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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 Complainant,)
7 vs.) DOCKET NO. UG-940814
8)
9 WASHINGTON NATURAL GAS) VOLUME 5
10 COMPANY,)
11 Respondent.) PAGES 551 - 789
12 -----)

13 A hearing in the above matter was held on
14 January 31, 1995, at 9:00 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

	D	C	RD	RC	EXAM
2 WITNESSES:					
YOUNG	555	556			
3 WOODRUFF	568	569			578
LAVIGNE	581	583	597		
4 SCHOENBECK	598	601			
LAZAR	613	616			655
5			673	680	
DAVIS	684	686			710
6			712	714	
FEINGOLD	717	719			759
7			763	769	
BERDAN	770	772			781

8

	MARKED	ADMITTED
9 EXHIBITS:		
T-72, T-73 and		
10 74 - 76	554	556
77	554	557
11 78	562	563
T-79, T-80	568	569
12 T-81, 82, 83	581	582
84	581	588
13 T-85, T-86, 87	598	601
88	598	615
14 89	606	606
T-90, T-91, T-92 and		
15 93 - 102	613	615
103	613	617
16 104	621	622
105	621	624
17 106	674	675
107	683	683
18 T-108	684	685
109	709	710
19 T-110, 111 - 121	715	719
122	717	720
20 123	717	726
124	744	753
21 125	750	753
126	763	769
22 T-127, 128 - 130	770	772

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

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

3 We are convened for another day of hearing for the
4 cross-examination of the prefiled testimony of the
5 staff, public counsel and the intervenors in this
6 matter, and also company rebuttal. Today's date is
7 January 31, 1995. The appearances in this matter
8 today are the same as yesterday. Before we went on
9 the record this morning, Mr. Young from Seattle Steam
10 took the stand and we premarked his testimony and
11 exhibits. I will identify those now for the record.
12 His testimony which is entitled Prefiled Testimony of
13 James G. Young is Exhibit T-72. His Prefiled Rebuttal
14 Testimony of James G. Young is Exhibit T-73, and he
15 also has three exhibits JGY-1, JGY-2 and JGY-3. Those
16 are exhibits 74, 75 and 76 for identification.

17 Finally we also identified another document
18 which is entitled Public Counsel Data Request No. 10
19 and Seattle Steam's response, that is Exhibit 77.

20 Mr. Young, if you would raise your right
21 hand to be sworn.

22 (Marked Exhibits T-72, T-73, 74 - 77.)

23 Whereupon,

24 JAMES YOUNG,

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

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1 herein and was examined and testified as follows:

2 JUDGE ANDERL: Go ahead Mr. Frederickson.

3

4 DIRECT EXAMINATION

5 BY MR. FREDERICKSON:

6 Q. Mr. Young, would you state your full name
7 for the record?

8 A. James G. Young, last name spelled Y O U N
9 G.

10 Q. By whom are you employed, Mr. Young?

11 A. Seattle Steam Company.

12 Q. In what capacity are you employed by
13 Seattle Steam?

14 A. I'm president and CEO.

15 Q. Mr. Young, you have before you what's been
16 marked for identification as Exhibits T-72 and T-73.
17 Do these exhibits represent your testimony in this
18 proceeding?

19 A. Yes, they do.

20 Q. And you also have before you, sir, Exhibits
21 74, 75 and 76. Were these exhibits prepared by you or
22 under your supervision?

23 A. Yes, they were.

24 Q. To your knowledge, are all of these
25 exhibits true and correct?

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1 A. Yes, they are.

2 MR. FREDERICKSON: Your Honor, Seattle
3 Steam would offer Exhibits T-72, T-73 and Exhibits 74,
4 75 and 76 into evidence at this point.

5 JUDGE ANDERL: Is there any objection from
6 any party?

7 I hear none. Those five exhibits will be
8 admitted as identified.

9 MR. FREDERICKSON: Mr. Young is available
10 for cross-examination.

11 JUDGE ANDERL: Start with the company.

12 (Admitted Exhibits T-72, T-73, 74 - 76.)

13

14 CROSS-EXAMINATION

15 BY MR. JOHNSON:

16 Q. Good morning, Mr. Young. Mr. Young, I've
17 handed you what's been marked for identification as
18 Exhibit 77. Do you have that in front of you?

19 A. Yes, I do.

20 Q. Do you recognize that as Seattle Steam's
21 response to public counsel data request No. 10?

22 A. Yes, I do.

23 Q. It states that the response was prepared by
24 Robert B. Shepherd. Do you see that?

25 A. Yes.

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1 Q. Does Mr. Shepherd work for Seattle Steam or
2 otherwise act on behalf of Seattle Steam?

3 A. Seattle Steam has been retained as my
4 consultant in this case.

5 Q. Seattle Steam or Mr. Shepherd has been
6 retained?

7 A. Mr. Shepherd has been retained by Seattle
8 Steam.

9 Q. So did Mr. Shepherd prepare this response
10 under your supervision?

11 A. Yes, he did.

12 Q. And did you review this response?

13 A. Yes.

14 Q. And did you adopt it as Seattle Steam's
15 response?

16 A. Yes.

17 MR. JOHNSON: Move for admission.

18 JUDGE ANDERL: Any objection?

19 Hearing none Exhibit 77 will be admitted as
20 identified.

21 (Admitted Exhibit 77.)

22 MR. JOHNSON: I have no further questions.

23 JUDGE ANDERL: Ms. Pyron, you indicated no
24 questions. Is that still correct?

25 MS. PYRON: I have just a little.

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CROSS-EXAMINATION

3 BY MS. PYRON:

4 Q. Good morning.

5 A. Morning.

6 Q. In your rebuttal testimony, Mr. Young,
7 which is Exhibit T-73, on page 15, starting on 14 and
8 15 you list several generic costs associated with
9 maintaining and using an alternate fuel; is that
10 correct?

11 A. Yes.

12 Q. In your experience, Mr. Young, would these
13 costs be equally applicable to an interruptible
14 transportation customer as well as interruptible sales
15 customer?

16 A. Yes, they would be. In fact that was my
17 experience when I was on schedule 87.

18 MS. PYRON: I have no further questions at
19 this time. Thank you.

20 JUDGE ANDERL: Ms. Arnold.

21 MS. ARNOLD: No questions.

22 JUDGE ANDERL: Anything from public
23 counsel?

24 MR. TROTTER: Yes.

25

1 CROSS-EXAMINATION

2 BY MR. TROTTER:

3 Q. First of all, with respect to Exhibit 77,
4 Mr. Young, you are opposing Mr. Lazar's proposal
5 regarding the curtailment credit; is that correct?

6 A. Yes, I am.

7 Q. And did you do any economic analysis of his
8 proposal in connection with the costs that you show on
9 Exhibit 77 to determine whether or not his proposal is
10 in your company's economic best interest?

11 A. Not specifically for my company.

12 Q. If it was demonstrated to be in your
13 company's --

14 MR. FREDERICKSON: Excuse me, Your Honor.
15 I think the witness had not finished.

16 MR. TROTTER: It called for a yes or no and
17 he said no.

18 JUDGE ANDERL: Did you have an explanation
19 that you needed?

20 Q. Go ahead.

21 A. Well, the reason why I'm opposed to it is
22 the fact that it would be very difficult to administer
23 and difficult to measure and as a result would be very
24 cumbersome and I'm not sure would be good for the
25 system or for any system.

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1 Q. So if it was demonstrated that it was in
2 your economic best interest to have such a proposal
3 you would still oppose it?

4 A. I would like to see how someone would
5 calculate that first.

6 Q. And you didn't calculate it?

7 A. Not precisely, no.

8 Q. Now, in your testimony, in your direct
9 testimony, you discuss the engineering principles of
10 the steam system and the natural gas system; is that
11 right?

12 A. Yes.

13 Q. First of all, with respect to Seattle
14 Steam, how many customers does your company have?

15 A. It varies from year to year but we have
16 about 225 customers.

17 Q. And no one regulates the rates you charge,
18 do they?

19 A. I serve under a franchise in the city of
20 Seattle.

21 Q. So they set your rates?

22 A. They do not set my rates but they have
23 review powers.

24 Q. Have they ever reviewed your rates?

25 A. Not recently.

00561

1 Q. Are your current rates based on a cost of
2 service study?

3 A. My rates are based on three factors. One
4 is the meter rate, which is a declining block rate,
5 which is based on cost to serve as a whole class of
6 customers, and then there's a fuel differential, and
7 the third part of that has to do with taxes, the B and
8 O and city utility tax.

9 Q. Have you performed or has your company
10 performed a cost of service study similar of type that
11 is presented here through Mr. Feingold, Mr. Lazar, et
12 cetera?

13 A. No, sir.

14 MR. TROTTER: Your Honor, I have a one-page
15 document which is the steam service rate schedule No.
16 23 for Seattle Steam, and I would note for the record
17 that this was submitted under confidentiality stamp
18 but we have deleted the rates and we understand for
19 that reason it is no longer confidential.

20 JUDGE ANDERL: Is that correct, Mr.
21 Frederickson?

22 MR. FREDERICKSON: Yes.

23 MR. TROTTER: We appreciate the cooperation
24 of Seattle Steam in that regard.

25 THE WITNESS: You're welcome.

00562

1 JUDGE ANDERL: I will mark that document
2 for identification as Exhibit No. 78.

3 (Marked Exhibit 78.)

4 Q. Mr. Young, Exhibit 78 is your current rate
5 schedule; is that right?

6 A. That's correct.

7 Q. Except the rates have been deleted; is that
8 right?

9 A. Yes.

10 Q. And this reflects the pricing policy that
11 you referred to in your prior testimony, a declining
12 block volumetric rate, a fuel differential and a tax
13 adjustment?

14 A. Yes. This document is part of a steam
15 service agreement that each customer signs. There are
16 other terms and conditions but this is the rate
17 schedule under which all customers are served, all my
18 customers. There is no differentiation between large
19 and small other than declining block rate.

20 Q. And there's also a \$5.50 minimum payment;
21 is that right?

22 A. Yes.

23 Q. Is that a customer charge, in your
24 terminology?

25 A. That's the part of the rate -- it's the

00563

1 minimum rate, in other words, so we read the meter
2 rate each month. That's the rate.

3 Q. Do you include the cost of constructing and
4 maintaining your distribution system in that charge or
5 is that included in the volumetric charge for steam
6 use?

7 A. All charges associated with operating the
8 system are included in the declining block rate.
9 That's how we collect the revenue for that system.

10 MR. TROTTER: Move the admission of Exhibit
11 77.

12 JUDGE ANDERL: 78. Is there any objection?
13 Hearing none Exhibit 78 will be admitted as
14 identified.

15 (Admitted Exhibit 78.)

16 Q. In your rebuttal testimony, page 10, you
17 refer to an imbalance figure used by Mr. Lazar of 12.4
18 percent and then you refer to Seattle Steam's
19 imbalance of .77 percent; is that right?

20 A. I'm on page 10.

21 Q. Lines 1 through 3?

22 A. Yes, I see that.

23 Q. And we go to your Exhibit 76 for the
24 derivation of your .77; is that right?

25 A. Would that be -- I don't have mine marked

00564

1 -- JGY-3?

2 Q. Yeah.

3 A. Yes, I have it.

4 Q. You show more or less the middle column
5 there under daily, when I see a negative that was an
6 undertake and if we see a positive number it was an
7 overtake and the net is shown on the total line and
8 then you divide that total by your nominations and you
9 get .77; is that right?

10 A. That's calculated by the gas company. This
11 is a document that I received from the gas company.
12 That's correct.

13 Q. But the calculation is correct?

14 A. That's right.

15 Q. So when you said earlier that these were
16 prepared by you or under your direction?

17 A. Well, they're a document I possess and have
18 submitted.

19 Q. I misunderstood.

20 A. This is part of the automatic meter reading
21 the gas company has installed and it works great.

22 Q. Great. Now, you're not disputing that if
23 we took the negative signs off the figures in the
24 daily column and found out what that total was and
25 divided by the first column of figures that the result

00565

1 would be 12.4 percent as Mr. Lazar has portrayed?

2 A. If you do your arithmetic that's correct,
3 but that does not represent the real case, and that's
4 the concern I have is it's misrepresenting something.

5 Q. There may be a misunderstanding of what Mr.
6 Lazar is showing but we understand your position. Let
7 me ask you this. Assume that your company had an
8 undertake on one day of the month of 50,000 therms and
9 on another day of the month an overtake of 50,000
10 therms and every other day of the month you took
11 exactly what you nominated. The result would be a net
12 of zero, correct?

13 A. Over a monthly period?

14 Q. Yes.

15 A. At the end of the month?

16 Q. Yes.

17 A. That's what the arithmetic would show.

18 Q. If that was what happened in every month
19 your percentage would be zero at the bottom?

20 A. I'd like to see someone do that.

21 Q. This is just hypothetically.

22 A. I want the Commission to understand this is
23 hypothetical and not reality.

24 Q. But conceptually that's how balancing --
25 that's how you've computed balancing?

00566

1 A. That's the way it's computed, yes.

2 Q. All right. Now, your testimony is not --
3 you're not saying that under that hypothetical that
4 you have not used the system for balancing purposes,
5 correct?

6 A. I'm not sure I understand your question.

7 Q. Under that hypothetical, that customer,
8 whoever it is, is using the system for balancing, is
9 it not?

10 A. I guess by definition, yes, you would have
11 to say that because since the customer itself has no
12 storage but there are several ways of accommodating
13 that imbalance, one of which is the gas company and
14 one of which is the pipeline. I think my concern, Mr.
15 Trotter, was the fact that Mr. Lazar's display of our
16 statistics didn't really explain what reality is, the
17 fact that there are overs and unders and the fact
18 that they do help balance out, and if you do have this
19 cumulative effect over a lot of customers you actually
20 have a lot of large numbers working for you, in the
21 sense that they tend to balance each other out, and
22 this was observed during one of the meetings in the
23 collaborative.

24 Q. Are you done?

25 A. (Nodding head).

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

3 JUDGE ANDERL: Did staff have any questions
4 for this witness?

5 MS. EGELER: No questions.

6 JUDGE ANDERL: Do the Commissioners have
7 any questions?

8 COMMISSIONER HEMSTAD: I don't have any
9 questions.

10 COMMISSIONER GILLIS: No questions.

11 JUDGE ANDERL: Any redirect?

12 MR. FREDERICKSON: No, Your Honor.

13 JUDGE ANDERL: Thank you, Mr. Young, for
14 your testimony. You may step down.

15 The next witness will be from PERCC and
16 let's go off the record while that witness takes the
17 stand.

18 (Recess.)

19 JUDGE ANDERL: Let's be back on the record
20 then. While we were off the record Mr. Woodruff took
21 the stand. We premarked his testimony with exhibit
22 numbers. I will identify those numbers now for the
23 record. The direct testimony is Exhibit T-79 and the
24 cross rebuttal testimony of Mr. Woodruff is Exhibit
25 T-80.

00568

1 (Marked Exhibits T-79 and T-80.)

2 Whereupon,

3 JOEL WOODRUFF,

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. ARNOLD:

9 Q. Mr. Woodruff, would you state your full
10 name for the record, please.

11 A. Joel S. Woodruff.

12 Q. Are you the same Mr. Woodruff who caused to
13 be filed the direct testimony of Joel S. Woodruff
14 which has been marked Exhibit T-79 and the cross
15 rebuttal testimony of Joel S. Woodruff which has been
16 marked Exhibit T-80?

17 A. I am.

18 Q. Was that testimony prepared by you or under
19 your direction and supervision?

20 A. Yes, it was.

21 Q. And if you were to testify today, would
22 your testimony be substantially the same?

23 A. Yes, it would be.

24 Q. Are there any corrections to your
25 testimony?

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1 A. No, there are not.

2 MS. ARNOLD: Thank you, Mr. Woodruff. The
3 witness is available for cross-examination.

4 MR. TROTTER: Have the exhibits been moved?

5 MS. ARNOLD: Oh, sorry.

6 JUDGE ANDERL: No, but I am sure they will
7 be. Is there any objection to the admission of T-79
8 and T-80?

9 MR. JOHNSON: No objection.

10 JUDGE ANDERL: I hear no objection. Those
11 two documents will be admitted as identified, and Mr.
12 Johnson, do you have any questions for this witness?

13 (Admitted Exhibits T-79 and T-80.)

14 MR. JOHNSON: I have a few questions.

15

16 CROSS-EXAMINATION

17 BY MR. JOHNSON:

18 Q. Good morning, Mr. Woodruff.

19 A. Morning.

20 Q. Could you refer to page 4, please, of your
21 direct testimony, T-79. And specifically lines 20 to
22 21 on that page. Do you have that?

23 A. Yes, I do.

24 Q. Now, as I read your testimony, PERCC
25 objects to the proposed monthly customer charge for

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1 rate 57 for two reasons. One because you feel it's
2 not cost-based and, two, because you feel that it
3 will, as you use the words, obstruct access of
4 commercial customers to transportation. Is that a
5 fair reading of your testimony?

6 A. Yes, it is.

7 Q. And those are two distinct reasons in your
8 opinion, correct, why the company's charge should not
9 be adopted?

10 A. Right.

11 Q. I want to pose a hypothetical to you.
12 Let's assume that the company did in fact present what
13 you felt was a cost-based proposal for a customer
14 charge. Now, your position is that or your testimony
15 is that if the company were to do so and that customer
16 charge still obstructed access of smaller commercial
17 customers to transportation that the Commission should
18 reject that charge?

19 A. No, it's not. My position is that with the
20 customer charge -- as Mr. Ramirez stated yesterday, a
21 customer charge can be applied or the revenues
22 generated from those costs can be generated either by
23 a direct customer charge or it can be included into
24 the commodity. What I am suggesting is that whatever
25 the customer charge turns out to be in terms of

00571

1 reasonable cost to be allocated to transportation
2 customers that it be applied in a manner that is most
3 beneficial to these transportation customers.

4 Q. So your goal, as I understand it, is to
5 design a rate that achieves the most benefit for
6 transportation customers. Is that what I hear you to
7 say?

8 A. Not to design a rate but to apply a
9 customer charge.

10 Q. What would be a level of customer charge
11 that you feel would be appropriate?

12 A. Well, as I have tried to make out the
13 charges that the company has indicated are charges to
14 be allocated as customer -- and this is RJA-6 Exhibit
15 No. -- I don't know what the exhibit number is here.

16 JUDGE ANDERL: Let me find the reference so
17 that we will know what you're talking about. Is
18 this a document that was admitted during the first
19 round?

20 THE WITNESS: It was a document that was
21 admitted during the first round.

22 JUDGE ANDERL: RJA-6?

23 THE WITNESS: Right.

24 JUDGE ANDERL: That's Exhibit No. 17 in
25 this record. Go ahead.

00572

1 A. With all of the line numbers as they're
2 indicated with the executive and the regulatory
3 information and nomination, there's percentages
4 applied to these costs to be allocated to
5 transportation customers. Line No. 6, there's a
6 customer assistance and servicing charge of 255,000
7 with a 25 percent allocation to the transportation
8 customers. Then as these numbers are developed the
9 total customer charge is divided by the 36 customers
10 and there's a charge that comes out of that at \$629.

11 The basis for the percentages on lines 1
12 through 5 are supported in Mr. Amen's -- I think it
13 was his direct testimony, testimony in the first
14 round, as it being a percentage of budget and that is
15 just some way to allocate those executive and
16 regulatory costs, and for the transportation office it
17 was developed through some time studies of what actual
18 amount of time was spent towards transportation. For
19 the customer service and assistance, if 36 customers
20 is 15 percent of the total customers in schedules 85
21 and 87 as indicated on page 2, so right there there's
22 a question in my mind of where that percentage of 25
23 percent came from.

24 MR. JOHNSON: Your Honor, may I interject?
25 I wasn't asking Mr. Woodruff to critique the exhibit.

00573

1 I was asking him what rate in his opinion or what
2 charge in his opinion would be appropriate and maybe
3 he's leading up to that but I don't see the end of
4 this recitation here.

5 JUDGE ANDERL: Are you leading up to it?

6 THE WITNESS: Well, based on 56 customers a
7 reasonable charge would be in my calculation \$400.

8 Q. Isn't it true, though, Mr. Woodruff that at
9 \$400 some commercial customers out there based on the
10 economics of their business are still going to find
11 transportation to not be economic for their own
12 purposes?

13 A. That's true.

14 Q. So no matter what customer charge the
15 Commission sets, we're not going to be able to please
16 everybody; is that right?

17 A. That's correct.

18 Q. And you would agree that it is appropriate
19 that the company recover its costs in the scope of the
20 customer charge. You would agree with that?

21 A. I would, yes.

22 Q. Now, you also state that PERCC's members
23 are hospitals and schools, correct?

24 A. That's correct.

25 Q. Hospitals and schools are one type of

00574

1 commercial customer under the company's rate
2 schedules, correct?

3 A. That's correct.

4 Q. I just want to make sure in your testimony
5 that you're not claiming that hospitals are entitled
6 to lower rates and charges for transportation service
7 just because they are hospitals and not some other
8 type of customer?

9 A. That's correct.

10 Q. And the same position would extend to
11 schools. You're not making that statement or position
12 with respect to schools just because they happen to be
13 schools?

14 A. That's correct.

15 MR. JOHNSON: I have nothing further.

16 JUDGE ANDERL: Thank you. Ms. Pyron, you
17 had some questions for this witness?

18 MS. PYRON: Just a few.

19

20 CROSS-EXAMINATION

21 BY MS. PYRON:

22 Q. Good morning, Mr. Woodruff.

23 A. Morning.

24 Q. Mr. Woodruff, in reviewing your prefiled
25 testimony, T-79 at page 6, and in reviewing Mr. Amen's

00575

1 rebuttal of your testimony on page 11, I had some
2 confusion and a couple of questions related to PERCC's
3 position on the contract term for transportation
4 service. And on page 6 of T-79 beginning at line 20
5 through the end of the page, do you see where I'm at?
6 Let me give you time to get there.

7 A. Okay.

8 Q. And the question I had was just to clarify,
9 can you explain for me, are you advocating a one-year
10 term with a term of service for a transportation
11 customer?

12 A. Yes.

13 Q. And what do you mean by a 30-day prior
14 notification for a change of service that's referenced
15 on line 22?

16 A. The 30-day prior notification for a change
17 of service would be 30 days prior to the end of the
18 one-year contract.

19 Q. And by change of service what do you mean?

20 A. By requesting conversions, for example,
21 from transportation back to service or back to a sales
22 rate.

23 MS. PYRON: No further questions.

24 JUDGE ANDERL: Let's see who is next. Mr.
25 Frederickson.

00576

1 MR. FREDERICKSON: I have no questions.

2

3 CROSS-EXAMINATION

4 BY MR. TROTTER:

5 Q. I'm not sure I understood the last question
6 and answer. Could you amplify on your response?

7 A. What we're proposing for some terms and
8 conditions is to have a one-year term for the contract
9 and have a 30-day prior notification if a customer
10 would choose to convert, for example, from
11 transportation to the sales rate, and to not allow
12 this to take place during December, January or
13 February, which is the heating season. This is in
14 response to the company's testimony that they need to
15 have prior notice for customers to convert. That by
16 doing this, if, for example, a customer would decide
17 to convert -- if their contract term came up in
18 December, for example, and November 1 would give
19 notification to convert, that would not be able to
20 take place until March 1 because of the restriction of
21 having December, January and February. So in effect
22 it limits only September, October and November, I
23 believe, as three months for a customer to convert and
24 the company not be aware of that prior to their August
25 deadline or their August planning.

00577

1 Q. Now, you indicate that on page 6 in your
2 testimony that businesses cannot reasonably plan ahead
3 for the natural gas needs two years into the future.
4 Do you see that?

5 A. Yes.

6 Q. And did you do a policy of PERCC or is this
7 based on your experience with Multicare health system?

8 A. My experience with the budget process is
9 just that each year we would look at our previous
10 year's performance with transportation and want to
11 come to some decision for the subsequent year of
12 whether we would want to choose to transport or not
13 and that this is an annual process in the same way
14 that the company annually looks at their gas costs and
15 renegotiates gas prices.

16 Q. Can the company do a better job planning
17 ahead for Multicare's gas needs two years in advance
18 than Multicare?

19 MS. ARNOLD: Objection to the form of the
20 question. Did you mean can Washington Natural Gas --

21 Q. Do a better job for planning ahead for
22 Multicare's gas needs two years in advance than
23 Multicare can?

24 A. I really don't know how to answer that
25 question. I don't know that I understand.

00578

1 Q. Does the company know your gas needs better
2 than you do?

3 A. I would say not.

4 MR. TROTTER: Nothing further.

5 JUDGE ANDERL: Ms. Egeler.

6

7 CROSS-EXAMINATION

8 BY MS. EGELER:

9 Q. Mr. Woodruff, you stated that you thought
10 that \$400 would be a reasonable customer charge. Can
11 you show me how you made that calculation?

12 A. The calculation is based upon the 25
13 percent allocation of customer assistance and
14 servicing on line 6 of Exhibit 17. 25 percent is 56
15 customers. 25 percent of 224 customers on page 2.

16 MS. EGELER: I have nothing further.

17 JUDGE ANDERL: Do the Commissioners have
18 any questions for this witness?

19 COMMISSIONER HEMSTAD: I don't.

20 COMMISSIONER GILLIS: I have a couple.

21

22 EXAMINATION

23 BY COMMISSIONER GILLIS:

24 Q. I understand PERCC's representing hospitals
25 and schools. It may be in here but I didn't see it in

00579

1 your testimony of what proportion of those are now
2 transportation customers?

3 A. I'm not certain. For hospitals I know
4 personally it's six or seven hospitals that are
5 transporting right now.

6 Q. Could you characterize those? Are they
7 large or small?

8 A. They're larger customers, yes.

9 Q. From your testimony, it appears that you're
10 suggesting that there's a number of other members of
11 PERCC that would benefit from becoming transportation
12 customers as opposed to sales customers?

13 A. That's correct.

14 Q. And you would like to see the conditions
15 set to encourage that?

16 A. That's correct.

17 Q. My question is, do you see any costs that
18 are imposed upon the system? What I'm thinking of,
19 when a recurrent sales customer leaves the system to
20 become a transportation customer, do you see any costs
21 that are imposed upon the system that remain for the
22 sales customers to pick up as a result?

23 A. I am not -- I couldn't answer what costs
24 the company would incur or how that would be. I've
25 tried to listen to this all through the collaborative

00580

1 and through the testimony and I couldn't answer that
2 question.

3 Q. So you wouldn't have an opinion about
4 whether the LDC would have some additional upstream
5 management costs to deal with as a result of --

6 A. I couldn't testify to that, no.

7 COMMISSIONER GILLIS: Thank you.

8 JUDGE ANDERL: Mr. Woodruff, let me just
9 ask you a clarifying question. When you did the
10 calculation of the customer charge based on 56
11 customers, it's not your testimony that you believe
12 that the company currently has 56 customers under that
13 rate schedule, is it?

14 THE WITNESS: No, it's not.

15 JUDGE ANDERL: Ms. Arnold, anything on
16 redirect?

17 MS. ARNOLD: No questions.

18 JUDGE ANDERL: Thank you, Mr. Woodruff, for
19 your testimony. You may step down.

20 Ms. Pyron.

21 MS. PYRON: Go off the record and number
22 the exhibits.

23 JUDGE ANDERL: Your next witness will be
24 Mr. Lavigne. We'll be off the record.

25 (Recess.)

00581

1 JUDGE ANDERL: Let's be back on the record.
2 While we were off the record Mr. Lavigne took the
3 witness stand. We also identified his testimony and
4 exhibits with exhibit numbers. I will do that now for
5 the record. His prefiled rebuttal testimony is
6 Exhibit T-81 for identification. His SRL-1 is Exhibit
7 82 for identification. That's an eight-page document,
8 and his SRL-2, which is a single page, is Exhibit 83
9 for identification. In addition, Mr. Frederickson
10 distributed a multi-page document which is entitled
11 Response of Northwest Industrial Gas Users to Public
12 Counsel Data Request 13. That is Exhibit No. 84 for
13 identification.

14 (Marked Exhibits T-81, 82 - 84.)

15 Whereupon,

16 STEVEN LAVIGNE,
17 having been first duly sworn, was called as a witness
18 herein and was examined and testified as follows:

19

20 DIRECT EXAMINATION

21 BY MS. PYRON:

22 Q. Morning, Mr. Lavigne. Would you please
23 state your full name for the record and spell your
24 last name.

25 A. My name is Steve R. Lavigne, spelled L A V

00582

1 I G N E.

2 Q. Mr. Lavigne, do you have before you what's
3 been marked as your testimony as Exhibit T-81 and two
4 exhibits 82 and 83, SRL-1 and SRL-2?

5 A. Yes, I do.

6 Q. Were these prepared by you or under your
7 direction?

8 A. Yes, they were.

9 Q. Do you have any corrections to make to any
10 of these -- the testimony or the exhibits?

11 A. Yes, I do. I have one correction to T-81.
12 On page 3, line 18, 39 industrial gas users, the
13 number should be 36.

14 Q. Other than this one correction on page 3,
15 line 18, do you have any other corrections to make?

16 A. No, I do not.

17 Q. This would be your testimony today?

18 A. Yes, it would.

19 MS. PYRON: Move for the admission of
20 Exhibit T-81 and the Exhibits 82 and 83.

21 JUDGE ANDERL: Any objection from any
22 party?

23 Hearing none those three exhibits will be
24 admitted as identified.

25 (Admitted Exhibits T-81, 82 and 83.)

00583

1 MS. PYRON: Mr. Lavigne is available for
2 cross-examination.

3 MR. JOHNSON: Thank you, Your Honor.

4

5 CROSS-EXAMINATION

6 BY MR. JOHNSON:

7 Q. Morning, Mr. Lavigne.

8 A. Morning, Mr. Johnson.

9 Q. You work for Grant Valley Gas?

10 A. I work for Associated Gas Services.

11 Q. You're right. Is Associated Gas Services a
12 member of NWIGU?

13 A. We are not a member of NWIGU. We sell gas
14 to NWIGU and handle some of their firm transportation
15 capacity on behalf of the NWIGU customers.

16 Q. I would like to turn to page 4 of your
17 rebuttal testimony, please. And specifically the
18 third bullet on that page you propose a recommendation
19 for monthly balancing at that part of the page, don't
20 you?

21 A. Yes, I do.

22 Q. And in that bullet you recommend a 45-day
23 makeup period after notification of a potential
24 penalty situation, correct?

25 A. 45 nonconstraint day.

00584

1 Q. 45 nonconstraint days?

2 A. Yes.

3 Q. And you say that those provisions are, I
4 think in your words, appropriate because they are,
5 quote, no more stringent than Northwest Pipeline's
6 requirements, right?

7 A. Yes.

8 Q. Now, turning to page 16 of your testimony,
9 at lines 6 through 7 you say that notification could
10 occur up to the 15th of the month; is that right?

11 A. Up to the 15th of the following month.

12 Q. 15th of the following month. So just doing
13 simple math then, if notification is made on the 15th
14 day of the month and then 45-day makeup period would
15 start running from that 15th, what we really have here
16 under your proposal is up to 60 days for balancing,
17 correct?

18 A. From the end of the month where the
19 customer is out of balance, that's correct.

20 Q. And that compares, again, to a 30-day
21 period under the company's proposal, right?

22 A. That's what I understand. I'm not that
23 familiar with the company's proposal.

24 Q. Oh, you're not?

25 A. No.

00585

1 Q. Turn back to page 8, please, of your
2 testimony. Lines 8 and 9 you refer to Northwest
3 Pipeline's tariff, and the penalty that is assessed on
4 excess and balances over 5 percent of \$15 per MMBTUS
5 do you see that?

6 A. Yes, I do.

7 Q. Is that equivalent to \$1 per therm?

8 A. Yes, it is.

9 Q. But you're not advocating a \$10 per MMBTU
10 or \$1 per therm penalty in this proceeding, are you,
11 for excess balances that the company -- under the
12 company's tariff? You're not advocating that, are
13 you?

14 A. I'm advocating for anything over a 5
15 percent balance at the end of the 45-day period a
16 penalty of some sort.

17 Q. But that penalty of some sort is not
18 equivalent to Northwest Pipeline's penalty, is it?

19 A. No.

20 Q. So if I understand your testimony
21 correctly, you're advocating a balancing tolerance
22 band that mirrors the features in Northwest Pipeline's
23 tariff but penalty charges that do not, correct?

24 A. Correct.

25 Q. Turning to page 11 of your testimony, lines

00586

1 20 through 21 you state, and I quote, "There is no
2 economic gain or loss realized by the company if those
3 parameters and time frame," that you referred to, "are
4 set in relationships to Northwest's monthly balancing
5 requirements." Do you see that?

6 A. Yes.

7 Q. What specifically do you mean by economic
8 gain or loss in that context?

9 A. In that situation the company, Washington
10 Natural Gas, doesn't have to pay any kind of penalty
11 within that time frame as long as within that time
12 frame those requirements are made up is what I was
13 attempting to say there.

14 Q. So apart from what you just defined, do you
15 have any knowledge or are you aware of any other
16 impacts that the company might incur if those
17 parameters and time frames were set pursuant to
18 Northwest's monthly balancing requirements?

19 A. No, I'm not familiar with any, that there
20 would be any.

21 Q. So you wouldn't have any knowledge,
22 correct?

23 A. No.

24 Q. Now, lastly, Mr. Lavigne, could you turn to
25 page 17 of your testimony, line 18. And you state at

00587

1 this part of your testimony that the company won't
2 incur any costs as the pipeline's receiving party
3 under Northwest's tariffs because of the netting out
4 of the daily diversity among transportation customers.
5 Do you see that testimony?

6 A. Yes, I do.

7 Q. What's the basis for that statement,
8 please, that the company won't incur any costs?

9 A. I assume in that type of a situation there
10 are some parties taking in excess of their nominations
11 and some parties taking less than their nominations,
12 so the net amount, the net change in the volumes along
13 with the ability to take additional gas from Northwest
14 Pipeline or leave gas on Northwest Pipeline that they
15 don't need that the company wouldn't incur any costs
16 as a result of that.

17 Q. So that's the extent of the costs that
18 you're -- that's the extent of your statement then,
19 what you mean by costs?

20 A. Yes.

21 MR. JOHNSON: I have nothing further.

22 JUDGE ANDERL: Thank you. Ms. Arnold, did
23 you have any questions for this witness?

24 MS. ARNOLD: No questions.

25 JUDGE ANDERL: Mr. Frederickson, go ahead.

00588

1

2

CROSS-EXAMINATION

3 BY MR. FREDERICKSON:

4 Q. Mr. Lavigne, you have before you Exhibit
5 84; is that correct?

6 A. Yes, I do.

7 Q. Was that prepared by you or under your
8 supervision?

9 A. Yes, it was.

10 Q. Does what has been marked for
11 identification as Exhibit 84 constitute NWIGU's
12 response to public counsel request No. 13?

13 A. Yes, it does.

14 Q. So, in other words, this is NWIGU's answer
15 to public counsel responding to request 13?

16 A. Yes, it is.

17 MR. FREDERICKSON: Move for the admission
18 of Exhibit 84.

19 JUDGE ANDERL: Any objection?

20 Hearing none Exhibit 84 will be admitted as
21 identified.

22 (Admitted Exhibit 84.)

23 Q. Mr. Lavigne, from your qualifications I
24 note that you were employed by Northwest Pipeline
25 during the period 1985 through 1993 and that you had

00589

1 responsibility in connection with rates and tariffs;
2 is that correct?

3 A. Yes. I was actually employed by Northwest
4 from 1974 to 1993. For the period of 1985 to 1993 I
5 was in the regulatory affairs department.

6 Q. Do you currently have knowledge regarding
7 the design of Northwest Pipeline's rates?

8 A. Yes, I do.

9 Q. What's the basis for that knowledge
10 subsequent to the termination of your employment with
11 Northwest Pipeline?

12 A. I was involved in the filing of RP-935
13 which is a rate case that now has initial decision
14 from the law judge and is awaiting a final Commission
15 approval, and the rate case, the most recent rate case
16 that was filed by Northwest Pipeline, RP-9420, I'm an
17 intervenor and have been following that rate case.

18 Q. Mr. Lavigne, I would like to ask you a
19 question regarding some testimony that is sponsored by
20 Mr. Lazar. I refer to line or page 20, line 30 of his
21 testimony.

22 JUDGE ANDERL: Mr. Frederickson, is the
23 witness going to need to look at that?

24 MR. FREDERICKSON: I'm going to read it to
25 him, Your Honor.

00590

1 Q. Mr. Lazar states and I quote, "Second,
2 Northwest Pipeline has included significant costs
3 associated with balancing in their general rates.
4 These are paid by Washington Natural Gas as a firm
5 capacity customer on the pipeline but are not paid by
6 industrial transportation customers who purchase only
7 interruptible service directly from the pipeline." My
8 question to you, sir, is that statement correct?

9 A. I assume what Mr. Lazar is talking about in
10 that statement when he's talking about the balancing
11 costs is mainly the storage and the line pack on
12 Northwest Pipeline, and as such those rates are
13 embedded in the firm transportation rate and the
14 interruptible transportation rate is 100 percent load
15 factor rate off that firm rate, so the costs for that
16 line pack and Clay Basin storage and Jackson Prairie
17 storage or any balancing costs or, for that matter,
18 any costs at all are paid equally by a firm
19 transportation customer as well as an interruptible
20 transportation customer.

21 Q. I gather the answer to my basic question is
22 that he's incorrect and that you have explained why he
23 is incorrect?

24 A. Yes.

25 MR. FREDERICKSON: I have no further

00591

1 questions, Your Honor.

2 JUDGE ANDERL: Thank you, Mr. Frederickson.

3 Mr. Trotter.

4

5 CROSS-EXAMINATION

6 BY MR. TROTTER:

7 Q. Looking at the first page of Exhibit 84,
8 bottom paragraph, second sentence, you state that the
9 interruptible rates of Northwest Pipeline are based --
10 are premised upon a 100 percent load factor derivative
11 of the TF-1 large customer rate; is that correct?

12 A. That's correct.

13 Q. Do all interruptible customers use gas at a
14 100 percent load factor?

15 A. No.

16 Q. Turn to page --

17 A. If I could clarify that. The answer to
18 that is no, and to the extent that they're
19 transporting gas at less than 100 percent load factor
20 rate they're paying more than the firm rate. To the
21 extent they transported in excess of 100 percent load
22 factor rate, they're paying less than 100 percent load
23 factor rate.

24 Q. Just explain how that is represented by
25 that sentence on page 1.

00592

1 A. It's represented by the 100 percent load
2 factor derivative of the TF-1 large customer rate. So
3 what that's saying is if the 100 percent load factor
4 rate is 29 cents and they only move 50 percent of
5 their volumes they're paying 29 cents per MCF but they
6 didn't move 100 percent of their contract demand so
7 they're paying something in excess of the 100 percent
8 load factor rate because at the 100 percent load
9 factor rate they could have moved their contract
10 demand every day of the month and didn't choose to do
11 so. For instance, if the rate --

12 Q. If they move gas 10 days a month they would
13 have a 33 percent load factor?

14 A. Yes.

15 Q. And they would pay the 29 cents times 10;
16 is that correct?

17 A. Times 10 times the volumes they moved.
18 If the interruptible rate was designed on a 50 percent
19 load factor instead of 100 percent load factor the
20 interruptible rate would be higher. If the
21 interruptible rate was designed on a 150 percent load
22 factor instead of 100 percent load factor the
23 interruptible rate would be lower.

24 Q. Let me go back to my hypothetical, a
25 customer that uses gas 10 days a month and has a 33

00593

1 percent load factor.

2 A. Yes, if they move that contract demand, if
3 they have a contract demand of a thousand MCF and they
4 move that thousand MCF every day for 10 days then it
5 would be 33 and a third percent load factor, yes. If
6 they have a contract demand of a thousand MCF and move
7 800 MCF for 10 days then they have something less than
8 a 33 percent load factor. You have to take a contract
9 demand, Mr. Trotter.

10 JUDGE ANDERL: Speak a little bit more
11 slowly.

12 A. You have to take whatever the contract
13 demand is, times it by 30 for the number of days in
14 that month, and divide it by the volumes that they
15 transport for that month to get the load factor.

16 Q. Done? Are you done?

17 A. Yes.

18 Q. And under the hypothetical that we're
19 talking about they would pay about a third of the rate
20 of a TF-1 reservation charge, is that correct, plus
21 the TF-1 volumetric?

22 A. No.

23 MS. PYRON: I have to object to the form of
24 the question. Is the "they" a firm or an
25 interruptible customer? I don't know what you're

00594

1 asking, Mr. Trotter.

2 Q. Let's go to page 3 of your Exhibit 84. And
3 if you are an interruptible customer and you transport
4 10 days a month you're going to pay 28.37 cents, which
5 is the TF-1 volumetric rate; is that correct?

6 A. No, that's not.

7 Q. Excuse me, the TI-1 volumetric rate?

8 A. That's correct.

9 Q. And if you're a firm customer you're going
10 to pay at the top of this sheet under the base tariff
11 rate the TF-1 reservation charge plus the TF-1
12 volumetric rate; is that correct?

13 A. Yes.

14 Q. Turn to page 14 of your testimony. And
15 this chart that you show on this page is based on the
16 Exhibit JL-7 of Mr. Lazar that he distributed with
17 his direct testimony; is that correct?

18 A. The last column, I believe, comes off Mr.
19 Lazar's exhibit.

20 Q. And were you aware that that exhibit has
21 been revised?

22 A. No, I'm not.

23 Q. And if that exhibit has been revised -- so
24 you have not changed your chart to reflect the
25 revisions in his exhibit?

00595

1 A. When was that revised? When was that
2 exhibit revised?

3 Q. It was distributed last week.

4 A. Last week?

5 Q. Yes.

6 A. Then this isn't representative of that
7 revision.

8 Q. Your JL-2, Exhibit 83 --

9 JUDGE ANDERL: SRL.

10 Q. I'm sorry. SRL-2, Exhibit 83, reflects the
11 actual values as you computed them at the time you
12 distributed your case; is that correct?

13 A. Could you repeat that, Mr. Trotter.

14 Q. Are you on Exhibit 83?

15 A. Yes, I am now.

16 Q. Right-hand column?

17 A. Yes.

18 Q. These are the actual values that you
19 computed based on the data supplied; is that correct?

20 A. Data supplied by the company.

21 Q. And that right-hand column is different
22 than the column, same column on page 14 of your
23 testimony, correct?

24 A. Different than what? You're trying to
25 compare the percentages on page 14?

00596

1 Q. The data underlying the public counsel
2 percentage imbalance you show on page 14 different
3 than the line you show on the right-hand column of
4 Exhibit 83?

5 A. The information that's on page 14 of my
6 testimony did not come off Exhibit No. 83.

7 Q. You haven't compared your Exhibit 83 with
8 the revised Exhibit JL-7 because you haven't seen
9 revised JL-7; is that correct?

10 A. That's correct.

11 Q. Based on your experience as a gas marketer,
12 Mr. Lavigne, is gas typically cheaper in the summer
13 than in the winter?

14 A. First of all, I'm not a gas marketer, but
15 my understanding would be that, generally speaking,
16 that demand for gas is lower in the summer than in the
17 winter and the price would be lower.

18 MR. TROTTER: Nothing further, thank you.

19 JUDGE ANDERL: Ms. Egeler.

20 MS. EGELER: No questions.

21 JUDGE ANDERL: Any questions from the
22 Commissioners for this witness?

23 COMMISSIONER HEMSTAD: No.

24 COMMISSIONER GILLIS: No questions.

25 JUDGE ANDERL: Anything on redirect?

00597

1 MS. PYRON: I have a little.

2

3 REDIRECT EXAMINATION

4 BY MS. PYRON:

5 Q. Mr. Lavigne, turning to your testimony on
6 page 14, the last column, is it correct that the last
7 column only was taken from the original JL-7 of public
8 counsel?

9 A. Yes.

10 Q. And is it correct that the numbers shown
11 under the first column labeled actual -- second column
12 after the customer account number, actual percentage
13 imbalance at the meter and actual aggregate imbalance
14 under the tariffs, are from the company and the
15 customers themselves and they're not affected by any
16 revisions to JL-7?

17 A. Yes, that's correct.

18 MS. PYRON: Thank you.

19 JUDGE ANDERL: Any further cross based on
20 that then?

21 Hearing no response I will thank you, Mr.
22 Lavigne, for your testimony. You may step down.

23 MS. PYRON: I have Mr. Schoenbeck.

24 JUDGE ANDERL: Why don't we go ahead and
25 take our morning recess then.

00598

1 (Recess.)

2 JUDGE ANDERL: Let's be back on the record
3 after our morning recess. While we were off the
4 record NWIGU's witness, Mr. Schoenbeck, took the
5 stand. We also marked his testimony and exhibits. I
6 will identify those documents now for the record. Mr.
7 Schoenbeck's prefiled direct testimony is Exhibit
8 T-85. His prefiled rebuttal testimony is Exhibit
9 T-86, and his DWS-1, which is a three-page exhibit
10 consisting of graphs or chart, is Exhibit 87 for
11 identification, and then Ms. Egeler distributed an
12 exhibit that she's going to offer which is entitled
13 Response of WUTC Staff to NWIGU Data Request No. 1.
14 That is Exhibit No. 88 for identification.

15 (Marked Exhibits T-85, T-86, 87 and 88.)

16 Whereupon,

17 DONALD SCHOENBECK,
18 having been first duly sworn, was called as a witness
19 herein and was examined and testified as follows:

20

21 DIRECT EXAMINATION

22 BY MS. PYRON:

23 Q. Good morning, Mr. Schoenbeck.

24 A. Good morning.

25 Q. Would you please state your full name for

00599

1 the record and spell your last name.

2 A. My name is Donald W. Schoenbeck. That's

3 S C H O E N B E C K.

4 Q. And do you have before you, Mr. Schoenbeck,

5 what has been marked as T-85, the direct testimony of

6 Donald Schoenbeck, with an appendix A, what has been

7 marked as the rebuttal testimony of Donald Schoenbeck,

8 which is Exhibit T-86, and a three-page exhibit which

9 has been marked Exhibit 87?

10 A. Yes, I do.

11 Q. And did you prepare those or were they

12 prepared under your direction?

13 A. Yes, they were.

14 Q. And do you have any corrections to make to

15 these exhibits?

16 A. Yes, I do. I have a correction to T-86.

17 It's at page 4.

18 Q. I'm sorry, Mr. Schoenbeck, page 4?

19 A. Yes.

20 JUDGE ANDERL: That's of your rebuttal

21 testimony?

22 THE WITNESS: Yes, it is.

23 A. It's basically the first column which is

24 labeled the date in the chart that is on page 4.

25 There is a corrected data response given where under

00600

1 fiscal year 1991 where you see the first day is
2 denoted as January 1, 1991. In actuality all those --
3 the months and the years should be replaced with
4 December of '90. So in other words, the Arabic 1
5 should become an Arabic 12 and the Arabic '91
6 designating the year should actually be '90. So for
7 those five lines which are lines 6, 7, 8, 9 and 10,
8 all those firm demands and interruptible demands
9 actually occurred in December of 1990 on the specific
10 dates that are designated there, the 18th, 19th, 20th
11 and 21st and 28th. That's the only correction I have
12 to the testimony.

13 Q. That's as a result of the correction by the
14 company in a data request?

15 A. Yes, that is correct.

16 Q. Other than those corrections that you've
17 identified to your T-86, would this be your testimony
18 before Commission today, T-85, T-86 and Exhibit 87?

19 A. Yes, it is.

20 MS. PYRON: Move for the admission of T-85,
21 86 and 87.

22 JUDGE ANDERL: Any objection to those
23 documents being made part of the record?

24 I hear none. Those three exhibits will be
25 admitted as identified.

00601

1 (Admitted Exhibits T-85, T-86 and 87.)

2 MS. PYRON: Mr. Schoenbeck is now available
3 for cross-examination.

4 JUDGE ANDERL: Mr. Johnson.

5 MR. JOHNSON: We have nothing, Your Honor.

6 JUDGE ANDERL: Ms. Arnold.

7 MS. ARNOLD: We have no questions.

8 JUDGE ANDERL: Mr. Frederickson.

9 MR. FREDERICKSON: No questions.

10 JUDGE ANDERL: Mr. Trotter.

11

12 CROSS-EXAMINATION

13 BY MR. TROTTER:

14 Q. Good morning, Mr. Schoenbeck.

15 A. Morning, Mr. Trotter.

16 Q. Mr. Schoenbeck, would you generally agree
17 that there are two generic types of cost of service
18 studies, one being embedded or fully allocated cost of
19 service studies and the other being marginal or
20 incremental cost of service studies?

21 A. Yes, I would. As long as you define the
22 marginal incremental being both either an LRIC, which
23 is stated, or a short-run marginal cost service.

24 Q. And the company cost of service study
25 including the case 2 study that you are endorsing are

00602

1 embedded cost studies?

2 A. Yes, they are.

3 Q. You are generally familiar with the peak
4 credit embedded cost of service method which this
5 Commission has accepted over the years for electric
6 cost of service?

7 A. Yes, I am. The peak credit method is just
8 one portion of a cost of service study. It is a
9 method for classifying costs generally between demand
10 and energy.

11 Q. Would you agree that a goal of the peak
12 credit method is to identify the portion of the fixed
13 costs, the base load resources, which is attributing
14 to peaking services?

15 A. That is basically the intent of the
16 methodology is to look at tradeoffs in alternate
17 available resources. Generally the method is applied
18 looking at a peaking resource and a base load
19 resource.

20 Q. And in developing the classification
21 factors in the peak credit method, the analyst
22 generally compares the incremental fixed cost and
23 variable cost a utility would face for a peaking
24 resource to the total fixed and variable cost that a
25 utility fixed for base load resources; is that

00603

1 correct?

2 A. Yes. That's what I explained in my
3 testimony. Originally when the peak credit method was
4 adopted early on in the late '70s, it generally just
5 looked at the fixed costs of the peaking resource and
6 the fixed cost of the base load resource. Now, as it
7 is generally applied it is looking at the total cost
8 of the peaking resource and the total cost of the
9 embedded resource, and as Mr. Trotter pointed out, it
10 generally uses the incremental cost of those resources
11 that are available to the utility, not the actual
12 embedded cost of those comparable resources which the
13 utility may own the purchase.

14 Q. Turn to page 12 of your direct testimony,
15 T-85. And at the bottom of the page and over to the
16 next page you are discussing the reasons why you
17 believe capacity-related costs should not be assigned
18 to interruptibles; is that right?

19 A. Yes. This is the portion where I'm
20 recognizing for potentially pricing purposes or for
21 the recovery of the costs there may be a contribution
22 of the firm capacity-related costs, but I consider
23 that a separate issue from the costing methodology
24 which there I believe the correct way is to not
25 allocate any fixed -- demand-related fixed costs to

00604

1 the interruptible class.

2 Q. Let me focus on the latter part of your
3 answer you just gave. Would you include the demand
4 charge or reservation fee associated with firm gas
5 supply contracts as demand-related?

6 A. I would recognize it as a demand-related
7 cost, but as I said in my testimony one of the things
8 I agreed with was the idea that the firm
9 capacity-related costs associated with gas supply
10 should be allocated solely to firm customers.

11 Q. What about the demand charge component of
12 the Northwest Pipeline TF-1 rate?

13 A. That's one of the costs I believe should be
14 allocated to firm customers. Obviously what the
15 testimony is addressing was the delivery-related
16 component of getting service to the various customers
17 including transportation customers. Transportation
18 customers actually pay the TF or the TI charges
19 directly to Northwest Pipeline, so certainly I think
20 it would be inappropriate to have those same customers
21 to pay those costs twice, one directly to the supplier
22 and once to the LDC.

23 Q. Are you done?

24 A. Yes, I am.

25 Q. My question is I take it it's your opinion

00605

1 that that's a demand-related cost?

2 A. Yes, it is.

3 Q. And that was the focus of my question. Is
4 it your opinion that the fixed cost associated with
5 distribution mains is a demand-related cost?

6 A. Yes. Generally, and I believe it's
7 illustrated by the graphs attached to my exhibit. The
8 company exhibit T-86. If you could turn to those for
9 a moment.

10 Q. The question was whether you're classifying
11 them as demand-related costs. I think your answer was
12 yes?

13 A. Yes, and I'm explaining why I believe that
14 is the appropriate thing to do.

15 MR. TROTTER: Your Honor, that wasn't the
16 question.

17 JUDGE ANDERL: That's correct. Mr.
18 Schoenbeck, you may be able to give your explanation
19 on redirect but not now.

20 THE WITNESS: Very good.

21 Q. Now, in support of your testimony you cite
22 the bottom of page 13 and over to 14 an excerpt from
23 the Bonbright Principles of Public Utility Rates; is
24 that correct?

25 A. Yes, I do.

00606

1 MR. TROTTER: I have a one-page exhibit
2 which is page 504 from the treatise that the witness
3 has testified to.

4 JUDGE ANDERL: I will mark that as Exhibit
5 89 for identification.

6 (Marked Exhibit 89.)

7 Q. I notice you have the book with you and
8 it's the same one xeroxed?

9 A. I have page 504 marked as well as page 505

10 Q. And the excerpt that appears in your
11 testimony is from page 504, is that right, at least
12 the excerpt on line 6 through 35 of page 14?

13 A. That's true.

14 MR. TROTTER: Move for the admission of
15 Exhibit 89.

16 JUDGE ANDERL: Is there any objection?

17 MS. PYRON: If the witness has had a chance
18 to review it.

19 THE WITNESS: It's a correct copy of the --

20 MS. PYRON: No objection.

21 JUDGE ANDERL: There being no objection
22 then Exhibit 89 will be admitted as identified.

23 (Admitted Exhibit 89.)

24 MR. TROTTER: Nothing further. Thank you.

25 JUDGE ANDERL: Ms. Egeler.

00607

1

2

CROSS-EXAMINATION

3 BY MS. EGELER:

4 Q. Good morning, Mr. Schoenbeck.

5 A. Good morning.

6 Q. Would you please turn to page 26 of your
7 rebuttal testimony. Are you with me?

8 A. I have page 26 in front of me, yes.

9 Q. Referring to line 7 through 10 you state
10 that the staff has made it clear in the prefiled
11 testimony and in response to a data request that the
12 proposed base intermediate peak method is only for
13 assigning fixed supply costs. Do you see that?

14 A. Yes, I do.

15 Q. I passed out earlier a copy of a data
16 request and I left one up there for you at the corner
17 of the table. Do you have that before you? It's been
18 marked as Exhibit 88. Is that the data request that
19 you're referring to?

20 A. Yes, it is.

21 Q. And do you recognize that as a true and
22 correct copy of the data request and the response that
23 the staff supplied?

24 A. I accept that subject to check.

25 MS. EGELER: I would like to move for its

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1 admission but if you want to wait until you've had an
2 opportunity to check that, that would be fine.

3 JUDGE ANDERL: I think in fairness the
4 witness should have a chance to look it over.

5 MS. EGELER: That's fine with me.

6 JUDGE ANDERL: Perhaps we can accept a
7 representation of counsel then if the witness is off
8 the stand by the time he has a chance to do that.

9 MS. PYRON: Would that be acceptable?.

10 MS. EGELER: That's fine.

11 JUDGE ANDERL: I will withhold ruling on
12 Exhibit 88 then.

13 Q. You continue on your rebuttal testimony on
14 lines 10 through 14 stating that "until staff is
15 willing to recognize the obvious and real commodity
16 savings associated with serving year-round or off-
17 peak load versus the greater cost of serving winter
18 peak loads the base intermediate peak approach should
19 not be adopted." Do you see that?

20 A. Yes, I do.

21 Q. Like to turn your attention to the second
22 to the last sentence on the first page of the data
23 request response which has been marked as Exhibit 88.
24 And that begins with the words "for instance" at the
25 bottom of the page. Do you see where I am?

00609

1 A. Yes, I do.

2 Q. Would you please read that sentence?

3 A. It reads, "For instance, the company's
4 estimated average commodity cost of winter-only firm
5 supplies is 1.83 per MMBTU while its estimated average
6 commodity cost of summer-only spot is higher at a
7 1.86 per MMBTU."

8 Q. Since the company's commodity portion of
9 its winter firm supplies was less expensive than
10 summer spot supplies, how would one derive a lower
11 commodity cost for high load factor and off-peak
12 customers from this data?

13 A. I believe the appropriate thing to do is
14 use all of the company's supply portfolios, that is,
15 the winter peak firm, the spot purchases and the Clay
16 Basin injections and off-system sales, and you would
17 look at it on an individual basis. What is reflected
18 here is an aggregate number for many months and it
19 goes back to actually my point with Mr. Trotter. When
20 you're applying the peak credit method what is done in
21 the electric system is you do not look at the embedded
22 or accounting costs of the utility but you look at
23 what is the incremental cost of a new resource. You
24 look at the incremental cost of a peaking unit and you
25 look at the incremental cost of a new base load unit.

00610

1 As such, accordingly you could use indices such as the
2 name Mechanics Futures Index to look at the projected
3 seasonal differences in the commodity-related or
4 variable cost. What staff has reflected in this data
5 response is actually what the recorded costs were for
6 Washington Natural Gas. Under what I would believe an
7 appropriate application of the peak credit method
8 would be you would use a future price of commodity not
9 the embedded actual cost incurred by the utility for a
10 commodity.

11 Q. Has the the company allocated summer spot
12 on the summer methodology -- on the summer usage,
13 rather?

14 A. I would have to accept that subject to
15 check. In all the documents I brought I did not bring
16 the gas supply report from the company cost study.

17 Q. I'm getting that data from RAF-1. Let
18 me check the exhibit number on that.

19 JUDGE ANDERL: I have it here. RAF-1.

20 MS. EGELER: That's rebuttal so it wouldn't
21 have a number on that. Do you have a copy of the
22 company's rebuttal testimony exhibits?

23 A. Yes, I do.

24 Q. I guess it would be easier if we just asked
25 you subject to check.

00611

1 A. I stated that I would accept it subject to
2 check.

3 Q. Okay. Wouldn't it be possible for the
4 company to secure a relatively low commodity rate on
5 its winter firm contracts because of the high fixed
6 charges that it might agree to pay for such supplies?

7 A. Maybe not purely because of the high fixed
8 charges associated with the supplies, but in general
9 if there was a high utilization I would certainly
10 agree with that.

11 MS. EGELER: No further questions.

12 JUDGE ANDERL: Thank you, Ms. Egeler. Any
13 questions from the Commissioners for this witness?

14 COMMISSIONER HEMSTAD: I have none.

15 COMMISSIONER GILLIS: No questions.

16 JUDGE ANDERL: Thank you. Anything on
17 redirect then?

18 MS. PYRON: I have none.

19 JUDGE ANDERL: Thank you, Mr. Schoenbeck,
20 for your testimony. You may step down. Let's be off
21 the record for a minute.

22 (Recess.)

23 JUDGE ANDERL: Let's be back on the record.
24 While we were off the record the parties and Mr.
25 Schoenbeck had a chance to confer. You have a

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1 representation to make.

2 MS. EGELER: Yes, I do. The question was
3 is summer spot allocated on the basis of summer usage
4 and the witness has confirmed that the answer is no.

5 MS. PYRON: That's correct.

6 JUDGE ANDERL: Great. Thank you both for
7 taking care of that. Also while we were off the
8 record Mr. Lazar took the witness stand and we
9 identified his exhibits. I'll do that now for the
10 record. His prefiled direct testimony is Exhibit
11 T-90. His prefiled rebuttal testimony is Exhibit
12 T-91. He had previously submitted a confidential
13 exhibit marked JL-C-1. The last page of that document
14 will be removed and destroyed and balance of it is no
15 longer confidential so that is marked as Exhibit --
16 and it is testimony so it's also a T exhibit, Exhibit
17 T-92. His Exhibit JL-1 is Exhibit 93. JL-2 is
18 Exhibit 94. JL-3 is Exhibit 95. That's revised as of
19 12-1-94. His exhibit JL-4 is Exhibit 96. His JL-5 is
20 Exhibit 97. His JL-6 is Exhibit 98. JL-7 revised
21 December 1, 1994 and January 23rd, 1995 is Exhibit 99.
22 Exhibit JL-8 is Exhibit 100. Exhibit JL-10 is Exhibit
23 101. There is no Exhibit JL-9 or rather it has been
24 withdrawn so Exhibit JL-11 is Exhibit 102, and then
25 Mr. Johnson distributed a three-page document which is

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1 entitled Supplemental Response of Public Counsel to
2 Washington Natural Gas Data Request. We've marked
3 that for identification as Exhibit 103.

4 (Marked Exhibits T-90, T-91, T-92, 93 -
5 103.)

6 Whereupon,

7 JAMES LAZAR,

8 having been first duly sworn, was called as a witness
9 herein and was examined and testified as follows:

10

11 DIRECT EXAMINATION

12 BY MR. TROTTER:

13 Q. Would you please state your name and spell
14 your last name for the record.

15 A. My name is Jim Lazar, L A Z A R.

16 Q. What is your business address?

17 A. My address is 1063 Capital Way South,
18 Suite 202, Olympia, Washington 98501.

19 Q. Your occupation?

20 A. I'm a consulting economist specializing in
21 utility rate and resource studies.

22 Q. Are you under contract with public counsel
23 to present testimony and exhibits and other services
24 in this docket?

25 A. Yes, I am.

00614

1 Q. In the course of that undertaking have you
2 had cause to prepare testimony and exhibits?

3 A. Yes, I have.

4 Q. Referring you to what has been marked
5 Exhibit T-90, T-91, and T-92, does that constitute
6 your testimony in this docket?

7 A. Yes, it does.

8 Q. An errata sheet was distributed previously.
9 If I asked you any questions that appear in those
10 exhibits, would you give the answers that appear
11 there?

12 A. Yes, I would.

13 Q. And in the course of that testimony, you
14 refer to various exhibits that you were relying on or
15 that you prepared and/or that you prepared under your
16 direction?

17 A. Yes.

18 Q. And those are Exhibits 93 through 102; is
19 that correct?

20 A. Yes.

21 Q. And are those true and correct to the best
22 of your knowledge to the extent that you prepared them
23 and are they the ones that you relied on to the extent
24 that you did not prepare them?

25 A. Yes, they are.

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1 MR. TROTTER: Move for the admission of
2 Exhibits T-90 through 92 and Exhibits 93 through 102.

3 JUDGE ANDERL: Is there any objection to
4 those documents being made a part of the record?

5 I hear no objection. They will be admitted
6 as identified.

7 (Admitted Exhibits T-90, T-91, T-92, 93 -
8 102.)

9 JUDGE ANDERL: Mr. Trotter, before we go
10 any further, and just so I don't forget, I don't yet
11 have Exhibit 88 admitted into the record. What are we
12 doing with that now?

13 MS. EGELER: That was an exhibit that I
14 offered and the company said that they wanted time to
15 look at it and verify it.

16 JUDGE ANDERL: Is that still pending?

17 MS. EGELER: I don't know. I don't know
18 what they've done.

19 MS. PYRON: We would accept it into the
20 record, waive any objection.

21 JUDGE ANDERL: Thank you. Thank you very
22 much. I'm going to admit Exhibit 88 along with those
23 other exhibits then at this time.

24 (Admitted Exhibit 88.)

25 JUDGE ANDERL: Mr. Trotter, anything

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1 further?

2 MR. TROTTER: No. Witness is available.

3 JUDGE ANDERL: Mr. Johnson.

4

5 CROSS-EXAMINATION

6 BY MR. JOHNSON:

7 Q. Good morning, Mr. Lazar.

8 A. Good morning.

9 Q. Mr. Lazar, I've handed you what's been
10 marked for identification as Exhibit 103. Do you have
11 that?

12 A. Yes, I do.

13 Q. Do you recognize that exhibit as public
14 counsel's supplemental response to the company's data
15 request No. 7, the original response to No. 7 and the
16 response to No. 40?

17 A. Yes, I do.

18 Q. Just by way of clarification, the
19 supplemental response, is that intended to be in
20 addition to or in lieu of the original response?

21 A. In addition to.

22 Q. And were all of these responses prepared by
23 you?

24 A. Yes.

25 MR. JOHNSON: Move for admission, Your

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1 Honor.

2 JUDGE ANDERL: Any objection? I hear none.
3 That document will be admitted as identified. That's
4 Exhibit 103.

5 (Admitted Exhibit 103.)

6 Q. Like you to turn to page 50 of your direct
7 testimony, please, Exhibit T-90.

8 A. Yes.

9 Q. At the top of the page you talk about your
10 recommended contract term for transportation service.
11 Do you see that?

12 A. Yes, I do.

13 Q. And is it -- am I correct that you
14 recommend a minimum three-year term?

15 A. Yes, I do.

16 Q. And could you briefly contrast that with
17 the positions of the other parties just -- as I
18 understand it staff recommend two years and the
19 company recommends two years also; is that right?

20 A. Yes. And I believe that PERCC's witness
21 proposed that customers be allowed to switch on 30
22 days' notice and that the Industrial Gas Users'
23 witness proposed a one-year contract term, but
24 obviously those witness's testimony speaks for their
25 position.

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1 Q. Can you explain briefly why you recommend a
2 longer term for transportation service than the other
3 parties. Why, in your opinion, is three years
4 appropriate?

5 A. I looked at the gas supply contracts that
6 the company has and many of them are short-term but
7 several of them are much longer term, 10 years and
8 beyond. The real question was how quickly could the
9 company adjust its gas supply portfolio to most
10 economically serve an additional large volume sales
11 customer or how quickly could it shed most
12 economically supply if an existing large volume sales
13 customer desired to change to transportation service.
14 Obviously having some short-term contracts the company
15 can adapt its gas supply portfolio I think within the
16 two years time that the company proposed but not
17 necessarily economically.

18 What I did is I looked at the largest
19 customers on the system and compared those customers'
20 usage to the growth on the system. Because if a large
21 sales customer chooses to switch to transportation
22 service the company's other growth on the system in
23 time would take up that slack and the company would
24 continue to be able to economically use its long-term
25 contracts. And it looked to me that the largest of

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1 the customers on the system used something in the
2 neighborhood of three years of normal growth.

3 So if we had a three-year contract term the
4 company would be assured of having that customer stay
5 put, if you will, for the amount of time it would take
6 for its normal growth to catch up with the supply if
7 the customer were going to switch back to sales --
8 switch from sales to transportation service. It was
9 strictly based on a comparison of the largest customer
10 to growth on the system. As I state in my testimony,
11 the company can adapt more quickly but not necessarily
12 economically.

13 MR. JOHNSON: I have no further questions.

14 JUDGE ANDERL: Thank you very much, Mr.
15 Johnson. Ms. Arnold.

16

17 CROSS-EXAMINATION

18 BY MS. ARNOLD:

19 Q. Mr. Lazar, in your direct testimony you
20 address the appropriateness of the customer charge for
21 the residential class. Do you have an opinion as to
22 the appropriateness of the customer charge proposed
23 for transportation customers?

24 A. In general I think the customer charges
25 should recover only those costs that the Commission

00620

1 has consistently set forth as being customer-related,
2 the meter reading and billing costs. In case of a
3 transportation customer, those costs are made more
4 complex by the nomination process, but it seems to me
5 that if the company had a substantial increase in the
6 number of transportation customers that it ought to be
7 able to perform the functions associated with the
8 nominations process, meter reading and billing, for
9 significantly less than \$650 a month. I work with
10 some electric utilities that have very sophisticated
11 metering and billing procedures for their large
12 industrial customers and they're able to accommodate
13 that with telemetry and sophisticated metering for a
14 fraction of \$650 a month, like \$100 a month. But it
15 would require -- right now there's 34 or 36
16 transportation customers. That's not many to spread a
17 complex process over, but if the number were to grow
18 significantly I would expect that cost to come down
19 and in a future proceeding the Commission should look
20 at the meter reading and billing costs for those
21 customers in establishing customer charge.

22 MS. ARNOLD: Thank you. That's all my
23 questions.

24 JUDGE ANDERL: Ms. Pyron, back to you.

25 MS. PYRON: If I may, I have two exhibits

00621

1 to distribute.

2 JUDGE ANDERL: I've been handed two
3 documents for identification as the next exhibits in
4 line. The first one, which is Exhibit No. 104 for
5 identification, is a single page entitled public
6 Counsel Responses to Washington Natural Gas Data
7 Request No. 34 and then the next document is Mr.
8 Lazar's JL-7. That is the version as it was revised
9 December 1st, 1994. So, not the most current one that
10 was sponsored and offered in Mr. Lazar's direct
11 testimony a moment ago, but a document that Ms. Pyron
12 had indicated to me she wished to have in the record
13 and would offer as a separate exhibit which she's
14 doing now. So that's Exhibit No. 105 for
15 identification.

16 (Marked Exhibits 104 and 105.)

17 MS. PYRON: Excuse me, Your Honor, 104
18 would be?

19 JUDGE ANDERL: Single page data request
20 response.

21 MS. PYRON: 105 would be?

22 JUDGE ANDERL: JL-7 revised December 1,
23 1994.

24

25

CROSS-EXAMINATION

00622

1 BY MS. PYRON:

2 Q. Mr. Lazar, do you have in front of you a
3 one-page data request that is the public counsel's
4 response to the company's data request No. 34?

5 A. Yes, I do.

6 Q. And do you recognize that data request as
7 being your answer to and prepared by you?

8 A. Yes, I did prepare this.

9 Q. And in that data request, is there a
10 typographical error with regard to CNG which is in
11 parentheses? Should that be LNG?

12 A. Yes.

13 Q. So you would make that correction?

14 MR. TROTTER: We would ask the exhibit be
15 changed, Your Honor.

16 JUDGE ANDERL: I see it. I will do so on
17 the official copy.

18 MS. PYRON: I would move for the admission
19 of Exhibit 104.

20 JUDGE ANDERL: Any objection?

21 Hearing none Exhibit 104 will be admitted.

22 (Admitted Exhibit 104.)

23 Q. Mr. Lazar, if you would turn with me to the
24 other document I handed you which is your Exhibit JL-7
25 as it was revised December 1 of 1994.

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1 A. Yes.

2 Q. Could you review that?

3 A. Yes, I did.

4 Q. And is that the original exhibit that
5 immediately preceded your filing of the revised one in
6 the case now for JL-7?

7 A. Yes. This is the first revision. There
8 was an original filing of JL-7 that was supplemented
9 by this document (indicating) immediately after the
10 original filing date.

11 Q. As I recall, sir, was the original just had
12 confidential information so that was the change to
13 this document?

14 A. The original had the names of individual
15 customers and the company asked that the exhibit be
16 refiled without the names of the customers and we
17 agreed to do that.

18 Q. So this document which has been marked
19 Exhibit 105 would be the predecessor to Exhibit 99?

20 A. Yes. And this is the document that the
21 parties would have logically relied on in the
22 preparation of their rebuttal testimony.

23 MS. PYRON: I would move for the admission
24 of Exhibit 105.

25 JUDGE ANDERL: Is there any objection to

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1 that document?

2 Hearing none that would also be admitted as
3 identified.

4 (Admitted Exhibit 105.)

5 Q. Mr. Lazar, I just have a couple of
6 questions related to computation and math process that
7 was utilized. In looking at Exhibit 99, if you can
8 turn with me to that to the page 2 which is labeled at
9 the top Daily Balancing Provided to Transportation
10 Customers.

11 A. Yes.

12 Q. Was your method of deriving the numbers an
13 absolute value of daily imbalances without considering
14 aggregation at commonly owned meters?

15 A. Yes.

16 Q. And if I were to mathematically want to
17 derive the percentages in the final column, the
18 percentage column, would I divide the second column
19 total daily imbalance by total daily usage to get the
20 cumulative percentage?

21 A. Yes. That would be the intent of the
22 calculation.

23 Q. When I look at, if you could, customer No.
24 704 -- are you with me on that customer count? And it
25 shows a total daily usage of -- that number is 53,202;

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1 is that right?

2 A. Yes.

3 Q. And then the number in the next column for
4 total daily imbalance is 11,476?

5 A. I see that. In spite of a second revision
6 I have actually a couple of problems remaining here.

7 Q. So this final percentage actually could
8 be off? Roughly dividing 11,476 by 53,202?

9 A. Yes.

10 JUDGE ANDERL: Excuse me. Just for
11 clarification, my document reads 292.

12 MS. PYRON: I'm sorry. I'm looking at a
13 fax. 292. I didn't mean to misspeak.

14 Q. But for account number 704 it would be a
15 different percentage?

16 A. Yes, it would, and the correct percentages
17 are the ones that should be used, not where there are
18 errors here.

19 Q. Rather than asking those to be done on the
20 stand, perhaps I could just ask those as a record
21 requisition if you could.

22 MR. TROTTER: We would very much like to do
23 that. The issue is how it get in the record. If
24 there's no objection to us --

25 A. I should be able to do this during the noon

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1 hour.

2 Q. Great, and if you need to recall --

3 MS. PYRON: Would that be acceptable?

4 JUDGE ANDERL: I'm sure that counsel will
5 be able to agree on the math.

6 Q. On Exhibit T-90, your rebuttal testimony on
7 page 60 -- I'm sorry, it's not the rebuttal. It's the
8 direct testimony. You have advocated there, Mr.
9 Lazar, if I'm correct, a 90/10 split as a performance
10 incentive for the company for capacity release
11 revenues; is that correct?

12 A. Yes. That's my direct testimony.

13 Q. Have you reviewed the concerns raised by
14 Mr. Russell's rebuttal on about page 8 and Mr.
15 Schoenbeck's rebuttal with regard to this incentive
16 mechanism?

17 A. I reviewed Mr. Russell's, if you can remind
18 me of the page of Mr. Schoenbeck's. Maybe I can
19 refresh my memory on his comment. I found it. Thank
20 you. It's on page 37 of his rebuttal testimony.

21 Q. Which is Exhibit T-86.

22 A. Yes. I've reviewed his as well.

23 Q. Could an incentive mechanism where the
24 company kept 10 percent of the capacity release
25 revenues create an incentive for the company to

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1 oversubscribe to capacity?

2 A. It could create that incentive, although if
3 the company in fact did so I would expect this
4 Commission to look at that in the context of a general
5 rate proceeding, find the company had made an
6 imprudent decision and disallow that cost. In my
7 recollection of the company's current least cost
8 plan is it does not provide for any increase in firm
9 pipeline CD, that it meets growth and demand with
10 storage, LNG, and other alternatives, and therefore
11 if in fact the company oversubscribed to this
12 incentive mechanism it would be subject to penalties
13 for being imprudent and it would also be in conflict
14 with its least cost plan which I think would lend
15 credibility to a questioning of prudence.

16 Q. Would you agree with Mr. Russell's
17 rebuttal, which was the page 8 reference for that,
18 that there are different ways that the company can
19 structure deals to market its excess capacity as
20 opposed to strictly a bulletin board posting?

21 A. Yes. I think Mr. Russell has raised some
22 fairly valid concerns about how deals can be
23 structured. I was reaching for some mechanism to move
24 towards a performance incentive, and this was what I
25 came up with. I hope that the Commission would look

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1 at some kind of performance incentives or what the
2 company does with its excess base load capacity during
3 the months and weeks and days when it doesn't need it.
4 This is one mechanism. It may be too simple. Mr.
5 Russell, I think, does raise some valid concerns about
6 it, but I'm always looking for ways to give companies
7 incentives to do good for the benefit of their
8 shareholders and their ratepayers and I think this
9 mechanism does that. It may not be the perfect
10 mechanism.

11 Q. Well, would you agree with Mr. Schoenbeck's
12 rebuttal that all of the parties' proposals before the
13 Commission involve 100 percent recovery of the
14 company's costs without this 10 percent incentive
15 payment?

16 A. All of the parties' testimonies propose to
17 allow the company to recover the settlement revenues
18 from the last general rate case, and since there are
19 no results of operations upon which that is based we
20 can't in fact say that everyone is proposing to allow
21 full recovery of all costs, but assuming that we look
22 at allowing the settlement revenues as recovery of all
23 costs, I agree with that part of Mr. Schoenbeck's
24 criticism and, yes, my proposal would allow the
25 company to make extra money, and in so doing it would

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1 also, I hope, be doing such a good job with capacity
2 release that it would also be saving its ratepayers
3 lots of money. And so, yes, the company would get
4 100-plus percent recovery, but hopefully everyone
5 would be better off as a result subject to the caveats
6 I gave about the criticisms that I think Mr. Russell
7 has raised reasonably.

8 Q. Would you agree that perhaps examination of
9 these issues of a performance-based incentive
10 mechanism could be examined in another forum more
11 thoroughly?

12 A. Yes. And I think the company is likely to
13 give us an opportunity to do so in a general rate case
14 as soon as we can get done with this proceeding or
15 perhaps even sooner.

16 Q. As well as another forum might be, would it
17 not, Mr. Lazar, a notice of inquiry from the
18 Commission dealing with, that's my understanding in
19 the offering, on trackers and demand side management and
20 that this would fit into those topics as well?

21 A. It could happen in any number of forums.
22 There could be a notice of inquiry, a generic
23 proceeding for all of the companies. It could be
24 handled as part of this company's next gas tracker.
25 It's up to the Commission how to deal with it, but the

00630

1 treatment of capacity release revenues is an element
2 of the cost of service study. We have to, in doing
3 the study, allocate that cost somehow and as long as I
4 was looking at that as a cost to allocate I said
5 there's an opportunity to hopefully make the
6 shareholders some money while saving the ratepayers
7 some money here and we shouldn't ignore it.

8 Q. Going back to your answers to some
9 questions from Mr. Johnson with regard to your
10 evaluation of the basis for recommendation of a
11 three-year contract term.

12 A. Yes.

13 Q. If you were to examine the growth in the
14 total customers that has occurred for -- from, say,
15 1984 to 1993, would you accept subject to check that
16 we're looking at in 1984 a total customer base of
17 259,009 customers with a growth in 1993 to 423,142
18 customers?

19 A. I didn't look at growth in customers. I
20 looked at growth in expected sales in my analysis but
21 those are numbers I'm familiar with, yes.

22 MS. PYRON: I have no further questions at
23 this time.

24 JUDGE ANDERL: Mr. Frederickson.

25 MR. FREDERICKSON: No questions, Your

00631

1 Honor.

2 JUDGE ANDERL: Mr. Cedarbaum.

3 MR. CEDARBAUM: I guess I've been quiet too
4 long.

5

6 CROSS-EXAMINATION

7 BY MR. CEDARBAUM:

8 Q. Mr. Lazar, my first line of questions
9 concerns your Exhibit 101 which is JL-10.

10 A. Yes.

11 Q. And that's your detailed cost of service
12 results for your scenario 2G; is that right?

13 A. Yes, that's correct.

14 Q. If I could have you turn to the page 9 of
15 the exhibit which is your gas subreport; is that
16 right?

17 A. Yes, it.

18 JUDGE ANDERL: I'm sorry. Where are we?

19 MR. CEDARBAUM: Page 9 of Exhibit 101.

20 A. It's not a subreport. It is the gas cost
21 page of the cost of service model. It's not done as a
22 subreport. It's simply a bunch of costs allocated
23 like any others.

24 Q. This shows how you allocate a gas cost?

25 A. Yes.

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1 Q. And the methodology that you show on the
2 bottom part of the page under total demand and fixed
3 costs is essentially the methodology that the company
4 has utilized in its cost of service study, is that
5 right, in terms of the allocation factors that you
6 used?

7 A. Actually, if you begin on line 631 where
8 the variable costs are allocated, I've allocated the
9 variable costs in a manner very similar to what the
10 company has done. That is, the base load costs on an
11 annual basis, the seasonal costs on a seasonal basis,
12 the LNG on a peak day cost. Elsewhere the propane is
13 also allocated on a peak day basis and then also is a
14 purchased gas cost.

15 Q. I should have focused in on the variable
16 cost element of it.

17 A. Above that, the things contributing to
18 total demand and fixed costs I've done quite
19 differently from the company.

20 Q. And as I think you've just indicated, the
21 methodology that you show for variable costs allocates
22 some of those costs on the basis other than annual
23 sales volumes; is that right?

24 A. Yes.

25 Q. And I think you may have indicated that,

00633

1 for example, winter firm and Jackson Prairie
2 withdrawals are allocated on the basis of receivable
3 volumes and LNG is on the basis of peak day volumes?

4 A. Yes. I think it's extremely important to
5 do that conceptually in a cost of service study.
6 Because the costs of the storage facility are being --
7 that is, are big costs -- are being allocated based
8 upon the seasonal load patterns of the classes, and
9 one of the things that's unique about the gas industry
10 compared to the electric industry's storage, the gas
11 volumes that you buy for storage you typically buy
12 during a low season when they're cheap, makes sense to
13 do that, and the company does. So you've got cheap
14 gas and then some substantial costs of stuffing it
15 into the ground and pulling it back out of the ground.
16 If you're going to allocate the costs of injecting it
17 and withdrawing it based on seasonal usage you should
18 also give those classes the benefit of the fact that
19 what you're injecting and withdrawing was purchased
20 when prices were cheap. That's one of the reasons,
21 for example, that I didn't include variable costs in
22 my calculation of peak credit factors.

23 On the electric side we do that because
24 coal plants have lower running costs than oil-fired
25 peaking units, but in the gas industry it's quite a

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1 bit different. In fact what you're using in storage
2 or in LNG often is purchased at very attractive prices
3 and certainly not at premium prices, so the industries
4 are different which is why the methodology I've used
5 here is a little different than we used peak credit on
6 the electric side, and it's the reason that I
7 allocated the variable costs on a seasonal basis.

8 Q. Looking at the variable costs on this page,
9 what you show for Jackson Prairie is net injections
10 and withdrawals; is that right?

11 A. Yes. That's my understanding of that line
12 item.

13 Q. And you believe it's appropriate to
14 allocate it according to the factor that you show on
15 this page?

16 A. Since I've prepared this testimony, Mr.
17 Russell and I have discussed that, and when I did the
18 allocation I thought that that was the actual
19 purchased gas cost of what was injected into Jackson
20 Prairie and he's raised doubt in my mind as to whether
21 that assumption is correct, and if in fact my
22 assumption is not correct I would have to rethink the
23 net injections. That wouldn't address the, for
24 example, the winter firm supply seasonal case as such.

25 Q. Assuming that your assumptions then are

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1 incorrect as you just indicated, would it be correct
2 to allocate Jackson Prairie withdrawals just on the
3 basis of seasonal usage as opposed to netting them as
4 you've shown in your exhibit?

5 A. I made this recommendation based on an
6 assumption which I understood which was that this was
7 the gas that was being injected for seasonal use.

8 Q. Mr. Lazar, I guess I'm just asking you to
9 assume for the sake of my question that after your
10 discussions with Mr. Russell you found that your
11 assumption was incorrect.

12 A. Right, but I don't have a new assumption is
13 the problem. That is, I made a recommendation here
14 based on something that I understood. If that was
15 wrong then I have to rethink this but I now no longer
16 know what it is that this number -- this \$23,000
17 number consists of, and until I figure out what it
18 consists of I'm not sure how I would allocate it, but
19 \$23,000 allocated any which way isn't going to affect
20 the results of any of these studies very much.

21 Q. On page 21 of your direct testimony you
22 state that you considered using the base intermediate
23 peak method to classify production costs but that you
24 used the peak credit method because it recognizes that
25 base load and seasonal resources can be used to meet a

00636

1 portion of peak demands; is that right?

2 A. Yes.

3 Q. Is it correct that the modification that
4 Mr. Russell proposes to the base intermediate peak
5 method also recognizes that fact?

6 A. I think it does recognize that fact, but it
7 doesn't take the relative costs of peaking receivable
8 and base load resources into account. It only uses a
9 number of days that each services use, so I think it's
10 a less theoretically correct approach than I have
11 used, but it is an improvement over the standard base
12 intermediate peak method.

13 Q. If we go back to page 9 of Exhibit 101, now
14 looking at the top portion of the page from lines 589
15 through 623 about, you've utilized the peak credit
16 method from the electric industry to allocate the
17 fixed portion of production costs; is that right?

18 A. I've used the peak credit method to
19 allocate the fixed production costs. It's a method
20 that this Commission in effect used in the Water Power
21 case, UG-901459, in classifying base load production
22 costs and storage costs, and I explain in my testimony
23 how I apply the method to gas and it's somewhat
24 different from how it's applied to electric because of
25 differences in the industry so it's -- yes, I've used

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1 the method but I have a problem from the electric part
2 of your question.

3 Q. So with the modifications that you've
4 explained and included in your testimony, you've
5 applied a peak credit methodology that has been
6 applied by this Commission in the electric industry?

7 A. Yes, I have.

8 Q. Is it correct that on the electric side
9 that both fixed and variable costs are considered in
10 determining the peak credit factor?

11 A. Yes. In the most recent decision where
12 that very issue was addressed at length in Puget
13 920499 case the inclusion of both fixed and variable
14 costs was used. That is, the numerator was the fixed
15 costs of a peaking resource plus the variable costs to
16 run that peaking resource for 200 hours a year and the
17 denominator was the cost of a base load resource, the
18 fixed cost of a base load resource plus the variable
19 costs of a base load resource to run that resource to
20 I believe it was -- in a base load fashion. I believe
21 it was an 85 percent or 88 percent capacity factor as
22 the denominator.

23 Q. If you could turn to Exhibit 95, JL-3, at
24 page 2. That shows your classification of fixed gas
25 supply costs; is that right?

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1 A. Yes, it does.

2 Q. And this spreadsheet reflects your peak
3 credit methodology?

4 A. Yes, it does.

5 Q. Is it correct that the way your methodology
6 works -- let me restate the question, that the peak
7 credit method that you've utilized would only produce
8 usable results when the average peak deliverability
9 cost of base load resources is greater than the cost
10 of seasonal resources and the average peak
11 deliverability costs of seasonal resources is greater
12 than the cost of peaking resources? For example,
13 looking at your page if we look in the middle, looking
14 down the middle of the page in the boxes, \$16.60 is
15 larger than \$6 and \$6 is larger than \$1.57?

16 A. Yes, that's true, although I'm trying to
17 imagine any circumstance in which peaking resources
18 would cost more than base load resources and the
19 circumstance that would make this method not work
20 seems implausible to me, but the answer to your
21 question is yes.

22 Q. If those assumptions didn't hold true then
23 and we arrived at a negative result, given the
24 qualification you just gave, what use would we make of
25 the peak credit method for anything?

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1 A. If the fixed costs of peaking resources
2 were greater than the fixed cost of base load
3 resources it would be imprudent for the company to
4 acquire peaking resources at all because it could
5 serve those peak demands with base load resources, and
6 I think that's the use we would make of that
7 information would be in examining the costs that are
8 to be allocated.

9 Q. If those -- if the assumptions I gave you
10 were true as opposed to the relative values of the
11 assumptions shown here, and you used a negative peak
12 credit factor, would you use this methodology?

13 A. No, you wouldn't.

14 Q. In your earlier testimony you were
15 discussing some of the differences between the gas and
16 the electric industry and maybe you covered this, but
17 is it correct that in the gas industry basically
18 supplies are dispatched on a daily and electric
19 industry supplies are dispatched on an hourly basis?

20 A. Can I have it read back.

21 Q. I can restate it.

22 A. I'd like to have it read back.

23 (Record read as requested.)

24 A. Yes. Generally, in fact, on the electric
25 side they're dispatched on an instantaneous basis that

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1 if the load doesn't match the generation the system
2 either grinds to a halt or melts down, but the context
3 of the question things move quicker on the electric
4 side than on the gas side is certainly correct.

5 Q. And part of that at least is attributable
6 to the physical differences between electrons and
7 therms of molecules of gas?

8 A. Yes.

9 Q. Is it correct that electric utilities
10 generally have summer and winter peak because of
11 heating and air conditioning loads versus a gas
12 utility which would only have a winter peak?

13 A. In the state of Washington the electric
14 utilities are winter peaking utilities. They have
15 shoulder seasons. Their summer load on some systems
16 is higher. Load in August may be higher than it is in
17 May, but the peak occurs in the winter generally at
18 about exactly the same time as the peak on the gas
19 system.

20 Q. Would there be perhaps not specifically to
21 the Northwest but would the electric -- would an
22 electric industry also experience a summer peak
23 because of air conditioners?

24 A. Some utilities experience a summer peak due
25 to either irrigation load or air conditioning. In the

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1 Puget case that we completed peak-related costs were
2 allocated among the classes or classified using the
3 peak credit method.

4 Q. Mr. Lazar --

5 JUDGE ANDERL: I think you answered the
6 question, yes.

7 Q. Thank you. I think you have answered the
8 question.

9 Is it correct that in the peak credit
10 method the peak credit factor in the electric industry
11 is calculated by dividing the present value of an
12 incremental peaking resource by the present value of
13 an incremental base load resource?

14 A. Sometimes.

15 Q. In the Puget case that was true?

16 A. In the Puget case that was true. However,
17 the method as it is set forth known as the equivalent
18 peaker method in the NARUC cost allocation manual does
19 not use that approach. It uses a simple ratio of the
20 fixed investment costs of a peaker to the fixed
21 investment costs of a base load plant, and I think
22 this Commission has evolved the method beyond the
23 simple version over the last 15 years that it's been
24 used here, but so the answer is most recently in this
25 state, yes. Generically as it's used across the

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1 country, not necessarily.

2 Q. Focusing on this state, then, is it correct
3 that the factor that you derive by doing that
4 calculation that we were discussing is then applied to
5 the total of all production costs to classify
6 production costs between capacity and energy?

7 A. No.

8 Q. What was wrong with my statement?

9 A. It's not applied to the peaking resources.
10 The peaking resources are typically classified 100
11 percent demand and allocated on that basis. It's only
12 applied to the base load resources.

13 Q. Maybe I misstated the question or you
14 misheard it. I meant to say that the peak credit
15 factor is applied to the total of all production
16 costs?

17 A. My answer was no.

18 Q. Is it correct that in your peak credit
19 methodology you propose in this case you classified
20 each resource in the production category based upon
21 what you consider to be an appropriate factor rather
22 than applying the peak credit factor to total
23 production costs?

24 A. Yes.

25 Q. I would like to switch away from the gas

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1 supply area we've been discussing and ask you this
2 question concerning results of operations. Is it
3 correct that you've utilized the company's results of
4 operations from the '93 case for the basis of your
5 cost of service studies? You may have adjusted them
6 but that was your starting point?

7 A. That was my starting point and in my
8 scenario 1 and 1G, I used them without modification.

9 Q. And in 2 and 2G you adjusted those results
10 for the bimonthly billing and joint meter reading,
11 royalty payment adjustments and then for an increase
12 in the water heater rental rates; is that right?

13 A. That's correct.

14 Q. In the adjustment you used for the
15 bimonthly billing and joint meter reading you removed
16 half of the costs in accounts 902 and 903; is that
17 right?

18 A. Yes. That was the adjustment I proposed in
19 the '92 rate case.

20 Q. And those accounts relate to meter reading
21 expense and customer records and collection?

22 A. That's correct.

23 Q. And you've made your adjustments under the
24 assumption that all of the company's customers' meters
25 would be jointly read by another utility and that all

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1 of the customers would be billed every two months
2 rather than monthly; is that right?

3 A. No.

4 Q. If I understand correctly, your adjustment
5 removed 4 and a half million dollars per year from the
6 company's expenses; is that right?

7 A. Yes.

8 Q. Was the basis of that number not to assume
9 that all of the company's meters would be read jointly
10 and that all customers would be billed bimonthly
11 instead of monthly?

12 A. No. If you did all of the customers
13 bimonthly you would save 50 percent. If you jointly
14 read all of the meters with one other utility you
15 would save 50 percent on the meter reading costs, but
16 not necessarily anything on the billing costs or not
17 quite 50 percent because it takes longer to read two
18 meters than one meter. You have a significant
19 savings. I assume that the synergism between those
20 two would be imperfect, that you wouldn't save exactly
21 50 percent by going to bimonthly, that you wouldn't
22 save exactly 50 percent on meter reading costs by
23 going to joint meter reading. If you actually achieve
24 both of those you would have about a two-thirds
25 reduction in those costs, and I assumed in my

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1 testimony in the '92 case a 50 percent savings, which
2 is somewhat less than the theoretical achievable
3 savings.

4 Q. Do you know whether or not -- let me just
5 ask you a quick question about the rental revenue
6 adjustment. The effect of that adjustment in your
7 cost of service study is to increase the rental rate
8 of return and the company's overall rate of return; is
9 that right?

10 A. Yes.

11 Q. That adjustment, though, doesn't have any
12 impact on rate design or rate spread recommendations
13 to other classes; is that correct?

14 A. Well, it could. If the Commission, for
15 example, ordered company to move all rates
16 mechanically halfway towards a system rate of return
17 and while it wouldn't change the residential heating
18 rate of return, it might be 8 percent without that and
19 8 percent with that. If you change the overall
20 returns from 8 and a half percent to 9 percent and the
21 Commission orders the company to move all rates
22 halfway to the system average and the system average
23 is 9 you're resulting in a larger increase to the
24 residential class.

25 Q. Well, my question focused on your rate

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1 spread rate and rate design proposal as opposed to
2 what the Commission may or may not do on its own.

3 A. My rate spread proposal is that all classes
4 that are paying between 90 percent and 110 percent of
5 their allocated revenue requirement at system average
6 rate of return get no adjustment in rates, and this
7 change would not affect -- I don't believe would
8 affect any -- I don't think this change of rental
9 revenues would be large enough to affect any of the
10 major classes in that regard. So it wouldn't change
11 my result, but I would have to actually do two runs of
12 the study, one without that change, one with that
13 change and see what the revenue-to-cost ratios are.
14 For example, if you turn to page 1 of Exhibit 101,
15 which is the JL-10 we've been discussing. On line
16 1373, the revenue to cost ratio.

17 Q. Which exhibit are you in now?

18 A. 101 which is JL-10.

19 Q. What page again?

20 A. Page 1. On line 1373 it shows on the
21 left-hand side I calculate the ratio of revenues at
22 current rates to class revenue requirement at the
23 target rate of return which, in this case, on line
24 1370 is set equal to the system average rate of
25 return, and the residential class is producing a 99.1

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1 percent revenue-to-cost ratio. That is, the current
2 rates are covering 99 percent of the fully allocated
3 costs. My proposal is that anyone who is in the 90 to
4 110 percent range would not get an adjustment in this
5 proceeding and changing the rental revenues alone
6 would not move the residential class out of that 90 to
7 110 percent range.

8 Now, it's possible, for example, moving
9 over to column I, the commercial and industrial
10 schedule 41, under 113 percent they're closer to the
11 edge. If they came down a little bit they might drop
12 into the range where I would not recommend a rate
13 adjustment, but that's a matter of my approach to rate
14 spread of setting a revenue-to-cost ratio and then
15 basing the rate spread based on classes that are
16 outside of my 110 percent, and the rental adjustment
17 probably wouldn't move any class. It's not big enough
18 to do that.

19 Q. Turning to JL-8, which I think is Exhibit
20 100. On page 1 you make such recommendations for
21 future trackers for the company, and you may have
22 gotten into some of this with Ms. Pyron before, and
23 Mr. Russell describes in his rebuttal testimony some
24 staff investigations into the tracker mechanisms. I
25 guess my question about this is whether or not your

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1 recommendation shown in your exhibit has changed.

2 A. Both the company and I have proposed that
3 gas costs be -- commodity costs be calculated on a
4 class by class basis. Mr. Russell has proposed a
5 single commodity cost be applied across the board and
6 in terms of still recommending --

7 Q. Mr. Lazar --

8 MR. TROTTER: Your Honor, the --

9 Q. The question was has your recommendation
10 changed. Now, I don't mind an explanation if it comes
11 but I would like to have a yes or no first to know
12 which direction I'm headed.

13 A. Fine. No, my recommendation has not
14 changed although my confidence in how workable the
15 mechanism is has been shaken slightly. I think the
16 company's exhibit on gas costs showed a class by class
17 commodity cost. So does mine. The classes have
18 different seasonal gas usage patterns. Gas costs vary
19 by time of the year.

20 Q. I'm sorry to interrupt.

21 MR. TROTTER: Your Honor, every other
22 witness has been allowed to give elongated responses
23 over my objection so I'm just asking for fair
24 treatment.

25 MR. CEDARBAUM: I'm perfectly happy to

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1 oblige that to public counsel. I'm trying to make
2 sure Mr. Lazar and I are on the same page because I
3 think you're still talking about -- you may not be but
4 I thought you were talking about gas supply allocation
5 issues and I'm talking about the PGA tracker
6 recommendations that are in your exhibit concerning
7 changes in gas supply deliverability which you
8 recommend be done only in general rate cases and your
9 proposed capacity release sharing mechanism. So are
10 we talking about the same thing or not?

11 A. Well, being on the same page, I'm on page 1
12 of Exhibit 100.

13 JUDGE ANDERL: In general, I was going to
14 say I'm going to allow explanations but I think
15 counsel will have an opportunity to inquire and
16 interrupt to make sure you are talking about the same
17 thing, so go ahead if you're still responsive to his
18 question.

19 A. The answer to your question have I changed
20 my position, no. And my explanation of that statement
21 is, as I understand it, there's a disagreement between
22 the company and Mr. Russell. The company's Mr.

23 Amen's --

24 JUDGE ANDERL: Mr. Lazar, if you're just
25 going to repeat something, which is what it sounded

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1 like, I just don't want anything duplicative. Thanks.

2 Q. What is the topic of the disagreement that
3 you're discussing?

4 A. My recollection of Mr. Amen's exhibit
5 showed gas commodity costs differentiated by customer
6 class because, as we discussed earlier, in the gas
7 cost section of my cost of service study done similar
8 to the way the company treated variable costs, we have
9 not allocated them all on a commodity basis. We have
10 done some seasonal, some annual and some peak, and
11 that results in different gas commodity costs by
12 customer class. My proposal here carries that through
13 to the tracker mechanism so that each class would have
14 a class-specific demand costs and a class-specific
15 commodity costs in a tracker, and it would be -- I
16 explained in detail how a tracker where demand costs
17 have gone up and commodity costs have gone down or
18 seasonal costs have gone up and annual costs have gone
19 down were divided among the customer classes.

20 Q. Looking at page 1 of Exhibit 100, in the
21 section entitled Proposed Method, the fourth and fifth
22 paragraphs, have those recommendations changed based
23 on anything else you've read in this case?

24 A. The fourth paragraph recommendation has not
25 changed. The fifth paragraph recommendation on

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1 capacity release revenues I discussed at length with
2 Ms. Pyron, and if the Commission desires to do a
3 broader inquiry to incentive-based ratemaking, this
4 should be included in that further examination. If
5 the Commission wants to do something now this
6 recommendation should be adopted.

7 Q. With regard to the fourth paragraph, is it
8 your recommendation to have that -- granted it can't
9 happen in this case, but would it be your
10 recommendation to have that apply to all four of the
11 LDC's that operate under this Commission's regulation?

12 A. Change in pipeline capacity or storage
13 field assessment should be addressed in a general rate
14 proceeding, yes. I would make the same recommendation
15 with respect to the other companies.

16 Q. Just a couple of other quick topics. You
17 were in the hearing room yesterday?

18 A. Yes, I was.

19 Q. Did you hear the testimony of Mr. Ramirez
20 on the subject of least cost plan versus cost of
21 service analysis?

22 A. Yes, I did.

23 Q. He had a fair amount of discussion on that
24 topic with counsel and with the Commissioners. Do you
25 generally agree with his testimony on that topic?

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1 A. Yes, I do. I think I would be more
2 specific. The least cost plan is never described as a
3 tool for cost allocation, and one shouldn't confuse
4 the planning criteria to meet extreme conditions that
5 may occur with the cost allocation of costs among
6 customers who are actually using facilities. If in
7 fact you build a system to serve the most extreme day
8 ever recorded, even prior to the beginning of the
9 natural gas system, you're going to have a lot of
10 excess capacity most of the time and the people who
11 use that capacity ought to help pay for it, and the
12 methodologies that Mr. Ramirez and I have proposed do
13 that and the design day methodology doesn't. To go
14 back to the least cost plan saying we dream of having
15 a day as cold as it was in 1950 and therefore we
16 design our system to accommodate it is important and
17 interesting but it shouldn't guide cost allocation.
18 Least cost plan is never described as a tool for cost
19 allocation.

20 Q. And finally with regard to the issue about
21 the R. J. Rudden model, is it your position that that
22 model is just not competent to be used for cost of
23 service purposes or is your issue with its ease or
24 difficulty of use?

25 A. It's certainly not a matter of competency.

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1 The R. J. Rudden model is a very thorough, complete
2 and competent model. It was designed to measure the
3 cost of service according to R. J. Rudden's views of
4 how costs ought to be allocated, and it is not very
5 flexible in accommodating other types of allocation
6 decisions, this due to the fact that Mr. Maglietti
7 spent 700 or so hours most of it on the cost of
8 service study. He showed me up. I gave up. I tried
9 to use the Rudden model and I gave up. After about 10
10 or 15 hours I said I'm not going to make my deadline
11 using this model and I decided to use a much simpler
12 model, and he's either more tenacious -- he's
13 definitely more tenacious than me but he may be a
14 better model user than I am. You succeeded where I
15 failed and there's professional embarrassment to that.
16 The fact that it took him 700 hours to succeed and my
17 contract with public counsel encompassed about 240
18 hours of consulting work convinces me that I made the
19 right decision under the circumstances.

20 I think with 50 to 100 hours of programming
21 time the Rudden model could be made into a very easy
22 to use, very flexible, very adaptable model, and I
23 think that, frankly, the model I've used is already
24 there, already is a very flexible and easy to use
25 model. The only difference in what you get out of the

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1 two models is the Rudden model produces a unit cost
2 report, which Mr. Ramirez never did sponsor and my
3 understanding they never got it to work, but there is
4 a unit cost report. And the model I use doesn't have
5 a unit cost report. If the Commission wants to use
6 the unit cost report for something then we should put
7 50 to 100 hours into the Rudden model and make it more
8 user friendly.

9 If they're not going to use the unit cost
10 report, and none of the parties have proposed that
11 they do so, then we should probably use a model that
12 uses one fourth as much computer time. My total time
13 preparing my cost of service study was about 50 hours.
14 That includes 15 hours trying to use the Rudden model
15 and 35 hours using the model I used. It's a lot
16 easier to use than the Rudden model and if you're not
17 going to use the unit cost report there's no reason to
18 have the complexity of the Rudden model. In terms
19 of accurately doing what it says it does it's a very
20 competent model.

21 MR. CEDARBAUM: Thank you. That's all.

22 JUDGE ANDERL: We'll come back after
23 the lunch recess and finish with this witness
24 questions from Commissioners and also redirect.

25 (Lunch recess.)

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1

AFTERNOON SESSION

2

1:30 p.m.

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JUDGE ANDERL: Let's be back on the record after our lunch recess. Before we go to questions from the Commissioners, I would just like to note that during the lunch hour a third revision to page 2 of Exhibit JL-7 was prepared and distributed. That is of course Exhibit 99 and, Mr. Trotter, is it your request that this exhibit be substituted for or this page be substituted for the existing page 2?

MR. TROTTER: Yes.

JUDGE ANDERL: To the extent that the parties have had an opportunity to look at that, any objection to that page being substituted or does anyone have any questions for Mr. Lazar on it?

I hear no response. We'll therefore substitute page 2 of JL-7, which is Exhibit 99. It does state on it that it's third revision dated 1-31-91. Are there any questions for this witness from the Commissioners?

COMMISSIONER HEMSTAD: Yes.

EXAMINATION

BY COMMISSIONER HEMSTAD:

Q. Mr. Lazar, your testimony is to the effect

00656

1 is you much prefer a three-year contract term. What
2 is the -- what notice requirement would you add to
3 that?

4 A. As I state on page 49 and 50 of my
5 testimony, I propose a three-year initial term, a
6 12-month notification for a change in status from
7 transportation to sales, and a 12-month rollover
8 clause so if a customer doesn't request a change 12
9 months in advance of expiration the contract rolls
10 over.

11 Q. So the company would always have a 12-month
12 advance notice?

13 A. For each customer they would have a
14 12-month notice and at the time of rollover each
15 contract would roll over for three years.

16 Q. Well, I suppose both issues are of
17 importance, but I suppose the notice period is
18 probably more important than the contract term, isn't
19 it?

20 A. The notice of conversion from
21 transportation to sales or from sales to
22 transportation is extremely important.

23 Q. But your contract period is actually longer
24 than the company's. I suppose the company would want
25 the longest contract it could get?

00657

1 A. Well, I was a little surprised. I didn't
2 support this proposal, but they had proposed a two-
3 year contract term, which is twice what they've got
4 now, and I think they decided they had gone as far as
5 they wanted to go.

6 Q. What is your response to the concerns of
7 the intervenors that that long a term makes it very
8 difficult for them to plan?

9 A. Well, it's difficult -- I agree it's
10 difficult for a large customer to anticipate exactly
11 what their usage will be three years out but that's
12 not what these contracts do. These contracts are for
13 a class of service not for a specific quantity of
14 service, and just simply lets the company know that
15 this customer is going to be transporting or is going
16 to be a sales customer for that period of time, so the
17 nature of the contract wouldn't necessarily require
18 them to say I'm going to use 6 million therms in 1997,
19 only to say whatever therms I'm going to use in 1997
20 I'm going to buy from Washington Natural Gas or I'm
21 going to buy independently and pay Washington Natural
22 to transport it, and Washington Natural is left with
23 the job, in any event, of forecasting how much actual
24 need there will be for distribution capacity on their
25 system and in case of a sales customer have to take

00658

1 the risk of acquiring gas to serve them.

2 Q. Changing subjects, at page 6 of your
3 testimony, of your direct testimony, question at line
4 20, "Is the company proposal consistent with the
5 settlement in the last general rate proceeding," and
6 then you proceed to describe various factors where you
7 think the company's response, well, if not
8 inappropriate you disagree with. My point is or my
9 question really is, the issue that you raise there,
10 several of them at least, arise out of a settlement
11 where a revenue requirement was agreed upon but there
12 was no agreement upon how any of the individual
13 underlying issues should be resolved, was there?

14 A. That's correct.

15 Q. And so you're criticizing the company for
16 not taking certain positions that you think were the
17 appropriate ones to be taken in that case?

18 A. No. I think my point is that there is no
19 correct set of results of operations here, that all of
20 the cost of service studies should be showing a 9.15
21 percent overall system rate of return and none of them
22 do because we never agreed on whether the difference
23 between the company's results of operations were
24 supporting 25 million dollar rate increase and the
25 settlement, \$19 million dollar rate increase. As I

00659

1 discuss on page 7, whether that difference was due to
2 the staff's proposed adjustment, distribution mains in
3 the subdivisions, almost all of that, if factored into
4 the cost of service study, benefit the small use
5 classes because that's where those facilities were.
6 Or was that 6 million dollar difference due to public
7 counsel's proposals on meter reading and billing?
8 Those also would flow to the small use increase or the
9 royalty which would, under the company's methodology,
10 those royalties would be allocated almost exclusively
11 to the small use customers. We don't know what the
12 right number is, but all of the adjustments that were
13 before the Commission in that case that led to the
14 settlement would, if included in the cost of service
15 studies, affect the small use customer classes more
16 favorably than the large use classes. That is, the
17 big diameter system was not contested.

18 Q. Well, so I guess in summarizing your
19 position, you think the company in every instance has
20 simply skewed the system against the interests of
21 small customers or of the residential customers?

22 A. Well, I do think that the company's study
23 in many ways -- and I address in my testimony
24 administrative and general costs, distribution mains
25 on the use of a design day peak allocator -- is skewed

00660

1 against the small use customer classes, so residential
2 and small commercial. But the use of their proposed
3 results of operations that were never accepted -- I
4 mean, there was no accepted results of operations in
5 that case -- also skews the results against the small
6 use customer classes because the difference between 19
7 million and 25 million was overwhelmingly cost savings
8 that if included in the cost of service study would
9 flow to the small use classes.

10 Q. But the result flowing from this proceeding
11 here, you would defer all of the rate spread issues
12 until the next rate case. Is there any down side, do
13 you see, to that kind of a deferral?

14 A. Well, I expect that the next rate case will
15 butt up against this one or be pancaked on top of it
16 and so there's not going to be a very long delay. I
17 think that the Commission has to look at you've got
18 five cost of service studies in the record, mine, Mr.
19 Ramirez's, three from the company and there's a couple
20 of variations in mine and couple of variations in
21 staff's so you've got a lot of issues.

22 I think the first thing is you need to
23 resolve what you want done in cost of service,
24 reaffirm the Cascade methodology, reaffirm the Water
25 Power methodology or make specific decisions on things

00661

1 like peak day and design day and classification and
2 allocation of distribution mains and tell us all what
3 your decision is and then ask that we get together and
4 prepare a study that in fact reflects what you're
5 asking for. So you then have that before you,
6 because, of course, my study shows a residential class
7 as fully paying its cost of service and should get no
8 increase and Mr. Schoenbeck defends the study that
9 shows a very different result. But what you need is
10 the study that reflects your perspective on cost of
11 service before you make a rate spread decision.

12 Whether you then make a rate spread
13 decision in this case and and implement rates or say,
14 all right, now we've decided how we're going to do
15 cost of service and we've approved a single declining
16 block transportation rate schedule, we'll implement
17 the rate spread that's shifting between classes as
18 part of the next general rate case, I think that you
19 at least would be making your decision with a study
20 reflecting how you view cost of service not how I do
21 or Mr. Ramirez does or Mr. Schoenbeck does or Mr.
22 Feingold does. I think that's the thing is making
23 decisions and telling us to go forth and provide you
24 with what those decisions mean, and whether you
25 proceed immediately.

00662

1 Down side, I think the company witness has
2 addressed what they perceive is a down side, and I
3 guess I don't see that as a down side. Mr. Davis's
4 testimony says he thinks it's a terrible idea to
5 delay. If you don't delay you're giving company a
6 rate increase. I take exception to Mr. Johnson's
7 opening statement that if you raise rates to the class
8 that's growing rapidly and decrease rates to the class
9 that's not growing, the new rates will produce more
10 revenue in the current period overall for the company
11 than the current rates, and looking at the company's
12 operating report for September of 1994, one year after
13 the test year, there's 20,000 more residential
14 customers and seven fewer industrial interruptible
15 customers, so the company proposal is roughly \$20, \$25
16 a year rate increase for residential and you multiply
17 that times 20,000 customers the company is going to
18 come up half a million dollars to the good if you
19 approve their proposal. It is a revenue increase for
20 the company.

21 If you defer it and do it as part of a rate
22 case then that revenue increase can be considered in
23 the context of other attrition adjustments that might
24 be made and you can make a decision that will at least
25 recognize the effect that the company proposal has.

00663

1 Q. One last area on the issue of whether
2 transportation rates should be distance-based. You
3 differ from the company and apparently from the staff
4 on that issue. And as I recall the response asked Mr.
5 Ramirez about that was that a distance-based
6 arrangement would be, well, complicated or complex as
7 one of the principal reasons he doesn't support it.
8 What is your response to that?

9 A. I agree with Mr. Ramirez that it would be
10 complex. I think on cross-examination Mr. Ramirez
11 agreed with Mr. Trotter that the effect of what he has
12 proposed means that the transportation customers as a
13 group pay less than the cost of service, because
14 without distance-based transportation rates and
15 relying on special contracts and banded rates, those
16 transportation customers for whom an average
17 cost-based rate is a good deal will take that rate,
18 and I will use University of Washington located in the
19 middle of an urban area not a viable bypass customer.
20 They will take the average price-based transportation
21 rate because it's a good deal for them compared with
22 their available alternatives, but for the customer
23 close to the pipeline for whom bypass may be a viable
24 alternative, they will get a below average cost
25 special contract rate. Well, if some customers pay

00664

1 average cost and other customers pay less than average
2 cost and nobody pays more than average cost, on
3 average the group is paying less than average cost. I
4 absolutely agree with Mr. Ramirez that distance-based
5 rates would be complicated, but I think they are
6 cost-based and do make sense, and I think I will
7 refer you -- Mr. Amen will be up here in a little
8 while -- on pages 14 through 16 he addresses it and he
9 says that distance-based rates may be appropriate
10 circumstances. Then he gives reasons why he thinks
11 not for Washington Natural. But the practical matter,
12 the Boeing facility and Frederickson is right next to
13 the pipeline is a very viable bypass candidate.
14 They've got a special rate now. And one way or
15 another they're going to pay less than average cost or
16 they're going to do business with somebody else. And
17 so a company under Mr. Ramirez's proposal somebody is
18 left holding the bag. As long as the rates keep being
19 set to recover the fully allocated revenue
20 requirement, if the transportation customers as a
21 group don't pay their allocated cost of service
22 somebody else does.

23 COMMISSIONER HEMSTAD: That's all I have.

24 JUDGE ANDERL: Commissioner Gillis.

25 COMMISSIONER GILLIS: Just a couple of real

00665

1 brief questions.

2

3

EXAMINATION

4 BY COMMISSIONER GILLIS:

5 Q. On page 34 of your direct testimony, on
6 line 10 the statement "conservation costs, account
7 908, should be allocated on the same basis as gas
8 costs as they have been in electric proceedings for
9 many years." Could you elaborate on what that means a
10 little more?

11 A. Sure. The utilities are authorized to make
12 expenditures for energy efficiency, and it's been
13 going on for a decade and a half in electric and we
14 have a lot of experience with it both practically and
15 in the rate case context, and those costs on the
16 electric side are either expensed through account 908
17 or are put in rate base and amortized over, in case of
18 Puget, over a 10-year period through account 908. And
19 the Commission has in the past considered how those
20 conservation costs should be allocated among the
21 customer classes and has decided they should be
22 allocated just like power supply costs.

23 And the electric side we've for many years
24 used the peak credit methodology. Currently 87
25 percent of those costs will be treated as

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1 energy-related and 13 percent demand-related. The
2 demand-related costs will be allocated over the class
3 contribution to peak demand during the 200 highest
4 peak hours and the energy-related costs will be
5 allocated based on annual usage. Washington Natural
6 has just started making expenditures for energy
7 efficiency, and I'm just suggesting that there ought
8 to be the same treatment in the cost allocation of
9 those costs.

10 Q. Do rate design decisions impact the
11 conservation incentives at the customer level?

12 A. Yes, they do. And I think Mr. Ramirez
13 addressed this in his suggestion of the customer
14 charge not be raised independent of any analysis he
15 might have done of what the appropriate costs to be
16 reflected in the customer charge were, and that's been
17 one reason I think this Commission has consistently
18 kept those monthly customer charges. There are other
19 reasons, too. I believe they're anticompetitive, but
20 the more costs that you put in the tailblock of usage
21 or in case of a single block residential energy rate,
22 the more of the costs you collect in the commodity
23 charge and the less in the customer charge, the more
24 a customer saves when they reduce their usage then the
25 more likely they are to do so.

00667

1 Q. How does your design package stack up with
2 the other parties as far as incentives for customer
3 conservation?

4 A. Well, I guess there's a couple of ways of
5 looking at it. The company is proposing a residential
6 rate increase and that would probably result in some
7 additional residential conservation and an industrial
8 rate decrease and that would probably result in some
9 increase in industrial usage. As for how the relative
10 elasticities of the two sectors would affect how much
11 gas they use all together, I can't say.

12 Looking more narrowly, the staff, even
13 though they're recommending a small residential
14 increase they're recommending that it all be put in
15 the energy charge, and there's an exhibit -- I don't
16 have it here with me; I guess you're going to be
17 replacing that exhibit or maybe you did that this
18 morning -- with the company's and the staff's proposed
19 rates, the rate per therm is just about exactly the
20 same in the two proposals. The customer charge is
21 a dollar different. You're going to get just about
22 exactly the same conservation response from the staff
23 rate design with a 3 percent residential increase as
24 you would get from the company proposal with a 6
25 percent residential increase because the rate per

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1 therm is just about the same. In my proposal with no
2 residential increase, as I said, you will see
3 continued growth in residential use based upon current
4 prices.

5 Q. Would the use of a peak responsibility
6 method as an allocated function result in more
7 conservation, do you think?

8 A. The choice of cost of service methodology
9 only deals with the allocation of costs between
10 customer classes. And if my rates go up and yours go
11 down I'm going to use less and you're going to use
12 more and unless we know that you're more price
13 responsive than I am or I'm more price responsive than
14 you are we can't conclude what the net effect on the
15 bottom line is. Really the conservation occurs not in
16 the cost of service or rate design segment of things,
17 but in the rate spread segment of things.

18 But the peak responsibility method, if you
19 turn to my exhibit 95, my JL-3, page 2, the peak
20 responsibility method would allocate \$16.60 to a
21 customer class if its peak demand grew by one therm
22 per year in the peak period, when in fact the
23 company's costs would only increase by \$1.57. So it
24 would tell a customer ten times over not to use a
25 therm of gas relative to the cost of a therm of gas,

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1 which I think is a misleading price signal if the peak
2 responsibility method were tracked through into the
3 ultimate rates. It vastly overvalues curtailment
4 during the peak period. Keep in mind at \$1.57 that's
5 three times as much as anybody is paying for a therm
6 of gas on peak. Even that \$1.57 if tracked through so
7 on the coldest five days of the year you paid \$1.57 a
8 therm, that would send an honest price signal to a
9 customer class.

10 The peak credit method send a clear price
11 signal, if tracked through in the rate design. But
12 the peak responsibility method will charge a customer
13 \$16 for something that only costs \$1.50 to provide.
14 That would be very deceptive pricing. Yes, you would
15 get a lot of conservation. If I had the option of
16 becoming an interruptible customer under the peak
17 responsibility method on the coldest day of the year
18 when my house uses 20 therms of gas and I could avoid
19 \$320 in my annual bill by just being interruptible
20 that one day, one day every 50 years when we hit
21 design conditions, I would save \$300 a year for 50
22 years for agreeing to come off the system if the
23 design day ever recurred. Hey, I could go first class
24 to Maui that one day out of 50 years with the money I
25 would save. You bet I would take that deal, but it's

00670

1 not -- doesn't save the company \$320 to get me off the
2 system that day. Saves them \$20 to get me off the
3 system that day. \$30. So the peak responsibility
4 method sends I think an extremely deceptive price
5 signal.

6 Q. Fair enough. On the issue of CNG you have
7 some comments in your testimony. You might recall I
8 asked staff witness Ramirez yesterday about what would
9 be the implications in dollar terms for other
10 regulated rate classes if we were just to hold CNG as
11 a line out of the regulated service or I guess,
12 alternatively, just raise the rate up so it recovers
13 cost, and I believe his response was that it wouldn't
14 really make a whole lot of difference. Would you
15 agree with his response to that?

16 A. I absolutely agree. At the current level
17 of service anticipated, the effect on other classes of
18 continuing to subsidize CNG is a rounding error. The
19 effect on other classes of eliminating the subsidy and
20 charging them full cost of service is a rounding
21 error. As I say in my testimony, the CNG issue is
22 more a policy issue: Does the Commission want to and
23 does it have the authority to, to nurture an infant
24 industry. Does it view the infant industry as being
25 desirable. Should it be subsidized and get it going.

00671

1 I was the staff analyst in 1979 after the
2 '78 oil embargo when the legislature adopted the CNG
3 exemption from the highway use tax. I worked on it
4 then from an industry perspective. LNG, alcohol-based
5 fuels and propane were all exempted. This infant
6 industry has been around for 16 years now. In sort of
7 traditional Economics 101 justifications for subsidies
8 for infant industries typically don't go 16 years. If
9 we charge them the full cost of service, like Mr.
10 Ramirez study shows it's 80 cents a therm, mine shows
11 it's about a dollar a therm, if you actually then
12 convert that to gasoline equivalent and put highway
13 use tax on the fuel to make it really equivalent, it's
14 \$1.70 a gallon, nobody is going to buy it, but if you
15 believe that this is an industry that deserves to be
16 nurtured, that there are social benefits to cleaner
17 air, to reduce dependence upon unstable parts of the
18 world, that's a policy decision. As a technical
19 analyst I have opinions but you get appointed to make
20 the policy calls.

21 Q. In the comment you just elaborated on, that
22 was actually the question I had is that if the price
23 were raised to recover costs, whatever it is, \$1.80,
24 whatever, that you're suggesting that it would no
25 longer be -- people wouldn't participate any more. Is

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1 that based on empirical study? Do you know something
2 about the elasticity demand for this stuff or is it
3 just kind of your feeling of the gap is widening so
4 they probably won't be as interested?

5 A. No. It's actually -- at page 56 of my
6 testimony, I quote from a rather lengthy study that
7 the general accounting service did, and I was a
8 consultant to a group in New Zealand when they were
9 seeking to get the CNG subsidy extended in New
10 Zealand. From 1988 to about 1992 CNG sold at the pump
11 for one third the BTU equivalent price of gasoline and
12 there were huge subsidies for people to convert their
13 vehicles. The effort -- I guess it's '85 to about
14 '91. The effort to get those subsidies extended was
15 not successful and the industry has virtually
16 collapsed. People are not willing to pay a thousand
17 or two thousand to convert their vehicle to natural
18 gas in order to buy a fuel that's only marginally
19 cheaper, not nearly as available and gives them
20 relatively short range and the tank uses up half the
21 trunk space. It doesn't work. It doesn't mean it
22 won't ever work. If we taxed carbon dioxide emissions
23 at \$40 a ton it would become a good deal in a big
24 hurry. There's public policy tools that are available
25 to change that market, but right now I think if we

00673

1 raise the price of CNG to fully recover costs the
2 industry would probably collapse.

3 Q. Thank you.

4 JUDGE ANDERL: Redirect.

5

6 REDIRECT EXAMINATION

7 BY MR. TROTTER:

8 Q. You were asked some questions by company
9 counsel regarding notice to customers -- notice by
10 customers to the company if they were going off
11 transportation back on to sales. Do you recall that?

12 A. Yes, I do.

13 Q. You weren't here for the -- to hear the
14 testimony of Mr. Woodruff this morning, were you?

15 A. No, I was not.

16 Q. I will represent to you that he clarified
17 his testimony and his 30-day recommendation was 30
18 days before the end of a one-year contract and then
19 there was some testimony about how that would occur if
20 it occurred during the winter months. Does that help
21 you understand his proposal?

22 A. Yes. With that explanation I would have
23 described him as being in the one-year contract camp
24 of the large volume users and the testimony on that.

25 Q. And does your improved understanding of his

00674

1 proposal change your recommendation in any way?

2 A. No, it does not.

3 Q. You were also asked some questions
4 regarding your use of the Rudden model. Have you ever
5 used cost allocation models in utility cases before?

6 A. Yes, on many occasions, in many
7 jurisdictions for many utilities.

8 MR. TROTTER: I have a three-page exhibit,
9 Public Counsel Response to WNG Data Request No. 44.

10 JUDGE ANDERL: I will mark that for
11 identification as Exhibit No. 106.

12 (Marked Exhibit 106.)

13 Q. Mr. Lazar, do you recognize Exhibit 106 as
14 public counsel's response to WNG's data request 44?

15 A. Yes, I do.

16 Q. That asked for a summary of all contacts
17 with the company on the Rudden model?

18 A. Yes.

19 MR. TROTTER: Your Honor, I would note that
20 the last page of this response was not prepared by Mr.
21 Lazar. It was prepared by me. So if there is an
22 objection on that basis you can handle it. I just
23 wanted to point that out for the record, but I will
24 move the admission of this exhibit at this time.

25 JUDGE ANDERL: But that is how it was

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1 submitted to the company; is that correct?

2 MR. TROTTER: Yes.

3 JUDGE ANDERL: Is there any objection to
4 this document?

5 MR. JOHNSON: No objection, Your Honor.

6 JUDGE ANDERL: Exhibit 106 will be admitted
7 as identified.

8 (Admitted Exhibit 106.)

9 Q. Would you turn to your Exhibit 101, page 8.
10 That's JL-10. I believe you were asked a question by
11 Mr. Cedarbaum regarding allocation of costs of propane
12 in your study, and have you done so on this sheet of
13 your exhibit?

14 A. Yes. Lines 563 through 566 the propane
15 costs are allocated. They are allocated using the
16 peak day one which is the peak day to sales customers
17 allocation factor.

18 Q. You were also asked questions by staff
19 regarding use of the peak credit method if the cost of
20 the peaking resource were greater than the cost of a
21 base load resource. Do you recall that line of
22 questioning?

23 A. Yes, I do.

24 Q. And just going back to Exhibit 95, page 2,
25 where you directed Commissioner Gillis a few moments

00676

1 ago, the numbers in the box show the relative costs of
2 resources as you've computed them; is that right?

3 A. Yes, that's correct.

4 Q. So under the conditions of this exhibit the
5 cost of a base load resource is 15 or so times the
6 cost of a peaking resource; is that right?

7 A. About 10 times, \$16.60 versus \$1.57 or,
8 alternatively, a peaking resource is 9.4 percent of
9 the cost of the base load resource.

10 Q. If the economics turned around and the cost
11 of a peaking resource exceeded \$16.60, what would be
12 the response from a cost of service standpoint?

13 A. If there were no difference between costs
14 of peak and base load resources then a methodology
15 such as the peak and average method the company has
16 sponsored would be appropriate. If peaking resources
17 became more expensive than base load resources it
18 would be imprudent for a company to have peaking
19 resources on its system. If it could get that job and
20 a few others done with less money with a base load
21 resource, it would make sense to have only base load
22 resources.

23 Q. And has that ever occurred where the cost
24 of a peaking resource exceeded the cost of a base load
25 resource?

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1 A. In a sense it did in the Cascade case. In
2 the Cascade U86-100 case, the Cascade had, as the
3 Commission order noted this, an excess of capacity of
4 base load resources on its system. It had more
5 pipeline contract demand than it had firm load to
6 serve. In that case the company's propane air
7 facilities, the peak shaving plant, was removed from
8 rate base and result of operations. That is, it was
9 disallowed as excess capacity in effect in a
10 Commission order.

11 Q. Do you have Exhibit 89 before you, the
12 excerpt from the Bonbright treatise?

13 A. I don't believe I do.

14 Thank you.

15 Q. You were asked several questions about the
16 peak credit method that you have employed. In your
17 opinion, does your application of that method -- is
18 your application of that method consistent with the
19 Bonbright treatise as excerpted in Exhibit 89?

20 A. Yes. I believe that mine -- my study does
21 and that none of the other studies in this docket do
22 conform to Professor Bonbright's recommendation. The
23 paragraph immediately after the paragraph that Mr.
24 Schoenbeck cited in his testimony says "but the
25 argument applies only to the allocation of incremental

00678

1 capacity cost, to the cost per kilowatt of enhancing
2 the capacity, rather than to the average cost per
3 kilowatt of total capacity. To the extent to which
4 this embedded cost either exceeds or falls short of
5 incremental cost, it is unallocable on any principle
6 of cost analysis. Unfortunately, this fact is ignored
7 by fully distributed cost analysis of the public
8 utility type."

9 Well, the peak credit method does not
10 ignore this. It treats as the cost of serving peak
11 load only the incremental costs of enhancing the peak
12 capacity of the system, whereas the peak and average
13 methodology or, even worse, the peak responsibility
14 methodology that allocates the total cost of base load
15 resources based upon peak demand or design day peak
16 demand does not consider incremental costs and
17 directly conflicts with what Professor Bonbright was
18 referring to and which Mr. Schoenbeck cited in his
19 testimony. My study is consistent with this and it's
20 the only study in this docket that's consistent.

21 Now, the Commission decision in the Water
22 Power case to treat base load resources as 90 percent
23 commodity and 10 percent peak demand was consistent
24 with this. The decision in the Water Power case to
25 treat the storage facilities as 77 percent

00679

1 commodity-related and 23 percent demand-related was
2 consistent with this. But the peak and average
3 method, which is based on the arbitrary use of system
4 load factor and peak responsibility method which
5 simply treats all the costs as peak-related, are
6 inconsistent.

7 Q. In response to a question from the bench
8 you referred to differences between your approach on
9 A and G costs and other parties. Would you just give
10 a succinct as possible summary of the differences.

11 A. The staff and company studies treat 90 to
12 95 percent of the administrative and general costs as
13 being related to the distribution plant operations,
14 that is, the maintenance of mains, maintenance of
15 meters, the maintenance of services. They're
16 allocated based on the distribution O and M expense
17 in the case of the staff study, the distribution O and
18 M labor in the case of the company study. Mine uses
19 the methodology the Commission previously approved in
20 the Water Power case which was 50 percent O and M,
21 except for the cost of gas -- vast majority of that is
22 distribution -- and 50 percent throughput. That
23 recognizes that the executives in the company spend a
24 lot of their time doing things other than supervising
25 people who maintain meters and services and

00680

1 distribution mains. I just think it is fundamentally
2 wrong to allocate the rate case expenses, the company
3 executives, the outside consultants expenses, which is
4 what a lot of A and G is, on the basis of distribution
5 maintenance costs. They're associated with the size
6 and character of the company. They're expended to
7 hopefully achieve overall efficiencies in the company.
8 They're not distribution costs. There's
9 administrative and general costs. They're certainly
10 no precisely correct way to allocate them, but
11 treating 90 plus percent of them as associated with
12 mains and services is, I believe, precisely wrong.

13 MR. TROTTER: That concludes my redirect.

14 JUDGE ANDERL: Any recross for this
15 witness, Mr. Johnson?

16 MR. JOHNSON: Yes, I have a few.

17

18 RE-CROSS-EXAMINATION

19 BY MR JOHNSON:

20 Q. Like to refer you to Exhibit 44 which Mr.
21 Trotter handed out. Excuse me, data request 44,
22 Exhibit 106. Do you have that?

23 A. Yes.

24 Q. And you prepared this response?

25 A. I prepared the first two pages of this

00681

1 response.

2 Q. In the first paragraph you say that you met
3 with the company staff on Friday, November 11?

4 A. Yes.

5 Q. And the question asks you for dates and
6 times that company personnel and/or R. J. Rudden staff
7 were contacted; is that correct?

8 A. Correct.

9 Q. Is it your testimony that there was no
10 meeting between you and the company staff prior to
11 Friday, November 11, in response to a contact by
12 yourself?

13 A. We didn't physically get together until
14 then, that's correct.

15 Q. My question is did you initiate a contact
16 prior to November 11 that led to a meeting prior to
17 November 11.

18 A. I initiated -- as the response says, I
19 initiated contacts on October 25, 27 and November 3rd.
20 Those contacts led to the meeting on November 11.

21 Q. Were there any contacts initiated prior to
22 October 25?

23 A. I didn't look back in my telephone records
24 prior to that date and not every time I called the
25 company staff had to do with the use of the Rudden

00682

1 model. I'm confident that this period immediately
2 prior to the filing deadline had a great deal to do
3 with my -- the difficulties I encountered using the
4 Rudden model.

5 Q. But your response does not reflect any
6 specific calls to Mr. Amen or anybody else with
7 respect to the model prior to October 25, correct?

8 A. My response does not. I didn't get the
9 model from Mr. Wood until, I believe it was, early to
10 mid September. There was an initial version of the
11 model distributed that I indicated to Mr. Wood that I
12 was having difficulty getting to run, hitting circular
13 reference problems. He said, well, we've got a new
14 version and it took a while for that new version to
15 get to me and that was the version then in Quatro Pro
16 format which the company was using and that I prefer
17 to use and that was when I made another effort to use
18 it and ultimately decided I wasn't going to make
19 deadline if I kept trying.

20 Q. When did you receive the first version of
21 the model?

22 A. The first version I'm not sure when I
23 received it. The file was dated in July of '94 so
24 I couldn't have received it before it was created.

25 MR. JOHNSON: Thank you. Nothing further.

00683

1 JUDGE ANDERL: Ms. Pyron.

2 MS. PYRON: No questions.

3 JUDGE ANDERL: Mr. Frederickson.

4 MR. FREDERICKSON: No questions.

5 JUDGE ANDERL: Mr. Cedarbaum.

6 Anything further for this witness? Thank
7 you, Mr. Lazar, for your testimony. You may step
8 down. Before we call the next witness I just want to
9 address the Commission staff's response to bench
10 request No. 2, which was distributed during the lunch
11 break. I would propose to identify that as an exhibit
12 for the record. That would be Exhibit No. 107, and
13 ask if there's any objection to that being admitted at
14 this time?

15 I hear no objection. And Exhibit 107 is
16 therefore admitted as identified.

17 (Marked and Admitted Exhibit 107.)

18 JUDGE ANDERL: I believe that concludes the
19 presentation of staff, intervenors and public counsel.
20 We'll go to the company's presentation of rebuttal
21 witnesses and go off the record while the first
22 witness takes the stand.

23 MR. JOHNSON: Thank you.

24 (Recess.)

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

00684

1 While we were off the record company witness Davis
2 took the stand. We marked his prefiled rebuttal
3 testimony for identification as Exhibit T-108. Mr.
4 Davis, you previously were sworn and testified in this
5 matter; is that correct?

6 THE WITNESS: That's correct.

7 JUDGE ANDERL: I would remind you that you
8 are still under oath then and go ahead, Mr. Johnson.

9 (Marked Exhibit T-108.)

10 Whereupon,

11 RONALD DAVIS,
12 having been previously duly sworn, was called as a
13 witness herein and was examined and testified
14 further as follows:

15

16 DIRECT EXAMINATION

17 BY MR. JOHNSON:

18 Q. Good afternoon, Mr. Davis. Please state
19 your full name and spell your last name for the
20 record.

21 A. My name is Ronald E. Davis, D A V I S.

22 Q. What is your position?

23 A. I'm vice-president for rates and planning
24 at Washington Natural Gas.

25 Q. Do you have before you what's been marked

00685

1 for identification as Exhibit T-108?

2 A. Yes, I do.

3 Q. Is that your prefiled rebuttal testimony?

4 A. It is.

5 Q. Was that testimony prepared by you or under
6 your supervision?

7 A. It was.

8 Q. Do you have any corrections you wish to
9 make to the testimony?

10 A. I do not.

11 Q. So do you adopt that testimony as true and
12 correct in all respects?

13 A. To the best of my knowledge.

14 MR. JOHNSON: I move for admission of Mr.
15 Davis's rebuttal testimony, Your Honor, what's been
16 marked as Exhibit T-108.

17 JUDGE ANDERL: Is there any objection to
18 that exhibit?

19 I hear none. Exhibit T-108 will be
20 admitted as identified.

21 (Admitted Exhibit T-108.)

22 MR. JOHNSON: Mr. Davis is available for
23 cross-examination.

24 JUDGE ANDERL: Go ahead, Mr. Cedarbaum.

25

00686

1 CROSS-EXAMINATION

2 BY MR. CEDARBAUM:

3 Q. Good afternoon, Mr. Davis.

4 A. Good afternoon.

5 Q. You were in the hearing room just now when
6 Mr. Lazar was testifying?

7 A. I was.

8 Q. And he had a discussion with the bench, I
9 believe, where he indicated that there were basically
10 -- he indicated that there were no Commission-approved
11 results of operations from the '93 rate case. Would
12 you essentially agree with that statement?

13 A. I would.

14 Q. Would you also agree, generally speaking,
15 that the more accurate the results of operations that
16 are utilized in a class cost of service study the more
17 accurate the results of that study will be?

18 A. I would, but there's a question of
19 materiality.

20 Q. Generally speaking you would agree with
21 that statement?

22 A. I would.

23 Q. Is it correct that the company has gone
24 through a major reorganization of many of its
25 departments recently?

00687

1 A. Yes, it has.

2 Q. And the test period that was utilized in
3 the '93 case and that's utilized in the cost of
4 service studies in this case is the year ended
5 September 1993; is that right?

6 A. That's correct.

7 Q. That was prior to the reorganization of the
8 company?

9 A. That is also correct. However, it's
10 important to realize that the company did not request
11 in that docket to seek recovery of costs which it
12 believed had previously been disallowed, so the
13 results of operations had already been restated for
14 disallowed cost by this Commission.

15 Q. Just so I understand, it's your testimony
16 that the results of operations adopted in '93 case
17 reflect the reorganization?

18 A. In large part they do, and the reason I say
19 that is because most of the reorganization and layoffs
20 that resulted from that reorganization, that is, the
21 cost savings, were attributable to resolving, taking
22 or unwinding the merchandising business out of the
23 company's operations and reducing customer service to
24 levels that had previously been allowed to be
25 recovered in rates.

00688

1 Q. Is it correct that the staff and division
2 marketing departments of the company were
3 substantially affected by the reorganization of the
4 company?

5 A. Substantially is a good word.

6 Q. And during the September '93 test period
7 those marketing employees were still employees of
8 Washington Natural Gas company?

9 A. They were. They just were not included in
10 the revenue requirement request of the company.

11 Q. As part of the settlement in that '93 case,
12 is it correct that the company was required to file a
13 customer service policy?

14 A. It is.

15 Q. And the intent or the hope of that policy
16 was to establish a level of regulated utility
17 activities of the customer service department?

18 A. Yes.

19 Q. And that customer service policy was
20 approved by the Commission, would you accept subject
21 to check, on December 28, 1994?

22 A. I certainly would.

23 Q. Just a couple of questions on the CNG
24 issue. Do you know -- I think there's agreement maybe
25 not as to the materiality but at least an agreement

00689

1 between staff and the company about the existence of a
2 subsidy under the company's proposal. Do you know
3 whether or not the company has polled its residential
4 customers to see if they're willing to contribute
5 to that subsidy?

6 A. To the best of my knowledge I don't believe
7 we have.

8 Q. If the company's proposal is adopted, that
9 being to keep CNG regulated at the proposed rate in
10 Mr. Amen's testimony, is it correct that the company
11 is not -- or has the company considered any kind of a
12 mechanism that would refund to ratepayers, other
13 ratepayers, the funds that they have contributed as
14 that subsidy during this whole period of time that the
15 subsidy exists?

16 A. No, and I don't even know why I would have
17 considered that. I don't even understand it. The
18 subsidy, by the way, can't even be measured on an
19 average customer's bill. It's less than a penny per
20 bill.

21 Q. So the answer to my question was no?

22 A. "No." Just as I don't ask to go back and
23 surcharge to residential to under-contribute by staff
24 or the company's cost of service studies. I don't go
25 back and ask for retroactive ratemaking.

00690

1 MR. CEDARBAUM: Those are all my questions.

2 JUDGE ANDERL: Thank you, Mr. Cedarbaum.

3 Ms. Pyron.

4

5 CROSS-EXAMINATION

6 BY MS. PYRON:

7 Q. Good afternoon, Mr. Davis.

8 A. Good afternoon.

9 Q. Mr. Davis, turning to your rebuttal
10 testimony, Exhibit T-108, page 6 to page 7, you
11 testify, do you not, that the company uses the 55
12 degree design day from its least cost plan in its
13 operational and planning activities in acquiring
14 resources; is that correct?

15 A. We do.

16 Q. When WNG is developing its resource plans,
17 does the company consider interruptible loads in
18 determining the resources that the company needs to
19 acquire?

20 A. No, it does not.

21 Q. So how does the company serve interruptible
22 loads?

23 A. The company serves interruptible loads by
24 planning to meet the loads of firm requirements
25 customers at the lowest long run possible customer.

00691

1 We then plan for all of the interruptible load that
2 can be served from those same resources as long as it
3 doesn't increase revenue requirements, so that is, we
4 use the resources that we acquire to meet firm demand
5 to their optimum levels but we do not acquire any more
6 resources nor do we build any more capability in our
7 distribution system unless those customers
8 specifically pay for those facilities.

9 Q. Would it have been an accurate summary of
10 your testimony that you only serve interruptible
11 customers when it's economic to do so? Would that be
12 an accurate phrasing?

13 A. We only serve interruptible customers when
14 we are able to do so, that is, when the firm sales
15 customers who have priority to the resources do not
16 need them, except perhaps in the instance of where an
17 error is made, an interruptible customer, for
18 instance, say, who just can't get off on a curtailment
19 day. Those exceptions do occur.

20 Q. I have some questions that I want to
21 address to the company and I frankly do not know
22 whether you would be the proper witness or whether you
23 would defer that to Mr. Amen, so I would like to
24 preface that, and they are questions related to
25 curtailment and interruptions. The first one is

00692

1 related to whether -- if you refer to Exhibit 57,
2 which is JR-11. Do you have that from Mr. Ramirez's
3 testimony? Included in that is an Exhibit 39 that's a
4 response by the company. It was Exhibit 57.

5 A. It's JR which?

6 Q. JR-11, Exhibit 57.

7 A. I have that.

8 Q. And if you turn to the fifth page, it's the
9 beginning of company response to request No. 39. Are
10 you with me, on the interruptions?

11 A. I do. Page 1 of 34.

12 Q. 1 of 24, I believe.

13 A. 1 of 24, yes.

14 Q. On this company response there is an item D
15 in the response which indicates that the data does not
16 include localized curtailments. Do you see the
17 reference I have on D in the company's response?

18 A. Yes, I do.

19 Q. Do localized curtailments occur frequently
20 on Washington Natural Gas's system?

21 A. In the winter if not an every day, an every
22 week item. That is to say that depending on where
23 you're at, Olympia or in south Seattle or in north
24 Seattle, Everett, the localized curtailment occurs
25 depending on the transmission system serving that

00693

1 area, and if it gets cold in Olympia, for instance --
2 by cold we use 30 degrees -- there is curtailment in
3 Olympia. All interruptible loads are off at 30
4 degrees in Olympia.

5 Q. Localized versus -- how would you define
6 that as opposed to the other definition of being this
7 data reflecting system-wide curtailment, the whole
8 system? Would that be the difference? Could you
9 explain the difference between the two?

10 A. Yes. The company's response, due to record
11 keeping, only kept track of system curtailments, that
12 is, when our entire system went into curtailment,
13 which does not happen all that often. The system
14 actually is broken up into pieces and unless it's an
15 upstream capability problem the entire system doesn't
16 go into curtailment that often, but local curtailments
17 happen all the time. For example, the University of
18 Washington is so used to curtailment that they self
19 curtail now. They don't wait for us to call. They
20 have a pressure gauge and a little monitor and as the
21 pressure starts falling, when it passes 32 degrees
22 outside -- when it falls past 32 degrees the
23 University of Washington starts curtailing their eight
24 boilers until the pressure either stabilizes or all
25 their boilers are off. Those types of curtailments

00694

1 are common all winter and are not reflected in the
2 data.

3 Q. And there aren't really any records that
4 reflect that, are there?

5 A. Well, as it turns out all the detailed
6 operators' logs in our dispatch office do contain
7 notes and references to those type of conditions, but
8 one has to dig through daily dispatch logs to pull all
9 that out. It's not kept like data in a computer where
10 it's readily available.

11 Q. It would be your testimony, then, that that
12 data is kept in the people trying to control the
13 system, so is it your testimony they call people?

14 A. They do call people and other times it's
15 not even noted because we've arranged self-
16 curtailment, if you will, as I explained with the
17 University of Washington, so they just do it on their
18 own. So you may or may not find reference to the
19 curtailment in the operators' logs, but we don't
20 consider those for record keeping on system
21 curtailments because they're localized. There
22 are still interruptions if you're the customer.

23 Q. Are all curtailments necessarily a function
24 of weather getting cold?

25 A. No, not at all.

00695

1 Q. What are the other sources of curtailment
2 for your customers?

3 A. Well, we can have planned maintenance for
4 outages or road work that causes us to curtail a loop
5 in an area or doing pressure work in an area and the
6 capability of the system is reduced and we'll
7 interrupt. It happens. Meaning you may find
8 interruptions in July due to road work.

9 Q. If you could turn with me -- if you have
10 Mr. Ramirez's exhibits still handy and turn to Exhibit
11 53 which is JR-7, the page 1?

12 A. I have that.

13 Q. And in the data shown there for 1990 for
14 December of 1990, was that a particularly cold period
15 in recent history?

16 A. I'm looking for December 1990 and I see
17 '91, '92 and '93.

18 Q. You may not have the most recent version,
19 then. This one it would have dated at the top would
20 be revised 1-29-95.

21 A. I have it now. I see December 1990.

22 Q. And at the top there are five days in 1990
23 and the far column showing degree days on the chart.
24 Are you with me now so we're looking at the same piece
25 of paper?

00696

1 A. Yes, we are.

2 Q. Was that a relatively cold period in recent
3 history?

4 A. Yes, it was. It was within 10 or 12
5 percent of system design.

6 Q. And during this December 1990 period, there
7 is some interruptible sale volumes shown on those days
8 in December of 1990; is that correct?

9 A. That's correct.

10 Q. Were all of those customers curtailed
11 during that period?

12 A. If by that do you mean the company issued
13 curtailment directions to all of its interruptible
14 customers, the answer is yes. The company put the
15 system into curtailment. That doesn't always mean
16 everyone can comply. In the case of this, this is the
17 so-called Arctic Express that happened and at that
18 time we found we had a customer on our system
19 accepting interruptible service whose equipment would
20 not let them switch to oil. That customer was
21 subsequently converted for those loads to firm sales
22 service and so it was a question of while we were
23 in curtailment that customer simply had no
24 alternative.

25 Q. Statistically which column do they show up

00697

1 in here? Since they switched to firm do they show up
2 under firm sales or interruptible sales?

3 A. They show up under interruptible on this
4 document.

5 Q. Even though they went to firm during that
6 time period?

7 A. They were subsequent to December 28
8 switched to firm, and those loads as far as I know
9 still are on a firm service.

10 Q. Going back to your own rebuttal testimony,
11 if you would, to Exhibit T-108 to page 3, and you
12 testify about implementation on page 3 of the results
13 from this case. Are you with me?

14 A. Yes, I am.

15 Q. If the cost of service study that's adopted
16 by the Commission shows that residential rates are
17 below the company rate of return and that
18 transportation rates -- the cost of service shows that
19 the transportation customers are contributing vastly
20 over the company rate of return, doesn't this dictate
21 an immediate result to the outcome of this proceeding
22 rather than delaying?

23 A. Well, that is my testimony, that's correct.
24 We do not want to delay. As staff testified, I
25 believe it was Mr. Ramirez in his prefiled rebuttal,

00698

1 we consider this, as did he, the cost of service and
2 rate design phase of the '93 rate case. We would like
3 to finish that rate case before we move on.

4 Q. Are you aware of Mr. Schoenbeck's
5 recommendation that the Commission adopt the peak
6 allocation cost study and then implement it in two
7 steps by implementing the company's proposal as a
8 first step and then implementing the rest of the way
9 to cost-based rates in the next proceeding?

10 A. I'm familiar with his recommendation.

11 Q. If the Commission were to adopt a peak
12 design allocation method like Mr. Schoenbeck has
13 advocated as opposed to the method the company has
14 advocated, would you find Mr. Schoenbeck's proposal as
15 this being a first step and the next case being the
16 complete phase-in of those rates appropriate?

17 A. Assuming your hypothetical, my answer still
18 has to be I'm not certain, and the reason is that I
19 don't know what rates would result from that. What we
20 need is a movement towards economical rates, and I
21 don't know that if that peak methodology were adopted
22 implementing it just as the only consideration towards
23 unit of cost of service would produce economic rates
24 or something else. I don't know.

25 Q. You have been in the hearing room during

00699

1 Mr. Ramirez's testimony and other parties' testimony
2 about WUTC precedent on the peak approach from
3 examples from the Water Power case and from the
4 Cascade case, historical Commission decisions. Are
5 you somewhat familiar with those?

6 A. I am generally familiar with those.

7 Q. Have circumstances changed in the gas
8 industry since the Commission made those decisions
9 that would impact a choice of a cost of service
10 methodology now?

11 A. Being in the industry I may be more biased,
12 but I would say the industry has night and day changed
13 since the mid '80s with open access and responsibility
14 for resources shifting to LDC's and the risk of that,
15 and end user choice increasing every day. This is not
16 the same industry that we faced in the mid '80s at
17 all.

18 Q. And how does WNG address its resource
19 planning needs dictated by open access? What methods
20 does the company employ?

21 A. Well, in meeting the Commission's
22 requirement that it develop and file least cost plans,
23 the company meets the needs of its firm requirements
24 customer much as we discussed previously. In that
25 regard, as long as the rates follow the cost

00700

1 incurrence, we should have economic rates and we
2 should be able to compete even though our system is
3 opened up more and more. It's only when, due to other
4 considerations, current or past, that we decide we
5 have to retain noneconomic rates, that is, costs don't
6 follow rates, that we're exposed to an uneconomic
7 business.

8 Q. Do you personally supervise least cost
9 planning process at WNG?

10 A. It reports to me.

11 Q. In your experience in that area of least
12 cost planning, do the planning criteria include cost
13 causation in developing the plan?

14 A. Yes. That is, that the plan actually
15 develops firm requirements of customers, all classes
16 of firm and then seeks to meet those at the least
17 cost, but it not only does that, it is then used in
18 the company's resource acquisitions in budgeting.
19 That is to say, we actually design upgrades like the
20 one that's going on this winter in Olympia to meet
21 that same design day. Has nothing to do with volumes.
22 It has to do with meeting that design day and --

23 Q. Would it be your testimony you would
24 disagree with Mr. Ramirez and with Mr. Lazar that
25 least cost planning is consistent with a peak day

00701

1 determination of cost of service, that the functions
2 are compatible in cost causation?

3 A. Well, the same planning criteria we use in
4 our least cost plan is what we used to acquire
5 resources and capacity, upstream and downstream of the
6 company's city gates. So, in my opinion, in fact,
7 regardless of other arguments, the two are equal. By
8 that I mean our gas supply department uses that peak
9 day requirement in that least cost plan to go out and
10 buy gas supplies. Our distribution department uses it
11 to determine how big mains should be and what needs to
12 be upgraded. So cost causation for planning purposes
13 and for implementation purposes is design day. That's
14 just a question of fact, it's not an argument. If
15 that answers your question.

16 Q. So you wouldn't characterize the peak day
17 demand as being hypothetical, would you?

18 A. Our peak day demand that we refer to, that
19 is the design day demand, is our design day demand
20 that costs that are incurred are based upon.

21 MS. PYRON: No further questions at this
22 time. Thank you.

23 JUDGE ANDERL: Mr. Frederickson.

24 MR. FREDERICKSON: I have no questions.

25 JUDGE ANDERL: Mr. Trotter.

00702

1

2

CROSS-EXAMINATION

3 BY MR. TROTTER:

4 Q. You were just asked some questions
5 regarding prior Commission precedent, and you referred
6 to the 1980s. First of all, you're the policy witness
7 for the company now, right?

8 A. That's correct.

9 Q. You're still there. And you were the
10 policy witness for Water Power in docket UG-901459?

11 A. That's correct.

12 Q. And that is one of the precedents that's
13 been discussed in this proceeding?

14 A. It is.

15 Q. Would you accept that the Commission's
16 order in that docket was issued March 9 of 1992?

17 A. I would.

18 Q. And isn't it correct that in your testimony
19 in that docket that you referred to two of the primary
20 goals of that proceeding to provide transportation
21 rates that are competitive -- competition was an issue
22 in that docket, was it not?

23 A. Competition was an issue in that docket.

24 Q. And you also refer in your testimony in
25 rebuttal here to the least cost planning process, and

00703

1 let me ask you this. Did Washington Water Power have
2 a least cost plan when you were testifying in that
3 docket?

4 A. Our least cost planning for gas did not
5 exist at that time.

6 Q. So the company didn't conduct any planning
7 at that time?

8 A. I didn't say that.

9 Q. You weren't saying that the company -- and
10 when I use least cost plan maybe I should use it in
11 small case letters. The company did do planning at
12 that time, didn't it?

13 A. Yes, it did.

14 Q. It was attempting to plan on a least cost
15 basis, wasn't it, or was it intending to plan on a
16 highest cost basis?

17 A. If you use least cost not using the WAC
18 definition, then of course the answer is yes. The
19 design day they used before and after the least cost
20 planning was the same one.

21 Q. And in that case the company did propose a
22 single day peak demand and the staff and public
23 counsel was proposing a five-day three-year sustained
24 peak, correct?

25 A. That is correct. The difference is they

00704

1 didn't propose the use of design day.

2 Q. And "they" meaning the company or the
3 staff?

4 A. "They" Washington Water Power.

5 Q. And for demand classification of
6 distribution mains the company had 100 percent demand
7 classification and staff and public counsel were 50/50
8 demand and commodity?

9 A. That is correct.

10 Q. And with respect to assignment of
11 distribution costs to large volume transportation
12 customers, the company proposed direct assignment and
13 the staff and public counsel were proposing that they
14 be allocated like other classes; is that right?

15 A. That's correct.

16 Q. And with respect to special studies for
17 meter and services, directly assigning costs to
18 classes on a customer basis, that was the company's
19 proposal; staff and public counsel were proposing 50
20 percent customer, 25 percent command and 25 percent
21 commodity. Is that right?

22 A. To the best of my recollection you're on a
23 roll.

24 Q. And finally with respect to A and G, the
25 company was proposing an allocation based on directly

00705

1 allocated labor expense by class and the staff and
2 public counsel proposed 50 percent throughput, 50
3 percent O and M less cost of gas?

4 A. Yes.

5 Q. And Water Power prevailed on none of its
6 theories; is that correct?

7 A. To the best of my knowledge.

8 Q. Now, Washington Natural proposed a cost of
9 service study in the last litigated rate case,
10 UG-920840; is that right?

11 A. That's correct.

12 Q. And that was by Stone and Webster and it
13 amounted to approximately \$311,000. Is that
14 consistent with your recollection?

15 A. You mean the cost of the study?

16 Q. Yes.

17 A. Yeah. I believe that's correct.

18 Q. And is that cost in the results of
19 operations that the company is sponsoring in this
20 case?

21 A. I believe it is.

22 Q. Do you anticipate that the costs that you
23 will incur in this case for your cost of service study
24 will approach that level?

25 A. They will be a substantial portion of that.

00706

1 I would be surprised if they were materially less but

2 I am hopeful they will be definitely less.

3 Q. Well over \$200,000?

4 A. Over 200.

5 Q. On page 6 of your testimony you cite a
6 Michigan Commission decision adopting peak and average
7 and you cite that. You suggest that Mr. Lazar's
8 statement regarding that peak and average method
9 having no foundation in utility planning for costs is
10 incorrect. Do you see that testimony?

11 A. I do.

12 Q. Did you read that decision?

13 A. I had it referred to me by Mr. Feingold. I
14 did not read it.

15 Q. Now, if I cited you a decision from another
16 state that adopted a different method, would that
17 different method be evidence that that different
18 method was cost-based?

19 A. There's a different argument being made
20 here. One says there's no foundation. The other says
21 not always founded. "Not always" and "no" are not the
22 same statement.

23 Q. Turn to page 10 of your testimony, I guess
24 9 and 10, regarding the revenue requirement issues and
25 you are objecting to proforma adjustments that Mr.

00707

1 Lazar and Mr. Ramirez are proposing; is that right?

2 A. No, that's not quite correct.

3 Q. Why don't you clarify.

4 A. Thank you. I believe I misunderstood
5 because of the nature of the process where -- I don't
6 know the right word for it if it's modified Oregon
7 approach or shoot-out approach or what it is, but the
8 way information is exchanged on the time frame we had
9 over the holiday. That is the month of December is
10 when we were all trading documents and filing. I
11 couldn't tell from the testimony we received was this
12 turning into another revenue requirements case or were
13 witnesses simply trying to incorporate their argued
14 adjustment into a cost of service, and we wanted to
15 make sure we went on the record as saying we thought
16 this wasn't a revenue requirements case. So I
17 apologize to the extent I misspoke.

18 Q. So it is appropriate, then, for the staff
19 and public counsel to make, at least propose, for
20 Commission consideration the proforma adjustments that
21 they are making?

22 A. It's totally appropriate that they propose.
23 I just would suggest that the added effect of both of
24 them exceeds the whole.

25 Q. And with respect to whether the settlement

00708

1 agreement or the Commission order allows it, I would
2 like to read you just from Exhibit 20 in the record.
3 A stipulation for the submission and decision is
4 included in there and that was the one that was
5 accepted by the Commission, right, on the settlement
6 document?

7 A. I have it in mind.

8 Q. Would you agree that that paragraph says,
9 "The parties agree that this stipulation represents
10 a negotiated settlement in the public interest with
11 respect to the matters as agreed to in this
12 stipulation with the sole purpose of settlement of the
13 matters agreed to in the stipulation. Except as
14 expressly provided in this stipulation, the parties
15 individually and collectively do not waive any right
16 to assert any position in this or any other proceeding
17 before the Commission and agree that this stipulation
18 and the Commission's acceptance thereof shall not be
19 cited by any party as constituting an approval of, or
20 precedent regarding, any concept, theory, method,
21 principle or issue in this or any other proceeding
22 before the Commission." Would you accept my reading?

23 A. I do.

24 Q. Finally, Mr. Davis, we asked with respect
25 to your testimony on page 2 where you express surprise

00709

1 regarding our having problems with the Rudden model.
2 We asked you to provide -- excuse me, page 5 of your
3 rebuttal testimony, line 2 -- we asked you to identify
4 all contacts of which you were aware when you drafted
5 your testimony, and I would like to mark your response
6 as the next exhibit in order.

7 JUDGE ANDERL: That's Exhibit 109 for
8 identification.

9 (Marked Exhibit 109.)

10 Q. Do you recognize Exhibit 109 to data
11 request 116 by public counsel?

12 A. I do.

13 Q. And is it correct?

14 A. To the best of my knowledge.

15 MR. TROTTER: Move the admission of Exhibit
16 109.

17 JUDGE ANDERL: Any objection?

18 Hearing none --

19 MR. JOHNSON: Your Honor, excuse me. My
20 only question is the question refers to public counsel
21 data request No. 108, and do we have that in the
22 record? The context of the question may be somewhat
23 missing if we just insert this.

24 JUDGE ANDERL: I'm not sure if we do have
25 108 in the record, particularly since a lot of data

00710

1 requests were entered as packets, and what I would
2 have recorded is just the one that was on top.

3 MR. TROTTER: We have no objection. It is
4 not in the record, I guess. We have not copied it.
5 We can do that.

6 MR. JOHNSON: My preference would be to see
7 both attached together.

8 MR. TROTTER: That's fine. If there's no
9 objection to that we can do it at a break.

10 JUDGE ANDERL: We'll just include that data
11 request 108 as a part of this Exhibit 109 then and
12 there's no objection to that.

13 Then Exhibit 109 as supplemented later
14 today will be admitted and made a part of the record.

15 MR. TROTTER: Thank you. Nothing further.
16 (Admitted Exhibit 109.)

17 JUDGE ANDERL: Are you checking, Mr.
18 Trotter?

19 MR. TROTTER: I'm done. I said "nothing
20 further."

21 JUDGE ANDERL: Then questions from the
22 Commissioners for this witness.

23

24 EXAMINATION

25 BY COMMISSIONER HEMSTAD:

00711

1 Q. Mr. Davis, do you have any examples on the
2 record other than least cost plan which would show how
3 the company has used design day in making decisions
4 about system design and construction or gas
5 purchasing?

6 A. I'm not certain of that, but I believe we
7 do in terms of gas costs. I'm almost certain we do in
8 terms of gas costs. In terms of system construction,
9 no.

10 Q. What do you mean when you say gas costs?
11 Can you elaborate on that?

12 A. Firm supplies that the company has
13 contracted for. I believe there were numerous data
14 exchanges about the firm contracts the company has
15 entered into to meet its firm peak day requirements.
16 And I believe you will find that the summation of all
17 of those firm supply agreements equals the company's
18 peak day.

19 COMMISSIONER HEMSTAD: Thank you. That's
20 all I have.

21 JUDGE ANDERL: Commissioner Gillis.

22 COMMISSIONER GILLIS: I have no questions.

23 JUDGE ANDERL: Redirect?

24 MR. JOHNSON: Just a couple of questions,
25 Your Honor.

00712

1

2

REDIRECT EXAMINATION

3 BY MR. JOHNSON:

4 Q. Mr. Davis, on the subject of CNG, you were
5 asked by Mr. Cedarbaum about a subsidy for CNG
6 service. Do you recall that line of questioning?

7 A. I do.

8 Q. And you were also here when Mr. Lazar for
9 public counsel was asked about the extent of a subsidy
10 for CNG service. Do you recall that?

11 A. I'm sorry. Could you repeat the question.

12 Q. You were here in the hearing room when Mr.
13 Lazar for public counsel testified in response to I
14 believe a question from the bench about the extent of
15 subsidy for CNG rate. Do you recall that?

16 A. Yes, I was. I recall that.

17 Q. And you also recall Mr. Lazar's statement
18 that the extent of that subsidy really wasn't much
19 more than a rounding error. Do you recall that?

20 A. I do recall his statement.

21 Q. Would you agree with that?

22 A. Absolutely. Like I think I responded to
23 Mr. Cedarbaum's comment that if you look at the
24 average customer bill in dollars and pennies it does
25 not show up even in the penny column.

00713

1 Q. Maybe you can be a little more specific.
2 When you refer to rounding error and agree with Mr.
3 Lazar, for the benefit of us nonmathematicians, what
4 are we talking about on a per therm basis?

5 A. Per therm I have no idea. It's less than a
6 penny a month per customer. If you divided that by
7 therms this would be quite small. A tenth of a tenth.
8 I mean, Mr. Amen, I'm sure, could answer that question
9 better than I.

10 Q. Lastly you were asked by Mr. Trotter about
11 least cost planning or planning done by Water Power,
12 and I think he referred to that in the lower case. In
13 your opinion, Mr. Davis, has the least cost planning
14 process before the Utilities Commission and as
15 required by the Utilities Commission, was that process
16 developed to the same degree at the time of the Water
17 Power decision as it is currently?

18 A. No, not at all, not at Water Power and not
19 at Washington Natural. At Washington Natural we've
20 integrated least cost planning into our operating and
21 budgeting process so it's just part of our ongoing
22 operations.

23 MR. JOHNSON: I have nothing further.

24 JUDGE ANDERL: Any further -- any recross
25 then, Ms. Pyron?

00714

1 MS. PYRON: None. Thank you.

2 MR. CEDARBAUM: Just a couple of quick
3 questions.

4

5 RECROSS-EXAMINATION

6 BY MR. CEDARBAUM:

7 Q. Mr. Davis, you were discussing what's
8 included in Exhibit 57 of Mr. Ramirez's, JR-11, and it
9 was with regard to data request No. 39. That was the
10 curtailment?

11 A. Yes.

12 Q. And I believe you stated, as stated on the
13 face of that data request, that local curtailments
14 weren't included because data didn't exist. You also
15 discussed with her an example of a localized
16 curtailment in Olympia, and when looking at data
17 request 39 on each page, there's a column second over
18 from the right that says Olympia supply distribution?

19 A. Yes.

20 Q. Can you clarify whether -- what that is, if
21 it's different from what you were talking about with
22 Ms. Pyron?

23 A. No, I cannot. I don't know what that
24 particular one is.

25 MR. CEDARBAUM: Thank you. That's all.

00715

1 JUDGE ANDERL: Mr. Trotter, anything else?

2 MR. TROTTER: No.

3 JUDGE ANDERL: Thank you, Mr. Davis, for
4 your testimony. You may step down. Mr. Johnson, your
5 next witness.

6 MR. JOHNSON: Mr. Feingold.

7 JUDGE ANDERL: Let's go off the record
8 while he takes the stand.

9 (Recess.)

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

11 While we were off the record company witness Mr.
12 Feingold took the stand. I will go ahead and identify
13 his testimony and exhibits for the record with the
14 exhibit numbers we gave on break. Exhibit -- his
15 rebuttal testimony is Exhibit T-110 for
16 identification. His exhibits RAF-1 through RAF-11 are
17 numbered sequentially beginning with Exhibit 111 and
18 ending with Exhibit 121. The only exhibit of those
19 which has been revised and substituted is Exhibit
20 RAF-3 which is now Exhibit No. 113 for identification.
21 It is my understanding that the revised one dated
22 January 17, 1995 is to be substituted for the one that
23 was included with the prefiled testimony.

24 (Marked Exhibits T-110, 111 - 121.)

25 JUDGE ANDERL: In addition, Ms. Egeler

00716

1 distributed some exhibit or documents that she'll be
2 proposing and let me identify those now also.
3 Multi-page document which begins with Public Counsel
4 Data Request No. 8 and the company's response thereto
5 will be Exhibit No. 122. The two-page document which
6 is a table on the front page and the reference is
7 docket UG-931405 on the top is Exhibit No. 123 for
8 identification. I will hold mine up so everybody
9 sees. And then the staff response to Washington
10 Natural Gas's data response No. 44 is Exhibit No. 124
11 for identification.

12 MR. JOHNSON: Your Honor, I think this may
13 already be in the record.

14 JUDGE ANDERL: I'm sure it's possible.

15 MR. TROTTER: It's Exhibit 106.

16 MS. EGELER: Okay. I don't think so.

17 MR. TROTTER: It's a different 44. I'm
18 sorry.

19 JUDGE ANDERL: Exhibit 106 is the public
20 counsel response. This is the staff response.

21 MR. JOHNSON: How about Exhibit 62?

22 JUDGE ANDERL: Yeah. It's Exhibit 62. So
23 you're just going to withdraw that then.

24 MS. EGELER: Yeah, that's fine.

25 JUDGE ANDERL: There is not an Exhibit 124

00717

1 yet then. Mr. Feingold, I know that you have already
2 submitted testimony in this matter and that you were
3 previously sworn so I will just remind you that you
4 are still under oath and, Mr. Johnson, go ahead.

5 (Marked Exhibits 122 and 123.)

6 Whereupon,

7 RUSSELL A. FEINGOLD,

8 having been previously duly sworn, was called as a
9 witness herein and was examined and testified
10 further as follows:

11

12 DIRECT EXAMINATION

13 BY MR. JOHNSON:

14 Q. Good afternoon. Please state your name and
15 spell your last name for the record, please.

16 A. My name is Russell A. Feingold spelled
17 F E I N G O L D.

18 Q. What is your position, Mr. Feingold?

19 A. I'm a vice-president of R. J. Rudden
20 Associates, Inc.

21 Q. Do you have before you what's been marked
22 as Exhibit T-110 in these proceedings?

23 A. Yes, I do.

24 Q. Is that your prefiled rebuttal testimony?

25 A. Yes, it is.

00718

1 Q. Was that testimony prepared by you or under
2 your supervision?

3 A. Yes, it was.

4 Q. Do you have any corrections you wish to
5 make to your testimony other than on the errata sheet
6 that were handed out?

7 A. No, I do not.

8 Q. Do you adopt the corrections shown on that
9 errata sheet?

10 A. I do.

11 Q. With the corrections shown, is your
12 rebuttal testimony true and correct to the best of
13 your knowledge?

14 A. Yes, it is.

15 Q. You also have before you what has been
16 marked as Exhibits 111 through 121?

17 A. I do.

18 Q. And are those exhibits the exhibits that
19 you're sponsoring together with your rebuttal
20 testimony?

21 A. Yes, they are.

22 Q. Were those exhibits prepared by you or
23 under your supervision?

24 A. Yes, they were.

25 Q. Do you have any corrections you wish to

00719

1 make to any of those exhibits?

2 A. No, I do not.

3 MR. JOHNSON: Your Honor, I move for
4 admission of Mr. Feingold's rebuttal testimony,
5 Exhibit T-110 and his Exhibits 111 through 121.

6 JUDGE ANDERL: Any objection to those
7 documents? I hear none. Exhibit T-110 and Exhibits
8 111 through 121 will be admitted as identified.

9 (Admitted Exhibits T-110, 111 - 121.)

10 MR. JOHNSON: Mr. Feingold is available for
11 cross-examination.

12 MS. EGELER: Ms. Egeler.

13

14 CROSS-EXAMINATION

15 BY MS. EGELER:

16 Q. Good afternoon, Mr. Feingold.

17 A. Good afternoon.

18 Q. Could you first refer to the thick packet I
19 provided you with which has been marked as Exhibit 122
20 and this is a data request response, is it not?

21 A. Yes, it is.

22 Q. And were you responsible for preparing this
23 response to public counsel data request No. 8?

24 A. Yes. This was a portion of the work papers
25 that supported the cost of service study.

00720

1 Q. And can you verify that this is a true and
2 accurate copy to the best of your knowledge?

3 A. It is.

4 MS. EGELER: I would move for admission of
5 Exhibit 122.

6 JUDGE ANDERL: Is there any objection?

7 I hear none. Exhibit 122 will be admitted
8 as identified.

9 (Admitted Exhibit 122.)

10 Q. Now, Mr. Feingold, could you please turn to
11 Exhibit 120 which is your RAF-11.

12 JUDGE ANDERL: 121.

13 MS. EGELER: You're right, 121.

14 A. I have it.

15 Q. And turning to page 4 of that?

16 A. I have it.

17 Q. I would like to turn your attention to your
18 allocation of commodity costs on the last one third of
19 the page. Rather than using sales volumes or the COM
20 1XT allocator to allocate all variable costs you
21 have also used seasonal and peak allocators for some
22 storage commodity costs; is that correct?

23 A. Yes, I have, although I just want to
24 correct that the COM 1XT is not a sales allocator.
25 It's a volume allocator excluding transportation.

00721

1 Q. That's fine. Was one of your goals in
2 allocating commodity gas costs in this manner to
3 capture receivable costs differential in commodity gas
4 costs?

5 A. That was one of my goals. My other goal
6 was to try to maintain consistency between the
7 capacity that supported the volumes moving on a
8 commodity basis as contained in the lower portion of
9 this page.

10 Q. If that was one of your goals, why did you
11 allocate winter firm commodity using the winter usage
12 seasonal 2 allocation factor yet you allocated summer
13 spot not on summer usage but rather on annual volumes?

14 A. The summer spot was allocated on annual
15 commodity volumes because the summer spot was not
16 associated with a particular capacity on the upper
17 part of the page so that we chose to allocate on an
18 annual commodity basis.

19 Q. Clay Basin, Jackson Prairie and Liquefied
20 Storage are the company's storage facilities, aren't
21 they?

22 A. Yes.

23 Q. And storage is utilized by the company to
24 purchase relatively cheaper gas in the summer for
25 injection into storage and then withdrawal during the

00722

1 winter heating season; is that correct?

2 A. That's one of the functions.

3 Q. So then storage is a way for the company to
4 purchase stored gas in the summer and then realize
5 lower commodity costs during the winter months when
6 that gas is withdrawn from storage, correct?

7 A. Yes. And it's also a way to avoid having a
8 high level of firm transportation service from the
9 pipeline. It allows the LDC to purchase gas at a
10 higher load factor.

11 Q. You have used a winter seasonal 3 usage
12 allocator for allocating Jackson Prairie commodity
13 costs to classes, haven't you?

14 A. Yes, I have.

15 Q. Could you look at Exhibit 120 -- or what's
16 been marked for identification as Exhibit 123.

17 A. I have it.

18 Q. And referring to the second page of that,
19 have you used this data and netted Jackson Prairie
20 injections with the winter withdrawals before
21 allocating these Jackson Prairie commodity costs on
22 your winter usage factor?

23 A. I'm sorry. Could you repeat the question,
24 please.

25 Q. Have you netted Jackson Prairie injections

00723

1 with the winter withdrawals before allocating these
2 Jackson Prairie commodity costs on your winter usage
3 factor?

4 A. Conceptually I believe that was a way we
5 did it. I will have to verify in the work papers. I
6 don't have that at my fingertips at the moment.

7 Q. Well, let me walk you through it then. If
8 you look at Exhibit RAF-11, which is Exhibit 121, if
9 you look down at the variable costs at the bottom
10 third of the page.

11 JUDGE ANDERL: What page?

12 MS. EGELER: Page 4. This is on page 4.

13 Q. Do you see where I am?

14 A. Yes, I do.

15 Q. I'm going down to the injections and
16 withdrawals from Jackson Prairie and then the next
17 line injections, withdrawals, Jackson Prairie
18 balancing?

19 A. I see that.

20 Q. We have two negative figures there.

21 A. Yes.

22 Q. And added together they're roughly a
23 negative figure of 29,170?

24 A. That's correct.

25 Q. Then I'm referring you back to Exhibit 123

00724

1 for identification on the second page. About one
2 third of the way down the page there's a section
3 called withdrawals?

4 A. Yes, I see it.

5 Q. And you see the withdrawals from Jackson
6 Prairie?

7 A. Yes, I do.

8 Q. Moving three columns over to total cost,
9 there's an 11 million dollar figure.

10 A. I see that.

11 Q. And then the next section down is
12 injections and again to Jackson Prairie and moving
13 over to the third column there's a negative figure of
14 11 million?

15 A. Yes, I see it.

16 Q. If you net those two numbers together, is
17 that the source of the \$29,000 figure which is found
18 on RAF-11 page 4?

19 A. Yes, it is.

20 Q. And then do you know, was what I have
21 offered for identification as Exhibit 123 the source
22 of your data then?

23 A. Subject to check I would just like to
24 check the work paper book that supported the cost
25 study, but I believe that was the page.

00725

1 Q. And the source of this for us is the
2 external allocator report book if you want to look at
3 that.

4 A. That is correct, which was provided in
5 response to an early data request, as I recall.

6 MS. EGELER: I would offer this for
7 admission at this time with the understanding that the
8 witness wants to check it so I assume that you can't
9 admit it until after he's had that opportunity to look
10 at it.

11 A. It would take a moment to check. If you
12 want I can do it right now.

13 MS. EGELER: Whatever the judge will
14 prefer.

15 JUDGE ANDERL: If it will just take a
16 moment let's deal with it right now because we don't
17 know if you'll be here tomorrow.

18 MS. EGELER: I think it's the last two
19 pages of the book.

20 A. That is the page. I will accept that.

21 JUDGE ANDERL: Any objection, then, to
22 Exhibit 123?

23 MR. JOHNSON: No objection.

24 JUDGE ANDERL: There being no objection it
25 will be admitted as identified.

00726

1 (Admitted Exhibit 123.)

2 Q. Mr. Feingold, by allocating the net
3 injections and withdrawals on winter usage, haven't
4 you defeated your goal of allocating relatively
5 cheaper winter withdrawals for the winter seasonal
6 users?

7 A. That wasn't my goal. I believe that within
8 the context of discussing the peak credit method or
9 the method that staff used, which also looked at base
10 load, receivable and peaking resources, my comment
11 went to the fact that if on the one hand the peak
12 credit method was going to segment capacity or fixed
13 costs by horizontal segments within the company's load
14 duration curve that the gas supply costs, the
15 commodity costs, should be segmented in a similar
16 fashion, and the modified peak and average method
17 that's proposed by the company in this case, in
18 treating base load supplies, allocated 30 percent of
19 the base load supplies to commodity and the balance to
20 demand. So I wasn't suggesting that that level of
21 precision should be ascribed to the modified peak and
22 average method or the allocation method that is
23 embodied in this gas supply subreport.

24 Q. So if I understand your answer correctly,
25 you're telling me that you did not intend to give the

00727

1 winter customers the benefit of the cheaper gas that
2 the company obtained during the summer and injected
3 into storage; is that correct?

4 A. By virtue of the way that the summer spot
5 gas supply was allocated on a commodity basis, that's
6 correct.

7 Q. We're not talking about summer spot.

8 A. But the summer spot you're suggesting was
9 the gas that's injected into storage.

10 Q. I want you to assume for the moment that
11 commodity costs from all sources listed under the
12 account total column in your gas subreport were 20
13 cents per therm. For instance, annual firm was 20
14 cents per therm, winter firm was 20 cents per therm,
15 summer spot was 20 cents per therm and all storage net
16 withdrawals were 20 cents per therm. Okay?

17 A. Yes.

18 Q. Using this example where all of the costs
19 are equal, isn't it true that since you have used
20 seasonal allocation factors for some commodity costs
21 and annual allocation factors for other commodity
22 costs your methodology would result in different total
23 average commodity costs for each class even though the
24 commodity costs were 20 cents per therm from all
25 sources?

00728

1 A. Mathematically or computationally that
2 result would be the way you say.

3 Q. In other words, if you were to substitute
4 the volumes related to each of the commodity costs
5 listed under variable costs under the column entitled
6 account total, wouldn't your allocation methodology
7 because of the seasonal allocators result in
8 allocating either more or less volumes to each class
9 than the actual volumes used by that class?

10 A. I don't believe so.

11 Q. Why not?

12 A. Because the class by class volumes are
13 captured in each of the allocators that I use in the
14 allocation of gas costs.

15 Q. If I can just modify my question or explain
16 it a little more to you, I am still assuming that 20
17 cents per therm -- I'm trying to reconcile your answer
18 to the previous question when we had the example where
19 the costs were equivalent --

20 A. Correct.

21 Q. -- to the answer that you've just given to
22 me. They conflict.

23 A. I guess I'm having trouble recalling the
24 sequence of questions relative to the answers that you
25 say may conflict.

00729

1 Q. Let's go through it again. I gave you the
2 example where commodity costs from all sources listed
3 under the account total column were 20 cents per
4 therm?

5 A. Yes.

6 Q. Or let's just make it an assumption of one
7 cent per therm to make it easier.

8 A. 20 cents or one cent, I didn't have trouble
9 with either.

10 Q. And then I asked you, using this example,
11 isn't it true that since you have used seasonal
12 allocation factors for some commodity costs and annual
13 allocation factors for other commodity costs your
14 methodology results in different total average
15 commodity costs for each class even though the
16 commodity costs were one cent per therm from all
17 sources and you agreed with that?

18 A. Yes.

19 Q. Therefore, if you were to substitute the
20 volumes related to each of the commodity costs listed
21 under variable costs under the column entitled account
22 total, wouldn't your allocation methodology, because
23 of the seasonal allocators, result in allocating
24 either more or less volumes to each class than the
25 actual volumes used by that class?

00730

1 A. I guess where I'm having the difficulty is
2 the allocators are not allocating volumes. I mean, I
3 think I would have to see a numerical example to
4 follow exactly what you're talking about. I'm just
5 not getting the gist of what you're saying.

6 Q. What I'm saying is that in the first case
7 you said that even if the costs were the same you
8 would have a result of different total average
9 commodity costs for each class, and if you've got that
10 different total average commodity cost for each class,
11 aren't you then allocating more or less volumes to
12 each class than the actual volumes used?

13 A. I think it's the gas cost that is driving
14 the average cost of gas and not the allocation of
15 volumes. I guess that's where I'm having the
16 difficulty.

17 Q. Can you explain your answer and explain why
18 there's the conflict in the answers to the questions?

19 A. Well, I think there's the conflict perhaps
20 because I think I'm having difficulty with the last
21 question where you're making the suggestion that the
22 allocators are allocating volumes. The allocators are
23 allocating certain components of gas cost.

24 Q. And aren't all of those components
25 volumetric?

00731

1 A. When you divide them by a volume number
2 they are, but when you take them line by line as cost
3 components as contained in the account total, they are
4 total dollar amounts.

5 Q. Are the commodity volumes -- or aren't
6 there commodity volumes associated with each of the
7 columns listed under variable costs?

8 A. There are volume levels associated with
9 each component of costs that reflect the amount of
10 that particular supply source that the company
11 acquired in the 12-month period we're looking at.

12 Q. I think that my next line of questioning is
13 something that we may be able to delete. It's my
14 understanding that the company has a new list of rates
15 that it's going to offer. Is that the case?

16 A. I believe so, and I believe it would be the
17 rate design witness, Mr. Amen, that would be
18 discussing that when he's on the witness stand.

19 Q. Perhaps counsel can verify that just so we
20 can be sure of that before we decide to drop these
21 questions.

22 MR. JOHNSON: That's my understanding.

23 Q. Turning to page 14 of your rebuttal,
24 beginning at line 21 -- are you with me?

25 A. I'm sorry, yes, I am.

00732

1 Q. I thought you were still looking for it.
2 Beginning at line 21 you looked at two cost of service
3 studies prepared by staff. You compared the margin
4 study presented by staff, Exhibit JR-4, to staff's
5 response to the company's data request No. 44; is that
6 correct?

7 A. That's correct.

8 Q. And I believe that data request was
9 admitted as Exhibit 62; is that correct?

10 A. That's my understanding.

11 Q. And I gave you a copy of that earlier?

12 A. Yes, you did.

13 Q. The company's data request No. 44 requested
14 that the staff run the cost of service study with
15 different assumptions, didn't it?

16 A. Different relative to what?

17 Q. Different assumptions than the staff used
18 when it produced the cost of service study. And I'm
19 referring specifically to gas costs.

20 A. No. I believe that Mr. Ramirez filed a
21 cost of service study in this case that had gas costs
22 as well. It appears as one of Mr. Russell's exhibits.

23 Q. Do you want to read what the request was on
24 request No. 44?

25 A. Certainly. "Please rerun the cost of

00733

1 service study presented by Mr. Ramirez in Exhibit" --
2 I'm not sure.

3 JUDGE ANDERL: JR-4.

4 A. -- "in Exhibit JR-4 with the inclusion of
5 cost of gas and gas cost revenues stated at current
6 rates as presented in column C of Exhibit JR-8."

7 Q. In its response to the data request the
8 staff did not support or endorse the outcome of the
9 results that were obtained when the assumptions the
10 companies requested were included, did it? In other
11 words, they weren't sponsoring this modification as a
12 modification of the cost study they were offering,
13 were they?

14 A. No.

15 Q. Would you please refer to page 1 of Exhibit
16 13 which is RJA-2?

17 A. Did you say RJA-2?

18 Q. Yes, I did.

19 A. I have it.

20 Q. This exhibit reflects the sales and revenue
21 approved by the Commission in the settlement of docket
22 UG-931405, doesn't it?

23 A. Yes, it does.

24 Q. Column F of this exhibit reflects the
25 total marginal revenues authorized by the Commission

00734

1 in that docket, doesn't it?

2 A. That's correct.

3 Q. These are also the margin revenues at
4 currently authorized rates, aren't they?

5 A. That's right, based on currently authorized
6 gas cost.

7 Q. Turning to Exhibit 50 which is JR-4, and
8 the response to the company's data request No. 44, I
9 just want you to check on each of those whether the
10 margins reflected in those are the same as those
11 reflected on Exhibit 13.

12 A. The first exhibit reference was JR-4?

13 Q. Yes. Or you can take that subject to check
14 if you would rather.

15 A. I will take a look at it. I have JR-4
16 sheet 1 of 1.

17 Q. And I'm asking you whether the margins
18 reflected there are the same as those in Exhibit 13,
19 RJA-2.

20 A. Yes, they are.

21 Q. And the same question with respect to the
22 company's data requests No. 44. Are the margins in
23 that data request the same as those reflected in
24 RJA-2?

25 A. No. They've been adjusted. I'm sorry. I

00735

1 misspoke. The margins contained in Exhibit No. 30 --
2 62 are the same.

3 Q. Does the company believe that gas costs
4 should be passed through?

5 A. I believe that the way that the purchased
6 gas adjustment process works at this point in the
7 state of Washington that it is viewed as a pass-
8 through cost component.

9 Q. And therefore -- go ahead?

10 A. So I would say, yes, that that is the view.

11 Q. And since those costs are passed through,
12 the gas cost does not affect the class rates of return
13 in the cost of service, does it?

14 A. It shouldn't if you include the right gas
15 costs and the right margin levels.

16 Q. And I think, again, that my final line of
17 questioning may be shortened considerably as well
18 down to one question depending on how you answer it.
19 In your adjustments for schedule 23, should you have
20 used the normalized volumes of 80,192,079.5?

21 A. If those are the volumes out of the
22 settlement documents associated with the company's
23 last rate case, those numbers or that volume level
24 should be used.

25 Q. Would you accept subject to check that

00736

1 those indeed are the volumes from the settlement?

2 A. I would.

3 MS. EGELER: I have no further questions
4 then.

5 JUDGE ANDERL: Thank you. Ms. Pyron, do
6 you have cross for this witness?

7 MS. PYRON: Just a little.

8

9 CROSS-EXAMINATION

10 BY MS. PYRON:

11 Q. Good afternoon, Mr. Feingold.

12 A. Good afternoon.

13 Q. In looking at your rebuttal testimony,
14 T-110, on page 49, you discuss at that point, I
15 believe, your rebuttal of Mr. Lazar's allocation of 20
16 percent of the costs of the Jackson Prairie storage
17 facility which he contends should be allocated only to
18 the company's transportation customers, and the
19 company's position is different than that, correct?

20 A. That is correct.

21 Q. And can you explain to me how the company
22 has calculated the 20 percent allocation of Jackson
23 Prairie?

24 A. Yes. In very general terms I will explain
25 the methodology. The numbers themselves are contained

00737

1 in some work papers that I believe have been provided
2 to the parties. Effectively the 20 percent is derived
3 by evaluating over a -- I believe it was a three-month
4 period in the winter the absolute difference between
5 total system requirements and total system nominations
6 adjusted for the balancing that's provided from
7 Northwest Pipeline. Now, added to that is that the
8 assumption inherent in that calculation was that the
9 difference between the net number after taking into
10 account the Northwest Pipeline balancing was through
11 the availability of Jackson Prairie storage facility.
12 I believe that conceptual approach was also discussed
13 in my direct testimony.

14 Q. And that approach is what resulted in the
15 derivation of the number of 20 percent as an
16 allocation of the cost of balancing service to all
17 class of customers; is that correct?

18 A. That is correct. All classes of delivery
19 service customers.

20 Q. And can you explain to me how you accounted
21 for that cost allocation in your cost of service
22 methodology, how that was -- how that's carried out?
23 Would that be in the work papers?

24 A. It would be carried out primarily through
25 the inclusion of Jackson Prairie balancing costs in

00738

1 the gas costs subreport that's contained in the
2 company's cost of service studies. Specifically it's
3 contained in Exhibit No. 4, page 4 of 11, and then
4 those Jackson Prairie balancing costs are carried
5 forward to the company's delivery service cost of
6 service studies that are presented in other exhibits
7 in the direct portion of the case.

8 Q. The staff through Mr. Russell has proposed
9 a different treatment of these costs. Are you
10 familiar with that or would Mr. Amen be the person to
11 respond to questions related to that?

12 A. To the treatment of costs associated with
13 Jackson Prairie balancing?

14 Q. Yes.

15 A. That would be me.

16 Q. And are you familiar with Mr. Russell's
17 allocation methodology for these costs?

18 A. Generally speaking, I am.

19 Q. And would it be a fair characterization to
20 say that he proposes taking a portion of the costs and
21 passing them through in a tracker proceeding as part
22 of the purchased gas adjustment?

23 A. That's my understanding based on the cross
24 examination that occurred in yesterday's hearing.

25 Q. And the difference with the company's

00739

1 proposal, could you explain that to me, in how the
2 company has treated those costs as opposed to having
3 them in a tracker?

4 A. Well, I think I can speak to the point of
5 how the costs were derived or how the costs were
6 developed for the balancing for Jackson Prairie. I
7 believe Mr. Amen would be the witness that would be in
8 a better position to discuss how those costs are
9 incorporated into the pricing proposals of the
10 company.

11 Q. But the company is not advocating a
12 recovery of them in a tracker through the purchased
13 gas readjustments on an annual basis or should I
14 direct those questions to Mr. Amen?

15 A. I think those would be better directed to
16 Mr. Amen.

17 Q. In turning to a different area, Mr.
18 Feingold, turning to your Exhibit 117, which is RAF-7?

19 A. I have it.

20 Q. And is this a graphical representation of
21 the historical heating degree days?

22 A. Yes, it is, for the company.

23 Q. And the lines that are drawn, the 31, is
24 that the average of the public counsel heating degree
25 days in their methodology?

00740

1 A. That is the effective degree day level for
2 the 15 days that public counsel chose in conjunction
3 with the development of its sustained peak demand
4 allocation factor, which represented the five-day
5 three-year analysis or method.

6 Q. And is the 36 degrees representative of the
7 averaging of the staff's chosen method?

8 A. Yes, it is. In a similar fashion that
9 represents the average degree days on the 15 days that
10 Mr. Ramirez on behalf of staff chose in conjunction
11 with the development of staff's demand allocation
12 factor.

13 Q. Would you agree, Mr. Feingold, that certain
14 classes of WNG's customers are more temperature
15 sensitive than others?

16 A. Yes, I would.

17 Q. And if as a cost analyst you were to choose
18 a peak that doesn't match the peak conditions, don't
19 the resulting demand allocations get understated for
20 the temperature-sensitive loads?

21 A. In my view the results are definitely
22 skewed and that was the point of including this page
23 as an exhibit in my testimony. The point being that,
24 as you can see from this analysis, many of the extreme
25 weather conditions and the extreme demand conditions

00741

1 that are experienced by the company have not been
2 captured by the demand allocation methodologies put
3 forward by either staff or public counsel in these
4 proceedings. And as a result it doesn't capture the
5 design characteristics that drive the costs that are
6 incurred as a result of serving loads in extreme
7 conditions as portrayed on this page. So my answer is
8 yes, it would impact the customers that create these
9 extreme conditions which are the very heat-sensitive
10 loads on the system.

11 Q. Are you familiar, Mr. Feingold, with the
12 load growth that Washington Natural Gas has been
13 experiencing in its various customer classes?

14 A. In general I'm familiar with it based on
15 review of data responses and being present at hearing
16 in this case.

17 Q. Would you agree that that load growth has
18 been largely residential?

19 A. That's my understanding.

20 Q. As a cost of service analyst, would you
21 agree that averaging of different historical peaks can
22 result in a peak that is diluted or watered down for
23 classes of customers that are experiencing customer
24 growth?

25 A. I believe it certainly understates the

00742

1 responsibility among the classes of customers who
2 cause that stream peak to be incurred. Moreover, it
3 disconnects the costs that are incurred as a result of
4 that peak from the customers that create that peak.

5 Q. Mr. Feingold, you are aware, of course,
6 that Mr. Schoenbeck has advocated the use of a peak
7 day cost allocation methodology like the study 2 and
8 your cost of service methodology?

9 A. Yes, I am aware of that.

10 Q. Have you in other jurisdictions advocated a
11 peak day cost allocation methodology like that that
12 NWIGU is urging the Commission to adopt in this case?

13 A. I have.

14 Q. Why are you not advocating that methodology
15 here?

16 A. Because I believe that the modified peak
17 and average methodology that the company has proposed
18 in this proceeding fairly represents the balance
19 between design day conditions which give rise to the
20 in incurrence of cost and the utilization of the
21 system through the use of a system load factor.
22 Moreover, based on my reading of Commission decisions
23 and based on my understanding and my review of the
24 Commission's principles embodied in cost allocation,
25 it's my understanding that the Commission has

00743

1 preferred over the years use of an allocation
2 methodology which allocates some fixed costs on the
3 basis of annual usage, and the modified peak and
4 average methodology captures that in a sufficient
5 fashion, in my opinion.

6 Q. But would you agree that other
7 jurisdictions have adopted a design day methodology?

8 A. Yes, they have. Moreover, other
9 jurisdictions have adopted a design day methodology in
10 conjunction with use of an average and peak method as
11 the company has used, and I think I cite such in my
12 testimony.

13 MS. PYRON: No further questions at this
14 time.

15 JUDGE ANDERL: Mr. Frederickson, do you
16 have any questions?

17 MR. FREDERICKSON: No, I do not.

18 JUDGE ANDERL: Mr. Trotter.

19 MR. TROTTER: Thank you. I have an
20 exhibit.

21 JUDGE ANDERL: While you're distributing
22 that exhibit, can I ask you your estimate of an hour
23 still seems accurate?

24 MR. TROTTER: Oh, I think it's on the high
25 side.

00744

1 JUDGE ANDERL: This multi-page document
2 which is entitled Public Counsel Data Request No. 1
3 and the company's response will be marked for
4 identification as Exhibit No. 124.

5 (Marked Exhibit 124.)

6

7 CROSS-EXAMINATION

8 BY MR. TROTTER:

9 Q. Turn to page 5 of your rebuttal testimony.

10 A. I have it.

11 Q. And on line 9 you indicate that Mr. Lazar's
12 results are a full 60 percent higher than the result
13 derived on the Cascade method, correct?

14 A. That's correct.

15 Q. The source of your testimony is your
16 Exhibit 111, the last two columns, correct?

17 A. That is correct.

18 Q. And those last two columns are derived from
19 your Cascade -- what you referred to as your Cascade
20 method cost study; is that correct?

21 A. That's correct.

22 Q. And do you recognize Exhibit 124 for
23 identification as excerpted pages from your cost study
24 in which you develop your Cascade method?

25 A. Yes, I do.

00745

1 Q. If you could turn to the second page of the
2 exhibit. And if we look under distribution plan,
3 item E, we see mains, large diameter and small
4 diameter, account total 110 million for large and 193
5 million plus for small, correct?

6 A. That's correct.

7 Q. Next page of the exhibit. We look on the
8 bottom two sets of data. We see on the left-hand
9 column, mains large diameter and mains small diameter.
10 Do you see that?

11 A. Yes, I do.

12 Q. And over in the right-hand column we see
13 that 110 million split, 50 percent based on commodity
14 -- that is 55 million to commodity -- and 50 percent
15 to PDAY/NCP/CASC, correct?

16 A. That's correct.

17 Q. And that's your Cascade factor or that's
18 your abbreviation for the Cascade method?

19 A. It's an abbreviation for a portion of the
20 method used in the Cascade proceeding.

21 Q. And here's the 50/50 split, though between
22 commodity and demand for large diameter mains?

23 A. Correct.

24 Q. And then the last two figures on the page,
25 do you see the split for commodity and demand for

00746

1 small diameter, correct?

2 A. Correct.

3 Q. And if we turn to the next page, which is a
4 continuation, the very top line is simply the two 96
5 million dollars figure added; is that right?

6 A. That's correct.

7 Q. Now let's go to the next page of the
8 exhibit, and here again on the last two sets of data,
9 we see how you allocated the large diameter and small
10 diameter mains between commodity and demand as among
11 the various classes; is that right?

12 A. That's correct.

13 Q. And here you show, for example, 60 million
14 of large diameter mains allocated to residential and
15 15 and a half million to the interruptible schedule 87
16 and 57, correct?

17 A. Correct.

18 Q. And the demand cost for this large diameter
19 almost 37 million to residential and just under
20 600,000 to those interruptible classes we just
21 discussed?

22 A. Correct.

23 Q. And we see a similar relationship for the
24 small diameter mains; is that right?

25 A. I'm not sure what you mean by similar

00747

1 relationship.

2 Q. Well, I guess that was sloppy language. We
3 see a little over a million dollars in demand
4 allocated to interruptible 87 and 57 and about 65
5 million to the residential class; is that right?

6 A. That's correct.

7 Q. Now, and then on the next page again at the
8 very top line is just the addition from the last two
9 lines of the prior page?

10 A. That's correct.

11 Q. So, let's just focus on this page. We see
12 for residential 105 million plus that you're
13 allocating for small diameter to the residential
14 class, correct?

15 A. Correct.

16 Q. And on the previous page we see 60 million
17 of large diameter, correct?

18 A. Correct.

19 Q. And if we add those together that's
20 approximately 166 million, okay?

21 A. Correct.

22 MR. TROTTER: Your Honor, could I refer the
23 witness to Exhibit 64 in this proceeding.

24 JUDGE ANDERL: Yes.

25 Q. Mr. Feingold, referring you to Exhibit 64,

00748

1 this is a staff response to public counsel request No.
2 14. Have you seen that before or do you recall this
3 being discussed at the hearing yesterday?

4 A. I believe I do. I didn't review it at that
5 time.

6 Q. Well, let's just turn to page 2, and this
7 request was for the staff to give us their derivation
8 of the Cascade method of allocation. And referring
9 you to the second page of that exhibit, does that
10 exhibit show that according to the staff 144.3 million
11 dollars of distribution mains are allocated to the
12 residential class under the Cascade method?

13 A. Under the assumptions that staff used, yes.

14 Q. And how did the assumptions that staff used
15 in developing the Cascade method differ from the
16 assumptions that you used in developing and applying
17 the Cascade method?

18 A. I have no idea. I haven't reviewed the
19 assumptions contained in that exhibit.

20 Q. And the Cascade method was the method staff
21 sponsored in the Cascade docket; is that correct?
22 Would you accept that subject to check?

23 A. If it was the methodology that was put
24 forward by Dr. Johnson, then that's correct.

25 Q. Now let's go to the last page of Exhibit

00749

1 124, and this is the derivation of your allocators; is
2 that right?

3 A. That's correct.

4 Q. Let's go almost all the way down the page.
5 The last capitalized line there where you see Cascade
6 50 percent, peak day actual and 50 percent and then
7 you have your Cascade factor; is that right?

8 A. That's correct.

9 Q. Now, if we look in the total column, we see
10 a 5.7 million dollar figure, correct?

11 A. No. 5.7 million therms.

12 Q. I said figure.

13 A. You said dollars, I think.

14 Q. Therms, I'm sorry. And the residential
15 share of that is 2.93 million?

16 A. That's correct.

17 Q. Would you divide 2.953 by 5.742, please?

18 A. It's already done on the page.

19 Q. Well, I guess we'll ask you to redo it. We
20 didn't come up with that number on the page.

21 JUDGE ANDERL: The witness has a
22 calculator.

23 Q. What number do you come up with?

24 A. I come up with approximately .51.

25 Q. Do you know why that doesn't equal .67?

00750

1 A. No, I don't. I would have to review that.

2 Q. And let's go over -- and just so we're
3 clear, that .67 figure was used to derive the 65
4 million in small diameter mains that were allocated to
5 demand for the residential class and almost 37 million
6 in large diameters mains which are demand-allocated
7 to the residential class; is that right?

8 A. That's correct.

9 Q. Now, with respect to the allocator for
10 schedule I-87 and T-57, could you do the arithmetic
11 for that factor and tell us what it should be.

12 A. If I divide the 1 million 578 by 5,742,467
13 I get approximately .17.

14 Q. So that would be 17 percent instead of the
15 1 percent shown?

16 A. Correct.

17 MR. TROTTER: Next I have a multi-page
18 exhibit containing a series of our requests of the
19 company for data.

20 JUDGE ANDERL: The cover sheet of that
21 indicates that it's request No. 99, although, as Mr.
22 Trotter stated, the document itself does contain other
23 requests and responses, too. That's Exhibit No. 125
24 for identification.

25 (Marked Exhibit 125.)

00751

1 Q. Beginning with the first sheet of Exhibit
2 125, you were asked whether you have any studies
3 showing a linear relationship between gas supply and
4 load factor or between distribution main investment
5 and load factor and your answer indicates you're not
6 asserting that there is a linear relationship; is that
7 right?

8 A. That's correct.

9 Q. The next page asked for -- next two sheets
10 asked for your most recent 10 gas cost of service
11 studies and the basic positions that you took; is that
12 correct?

13 A. Well, this is partially -- there was
14 another response which provided some of the other
15 elements of the cost studies which I don't see in
16 here.

17 Q. Well, this is a complete response to data
18 request 100.

19 A. It is. It's an incomplete response to your
20 question.

21 Q. Then I was trying to be more general than
22 the data request and I apologize for that. This is
23 your response to the information requested in the
24 exhibit?

25 A. That is correct.

00752

1 Q. Turning to the next DR, No. 101, we asked
2 for the sales service requirements and scheduled daily
3 supply requirements on the 20 highest days of system
4 sales demand expressed as stated in the request and
5 you provide that on sheet 2?

6 A. That's correct.

7 Q. The next data request 105 we asked for
8 average monthly spot commodity prices at Sumas for
9 each month since January 1990, and you referred us --
10 you gave a response on sheet 2 and then referred us to
11 an additional response for additional data; is that
12 right?

13 A. That's right.

14 Q. And that appears in a moment so take
15 request 120 in the meantime, page 8 of the exhibit,
16 and this asked you what your position was with regard
17 to the results that Mr. Lazar presents being fairly
18 representative of the input select; is that correct?

19 A. That's correct.

20 Q. And then the next page is the additional
21 spot market data that you referred in a prior
22 response?

23 A. That's correct.

24 Q. And then the last page of the exhibit we
25 asked you to provide the actual daily dispatch of

00753

1 propane air over the the last four years and your
2 response is as shown?

3 A. That's correct.

4 MR. TROTTER: Move the admission of Exhibit
5 125.

6 JUDGE ANDERL: I don't know that you've
7 moved 124 yet.

8 MR. TROTTER: And 124.

9 JUDGE ANDERL: Any objection to either of
10 those?

11 MR. JOHNSON: Your Honor, I have no
12 objection to 125. Just one observation on 124. I've
13 noticed that this was apparently a 251-page response.
14 We've looked through the response to see whether
15 there's anything -- any of the other pages that are
16 relevant to the areas that counsel was inquiring.
17 We've determined no, so we're not going to seek to add
18 the other 200 pages.

19 JUDGE ANDERL: Thank you.

20 MR. JOHNSON: I thought you would say that.
21 No objection, Your Honor.

22 JUDGE ANDERL: Exhibits 124 and 125 will be
23 admitted as identified.

24 (Admitted Exhibits 124 and 125.)

25 Q. Turn to page 20 of your rebuttal testimony.

00754

1 At the very bottom line you're referring to the
2 propane air facilities and on the next page you
3 indicate they have a capacity, storage capacity, of
4 about 855,000 gallons; is that right?

5 A. That's correct.

6 Q. And is that approximately a three-day
7 supply?

8 A. I would accept that subject to check.

9 Q. And do you know how many days of liquefied
10 natural gas the company has in storage, how many days'
11 worth?

12 A. No, not off the top of my head, I don't.

13 Q. Would you accept that it's approximately
14 three and one half days?

15 A. I will accept that subject to check.

16 Q. Turn to page 35 of your testimony. And
17 lines 20 and 21, referring to Mr. Lazar, you indicate
18 his intention throughout was to use a computational
19 method which was disproportionately skewed towards the
20 company's larger interruptible customers. Do you see
21 that?

22 A. Yes, I do.

23 Q. Was Mr. Lazar's recommendation that the
24 company's proposed direct assignment methodology for
25 large volume customers served by small diameter mains

00755

1 a computational method which was disproportionately
2 skewed toward the company's larger interruptible
3 customers?

4 A. I don't see how that relates to my
5 reference in the testimony.

6 Q. I'm just asking you whether you believe
7 that that testimony of Mr. Lazar was skewed in the
8 manner you suggest here.

9 A. No, it's a completely different subject
10 from what I discuss here.

11 Q. And do you believe that his testimony on
12 the general infrastructure of distribution mains under
13 four inches in diameter being allocated to smaller use
14 customers is disproportionately skewed toward the
15 company's larger interruptible customers?

16 A. Yes, I do.

17 Q. Comparing that proposal to the Cascade
18 method, which in your view is skewed toward the
19 company's larger interruptible customers?

20 A. I would have to look at the numbers to make
21 that assessment.

22 Q. Is Mr. Lazar's direct assignment of
23 services to large volume customers, his acceptance of
24 that, skewed disproportionately toward the company's
25 larger interruptible customers?

00756

1 A. No. He used the company's approach.

2 Q. Is his proposal that meters should be
3 allocated among classes on a weighted customer basis
4 as proposed by the company rather than on a customer
5 demand commodity basis, as the Commission has
6 historically accepted, skewed disproportionately
7 toward the company's larger interruptible customers?

8 A. No.

9 Q. Is Mr. Lazar's distance-based
10 transportation rates and curtailment credit proposals
11 skewed disproportionately toward the company's larger
12 interruptible customers?

13 A. I think you will have to direct those
14 questions to Mr. Amen.

15 Q. You have no opinion on that?

16 A. No, I don't.

17 Q. Do you recall any data request or question
18 directed at Mr. Lazar in which the company sought to
19 ask him what his intention was with respect to the
20 computational methods you selected as being
21 disproportionately skewed toward the company's larger
22 interruptible customers?

23 A. A data request was not necessary. It was
24 simply by reviewing Mr. Lazar's exhibit in this
25 proceeding that assessment was made.

00757

1 Q. Well, you specifically are ascribing an
2 intent to him but you didn't see fit to simply ask him
3 what his intent was, did you?

4 A. It wasn't necessary.

5 Q. Now, we asked some other witnesses in this
6 proceeding how many hours they've logged on this case.
7 Would you please tell us how many hours your firm has
8 logged on this case to date?

9 A. We've logged a great deal of hours. I
10 don't have the numbers at my fingertips. I believe
11 you had asked a question of the company related to
12 that subject.

13 Q. You don't have an estimate within a
14 hundred?

15 A. No, I really don't.

16 Q. What about your personal hours?

17 A. I've spent a great deal of time on this
18 proceeding, especially after the case was filed in
19 June, through hearings, through responses to data
20 requests and even before June through the attendance
21 at the collaborative meetings, so there have been a
22 lot of hours logged by me personally.

23 Q. Are we talking more than a thousand?

24 A. I don't believe so.

25 Q. But more than 500?

00758

1 A. It could be.

2 Q. And your hourly rate is what?

3 A. I believe that was a confidential piece of
4 information that was provided.

5 MR. JOHNSON: I would object to that
6 question both on lack of relevance and also on the
7 grounds, as Mr. Feingold stated, that it was intended
8 to be confidential.

9 JUDGE ANDERL: Mr. Trotter, do you have any
10 response?

11 MR. TROTTER: First of all there is an
12 issue -- the cost of this whole thing is going to be
13 an issue so we're very interested.

14 MR. JOHNSON: But that's not an issue here.

15 MR. TROTTER: And the last cost of service
16 study, Stone and Webster study, is an issue. Secondly
17 confidentiality -- well, I think the Commission's
18 rules on confidentiality are far too liberal. I have
19 no real idea why this poses a competitive threat
20 to anybody, but I think the question is pertinent.

21 MR. JOHNSON: I would only say, Your Honor,
22 that Mr. Feingold was not and has never been to my
23 knowledge employed by Stone and Webster in the
24 performance of the cost of service study ever before,
25 so I think the references to Stone and Webster before

00759

1 are irrelevant to the issue whether Mr. Feingold's
2 billing rate comes into the record. I still think
3 it's not relevant.

4 JUDGE ANDERL: I think it may be relevant
5 in future proceedings to the extent that the company
6 is going to attempt to recover those costs through
7 rates, but I think that that can be addressed through
8 discovery in that future proceeding and at this point
9 I find it of very limited relevance and so I guess I
10 will sustain the objection.

11 MR. TROTTER: No further questions.

12 JUDGE ANDERL: Well, that was significantly
13 less than an hour. Questions from the Commissioners
14 for this witness.

15 COMMISSIONER HEMSTAD: I have none.

16 JUDGE ANDERL: Commissioner Gillis.

17 COMMISSIONER GILLIS: I don't really.

18

19 EXAMINATION

20 BY COMMISSIONER GILLIS:

21 Q. But I was confused in your direct
22 testimony, I believe, page 18 there's a statement
23 there that says on line 7 to 11 in there says,
24 "Additionally, use of average demand characteristics
25 for the allocation of demand-related costs penalizes

00760

1 customers that exhibit efficient gas consumption
2 characteristics, (i.e. customers with high load
3 factors) and encourages the inefficient use of the
4 LDC's gas system by customers with low load factors."
5 I haven't been able to follow the logic of that. Can
6 you explain that?

7 A. Certainly.

8 MR. TROTTER: Page reference again.

9 COMMISSIONER GILLIS: Page 18 of the direct
10 testimony, lines 7 through 10.

11 MR. TROTTER: Original or rebuttal?

12 COMMISSIONER GILLIS: Direct.

13 A. The logic is that if a customer is a high
14 load factor customer he effectively utilizes the
15 system, the gas system, at a much higher rate than a
16 customer that's a low load factor customer. By that I
17 mean the customer's average daily consumption is very
18 close to his peak daily consumption. That's what
19 defines a high load factor customer. And to the
20 extent that a demand allocator tries to allocate fixed
21 costs based on volumes, because that high load factor
22 customer has high volumes relative to a low load
23 factor customer, he will be receiving a
24 disproportionately larger share of that fixed cost
25 than the low load factor customer so that, as I

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1 cautioned in this testimony, it's very important that
2 the Commission recognize that over reliance on
3 commodity as a factor to allocate demand-related costs
4 is something that would result in a problem that I
5 discuss on this page.

6 Q. Your use of the word "encourage," though,
7 are you suggesting there's some sort of price
8 relationship between when a customer becomes an
9 inefficient, in your term -- or I guess more efficient
10 -- inefficient user -- is related to the price that
11 they pay or does it have something to do with the
12 nature of the class that we're dealing with?

13 A. It has something to do with the nature of
14 the class as well as the price to the extent that
15 the price is guided by the costs that are allocated in
16 the studies contained in this proceeding.

17 Q. The other one, kind of been staring at
18 this statement. I'm not smart enough to really phrase
19 the question. Maybe you can help me a little bit. It
20 seems like this partly depends on the distribution of
21 the service class base that we're dealing with, and
22 I'm thinking of an extreme hypothetical where you
23 would have one user that is very inefficient but let's
24 say they represent 90, 95 percent of the system demand
25 or user class maybe more appropriately. It really

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1 doesn't matter how inefficient or efficient that
2 minority user group, is, does it?

3 A. Well, if we took that example to the
4 extreme of one customer we would never have to even
5 rely on common allocators because we would be able to
6 say with certainty how much the cost is of serving
7 that customer because the entire costs of the system
8 would be ascribed to that customer. But to the extent
9 that a group of customers that are served by an LDC
10 such as Washington Natural Gas exhibits a low load
11 factor characteristic -- let's say you had a utility
12 that had a high concentration of residential
13 customers -- that utility would have a lower load
14 factor, lower system load factor than a utility that
15 had a high concentration of industrial customers. As
16 a result the method that the company has proposed --
17 that is the modified peak and average method --
18 reflects that reality on the distribution system by
19 virtue of using a system load factor that's premised
20 on the particular load characteristics of the LDC that
21 you're trying to allocate costs within.

22 COMMISSIONER GILLIS: Okay. Thank you.

23 JUDGE ANDERL: Anything on redirect?

24 MR. JOHNSON: Your Honor, I have a few
25 questions on redirect but I need to go through my

00763

1 notes. Can we take a couple of minutes off the
2 record? I know that it's getting late.

3 JUDGE ANDERL: Sure. Let's take until
4 quarter till.

5 (Recess.)

6 JUDGE ANDERL: Let's be back on the record
7 after a brief recess during which Mr. Johnson
8 distributed his next proposed exhibit. It is very
9 thick document entitled Work Papers in this filing
10 docket number, and I have marked it as Exhibit No. 126
11 for identification. Redirect?

12 MR. JOHNSON: Thank you, Your Honor.

13 (Marked Exhibit 126.)

14

15 REDIRECT EXAMINATION

16 BY MR. JOHNSON:

17 Q. Mr. Feingold, earlier in your
18 cross-examination I believe you referred to the
19 concept of load factor as it's been used in the cost
20 of service study that you prepared, correct?

21 A. Yes, I have.

22 Q. Can you briefly describe for the record
23 what is the term "load factor" as you've used it?

24 A. Yes. Very simply, load factor is a measure
25 of system utilization and it's derived by taking the

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1 average demand derived by the peak demand of either a
2 customer, a utility system or a group of customers,
3 where the average demand is effectively calculated by
4 taking the annual consumption of the group you are
5 examining and dividing it by 365 days.

6 Q. And what was the load factor that you
7 determined was appropriate for use in your cost of
8 service study?

9 A. The load factor that was associated with
10 the company was 36 percent.

11 Q. Now, did staff compute a load factor for
12 purposes of its cost of service study?

13 A. Yes, it did.

14 Q. What was that number?

15 A. I believe that load factor was
16 approximately 50 percent or 49 percent.

17 Q. What would be the effect, in your opinion,
18 if staff's recommended load factor of approximately 50
19 percent were adopted as opposed to the 36 percent
20 figure that you recommend?

21 A. In my view a few things would happen. The
22 most important, in my mind, would be that under
23 staff's approach approximately half of the fixed costs
24 that are used or allocated using that allocator would
25 be assigned on a commodity basis while under the

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1 company's approach 36 percent would be allocated on a
2 commodity basis, so effectively by virtue of staff's
3 15-day peak demand allocator it would be portraying
4 Washington Natural Gas as a 50 percent load factor
5 system instead of a 36 percent load factor system.

6 Q. Earlier Ms. Pyron asked you questions about
7 the Jackson Prairie allocation. Do you recall that?

8 A. Yes, I do.

9 Q. I believe you testified that support for
10 the Jackson Prairie allocation was found in work
11 papers of yours, correct?

12 A. That's correct.

13 Q. And I think you also stated that those work
14 papers had been provided to the parties, correct?

15 A. That's correct, in a very early on data
16 request, as I recall.

17 Q. And referring to Exhibit 122, do you have
18 that?

19 A. Yes, I do.

20 Q. Ms. Egeler asked you for copies of the work
21 papers associated with development of direct
22 assignments of plant and expense. Do you see that?

23 A. Yes, I do.

24 Q. And you provided those work papers,
25 correct?

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1 A. I did.

2 Q. I've handed you what's been marked for
3 identification as Exhibit 126 for identification. Do
4 you have that?

5 A. Yes, I do.

6 Q. Can you briefly describe what that document
7 is.

8 A. Yes. This is the same document that was
9 provided to the parties at the initiation of this case
10 shortly after the company's direct testimony was filed
11 which contains the direct assignment work papers that
12 staff referred me to in their Exhibit No. 122, as well
13 as the work papers associated with the Jackson Prairie
14 storage issue that the Northwest Industrial Gas Users
15 cross-examined me on, as well as all the other work
16 papers that support the cost study that the company
17 has filed.

18 Q. Now, on the front page of that exhibit, I
19 believe it says current or revised through January 30.
20 Do you see that?

21 A. Yes, I do.

22 Q. Can you explain that reference?

23 A. Yes. In conjunction with the parties'
24 testimony filed in this proceeding, there were certain
25 revisions that were necessary in certain volume data

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1 that the company agreed should be reflected in this
2 proceeding and as a result those changes are embodied
3 in Exhibit No. 126.

4 Q. Do the work papers that are identified in
5 Exhibit 126 support the cost of service study as
6 revised and reflected in the rebuttal case that you
7 prepared?

8 A. Yes, they do.

9 MR. JOHNSON: Your Honor, I move for
10 admission of Exhibit 126.

11 JUDGE ANDERL: Any objection to that
12 exhibit?

13 MS. EGELER: Yes. I think it's largely
14 duplicative. If the duplicative material were
15 deleted, we would have no objection but the witness
16 himself has already admitted, for example that the
17 substantial amount of material contained in Exhibit
18 122 is duplicated in this, and after looking through
19 it during the break, the staff feels that quite a
20 large percentage, maybe as much as 80 percent, of that
21 is duplicative, so it doesn't seem to be sensible to
22 burden the record with this huge exhibit.

23 MR. JOHNSON: Your Honor, may I respond.
24 The intention of the exhibit -- we didn't know in
25 compiling this book, we did not know that staff was

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1 going to be introducing, for example, 122, and to the
2 extent that there is duplication, we apologize. What
3 we're trying to do is just give in one binder, so the
4 Commission doesn't have to refer piecemeal to work
5 papers on various different issues, Mr. Feingold's
6 complete set of work papers that support the cost of
7 service study and his presentation in his rebuttal
8 case. It seems pointless to go through page by page
9 and excerpt what's already in Exhibit 122. Again, we
10 apologize for the duplication but we're just trying to
11 give the Commission a complete picture of his work
12 papers.

13 JUDGE ANDERL: All right. Well, I don't
14 want to encourage parties to submit duplicative
15 exhibits such as this, and I also don't want to
16 encourage you to necessarily try to make a preemptive
17 strike by submitting it all in the prefiled rebuttal
18 maybe anticipating what the parties might submit
19 during cross, and I am afraid that if I let this in I
20 will be encouraging you to do that, so let me say by
21 admitting it I'm not condoning it. I do think as a
22 practical matter given that you didn't know and that
23 you did compile this ahead of time and it is all now
24 in one place I'm going to overrule the objection this
25 time and admit the document.

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1 (Admitted Exhibit 126.)

2 MR. JOHNSON: Thank you, Your Honor.

3 JUDGE ANDERL: Anything further?

4 MR. JOHNSON: Nothing for this witness.

5 JUDGE ANDERL: Any recross for this

6 witness? Ms. Pyron.

7 MS. PYRON: No, Your Honor.

8 JUDGE ANDERL: Mr. Trotter.

9 MR. TROTTER: No.

10 JUDGE ANDERL: Ms. Egeler.

11 MS. EGELER: Just a few, Your Honor.

12

13 RECCROSS-EXAMINATION

14 BY MS. EGELER:

15 Q. When you were talking about load factors,
16 Mr. Feingold, is the company's calculation of the load
17 factor based on the 55 degree design day?

18 A. Yes, it is.

19 Q. And would the staff then have calculated
20 the load factor calculated on actual loads since they
21 used the historic average?

22 A. If by actual you mean three years' worth of
23 peak day data over 15 days, yes,

24 Q. That is what I mean, yes.

25 MS. EGELER: No further questions.

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1 JUDGE ANDERL: Anything else for this
2 witness?

3 Thank you, Mr. Feingold, for your
4 testimony. You may step down. Let's go off the
5 record for a moment and number the exhibits of the
6 next witness. Will be Mr. Berdan?

7 MR. JOHNSON: Yes.

8 (Recess.)

9 JUDGE ANDERL: Let's be back on the record.
10 While we were off the record Mr. Berdan took the
11 stand. We marked his prefiled testimony as Exhibit
12 T-127. His exhibits LRB-1, 2 and 3 are numbered as
13 exhibits 128, 129 and 130 for identification.

14 Whereupon,

15 LAREN BERDAN,
16 having been first duly sworn, was called as a witness
17 herein and was examined and testified as follows:

18 (Marked Exhibits T-127, 128 - 130.)

19 DIRECT EXAMINATION

20 BY MR. JOHNSON:

21 Q. Good afternoon, Mr. Berdan.

22 A. Good afternoon.

23 Q. Please state your full name and spell your
24 last name for the record, please.

25 A. My name is Laren R. Berdan, B E R D A N.

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1 Q. What is your position, please?

2 A. I am the manager of natural gas vehicles
3 for Washington Natural Gas.

4 Q. Do you have before you what's been marked
5 for identification as Exhibit T-127?

6 A. I do.

7 Q. Is that your prefiled testimony, rebuttal
8 testimony?

9 A. It is.

10 Q. Was that testimony prepared by you or under
11 your supervision?

12 A. It was.

13 Q. Do you have any corrections you wish to
14 make to the testimony?

15 A. No, I don't.

16 Q. You also have before you what has been
17 marked as Exhibits 128, 129 and 130 for
18 identification.

19 A. I do.

20 Q. Are those the prefiled exhibit that you're
21 sponsoring in these proceedings?

22 A. They are.

23 Q. Do you have any corrections you wish to
24 make to those exhibits?

25 A. I do not.

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1 MR. JOHNSON: Your Honor, I move the
2 admission of Exhibit T-127 and Exhibits 128, 129 and
3 130.

4 JUDGE ANDERL: Thank you. Is there any
5 objection to those documents?

6 Hearing none those four exhibits will be
7 admitted as identified.

8 (Admitted Exhibits T-127, 128 - 130.)

9 MR. JOHNSON: Mr. Berdan is available for
10 cross-examination.

11 JUDGE ANDERL: Mr. Cedarbaum.

12

13 CROSS-EXAMINATION

14 BY MR. CEDARBAUM:

15 Q. Good afternoon, Mr. Berdan.

16 A. Good afternoon.

17 Q. As the manager of the company's NGV
18 department, are you and the other people that work in
19 that department involved in marketing CNG activities?

20 A. We're involved in providing information to
21 the marketplace regarding code interpretation, safety
22 information, conveying data with regards to
23 conversions, types of conversions that are available
24 and general technical aspects of natural gas vehicles.

25 Q. Do you also work with prospective CNG

00773

1 customers?

2 A. On a regular basis customers call us asking
3 questions about NGC-related issues and, yes, we work
4 with them.

5 Q. How many people work with you in the NGV
6 department?

7 A. Myself and two others.

8 Q. You indicate that you were employed by the
9 company in the NGV department in 1991, so you were
10 around in that capacity or in that general function
11 during the 1992 rate case; is that right?

12 A. That is correct.

13 Q. And CNG was an issue in that case?

14 A. I believe it was discussed.

15 Q. There were a number of data requests that
16 staff asked of the company during that case and would
17 you accept subject to your check that in response to
18 staff data request No. 273 -- and this is in docket
19 UG-920840 -- you prepared a response to a question
20 from staff that indicated that there were five
21 employees in the company's NGV program in the years
22 1991 and 1992. Would you accept that?

23 A. That is correct, subject to check.

24 Q. In that '92 case, the CNG issue came about
25 because of a proposed tracker that the company was

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1 proposing to the Commission for the CNG refueling
2 stations; is that right?

3 A. I believe it was. I was not the company's
4 witness for CNG-related matters at that time, so I
5 may be deficient in some of the knowledge.

6 Q. But you do recall that the company proposed
7 in that case a tracker that would be applied to all
8 sales customers whether or not those customers use CNG
9 and the purpose being to fund the company's CNG
10 program?

11 A. I believe that is true.

12 MR. JOHNSON: Your Honor, I object. I'm
13 not sure if we're mischaracterizing the extent of the
14 920840 presentation. It wasn't to fund the program
15 per se. It was to fund the development of a refueling
16 network and it was not to just fund the program. That
17 sounds much more broad-based than it was.

18 MR. CEDARBAUM: I will accept Mr. Johnson's
19 characterization of it.

20 JUDGE ANDERL: Fine.

21 Q. Is it correct, though, that the
22 Commission rejected the company's tracker proposal
23 in that case?

24 A. Based on my knowledge I believe that is
25 correct.

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1 Q. And is it correct or would you accept
2 subject to check that one of the reasons the
3 Commission gave for rejecting that tracker was because
4 the tracker violated the statute that Mr. Ramirez
5 refers to in his testimony concerning subsidies of
6 refueling stations?

7 A. I would agree subject to check. However,
8 what we're proposing here is significantly different
9 than the type of program that was proposed in that
10 rate case.

11 Q. Well, in that rate case you were proposing
12 a tracker through a surcharge on other customers, so,
13 there was an explicit surcharge, and in this case
14 what's being proposed is a schedule 50 that also
15 includes a subsidy; is that right?

16 A. That is correct. However, as I stated
17 earlier, what we are proposing here is dramatically
18 different. I believe the proposal in the earlier
19 rate case was a 15 or 16 station network that would be
20 placed outside of our operating service -- or, pardon
21 me outside our operating bases,. What we are speaking
22 or addressing here is the utilization of existing
23 facilities at WNG's operating base. To me that's
24 dramatically different.

25 Q. But in both cases, both the tracker and in

00776

1 this case, there was and is subsidy?

2 A. In one case there's a tracker. In the
3 other there is a small subsidy, yes, but still, as I
4 stated earlier, would say that I view them as totally
5 different programs.

6 Q. Just so that you can go back and check some
7 of your answers subject to check, the order I was
8 discussing from the Commission was the third
9 supplemental order in that docket.

10 At page 3 of your testimony, line 21, you
11 indicate that the company currently has or services
12 1,502 private vehicles, nonWashington Natural Gas
13 vehicles; is that right?

14 A. That is correct.

15 Q. And would you accept subject to your check
16 that in another response to a data request from that
17 '92 case, and this was data request No. 278, response
18 prepared by you indicated that the company served 112
19 private vehicles?

20 A. Subject to check I would agree with that.

21 Q. And the date of that company's response
22 was November 25, 1992. Let you go back and check
23 that. Since that point in time company has had an
24 increase of about 40 private vehicles that it's
25 serving in its CNG program?

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1 A. That is correct. However, a number of the
2 vehicles that we were serving at that time have moved
3 from the service provided by WNG and moved to their
4 own refueling facilities, so you can see that there is
5 a movement of vehicles from service to service in some
6 cases.

7 Q. Do you know how many less of that 112?

8 A. I can't tell you at this time, I'm sorry.

9 Q. In Mr. Amen's testimony he states at page
10 23 -- and this is his rebuttal testimony, excuse me --
11 that in order for the company's CNG charge to be fully
12 compensatory, the company would need to service an
13 additional 120 to 200 fleet vehicles; is that right?

14 A. You would have to address that question
15 probably to Mr. Amen with regards to what constitutes
16 fully compensatory.

17 Q. At page 5 of your testimony, at line 11 you
18 refer to 73 out of 104 regulated utilities with
19 refueling facilities. Do you see that?

20 A. Yes, I do.

21 Q. And presumably those utilities operate in
22 other states?

23 A. Yes, that is correct.

24 Q. Do you know whether those other states have
25 statutes such as the one that exists in this state

00778

1 concerning subsidies on CNG refueling stations?

2 A. Which statute are you referring to?

3 Q. The one that Mr. Ramirez referred to in his
4 testimony, RCW 80.28.280.

5 A. I don't believe there's anything in that
6 statute, if I will review that statute, as Mr.
7 Ramirez's testimony states, prohibits any
8 subsidization whatsoever.

9 Q. But you don't know whether or not those 73
10 utilities operate in jurisdictions with similar
11 statutes?

12 A. I cannot address that, no. What I can
13 address is those companies do have programs which are
14 supportive of natural gas vehicles.

15 Q. And it may be that the regulatory
16 commissions in those states haven't been directed by
17 the legislature to prohibit subsidies of those
18 programs; is that right?

19 A. I believe that in a number of those states
20 there are specific directives from the legislature
21 that natural gas vehicles are in the public interest
22 and are supportive of natural gas programs.

23 Q. At page 4 you have a discussion concerning
24 some discussions or communications you've had with
25 potential customers. You refer to Microsoft and some

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1 others. Do you know, have any of those potential
2 customers indicated to you or anyone else in the
3 company that they would be unwilling to take CNG
4 service from an affiliate of Washington Natural Gas?

5 A. We have never asked them if they were
6 willing to take from an affiliate because we are not
7 considering that as an option. So in our discussions
8 we have only addressed their desire to utilize their
9 own refueling facilities, which they have said they
10 cannot economically justify. We have suggested that
11 they talk with other agencies which have supplied
12 refueling facilities to others in other states. They
13 have inquired of those folks and they are not willing
14 to come into this jurisdiction, and we have only
15 addressed our ability to serve them under our existing
16 tariff rate schedule 50.

17 Q. And finally, on page 7 of your testimony,
18 at lines 17 you refer to BP/Tosco?

19 A. Yes.

20 Q. And that involves an arrangement that --
21 well, let me just ask you the question directly. Is
22 it true that the arrangement that you're discussing
23 with BP/Tosco only relieves Washington Natural -- only
24 relieves the company of accounting and billing
25 functions?

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1 A. I don't believe that is correct. Our
2 arrangement, which we are still discussing with the
3 BP/Tosco folks, is clearly an attempt to provide
4 support to a development of an outside refueling
5 network. One of the issues that our customers have is
6 availability of fuel. If you review my testimony I
7 think you will find that it does not support the
8 staff's position. We have a number of customers who
9 utilize our facilities and are dependent and have made
10 future decisions based on that. Our discussions with
11 Tosco are an attempt to move away from that retail
12 marketplace, as we have stated in our mission summary
13 and I believe in my testimony. This is a transfer of
14 that effort where possible.

15 Q. Under the BP/Tosco arrangement, if it
16 comes to fruition, will Washington Natural Gas
17 continue to own and maintain the CNG refueling
18 facilities that BP/Tosco will utilize?

19 A. Some of the facilities we will use will
20 remain in the ownership of Washington Natural Gas.
21 Some of the facilities that will be utilized in that
22 operation will belong to Tosco based on our current
23 discussions. It will be an attempt to utilize and
24 make that transfer to third party refueling.

25 MR. CEDARBAUM: Thank you. That's all I

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1 have.

2 JUDGE ANDERL: Did any other party have
3 cross for this witness?

4 Do the Commissioners have any questions?

5 COMMISSIONER HEMSTAD: I do.

6

7 EXAMINATION

8 BY COMMISSIONER HEMSTAD:

9 Q. Mr. Berdan, I'm looking at your testimony
10 on page 3. At the bottom, line 26, the question is,
11 "Do alternative CNG refueling facilities exist in
12 WNG's service territory that offer public refueling
13 service," and the answer is no. Would you explain to
14 me, Exhibit 129, which is your LRB-2, looking at page
15 2, there are 24 refueling stations listed there. Now,
16 none of those provide refueling, CNG refueling,
17 opportunities to the public. They're all private
18 operations; is that right?

19 A. That is correct. They are all private
20 organizations who have purchased their own
21 compressors. There are no public facilities. As a
22 matter of fact, if you will review the facilities that
23 are there, many of them are public agencies. Those
24 public agencies utilize natural gas in trial programs
25 from our facilities and, after the evaluation of those

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1 operations in their own specific fleets, purchase
2 their own compressors and implement them within their
3 own fleets. That is specifically our attempt here.
4 Those public agencies in the majority of the cases are
5 prohibited from providing refueling access to other
6 people. Their facilities are also not designed with
7 regards to ingress and egress for ease, a public-
8 friendly situation, if you will, and they're also not
9 in the areas where some of the other fleets would
10 function.

11 Q. These refueling stations that are other
12 than WNG stations are owned and operated by those
13 other public facilities, public entities or private
14 corporations?

15 A. Yes, they are.

16 Q. At the present time, at page 3, there
17 apparently are then a total of 152 vehicles in all
18 operation by other than WNG that are natural gas
19 vehicles. How many -- what is the size of WNG's
20 fleet?

21 A. Our fleet today is a little over 500
22 vehicles.

23 Q. So you have 500 and everyone else in your
24 service territory has 152?

25 A. That is not correct. There is a total of

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1 approximately 1,030-some vehicles operating in the
2 service territory. These 152 vehicles represent
3 vehicles that are coming into facilities owned by
4 Washington Natural Gas to utilize our facilities.
5 There are other facilities such as shown in my Exhibit
6 2.

7 Q. So your fleet is approximately half of the
8 market?

9 A. That is correct. One of the issues that
10 we've struggled with is since staff's filing or
11 concern on this issue is the instability of future
12 access for the existing customers and future
13 customers, such as the Safecos, the Microsofts, those
14 folks. We have not been in good conscience able to go
15 out and say that these facilities will exist. In my
16 testimony we address Microsoft Corporation. Microsoft
17 has 150 vehicles in their fleet. They would like to
18 experiment. They would like to do a testing to see
19 the validity of using the product. When you look at
20 the marketplace on a whole it's growing rapidly.
21 Every vehicle manufacturer in the United States,
22 virtually all of them abroad, in the European
23 countries there's tremendous development. Every major
24 manufacturer is experimenting or building compressed
25 natural gas vehicles down their assembly lines. To me

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1 that says the market is growing. If we effectively
2 tell people they can't get access to fuel to do their
3 tests to do their early development, I think that
4 sends a very poor message to the marketplace.

5 Q. How does the company currently account for
6 CNG used by its own vehicles? How do you book it?

7 A. I believe that would be a question that Mr.
8 Amen could better answer with regards to the specifics
9 of how that's booked. I'm sorry, I can't answer
10 that.

11 COMMISSIONER HEMSTAD: That's all I have.

12 JUDGE ANDERL: Commissioner Gillis.

13

14 EXAMINATION

15 BY COMMISSIONER GILLIS:

16 Q. I'm trying to understand. You maintain
17 refueling facilities for your own fleet and then you
18 share those facilities with the public, in some cases
19 they also use the same refueling facilities?

20 A. That is correct.

21 Q. Do you maintain any facilities exclusively
22 for the public that you don't use for your fleet?

23 A. No, with the exception of two of the --
24 pardon me -- three of the facilities that we have
25 provided in our previous data requests which were

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1 utilized by North Thurston School District, and two
2 other fleet agencies.

3 Q. So there's a couple?

4 A. Yes.

5 Q. I think what I understand you saying is --
6 and correct me if this is not the right
7 characterization -- what you're saying is you view
8 your program as essentially, if I can use the term, an
9 incubator where you're getting customers started and
10 doing this and then you hopefully start their own
11 refueling facilities; is that correct?

12 A. That is very correct. Over half of our
13 customers that exist now went through that incubation
14 process. The largest transit agency in the United
15 States went through that incubator process. King
16 County's fleet went through that process and twelve
17 others did the same. That is very correct.

18 Q. And from your map here which -- and you
19 commented to Commissioner Hemstad it appears that
20 there are some unsubsidized, unregulated organizations
21 out there, private sector organizations out there that
22 maintain refueling stations and fleets in the Puget
23 Sound at this point; is that correct?

24 A. They do maintain facilities for themselves
25 that were sized specifically with their loads in mind.

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1 Q. For themselves as a private operation?

2 A. Yes.

3 Q. And so we really don't know, I guess,
4 whether that is cost effective for them relative to
5 gasoline or not but they are as private organizations
6 maintaining the fleet?

7 A. That is correct. I would probably say that
8 in the case of many of them or the majority of them
9 they are increasing the number of NGV vehicles they
10 have in place. Pierce Transit again has increased
11 their number of vehicles by almost 45 percent in the
12 last six months so it must be economic for them.

13 Q. Were you here for Mr. Lazar's testimony
14 earlier today?

15 A. Yes, I was.

16 Q. Do you remember his suggestion to the
17 Commissioners? He characterized it as a policy choice
18 for the Commissioners as opposed to a technical
19 choice whether or not -- at least my understanding
20 to what he said was that if the question is do we want
21 to nurture an emerging industry. Do you agree with
22 that characterization that he made of this?

23 A. I would agree that it is a market that is
24 growing. Our attempts are to support that market
25 development, so from that standpoint I would agree

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1 with Mr. Lazar.

2 Q. My question for you is, in your opinion,
3 as somebody who is experienced with this industry, are
4 we nurturing an industry that can eventually support
5 itself on its own in the future or are we supporting
6 an expensive hobby?

7 A. I think we are very definitely nurturing
8 a market that will develop. I've got to believe that
9 when you look at the major auto manufacturers, when
10 you look at the engine manufacturers, you look at the
11 Washington state ferries, the transit industry and
12 specifically what's happened in our marketplace, the
13 transition from our incubator process into facilities
14 where the customer buys their own natural gas
15 compression, I think that is a very growing
16 marketplace.

17 COMMISSIONER GILLIS: Thank you.

18

19 EXAMINATION

20 BY JUDGE ANDERL:

21 Q. Mr. Berdan, just to follow up on that a
22 little bit. To the extent that the customers that you
23 nurture get big enough and have enough vehicles that
24 they go ahead and buy their own compression equipment,
25 how do we ever get out of that loop to where public

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1 refueling stations develop?

2 A. Well, I think the market that we're working
3 with now predominantly is governmental agencies. As
4 we foster this market we begin to bring a number of
5 vehicles into place so that then third party refuelers
6 can look at this as an economic adventure and step
7 into place and provide a competitive market to supply
8 gas in those scenarios. Not all the customers we
9 serve are what we refer to as on-site refuelers.
10 They do not go to their own facility.

11 JUDGE ANDERL: Thank you. Any redirect?

12 MR. JOHNSON: No.

13 JUDGE ANDERL: Anything else for this
14 witness?

15 MR. CEDARBAUM: Can I ask a couple of
16 follow-up questions to Commissioner Gillis.

17 JUDGE ANDERL: Sure.

18

19 CROSS-EXAMINATION

20 BY MR. CEDARBAUM:

21 Q. How long has Washington Natural had an NGV
22 department?

23 A. Since 1991.

24 Q. So company has been an incubator since that
25 time or even before that time?

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1 A. I would say since that time, yes.

2 Q. How much longer does the company envision
3 being an incubator?

4 A. I would say that that's probably a decision
5 that's a policy decision that I can't answer.

6 Q. So as long as it takes?

7 A. As I indicated, I'm sorry, I can't answer.
8 That would be a policy decision that I couldn't make.

9 MR. CEDARBAUM: Thank you.

10 JUDGE ANDERL: Nothing further for Mr.

11 Berdan, then. Thank you for your testimony, you may
12 step down. If there's nothing else to come before us
13 today we'll stand in recess until 9:00 tomorrow
14 morning when Mr. Amen will take the stand.

15 (Hearing adjourned at 5:23 p.m.)

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