiary.

22 Q. And you think this all can be done easily?

23 A. Well, how are you doing it today? How are  
24 you billing your customers today? You are serving  
25 from those facilities to noncompany's vehicles, so

00429

1 somehow you have to be billing those customers, too,  
2 so I don't see any difference. It's either you bill  
3 them or someone else bill them and you will become a  
4 customer of that subsidiary.

5 Q. You said that the facilities were built to  
6 serve, provide refueling service to our vehicles,  
7 correct?

8 A. Yes.

9 Q. That was the primary purpose?

10 A. And I may be going back into data responses  
11 to stuff that was requested, and I don't know if it  
12 was in 920840 where that was asked of the company of  
13 when those facilities were put in place and for what  
14 reasons, and we can dig that information out, but I  
15 believe that was in docket 920840 where that  
16 information was shared with us.

17 Q. Given that those facilities were built to  
18 serve WNG vehicles, and those facilities do in fact  
19 serve WNG vehicles, have you attempted to calculate  
20 the marginal cost that the company incurs to provide  
21 CNG refueling service to nonWNG customers?

22 A. To non--

23 Q. To noncompany customers.

24 A. I believe that when we were reviewing  
25 docket 940034 as an independent docket before it was



00430

1 consolidated we did several studies that would show we  
2 were looking at what the rates should be for certain  
3 -- the rates should be from service being provided  
4 from a specific facilities. The company has about 10  
5 sites, I believe, and some of those are located on  
6 company's premise and some are located on customer's  
7 premises. Those located on customer premises, my  
8 understanding, is only served that customer, and we do  
9 have information that would show what those rates are.  
10 In fact those rates are even higher than what the  
11 average rate would be including everybody, but we do  
12 have some studies that were put together of data  
13 submitted by the company.

14 Q. Turn to page 26 of your testimony, lines 11  
15 through 13. You state that staff believes that  
16 investing in and operating retailing refueling  
17 operating facilities is a nonutility business. Do you  
18 see that? Do you mean by that statement that gas  
19 utilities in general shouldn't offer CNG service, that  
20 other gas utilities in general don't offer the  
21 service?

22 A. Well, the intent in here is to address  
23 those facilities that are there to provide  
24 nonregulated services.

25 Q. In developing your testimony did you do any

00431

1 research on the number of utilities around the country  
2 who offer CNG service?

3 A. I have looked at some of that including my  
4 prior employment where I was very intimately  
5 participant in how those rates were to be designed.

6 Q. Are you aware that other utilities around  
7 the country do in fact offer this service?

8 A. Yes, they do.

9 Q. In fact there are literally dozens of  
10 utilities that offer this service, correct?

11 A. Definitely there are, yes. There  
12 are different regulatory requirements in each one of  
13 those jurisdictions.

14 Q. So it wouldn't be fair to characterize the  
15 statement at lines 11 through 13 as that gas utilities  
16 don't offer the service, correct? That would not be a  
17 fair reading of that statement at page 26, lines 11  
18 through 13?

19 A. Well, obviously we are in the Washington  
20 Natural rate case proceeding here. I'm referring to  
21 Washington Natural.

22 Q. Page 20 of your rebuttal testimony, Mr.  
23 Ramirez, you describe the waiver that the company  
24 sought of a regulatory Commission regulation. Do you  
25 see that testimony?

00432

1 A. Yes.

2 Q. And that regulatory provision was in the  
3 Washington Administrative Code, correct?

4 A. Right.

5 Q. And that referred to restriction on sale of  
6 gas for resale, right?

7 A. Right.

8 Q. What's your understanding of the current  
9 situation after that restriction was waived? What can  
10 the company do that it couldn't do before?

11 A. In regard to the company, to some extent,  
12 there is not that big of a difference. The difference  
13 is now that a third party can buy gas from you and  
14 could resell it. The statute essentially was  
15 prohibiting the sale for resell, so this waiver was --  
16 that provision was left in, if you will, so as far as  
17 you're concerned I don't think it would be a big  
18 difference in what you're doing now.

19 Q. But this waiver that you refer to, that's a  
20 waiver that the company sought, correct?

21 A. Well, like I said, if I go back to 1991,  
22 the staff has been recommending that to the company  
23 since '91 for that -- two things, one in providing for  
24 that waiver and secondly for the company to provide  
25 the new compressed natural gas rate that would make it

00433

1 in fact attractive for third parties to become a  
2 refueling station. We went through this in fact  
3 through the docket 920840 when there was negotiations  
4 including when Metro was contemplating this type of  
5 service. So we've been indicating to the company the  
6 need for this test to be addressed. The waiver was  
7 one and finally obviously the waiver -- we haven't  
8 seen yet a new compressed natural gas rate.

9 Q. Staff never initiated any kind of  
10 rulemaking or anything to initiate the waiver that  
11 you've referred to, correct?

12 A. Well, it is incumbent upon the company to  
13 do that.

14 JUDGE ANDERL: How are you doing on your  
15 questions, Mr. Johnson?

16 MR. JOHNSON: About 10 or 15 minutes left  
17 all on CNG.

18 JUDGE ANDERL: I think we'll just go ahead  
19 and stay on the schedule and break for lunch then.  
20 We'll be back at 1:30 and conclude with your cross  
21 then.

22 MR. JOHNSON: Okay, thanks.

23 (Lunch recess.)

24

25

00434

1

AFTERNOON SESSION

2

(1:30 p.m.)

3

JUDGE ANDERL: Let's be back on the record

4

then after our lunch recess. While we were off the

5

record Mr. Johnson distributed the next two exhibits

6

in line which I will identify now for the record.

7

Exhibit No. 61 for identification is a multi-page

8

document -- actually two pages -- and the cover sheet

9

indicates that it's Washington Natural Gas data

10

request No. 18 and the response, Exhibit No. 62, the

11

cover sheet indicates that it is the staff response to

12

Washington Natural Gas's data request No. 44.

13

(Marked Exhibits 61 and 62.)

14

JUDGE ANDERL: Mr. Johnson, go ahead.

15

BY MR. JOHNSON:

16

Q. To get those out of the way, Mr. Ramirez,

17

I've handed you what's been marked as Exhibits 61 and

18

62 for identification. Do you have those?

19

A. Yes.

20

Q. And do you recognize Exhibit 61 as staff's

21

response to our data request No. 18?

22

A. Yes.

23

Q. And that response was prepared by you?

24

A. Yes.

25

MR. JOHNSON: Move for admission, Your

00435

1 Honor.

2 JUDGE ANDERL: Any objection?

3 Hearing none Exhibit 61 will be admitted as  
4 identified.

5 (Admitted Exhibit 61.)

6 Q. Next, Mr. Ramirez, do you recognize what's  
7 been marked as Exhibit 62 as staff's response to our  
8 data request No. 44?

9 A. Yes.

10 Q. And was that response prepared by you?

11 A. Yes.

12 MR. JOHNSON: Move for admission.

13 JUDGE ANDERL: Any objection?

14 Hearing none Exhibit 62 will also be  
15 admitted as identified.

16 (Admitted Exhibit 62.)

17 Q. Mr. Ramirez, just a few more questions on  
18 the issue of CNG. We were talking before lunch about  
19 the waiver of the resale restriction, and we were also  
20 talking about how potential investors might have been  
21 discouraged from entering the CNG refueling network.

22 Let me ask you a question. To the extent that  
23 investors have been discouraged or might have been  
24 discouraged from entering the refueling network  
25 business, do you think that a reason for that

00436

1 discouragement might have been the presence of the  
2 resale restriction prior to last year when it was  
3 removed?

4 A. I know of at least two instances that that  
5 has been the case. The staff had received calls from  
6 an individual up in North Seattle that wanted to  
7 provide that service and as a result of that provision  
8 he couldn't.

9 Q. Getting back to the purpose of the waiver,  
10 as I understand it and as I understand your testimony,  
11 a person may now buy gas from -- uncompressed gas from  
12 Washington Natural Gas under any rate schedule for  
13 later compression and resale; is that correct?

14 A. That is correct.

15 Q. So the customer is free to do that.  
16 There's nothing in the tariff or the WAC rules that  
17 prevents him from doing that?

18 A. That is correct.

19 Q. So why, under those circumstances, do you  
20 recommend at page 20 of your rebuttal testimony and  
21 referring to lines 8 through 11 that the company file  
22 a tariff that will provide exclusively for the sale of  
23 natural gas to be compressed by others? Why is that  
24 necessary when a customer already has that right under  
25 the tariff as modified by the waiver?

00437

1           A.     Well, this goes back actually to sometime  
2 in early '93 when there was some negotiations that  
3 were going on among the company and Metro with regard  
4 to facilities to be built in Seattle. They -- the  
5 feeling at that time was that the rates that the  
6 company was offering at the time were not competitive  
7 enough for them to justify the facilities, so the  
8 staff recommended to the company that maybe what they  
9 should look into is to design a rate that would  
10 specifically gear toward selling uncompressed natural  
11 gas that could have a relatively low margin, since  
12 that schedule in theory would be for additional load,  
13 would be new load, so that would be a good way to  
14 expand the market in the natural gas market.

15          Q.     Is what you're talking about in that  
16 context some sort of incentive rate for the sale  
17 of uncompressed gas?

18          A.     I would say that I would think about as  
19 what you have now in your own tariffs you have a  
20 schedule, say, 85, which is industrial rate, you have  
21 commercial rates, and so you look into a special rate  
22 for those that could be the potential of designing a  
23 rate that could provide some incentives for those that  
24 may be interested on selling -- reselling CNG.

25          Q.     Lastly, Mr. Ramirez, you handed out a



00438

1 revised exhibited JR-10 which was marked as Exhibit

2 56. Do you have that in front of you?

3 A. Yes.

4 Q. You show under your rate calculation a mark  
5 of 57.449 cents; is that right?

6 A. That is correct.

7 Q. And you also show on that exhibit under the  
8 -- actually towards the right what's labeled as target  
9 317,966?

10 A. Right.

11 Q. Just one quick question on that. Is that a  
12 target revenue or a target margin?

13 A. That's a target ref -- I'm sorry, margin.

14 Q. Now I would like you to turn to Exhibit 55  
15 which I don't think has been modified. That is  
16 Exhibit JR-9. Under the column revenue calculations  
17 which shows the respective rates, under rate 50, rate  
18 50 is the company's tariff for the sale of CNG, is it  
19 not?

20 JUDGE ANDERL: Which sheet are you on, Mr.  
21 Johnson?

22 MR. JOHNSON: I'm on sheet 2 of 14.

23 A. Yes.

24 Q. And on the line under rate 50 for all  
25 therms I see a margin under proposed rates and I

00439

1 assume these are staff's proposed rates of 29.357  
2 cents; is that right?

3 A. Right.

4 Q. And then in the lower right-hand column I  
5 see a target figure of \$163,366?

6 A. Right.

7 Q. Is that also target margin?

8 A. Right.

9 Q. And then one more reference, Mr. Ramirez,  
10 to Exhibit 54, sheet 2 of 2, and that's JR-8 also.  
11 Under the line for rate 50 I see a margin under column  
12 P of 53 cents. Do you see that?

13 A. Yes.

14 Q. And under column K a revenue change of what  
15 looks like negative \$43,227. Do you see that?

16 A. Yes.

17 Q. What's confusing me, Mr. Ramirez, is why  
18 your exhibits show in this exhibit a 53 cent margin,  
19 in the Exhibit 55, a 29.357 cent margin, and then  
20 a different margin in your Exhibit 56. Can you  
21 reconcile those, please.

22 A. Let me start on Exhibit 56. Exhibit 56 is  
23 meant to calculate a margin that would be a rate --  
24 calculate a margin of rate that will produce the  
25 average company return, the 8.77 I think or 8.78.

00440

1 That's what we show on the exhibit. So the idea here  
2 is that we will be making fully compensatory rate for  
3 that schedule at the average company return, so that's  
4 what Exhibit 56 will reflect. Now, Exhibit 55, which  
5 is JR-9, and page 2 the target margin that we have  
6 reflected in there is actually the same target, the  
7 same proposed margin that we have in proposed margins  
8 shown on JR-8 or Exhibit 54, and that is reflected on  
9 column H on line that refers to rate 50. What may be  
10 a little confusing in here on this particular one is  
11 that as a result of the way Mr. Russell allocated the  
12 cost of gas, the cost of gas reflected on the proposed  
13 rates is lower than the cost of gas at the current  
14 rates, so that's why you see actually a reduction  
15 there.

16 Now, the other thing in regard to the rates  
17 that you quoted to me off of, again, Exhibit 54 that  
18 you quoted the 53 cents, now, that rate there includes  
19 cost of gas, the 53 cents there. The rate shown on  
20 Exhibit 55 is only margin, and it does reflect that in  
21 there. We reflect that as margin only. And then that  
22 margin rate actually will compare to Exhibit 56, 59  
23 cents because that is a margin rate. So we're looking  
24 at two margin rates in Exhibit 54 and Exhibit -- will  
25 that answer your question or you want me to elaborate

00441

1 some more?

2 Q. What we're still a little confused about is  
3 the derivation of the 57 cent rate or 57 cent margin  
4 under Exhibit 56.

5 A. Okay.

6 Q. Can you elaborate on how that was  
7 calculated?

8 A. Yeah. As I said, we came up with a target  
9 rate, target revenue that would produce a return for  
10 8.78. I believe that the target was actually to  
11 produce the average company's return. However, on  
12 rounding came out to be 8.78, but that's how the 57  
13 cents was calculated.

14 MR. JOHNSON: Your Honor, maybe we can make  
15 this the next record requisition in order, a request  
16 so we don't get bogged down here, a request to, one,  
17 derive the 57 cent margin that is set forth in Exhibit  
18 56, and two, to derive and reconcile the other margin  
19 and revenue calculations that are shown in the  
20 exhibits that I've been discussing with Mr. Ramirez.

21 JUDGE ANDERL: Mr. Ramirez, is that request  
22 clear enough that you can respond to it?

23 A. Yes.

24 MR. JOHNSON: That's record requisition No.  
25 17.

00442

1 (Record Requisition 17.)

2 MR. JOHNSON: That's all the questions I  
3 have. Thank you very much.

4 JUDGE ANDERL: Ms. Pyron will go next with  
5 your cross.

6 MS. PYRON: I have one exhibit that I would  
7 like to go ahead and distribute.

8 JUDGE ANDERL: I've been handed a document  
9 which I will mark as Exhibit No. 63 for  
10 identification. That is the staff response to  
11 Washington Natural Gas's data request No. 9.

12 (Marked Exhibit 63.)

13

14 CROSS-EXAMINATION

15 BY MS. PYRON:

16 Q. Good afternoon, Mr. Ramirez.

17 A. Good afternoon, Mrs. Pyron.

18 Q. From your rebuttal testimony, Mr. Ramirez,  
19 is it accurate to say that you disagree with Mr.  
20 Schoenbeck's advocacy of a design peak day allocation?

21 A. Yes.

22 Q. Is one of the reasons for your rejection of  
23 that method based on your conclusion that the design  
24 peak demand is a design projection?

25 A. That's part of it, and the other main

00443

1 reason is that it does not take into account or  
2 consideration the fact that, for instance in this  
3 case, interruptible load is part of the peak.

4 Q. Well, would you agree that the company's  
5 design day demand is based on a design day temperature  
6 that has in fact occurred?

7 A. Well, we were earlier on this answer, this  
8 particular question, the 55 as far as my data that I  
9 have reviewed has not occurred. I think the data that  
10 I have seen shows 50 degree days, I think.

11 Q. Do you have a copy with you of Exhibit 59?

12 A. Yes.

13 Q. If you would, please, turn to page I-9.

14 MR. TROTTER: Which page?

15 MS. PYRON: I-9 or one nine.

16 Q. Under the section executive summary. And  
17 the top of the page has figure 1-7 and it says peak  
18 day. When you're with me.

19 A. I think what I have is the complete  
20 package. I don't have the executive summary.

21 Q. It was on the copy of Exhibit 59 that was  
22 distributed.

23 JUDGE ANDERL: The second tab.

24 Q. Second tab. First tab says --

25 A. Okay, I'm sorry.

00444

1 Q. -- executive summary.

2 A. I got it.

3 Q. And the top of the page says figure 1 or  
4 I-7. Bottom of the page is I-9.

5 A. Yes.

6 Q. And under the heading in the middle of that  
7 page it says peak day. And could you read the second  
8 paragraph that starts with the design peak day?

9 A. "The design peak day requirements for this  
10 plan are based on the company's historically coldest  
11 day as measured at SeaTac airport containing 55  
12 heating degree days (10 degrees Fahrenheit average  
13 temperature 24 hours) experienced in January 1950."

14 Q. And to your knowledge that statement is  
15 inaccurate in that integrated resource plan?

16 A. Yeah. I have no reason to doubt what they  
17 have on there.

18 Q. If you could review what's been identified  
19 as Exhibit 63 and let me know if you can identify that  
20 as your response to staff -- a response to WNG data  
21 request No. 9.

22 A. Yes.

23 Q. Mr. Ramirez, you recognize that?

24 A. Yes.

25 MS. PYRON: I would move the admission of

00445

1 Exhibit 63.

2 JUDGE ANDERL: Any objection?

3 No objection to Exhibit 63. It will be  
4 admitted as identified.

5 (Admitted Exhibit 63.)

6 Q. Mr. Ramirez, as opposed to Schoenbeck's  
7 recommendation of a peak day allocation, is it  
8 accurate to say that the staff is advocating a  
9 modified peak and average method different from that  
10 of the company's?

11 A. On the overall allocation methodology?

12 Q. That you have differences related to  
13 determination of the peak day. Would that be  
14 accurate?

15 A. Yes.

16 Q. And that the method that you advocate for  
17 the staff is a peak day allocation based on the  
18 average of the five highest volumes for the fiscal  
19 years '91 through '93?

20 A. That's correct.

21 Q. If you could turn with me to JR-7 which is  
22 Exhibit 53 on the first page. Mr. Ramirez, are you  
23 with me with the exhibit?

24 A. Yes.

25 Q. On the second to the last column that's a



00446

1 DD, is that degree days?

2 A. Yes.

3 Q. And if the company's design day is 55, do  
4 any of these days approach peak-like weather  
5 conditions that you have utilized?

6 MR. TROTTER: Excuse me. Object to the  
7 question unless peak is defined as the design day.

8 Q. If peak is defined as the design day at 55,  
9 do any of these days approach 55?

10 A. We have a day of 47. We have 49.

11 Q. But that's the closest?

12 A. Those would be the closest, that's correct.

13 Q. And you take in an average; is that  
14 correct?

15 A. Yes, I have taken an average.

16 Q. Do you know what that average number would  
17 be for the design day average of the data that you've  
18 used? Would you accept subject to check that it's  
19 35.6 degree days?

20 A. I'm sorry, I'm confused when you said  
21 design average.

22 Q. If you were to average the degree days of  
23 the data that you have utilized, do you know what that  
24 average degree day would be of these days that are on  
25 JR-7, page 1?

00447

1           A.     Well, we show there -- we didn't calculate  
2     decimals but we show that as a 36, yeah.

3           Q.     And do you know what that is roughly in  
4     Fahrenheit?

5           A.     Well, the degree day is actually, it is not  
6     necessarily calculated on Fahrenheit.  What you  
7     calculate is the temperature that creates the degree  
8     days.

9           Q.     Is it accurate to say, then, that that's --  
10    over that 24-hour period the average temperature  
11    represented, would it be roughly 29 degrees?

12          A.     It could be.  Like I said, degree days is  
13    just a measure of the departure from temperature --  
14    from an average temperature, in this case for degree  
15    -- for heating degree days 65 degrees is what is used  
16    for degree day.  So calculating that average it all  
17    depends, you know, what the high and the low is.  Now,  
18    29 may be one of those numbers, yes.

19          Q.     Would you accept subject to check that a  
20    35.6 degree day equates out to a 29 degree in  
21    temperature, realizing I'm not asking you to do the  
22    math on the stand?

23          A.     Well, I will accept it subject to check.

24          Q.     Mr. Ramirez, if during 1990, 1991, '92,  
25    '93, if it had been a 55 design day, degree design

00448

1 day, would you have used that data in your  
2 calculations?

3 A. If 55 degree day would have occurred within  
4 this period of time, yes, it would have been included  
5 -- it could have been included in there. Our  
6 calculation essentially was determined by establishing  
7 for this three-year period on each year the highest  
8 peak days for the company. The degree days actually  
9 came to correspond to those days of highest usage, so  
10 there's a little difference in there when you're  
11 asking me, you're asking would I use 55, potentially  
12 that number would have fallen there if that would have  
13 been a day where the consumption would have been that  
14 high.

15 Q. Do you maintain that the staff's position  
16 of using this methodology reflected in JR-7 is  
17 consistent with the Commission's decision in the Water  
18 Power case, the 901459 case?

19 A. Yes. Essentially it is the same, the same  
20 goal, because we deviated from -- a little bit from  
21 what the Commission had ordered on the Water Power  
22 case. In that particular case the Commission approved  
23 a peak that was calculated on a sustained basis. We  
24 feel that we improved on that particular approach by  
25 utilizing the highest peak days during that period of

00449

1 time to accommodate, well, a better representation of  
2 how the system was being used during that period of  
3 time.

4 Q. Are you aware of whether there were weather  
5 differences in the data considered by the Commission  
6 in reaching its decision in the Water Power case and  
7 the weather data that's available here?

8 A. Well, there are significant differences  
9 from here to Spokane, like from here to Alaska, but I  
10 think the concept is still -- is correct. The concept  
11 is the same. I think that's what's important, and the  
12 concept was to utilize a system that will try to  
13 minimize weather swings.

14 Q. Do you recall what the design day standard  
15 was of Water Power in that proceeding?

16 A. I believe, and I can also subject to check,  
17 but I believe it's 82 degree days.

18 Q. Heating degree day?

19 A. Yes.

20 Q. Would you also accept subject to check that  
21 that equates to a negative 17 degrees?

22 A. Yes, I would accept that subject to check.

23 Q. In the time period from 1990 to 1993 that's  
24 reflected in JR-7, has Washington Natural Gas  
25 experienced load growth in certain classes of its

00450

1 customers?

2 A. Yes. My understanding is that they have,  
3 yes.

4 Q. And has that growth been in certain classes  
5 more than others or has it been even across the  
6 system?

7 A. No. Load has occurred more on the  
8 residential classes.

9 Q. Well, Mr. Ramirez, doesn't averaging that  
10 data result in the calculation of a peak, as you've  
11 done in JR-7, that somewhat dilutes or waters down the  
12 data for the classes experiencing the customer growth?

13 A. Well, the important factor that we utilize  
14 to come up with our approach was in trying to match  
15 the test period with the closest weather data  
16 available to the test period, and again following the  
17 guidelines of trying to utilize data that will balance  
18 that or average that, those peak days, we utilized  
19 then those three-year periods. So the concept was  
20 trying to match the test period the best possible  
21 with the available three-year data that we utilized  
22 for the peak. Although, yes, there might have been  
23 some differences on the load growth.

24 Q. Switching to a different topic, Mr.  
25 Ramirez, I believe your testimony with Mr. Johnson

00451

1 before lunch related to the balancing proposal of  
2 Washington Natural Gas was that it was more lenient;  
3 is that correct?

4 A. Yes. His question was related essentially  
5 to the fact that the current provision, customers will  
6 have to go through the zero and in doing so, moving  
7 under the current under the proposed tariff will make  
8 it more lenient now.

9 Q. Would you also agree that the proposed  
10 penalties from the company for balancing -- the  
11 imbalance penalties themselves, have those changed  
12 from the current tariffs?

13 A. Yeah. I believe that they changed  
14 somewhat. I would have to refer to those.

15 Q. Would you accept subject to check that  
16 the company's current tariffs provide for greater than  
17 5 percent and up to 8 percent a 150 percent of WACOG  
18 penalty and for greater than 8 percent and up to 10  
19 percent a 200 percent penalty?

20 A. Yeah.

21 Q. And then for the opposite situation where  
22 excess accumulated daily, confirmed nominations of 5  
23 to 8 percent a 67 percent WACOG and an 8 to 10  
24 percent, a 50 percent of WACOG buyout?

25 A. Yes.

00452

1 Q. And that's different from the company's  
2 proposal that's before the Commission; is that  
3 correct?

4 A. That is correct.

5 Q. And aren't the penalties that are being  
6 proposed now at \$1 and \$2 a therm greater monetarily  
7 than the penalties contained in the company's current  
8 tariffs?

9 A. At the level of the 10 percent I believe  
10 that on the overrun is the same. I think in the  
11 current one shows, as you suggested it was a \$2.

12 Q. For 10 percent?

13 A. For the 10 percent, right. That would be  
14 the same, I believe, on the --

15 Q. But the \$1 per therm and the confiscation  
16 proposed in the current tariffs would be a much  
17 greater penalty than --

18 A. Yeah, it would be a greater penalty.

19 Q. Turning to your Exhibit JR-12 which I  
20 believe is Exhibit 58, and going down to the staff's  
21 proposed rate design for schedule 57. Is it accurate  
22 to say that your recommended rate design consists of  
23 five blocks rather than the six advocated by the  
24 company?

25 A. Yes.

00453

1 Q. In reviewing your testimony, on page 24,  
2 your concern with having the five blocks rather than  
3 the six, is it accurate to say that your concern is  
4 one of comparability with the sales schedules?

5 A. Yeah. I would say that is correct, yes.

6 Q. And your concern is not that a cost-based  
7 six block could not be constructed but it is one of  
8 comparability with 87?

9 A. I'm just troubled by what you're saying.  
10 Cost-based?

11 Q. Let me rephrase that. Could your concerns  
12 about comparability be addressed with a cost-based six  
13 block being added to schedule 87 and keeping a six  
14 block in schedule 57 for the volumes greater than 300  
15 therms per month?

16 A. Yeah. I saw that in two other parties'  
17 testimony, and although -- that appears to be an  
18 alternative for that particular schedule. To be  
19 honest with you, I didn't go out and after I saw the  
20 testimony and do some analysis and see what it would  
21 be the impact of doing that. I can tell you that that  
22 is -- appears to be an alternative that could be  
23 studied. I didn't.

24 Q. But that could be an alternative that would  
25 address your concerns?



00454

1 A. It could be an alternative, yes.

2 Q. And I had one final question on another  
3 topic. Looking at your testimony in the original  
4 testimony T-45, page 12, and then looking at JR-11, I  
5 had one clarifying question, and that was simply  
6 related to the curtailments that you recite in your  
7 testimony on page 12. Are those representative of  
8 complete curtailments of the system as opposed to  
9 localized curtailments or partial?

10 A. The basis of our analysis to determine that  
11 was actually also included under Exhibit 57.

12 Q. Would you be referring to Exhibit 57?

13 A. Right.

14 Q. And request 39?

15 A. Right. Those were the bases of our  
16 analysis of when and what was the level of -- and the  
17 reason why curtailment was experienced on that day.

18 Q. And turning to the first page of request  
19 No. 39, in Exhibit 57, the data only represents  
20 system-wide curtailment; is that correct?

21 A. All the data that is represented here?

22 Q. The localized curtailments of shorter  
23 duration do commonly occur, data for which is not  
24 readily available?

25 A. I still do not understand clearly what is

00455

1 the question.

2 Q. The numbers that you represented were  
3 counts based on Exhibit 39; is that correct?

4 A. Right.

5 Q. And that data is based on, then, the  
6 qualifications made to it on Exhibit 39?

7 A. Right.

8 Q. Point D?

9 A. Right.

10 Q. Being that localized curtailments aren't  
11 included in those numbers; is that correct?

12 A. When you say localized curtailment, are you  
13 talking about curtailments that had been experienced  
14 because of capacity on the Washington Natural Gas  
15 system?

16 Q. As opposed to a system-wide curtailment of  
17 all customers but localized being of individual  
18 shorter duration, only certain customers but not  
19 everybody on a given schedule.

20 A. For that particular day you are referring  
21 to? Because I see up on the top of that exhibit you  
22 can see the qualification for each one of the days or  
23 groups of days. Some of them refers to Seattle  
24 distribution system problems, cold front distribution,  
25 supply and capacity problems, conserving storage

00456

1 supplies, supply distribution. When you talk about  
2 localized some of them here are already reflected in  
3 there so that's why I can't understand.

4 Q. Your numbers are based on Exhibit 39 in  
5 this exhibit?

6 A. Right.

7 MR. TROTTER: Counsel, that's not Exhibit  
8 39. It's the response to DR 39.

9 MS. PYRON: In Exhibit 57. I have no  
10 further questions.

11 JUDGE ANDERL: Thank you, Ms. Pyron. Ms.  
12 Arnold.

13

14 CROSS-EXAMINATION

15 BY MS. ARNOLD:

16 Q. Just a few questions. Mr. Ramirez, would  
17 you turn to Exhibit 48 which is JR-2. This is the  
18 revised exhibit that you gave us this morning. Page 1  
19 of 1 represents a summary of the staff-proposed cost  
20 of service at the staff-proposed rates; is that  
21 correct?

22 A. That is correct.

23 Q. Would you look at the bottom entry under  
24 total company where it says unitized on the bottom of  
25 the column?

00457

1 A. Right.

2 Q. It says 1. What does that 1 represent?

3 A. Well, essentially the unitized is departure  
4 from that average of what would be the 8.76 overall  
5 return, so the 1 is just like 8.76 being divided by  
6 8.76.

7 Q. Would it be correct that if a customer  
8 class had unitized 1 that the revenues that class  
9 would be producing would be equal to the cost of  
10 serving that class?

11 A. That is 1, what I would say is it's  
12 producing the average system return.

13 Q. Does it mean that if a customer class had 1  
14 and was producing the average system rate of return  
15 that the revenues from that class would equal the cost  
16 of serving that class?

17 A. Yes.

18 Q. So when I see .81 in the residential  
19 heating column, does that mean that the residential  
20 heating class is producing revenues that are .81  
21 percent of its revenues? I didn't say that right.  
22 Less than its revenues.

23 A. Well, you can see right above that what  
24 it's saying is that the return of the residential  
25 class, which is 7.23 percent, is essentially like you

00458

1 said, 83 percent of the overall system return.

2 Q. And in the CNI heating class column, I see  
3 1.51. Does that mean that the customer -- that the  
4 commercial and industrial heating class is producing  
5 revenues equal to one and a half times the cost of  
6 serving that class?

7 A. Yes. I'm just looking for the one and a  
8 half. 1.37?

9 Q. 1.51.

10 JUDGE ANDERL: Mr. Ramirez, is it possible  
11 that you're referring to the old exhibit and that  
12 we're all looking at the revised one? It should say  
13 "revised" right under your name at the top right on  
14 the cover sheet and if it doesn't then you would have  
15 the old one.

16 MR. TROTTER: Counsel, was your question  
17 that that was one and a half times the revenue  
18 requirement?

19 JUDGE ANDERL: Mr. Trotter, let's just get  
20 the witness with the right exhibit and then you can  
21 ask your clarifying question.

22 MR. TROTTER: Maybe the question can be  
23 reread because I guess I didn't understand it.

24 THE WITNESS: It appears that I am talking  
25 from the old exhibit.

00459

1 MR. CEDARBAUM: Can I hand the witness?

2 JUDGE ANDERL: Please.

3 Q. We're on JR-2?

4 A. Yeah, the 1.51, that's correct.

5 Q. That means that that calculation is  
6 producing revenues equal to approximately one and a  
7 half times the cost of serving that class; is that  
8 correct?

9 A. Again, it's producing a return, that class  
10 is producing a return, that is approximately 1.51  
11 times the system average return.

12 Q. Is the answer to my question no, that  
13 doesn't mean that its revenues are approximately one  
14 and a half times the cost of serving that class?

15 A. Well, I think that the logic probably will  
16 fall there. I haven't done that calculation to be  
17 honest with you. The calculation in here is done off  
18 of the returns.

19 Q. So it means that its revenues are one and a  
20 half times the system average revenue, is that right,  
21 approximately?

22 A. No, I don't think I can -- we're talking  
23 about revenues.

24 Q. Let me ask the question again. Maybe I  
25 said it wrong. Does that 1.51 mean that the

00460

1 commercial and industrial heating class is producing a  
2 return that's one and a half times the system average  
3 return?

4 A. Yes. I agree with that.

5 Q. And would you agree that commercial and  
6 industrial class 41 is producing a return that's  
7 approximately twice the average system return?

8 A. That is correct.

9 Q. And would you agree that schedule 85 is  
10 producing a return that's 3.78 times the system  
11 average return?

12 A. That's correct.

13 Q. What was the purpose of your calculation of  
14 the row that's labeled unitized?

15 A. There it was part of the model, if you  
16 will. We didn't utilize this particular line for  
17 anything. However that's part of the model.

18 Q. Would you agree that it's valuable to  
19 determine the relative contribution of each class to  
20 the company's return?

21 A. Well, you can say that, yes.

22 Q. Would you agree that in an ideal world each  
23 class would return -- each class would produce a  
24 return that's equal to the system average return?

25 A. That's probably true, yes.

00461

1 Q. Was it part of staff's goal to equalize the  
2 return produced by each class?

3 A. Well, part of the staff goal was to shift  
4 some revenues to some classes that appears to be  
5 producing a return that was higher than other ones,  
6 yes.

7 Q. Would you agree that schedule 85 is still  
8 producing a return that's higher than other classes?

9 A. Yes.

10 Q. Refer now, please, to Exhibit 61, is which  
11 the response to staff data request -- or response to  
12 company's data request No. 18. Look, please, at the  
13 bottom paragraph of your response that begins "the  
14 direct assignment."

15 A. Yes.

16 Q. Would I be correct in summarizing your  
17 statement here that accounts 807, 902, 903, and 908  
18 were directly assigned to transportation?

19 A. Yes.

20 Q. And they were fully allocated to the  
21 transportation class; is that right?

22 A. Yes.

23 Q. Am I correct that account No. 807 is  
24 purchased gas expenses?

25 JUDGE ANDERL: Ms. Arnold, do you have a



00462

1 reference? Looks like Mr. Ramirez is looking for it.

2 If you know and can refer to a page.

3 MS. ARNOLD: I don't have the system of  
4 accounts, but I think if you --

5 JUDGE ANDERL: I thought if you did.

6 MS. ARNOLD: If you find it in your cost of  
7 service study. I did have it marked a minute ago.

8 A. That is purchased gas expenses, that is  
9 correct, but I can -- if I referred you to 51, page 26  
10 of that exhibit.

11 Q. Page 26, okay.

12 A. Where you see account 807 which is  
13 purchased gas expenses.

14 Q. Look, please, at page 96 of your cost of  
15 service study. This shows, does it not, that you  
16 directly allocated \$18,000 --

17 A. That is correct.

18 Q. -- of purchased gas expenses to  
19 transportation?

20 A. Yes. That's what I was trying to show you  
21 on page 26, that \$18,000 was directly allocated to the  
22 transportation class.

23 Q. You also directly allocated account 903.  
24 That is customer records and collection, is it not?

25 A. That is correct.

00463

1 Q. And you directly allocated about \$42,000 to  
2 transportation; is that correct?

3 JUDGE ANDERL: Ms. Arnold, is this  
4 reference also going to be found on page 96?

5 MS. ARNOLD: 96, yes.

6 Q. Do you have the revised cost of service  
7 there?

8 A. Yes, I do.

9 Q. Do you see on page 96 about the fifth row  
10 down?

11 A. Right.

12 Q. Am I correct that you allocate about  
13 \$42,000 of customer records and collection expenses?

14 A. Right.

15 Q. And you also directly allocated account No.  
16 902 to transportation; is that right?

17 A. Right.

18 Q. And that's meter reading costs?

19 A. Yes.

20 Q. And 908 is customer assistance cost?

21 A. Yes.

22 Q. And you directly allocated those expenses  
23 to transportation, right?

24 A. Yes. \$63,000, right.

25 Q. How did you base -- strike that. Am I

00464

1 correct that you based the direct allocation on the  
2 company's study of what percentage of those costs  
3 should be allocated to transportation?

4 A. That is correct. That's what we used.

5 Q. You didn't conduct any independent audit of  
6 the company's costs for those items, did you?

7 A. Well, what we did is essentially what the  
8 company already have done and represented to us the  
9 type of activities that they were to have and to  
10 perform in order to provide the service. Didn't see  
11 any reason to pursue any more of that analysis.

12 Q. So you relied on the company's analysis for  
13 that, right?

14 A. Right.

15 Q. Specifically with respect to the meter  
16 reading costs, did you make any inquiries as to  
17 whether those costs took into consideration the fact  
18 that the company now requires telemetry or automated  
19 meter reading for transportation customers?

20 A. Well, they do require them telemetering for  
21 transportation now, yes.

22 Q. Did you inquire as to whether that had  
23 reduced their meter reading cost for transportation?

24 A. Well, my understanding is that telemetering  
25 is not being utilized for billing purposes.

00465

1 Q. But it is a requirement of the tariff, is  
2 it not?

3 A. It is a requirement, but it's not -- for  
4 billing purposes and for meter reading is not -- this  
5 is not, at least to today, there's no utilizing for  
6 that. It may be in the future, for what I understand  
7 the company may use that but not today.

8 Q. Did you inquire as to why they were not  
9 using the automatic meter reading for billing  
10 purposes?

11 A. Conversations I have had with the company,  
12 it is not as yet determined to be of billing quality.  
13 It's been -- I've seen that used throughout many other  
14 jurisdictions, but it's not for billing purposes.

15 Q. Turn now, if you will, to your Exhibit 55,  
16 which is JR-9, and look at page 4 of 14 of that  
17 exhibit. In the column labeled revenue under proposed  
18 rates you have revenues of \$273,000 by bills. Do you  
19 see that?

20 A. Yes.

21 Q. That revenue, proposed revenue, is based on  
22 a customer charge of \$650, is it not?

23 A. That is correct.

24 Q. And the \$650 is based on 36 transportation  
25 customers; is that right?

00466

1 A. That is correct.

2 Q. Would you agree that if instead of 36  
3 transportation customers the company had 72  
4 transportation customers and charged \$325 instead of  
5 \$650 that the revenues from the customer charge would  
6 be the same?

7 A. Yes.

8 Q. You're familiar with the tariffs of all  
9 four local distribution companies that the Commission  
10 regulates, are you not?

11 A. Yes. I don't want to say that I have them  
12 memorized, but yes, I'm familiar with them.

13 Q. Would you agree that \$650 is the highest  
14 customer charge that any LDC charges for  
15 transportation?

16 A. Yeah, that's probably correct.

17 Q. Would you agree that it's higher than the  
18 next highest by \$300?

19 A. I will accept that subject to check, yes.  
20 But none of those other utilities have come before the  
21 Commission yet specifically for this type of  
22 proceeding where transportation was to be one of the  
23 main reasons of the proceeding.

24 Q. When you directly allocated the customer  
25 assistance costs in account 908 to transportation, did

00467

1 you ask the company what the customer assistance  
2 person does?

3 A. I believe what we have, and I don't have it  
4 with me, that we probably had asked the company some  
5 data requests where we inquire about all these costs  
6 that were associated with all this direct allocation.

7 Q. But you don't specifically know what the  
8 customer assistance people do, do you?

9 A. I don't have that on the top of my head  
10 right now, no, but I know there was a discussion with  
11 the company on that.

12 Q. But you just don't remember what that  
13 person does?

14 A. That's right.

15 MS. ARNOLD: Thank you. That's all my  
16 questions.

17 JUDGE ANDERL: Mr. Frederickson.

18 MR. FREDERICKSON: I have no questions,  
19 Your Honor.

20 JUDGE ANDERL: Mr. Trotter then.

21

22 CROSS-EXAMINATION

23 BY MR. TROTTER:

24 Q. Some follow-ups first, Mr. Ramirez. First  
25 of all, if you could refer to Exhibit 63 regarding

00468

1 criticism of the design day in the '93 least cost  
2 plan. Did you review written or oral comments that  
3 were filed in the least cost planning docket in  
4 support of Exhibit 63?

5 A. I didn't review all those documents. Most  
6 of them I did, yes.

7 Q. Isn't it true that the Washington Energy  
8 project raised concerns regarding the company's  
9 ability to meet peak if their forecasted loads were  
10 higher -- if their loads were higher than forecast?

11 A. I will accept that subject to check, Mr.  
12 Trotter. I just don't recollect that right off the  
13 top of my head.

14 Q. You were asked some questions by counsel  
15 for PERCC regarding the unitized rate of return. Do  
16 you recall that?

17 A. Yes.

18 Q. And I believe you said in an ideal world or  
19 idealized world each class would provide a return  
20 equal to the system average. Do you recall that  
21 question?

22 A. Yes.

23 Q. And in that ideal world, did you assume  
24 that each class posed the same risk to the company  
25 so that each class's cost of capital was the overall

00469

1 system average?

2 A. Yes. I think that was my -- the reason how  
3 I qualified that.

4 Q. You were asked by company counsel regarding  
5 Mr. Amen's Exhibit 16. Do you recall those questions?

6 A. Yes.

7 Q. And did you compare the calculation in  
8 Exhibit 16 for customer cost with the methodology  
9 previously approved by this Commission?

10 A. Yeah. That methodology has not been  
11 approved by this Commission in the past, but, yes, I  
12 looked at that.

13 Q. And is staff accepting Exhibit 16 as an  
14 appropriate calculation of customer cost?

15 A. No.

16 Q. One other question. On the 50-degree day  
17 that occurred in 1950, and you read from the company's  
18 least cost plan based on as requested by the counsel  
19 for the gas users; is that right?

20 A. Right.

21 Q. And is it your understanding that in 1950  
22 Washington Natural Gas was not providing natural gas  
23 to its customers, that the pipeline didn't come to the  
24 northwest until 1957 or so?

25 A. That is correct.



00470

1 Q. So that 50 or 55 degree day, I guess it  
2 was, occurred in the Seattle area but not on  
3 Washington Natural's system; is that correct?

4 A. That is correct.

5 Q. Now I would like to identify some of the  
6 major differences between the study that you have  
7 proposed and that which Mr. Lazar has proposed. And  
8 first with respect to definition of peak day you have  
9 used the five highest peak days, not necessarily  
10 consecutive days, in each of three years while Mr.  
11 Lazar used the highest sustained five consecutive day  
12 peak period in his analysis; is that correct?

13 A. That's correct.

14 Q. And I believe it's in your testimony that  
15 Mr. Lazar has used the same method which the  
16 Commission approved in the Water Power docket UG-  
17 901459; is that right?

18 A. That's correct.

19 Q. And the Commission has not yet proposed in  
20 any docket the method you're proposing; is that right?

21 A. That is correct.

22 Q. And with respect to the peak and average  
23 method that you have used to allocate the cost of  
24 distribution mains, you have classified 51 percent of  
25 mains as demand-related and 49 percent as

00471

1 commodity-related; is that right?

2 A. That is correct.

3 Q. And you apply that factor to mains of four  
4 inches and greater which are allocated to all classes  
5 and to mains under four inches which are allocated  
6 only to the smaller use customer; is that correct?

7 A. That is correct.

8 Q. And Mr. Lazar has classified 100 percent  
9 of the small diameter mains as commodity-related and  
10 the large diameter mains as 53 and a half percent  
11 commodity-related, correct?

12 A. That's correct.

13 Q. And would you agree that neither of these  
14 methods has previously been approved by the Commission  
15 for natural gas cost allocation?

16 A. That's correct.

17 Q. And finally, with respect to the allocation  
18 of administrative and general or A and G costs, you  
19 have allocated A and G costs on the same basis as you  
20 have allocated nongas operating and maintenance  
21 expense, correct?

22 A. That's correct.

23 Q. And Mr. Lazar has allocated A and G costs  
24 50 percent on the basis that you have and 50 percent  
25 on the basis of total gas throughput, correct?

00472

1 A. That is correct.

2 Q. And would you agree that the method Mr.  
3 Lazar has proposed is the same as the Commission  
4 approved in the Water Power docket we just discussed?

5 A. That is correct.

6 Q. And the method you have proposed has not  
7 previously been approved by the Commission; is that  
8 right?

9 A. That is correct.

10 Q. In fact, the method you have proposed was  
11 rejected by the Commission in U86-100, the Cascade  
12 case, was it not?

13 A. Yeah, I believe so.

14 Q. Would you agree with me that those three  
15 differences are the primary differences between staff  
16 and public counsel?

17 A. Yes, they are.

18 Q. Turn to your rebuttal testimony at page 5.  
19 That's Exhibit T-46. And beginning at line 7 you're  
20 talking about the design peak day used by the company  
21 and you refer to it as a hypothetical design peak day;  
22 is that right.

23 A. Yes.

24 Q. Again, is that because it hasn't occurred  
25 on the Washington natural system?

00473

1 A. Yes.

2 Q. And you indicate that their calculation was  
3 based on 6.1 million therms inflated or scaled to 6.7  
4 million therms. Do you see that?

5 A. Yes.

6 Q. Was a peak day of 6.7 million therms  
7 experienced during the test period for this company?

8 A. No, it was not.

9 Q. Was a peak day of 6.1 million therms  
10 experienced during the test period?

11 A. No, it was not.

12 Q. On page 11 of your direct testimony, on  
13 line 4 you indicate that the sustained peak day using  
14 the previously approved Commission method yielded a  
15 sustained peak day of 4.778 million therms; is that  
16 right?

17 A. Right.

18 Q. And at the top of the page your method  
19 results in an historical peak day of 4.96 million?

20 A. Yes.

21 Q. Is your figure, the 4.96 million, is that  
22 an average of the actual load on peak days actually  
23 experienced on the system?

24 A. Yeah. The highest, yes. The highest of  
25 five peak days for each one of those three years that

00474

1 we used.

2 Q. In your rebuttal on page 6, you state on  
3 line 18 that you agree in concept with Mr. Lazar's  
4 calculation and then you testify you believe you've  
5 improved on it; is that right?

6 A. Yes.

7 Q. If the Commission was to reject your peak  
8 day calculation, would you recommend public counsel's  
9 recommendation or the company's recommendation or  
10 neither?

11 A. Well, in that case I would support public  
12 counsel's recommendation.

13 Q. Let's turn to the subject of classification  
14 and allocation of distribution mains, and we discussed  
15 the Cascade method in which 50 percent of the  
16 investment was classified as demand and allocated on  
17 the basis of peak demand and 50 percent was classified  
18 as commodity-related and allocated on the basis of  
19 throughput. Is that the basis?

20 A. Yes.

21 Q. And in that proceeding there was no  
22 distinction between the under four-inch main and the  
23 over four-inch main?

24 A. No, there was no distinction.

25 Q. So does that mean that all mains were

00475

1 allocated on the basis of that methodology?

2 A. That's correct.

3 Q. Now, in your testimony and your cost study  
4 you're proposing to make that distinction between a  
5 greater than four inch and -- excuse me, four inch and  
6 over and under four inch?

7 A. Yes.

8 Q. Turn to page 8 of your rebuttal testimony.  
9 And beginning on line 19 you talk about the Cascade  
10 method and you say on line 23, in comparing that  
11 method with your method the resulting difference  
12 between the two methods is very minor, 1 percent. Do  
13 you see that?

14 A. Yes.

15 MR. TROTTER: Your Honor, I would like to  
16 have marked for identification an exhibit which is the  
17 company's response to -- staff's response to our  
18 request No. 14. We just got that this morning and I  
19 haven't had a chance to punch it or attach the request  
20 to the cover sheet. I don't know if it's appropriate  
21 time for an afternoon break. We can do that now or I  
22 can pass it out and replace it later.

23 JUDGE ANDERL: Let's take an afternoon  
24 break. Be back at 3:00.

25 (Recess.)

00476

1                   JUDGE ANDERL: Let's be back on the record  
2 after our afternoon recess. While we were off the  
3 record Mr. Trotter distributed a document entitled  
4 Public Counsel Data Request No. 14 addressed to staff.  
5 I've marked that request and the response as Exhibit  
6 64 for identification.

7                   (Marked Exhibit 64.)

8                   MR. TROTTER: Thank you. For the record I  
9 would note that the first page of the exhibit is an  
10 abbreviated version of the actual data request that  
11 was issued. There was some concern about whether the  
12 entirety of the data request was appropriate on the  
13 basis that it may have contained argumentation so  
14 rather than hassle that one way or the other we just  
15 decided to shrink it.

16                   JUDGE ANDERL: Very prudent, thank you.

17           Q.       With that understanding, Mr. Ramirez, do  
18 you recognize Exhibit 64 as our data request 14 of you  
19 and your response?

20           A.       Yes.

21           Q.       Could you turn to page 2 of the document,  
22 and here the request is asking you to compare your  
23 method in this case and the method approved in UG-  
24 901459, and turning to the second page, if I look  
25 under the second column of figures for R23/24 and 55

00477

1 and go down to the first difference line, I see a 29.2  
2 million dollar figure. Do you see that?

3 A. Yes.

4 Q. And does that mean that compared to the  
5 method approved in the prior docket your method  
6 allocates over 29 million dollars additional mains to  
7 the residential class?

8 A. Yeah. Let me -- that's what the exhibit  
9 shows, but just let me qualify at least the response  
10 to in the sense that we responded to the data request  
11 with the understanding that we wanted it to have a  
12 comparison between the methodology approved in the  
13 Water Power case and what we are proposing in this  
14 case. I believe that's what you are referring to that  
15 you eliminated some of that. Because what happens is  
16 in the Water Power case, this 50/50 approach actually  
17 was 50 percent commodity, 25 percent peak demand,  
18 coincident peak demand, and 25 noncoincident peak  
19 demand, and we answered essentially in the way you  
20 asked us to do. Now, that does not necessarily  
21 reflect fully what the Water Power methodology was.

22 So I just wanted to qualify that. We  
23 responded essentially to what you have asked us. Now,  
24 as far as the response that the difference that we  
25 have in here, based upon that approach, yes, that's



00478

1 what it shows.

2 Q. And in the far right column on the same  
3 line, it allocates 24 million dollars more to the  
4 transportation customers? Your methodology allocates  
5 24 million less?

6 A. Less, yes.

7 JUDGE ANDERL: Less? I'm sorry.

8 Q. I was finished but it's distribution mains?

9 A. Yes. It's 24 million dollars less in what  
10 staff is proposing on the 940814 in this proceeding as  
11 compared to what public counsel has asked us to do.

12 Q. Now, in your testimony where you say the  
13 resulting difference between the two methods is very  
14 minor, 1 percent, certainly numbers in this range, 29  
15 or 24 million are not minor or in the range of 1  
16 percent, are they?

17 A. Yeah. To qualify that minor difference,  
18 they are obviously what we are talking about the  
19 difference of the percentages, yes.

20 Q. But you wouldn't consider a 29 million  
21 dollar shift to be either 1 percent or minor, would  
22 you?

23 A. I agree with you.

24 JUDGE ANDERL: Mr. Trotter, I think you  
25 need to get a little closer to the microphone.

00479

1 Q. I noticed in your rebuttal testimony you  
2 did not address either the testimony or the  
3 calculation that Mr. Lazar made regarding economies of  
4 scale in distribution mains. Is my observation  
5 correct?

6 A. Yes, you're correct.

7 Q. Does that mean you have taken exception to  
8 his analysis or you have not taken exception to his  
9 analysis?

10 A. Well, I have taken exception to his  
11 analysis because our proposal, obviously, is different  
12 than what Mr. Lazar has, but I did not address that in  
13 my rebuttal testimony.

14 Q. And so do you disagree that there are  
15 significant economies of scale in distribution mains,  
16 that is, that the incremental cost per therm of peak  
17 capacity of oversizing mains to handle peak demands  
18 is smaller than the average cost per therm of capacity  
19 of the basic infrastructure cost of installing  
20 two-inch mains?

21 A. No, I don't disagree with that, with that  
22 thought.

23 Q. Let's turn to the subject of A and G cost  
24 allocation, and would you refer to your Exhibit 51,  
25 your cost study, JR-5 at page 9. I would like to

00480

1 focus under -- just going up from the bottom, just  
2 above the Roman numeral VI you see total operating  
3 expenses?

4 A. Yes.

5 Q. And above that is total A and G?

6 A. Yes.

7 Q. And then if we go over to the middle of the  
8 page we see that A and G expenses are allocated based  
9 on your STAG, S T A G, factor?

10 A. Yes.

11 Q. Or actually, to be more precise, they were  
12 functionalized on that factor; is that right?

13 A. Yes.

14 Q. And then staying with the total A and G  
15 line for production, you functionalized \$918,000 as  
16 production-related, fixed and variable, the 902 plus  
17 the 15,000?

18 A. Yes.

19 Q. And \$339,000 are allocated as storage  
20 related, correct?

21 A. Correct.

22 Q. "73,000 as transmission and 16 and a half  
23 million as distribution-related, correct?

24 A. Correct.

25 Q. So of total A and G you have treated well

00481

1 over 90 percent as being associated with distribution  
2 and less than 6 percent as being production-related;  
3 is that correct?

4 A. That is correct.

5 Q. Let's go to the prior page, page 8. And  
6 here under item capital D, distribution expenses, we  
7 see the breakdown of distribution costs by account; is  
8 that right?

9 A. Yes.

10 Q. Now, is your STAG factor based on the  
11 distribution costs in accounts 870 through 894 or does  
12 it also include the accounts for customer accounts and  
13 customer services, accounts 901 through 916?

14 A. No. It only includes the O and M expenses  
15 for the distribution expenses.

16 Q. So are you including the items under column  
17 D, item D only?

18 A. Yes.

19 Q. Now, with respect to the methods the  
20 Commission has approved for A and G costs, in the  
21 Cascade docket, is it correct that gas costs were  
22 included in the cost of service for all classes of  
23 customers; is that correct?

24 A. Yes.

25 Q. And in that case the staff proposed and the

00482

1 Commission accepted an allocation of A and G based on  
2 a subtotal of all O and M expense, including cost of  
3 gas, correct?

4 A. Yes.

5 Q. And of the total cost of service in that  
6 case, would you accept subject to check that about  
7 half was cost of gas?

8 A. Yes.

9 Q. So the method staff advocated and the  
10 Commission accepted treated about 50 percent of A and  
11 G as being production-related compared with 6 percent  
12 in your study here, correct?

13 A. Yes.

14 Q. Now, in the Water Power proceeding that  
15 we've been discussing throughout this case, the cost  
16 of gas was not included in the cost of service for  
17 transportation customers; is that correct?

18 A. That's correct.

19 Q. And in this proceeding -- in that case the  
20 staff proposed that A and G be allocated 50 percent on  
21 the basis of O and M less cost of gas and 50 percent  
22 on the basis of throughput?

23 A. That's correct.

24 Q. And the Commission accepted the staff  
25 method?

00483

1 A. Yes.

2 Q. In this proceeding you have proposed to  
3 allocate 100 percent of A and G on the basis of O and  
4 M less cost of gas?

5 A. Yes.

6 Q. And am I correct that the method you are  
7 proposing in this case is the method that Cascade  
8 Natural Gas proposed in U86-100 which the staff  
9 opposed and the Commission rejected, correct?

10 A. When I went back and looked at the several  
11 proceedings, the Cascade, the Water Power and in  
12 looking on this particular case from a fresh look my  
13 judgment is that, first of all, on the Cascade,  
14 including the cost of gas as a major portion of the  
15 allocation of this expenses was not necessarily a  
16 proper way to do it. Allocating that cost with the  
17 understanding that because cost of gas is a major part  
18 of the expenses doesn't necessarily match, let's say,  
19 the way the administrative and general expenses of the  
20 company are incurred. And if I might explain that, is  
21 if you're going to allocate the A and G 50 percent on  
22 throughput because the company's administrative and  
23 general personnel is going to dedicate that much time  
24 used to buy gas, it just doesn't make sense, in my  
25 judgment.

00484

1           Now, that particular thinking was carried  
2 on into the Water Power case where essentially what we  
3 said was that because on the Cascade case 50 percent  
4 was done on cost of the gas, which is volumetric  
5 related, then we should on the gas -- we should change  
6 the gas costs to a volumetric allocator. Still didn't  
7 make sense. In other words, you were allocating that  
8 based upon the notion that the company's  
9 administrative and general personnel costs are all  
10 incurred in buying gas where the O and M in general  
11 allocator, as proposed in this case, does reflect  
12 the way how the company incur their costs in the  
13 different functions and then how that administrative  
14 and general personnel actually supervises and spend  
15 their time in those functions.

16           Now, it just happened to be a greater  
17 percentage of the distribution side is because this is  
18 a distribution company and that's what most of their  
19 cost is. But that's essentially why I kind of took a  
20 fresh look at this O and M/A and G allocation  
21 methodology. I realized the Commission and the staff  
22 proposal in the past but we feel we can improve this  
23 time.

24           Q.     My question was whether what Cascade  
25 proposed in U86-100 the staff opposed and the

00485

1 Commission rejected. Your answer is yes with whatever  
2 explanation?

3 A. Yeah. It was rejected. I wasn't here at  
4 that time so I am a new analyst, if you will, looking  
5 at this.

6 Q. Now, I would like to quote you some  
7 testimony from Mr. Bushnell, a staff witness in that  
8 case, and he said, and I quote, "one would assume that  
9 corporate officials would be more involved in  
10 minimizing the overall costs of the corporation. One  
11 would also assume that corporate officials tend to  
12 devote more time and attention to their largest  
13 customer." Am I correct that staff has not changed  
14 its general position in regard to that testimony of  
15 Mr. Bushnell?

16 A. Is that on the Water Power case testimony?

17 Q. Yes.

18 A. Again, I believe Mr. Bushnell's testimony  
19 on that particular instance was related to the fact  
20 that he was making a transition from O and M including  
21 gas costs to O and M excluding gas costs, and there  
22 was some sort of analogy made that cost of gas anyway  
23 is volumetric then -- so we should use a throughput to  
24 allocate those costs.

25 Q. Let me ask the question, has staff changed



00486

1 the general position in regard to the cited testimony  
2 of Mr. Bushnell, the assumption that I quoted you in  
3 his testimony? Why don't we take a look at your  
4 response to our data request No. 6.

5 A. Well, in their request No. 6 essentially  
6 what I said is that the end result essentially is the  
7 same in regard to the allocation of the cost, that  
8 approximately 45 percent I think is what I quote, in  
9 excess of 40 percent, was being allocated on a  
10 commodity basis.

11 Q. And the first line of your response is,  
12 "staff has not changed its general position in regard  
13 to the cited testimony of Mr. Bushnell." Did I read  
14 that correctly?

15 A. Yes. And that's again qualified by what is  
16 just below that in regard to how the percentages --  
17 they worked out to be.

18 Q. Is there anything different about the  
19 activities of Water Power's corporate officials than  
20 the activities of Washington Natural's corporate  
21 officials?

22 A. Well, I will say that in general it  
23 shouldn't be, the only difference of course that Water  
24 Power is a multijurisdictional company and also is  
25 dual utility, meaning that electric and gas, so they

00487

1 have additional problems of allocation that Washington  
2 Natural wouldn't have.

3 Q. But just in terms of their activities as a  
4 gas distribution company, is there any substantial  
5 difference?

6 A. I would say that it shouldn't be.

7 Q. Turn to your response to our data request  
8 No. 5. Am I correct that based on that response the  
9 allocation of A and G costs under the Water Power  
10 approved method would allocate approximately 9.3  
11 million in A and G costs to the residential class?

12 A. That's what the response shows, yes.

13 Q. And that's about 2.1 million less than you  
14 allocated, is that right, compared to your 11.4  
15 million? Refer you to page 2 of Exhibit 51. Let me  
16 try it another way.

17 A. Yeah, go ahead.

18 Q. Refer to page 2 of Exhibit 51 which is your  
19 cost of service study. Maybe I gave you a wrong  
20 number. Let's take a look under the total expenses  
21 set of numbers at the very bottom of this page. Under  
22 administrative and general you allocate 12.2 million  
23 in A and G to the residential class; is that right?

24 A. That is correct.

25 Q. And that is 2.9 million more than the 9.3

00488

1 million under the Water Power method; is that right?

2 A. Yes.

3 Q. Now let's turn to page 1 of Exhibit 51.

4 MR. JOHNSON: Which page again is that?

5 MR. TROTTER: Page 1.

6 Q. If you had allocated -- looking at income  
7 before federal income taxes, if you had allocated  
8 9.3 million instead of 12.2 million in A and G costs  
9 to the residential class, the income before federal  
10 income tax line would have been increased by that 2.8  
11 million; is that right?

12 A. Yes.

13 Q. And then some additional tax would have  
14 been allocated to the residential class by the cost of  
15 service model, correct?

16 A. Correct.

17 Q. But the bottom line would have been an  
18 increase in operating income from 23.1 million to  
19 around 25 million. Would that be approximately  
20 correct?

21 A. Yes.

22 Q. And that change alone would increase the  
23 residential rate of return from the 7.13 percent to  
24 over 7 and a half percent, would it not?

25 A. I haven't worked the calculation, but yes,

00489

1 subject to check.

2 Q. Turn to page 42 of this same Exhibit 51.  
3 And looking at account 908 for customer assistance  
4 expense, this is the cost that you proposed be  
5 allocated entirely on a customer basis; is that right?

6 A. Yes.

7 Q. And are conservation costs included in this  
8 account?

9 A. Yes. I believe they are. I may have to  
10 verify that but I believe they are.

11 Q. Do you know if your treatment of account  
12 908 is consistent with past treatment of conservation  
13 costs by the Commission?

14 A. I believe the Commission have not accepted  
15 the customer allocation of the 908 account.

16 Q. And what method have they accepted?

17 A. They use the 50 percent commodity and 50  
18 percent customer.

19 Q. Turn to page 15 of your direct testimony,  
20 Exhibit T-45.

21 A. Which page?

22 Q. Page 15, 14 and 15. This was covered by  
23 company counsel regarding corrections and changes, I  
24 think. Do you remember that discussion?

25 A. Right.

00490

1 Q. And whatever we're going to call them,  
2 these corrections or changes or errors or whatever,  
3 related to an exclusion of some volumes for schedule  
4 87, incorrect volumes for schedule 23 and a  
5 recommended different revenue allocator; is that  
6 right?

7 A. Yes.

8 Q. And you have corrected or changed your  
9 study accordingly, correct?

10 A. Yes.

11 Q. Is it your opinion that these adjustments  
12 should be made no matter what assumptions are adopted  
13 by the Commission on the major issues of the cost  
14 studies?

15 A. That is correct.

16 Q. In your study you have separated the  
17 transportation customers into a separate customer  
18 class, correct?

19 A. Correct.

20 Q. In your opinion, is that necessary to  
21 develop cost-based transportation rates as directed by  
22 this Commission?

23 A. I think so. My opinion is that this  
24 Commission not only in 92840 but in docket 90210 it  
25 was their intention to have a separate transportation

00491

1 class and as a result we separated this class into a  
2 separate schedule.

3 Q. Now, the company has criticized certain or  
4 identified what they have characterized as errors in  
5 your separation of the customer classes into a  
6 separate transportation class; is that right?

7 A. That is correct.

8 Q. When you do such a separation, is it  
9 necessary to make certain assumptions regarding that  
10 segregation into a separate class?

11 A. Yeah. We made the assumptions. We asked  
12 the company to provide us with pertinent data to do it  
13 from the company's books. The company indicated that  
14 they did not have the information available, so in  
15 addition to other factors we took into consideration,  
16 one in discussing the issue with the company, company  
17 indicated that these customers anyway, they are the  
18 same type of customer, and that's the reason in fact  
19 they didn't separate them. So our assumption was that  
20 if they are the same type of customers then we can  
21 make the assumption that we made; that was that we  
22 took some averages, we took an average of the cost  
23 necessary to arrive to those areas where we needed the  
24 cost separated, and that's how we arrived to it, and I  
25 may say if the company was to provide with a study, we

00492

1 will be happy to change it to reflect what the actual  
2 costs are, if they are any different, but as far as  
3 we're concerned this is our presentation.

4 Q. Well, it's your presentation but you're  
5 open to further refinement?

6 A. I am open to the refinement because that's  
7 what we did based upon the information that we had  
8 available, and if there is better information for that  
9 I will be happy to use it.

10 Q. Turn to page 20 of your rebuttal testimony  
11 where you oppose Mr. Lazar's recommendation for  
12 distance-based transportation. Do you see that?

13 A. Yes.

14 Q. On this page and the next page you indicate  
15 that there are other mechanisms, including banded  
16 rates and special contracts to deal with the bypass  
17 issue; is that correct?

18 A. That's correct. In fact the Commission has  
19 on several occasions quoted that the special contract,  
20 it is a viable alternative to take care of this  
21 problem.

22 Q. And the problem is a customer who may have  
23 a bypass potential; is that right?

24 A. Yes.

25 Q. You are proposing in this case rates for

00493

1 transportation service which means in the direction  
2 of cost, in your opinion; is that right?

3 A. Yes.

4 Q. And you're calculating your cost of service  
5 on a class-wide basis. That is, you're developing an  
6 average cost of transportation service for all  
7 customers regardless of where they are on the system?

8 A. Yes.

9 Q. If a particular transportation customer is  
10 located a considerable distance from the pipeline they  
11 would be a less likely bypass candidate than one very  
12 close to the pipeline?

13 A. Yeah, that's true.

14 Q. And under your proposal, the customer a  
15 considerable distance from the pipeline would get an  
16 average cost-based rate; is that correct?

17 A. That's correct.

18 Q. And if your alternatives which you identify  
19 on page 21 of your rebuttal were put into effect the  
20 customer located close to the pipeline might be able  
21 to negotiate a special contract at a lower than  
22 average rate; is that correct?

23 A. That's correct.

24 Q. In order for the revenues from  
25 transportation customers to add up to the cost of



00494

1 service for transportation customers when some  
2 customers are paying less than average cost, who pays  
3 the difference?

4 A. Well, in between rate cases of course the  
5 company would be absorbed whatever shortfall, if any.  
6 In the next rate case there may be some shifting of  
7 dollars to the -- well, there may be some shifting of  
8 dollars. It will have to be picked up by someone  
9 else, and we'll have to look and see at that point in  
10 time how is it that the revenue responsibilities are  
11 going to be allocated. I can't tell it's going to be  
12 picked up just by those customers or residential only.  
13 It will be again a new allocation study and a new  
14 revenue analysis.

15 Q. But you're not going to tell us here that  
16 the remaining transportation customers ought to accept  
17 that additional burden?

18 A. No.

19 Q. In reviewing your Exhibit 51, your cost of  
20 service study, I did not find anywhere in that exhibit  
21 a revenue requirement for each class. Have you  
22 calculated a cost-based revenue requirement for the  
23 various customer classes?

24 A. Calculated based on what? A revenue  
25 requirement you would normally calculate it based

00495

1 upon an expected return, let's say. What the exhibit  
2 shows, one, is the revenues associated with each class  
3 occur in rates, and what we have proposed, once we  
4 have done our cost of service and proposed shifting of  
5 revenues, but a target revenue requirement per  
6 class, if I understand your question correctly, will  
7 assume that you have also a target return.

8 Q. Let me ask you this. Have you calculated a  
9 cost-based revenue requirement for the various  
10 customer classes for each class? If so, could you  
11 show me in Exhibit 51 where you did that?

12 A. Maybe I do not understand your question.  
13 However, Exhibit 51, on page 1 would show -- I'm  
14 sorry. That's the proposed rates. First of all, at  
15 current rates, Exhibit 49 actually reflects the cost  
16 of service and returns earned by each class at current  
17 rates.

18 Q. If I asked you what is the revenue  
19 requirement at current rates of the residential class  
20 what number would you tell me?

21 A. Assuming a return of 6.09 or 6.09 percent  
22 the revenue requirement would be the total operating  
23 revenues that you have there, \$92,656,000.

24 Q. This exhibit sheet does not include gas  
25 cost, does it?

00496

1           A.     No, that doesn't include gas costs. This  
2 is done, like I said, at present rates. Now, this is  
3 what the proposed cost of service study, as proposed  
4 by the staff, would produce in returns utilizing the  
5 current marks.

6           Q.     Let me ask it this way. I believe Mr.  
7 Feingold and Mr. Lazar produced revenue requirements  
8 per class. Do I take it correctly you have not done  
9 that?

10          A.     Maybe we have a different or I do not  
11 understand what your question. What is it -- when you  
12 talk about revenue requirements, on a specific return?  
13 Because the proposed rates the revenue requirement is  
14 producing 7.13 percent for the residential class.

15          Q.     At the system rate of return?

16          A.     At the system rate of return -- we haven't  
17 done that on the system return for each class. All  
18 we have is for the total company.

19          Q.     Have you calculated a revenue-to-cost  
20 ratio for each class so the Commission can see how  
21 current revenues for each class compare to the cost of  
22 service for each class?

23          A.     No. The only thing that is being reflected  
24 in here was this unitized return that you see on the  
25 bottom of the studies.

00497

1 Q. Such calculation is available through the  
2 unit cost model in the Rudden model, is it not?

3 A. I believe it is. However, we did not  
4 utilize that part of the model and we have not -- we  
5 don't have a due confidence that we're producing the  
6 proper answer. We didn't utilize that portion of the  
7 model.

8 Q. Let's assume that the Commission in this  
9 case instead of adopting the staff case or public  
10 counsel case or someone else's case but adopts various  
11 parts of parties' cases. Do you have that assumption  
12 in mind?

13 A. Yes.

14 Q. Do you recommend in that instance a new run  
15 of the model be done so that the results are available  
16 before a decision is made on rate spread?

17 A. Yes, definitely. I think we need to have  
18 that done, especially with some of the difficulties  
19 that people have to put it together.

20 MR. TROTTER: I have a three-page exhibit.  
21 The first page is the staff's response to public  
22 counsel request 12 but it also contains the response  
23 to 11 and 10.

24 JUDGE ANDERL: That will be Exhibit No. 65  
25 for identification.

00498

1 (Marked Exhibit 65.)

2 Q. Mr. Ramirez, do you recognize Exhibit 65 as  
3 your response to three of our data requests?

4 A. Yes.

5 Q. The first page indicates that the staff did  
6 not use the labor subreport and the unit cost  
7 subreport. Could you indicate why you did not use the  
8 unit cost subreport? You gave a partial answer  
9 previously regarding you weren't sure of the results  
10 but could you amplify what you meant by that.

11 A. In regard to the unit service subreport,  
12 yeah, we did have some difficulty on running that  
13 portion of the model. However, it was not important  
14 to us as part of our analysis to have that portion of  
15 the -- to have that portion of the model run. We were  
16 not utilizing that for anything. The cost of service  
17 is essentially utilized as a tool for rate design and  
18 we didn't go as far as utilizing those reports for  
19 that purpose.

20 Q. The second page of the exhibit asks what  
21 modifications you made to the model and you refer here  
22 to allocators; is that right?

23 A. Yes.

24 Q. And on the third page of the exhibit  
25 requested you to identify staff contacts with the

00499

1 company regarding use of the model where a problem was  
2 discussed. Is this your response?

3 A. Yes.

4 Q. First paragraph of your response you refer  
5 to circularity problems. Could you identify what that  
6 is?

7 A. In working in the area or the area that  
8 specifically we had significant problems with,  
9 circularity was in getting it to the labor subreport,  
10 and what that is is that to get to a number, let's  
11 say, A, you needed it to make a calculation that  
12 included B times C but C was a function of A, so we  
13 keep coming around and we just couldn't understand the  
14 model, how would that do it, so we did have several  
15 conversations with the company with regard to that.  
16 We never definitely could have a definite answer on  
17 what -- if that was something that was -- that could  
18 be corrected or however. Since we wound up not using  
19 the labor subreport we didn't pursue that any more.

20 Q. Did the staff work full-time -- been  
21 working full-time on this case?

22 A. There's three of us actually working  
23 full-time. Two of us were working specifically on the  
24 cost of service. The other person was working on the  
25 cost of gas issues.

00500

1 Q. Who was the staff witness or staff analyst  
2 who was responsible for getting the model running?

3 A. I worked very closely with Mr. Maglietti  
4 of our staff and him and I worked very closely on  
5 that. He did a lot of changing into the model and so  
6 he was the other person.

7 Q. And do you know approximately how many  
8 hours Mr. Maglietti has logged on this case to date,  
9 approximately?

10 A. I don't know if -- I believe in looking at  
11 some of our time sheets he's probably worked around  
12 seven to 800 hours on that.

13 Q. Would a majority of those hours be working  
14 on the model, getting it to run?

15 A. Yes. Majority of that was -- of his time  
16 was on that.

17 Q. How many hours have you logged on this  
18 case?

19 A. Well, I would say that we logged somewhere  
20 similar hours. We work very closely in the model,  
21 although he was the one maybe doing the crunching.

22 MR. TROTTER: I would move the admission of  
23 Exhibit 65.

24 JUDGE ANDERL: And 64.

25 MR. TROTTER: And 64.

00501

1 JUDGE ANDERL: Any objection?

2 Exhibits 64 and 65 will be admitted as  
3 identified.

4 (Admitted Exhibits 64 and 65.)

5 MR. TROTTER: Nothing further at this time.

6 JUDGE ANDERL: Thank you, Mr. Trotter. Are  
7 there any questions from the Commissioners for this  
8 witness? Commissioner Hemstad.

9

10 EXAMINATION

11 BY COMMISSIONER HEMSTAD:

12 Q. Mr. Ramirez, I assume there is a general  
13 conceptual agreement between the staff and the company  
14 and public counsel and the other -- and the  
15 intervenors that in an increasingly competitive  
16 environment prices should reflect costs. Is that a  
17 fair statement?

18 A. Yes.

19 Q. I'm trying to understand at a rather  
20 generalized level the consequences of the differences  
21 between the staff and the company. The company relies  
22 on the so-called design peak day approach and the  
23 staff employs a five-day three-year average peak  
24 approach. Are there any consequences of these  
25 different approaches with regard to system



00502

1 performance, reliability or more or less  
2 interruptibility, for example, if the one approach is  
3 used as against the other?

4       A.     Well, I think there's two different  
5 processes that we're talking about in here. For the  
6 least cost plan you are essentially looking on a  
7 forward looking basis in trying to establish what is  
8 it that the company's requirements are in regard to  
9 supplies, supply resources, which may include storage  
10 and additional pipeline, may include estimates of  
11 customers and so forth. Under that process the  
12 company uses this 55 design peak day and it's probably  
13 a prudent for them to use that.

14             Now, for the cost of service basis we  
15 somewhat, to some extent, look at who is it that  
16 should be paying for operating that system. It's  
17 more -- especially here on an historical test period  
18 basis is that we're looking at past, we're looking at  
19 now who is that system being utilized by and how the  
20 responsibility of those customers that are on the  
21 system should be allocated to them. So although there  
22 are -- and I have no doubt that the company uses that  
23 properly on the least cost plan and reliability and  
24 some of these other issues. In fact it is, should be,  
25 a major concern of them. I think, again, the main

00503

1 difference in here is what is the process that we're  
2 looking at in here.

3           As I was saying earlier, you may have  
4 customers that you may estimate they're going to be on  
5 the system but they never materialize and you're  
6 making decisions on that, so the process of the cost  
7 of service is more looking at who should be paying for  
8 it now and then who is getting the benefit of the  
9 system now. So reliability to an extent, yes, it is  
10 an important and they should be concerned with that.

11       Q.     Well, is the consequence of the company  
12 approach that it would be more capital-intensive, in  
13 other words, the system would be built to a higher  
14 performance standard so that there would be less  
15 likelihood of interruptions?

16       A.     Well, again, I don't even know if all the  
17 assumptions made on the least cost plan they're going  
18 to be realized.

19       Q.     I understand, but I'm just asking a generic  
20 question here as to whether that would be the  
21 consequence of their approach.

22       A.     That they may be spending more?

23       Q.     It would be more capital-intensive and  
24 greater capacity in the system, therefore less  
25 likelihood of interruptions?

00504

1           A.     Yeah, it could be.  It's going to depend  
2 again on the assumptions they make in the least cost  
3 plan but that could be one outcome, yes.

4           Q.     But characterizing your position you would  
5 be somewhat less capital-intensive, less costly in  
6 effect and therefore less of a cost impact upon  
7 ultimate customers?

8           A.     Well, again, I conceptualize my intention  
9 of more looking on today's experience rather than on a  
10 future experience of the least cost plan and we  
11 utilize these costs of service again as a guideline  
12 for designing rates, and it's a judgment call  
13 essentially because we go through all these, if you  
14 will, gyrations in the allocation and so forth, but  
15 still the final outcome, there is still some amount of  
16 judgment on who is it that actually should be paying  
17 for the service provided.

18          Q.     Then in that regard, can you make a  
19 generalization as to, in the cost allocation  
20 consequences, which categories of customer groupings  
21 are benefited and which ones will pay more, put it  
22 that way, in the approach of the staff as opposed to  
23 the company?

24          A.     Well, the approach of the staff, what we're  
25 giving consideration to the fact that there are

00505

1 customers in the system -- right now I'm talking about  
2 all customers -- that are benefitting from it, which  
3 include residential, transportation, interruptible  
4 customers and so forth, and as a result of that they  
5 should be responsible for certain costs in that  
6 system.

7 Q. That's in the context of if you're a cost  
8 causer you should pay for it?

9 A. Right. As compared to the least cost plan,  
10 to begin with, the first assumption they make is that  
11 no interruptibles are there so we won't be able to use  
12 that concept to get some cost responsibility maybe  
13 assigned to them.

14 Q. Between the two approaches, however, let's  
15 take the company's approach first. Which customer  
16 group or groups will be most benefited from their  
17 approach --

18 A. Well --

19 Q. -- in the cost allocation?

20 A. Would be probably the interruptible  
21 customers, yes, would be more, because since they're  
22 not included as part of the peak then they will be  
23 allocated on less cost.

24 Q. In the discussion you had with Mr. Trotter,  
25 with respect to your testimony at page 20 of your

00506

1 rebuttal testimony, it's your position that you oppose  
2 Mr. Lazar's distance-based transportation rates, and  
3 you say these other devices are available, special  
4 contract banded rates, but why do you specifically  
5 oppose the use of distance-based transportation as  
6 such?

7 A. Well, on the one side that is one reason  
8 and another reason the administration, I believe,  
9 to bill and to establish rates for -- you would be  
10 establishing rates for a lot of different customers.

11 Q. So the accounting costs or the tracking and  
12 the like would be much more complex?

13 A. Well, it makes it more complex, yes.

14 Q. Are there any other customer class benefits  
15 of a system that is not based upon distance rates?

16 A. On their system?

17 Q. Yeah.

18 A. Not that I know.

19 Q. With regard to CNG, do you have an opinion  
20 as to what the consequence would be if CNG is  
21 completely detariffed with respect to prices?

22 A. Well, at the present time I haven't seen  
23 that many. In the testimony, even the company's  
24 testimony shows that there hasn't been that many  
25 interested parties that have gone out there and made

00507

1 investment for that. I definitely don't have a full  
2 opinion to say that, yes, there's going to be  
3 investors coming and doing that or there won't be any,  
4 I don't know. I think --

5 Q. Well, let me ask it this way. It's your  
6 position that at the present time CNG is subsidized by  
7 other ratepayers in its current tariffed arrangement?

8 A. That is correct.

9 Q. Therefore it is being provided to customers  
10 at prices below cost?

11 A. Yes, and then based on that staff takes --  
12 is making the recommendation to discontinue that  
13 because essentially goes against the statute at this  
14 time.

15 Q. But so if it were housed in, say, a  
16 completely separate subsidiary, for example, and it  
17 would have to stand on its own two feet then the price  
18 would have to rise in order to make it a commodity  
19 that any third party would be interested in selling?

20 A. I think so. I think that's the case.

21 Q. Do you have a view as to whether it would  
22 then be price competitive with the alternatives such  
23 as gasoline?

24 A. Well, if we look at, for instance, what we  
25 proposed on our revised Exhibit 56, I think it was --

00508

1 yeah, 56 -- that rate is around 80 cents. On a  
2 comparative gasoline basis that would be somewhere  
3 under a dollar. On a per therm basis gasoline is  
4 about 140,000 BTUs or 1.4 therms, so it would be  
5 around a dollar. With these rates, with this cost  
6 that we have -- that the company has represented here,  
7 that's another factor that we have considered in here  
8 is that the facilities that the company currently have  
9 in place to serve all of these customers, facilities  
10 have been put in place over a period of about 10  
11 years. A lot of those facilities have been in fact  
12 depreciated, so to compare that to an investor that's  
13 going to come now, obviously is going to come at a  
14 marginal cost that potentially is greater than this  
15 average cost that the company has.

16 Q. And what is that cost now? What is the  
17 tariff price for CNG?

18 A. Well, right now is -- the current rate is  
19 51, almost 52 cents per therm.

20 Q. And to cover its costs, are you saying you  
21 would have to rise to about a dollar?

22 A. Based upon the costs that the company  
23 currently has in their books is about 80 cents. Yes,  
24 it's 80 cents. And then gasoline compared is about a  
25 dollar. I haven't made a calculation but it's

00509

1 someplace about a dollar. But again, like I was  
2 saying before, that in order for that to be  
3 comparative to what a third party that rate would  
4 probably be a little higher.

5 Q. But a deregulated detariffed arrangement  
6 would allow CNG to be priced at a price that would be  
7 competitive with gasoline?

8 A. Right.

9 Q. If that were to be the case then I assume,  
10 if your recommendation were to be adopted, then the  
11 regulated side of Washington Natural Gas, its costs  
12 would rise, wouldn't it, because it would pay higher  
13 price for the CNG than it uses in its own fleets?

14 A. If they are to go, as was suggested this  
15 morning, to go out and then become a customer of that  
16 subsidiary, yes, it's possible that they will have to  
17 pay more.

18 Q. Would that be a significant cost factor?

19 A. I don't know exactly. I would have to go  
20 out and make a calculation and see how much they use  
21 in gas -- talking about gasoline and how much they  
22 would use in gas and see what would be the difference,  
23 but obviously that would be an increase on their  
24 operating costs if that's the case.

25 Q. Did you take that into account in your



00510

1 recommendations or is it not ultimately that  
2 significant or is it something that would come up as a  
3 rate case issue?

4 A. That probably will come as a rate case  
5 issue because that would be part of the looking at a  
6 new operating cost, yeah.

7 COMMISSIONER HEMSTAD: That's all I have.

8 JUDGE ANDERL: Commissioner Gillis, any  
9 questions for this witness?.

10 COMMISSIONER GILLIS: I have a few  
11 regarding following up on some of the CNG issues.

12

13 EXAMINATION

14 BY COMMISSIONER GILLIS:

15 Q. You stated several times that one of the  
16 major concerns of staff is that CNG is offered as a  
17 regulated service as being subsidized by other  
18 classes, as I understand what you're saying. It  
19 wasn't as clear to me, would you be equally as  
20 concerned with CNG being offered through regulated  
21 service that fully covers costs?

22 A. Based upon the cost that we currently  
23 have in the books, yes. I think there may be still  
24 some subsidy, and again this perception, if you will,  
25 of potential -- of potential perception by looking at

00511

1 the cost of facilities that the company is using to  
2 provide that service and what a third party, new  
3 investor, would have to come up and pay if he was to  
4 put facilities today, on today's marginal costs. So  
5 there would still be a difference on that.

6 Q. On your cost of service study I noticed  
7 there was one other category, I believe it's general  
8 miscellaneous. That also appears to be a subsidized  
9 service. I'm looking at J2 as one of the exhibit. Am  
10 I interpreting that correctly?

11 A. Looking at JR-2?

12 Q. Right. I'm looking at the column under  
13 general miscellaneous services and you report a return  
14 on rate base of negative 5.93?

15 A. This exhibit, Commissioner, it is done at  
16 present rates, so this is what the present rates is  
17 producing. What we are proposing --

18 MR. TROTTER: Excuse me. I think it is  
19 proposed rate.

20 THE WITNESS: I'm sorry, yes.

21 COMMISSIONER GILLIS: It is proposed rate,  
22 yes, chart I'm looking at.

23 THE WITNESS: I'm sorry, you're correct.

24 A. That is correct. Looked at what we had or  
25 what we have without a schedule is producing at

00512

1 today's current rates and that schedule was at 12 --  
2 at a negative 12 percent, almost 13 percent, so we're  
3 moving that schedule toward more making it --  
4 hopefully making it in steps. This particular case  
5 would move that one somewhat and then the next case  
6 will have a chance to take care of problems like that.

7 Q. While we're on that page, also, as I  
8 interpret your numbers, it appears to me anyway that  
9 CNG is, at least in dollar terms, is a relatively  
10 minor line of service compared to the other line of  
11 services. Am I interpreting that correctly?

12 A. Yes.

13 Q. If we were to accept your recommendation  
14 and go ahead and remove that as a regulated service  
15 and make it a competitive service, would you expect --  
16 given the relatively minor size of that, would you  
17 expect any significant impact, beneficial impact, to  
18 the other customer classes from that change in dollar  
19 terms?

20 A. I would say that not very much.

21 Q. Relatively minor?

22 A. Right.

23 Q. Just another question, too. If it were a  
24 competitive service -- we talked some this morning and  
25 in response to Commissioner Hemstad about barriers to

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1 entry as a competitive service. One, in your opinion,  
2 as somebody who has looked at that particular line of  
3 service, are there significant economies of size  
4 associated with provision of that service? In other  
5 words, the company is currently offering this as  
6 something that they're doing as almost an appendage of  
7 their own use of the natural gas resource, the CNG  
8 resource. If somebody were to go out and offer this  
9 as a line of business independently, is it going to  
10 take a certain number of customers to make that an  
11 economic reality, in your opinion?

12 A. Yes, I think so. It's going to depend, and  
13 for a third party to make an investment, have to start  
14 thinking about level of sales and there is -- because  
15 the first cost, the initial investment is substantial  
16 on some of these compressors and the equipment  
17 necessary to do that, so there is a considerable  
18 investment on that.

19 Q. Presumably, at least at the moment by the  
20 cost figures, we don't know what would result from a  
21 competitive market, but let's assume that the price  
22 would need to go up, which would actually make from a  
23 user standpoint less attractive to using CNG for  
24 vehicles, so we might assume there might be even less  
25 interest out there on the market side at a higher

00514

1 price than there is at the current time?

2 A. There's potential for that, yes.

3 Q. Question on -- just a clarification

4 question on your five-day three-year sustained method

5 for peak allocation demand-related costs. You used

6 the periods '91 through '93 as your period you used to

7 calculate this?

8 A. Yes.

9 Q. And just so I understand it, this isn't a

10 one-shot thing. Each year it would be updated as a

11 moving average more or less? In the following year it

12 would be updated for '92 through '94 and '93 through

13 '95, et cetera?

14 A. Well, it's going to depend on what is the

15 next rate case is filed and then what the test period

16 is that is going to be utilized. Again, we're trying

17 with this method to match as closely as possible the

18 test period with the peak allocator.

19 Q. This is my question. Maybe my own lack of

20 understanding what we're doing with this methodology,

21 but so for this particular rate case we're basing on

22 '91-93?

23 A. Yes.

24 Q. And would that factor that's used in the

25 allocation formula remain in effect until the next

00515

1 rate case comes along? Is that what you're saying?

2 We wouldn't update it for another three-year period?

3 A. No. The next time we'll look again at  
4 again the test period.

5 Q. But we won't do that until a rate case  
6 comes?

7 A. Right. This in here essentially, if you  
8 will, is a one-shot time what you use that for the  
9 purpose of allocating costs, establishing a cost of  
10 service and utilizing this cost of service as a tool  
11 to design rates at this time, but obviously costs will  
12 be different in the next time and so things will be  
13 different.

14 Q. So if the company were to come in and file  
15 this last year and if it would have been using the  
16 same approach it would have used, what, '90 to '92  
17 period for the averaging?

18 A. It would have been the year prior.

19 Q. Prior?

20 A. It's possible that would be the one.

21 Q. So the conclusion we would come up with  
22 would depend on what would happen with the weather  
23 during the three years we happen to use as a test  
24 case?

25 A. Yes.

EXAMINATION

1  
2 BY COMMISSIONER HEMSTAD:

3 Q. If I could go back to that point. But  
4 let's take a hypothetical of an unusually warm  
5 three-year test period. Is the difference between  
6 your position and the company how the company should  
7 be projecting for planning and its capital purposes?  
8 Is that the point here? So in my hypothetical of a  
9 very warm period they would have been overcapitalized  
10 because they wouldn't have needed that much plant but  
11 how do they know that in advance?

12 A. The fundamental difference, again, with the  
13 company is that first of all they have used or they  
14 want to use the least cost plan assumptions to  
15 allocate the cost of this case. And what the staff  
16 position that we're talking about two different  
17 processes where it is probably appropriate for the  
18 company to use those assumptions in the least cost  
19 plan, but because essentially, like I said before, is  
20 a forward looking process, and in the meantime the  
21 cost of service, we're trying to establish what is it  
22 the rates should look like through utilizing this cost  
23 of service this time.

24 Q. But don't they have fixed costs that  
25 reflect their anticipated peak demand and if in your

00517

1 test period it happens to have been warm you would  
2 still have those same fixed costs, don't they?

3 A. Yeah. The question is who actually is  
4 picking those costs up and in who is benefitting from  
5 those services and from the costs that you have, you  
6 have experienced now. You look at experienced cost.

7 Q. So we're not talking about whether there's  
8 more or less capital investment. It's only a question  
9 of whatever the capital investment is how it will be  
10 allocated?

11 A. Right.

12 COMMISSIONER HEMSTAD: That's all I have.

13

14 EXAMINATION

15 BY JUDGE ANDERL:

16 Q. Mr. Ramirez, just let me get one  
17 clarification here. On your direct testimony at the  
18 bottom of page 10 and the top of page 11 you compare  
19 staff's calculation with the '91 through '93  
20 historical period with apparently public counsel's  
21 calculation using the '92 through '94 period or if  
22 it's not public counsel's calculation it's the  
23 sustained peak day.

24 A. Right.

25 Q. Do you have any idea how those figures



00518

1 would compare if you had used the same time period?

2 A. Using the sustained period?

3 Q. The same time period if you compared the  
4 historical and the sustained using 1991 through 1993  
5 for both methods or the sustained peak and historical  
6 peak using '92 through '94 for both of those.

7 A. We haven't ran that calculation. I guess  
8 we could do that if you wish. We can do that. What  
9 you're asking is for us to run the same historical  
10 highest days for a three-year period that would be  
11 '92, '93 and '94 rather than the one we used.

12 Q. I just wondered how much different they  
13 would be because you seem to be comparing the two  
14 figures yet you're not using the same time period for  
15 the comparison.

16 A. I can provide you with that. I don't  
17 remember. I think we may have run that particular  
18 analysis but I can provide you with that if you want  
19 to see that.

20 Q. Yeah. I think I would be curious. If we  
21 can just call it bench request No. 2. And if you can  
22 provide it on the record during the course of the  
23 proceeding that will be fine.

24 A. We can provide that.

25 JUDGE ANDERL: Ms. Egeler, redirect.

00519

1 MS. EGELER: I have a couple of exhibits to  
2 pass out first.

3 JUDGE ANDERL: I'm being handed some  
4 exhibit that I will mark as the next exhibit in line.  
5 Exhibit 66 for identification is the company's revised  
6 response to UTC data request No. 25. It's dated  
7 January 24, 1995 and that was referred to earlier this  
8 morning during cross of Mr. Ramirez.

9 (Marked Exhibit 66.)

10 JUDGE ANDERL: And then the next exhibit  
11 indicates on the cover that it is the staff response  
12 to the company's data request No. 8. That would be  
13 Exhibit No. 67 for identification.

14 (Marked Exhibit 67.)

15 JUDGE ANDERL: And that Exhibit No. 67 has  
16 two pages.

17

18 REDIRECT EXAMINATION

19 BY MS. EGELER:

20 Q. Mr. Ramirez, looking at what's been marked  
21 as Exhibit 66 for identification, can you describe  
22 what this is.

23 A. This exhibit is the response to staff data  
24 request No. 25 and this is the exhibit or the data  
25 request response that was revised by the company here

00520

1 last week, and the changes essentially were  
2 concentrated on the first year, September '91, that on  
3 the original data response, the year was reflected as  
4 1991, and the month was reflected as January and all  
5 that has been changed now to December and the year to  
6 1990. The rest of the exhibit was the same as the  
7 original exhibit. It did have a slight impact on  
8 our Exhibit 7 and that also caused a change in some of  
9 the language in the testimony, but essentially it is  
10 the same data with different dates for the first year.

11 MS. EGELER: Move for the admission of  
12 Exhibit 66.

13 JUDGE ANDERL: Any objection?

14 MR. JOHNSON: No.

15 JUDGE ANDERL: Exhibit 66 will be admitted.

16 (Admitted Exhibit 66.)

17 Q. Turning now, Mr. Ramirez, to what's been  
18 marked as Exhibit 67, can you describe what this is.

19 A. Exhibit 67 actually two pages is made out  
20 of, one, a response to -- from the staff to the  
21 company. Has request No. 8 and the second page is  
22 request No. 27.

23 Q. Referring to this exhibit, could you please  
24 explain why a design peak day is appropriate for a  
25 least cost plan but is not appropriate for a cost of

00521

1 service study.

2 MR. JOHNSON: I would object to the extent  
3 that's already been asked and answered.

4 MS. EGELER: Your Honor, I don't think that  
5 it was ever put in those terms and that he was ever  
6 given a chance to explain why the difference in his  
7 recommendation why it would be appropriate for the  
8 least cost plan and why it would not for the cost of  
9 service study.

10 JUDGE ANDERL: I recall him saying, giving  
11 an explanation of that. However, I would rather err  
12 on the side of having a complete record and so to the  
13 extent you don't feel he's had an opportunity to  
14 clarify I will allow him to do that.

15 MS. EGELER: Thank you.

16 A. Again, the difference between the least  
17 cost plan process and the cost of service process is  
18 that the least cost plan as stated here in this  
19 response is it looks into a future time horizon where  
20 the company again is going to look for big picture  
21 items of additional maybe resources, additional  
22 pipeline capacity, and for the purpose of that the  
23 design day is probably appropriate number to use.

24 As compared to the cost of service, that is  
25 you're looking more already on cost that has been

00522

1 experienced and needs to reflect more actualized data,  
2 and we'll match also the test period that you're  
3 looking at to allocate and with that demand peak. So  
4 it's two different processes and again, as far as  
5 the least cost plan, it's also changing constantly,  
6 you're always adding and doing different things, and  
7 as I call it this morning, it was more of a budget in  
8 a sense that what is it you're going to need to  
9 operate the system in a future time as compared to  
10 what you have already spent and how is that going to  
11 be -- that cost responsibility is going to be assigned  
12 to the current customers that are benefitting from  
13 those services.

14 Q. When planning for gas supply requirements,  
15 does the company only plan for its firm requirements  
16 or does it also consider other factors?

17 A. Well, the company actually considers into  
18 their supply planning not only the core requirement  
19 but they also considered the annual energy needs of  
20 the company, so within that they also consider  
21 injections probably into the storage. They considered  
22 all their types of customers within their customer  
23 mix.

24 Q. Do you recall being questioned about the  
25 design peak day and whether or not the staff had done

00523

1 any sort of analysis to determine how many  
2 interruptible customers would be taking gas on that  
3 day? Do you recall that line of questioning?

4 A. On how many customers were taking?

5 Q. I believe you were asked to try and state  
6 whether or not you knew how many of the interruptible  
7 customers would take service on the design peak day.  
8 Do you recall that line of questioning?

9 A. Oh, yes.

10 Q. Did the company offer any evidence in this  
11 case that you are aware of, whether in response to  
12 data requests or in its direct or rebuttal testimony,  
13 to show that none of the interruptible customers would  
14 be taking service if such a peak day were ever to  
15 occur?

16 A. No. I don't have any evidence like that.

17 Q. Turning to the \$650 customer charge, you  
18 were asked questions about the proposed customer  
19 charge for schedule 57. That charge was calculated  
20 from the costs incurred during the test period and the  
21 number of customers during that test period, was it  
22 not?

23 A. Yes.

24 Q. If you were to redo that calculation and  
25 assume that there were more customers, would there

00524

1 also be greater costs?

2 A. Yes, it should be. You have more customers  
3 on the schedule. Obviously there should be more cost,  
4 yes.

5 Q. Turning to the issue of CNG. You were  
6 asked about the inconsistency of the margins with  
7 respect to CNG. Do you believe that there is such an  
8 inconsistency?

9 A. No. There's no inconsistency. It's just  
10 that you got to look at the right numbers, I guess.  
11 Exhibit 56, which is the calculated rate that we have  
12 proposed to be at fully compensatory, that is a margin  
13 rate of 57 cents that is predicated on a targeted  
14 return of 8.78 percent. What is reflected in Exhibits  
15 8 and 9, Exhibit 8 reflects it is a rate -- when we  
16 were reading from column P that reflects a rate of 53  
17 cents, but that rate to begin with is a total, is  
18 an average rate, that reflects the total revenues  
19 on the dotted schedule. And then what is shown on  
20 schedule -- on Exhibit 55, which was that JR-9, shows  
21 the very same margin requirement. However, this rate  
22 in here or the 29 cent that was quoted this morning is  
23 only commodity. And it's only the commodity. Doesn't  
24 include the customer charge.

25 Now, the big difference between these

00525

1 rates, let's say, and the rates that we have in  
2 Exhibit 56 is that these rates in here, they are the  
3 current rates. We didn't change the margin at current  
4 rates because our proposal in this case of course is  
5 to phase this schedule out so still has the same rates  
6 with a return that is a negative return. The  
7 schedule, Exhibit 56, shows a greater rate because it  
8 is fully compensatory rate. So does that explain your  
9 question? But that's the differences on the rates.

10 Q. I have one last area I wanted to question  
11 you about and that is the staff's functionalization of  
12 the A and G expenses. Has the method that staff is  
13 proposing that the Commission adopt been accepted  
14 by any other ratemaking groups?

15 A. As far as the O and M -- I mean A and G  
16 expenses?

17 Q. Yes.

18 A. It is one method that is, first of all,  
19 NARUC accepts it as an alternative to allocate costs.  
20 AGA does the same thing. Now, my experience, I have  
21 used that in other jurisdictions in the cost of  
22 service studies that I have prepared. Also some  
23 other jurisdictions throughout the country have used  
24 that so it is -- I believe Indiana uses it. I know  
25 I used it in Arizona and Nevada in prior cases that I



00526

1 have worked on. So it is one alternative method  
2 utilized to allocate the O and M -- the A and G  
3 expenses.

4 MS. EGELER: The last thing I would like to  
5 do is move for the admission of Exhibit 67.

6 JUDGE ANDERL: Any objection?

7 MR. JOHNSON: No.

8 JUDGE ANDERL: Exhibit 67 will be admitted  
9 as identified.

10 (Admitted Exhibit 67.)

11 MS. EGELER: I have no more questions.

12 JUDGE ANDERL: Any recross?

13 MR. JOHNSON: I have a few.

14

15 RE CROSS-EXAMINATION

16 BY MR. JOHNSON:

17 Q. Mr. Ramirez, in response to questions from  
18 Ms. Egeler, to your knowledge, does the company plan  
19 to serve only firm load on its design day? Yes or no.

20 A. My understanding that's all you plan to  
21 serve that. If I looked at it from your least cost  
22 plan basis, yes.

23 Q. To your knowledge also, does Washington  
24 Natural Gas make decisions on the acquisition of  
25 pipeline capacity resources such as on Northwest

00527

1 Pipeline based on its design day?

2 A. Yeah. I believe they do.

3 Q. Earlier in response to questions from Ms.  
4 Pyron you referred to Exhibit 58, and I have a couple  
5 of questions about that. Do you have that?

6 A. Yes.

7 Q. Basically my question is one of math. When  
8 we look at the columns under current rates, should I  
9 be expecting the numbers under schedule 23, for  
10 example, under cost of gas and margin respectively, to  
11 add up to the effective number there because I don't  
12 see that they do. Help me out.

13 A. Yeah. There is a computer error, if you  
14 will, in here. We were going to resubmit this  
15 exhibit. Somehow falling asleep or whatever you want  
16 to call it, the math doesn't add. We were going to  
17 correct that.

18 MS. EGELER: If I could be of some help.  
19 We do have the exhibit recalculated but it's still our  
20 understanding that the company might be revising its  
21 rate, so instead of filing two revisions we thought we  
22 would wait and see what your decision is on that but  
23 if you made a decision we can put the revised  
24 exhibit in now.

25 MR. JOHNSON: We will wait.

00528

1 Q. Lastly, Mr. Ramirez, you were asked some  
2 questions by Mr. Trotter about data request No. --  
3 Exhibit No. 65. Do you recall those?

4 A. Yes.

5 Q. And those questions concerned time spent  
6 on the model and certain problems that you had with  
7 the model, the R. J. Rudden model?

8 A. Right.

9 Q. Now, in your experience both with other  
10 Commissions and joining this Commission you've used  
11 other cost of service models, haven't you?

12 A. Yes.

13 Q. Would you characterize cost of service  
14 models in the grand scheme of things as relatively  
15 complex computer programs?

16 A. Yes, they are.

17 Q. Can they be difficult to use?

18 A. Yes, they can be.

19 Q. And would it be fair to say that cost of  
20 service models are more difficult the first time you  
21 see them and as you go up the learning curve they  
22 become a little less difficult? Would that be a fair  
23 statement?

24 A. Well, yes. In this case obviously we have  
25 gained a lot of knowledge in working with the model.

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1 Spent a lot of time getting there, yes.

2 Q. And I think you stated that you did have  
3 some difficulties with the R. J. Rudden model?

4 A. Right.

5 Q. And you contacted the company to discuss  
6 those difficulties?

7 A. Yes.

8 Q. Was the company -- were the company  
9 personnel responsive to your contacts and the  
10 questions you had?

11 A. Yeah. Well, we did on numerous occasions  
12 talked to them, worked with them. In some instances  
13 we did get some responses. In fact, we visited your  
14 shop in order to get a better understanding of those  
15 areas where we're having difficulties. There was one  
16 that I specifically mentioned before, like the  
17 circularity problems. We never did get, say, a  
18 response that we were satisfied with but, however, as  
19 I said before, since I didn't use the labor subreport,  
20 we dropped that. Now, yes, we did get some  
21 cooperation with the company in working on some of  
22 these problems, yeah.

23 Q. What I'm getting at is, based on your  
24 experience now with the model and the discussions  
25 you've had with the company personnel, would you feel

00530

1 inclined to use the model again in another cost  
2 allocation proceeding involving a gas utility?

3 A. Yeah. I would have no problem in working  
4 with the model in the future. I think what needs to  
5 be done is that we work again with the company in  
6 making certain that some of the problems that were  
7 encountered this time we don't come up against those  
8 again, and I think that's a sufficient amount of time  
9 and money spent on the model that I think it would be  
10 worthwhile to use it in the future with that  
11 modification, yes.

12 Q. So now that you're up on the learning curve  
13 as you've described, do you see any reason why staff  
14 or the parties or this Commission should start over in  
15 this proceeding with another model as the basis for  
16 developing a cost of service study?

17 A. On this particular proceeding?

18 Q. Yeah.

19 A. Well, no, I don't think so.

20 MR. JOHNSON: I have nothing further.

21 JUDGE ANDERL: Ms. Pyron.

22 MS. PYRON: No further questions. Thank  
23 you.

24 JUDGE ANDERL: Ms. Arnold.

25 MS. ARNOLD: No further questions.

00531

1 JUDGE ANDERL: Mr. Frederickson.

2 MR. FREDERICKSON: No questions.

3 JUDGE ANDERL: Mr. Trotter.

4 MR. TROTTER: Just a couple.

5

6 RE-CROSS-EXAMINATION

7 BY MR. TROTTER:

8 Q. You were asked questions from Mr. Hemstad  
9 regarding the issue of whether there was a series of  
10 warm years in using to compute your peak allocator.  
11 Do you recall those questions?

12 A. Yes.

13 Q. During times of warm weather interruptible  
14 customers are seldom interrupted. Would that be true?

15 A. That is true.

16 Q. And under your methodology the costs  
17 allocated to interruptible customers would reflect  
18 their use of the system under those conditions, would  
19 it not?

20 A. Yes.

21 Q. And if there were a series of three very  
22 cold years there may be several more interruptions.  
23 Would that follow?

24 A. Yes.

25 Q. And this would result under -- if those

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1 were the three years used would result in fewer costs  
2 allocated to interruptible and more to firm?

3 A. That's correct.

4 Q. So using -- would you agree using a rolling  
5 average of years on a consistent basis on average,  
6 costs would be allocated according to how the  
7 customers are using the system?

8 A. Yes. And that is in fact the whole basis  
9 of our allocation is that.

10 Q. Now, with respect to A and G costs you were  
11 asked what groups use your allocation method and  
12 you're not including this Commission in that group,  
13 are you?

14 A. No. I didn't.

15 Q. With respect to the usability of the model,  
16 was this model -- going in did you understand that  
17 this model was touted to be relatively easy to use?

18 A. Yes. I think if I look back at Mr. Davis's  
19 testimony I think he was quite correct on what he laid  
20 out on his testimony. I think there was certain goals  
21 through the collaborative process that we're trying to  
22 meet. However, in choosing the model that was  
23 utilized, those decisions were made based upon  
24 representations that were made with regard to what the  
25 model can do. We looked at I think it was eight

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1 different models and we looked at model No. 1 can do  
2 this and it can produce this output. And we went  
3 through that through No. 8 and the Rudden model seemed  
4 to be based on what was represented to be the model  
5 that will do the job for us.

6 Q. Going into this case did you anticipate it  
7 would take hundreds of staff hours to run this model?

8 A. No, we didn't anticipate that. Obviously  
9 you don't get to see those until you really start to  
10 work with the model and you start making your analysis  
11 and taking a position on what is it you're going to do  
12 with the model in regard to the allocators. So we  
13 didn't do that obviously until the case was filed and  
14 get, if you will, your hands dirty with the model. In  
15 that respect I think that what was represented it  
16 would do at least I didn't think -- it did what it was  
17 said that it would do.

18 Q. Do you know the cost impact on intervenors  
19 or public counsel of having to allocate the kind of  
20 hours you've had to allocate to this case?

21 A. I don't know if the intervenors actually  
22 really made use of the model but obviously public  
23 counsel would probably be significant, yes.

24 MR. TROTTER: Nothing further.

25 JUDGE ANDERL: Anything else for this



00534

1 witness?

2                   Hearing nothing, thank you, Mr. Ramirez,  
3 for your testimony. You may step down. Let's go off  
4 the record for a minute while we decide how we're  
5 proceed.

6                   (Recess.)

7                   JUDGE ANDERL: Let's be back on the record  
8 then. While we were off the record staff's next  
9 witness, Mr. Russell, took the stand. We also  
10 identified his testimony and exhibits with exhibit  
11 numbers. I will do that now for the record. His  
12 prefiled direct testimony is Exhibit T-68. His  
13 prefiled rebuttal testimony is Exhibit T-69. His  
14 Exhibit JMR-1 is Exhibit 70. And Mr. Johnson handed  
15 out an exhibit that he's going to ask be marked and  
16 admitted through this witness, that is staff response  
17 to public counsel's data request No. 13. That is No.  
18 71 for identification.

19                   (Marked Exhibits T-68, T-69, 70 and 71.)

20 Whereupon,

21   JAMES RUSSELL,  
22 having been first duly sworn, was called as a witness  
23 herein and was examined and testified as follows:

24

25

00535

1 DIRECT EXAMINATION

2 BY MS. EGELER:

3 Q. Mr. Russell, would you state your full name  
4 and spell your last for the record?

5 A. Yes. My name is James M. Russell. Last  
6 name is spelled R U S S E L L.

7 Q. Referring to what has been marked for  
8 identification as Exhibits T-68 and T-69, are these  
9 exhibits your direct and rebuttal testimony in this  
10 case?

11 A. Yes, they are.

12 Q. Do you have any corrections to make to  
13 those at this time?

14 A. Yes, I have some minor modifications to  
15 T-68, just some very brief wording changes. First of  
16 all, on page 6 of my direct testimony at lines 20 the  
17 words "a location distribution company" should be  
18 scratched and insert the word "Cascade."

19 MR. JOHNSON: Excuse me. Tell me again  
20 where you're at.

21 THE WITNESS: That was on page 6 of my  
22 direct testimony on line 20. Scratch "a local  
23 distribution company" and insert "Cascade."

24 A. On page 9 of my direct testimony that  
25 should read Exhibit JMR-1 on line 18.

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1                   On page 11 of my direct testimony the same  
2 error appears. It's on line 2. That should read  
3 JMR-1.

4                   JUDGE ANDERL: What page?

5                   THE WITNESS: Page 11.

6           A.       And page 12 on line 6 the DO should read  
7 DD. That's peak and average design day and that  
8 should be corrected on line 6, line 8 and line 9.  
9 Those are all my corrections.

10          Q.       With those corrections made, are Exhibits  
11 T-68 and 69 true and correct to the best of your  
12 belief and knowledge?

13          A.       Yes, they are.

14          Q.       And you were also sponsoring Exhibit 70; is  
15 that correct?

16          A.       Yes.

17          Q.       Do you have any corrections to make to  
18 that?

19          A.       No, I don't.

20          Q.       Is that true and correct at this time to  
21 the best of your knowledge?

22          A.       Yes.

23                   MS. EGELER: With those corrections made,  
24 Your Honor, I would offer Exhibits T-68, T-69 and  
25 Exhibit 70 for admission.

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1 JUDGE ANDERL: Are there any objections to  
2 those documents?

3 MR. JOHNSON: No.

4 JUDGE ANDERL: Hearing none those three  
5 documents will be admitted as identified.

6 (Admitted Exhibits T-68, T-69 and 70.)

7 JUDGE ANDERL: Mr. Johnson, we'll go to you  
8 for cross of this witness.

9

10 CROSS-EXAMINATION

11 BY MR. JOHNSON:

12 Q. Mr. Russell, I've handed out what's been  
13 marked for identification as Exhibit 71. Do you have  
14 that?

15 A. Yes, I do.

16 Q. Do you recognize that exhibit as your  
17 response to public counsel's data request No. 13?

18 A. Yes.

19 Q. And you prepared that response?

20 A. Yes, I did.

21 MR. JOHNSON: Move for admission, Your  
22 Honor.

23 JUDGE ANDERL: Any objection?

24 That document will be admitted as  
25 identified.

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1 (Admitted Exhibit 71.)

2 Q. Mr. Russell, if you could refer to page 10  
3 of your rebuttal testimony, please. Up at the top of  
4 the page you talk about balancing costs 20 percent of  
5 Jackson Prairie and these are costs in your testimony  
6 that are designed to cover costs associated with  
7 balancing, right?

8 A. That's correct.

9 Q. So are those costs then appropriately  
10 allocated to transportation for purposes of cost of  
11 service?

12 A. Yes, they are.

13 Q. Now, I apologize but I'm going to skip now  
14 to your direct testimony at page 11. Down at the  
15 bottom of the page you include all of Washington  
16 Natural Gas Company's costs in the gas cost subreport  
17 which is our Exhibit 4, in the development of your gas  
18 demand costs, correct?

19 A. Yes, I do.

20 Q. And the company in its Exhibit 4 had  
21 excluded Jackson Prairie cost, correct?

22 A. That's correct.

23 Q. But you added those costs back in?

24 A. Yes, I did.

25 Q. So I guess my question is, under your

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1 analysis would all of those Jackson Prairie costs be  
2 then flowed through in the PGA process to sales  
3 customers even though you've stated in your rebuttal  
4 testimony that these costs are balancing cost  
5 associated with transportation?

6 A. Well, when I say the 20 percent piece of  
7 Jackson Prairie in my rebuttal testimony I'm referring  
8 to just the portion of that 20 percent piece of  
9 Jackson Prairie that was allocated to transportation  
10 customers.

11 Q. Is there a separate transportation  
12 component in the purchased gas subreport that you are  
13 recommending be used to allocate those costs?

14 A. Well, if you look at my Exhibit JMR-1, page  
15 1 of 2, under the variable cost at the bottom of the  
16 page, those costs appear in the middle of the variable  
17 costs and they're labeled injection/withdrawal of  
18 Jackson Prairie balancing. There's an amount of  
19 \$5,800. Seems to me there was about \$77,000  
20 associated with Jackson Prairie, actually, okay. If  
21 you look over on the far right last column  
22 transportation, at the very bottom it shows a figure  
23 of \$76,121, so if you move up you pick up those  
24 pieces. Those dollars that are shown in the  
25 particular rows, those are the dollars that I pick up

00540

1 for transportation customer, transportation customer's  
2 balancing.

3 Q. Now, turn to sheet 2 of 2 on that same  
4 exhibit. Under the column labeled class demand  
5 charges down at the bottom of the page, I see a number  
6 across from rate 57/58 of \$77,169. Do you see that?

7 A. Yes, I do.

8 Q. Does that number somehow tie into that  
9 number that you just referred to or --

10 A. It shows up on the total demand and fixed  
11 costs on page 1, last column. Look at the row  
12 entitled total demand and fixed costs. Go all the way  
13 over to the right and it shows that figure \$77,169.

14 Q. Now look at the far right column on sheet 2  
15 of 2 and you have a .00048 allocator here that I  
16 assume is designed to recover that \$77,169 figure; is  
17 that right?

18 A. Yes. It's not an allocator. It's a cost  
19 per therm associated with balancing, correct.

20 Q. And this would be done in the PGA process,  
21 is that right, according to your recommendation?

22 A. Well, if Jackson Prairie costs change those  
23 should be flown through to transportation customers as  
24 well as they would be flown through to all other  
25 customers.

00541

1 Q. So to recover this -- let me ask you, would  
2 you characterize that as a fairly small amount of  
3 money?

4 A. It's fairly small, yes.

5 Q. So just to recover that amount you're  
6 recommending that we add transportation then to the  
7 PGA process and recover these costs through the PGA  
8 process as opposed to a direct allocation?

9 A. Well, they could change substantially. For  
10 instance, if the FERC adopted a different rate design  
11 for SGS-1 service there may be a material impact, so  
12 yes, I am making that recommendation that these costs  
13 be flown through the tracker. You can handle them two  
14 ways, either flow them through the tracker or assume  
15 they're embedded in the margin like the company has  
16 and not adjust them even though your gas costs may  
17 change. It may be a fairly immaterial rate here, but  
18 just following through with the whole PGA procedure  
19 and taking into account that the SGS-1 rate could  
20 change at the FERC level and may have a material  
21 impact on those costs.

22 Q. So, would I be correct to say that under  
23 your proposal at whatever level this figure is on  
24 sheet 2 of 2 that we can now assume that  
25 transportation customers are going to be part of the



00542

1 PGA process for the company; is that correct?

2 A. For the balancing portion, yes.

3 Q. You think that's a good idea?

4 A. Well, yes, I do. I think if the rates from  
5 -- the costs for upstream of costs of the company's  
6 portion of their costs, effectively the PGA costs  
7 change, those should be flown through to all  
8 customers.

9 Q. And you don't think it will make more sense  
10 to just simply allocate this miniscule amount to  
11 transportation customers outside of the PGA rather  
12 than in the context of a PAL?

13 A. Well, you could do that but you would have  
14 to subtract these dollars effectively from the  
15 deferral procedure when you do your monthly deferrals.  
16 You can handle it that way also. I was just trying to  
17 follow or track the costs through the PGA for all  
18 customer classes.

19 Q. Isn't it correct that the figure that you  
20 use on sheet 2 of 2 is roughly half of what the  
21 company allocated per therm for this Jackson Prairie  
22 service?

23 A. I don't know whether it's half, but if  
24 you're referring to the company's own portion of  
25 Jackson Prairie, yes, this only represents a part of

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1 the 20 percent of Jackson Prairie. It represents the  
2 upstream costs of Jackson Prairie.

3 Q. Is that the reason that it is only half  
4 because it only takes into account the upstream costs?  
5 Is there any other reason? What I'm trying to find  
6 out is why your figure differs from the company's  
7 figure in which it directly allocated these costs,  
8 the Jackson Prairie costs. Is it your testimony that  
9 the company's -- your proposal only takes into account  
10 the upstream costs associated with Jackson Prairie?

11 A. No. Mr. Ramirez has allocated the  
12 company's investment in Jackson Prairie through the  
13 distribution transportation rates that he develops,  
14 and I have allocated the upstream costs associated  
15 with Jackson Prairie with the company's bill from  
16 Northwest Pipeline for those services and flown them  
17 through my gas cost subreport, so these are not the  
18 only costs of Jackson Prairie that are included in  
19 transportation customers' rates.

20 Q. If we didn't take into account these 20  
21 percent of Jackson Prairie costs in the PGA process,  
22 do you think sales customers would be adversely  
23 impacted by doing so?

24 A. Well, as long as you -- if those costs  
25 changed and you subtracted those costs from the

00544

1 dollars that you use in calculating your monthly  
2 deferrals, then it wouldn't adversely affect sales  
3 customers but you have to handle them properly in the  
4 deferral process. But that's another way to do it. I  
5 assume that's what the company was planning on doing  
6 when it embedded those costs into the margins.

7 MR. JOHNSON: Thank you. I have nothing  
8 further.

9 JUDGE ANDERL: Thank you. Mr. Trotter, I  
10 believe all the intervenors told me they didn't have  
11 any cross but let me check and make sure.

12 MS. PYRON: No.

13 JUDGE ANDERL: Mr. Trotter.

14 MR. TROTTER: I just have a few.

15

16 CROSS-EXAMINATION

17 BY MR. TROTTER:

18 Q. Starting with Exhibit 71, with respect to  
19 rental revenue, the Commission dictated the amount of  
20 the rental revenue increase that the company could  
21 file; is that right?

22 A. I believe those were set out in the last  
23 rate case either the 931405 or the prior case.

24 Q. And they announced what level they wanted  
25 filed around the times when they would be filed?

00545

1           A.     I believe so, subject to check.  That's  
2 true.

3           Q.     And you indicate on page 5 of your rebuttal  
4 testimony that this is a proper proforma adjustment.

5           A.     Yes.  Yes.

6           Q.     Which adjustment -- turning to a different  
7 subject -- have you made to the company's results of  
8 operations that caused the staff rate of return to be  
9 8.76 as shown in Mr. Ramirez's Exhibit 51, page 1,  
10 versus the company's 8.44?  Just give me a listing.

11          A.     Basically we took our results of operations  
12 from the 931405 case and for this case we made changes  
13 to that.  We adopted the company's normalized sales  
14 volumes which would affect the gas cost adjustment in  
15 that case.  It was a fairly minor change.  We were  
16 advocating, I believe, 904 million therms and the  
17 company's case had 902 million therms, but for this  
18 case we adopted their volumes for weather  
19 normalization purposes, and I adjusted my gas cost and  
20 revenue adjustments from that case for those volumes,  
21 and I also excluded in this case the '92-93 main  
22 adjustment that we made in the 931405 case.

23          Q.     So you used all other staff adjustments in  
24 that case except for your main -- adjustment to mains  
25 and your test year therms?

00546

1 A. Correct.

2 Q. On pages 4 and 5 of your rebuttal, near the  
3 bottom of page 4 and over you talk about the royalty  
4 adjustment that Mr. Lazar sponsors. Do you see that  
5 testimony?

6 A. Page 4?

7 Q. Bottom of page 4 of your rebuttal, over to  
8 page 5.

9 A. Yes, I do.

10 Q. And on page 5, line 11 you say this would  
11 be a proper proforma adjustment although minor and  
12 needs some tax adjustment; is that right?

13 A. It would be a proper proforma adjustment.  
14 It was not considered in the 931405 case because there  
15 was no -- it wasn't known. It wasn't known that  
16 Washington Natural was going to receive the royalty  
17 payment from Washington Energy Services Company, but  
18 today if we had a rate case in front of us I would say  
19 that would be a proper proforma adjustment.

20 Q. And it wasn't known in the last case that  
21 your main adjustment would be accepted, your  
22 adjustment to mains?

23 A. We didn't know whether that was going to be  
24 accepted or not, no.

25 Q. Now, you were involved in the previous WNG

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1 rate case, UG-920840, correct?

2 A. Yes, I was.

3 Q. Do you recall -- and this is with respect  
4 to meter reading and billing -- that Mr. Lazar  
5 proposed a disallowance of half of the meter reading  
6 and billing costs in that case? Would you accept that  
7 subject to your check?

8 A. I will accept that subject to check.

9 Q. And the Commission order in that proceeding  
10 indicated that if the company did not show significant  
11 reductions in cost for meter reading and billing that  
12 the adjustment that Mr. Lazar proposed might become  
13 necessary. Is that true, page 43 of the Commission  
14 order?

15 A. I don't recall the word necessary but --

16 Q. Would you agree that the order on page 43  
17 states, "The company should be on notice in future  
18 proceedings to either have implemented those  
19 suggestions or be able to provide a justification for  
20 not having done so. Failure to do one or the other  
21 may result in the disallowance suggested by Mr. Lazar  
22 on meter reading and billing expenses."

23 A. I will accept that.

24 Q. Did the company show any significant  
25 reduction in meter reading or billing expenses in its

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1 cost of service study in this case?

2 A. No.

3 Q. Now, no parties' cost of service study in  
4 this case is based on results of operations that  
5 generate a return of 9.15 percent, which is the  
6 currently authorized return for WNG; is that correct?

7 A. That's correct. I address that in my  
8 testimony, but just add that the staff's case was at  
9 19,150,000 which would have produced the authorized  
10 rate of 9.15. The Commission did not adopt any  
11 results of operations in that case.

12 Q. And your prior answer, that included the  
13 adjustment to mains?

14 A. Yes, it did.

15 Q. Can you testify as to what the correct set  
16 of adjustments to results of operations are which  
17 would produce the 9.15 percent return?

18 A. Could you repeat that? I'm not following  
19 you.

20 Q. Can you testify as to what the correct set  
21 of adjustments to results of operation are which would  
22 produce the 9.15 rate of return?

23 A. Well, the staff's case produced 9.15. The  
24 company's case produced 9.15. It's based on what  
25 adjustments you make to those results of operations.

00549

1 Q. So from your point of view accepting the  
2 staff case in total from the last proceeding as filed  
3 would result -- is the correct set of adjustments to  
4 reach 9.15?

5 A. In my opinion, yes.

6 Q. That is not the results in the cost of  
7 service study that Mr. Ramirez sponsors, is it?

8 A. It's close. As I say, I make some minor  
9 modifications to it.

10 Q. You consider the difference between 8.76  
11 percent return and 9.15 percent return minor?

12 A. Well, Mr. Ramirez looks at a rate of return  
13 in comparison to the overall so whether the overall is  
14 9.15 in the cost of service or whether it's 8.76 is  
15 fairly immaterial. The important thing is the  
16 expenses in rate base that are allocated in the cost  
17 of service.

18 MR. TROTTER: Nothing further. Thank you.

19 JUDGE ANDERL: Thank you, Mr. Trotter. Did  
20 the Commissioners have any questions for this witness?.

21 COMMISSIONER HEMSTAD: I have none.

22 COMMISSIONER GILLIS: I have no questions.

23 JUDGE ANDERL: Thank you very much.

24 Anything on redirect then?

25 MS. EGELER: Nothing.



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1                   JUDGE ANDERL: Anything further for this  
2 witness?

3                   Thank you, Mr. Russell, for your testimony.  
4 You may step down. Well done. We'll stand in recess  
5 until 9:00 tomorrow morning when we'll begin with Mr.  
6 Woodruff's testimony.

7                   (Hearing adjourned at 5:07 p.m.)

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