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1 JUDGE MOSS: Or if there's no objection, we
2 can just stipulate. No objection. All right. We'll
3 stipulate to Mr. Schooley's exhibits, Numbers 321
4 through 328, and make Mr. Schooley available for
5 cross-examination.

6 And I believe -- let's see, the Company
7 waived, and so I believe there are going to be
8 questions from the Bench. Commissioner Oshie, did
9 you have questions for this witness?

10 COMMISSIONER OSHIE: Yes, Judge Moss, I
11 believe I do. I'm trying to find the place.

12

13 E X A M I N A T I O N

14 BY COMMISSIONER OSHIE:

15 Q. Mr. Schooley, my question is I guess, in
16 general context, the same question that I asked Mr.
17 Wrigley, with the focus on your investor-supplied
18 working capital analysis.

19 And my question really is, when you did your
20 analysis of the investor-supplied working capital
21 that formed the basis of your recommendation in this
22 case, did you look at the -- did you do the analysis
23 based upon a Western Control Area and Eastern Control
24 Area scenario or did you do a total company analysis
25 and then allocate a percentage of the total company

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1 to Washington?

2 A. I did not look at a divvying up of the
3 resources or the rate base between control areas. I
4 did do it on a total company basis and, in the end,
5 applied the system operations factor, which, under
6 the Western Control Area, is some basis points less
7 than otherwise, so I don't know if that captures it,
8 but it is based on plant and Washington's portion of
9 the system under the Western Control Area is less
10 than it would be if you were looking either at a
11 system-wide similar allocation based on plant only or
12 on the revised protocol. So we've -- I'm not -- I
13 think that captures it to a certain degree.

14 Q. It captures it to a certain degree meaning
15 that it's not -- it would not be accurate under the
16 pure Western Control Area analysis, but it's close?
17 Is that your testimony?

18 A. I think it's representative, but I think
19 that presents an interesting exercise in how to
20 determine that the investor-supplied capital is to be
21 allocated or divvied up between Washington's rate
22 base versus everybody else's rate base versus the
23 plant or assets that serve the non-operations or the
24 non-operating portion of the Company.

25 Q. And do you have an opinion as to, given, you

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1 know, the same issue that apparently exists with
2 regard to the allocation of resources, East or West,
3 and Mr. Wrigley's lead lag study that he sponsored,
4 is the Staff-sponsored analytical treatment, is that,
5 in your opinion, given the -- use the term infirmity
6 in both methods, is Staff's method more accurate than
7 the Company's? That's if you have an opinion on
8 that, and if you don't, then you can certainly
9 testify to that.

10 A. I think Staff's would be more accurate in
11 that sense, because we have used actual accounting
12 data and we've used an actual means to calculate an
13 allocation factor. I think the Company's 2003 study,
14 which has only been updated for the total expenses of
15 the Company and then reassigned to Washington, is
16 less accurate in that sense.

17 Q. Well, is it less accurate because you have a
18 dispute with the use of a lead lag study or is it
19 less accurate because it is -- it is more incorrect
20 in its calculation if your interest is to divide
21 those -- the investor-supplied working capital
22 between the Western Control Area and the Eastern
23 Control Area?

24 A. I think both. I think it is inaccurate in
25 and of itself in that a heavy portion of the lead lag

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1 study is, in part, the coal supply and the coal
2 purchases and how those are divided up, and the
3 Western Control Area has a much smaller piece of the
4 coal plants.

5 The other accounts payable and other expense
6 sides, I think, would be more weighted towards the
7 Eastern side, as well, so I think it is probably
8 over-assigning working capital to Washington on that
9 basis.

10 Q. And I think you used the term operations
11 factor, which was your method of allocating from the
12 total Company Washington share of your -- of the
13 investor-supplied working capital. What do you mean
14 by that?

15 A. In the investor-supplied working capital,
16 you must look at how much of the rate base in total
17 is serving utility operations versus what is
18 non-utility and divide up the result by that factor,
19 by how much is allocated to either portion.

20 Q. And so how did you calculate Washington's
21 share of that, I mean, in general terms?

22 A. That is looking at the rate base items or
23 the assets within the corporation and determining
24 whether they are utility-related or non-utility
25 related, and then taking a ratio of those two for the

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1 total.

2 Q. And that was done on total company basis
3 with an allocation factor that was based upon --

4 A. Upon just within itself, that the
5 non-operations -- non-operating assets are then --
6 its portion of the total is then applied to the
7 investor-supplied results and the working capital is
8 allocated proportionately.

9 COMMISSIONER OSHIE: Thank you.

10 JUDGE MOSS: Mr. Trotter? All right.

11 COMMISSIONER JONES: Judge.

12 JUDGE MOSS: Oh, I'm sorry, Commissioner
13 Jones. I thought only Commissioner Oshie had
14 questions.

15

16 EXAMINATION

17 BY COMMISSIONER JONES:

18 Q. Just a little bit of follow-up to
19 Commissioner Oshie's questions. Now, why didn't you
20 use the grid methodology or the methodology proposed
21 in this case to -- it's probably inappropriate, but
22 I'm getting confused by the number of methodologies
23 we're using to try to separate cost and now to
24 separate a balance sheet and working capital. Was
25 there -- could that be used at all?

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1 A. Grid is only applied to the variable power
2 cost. It does not apply to the assets or rate base
3 items.

4 Q. So where did you get this applied systems
5 operations factor? I think you answered Commissioner
6 Oshie, but I'm still a little bit confused where you
7 selected this if --

8 A. That is derived by Washington's plant as a
9 portion of the total system plant.

10 Q. Based on the results of operations and the
11 Commission basis report submitted annually or --

12 A. In part. It does change as the ratios
13 change, but it is Washington's allocated piece of the
14 transmission plant, Washington's allocated piece of
15 the -- just production plant and Washington's
16 distribution plant, which is situs assigned, and
17 you'd add all those up as a portion of the total.

18 And so as you change allocation factors or
19 allocation methods, such as from modified accord to
20 the revised protocol to the Western Control Area, all
21 else being equal, our portion of the system
22 operations would also change because we have had
23 differing proportions of particularly the production
24 plant and transmission plant. So it is a sliding --
25 a number that moves back and forth as you change the

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1 allocation system itself.

2 Q. And this number changes. One of the
3 criticisms of the company, of the ISWC,
4 investor-supplied working capital, is that it's a
5 static analysis; correct?

6 A. Well, their point is --

7 Q. It's based on the balance sheet; correct?

8 A. It's based on the balance sheet, it's based
9 on the monthly balance sheets and the average of
10 those months. So I don't -- but it is real
11 accounting data. It's not the assumptions that are
12 used in the lead lag study, such as they selected
13 three of the months in which to analyze the revenue
14 income. They did not appear to use all of the coal
15 plant studies. It's not everything, as they sort of
16 imply it to be. It is a sampling of the operations
17 in order to determine the leads and lags.

18 Q. In your testimony on page 23, you state that
19 at least three other states currently use a balance
20 sheet method, Idaho, Michigan and Florida.

21 A. Yes.

22 Q. And then you cite a footnote regarding
23 Idaho, that it is based on information provided by
24 Idaho PUC Staff. Have you read an order issued by
25 the Idaho PUC where they actually cite

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1 investor-supplied working capital as the approved
2 working capital methodology for that Commission?

3 A. No, I haven't.

4 Q. Okay. Turning to page 37, on your treatment
5 of executive severance payments, I just have one
6 question there. On page 37, lines 11 through 16,
7 just so I understand how you calculated the deferral
8 expense for these executives, you calculated them
9 based on two factors. One was 88 percent of their
10 annual wage on average, so you took an average of all
11 the non-executive severance packages, and then you
12 applied the April 2006 date as the date after which
13 they received severance.

14 Can you define annual wage on average?
15 What's included in that? Are bonuses, restricted
16 stock, medical, deferred taxes?

17 A. In Exhibit 326-C, it itemizes the annual
18 savings --

19 Q. Okay.

20 A. -- and the severance package, and it is the
21 annual savings that is the total wages for each of
22 the employees listed, which includes all that stuff.

23 Q. So it includes --

24 A. And the loaded portion of the benefits, as
25 well.

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1 Q. I see. So when you say, quote, all that
2 stuff that is included -- I don't see all that stuff
3 in any of these lines that I --

4 A. No, it's not itemized as such. It is the
5 annual savings for the dismissal of that employee.
6 So their --

7 Q. So what you did, Mr. Schooley, you just took
8 a simple percentage of savings compared to total?

9 A. Yes.

10 Q. Total cost or total annual wage, and that
11 came out at 88 percent?

12 A. Yes.

13 COMMISSIONER JONES: Okay. That's all I
14 have. Thank you.

15 JUDGE MOSS: All right. Nothing further
16 from the Bench? Mr. Trotter, still the answer from
17 you is no, I take it?

18 MR. TROTTER: That's correct.

19 JUDGE MOSS: All right. Well, Mr. Schooley,
20 we thank you for being here, and now you may step
21 down.

22 Let's see. For Mr. Buckley, who is our last
23 witness, does Public Counsel still have 30 minutes,
24 or has that shortened, Mr. Ffitch?

25 MR. FFITCH: It might be a bit shorter, Your

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1 Honor. I think -- are we the only remaining -- the
2 last person standing?

3 JUDGE MOSS: No, I'm going to move on once I
4 have your answer. Is it going to be shorter than 30
5 minutes or not?

6 MR. FFITCH: Right now it looks like it's
7 close to -- a little bit less perhaps, but --

8 JUDGE MOSS: All right. How about ICNU?

9 MS. DAVISON: We are probably 15, 20
10 minutes.

11 JUDGE MOSS: All right. You all want to
12 finish today, then? Barb, are you good for another
13 hour, if necessary?

14 THE REPORTER: Yes.

15 Whereupon,

16 ALAN P. BUCKLEY,
17 having been first duly sworn by Judge Moss, was
18 called as a witness herein and was examined and
19 testified as follows:

20 JUDGE MOSS: Thank you. Please be seated.
21 And absent objection, let's dispense with the
22 foundation questions and just stipulate the exhibits
23 in. Hearing no objection, we'll do that, Exhibits
24 261 through 265 for Mr. Buckley, and I suppose if we
25 follow our order consistently here, then you'll go