

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

)	
WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	
vs.)	NO. UE-011570
)	NO. UG-011571
PUGET SOUND ENERGY, INC.,)	VOL. XIV
)	PAGES 1747-1939
Respondent.)	

A hearing in the above matter was held on June 13, 2002, at 9:42 a.m., at 1300 Evergreen Park Drive Southwest, Olympia, Washington, before Administrative Law Judge DENNIS MOSS, Chairwoman MARILYN SHOWALTER, Commissioner RICHARD HEMSTAD and Commissioner PATRICK OSHIE.

The parties were present as follows:

PUGET SOUND ENERGY, by
Kristin Dodge and Mr. Markham Quehrn, Attorneys at Law,
One Bellevue Center, Suite 1800, 411 - 108th Avenue NE,
Bellevue, Washington, 98004-5584.

COMMISSION STAFF, by
Robert D. Cedarbaum, 1400 S. Evergreen Park Dr. SW,
P.O. Box 40128, Olympia, Washington, 98504-0128.

PUBLIC COUNSEL, by Simon J. ffitich,
Assistant Attorney General, 900 4th Avenue, Suite 200
TB-14, Seattle, Washington, 98164-1012.

SEATTLE STEAM COMPANY, by
Elaine L. Spencer, Graham & Dunn, 1420 Fifth Avenue,
Seattle, Washington, 98101.

INDUSTRIAL CUSTOMERS NORTHWEST
UTILITIES, by S. Bradley Van Cleve, Davison Van Cleve,
1000 SWS Broadway, Suite 2460, Portland, Oregon, 97205.

KROGER COMPANY, by Mike Kurtz,
Boehm Kurtz and Lowry, 2110 CBLD Center, 36 East Seventh
Street, Cincinnati, Ohio, 45202.

1 APPEARANCES CONTINUED

2 MULTI-SERVICE CENTER, OPPORTUNITY
3 COUNCIL, ENERGY PROJECT, by Ron Roseman, 314 E. Holly
4 Street, Bellingham, Washington, 98225.

5 MICROSOFT CORPORATION, by
6 Harvard P. Spigal, Preston Gates & Ellis, 222 SW
7 Columbia, Suite 1400, Portland, Oregon, 97201-6632.

8 NORTHWEST INDUSTRIAL GAS USERS, by
9 Chad Stokes, Energy Advocates, 526 Northwest 18th Avenue,
10 Portland, Oregon, 97209.

11 NORTHWEST ENERGY COALITION AND
12 NATURAL RESOURCES DEFENSE COUNCIL, by Danielle Dixon,
13 Policy Associate, NW Energy Coalition, 219 First Avenue,
14 Suite 100, Seattle, Washington, 98104.

15 SOUND TRANSIT, by Elizabeth Thomas,
16 Preston Gates Ellis, 701 Fifth Avenue, Suite 5000,
17 Seattle, Washington, 98104.

18 FEDERAL EXECUTIVE AGENCIES, by
19 Norman J. Furuta, Department of the Navy, 2001 Junipero
20 Serra Boulevard, Suite 600, Daly City, California,
21 94014-1976.

22 WORLDCOM, INCORPORATED, by
23 Kirk H. Gibson, Ater Wynne, 222 SW Columbia, Suite 1800,
24 Portland, Oregon, 97201-6618.

25 AT & T WIRELESS, by
26 Traci A.G. Kirkpatrick, Davis Wright Tremaine, 1300 SW
27 Fifth Avenue, Suite 2300, Portland, Oregon, 97201.

28 CITY OF KENT, by
29 Michael L. Charneski, Attorney at Law, 19812 194th Avenue
30 NE, Woodinville, Washington, 98072

31

32 Taken Before:
33 Carman Prante
34 Certified Court Reporter
35 of
36 CAPITOL PACIFIC REPORTING
37 2401 Bristol Court SW
38 Olympia, WA 98502
39 (360) 352-2054

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

EXHIBIT INDEX

NO.		MARKED	ADMITTED
	ALL EXHIBITS THAT WERE PREMARKED WERE ADMITTED ON PAGE 1759		
527	DEPRECIATION STUDY OF JULIUS BREITLING	1776	1776

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

PROCEEDINGS

JUDGE MOSS: Good morning, everyone. My name is Dennis Moss. I'm the designated presiding administrative law judge in this proceeding styled Washington Utilities and Transportation Commission against Puget Sound Energy. Docket number is UE-011570 and UG-011571. These proceedings are consolidated and constitute rate case filing on both the electric and natural gas sides of Puget Sound Energy's business. We are convened today for the settlement hearing, the hearing with respect to the settlement stipulation that was filed on June 6th.

I have a couple of preliminary comments before we take appearances. One, I have passed out to the parties a - three sets of questions. I want to say that we will use these to guide us through the examination of the various witness panels today. There may be additional questions. Not all of these questions may be asked. The list is not intended to be exhaustive. We have been burning the midnight oil to analyze the settlement stipulation filing and prepare for our proceedings today, and so we have done as much as we can and we hope that these are helpful to the parties. We'll probably be preparing some additional ones as we go along and we'll

1 distribute those as they become available and the parties
2 will be able to use those as guidance in their
3 preparation for our oral testimony.

4 And with that, I think we are ready to take
5 appearances. So let's begin with the company. You may
6 use the short form of appearance if you have previously
7 entered an appearance in the proceeding. But if there is
8 anyone that is entering an appearance for the first time
9 today, they will need to provide full information
10 including address, telephone number, fax number, and
11 e-mail address. So Ms. Dodge.

12 MS. DODGE: Thank you, Your Honor.
13 Kirstin Dodge with Perkins Coie for Puget Sound Energy.

14 MR. QUEHRN: Good morning. Mark Quehrn with
15 Perkins Coie for Puget Sound Energy.

16 MS. SPENCER: Good morning. Elaine Spencer from
17 Graham and Dunn, 1420 Fifth Avenue, Seattle 981 - 101.
18 Phone Number (206) 340-9638. Fax Number (206) 340-9599.
19 E-mail, espencer@grahamdunn.com, on behalf of the Seattle
20 Steam Company.

21 MR. VAN CLEVE: Brad Van Cleve for the
22 Industrial Customers of Northeast Utilities.

23 MR. KURTZ: Mike Kurtz for the Kroger Company.

24 MR. ROSEMAN: Ron Roseman for the joint
25 intervenors, Multi-Service Center of the Energy Project

1 and the Opportunity Council.

2 MR. FFITCH: Simon ffitch, Assistant Attorney
3 General, for the Office of Public Counsel.

4 MR. CEDARBAUM: Robert Cedarbaum, Commission
5 Staff.

6 JUDGE MOSS: We'll turn to you, Mr. Spigal, and
7 ask you to start us off.

8 MR. SPIGAL: Harvard Spigal, Preston Gates and
9 Ellis, for Microsoft.

10 JUDGE MOSS: I think we can pass that in the -
11 either direction.

12 MR. STOKES: Chad Stokes, Energy Advocates,
13 526 Northwest 18th Avenue, Portland, Oregon, 97209.
14 E-mail is mail@energyadvocates.com, (503) 721-9118, and
15 the fax number is (503) 721-9121. On behalf of the
16 Northwest Industrial Gas Users.

17 MS. DIXON: Danielle Dixon, for Northwest Energy
18 Coalition and Natural Resources Defense Council.

19 MS. THOMAS: Elizabeth Thomas, Preston Gates and
20 Ellis, for Sound Transit.

21 MR. FURUTA: Norman Furuta for the Federal
22 Executive Agencies.

23 MR. GIBSON: Kirk Gibson, WorldCom,
24 Incorporated.

25 MR. KIRKPATRICK: Traci Kirkpatrick on behalf of

1 AT&T Wireless.

2 JUDGE MOSS: Are there other counsel that have
3 not entered their appearances? No one here for the
4 cities? Okay.

5 Now, I'm assuming that those who intend to
6 participate actively in today's proceedings are here in
7 the room, but we do have the teleconference bridge line
8 on. So as to avoid any difficulties, I will ask if
9 there's anyone on the teleconference bridge line who
10 would like to enter an appearance?

11

12 (No audible response.)

13

14 JUDGE MOSS: Apparently there is not. All
15 right.

16 We - we have some brief discussion off the record
17 concerning slight changes in our agenda whereby
18 Ms. Harris would make an opening statement. But before
19 we get to that, we - we do have - the chair wishes to
20 make an opening statement and we'll then turn to the
21 exhibits, which I believe we will probably introduce by
22 stipulation. At that point we'll call our first witness
23 panel.

24 You're on our first witness panel, are you,
25 Ms. Harris? Or are you? Yes, you are.

1 MS. HARRIS: Okay.

2 JUDGE MOSS: So we'll call the panel and swear
3 them and allow for the opening statement at that time.
4 So let me turn the floor over to the chairwoman.

5 CHAIRWOMAN SHOWALTER: Well, good morning. I
6 want to congratulate all of the parties here. This is a
7 remarkable achievement. To have 33 parties who have
8 found a way to reach a proposed settlement - I emphasize
9 the word "proposed" - on the range of subjects that are
10 in the proposed settlement is - is just stunning. And
11 regardless of how we proceed or - or deliberate on this
12 settlement, it's very clear that an enormous amount of
13 work has been undertaken, and clearly not just work but
14 hard compromises have been made. So you are to be
15 congratulated on the product that you have delivered
16 which is a proposed settlement. It's splendidly
17 presented, beautifully organized.

18 The supporting testimony makes a big difference to us
19 because it - it enables us to understand better what is
20 in the settlement and what is the - a basis for accepting
21 it.

22 That said, the very fact that this is a very broad
23 settlement with multiple parts means that there is a lot
24 to digest here. The commission is an independent body.
25 We have an independent obligation to understand the

1 proposal, to be confident that it complies with the law,
2 and most importantly to be confident that its terms are
3 in the public interest. Unlike a court case where a lot
4 of parties may have litigation and if they settle, well,
5 that's virtually dispositive of the case. There's an
6 independent entity here that needs to be satisfied, and
7 that's the commission, meaning the three commissions -
8 commissioners.

9 I'm somewhat affected as I think some others in the
10 room are, but by our experience in litigating settlement
11 agreements later. One of the first cases that I sat on
12 was one of the early Schedule 48 conflicts, and it was
13 really a case where a careful, logical proofreading of
14 the agreement at the outset probably could have avoided a
15 two million dollar litigation, and that taught me a
16 lesson. Not that I had been there at the original
17 careful or noncareful proofreading, but it taught me that
18 it is very important for another set of eyes - that is,
19 the commissioners' sets of eyes - to look at these
20 agreements and read them not from the point of view of
21 those who kind of know what they meant, but what the
22 words say on - on the page.

23 Subsequently we've had other pieces of litigation on
24 the settlement. Many of you are familiar with the
25 Schedule 48, but we've also had other litigations of

1 settlements where, you know, again, people envisioned one
2 thing or they meant one thing but then the situation
3 changed, and under stress it turns out that the
4 agreements - the earlier settlements either were not
5 definitive, did not anticipate a situation, that sort of
6 thing. It's impossible, really, to predict the future
7 and it's probably an impossible standard to hope that a
8 settlement agreement anticipates every possibility and
9 provides for it. But at least I think we should try to
10 understand it that way.

11 So we are - we are marching through the agreement,
12 but I have to tell you that we are terribly burdened at
13 this point. This year, 2002, is an unprecedented year in
14 terms of the commission's workload. And this month of
15 June is unprecedented, and I will say that the next two
16 weeks are probably unprecedented. We have the Avista
17 general rate case; we have the Olympic Pipeline, two
18 weeks of hearing; we have the Qwest 271 proceeding, which
19 you may or may not know about, but it's a two-year
20 proceeding that has been culminating, or we've just heard
21 our last hearings and are aiming to get an order out by
22 the end of the month, and the issue is profound.

23 So we have a huge amount of work. We have
24 double-booked our time. We have held evening hearings.
25 So we are doing the best that we can, I can assure you.

1 But I don't believe that we will be in a position to have
 2 absorbed the entire agreement and - and get an order out
 3 along with our other orders we're trying to get out by
 4 July 1.

5 There may be an issue that is severable and that may
 6 be the city's right-of-way issue. And we'll have that on
 7 the calendar for sure tomorrow afternoon. But for the
 8 rest, we're - we'll have to start through the issues,
 9 which we'll do this morning, in the order that's been
 10 proposed. The order is convenient in that the revenue
 11 requirement is listed first, and should we need - which I
 12 believe we will - to have some kind of interim rate for
 13 about a month - or a month, pending our analysis in
 14 hearings on all 11 issues or so in the settlement
 15 agreement, we will have the basis for doing an interim
 16 rate because we will have heard testimony and have
 17 evidence on the revenue requirement. So I - I think
 18 we're serving a dual purpose today by starting in with
 19 the revenue requirement and the rate spread and the rate
 20 design.

21 I hope it's not too disappointing to the parties that
 22 we will not be able to do this by July 1. No one, either
 23 the parties nor Wall Street nor anyone else, should take
 24 any - take it as any sign about the proposal itself.
 25 It's simply that we need to insure that this is a good

1 settlement, or if it's not, what needs to be modified.
2 But I think that if we do need to take another month,
3 there are ways to fashion an order and accompanying
4 language which should send a signal that this is simply a
5 month that we need to get through the proposal.

6 So with that, again, I congratulate the parties.
7 We - we look forward to the hearings. There's just a lot
8 for us, as you will have seen from the first sets of
9 questions we have. We do have a lot of questions. We do
10 want to understand it. This is as far as we've gotten in
11 terms of memorializing our questions. Various ones of us
12 have read, more or less, of the other provisions and
13 digested some of it, but we just simply haven't digested
14 all of it.

15 So thank you very much.

16 JUDGE MOSS: All right. Thank you, Madam Chair.

17 In terms of the exhibits, we've all worked together
18 on the exhibit list at our prehearing conference and had
19 the parties review that and confirm its accuracy. We
20 marked those exhibits with numbers and I distributed this
21 morning, shall I call it, the final preliminary exhibit
22 list, and use the word "preliminary" simply because we
23 may, of course, have additional exhibits introduced
24 through the course of the hearing. I'm - I suggested at
25 the prehearing that we might simply introduce all of the

1 exhibits as a group without going through them and do
2 that by stipulation. Is there any objection to
3 proceeding in that manner?

4 MR. CEDARBAUM: No objection.

5 JUDGE MOSS: Hearing no objection, the exhibits
6 will be admitted as premarked.

7 On second review it appears that Ms. Harris is not
8 part of the first witness panel. So, Ms. Harris, let me
9 ask you to take the stand and I'll swear you in at this
10 time and we'll have the opportunity for the opening
11 statement that we discussed earlier.

12 Ms. Dodge?

13 MS. DODGE: Your Honor, we would like Ms. Harris
14 to sit with that first panel because revenue requirement
15 may overlap in some of the policies that she's
16 responsible for, so either way --

17 JUDGE MOSS: That will be fine. We'll go ahead
18 and do this one step at a time.

19 Please raise your right hand.

20

21 KIMBERLY HARRIS, Having first been duly
22 sworn, testified as
follows:

23

24 MS. HARRIS: I do.

25 JUDGE MOSS: Thank you. Please be seated.

1 And, Ms. Harris, when you're ready, you may proceed
2 with your opening statement.

3 MS. HARRIS: Thank you, Your Honor,
4 Commissioners, Chairwoman. And thank you very much for
5 your - your kind thoughts and - and support in this
6 settlement.

7 My statement is not necessarily on behalf of the
8 company, but on behalf of what I will call as the
9 collaborating parties. And - and I want to address some
10 of your concerns that you - that you mentioned in your
11 statement as well. I want to make this statement in
12 support of the process.

13 I've heard the commission - we have presented many
14 settlements in front of the commission, especially on
15 Schedule 48, and - and I've heard many times the
16 commission say that the settlement process is - is by far
17 the preferred approach to litigation. But I think that
18 this settlement that you have before you is a little bit
19 different than the normal settlement as well.

20 What you had here was a collaborative process. For
21 eight weeks 31 parties collaborated. And what that means
22 is we had an eight-week dialogue. It wasn't settlement
23 negotiations. We pulled back from our litigation
24 positions, we pulled back from our negotiation positions,
25 and we had a dialogue for eight weeks. And what that

1 meant was number crunching and analyses and subcommittees
 2 and technical committees and big groups and small groups,
 3 but we had an active dialogue where we all participated
 4 for eight weeks. So what you have before you is not just
 5 a settlement position or a compromise, but something that
 6 the collaborative parties have taken ownership of.

7 You'll see as you march through many of the
 8 agreements there's many different categories. We want
 9 that dialogue to continue. There's many different new
 10 processes and collaboratives that kind of sprung from
 11 this collaborative.

12 It - it reminds me of last - last year, I did a major
 13 remodeling of my house. And for about eight weeks we
 14 moved out, we ripped apart a house, we rebuilt a house
 15 and went through all of these different issues. And at
 16 the end of it, many people asked me, if you knew what you
 17 knew today would you do it again? And I was kind of
 18 reminded of it in this collaborative process, and would
 19 we do this again? Yes, we would do this again. It is by
 20 far a better process than litigation.

21 So it's ironic and a little tragic that we bring you
 22 this settlement document and eight weeks of dialogue.
 23 We're back to preparing witnesses and preparing for
 24 examination and trying to anticipate the questions that
 25 you're going to give us so that we can somehow take this

1 dialogue and get it approved as - as a settlement.

2 This settlement is drafted as a whole and in - and
3 many times we try to impress upon the commission: Please
4 don't modify and tinker. There's provisions in there we
5 can reverse and go back to litigation, but there's many
6 parts that - that are tied together and the parties took
7 different positions and had different dialogs because of
8 the settlement as a whole. I don't know and - and I was
9 involved in all of the collaboratives, was how you pull
10 apart this settlement, you know, which - which pieces
11 don't fit together.

12 There are many dates in the settlement that you will
13 see that - that are teed off of the July 1 date. We all
14 recognize the time constraints and we all recognize that
15 is a daunting agreement to go through. But we also
16 realize that much thought and much process and much
17 dialogue was put into this settlement. It needs to be
18 reviewed as a whole. It needs to be kept as a whole
19 because much of it is very interactive. And in some way,
20 if we can do that, within the time constraints and
21 respecting those time constraints, that is what we set
22 before you today.

23 We welcome shining the light on the settlement.
24 There's no back door or back-room type of deals here. We
25 anticipate your questions. We would welcome the review

1 by a second, third, fourth, fifth set of eyes. We do not
2 want to go into litigation over this settlement which is
3 why it is probably such a daunting agreement that we set
4 before you. But we welcome your challenges to the
5 settlement agreement. We hope that you give it your
6 attention and - and we appreciate all the attention that
7 you've given to it so far. Thank you.

8 CHAIRWOMAN SHOWALTER: The only response I'll
9 make is, settlement processes are great. They - they are
10 in the public interest. It's just they do leave one very
11 important party out of the process, and that's the
12 commission. And - and we simply have to have our own
13 part in the process, not - not the negotiation process,
14 but it - it simply means that once the settlement is
15 done, there is yet another step that's got to be taken.
16 And it's the time; we - we are in a terrible time crunch.

17 JUDGE MOSS: All right. Thank you, Ms. Harris.
18 And why don't we have the balance of our revenue
19 requirements panel come to the stand. And we'll need to
20 pull up an extra chair there and somebody can just pull
21 up that chair off of the end of the first row, I suppose.

22 I see Mr. Dittmer is appearing by telephone. Quite
23 right. I have that noted here and just didn't notice it.
24 All right. So we're going to have Mr. Lott and
25 Mr. Karzmar is approaching the stand. And, Ms. Harris,

1 you are to be part of this. And we apparently only need
2 three chairs because. . . Let me confirm.

3 Mr. Dittmer, are you on the telephone?

4 MR. DITTMER: I am.

5 JUDGE MOSS: All right. Mr. Dittmer, the - it's
6 going to be necessary for you to speak quite loudly into
7 the telephone so that your voice comes through clearly
8 into the hearing room. We do have the volume turned up
9 here, but when you spoke just now I notice that your
10 voice was fairly faint. So I'm going to ask you to do
11 your best to deep your voice level elevated.

12 MR. DITTMER: Very good.

13 JUDGE MOSS: And you're not on a speaker phone,
14 are you?

15 MR. DITTMER: I was the first response. I did
16 pick up the handset now. Does that help?

17 CHAIRWOMAN SHOWALTER: No.

18 JUDGE MOSS: I don't - I don't believe - you're
19 not coming through clearly.

20 MR. DITTMER: I will try to yell then. If I
21 speak up, now can you hear?

22 JUDGE MOSS: It's still quite faint.

23 CHAIRWOMAN SHOWALTER: Maybe you should hang up
24 and call back to see if it helps.

25 MR. DITTMER: Okay. I will do that.

1 (Brief pause.)

2

3 JUDGE MOSS: Okay. Mr. Dittmer, was that you
4 coming back on?

5 MR. DITTMER: It is. Does it help any?

6 JUDGE MOSS: No improvement.

7 CHAIRWOMAN SHOWALTER: Just as an aside, since
8 there's so many people in the room, this is why I really
9 don't like telephone participation. It's too hard to
10 hear. And even if you can hear, you can't read the mouth
11 and the language and it's very, very hard to absorb what
12 the person is saying, which is to the detriment of the
13 person saying it.

14 JUDGE MOSS: Well, we'll just have to do our
15 best.

16 All right. I'm going to ask the two witnesses here
17 in the room who have not been sworn to please rise and
18 raise your right hand. And, Mr. Dittmer, I will ask you
19 to do the same thing at your location and I will swear
20 you in.

21

22 MERTON LOTT, Having first been duly
23 KARL KARZMAR, sworn, testified as
24 JIM DITTMER, follows:

24

25 JUDGE MOSS: Please say, "I do."

1 MR. LOTT: I do.

2 MR. KARZMAR: I do.

3 MR. DITTMER: I do.

4 JUDGE MOSS: Thank you. Please be seated.

5 Any of the witnesses have opening narrative
6 testimony? Or shall we just launch into the questions?
7 All right.

8 MR. FFITCH: Your Honor, may I just inquire of
9 Mr. Dittmer? We did fax him the bench's revenue
10 requirement questions. I just want to make sure he has
11 those before him, also.

12 MR. DITTMER: I do not. When were they sent?

13 MR. FFITCH: They have been sent about half an
14 hour ago. So we'll - we'll check on that and make sure
15 they're faxed to you and received at your address.

16 MR. DITTMER: I will poke my head outside of my
17 office and make sure they're not sitting there. Hold on.

18 MR. CEDARBAUM: Your Honor, Robert Cedarbaum.

19 Just to help, perhaps make this move quicker along,
20 when we get to question 2, which concerns cost of
21 capital, I had indicated to you that Dr. Woolrich, who
22 was the staff cost of capital consultant, is available by
23 telephone if I call him. So if the witnesses are here -
24 if the witnesses on the panel can answer that question,
25 that's fine. Otherwise I would like to call him and

1 arrange that ahead of time.

2 JUDGE MOSS: Well, let's see if our witness
3 panel is able to answer these questions, and if not, we
4 may have to return to the point and have some
5 supplemental testimony.

6 MR. DITTMER: By the way, I am in receipt of the
7 fax.

8 JUDGE MOSS: All right. I believe that,
9 Mr. Dittmer, you are confirming that you have received
10 the fax.

11 MR. DITTMER: Yes.

12 JUDGE MOSS: Okay. I think the way we will
13 proceed, then, is I'll simply read the questions that are
14 listed here. And we'll get responses from one or more
15 witnesses, and then there may be follow-up questions from
16 the bench and we'll proceed in that fashion. But for the
17 - for the benefit of the record, I will simply read the
18 question.

19 First: How does the settlement rate of return
20 compare with the currently authorized rate of return?
21 And that question calls for responses with respect to
22 capital structure and cost rates.

23 MR. KARZMAR: This is Karl Karzmar. The - the
24 settlement rate of return of 8.76 percent compares with
25 the current authorized rate of return of 8.94 percent.

1 And the current authorized rate included a 10 and a half
2 percent return on common equity of 45 percent.

3 The settlement rate of 8.76 percent includes an
4 11 percent return on 40 percent common equity.

5 JUDGE MOSS: Okay.

6 Second question: How were the interest rates
7 associated with cost of short-term debt, long-term debt,
8 preferred equity, and common equity determined?

9 MR. KARZMAR: The interest rates were determined
10 in discussions between company and other parties based
11 upon the financial projections and financing requirements
12 that were projected in order to meet the goals of the
13 settlement.

14 Short-term rate specifically was adjusted last, based
15 upon an updated Chase Manhattan forecast of life war
16 rates for the rate period which would begin in July.

17 MR. LOTT: I do believe that all of the other
18 costs, by the way, are either the actual costs that the
19 company were presented in the cases or the 11 percent
20 from the settlement.

21 JUDGE MOSS: Okay. Thank you.

22 Third question: What is the function of the, quote,
23 revised electric and gas revenue requirement caps, close
24 quote?

25 And I'll just read the rest of the question: Since

1 the parties have agreed on an electric revenue
2 requirement, does this cap have any relevance?

3 MR. LOTT: I found my switch to turn it on.

4 They may not have relevance. Assuming the commission
5 ends up accepting the settlement and we come through with
6 the settlement on the gas side, that also comes in below
7 that cap.

8 But to the extent that that adjustment - or those two
9 adjustments that do change the gas and the electric
10 presentations that Mr. Karzmar made in the original case
11 are - are changed, it is staff and the company's
12 viewpoint that - that, assuming we went back into
13 litigated mode or some other mode - that those caps
14 should be changed to the levels that are included in - in
15 the settlement here.

16 And it - it - again, there may not be a problem
17 because - because we end up with revenue requirements
18 below - below the caps anyway. But - but if - if we get
19 back into a litigated mode - or not, that then the caps
20 would still apply. And I think that that's one
21 adjustment that - that would probably not be contested in
22 a - in a litigated case. I think the allocation changes
23 would still exist.

24 CHAIRWOMAN SHOWALTER: So these are caps that
25 apply to the - the positions that the parties may - might

1 take should they need to be taking positions in any later
2 litigation? Or --

3 MR. LOTT: Well, in reality it's a cap on the
4 company in - in that interim filing. If you remember
5 part of the interim filing, we created these - they were
6 caps placed on what the company could request in the
7 general rate case and so it placed the cap. The staff
8 came in and said the revenue requirements should be
9 higher, and I suspect that staff could come in and could
10 say the revenue requirements could be higher. The other
11 parties did, but the cap was basically placed on - on the
12 revenue requirements that the company could ask for in
13 general.

14 CHAIRWOMAN SHOWALTER: All right. But in terms
15 of what was previously ordered, I don't recall, did we
16 order that is the - the cap? Or did we order - did our
17 order state the company has said that it will not request
18 more than the cap?

19 MR. LOTT: I think you accepted a settlement
20 which included the caps.

21 CHAIRWOMAN SHOWALTER: Okay.

22 MR. LOTT: And part of that settlement, however,
23 discussed that there might be changes, and what we're
24 trying to suggest, that this is a change between gas and
25 electric and therefore the other changes would have been

1 things like low income, and that - that is part of the
2 settlement and that did increase the revenue requirement
3 to some extent, conservation also.

4 So those things were in addition to the cap, and
5 we're suggesting that this should correct those caps.

6 JUDGE MOSS: Okay. Thank you.

7 Ms. Harris, did you have something?

8 MS. HARRIS: I was just going to say that the
9 cap was put into the interim settlement - basically there
10 was a fear that during negotiations, since the - since
11 the equity structure and ROE had been determined that the
12 company may come in while we're negotiating and just add
13 a bunch of - enough adjustments so that we could add to
14 the revenue requirements, so during the interim
15 settlement, the cap was placed there so the company could
16 not unilaterally make such adjustments to the revenue
17 requirement as a negotiating ploy. That's - that's the
18 purpose of the cap, as far as the revenue requirement in
19 this settlement, or where we would come out, the cap has
20 no purpose.

21 JUDGE MOSS: Okay.

22 Question 4: Attachment A to the stipulation includes
23 \$537,717 on Line 3, parens, sales for resale, close
24 parens, as a revenue requirement deficiency.

25 These are wholesale revenues, or appear to be

1 wholesale revenues, and I would ask the witnesses to
2 confirm that, and please explain the relationship to
3 retail - to the retail revenue requirement.

4 MR. LOTT: Okay. These are firm wholesale
5 customers similar to ports that might be providing
6 electricity to people. It was also - used to be Sea-Tac,
7 the airport; Port of Seattle, the Sea-Tac. That
8 customer, of course, is no longer in this category. This
9 becomes a firm requirement of the company. It's in the
10 cost of service. It's separately allocated. It's been
11 treated differently in different cases throughout the
12 years.

13 Sometimes it's - pro forma adjustment has been made
14 to bring them up to the revenue, and yet the other
15 customers were paying - sometimes it's been treated
16 through the rate spread, and in this proceeding we
17 treated through the rate spread by allocating them and
18 bringing them up to the cost of service. But it is a
19 firm customer.

20 This is not something - this is not wholesale sales
21 like to California or to Avista or where the company has
22 an option. These are customers that are inside their
23 service territory.

24 JUDGE MOSS: Okay.

25 CHAIRWOMAN SHOWALTER: What - what - what did

1 you say was no longer on a schedule something?

2 MR. LOTT: The . . .

3 MS. HARRIS: We have - we used to have our - we
4 had one large wholesale customer, which was Sea-Tac
5 airport. Currently we only have - we have small
6 wholesale customers and those are six - or nine small
7 marinas in the Seattle area that - those - those are our
8 wholesale customers.

9 JUDGE MOSS: What happened to Sea-Tac?

10 MS. HARRIS: Sea-Tac is now a Bonneville
11 customer for energy.

12 JUDGE MOSS: Question 5. Mr. Karzmar describes
13 changes to allocation of common costs between electric
14 and gas operations. Are the new allocation factors
15 documented anywhere in our record? Were these simply a
16 matter of negotiation?

17 MR. KARZMAR: The changes in the allocation of
18 the common cost had to do with really a correction in how
19 costs were allocated. In the revenue requirement
20 determination, the allocation factors didn't change and
21 the allocation factors remained in the settlement as they
22 were before and set forth in the merger stipulations.

23 CHAIRWOMAN SHOWALTER: But just so I'm clear, on
24 Page 12 you say, "Electric, 99,441,000, 7.31 percent."
25 7.31 percent of what?

1 MR. LOTT: Should have been of revenue prior to
2 the rate case, not including the interim rates there.

3 CHAIRWOMAN SHOWALTER: I didn't understand that
4 answer. I'm sorry.

5 MR. LOTT: Oh, the rates --

6 CHAIRWOMAN SHOWALTER: What's the whole - what
7 is 100 percent?

8 MR. LOTT: That is the total revenue the company
9 pro forma current rates excluding the interim rates, that
10 proceeding that you granted in March. So you take the
11 rates that the company is currently charging, excluding
12 the interim rates, and the 7.31 percent would be 7.31
13 percent of those of the revenues generated from current
14 rates.

15 CHAIRWOMAN SHOWALTER: Oh, I see why I was mixed
16 up. I was conflating two issues here.

17 JUDGE MOSS: And the 6th question, I am
18 referring specifically to Mr. Karzmar's prefiled
19 testimony, which is Exhibit 533, at Page 4 - and
20 unfortunately my copy does not have line numbers, but I
21 am reliably informed that it is at Lines 9 through 12.

22 There - there is a request that the commission act
23 with specificity on the agreed-to accounting adjustment
24 in sections - or Paragraphs 6 and 7 of Section C. And I
25 believe the reference there would be to the umbrella

1 stipulation. Or would it be Part A? I guess it's
2 actually A, the first issue agreement. So we have a
3 series of questions pertinent to that request.

4 And this is our 7th question on the matrix we passed
5 out: With respect to depreciation rates, is it proposed
6 that to enter the company's original as filed
7 depreciation study? And that that's as exhibit - or was
8 premarked as an Exhibit JB-1T, Julius Breitling, if I
9 have that right. Is it the intention of the parties to
10 introduce that into the record?

11 MR. CEDARBAUM: Your Honor, the witnesses are
12 certainly clear to answer that - that question. But I
13 think for commission staff, that document is also
14 referenced in the stipulation itself under Part 6 of the
15 revenue requirement stipulation. And I think it's a good
16 idea that we do admit that into evidence, and so I would
17 offer that into evidence so we can provide copies at a
18 convenient time.

19 JUDGE MOSS: Would you propose to have - who
20 would you propose to have sponsor that --

21 MR. CEDARBAUM: I think we could just offer it
22 by stipulation if the commission - if the commission has
23 questions about - these witnesses can't answer, then I
24 guess we can cross that bridge when we get to it and
25 provide a witness. But just for purposes of the record,

1 it seems to me to make sense to have that entered into
2 the evidence by stipulation.

3 JUDGE MOSS: All right. If it's by stipulation,
4 no objection, I assume. Hearing no objection, we'll make
5 it a bench exhibit for convenience then, and I'll mark it
6 as No. 527.

7 Now how shall we describe that, Mr. Cedarbaum?

8 MR. CEDARBAUM: I would just call it, "The
9 Depreciation Study of Julius Breitling." That's spelled
10 B-r-e-i-t-l-i-n-g.

11 JUDGE MOSS: All right. And we'll just make
12 copies of that after the noon hour?

13 MR. CEDARBAUM: I'll try to do that.

14 JUDGE MOSS: Okay. And that will be 527,
15 admitted as marked.

16 Question 8 is a multipart question. I'll go ahead
17 and read all parts in and then we'll have the response or
18 responses.

19 Explain the effect of the 70 percent increase in
20 storm damage amortization, bracket, in 3.5 million
21 annually to 6.0 million, close bracket.

22 Does this mean that regardless of what PSE must pay
23 for storm damage, it must also amortize six million
24 dollars a year? What is the current balance in storm
25 damage funds?

1 MR. KARZMAR: Let me start with the effect of
2 the 70 percent increase in the storm damage. The company
3 has been amortizing three and a half million dollars a
4 year for catastrophic storms for deferred storm damage
5 costs that were on the company's books at the time of the
6 merger. And since then there's been additional storms
7 that has increased the level in the deferral account to
8 23.9 million which is the third part of this question.
9 And the amortization of that is the - amortization rate
10 that was agreed to in collaboration to raise it to six
11 million dollars a year from three and a half million
12 dollars a year because of the increased level in that
13 balance. What this means is that the amortization
14 expense will increase by the difference and there will be
15 an increase in the revenue requirement as a result of
16 that.

17 The six million dollars will continue to be amortized
18 regardless of the balance of the account until the next
19 determination in the rate case. The catastrophic storms
20 will be deferred to the account it's amortized against.
21 And if that balance becomes zero, the company will
22 accumulate credit.

23 JUDGE MOSS: I'm sorry. I didn't catch your
24 last word.

25 MR. KARZMAR: If the - if the deferral balance

1 for catastrophic storms goes to zero, the company will
2 continue to accrue six million dollars a year for storm
3 damage expense until the - it is redecided or reset in
4 the next general rate proceeding.

5 CHAIRWOMAN SHOWALTER: So, you know, if storms
6 come - come along, you know, with some regularity, things
7 should work out. But I guess I'm interested in the two
8 extreme scenarios. Supposing things are calm and
9 peaceful for several years, does this account just grow?
10 And on the other hand, supposing you get a couple of
11 really, really bad storms and use up the money. What -
12 what happens in those two more extreme cases?

13 MR. LOTT: Well, first of all, it's going to
14 take four years to bring that balance to zero in the
15 first place. There was an negotiation on the level of
16 amortization based on a bunch of programs the company has
17 and you have a number that was agreed to. Four years
18 down the road, zero. If there was no - no catastrophic
19 storms in those four years - and by the way, those are
20 defined in - in an accounting order that was approved -
21 was it in '92?

22 MR. KARZMAR: I believe that's correct.

23 MR. LOTT: So there's an accounting order that
24 defines how, you know, catastrophic storm damage is
25 deferred to this account. And there could be a balance,

1 it would grow six million dollars a year after that,
2 assuming at that point in time and - and if that became a
3 material amount, I suppose some party would probably
4 suggest that something be done about it.

5 It hasn't happened that way. The company continues
6 to experience some - some level of storm, not necessarily
7 six million dollars a year, but some level of storms
8 usually over a period of time, so . . .

9 CHAIRWOMAN SHOWALTER: What about the other
10 scenario? Lots of storms.

11 MR. LOTT: Lot of storms and the balance would
12 grow. And it would be something similar here since the
13 merger rate - 3.5 was said in the merger and that wasn't
14 enough to collect the catastrophic storms. And in
15 between time - again, when the company comes in for a
16 general rate case they - they wouldn't want that balance
17 to climb too much and they should come in for - in the
18 next general rate proceeding and ask for an increase in
19 this amortization rate.

20 CHAIRWOMAN SHOWALTER: Is that the only way, a
21 general rate case?

22 MR. LOTT: Well, I suppose we could come in and
23 ask, we need to increase our rates because we have
24 100 million dollars sitting in the storm damage fund.
25 But I mean, it depends on how quickly after this point in

1 time that happened. If it happened five years from now,
2 I suspect a lot of parties would say that's single issue
3 rate making, let's look at your whole - your whole case
4 and we'll do that. If it happened next week, you know, I
5 think we'd probably all agree an adjustment should be
6 made.

7 CHAIRWOMAN SHOWALTER: Okay.

8 JUDGE MOSS: Looking outside today, we have the
9 next week as an unlikely prospect. All right.

10 Question 9: What is the balance for which
11 amortization is being adjusted in the Encogen - that's
12 E-n-c-o-g-e-n - acquisition adjustment. What is the
13 remaining plant life expected to be?

14 MR. KARZMAR: The original balance of the
15 acquisition adjustment was 76 million dollars and the -
16 there remains 21 years' plant life for that - for that
17 plant and service.

18 And so the balance today, after the 22 million that's
19 been amortized since - since it was acquired, is 53.9
20 million dollars. So that now is being adjusted to be
21 amortized over the remaining 21 years. The effect of
22 that is to reduce the revenue requirement and spread out
23 the recovery of those costs.

24 JUDGE MOSS: Question 10: Explain the increase
25 in amortization of net gains from property sales,

1 bracket, from \$695,148 to \$4,734,298, close bracket.
2 What kind of property sales are affected? Does this
3 reflect an increase balance in net gains, or is this an
4 acceleration of amortization?

5 MR. KARZMAR: The - the net - the increase in
6 the amortization of this account is associated with a
7 balance that is built up of deferred gains on property
8 sales since an amortization rate was last set. These
9 properties that are sold primarily are facilities that
10 the company has that are no longer used or useful and
11 were sold at market above book value, thereby a gain was
12 recorded and deferred to be passed on to customers in the
13 future.

14 And so now we've - because that balance has built up,
15 we've increased the amortization rate and the benefit to
16 customers to the \$4.7 million a year from 695,000 -
17 excuse me - yeah.

18 JUDGE MOSS: Okay. The future is now.

19 MR. KARZMAR: The future is now.

20 MR. LOTT: Again, this is consistent with the
21 previous settlement between the company and the
22 commission and settlement of the court case, and then -
23 how to treat property sales.

24 JUDGE MOSS: Okay.

25 Question 11: The settlement proposes to adjust the

1 annual amortization of deferred electric rate case
2 expenses to \$767,264. What is the current amortization
3 rate? What is the deferral balance being amortized?

4 MR. KARZMAR: The current amortization rate is
5 zero. There is no deferred balance being amortized and
6 the - the amount being amortized now is to spread costs
7 for balances that were deferred through May 20th of this
8 year. And this pertains only to the electric - the costs
9 associated with the electric portion of costs necessary
10 for - to conduct the rate case, the costs that were
11 deferred. I don't - I'm not sure that I have the
12 balance. Let me check.

13 MR. LOTT: Total rate case was \$2.3 million.
14 That was shown on Page 29 of my exhibit.

15 CHAIRWOMAN SHOWALTER: The total for - for what?

16 MR. KARZMAR: That's the total amount that was
17 assigned to electric that was deferred to deferred rate
18 case expense through May 20th.

19 CHAIRWOMAN SHOWALTER: Starting when?

20 MR. KARZMAR: Well, it would have been when we
21 began work on this general rate case, last fall.

22 CHAIRWOMAN SHOWALTER: And can you just give me
23 a little idea of what goes into that account? Do the
24 attorneys' fees go into that account, or is that in your
25 litigation account?

1 MR. LOTT: Yes. The number is broken down. The
2 number was, outside consultants, just over a million
3 dollars; attorney - legal services, just over a million
4 dollars; and then other expenses, just \$100,000.

5 JUDGE MOSS: And when you say "broken down"
6 here, is that your preface to your exhibit?

7 MR. LOTT: It's in the exhibit, yes.

8 JUDGE MOSS: Is that your prefiled testimony
9 that you're referring to?

10 MR. LOTT: That's - yeah. Exhibit that's
11 attached, yeah. MRL-3, yeah.

12 JUDGE MOSS: Okay. So that's Exhibit 563, for
13 the record.

14 All right. That completes that series, and we'll
15 move on, then, to Question 12.

16 The proposals exclude personal energy management,
17 parens, PEM, close parens, cost of 4,765,550, from
18 pro forma electrical expenses. What does this expense
19 represent? Meters? Lease arrangements? Back office
20 time? Billing expense? Are there other PEM-related
21 costs that have not been removed from pro forma
22 electrical expenses?

23 MR. LOTT: Okay. This cost is supposed to
24 represent the extra costs to performing the additional
25 reads in order to do time-of-use and the recordkeeping

1 associated with that.

2 Yes, there are other costs related to PEM, from my
3 understanding, that are still included, such - within the
4 company's results of operation. This does not include
5 meter costs, would not include lease costs. It would -
6 it would included billing expenses associated with that -
7 the recordkeeping.

8 CHAIRWOMAN SHOWALTER: That is, the 4.7 million
9 includes additional billing costs?

10 MR. LOTT: Yes, associated - that's correct.

11 MS. HARRIS: I think what we're experiencing
12 here is - is a - a problem that we had in the
13 collaborative as well. You had the real-time pricing
14 mechanism that was taken out at the interim settlement;
15 you have personal energy management that, I believe,
16 includes when you can access the Web site and see what
17 your consumption for the days past; and then you have the
18 time-of-use program which is the reads - the additional
19 reads on the meter and the blocks rate adjustments. This
20 was to pull out the costs only for the time of use, the
21 four reads a day, and the pricing components of
22 time-of-use.

23 CHAIRWOMAN SHOWALTER: I think I have a question
24 of Mr. Dittmer.

25 Are you still there?

1 MR. DITTMER: Yes, I am.

2 CHAIRWOMAN SHOWALTER: All right. On Page 6 of
3 your testimony, and that is Exhibit 556, Lines 16 to 18,
4 you talk about the impact of the removal of increased
5 automatic meter-reading costs and you cite a figure of
6 3.8 million. And my - my question is, how does this
7 3.8 million compare with the 4.7 million that we're
8 discussing, if it does?

9 MR. DITTMER: There are two different
10 adjustments, and I could clarify the 3.8 is a typo. It
11 should be 1.8 million rather than 3.8. But they are two
12 different - two different comp service components.

13 The company had asked for additional meter-reading
14 costs to remove the automatic meter reading that did not
15 cost-justify based on the initial feasibility setting.
16 So this element that I'm talking about on the page you
17 referenced only includes the automatic meter-reading
18 costs that were ongoing as (indiscernible) it did not
19 have the CEM and time-of-use costs that you're talking
20 about, the 4.7.

21 CHAIRWOMAN SHOWALTER: Mr. Dittmer, we're having
22 a hard time hearing you, and especially the court
23 reporter can't. But I'm just going to repeat a couple of
24 things in case people didn't hear it.

25 Mr. Dittmer said that on Page 6 of his testimony,

1 Exhibit 556, Line 18, the figure - now I've written over
2 it. What was it?

3 UNIDENTIFIED PERSON: 3.8.

4 CHAIRWOMAN SHOWALTER: The Figure 3.8 million
5 should be 1.8 million. And I believe he also said that
6 this figure of 1.8 million describes something different
7 than the 4.8 million.

8 MR. DITTMER: That is correct.

9 CHAIRWOMAN SHOWALTER: And I'm not sure we heard
10 a lot more than that, but I think I got enough of the
11 answer. I'm not sure the court reporter heard
12 everything, but I think probably we've done the best we
13 can.

14 COMMISSIONER HEMSTAD: Mr. Dittmer, this is
15 Commissioner Hemstad. You might attempt to speak, if -
16 if required, almost shout into your telephone so that we
17 can hear your statements which are important.

18 MR. DITTMER: Very good. I will try to speak
19 loudly and slowly.

20 JUDGE MOSS: And I'm going to ask, too, when we
21 are calling for testimony for Mr. Dittmer or any other
22 witness who may appear by telephone, that everyone in the
23 room try to not only not whisper, but also refrain from
24 shuffling papers and so forth, because unlike our
25 telephones, our microphones are very sensitive. And I

1 was noticing that the microphones were picking up those
2 noises.

3 So I apologize to all of you assembled here for
4 these, you know - with these concessions that have to be
5 made. But it is important that we get this stuff down.

6 All right. I think we're ready to look at No. 13.

7 CHAIRWOMAN SHOWALTER: Just - before we do, I'm
8 just going to kind of glance around the room. Staff and
9 other people are - have any - has anyone interested in
10 that answer heard sufficient information for an answer?
11 Or would - would anyone like Mr. Dittmer to repeat his
12 answer?

13 MR. LOTT: If someone has a question, I might be
14 able to explain where everyone could hear it. I know
15 what - the adjustment that Mr. Dittmer is referring to.

16 CHAIRWOMAN SHOWALTER: Well, let's hear a
17 similar answer from Mr. Lott. That might help.

18 MR. LOTT: This is what I heard Jim talk about.
19 AMR is a cost that the --

20 CHAIRWOMAN SHOWALTER: What is AMR?

21 MR. LOTT: Automated meter reading. The company
22 attempted to pro forma in additional AMR costs, or
23 automated reader costs, when not pro forming the out the
24 offsetting savings related to their employees and - and
25 other things. So therefore, in the negotiations it was

1 agreed that we would remove the adjustment but leave AMR
2 in, to the extent that it was represented in the test
3 period, realizing that the addition of AMR would have
4 cost benefits that would offset the costs associated with
5 it, and therefore there was no need.

6 Mr. Dittmer refers to removing the company's
7 pro forma adjustments associated with automated meter
8 reading, and that's the adjustment as opposed to removing
9 anything associated with personal energy management.

10 JUDGE MOSS: All right.

11 Question 13: The removal of the PEM expenses from
12 the general revenue requirement and direct assignment to
13 PEM participants suggests that only time-of-use customers
14 use the PEM program. Do the parties present any evidence
15 bearing on whether non-time-of-use customers receive
16 educational or other benefits from the PEM program?
17 Alternatively, are the expenses removed from general
18 revenues, that is, the \$4.7 million only associated with
19 time-of-use meter reading and billing?

20 Now, I think part of the last part of that question's
21 already been answered.

22 MS. HARRIS: And - and, actually, I did answer
23 this in the prior comments, that the PEM adjustment
24 should be called the time-of-use adjustment. It was just
25 those costs for additional reads and the time-of-use

1 blocks.

2 The PEM expenses are still contained in the revenue
3 requirement. We did not remove those.

4 JUDGE MOSS: Okay. So the - in that sense,
5 there's no suggestion that PEM is a program that is
6 limited to those who were on time-of-use rights?

7 MS. HARRIS: No, we are not suggesting that.

8 JUDGE MOSS: Okay. Thank you. All right. This
9 is a convenient subject matter point to take our morning
10 recess and so . . . Did you have something, Mr. Lott, on
11 that?

12 MR. LOTT: Well, I think I'm just having a
13 problem with exactly where the \$4.7 million is coming
14 from, and we're sitting here trying to figure out - I'm
15 sitting here trying to figure out where the 4.7 number -
16 I know of 6.7 number.

17 JUDGE MOSS: Okay. We'll take an opportunity to
18 find a specific reference during our recess and we'll
19 follow up on this point when we return. We'll be in
20 recess for 15 minutes. Shortly after 11:00 by the wall
21 clock, we'll go back on the record.

22

23 (Brief recess.)

24

25 JUDGE MOSS: During the morning recess, was able

1 to track down the references that we were making in
2 questions number - Question Nos. 12 and 13 to the figure
3 4,765,550 and what is described at Exhibit B to the
4 settlement stipulation, or Tab B, that's the revenue
5 requirement issue agreement.

6 Page 3 there at item Arabic 8, which is labeled
7 "Personal Energy Management," makes reference to a figure
8 of 6,702,687 of test year electric personal energy
9 management expenses, and reference to the 4,765,550 of
10 pro forma electric PEM expenses.

11 Now, first of all, I think maybe I better clear one
12 point up, and this relates back to some of your
13 testimony, Ms. Harris. The reference here is to PEM and,
14 of course, that's what we're relying on in reading the
15 settlement stipulation. But my understanding of your
16 testimony is, this might be more appropriate - I'm
17 sorry - might be more appropriately labeled "time of
18 use."

19 MS. HARRIS: Yes. Yes, Your Honor.

20 JUDGE MOSS: Okay. Is there any disagreement
21 among the parties about that since we understand this -
22 as we understand this? We want to be clear. Okay. So
23 we can refer to these in that fashion.

24 So that's the reference, Mr. Lott. And perhaps you
25 can elucidate on any confusion that you perceive in light

1 of these numbers.

2 MR. LOTT: Okay. Your questions always refer to
3 the removal of \$4.7 million and our answers were all
4 related to the removal of \$11 and a half million. The
5 company pro formed \$4.7 million into the case because of
6 the mandatory expansion of - of time-of-use, and
7 therefore they assumed all of their customers were taking
8 it and therefore there would be \$11 million worth of
9 expense that was removed, the pro forma adjustment.

10 But then per the agreement in the time-of-use
11 portion, the PEM cost that would be there for the
12 customers that remained on the program were also removed
13 from the general revenue requirement, and that is the
14 \$6.7 million. So those costs are also removed from the
15 general revenue requirement, and that can be seen in the
16 adjustment, I think it's 2.10 where you see a
17 \$6.7 million number been pro formed to zero. But that
18 number, as I indicated in my original testimony, to the
19 extent that there are customers on it, it's a variable
20 cost and will be recovered from those customers through
21 the conservation rider.

22 JUDGE MOSS: And that adjustment at Line 2.01 --

23 MR. LOTT: 2.10.

24 JUDGE MOSS: 2.10 is in your Exhibit 563, which
25 was premarked MRL-3; is that correct?

1 MR. LOTT: Right. It's Line 12. If you had
2 looked at Mr. Karzmar's original exhibits - not the ones
3 he has today but the original exhibit - you would see a
4 pro forma number on Line 12 substantially larger than -
5 than zero. It would have been - I'm not sure what the
6 amount was.

7 MR. KARZMAR: It would have been the 6 --

8 CHAIRWOMAN SHOWALTER: Please use the
9 microphone, Mr. Karzmar.

10 MR. KARZMAR: It would be the \$6.702687 million
11 plus the 4,765,550, would have been the sum of those two
12 originally.

13 CHAIRWOMAN SHOWALTER: The question I have if
14 we're looking at revenue requirement and we have a \$58
15 million and figure it - but we want to know what was -
16 what that does not include, a different way to put it
17 would be, what is the revenue requirement if it includes
18 not only the 58-plus million, but also - and I - is the -
19 also - I don't know if it's time-of-use and/or PEM, but
20 it's whichever of those components is not in the 58
21 million.

22 MR. LOTT: It includes \$1.26 per customer that
23 takes time-of-use per month.

24 CHAIRWOMAN SHOWALTER: Okay. My question is, if
25 we begin with 58 million and we want to add to that

1 58 million some other millions that - then - that not -
2 that then would include time-of-use and/or PEM, whatever
3 is not in the 58 million, what is the figure? What's the
4 total - what would - how many millions would we add and
5 what would that total figure be?

6 MR. LOTT: There is no way to calculate that
7 number because you do not know at that time how many
8 customers will be taking time-of-use, and it would be
9 disagreement upon the calculation of that number. That
10 is why it should be recovered on a variable basis and
11 that's why - that is one of the reasons why it's been
12 presented the way it has.

13 We've calculated three different methods to recover
14 that thing on a variable basis and the - if - if one
15 customer took it, it's going to be \$12; if it's
16 800,000 customers that chose it, it's going to be
17 12 million dollars. It depends how many customers will
18 own time-of-use. It's a variable cost. It's directly
19 related to the number of customers that's in time-of-use.
20 So I couldn't calculate the number for you not knowing
21 how many customers will be on time-of-use.

22 CHAIRWOMAN SHOWALTER: Well, assuming the
23 current number - let's begin somewhere. Assuming the
24 current number that are on time-of-use, what would that
25 dollar amount be?

1 MR. KARZMAR: Currently there's about 290,000
2 customers that are on time-of-use and the dollar for
3 those 290,000 customers per customer, per month, works
4 out to be about \$95,000 a week, mathematically, for
5 expense that would have to be recovered or would be
6 billed to customers at - at the dollar rate.

7 CHAIRWOMAN SHOWALTER: All right. If we begin
8 with 58 million and we're adding that amount for a
9 revenue requirement, what is it?

10 MR. LOTT: We could add that, but - I mean you
11 can make that calculation. There's no agreement that
12 that is a proper number. There's no settlement - no - no
13 party in this room is agreeing to adding 12 times 290,
14 times \$1.26 to the revenue requirement.

15 CHAIRWOMAN SHOWALTER: All right. I understand
16 that. What is the product of those numbers?

17 MR. LOTT: Twelve - well, you can multiply 12
18 times 290,000 times \$1.26.

19 CHAIRWOMAN SHOWALTER: Will somebody with a
20 calculator please calculate that number?

21 MR. DITTMER: \$4,384,800.

22 CHAIRWOMAN SHOWALTER: Thank you. I think we'll
23 have somebody else in the room to make sure we have the
24 answer, but I appreciate your speediness.

25 MR. KARZMAR: Did you say \$4,384,800?

1 MR. DITTMER: Yes.

2 CHAIRWOMAN SHOWALTER: Okay, Mr. Karzmar. What
3 was that number?

4 MR. KARZMAR: \$4,384,800 would be the \$1.26
5 applied to the 290,000 customers, approximately.

6 CHAIRWOMAN SHOWALTER: All right. I understand
7 the parties have not agreed to that number, but I'm just
8 trying to get at the revenue requirement - of the revenue
9 requirement that is before us, the 58 million, what are
10 the, let's say, types of things that it does not include?
11 And I think we got a little confused by the PEM versus
12 TOU possibly.

13 But on the subject of TOU and PEM, is this type of
14 number the only type of number that's not included? Or
15 is there another number that's not included?

16 MS. HARRIS: On that - or not that - and
17 actually, I think I can answer this because I had to
18 answer this for our board of directors.

19 The revenue requirement being 58 million, there are
20 what we call additional - additional sources of revenue
21 beyond the \$58 million revenue requirement, and that was
22 the amortization requirements of the storm damage and the
23 Encogen plants and the recovery - the cost recovery of
24 the - of the time-of-use. And at that time we were
25 looking at just the straight adjustments. So both the

1 amortization and the time-of-use resource - or revenue
2 increase is on top of the 58 million revenue requirement.

3 MR. LOTT: What did you say?

4 MS. HARRIS: As far as additional revenue that
5 the - that the commission - or that the company would
6 receive, that's not contemplated by the 58 million.

7 MR. LOTT: I think we better talk.

8 MS. HARRIS: Well --

9 CHAIRWOMAN SHOWALTER: Well, I'll let you talk
10 about that later. But my specific question is regarding
11 things related - amounts related to time-of-use and/or
12 PEM. Is there any other category of expenses or
13 revenue - revenue that has not gone into the 58 million,
14 other than some amount not agreed to, that reflects the
15 time-of-use payments that you - we just want to make sure
16 we have all of the components in mind.

17 MS. HARRIS: I don't believe so.

18 CHAIRWOMAN SHOWALTER: All right.

19 COMMISSIONER HEMSTAD: If I could pursue this
20 line of questioning on the time-of-use. I assume this -
21 we may get into this in more detail when we get to that -
22 that chapter, but it's here.

23 Do I - do I - is it a correct conclusion that I can
24 make from this that the \$1.26 per customer, acknowledging
25 it as a variable source of revenue depending upon how

1 many customers participated and acknowledging the parties
2 have not come to any conclusion about precise costs, is
3 that intended to roughly approximate an estimated cost
4 for the time-of-use and program for customer? In other
5 words, is that projected revenue of \$1.26 per customer
6 intended to cover the time-of-use costs so that - so that
7 it's a wash?

8 MS. HARRIS: It is. The - the - the cost for
9 the four additional reads per customer, the additional
10 cost - just for the time-of-use component customers is
11 at - today is \$1.26 per customer. It's a variable cost
12 so that if we - for each customer that we add, it's an
13 additional \$1.26, and for each customer that falls off
14 it's a - less \$1.26 is a variable cost.

15 COMMISSIONER HEMSTAD: Okay. And this is a
16 question to Mr. Dittmer. I'm looking at his testimony
17 on - which is Exhibit 556, Page 7 and - could you
18 succinctly re - relate the figure that you have there of
19 the - I'm reading at Line 15, Page 7, the company agreed
20 to remove all 17 million dollar - million dollars of cost
21 from the development base rates that would be applicable
22 to non-time-of-use customers. And - and then it goes on
23 to describe the three components.

24 How - how does that \$17 million figure relate to the
25 discussion that has been going on here?

1 MR. DITTMER: It - it - it is the same dollars.
2 Originally the company's showed a \$17 million pro forma
3 request for electric. There was a mistake in the
4 allocation between electric and gas and that number came
5 down to approximately \$11 million. So the - we're
6 talking about the same amount of dollars. The numbers
7 changed through the course of the negotiations as
8 corrections were made, but it is the same - same dollars
9 that we're talking about.

10 COMMISSIONER HEMSTAD: Thank you.

11 CHAIRWOMAN SHOWALTER: But that amount that was
12 17 then 11 million relates to PEM as well as TOU? Or
13 just TOU?

14 MS. HARRIS: Just TOU, but it was also - had the
15 assumption that we would have additional customers on
16 TOU, in fact, that we would have all of our customers on
17 TOU as a mandatory TOU expansion.

18 JUDGE MOSS: Okay. Just to insure the clarity
19 of our record, Mr. Lott, you and I were discussing your
20 exhibits and the placement of this particular adjustment.
21 And we referred to Adjustment 2.10, and I just want to
22 confirm for the record that that's Page 15 of your
23 Exhibit 563, premarked MRL-3.

24 MR. LOTT: Correct.

25 JUDGE MOSS: Okay. Line 12, I believe you said.

1 MR. LOTT: Yes.

2 JUDGE MOSS: Thank you. All right. I believe
3 this will bring us back to our matrix then, and I'll look
4 at Question No. 14 and put that in the record. And I'm
5 looking here at your testimony, Mr. Lott, Exhibit 562 and
6 Page 4, Outline 7, where you testify that the low income
7 and conservation settlements increase the total revenue
8 requirement. Could you explain for us how they increase
9 the revenue requirement and by how much?

10 MR. LOTT: Okay. I'll start with conservation.
11 The settlement documents that you have in front of you I
12 do not think identify a specific amount of revenue
13 requirement related to conservation. It's anticipated
14 that the agreement on conservation will result in about a
15 \$20 million filing that the company will make after they
16 develop the programs that they are - the parties come
17 back in for a tracker increase, therefore there will be
18 probably about a \$12 million increase in conservation
19 costs. At least that's my understanding.

20 On the low income, a substantial position of the low
21 income program is - is taking from one person and paying
22 to another person. Yeah, it will increase residential
23 rates about - I mean rates by \$6 million, but then a lot
24 of customers will get a majority of that \$6 million back
25 through the low income program. So in reality what you

1 have is a rate spread. But there is a cost in there, and
2 the costs the agencies that handled this. And I think
3 the people in the low income, they can describe that
4 there will be some money that would be paid out for
5 administrative costs that will - so not all of the
6 dollars that are collected will end up going back into
7 somebody's hands. So that would actually be an increase
8 in total revenue requirement because the dollars will be
9 going out to pay for an expense.

10 And that's what I meant by there's - but in general,
11 in my mind, the low income program is a rate spread
12 issue. You're taking money from one group of people and
13 giving it to another group of people. But the
14 administrative costs would increase the rates, or
15 revenues, I should say.

16 CHAIRWOMAN SHOWALTER: Well, Mr. Lott, I was
17 writing at the beginning of your answer. What did you
18 say the amounts were?

19 MR. LOTT: I believe the number in low income is
20 \$6 million.

21 MR. CEDARBAUM: Just for the record, I - I think
22 Mr. Lott is referring just to the electric side. The gas
23 side was another --

24 MR. LOTT: 2.9.

25 MR. CEDARBAUM: The total will be - for revenue

1 requirement was 8.9, 6.1 is electric.

2 CHAIRWOMAN SHOWALTER: The low income?

3 MR. CEDARBAUM: Yes. And also, just for the
4 record, Your Honor, I think Mr. Lott referred to a
5 \$20 million increase in costs for conservation. I'm not
6 - and perhaps he can clar - explain to me. I'm not sure
7 if that's an increase or net amount that is smaller that
8 would be the increase. There's an existing conservation
9 rider now. I don't think he meant that it will be an
10 additional 20 million.

11 MR. LOTT: Again, it's an unknown number and I
12 think it would be best to ask the conservation
13 collaborative how much of an increase. I don't think
14 they know exactly how much of an increase. They have a
15 target that they're going to attempt to get, so - and I
16 think they can explain the conservation. But it will be
17 dollars in the conservation and that will be - happen
18 down the road through a rider proposal that you will see
19 in front of you probably at a Wednesday morning meeting.

20 CHAIRWOMAN SHOWALTER: But I assume - does the
21 58 million include or assume any amounts at all that
22 have - for that conservation component or not?

23 MR. LOTT: It would hold the current rate for
24 conservation where - where it's at today. So it would be
25 included, imbedded conservation rates. We didn't remove

1 the conservation and said, okay, now they're going to
2 come back and ask for the whole thing. Again, I'm not
3 sure. I'm trying to --

4 CHAIRWOMAN SHOWALTER: What is the current
5 imbedded amount?

6 MR. LOTT: Current - current imbedded amount,
7 I'm being told it's zero. And I'm getting shakes that
8 it's zero. Again, it's best probably to talk to
9 Joelle Steward when she comes up, or the other people in
10 the conservation collaborative.

11 CHAIRWOMAN SHOWALTER: All right. We - we
12 recognize that we're focused on the revenue requirement,
13 which obviously touches on a number of other areas where
14 people might be more expert. But if we need --

15 MR. CEDARBAUM: Commissioners, to keep this in
16 context, if you want Ms. Steward to participate on this
17 panel for just this purpose, we can do that, or we can
18 come back to it later.

19 CHAIRWOMAN SHOWALTER: If it's - it's simply a
20 number we ask for, I think we got the answer zero. If -
21 if anyone thinks it's something else or needs further
22 explanation, then we probably should have it clarified.
23 Otherwise I think we probably have the answer.

24 MR. LOTT: Karl says it's zero, so it's zero.

25 JUDGE MOSS: So we have your witness,

1 Mr. Cedarbaum, or do we have confidence that --

2 MR. CEDARBAUM: It sounds like we're okay. I
3 was - just in case we needed to expand on the subject, I
4 was making that offer, but it sounds like it's
5 unnecessary.

6 JUDGE MOSS: Thank you. All right. Then we'll
7 turn to our Question 15 on our matrix. And, again, we're
8 looking still at Page 4 of your testimony, Mr. Lott, and
9 down at Line 8, the question and answer beginning there
10 where the testimony is that PSE's revenue will not
11 increase by the 58.8 million specified by the settlement
12 stipulation because of certain distribution revenues
13 associated with Schedules 448 and 449.

14 Ask you to explain that a little further for us, if
15 you could, please.

16 MR. LOTT: I can explain part of this and it
17 might be better to have the company explain part of this.

18 What the company did in their presentation in the
19 general case in adjustment 2.01 in the revenue adjustment
20 is, they adjusted their revenues for Schedule 448 and
21 449, who during the test year were Schedule 48 customers,
22 they adjusted them not to the Level 6 revenue they were
23 being charged after 448 and 449 were created, but to what
24 they believe were distribution cost based rates,
25 consistent with the agreement in the - in the settlement

1 in 448 and - you know, on the Air Liquide proceedings,
 2 and therefore the level of revenue that they've been
 3 receiving has been at a higher rate than what they pro
 4 formed into the case.

5 Now, we could have corrected that adjusted 2.01 to
 6 show the level of revenue that these customers are
 7 currently paying rather than doing that - we agreed that,
 8 okay, we'll go forward with your - your presentation in
 9 the case, but we're going to phase in this rate
 10 reduction. And therefore, in the rate design portion of
 11 the settlement this is the Schedule 126 and 127 issues
 12 that I think you probably also have questions on.

13 This is a phase-in of the rate reduction for rate
 14 distribution services. And again, different people might
 15 describe that differently. Some people would not agree
 16 that phase-in is all distributions. This is one of the
 17 things that you run into in these discussions. But the
 18 way I describe it is, the services that we were
 19 regulating, we phased in that rate reduction over a
 20 two-year period and that's what Schedules 126 and 127 are
 21 intended to do. And therefore this pro forma adjustment
 22 that the company included in 2.01 includes a rate
 23 reduction that will happen on July 1, or whenever we
 24 implement this - this proceeding.

25 Now, these Schedule 448 and 449 customers will get

1 via the - the new rates we're - now transmission charges
 2 are fully removed from this jurisdictions rate, making -
 3 their rates before included - we calculated rate and then
 4 subtracted the - whatever open access transmission tariff
 5 from that to determine what Washington rates were, and
 6 the rates that we had, included transmission. The rates
 7 that we have now do not include transmission. And
 8 there's lost revenue that the company will experience
 9 because of this movement, and that's what's
 10 Transition 126 and that's what's included in this
 11 pro forma adjustment. And that's why I'm saying that the
 12 company really will not see a \$58 million increase in
 13 total revenue because there's this pro forma adjustments.

14 CHAIRWOMAN SHOWALTER: I'm trying to grasp this
 15 conceptually and also legally, but does it mean that
 16 there's a revenue component that used to be state
 17 jurisdictional and that component is now federal, so the
 18 revenue, some amount of revenue will still be there as
 19 federally approved? As - first of all, am I right so
 20 far?

21 MS. HARRIS: You are. And I think it's even a
 22 little bit more complicated than that. In the Air
 23 Liquide settlement, we were also focused on the energy
 24 component. The delivery component itself we put off
 25 until the next general rate case, so that under the

1 Scheduled 48 settlement they paid the same time amount in
2 delivery charges.

3 It was still a bundle until the next general rate
4 case, so here we are - we had to somehow, you know,
5 bundle 448 and 449 delivery charges. Out of that you
6 have the OATT charges, the transmission charges, and
7 similar charges and the backup energy component that's
8 scheduled for our jurisdictional. The distribution
9 charges are state jurisdictional.

10 But in addition to just the jurisdictional issues,
11 you also had - I'd have to say they were charges for
12 ancillary services in many different components of that
13 delivery charge. So we had to strip out some of the
14 ancillary service charges.

15 And there is also a margin that we were still
16 collecting from them that was on an energy component
17 because it was part of that old delivery charge. We can
18 no longer collect margin off of energy we're not selling
19 them. So margin component needs to be stripped out of
20 the delivery charges as well.

21 So it gets a little bit more complicated but, yes,
22 this - this represents true unbundling for the 448 and
23 the 449 customers, as well as you get that.

24 CHAIRWOMAN SHOWALTER: So when we are
25 determining what charges will be imposed under our

1 jurisdiction, are we, in effect, determining what we
2 expect the company to receive under the federal charges?
3 Are we making any assumptions?

4 I suppose the question is: What happens if we say,
5 "Here's the state jurisdictional amount because we think
6 X is the federal amount," and then FERC says, "No, it's
7 less than X"?

8 This is an interregulator problem, I guess, if it is
9 a problem. But is that at least what we're somewhat
10 doing here, making our assumptions of what has left our
11 jurisdiction and therefore what you'll probably still be
12 getting but maybe you really won't?

13 MS. HARRIS: I would have to say yes and no
14 because, to a certain extent, in all of our retail rates
15 the transmission is still FERC jurisdictional. So to
16 some extent we still have FERC looking at the
17 transmission rates but they're interrelated with the
18 retail rates. So to some extent, you already have this.

19 For these customers in particular - and I have to say
20 we all complicated this a little bit more with the
21 seven-factor split and the divisions of reclassification
22 of wholesale distribution and so forth, but - but to a
23 certain extent, yes, what remains in state jurisdiction
24 have a distribution facility rate. So to some extent you
25 may be making a judgment not understanding how the

1 components are going to fit in together in the variant.

2 CHAIRWOMAN SHOWALTER: All right. Another
3 question - and I realize when we made original decisions
4 on 448 and had 449, we cast whatever die we cast in terms
5 of FERC jurisdiction and retail wheeling and those sorts
6 of things. At a certain point in time earlier, there was
7 a concern that if we did that we might be exposing the
8 company to broader FERC jurisdiction than just those
9 customers.

10 My main question is: Here are we doing - are we
11 doing anything other than following up on the accounting
12 of our original decisions?

13 MS. HARRIS: No.

14 CHAIRWOMAN SHOWALTER: We're not making any new
15 decision that would have an implication, I suppose, for
16 additional jurisdiction by FERC.

17 MS. HARRIS: No. This is - this is pure in -
18 and to go a step further, when we made our filings at
19 FERC - these customers have a special FERC schedule. We
20 call it 4-R - which I believe retail, 4-R?

21 UNIDENTIFIED PERSON: Yes.

22 MS. HARRIS: Thank you. - which the FERC
23 recognizes these customers as retail and that it's only
24 because of this specific decision that this commission
25 has made that they will have a FERC component. So it in

1 no way broadens the FERC jurisdiction over any other
2 customers.

3 CHAIRWOMAN SHOWALTER: Okay.

4 COMMISSIONER HEMSTAD: So is there a precise or
5 an estimated amount for the amount that the - by which
6 the \$58.8 million increase will be reduced?

7 MR. LOTT: It's very difficult to get to this
8 number. It was imbedded in a very large number in - of
9 the company's adjustments. I believe that the revenue
10 will be reduced by - Mr. Schoenbeck's probably better at
11 this - I think it's three to six million dollars. I'm
12 looking for him.

13 JUDGE MOSS: We'll have Mr. Schoenbeck on the
14 stand later and perhaps he can make a note if he needs to
15 change that figure. I don't think we should probably try
16 have testimony of one witness through another. Probably
17 have a clean record.

18 MR. LOTT: Right. I think he spent more time on
19 these figures than I did. I just note that
20 Chairwoman Showalter was asking how this went through.

21 Right now we deal with FERC firm customers in a
22 specific fashion but - by leaving them in our pro forma
23 statements and assuming that they're paying their fair
24 share of cost of service.

25 Down the road, you know, after this whole 448, 449

1 goes through and if FERC underestimates the revenue
2 requirement, we're either going to have to separate out
3 the costs associated with serving 448 and 449 customers
4 and remove them from the pro forma estimate, or we'll
5 have to assume the level of revenue that we would assume
6 appropriate and have the company fight for that and in
7 another - another venue. That's in the future.

8 Right now I think everybody believes that these
9 customers in total are paying their fair cost and
10 that's - can be seen in the rate spread proceeding where
11 we actually gave this class a lower percentage increase
12 than - than the average. So within the future that may
13 change.

14 MR. VAN CLEVE: Your Honor, if I could just
15 clarify one thing. Brad Van Cleve for ICNU.

16 I think I heard Mr. Lott say that the phase-in of the
17 449 distribution rates that is implemented through
18 Schedules 126 and 127 would be over two years, but it's
19 actually one year.

20 MR. LOTT: I mean it could would take two years
21 to get a full phase-in. One year, you're right.

22 MR. VAN CLEVE: Okay. Thank you.

23 MR. LOTT: Just a one-year period for 126 and
24 127 in effect.

25 CHAIRWOMAN SHOWALTER: I didn't really

1 understand that part.

2 JUDGE MOSS: Twelve-month period over to two
3 year - two calendar years? Is that what we're talking
4 about? No. Heads are shaking. Let's clear the record
5 up. Go through it, Mr. Lott.

6 MR. LOTT: What I meant by two years is, one
7 year we implement one change now, a reduction today; and
8 a year from now they'll get a further reduction as to two
9 years. That's where it takes one year to fully phase-in
10 their lowered rates.

11 If you talk about 12 months from July 1, they will
12 then be at the rates that they'll be on a permanent
13 basis.

14 MR. VAN CLEVE: And what I meant by one year was
15 that the Schedule 126 and 127 will be in place for one
16 year.

17 JUDGE MOSS: Okay. I think we're clear. Let's
18 return to our matrix.

19 Question 16, I believe. And here, Mr. Lott, this one
20 and the next one will be referring - and others of course
21 may respond as well, but we're referring to your
22 testimony, Mr. Lott, or your exhibit actually, 563 which
23 was premarked MRL-3. And looking specifically at Page 6,
24 Line 23, could you please describe the restating
25 adjustment that appears there, and this is their effect.

1 MR. LOTT: This is Mr. Karzmar's adjustment, so
2 he will explain it.

3 JUDGE MOSS: All right. Thank you.

4 MR. KARZMAR: This is simply a removal of costs
5 that were nonrecurring that were in the test year
6 associated with the settlement of Schedule 48 customers.
7 So there was \$34,765,000, and one-time payment ordered as
8 cost during the test year. And that was removed in this
9 exhibit. Simply stated, it's removing a nonrecurring
10 item.

11 CHAIRWOMAN SHOWALTER: All right. I apologize
12 again, given your answer, before I actually got to the
13 page and line reference.

14 First of all, what is this amount?

15 MR. KARZMAR: The \$34 million - \$34,765,000
16 amount is a settlement payment that was made to
17 Schedule 48 customers in settling the action they had
18 against the company. It's a one-time nonrecurring
19 expense and it's been removed here for rate-making
20 purposes.

21 CHAIRWOMAN SHOWALTER: And I'm - this is my
22 problem, I'm sure, but it says "removed" but it shows a
23 positive amount. So can you just explain, are - are
24 these subtractions or additions? Is this - I understand
25 the word says "removed."

1 MR. LOTT: Removing a refund. This is not
2 revenue. They're removing a refund, so they're adding
3 revenue back.

4 CHAIRWOMAN SHOWALTER: So . . . All right. This
5 explains it. So this has the - does this have the effect
6 of increasing the revenue requirement?

7 MR. LOTT: That adjustment decreases the revenue
8 requirement, because of added revenue.

9 CHAIRWOMAN SHOWALTER: All right. I get it.
10 Thank you. It decreases the revenue requirement
11 because . . .

12 MR. LOTT: It added revenue.

13 CHAIRWOMAN SHOWALTER: Thank you.

14 JUDGE MOSS: Now, our next reference is again to
15 Exhibit 563, premarked MRL-3, and we're looking at -
16 let's look at Page 23.

17 MR. LOTT: I have it.

18 JUDGE MOSS: And the question: How has PSE's
19 recent outsourcing of labor for certain functions
20 affected cost and required revenue, with specific
21 reference to the exhibit as just given and the point
22 titled "Wage Increases"? Do we understand this schedule
23 to mean that no pro forma adjustment has been made to
24 test year wage cost? Does this mean that the parties
25 agree that PSE's wage cost will not increase beyond test

1 year levels?

2 MR. LOTT: Okay. I will attempt to answer part
3 of this question and the company might want to fill in on
4 some of the other items, especially related to benefits
5 of outsourcing.

6 This adjustment, and a lot of other adjustments in
7 this case, were restated to zero. I think Mr. Dittmer
8 talked about, you know, the removal of these automated
9 meter-reading pro forma adjustments, not the actual cost.

10 We looked at a bunch of factors. We looked at what
11 the company was actually doing with their employees. I
12 mean, this is all of the parties. This is the dialogue
13 that Ms. Harris was talking about earlier. We had a
14 group of people looking at these things. We were looking
15 at a lot of factors, we were talking about the
16 outsourcing, the tree trimming.

17 There's numerous issues that were being discussed,
18 and it was decided that a number of the adjustments of -
19 that the company was proposing that - that were
20 increasing the company's cost seemed to be inconsistent
21 with the presentation and the arguments that the company
22 was making. And therefore the company and the parties
23 agreed to remove various pro forma adjustments, including
24 the pro forma adjustments to the AMR.

25 We created the - the storm - that fill-out in the

1 storm damage amortization, the \$6 million there. This
 2 was part of the discussion. There were a number of these
 3 things trying to say what's really happening, how do
 4 these things fit together? And it was decided that there
 5 was no need to pro forma cost when the company was
 6 actually experiencing declines in cost associated with
 7 meter reading, associated with various other portions,
 8 their business.

9 The company has - as the commission's probably aware
 10 of - been very proud of their ability to increase
 11 customer service with declining number of employees and
 12 other types of factors as that. All these factors were
 13 taken into consideration.

14 On the opposite side of this, if the company is able
 15 to achieve greater benefits, we didn't go in and add
 16 additional benefits by - by subtracting additional cost.
 17 If the company is able to achieve even more benefits
 18 than - than they've been achieving through the AMR and by
 19 expanding their automated meter-reading system, then the
 20 company will be able to get some benefits and reduce -
 21 increase their earnings in the future. We didn't go out
 22 here and try to extrapolate, well, you should really be
 23 reducing by an additional 5, 10, 15 million dollars.

24 The settlement was to remove the number of these
 25 increased costs, including the pro forma wage

1 adjustments, including these automated meter-reading
2 costs that they were trying to pro forma in the case, and
3 some insurance costs. There's a number of these
4 adjustments that have been reset down to zero and were
5 kind of settled in group as to where the company's actual
6 costs were going. So there is room for the company to
7 actually receive some benefits by reducing their costs.

8 We did not assume, you know, reductions in other
9 areas related to outsourcing. Yet, outsourcing is one of
10 the issues that was being looked at when we did - when we
11 made this adjustment. Will the company's cost, the
12 payroll, go down because they outsource their - their
13 people? Yes, they'll have a big reduction in the number
14 of employees. But that will be replaced by paying
15 somebody else to provide that service. In total, is that
16 going to be a reduction in costs? It appears to be that
17 it has been a reduction in - in cost to some extent.

18 What will actually happen, you know, in one area or
19 the other is - is really difficult to say. Again, I
20 would really have the company describe the benefits
21 related to their outsourcing, if that's the intent of
22 your question. We've listened to these discussions and I
23 think they can best describe them.

24 MS. HARRIS: I think that the difficulty we had
25 in the revenue requirement discussions was the - what you

1 can quantify and what you can qualify. So many - in many
 2 different areas where we included our cost for the
 3 outsourcing and AMR and those types of things, yet we
 4 didn't have a specific amount that we could quantify the
 5 savings.

6 And - and so as far as where the company looked at
 7 as - on - on a wage adjustment was that it does not
 8 mean - and I should actually look at the company
 9 representatives - and it does not mean that we cannot
 10 increase wages. It just means we have less employees or
 11 we may have less employees to pro forma those wages,
 12 increases. And so this was one adjustment where we could
 13 quantify a savings that we will achieve because of the
 14 outsourcing, where in other adjustments, we left the
 15 adjustments alone because we couldn't quantify any sort
 16 of savings.

17 CHAIRWOMAN SHOWALTER: So - is this figure a
 18 total - an assumption for total wages? So if it stays
 19 the same and wages go up, if you want to keep within that
 20 total you have to have fewer employees; is that right?

21 MS. HARRIS: Actually, what this adjustment was,
 22 was a pro forma so it pro formed. It made an assumption
 23 that we were going to increase employees and increase
 24 wages, so it was a pro forma. There was not a reduction.
 25 And basically, just took that pro forma adjustment and

1 brought it to zero where, in fact, we most likely will
2 not have additional employees because of outsourcing
3 where we actually have less employees.

4 So for the company, although the adjustment was made
5 so was on the expense side as well, we won't have those
6 expenses. Therefore we believe it was a proper and
7 justified adjustment.

8 CHAIRWOMAN SHOWALTER: All right. I - I think -
9 though my question is that the - the dollar amounts
10 involved don't have to deal with average wages, or they
11 just have to do with total amounts being paid to
12 employees; is that right?

13 MS. HARRIS: I believe it's an assumption on
14 wages and an assumption on how many employees we have.

15 CHAIRWOMAN SHOWALTER: Which results in a total?

16 MS. HARRIS: It's just a total amount.

17 CHAIRWOMAN SHOWALTER: Thank you.

18 JUDGE MOSS: All right. We'll turn then to
19 Question 18 in the matrix, which I believe is the last
20 one in this particular set.

21 And I believe I just heard Mr. Lott testify that
22 meter-reading costs have declined. So let me perhaps
23 rephrase the question to ask whether the reduction in
24 meter-reading costs is attributable to the implementation
25 of the automated meters or if there are other reasons for

1 that.

2 MR. LOTT: I don't want to say that
3 meter-reading costs have declined. I'm saying that
4 this - there's an assumption that automated meter reading
5 reduces costs.

6 JUDGE MOSS: Okay.

7 MR. LOTT: I think I've actually been told that
8 the costs have shown that meter-reading category are
9 slightly increased or are an increase but there are other
10 costs that are reduced.

11 Of course, meter reading also included that \$6
12 million worth of - of the time-of-use reading, too. So
13 that's - that's what I was referring to, is that, yes, we
14 did reflect the impacts. And what I'm saying is that
15 zero in and out of the payroll adjustments, zeroing out
16 of some other adjustments, insurance adjustments and some
17 other adjustments throughout the case.

18 There are a number of adjustments, if you go through
19 there you will see that the rate year was set at the pro
20 forma - that the historic year, and therefore there was
21 no adjustment made. That was part of that discussion
22 that I was - I was telling you this dialogue, about what
23 has really gone on with the company's total cost, not
24 just their payroll cost, back - looking at the company's
25 total cost, looking for payroll cost, have reduction in

1 the payroll because they don't have to have a meter
2 reading, because they also have to pay somebody else to
3 make that automated meter, also have to pay for the
4 meter, you know.

5 So there's increased costs and there's decreased
6 costs, and what we've done is taken back and say we'll
7 make no adjustments to these things. You have some
8 benefits coming.

9 And again, it's the combination of all these things
10 that we were trying to reflect and allow the company to
11 keep ongoing benefits that create, after the test year,
12 you know, for - to cover other increased costs that we
13 may experience that aren't properly measured in this
14 pro forma statement.

15 JUDGE MOSS: Does your answer that you just gave
16 fully respond to the second part of the question there,
17 with the effect on the revenue requirement? In other
18 words, the - the zeroing out of the pro forma adjustments
19 and so forth.

20 MR. LOTT: Yes, I think so.

21 JUDGE MOSS: Let me just ask one follow-up on
22 this. In terms of the non-TOU-related meter cost, how
23 are those treated?

24 MR. LOTT: The automated meter reading that was
25 included in the test period, in other words, to the

1 extent that the company already implemented it and
2 already was expending money for automated meter reading,
3 those costs are left in the test period; and the actual
4 meter readers that went out and read people's meters are
5 no longer there because new automated meters are out
6 there, are also still in the test period.

7 In other words, we did not remove the meter readers
8 that are now replaced, nor did we pro forma in or remove
9 any automated meters and the costs associated with them.
10 In other words, we didn't add any, we didn't subtract
11 any. We left them at test year levels.

12 And this again is part of that total discussion of
13 how many - how many benefits does the company get from
14 this? And should the company be able to keep some
15 benefits as they obtain more benefits to a new
16 methodology?

17 JUDGE MOSS: And in terms of how those costs are
18 treated in rates, are those costs distributed over and
19 imbedded in general rates?

20 MR. LOTT: Yes.

21 JUDGE MOSS: To all customers?

22 MR. LOTT: Yes.

23 JUDGE MOSS: Including those on time-of-use?

24 MR. LOTT: Yes.

25 JUDGE MOSS: Okay. Well, we are at the noon

1 hour. I know there will be some follow-up questions
2 based on the colloquy we've had so far. So I think we
3 better keep our witness panel on the stand for the --

4 CHAIRWOMAN SHOWALTER: We have other required
5 meetings, so we better make it --

6 JUDGE MOSS: Okay. We'll be in recess until
7 1:30 this afternoon.

8

9 (Adjourned for lunch recess at
10 11:59 a.m.)

11 (Resumed at 1:34 p.m.)

12

13 JUDGE MOSS: All right. Let's be on the record.

14 During the luncheon recess the bench was provided
15 with a copy of what was previously marked and admitted
16 for the record as Exhibit 527, which is the depreciation
17 study. Just by way of full description, the - there's a
18 brief excerpt from Mr. Breitling's testimony that
19 apparently refers to this study and just describes what
20 it is, I gather - I haven't had an opportunity to look at
21 this - and also the depreciation study itself.

22 Now, I'm informed that the parties all have copies of
23 this, but to the extent they're - any of you wish to do
24 so, you can check with staff counsel to insure that you
25 are comfortable and that if there's any issue or problem,

1 you let me know. But at the moment at least, I have
2 accepted this document as the piece that we will have in
3 our record.

4 A couple of other points - procedural point, a
5 couple - you asked me during the recess whether the
6 commission would, in addition to having its public
7 comment hearing this evening, continue with substantive
8 evidence. And the answer is no. We will have the public
9 comment hearing this evening, and when we conclude that
10 business, we will retire for the evening.

11 The final point that was raised to me during the
12 break was that Mr. Lott has a clarification with respect
13 to one of the questions and answers that came up this
14 morning, and I want to give him the opportunity to
15 furnish that clarification to the record before we move
16 on.

17 Mr. Lott.

18 MR. LOTT: Okay. Some of the questions asked of
19 us this morning - or me this morning were about - about
20 my testimony that says that the revenue requirement of
21 \$58 million, in addition to that there's - there's an
22 amount of conservation, and that is true. And what I
23 wanted to do is clarify, I said that there would be
24 conservation in the neighborhood of \$20 million. And
25 that's - that's included in the settlement terms for

1 conservation. I think it's on Page 2. And that
2 20 million --

3 CHAIRWOMAN SHOWALTER: Page 2 of what?

4 MR. LOTT: The settlement terms for
5 conservation.

6 JUDGE MOSS: Which - give me a moment.

7 MR. LOTT: Exhibit F.

8 JUDGE MOSS: Thank you. That would be Exhibit F
9 to the settlement stipulations.

10 MR. LOTT: At the top of Page 2 there's a
11 reference to a number - an estimated number of 17 to
12 21 million dollars. That number does not represent an
13 increase, that represents a total program. Currently
14 included in rates for current programs, as approved in
15 March of this year, was an amount of about nine - nine
16 and a half million dollars for conservation. So current
17 rates include conservation in the amount of about nine
18 and a half, and the new programs will be some place in
19 the range, or close to the range, of 17 to 21 million
20 dollars, depending on what's found appropriate.

21 So there is an addition to the \$58 million rate
22 increase, a rate increase related - anticipated rate
23 increase for conservation to cover about a \$10 million
24 increase in conservation costs that will be presented to
25 you at the future time related to the tracker.

1 CHAIRWOMAN SHOWALTER: Now, does this mean that
2 the prior discussion, when I asked what is imbedded in
3 rates and the answer was zero, that the right number is
4 9.5 million? Or is that - are we talking two different
5 things?

6 MR. LOTT: What's imbedded in current rates
7 today is the nine and a half or 9. - if you gross it up
8 for expenses, about 9.8 million dollars. It's not
9 included in the pro forma statements because the
10 pro forma statements remove both the cost and the
11 revenues, and so that's why you get an answer of zero;
12 but it is included in current rates. It was not removed,
13 you know, from the case so that the rate increase of
14 \$58 million does not include any increase in
15 conservation.

16 CHAIRWOMAN SHOWALTER: But it does assume, or
17 has imbedded in, \$9.5 million.

18 MR. LOTT: It assumes that would continue,
19 right.

20 CHAIRWOMAN SHOWALTER: Thank you.

21 JUDGE MOSS: Okay. We appreciate the
22 clarification, Mr. Lott.

23 Now I believe the bench had some follow-up questions
24 on the revenue requirement piece, and so let's have those
25 now.

1 CHAIRWOMAN SHOWALTER: I just have three or four
2 follow-ups.

3 Ms. Harris, continuing with some - the same theme as
4 an earlier question, if you look at Question 4 which has
5 to do with the wholesale customers. I have a similar
6 jurisdictional question. Are we presuming that the
7 company will be able to extract from these wholesale
8 customers certain dollar amounts that are due to sales
9 not jurisdictional to us?

10 MS. HARRIS: Yes, I believe so. And if I'm
11 wrong, Mert, well, correct me. But basically if we are
12 not recovering these revenues - or adequate revenues from
13 these customers, from the small wholesale customers, it
14 is up to the company to take that up with FERC.

15 CHAIRWOMAN SHOWALTER: Thank you. My next
16 follow-up question is on page - is on Question No. 10.
17 This has to do with the amortization of property sales.
18 We forgot to ask, what is the current balance in this
19 account? One of you who knows.

20 MR. KARZMAR: There is one of Mert Lott's
21 exhibits, which is MRL-3, Page 22 --

22 JUDGE MOSS: That's 563, for the record.

23 MR. KARZMAR: -- shows that the deferred gain
24 to - to be amortized at - is 14,202,895.

25 CHAIRWOMAN SHOWALTER: Is that Line 3?

1 MR. LOTT: Yes.

2 CHAIRWOMAN SHOWALTER: All right. So if the -
3 if there's 14 - if the balance is 14 million and we're
4 amortizing at 4.7 million or so a year, then how long
5 does that last and how long will that take?

6 MR. LOTT: Three amortizations, I believe.

7 CHAIRWOMAN SHOWALTER: Okay. And what is it
8 that the - what did you sell recently to cause the
9 increase? I don't mean to be exhaustive . . .

10 MR. KARZMAR: This would include property that's
11 been sold since - since the merger, which would include
12 company has sold some operating bases, the company - and
13 some of the - some of the equipment that's - that was
14 sold during this period of time in accordance with merger
15 stipulation, the company was allowed to keep the gain
16 because it was part of the benefit of the merger. And
17 the ones that were not specifically identified as merger
18 synergy savings then were deferred to this account.

19 CHAIRWOMAN SHOWALTER: Okay. Next, on
20 Question 11, this is about the electric rate case
21 expenses, unclear. Is this a new account that includes
22 only expenses for this docket or this rate case? Or is
23 this establishment of a new account? And if there's
24 another rate case later, this account also covers that?
25 Or . . .

1 MR. KARZMAR: This includes only expenses for
2 this case.

3 CHAIRWOMAN SHOWALTER: Okay. Last question is
4 back on the first page, Question No. 3. I'm going to
5 have to turn to the agreement, so I'm going to look at
6 revenue requirement, Page - Page - where's - Page 3.
7 Let's see. Where is it? Page 12.

8 This is back on the question of these percentages.
9 I - I understood Mr. Lott's answer as to how to calculate
10 that percentage, but what is - what are these percentages
11 and what do they mean to us? What - what is the
12 commission supposed to either do or know about these
13 percentages? Speaking of the 7.31 percent and
14 7.22 percent.

15 MR. LOTT: It's my understanding - I mean this
16 is what my belief is from the settlement that we had -
17 this comes from the interim settlement. This is the
18 maximum rate increase the company could request in this
19 proceeding carrying out the general rate case, you know,
20 through the - you know --

21 CHAIRWOMAN SHOWALTER: That's amount. What -
22 what is - what is 7.31 percent?

23 MR. LOTT: Seven --

24 CHAIRWOMAN SHOWALTER: What do I need to know
25 about that 7.31 percent?

1 MR. LOTT: All that shows the percentage - it's
2 just the percent that the increase of - of that
3 \$99 million is to the total revenue prior to that
4 increase. So if I take the \$99 million and divide it by
5 what was the pro forma revenue before the rates of
6 1 million, 361 million - \$1,361,000,000, you get 7.31
7 percent. That's all that number represents.

8 CHAIRWOMAN SHOWALTER: \$99 million represents a
9 7.31 increase over old revenue amounts?

10 MR. LOTT: Right.

11 CHAIRWOMAN SHOWALTER: Okay. Thank you. That's
12 it.

13 JUDGE MOSS: Anything further from the bench?

14 COMMISSIONER OSHIE: No.

15 COMMISSIONER HEMSTAD: I have just one question.

16 Can someone give me a brief further explanation of
17 the pro forma adjustment 2.16, the SFAS-133 adjustment?

18 JUDGE MOSS: And just for reference, that's
19 Page 21 of Exhibit 553 - I'm sorry, not 553, 563.

20 MR. KARZMAR: If we could refer to MRL-3,
21 Page 21, which is calculation adjustment. It shows that
22 FAS-133 operating expense during the year was 23 million
23 524 - excuse me - 534,336, and that amount net of federal
24 tax should be removed for writ-making purposes associated
25 with gains and losses on timing differences with power -

1 associated with power purchases and sales. These are -
2 these items - these items should not - should be excluded
3 from - from earnings for writ-making purposes and - and
4 this is where it gets adjusted.

5 MR. LOTT: I would just like to add that in both
6 PacifiCorp and Avista, we put out accounting orders
7 because the companies asked for them, asking for this
8 type of treatment. And it was commission staff's
9 recommendation that those accounting orders, we wanted
10 the companies to ask for them, we wanted this type of
11 accounting for writ-making treatment.

12 Basically what it does is, it says that FAS-133,
13 which requires these timing differences, which is the
14 company makes a purchase into the future and you have -
15 before that purchase actually takes place on a physical
16 basis, they report it - they record income and - and
17 expenses on their books relating to changing in prices.
18 And it was our opinion that those should not flow through
19 on writ-making or accounting as reported to this
20 commission.

21 This adjustment, in fact, does the same thing that
22 the accounting orders that we had you approve - or asked
23 you to approve, and you did for both Avista and
24 PacifiCorp. So this is consistent with the type of
25 treatment that the commission has proposed for the other

1 companies.

2 COMMISSIONER HEMSTAD: All right. Thank you.

3 And then with regard to the miscellaneous operating
4 expense adjustments, I'm looking at adjustment 2.10 and
5 Page 15 of the Mr. Lott's exhibit. I realize that
6 there's certain trade-offs made here. I'm curious about
7 the reduction at No. 2 - Item No. 2, the incentive merit
8 reduction. Can someone give me some brief description of
9 the - what was at issue here?

10 MR. KARZMAR: This adjustment here for incentive
11 merit pay restated what the actual test year amount was
12 for incentive merit pays, and it restated as a normal
13 adjustment. I don't have the detailed work papers here
14 in front of me. You - I could get them.

15 COMMISSIONER HEMSTAD: All right. For some
16 reason the actual - in the test year were above what
17 would be expected to the case going.

18 MR. KARZMAR: That's correct.

19 COMMISSIONER HEMSTAD: Okay. Thank you.

20 JUDGE MOSS: All right. All right. Do the
21 parties have anything further that we need to do with
22 this panel right now? All right. I'm going to - of
23 course, some of our witnesses are appearing on multiple
24 panels. In any event, I will make it a practice to
25 release the witnesses subject to recall. And with that I

1 suppose, Mr. Lott, you're on the next panel as well, but
2 our other three witnesses are, for the moment at least,
3 excused.

4 And I suppose it will be most efficient if I take up
5 the role that the council sometimes play and call the
6 next witnesses. Our rate spread is our next subject
7 matter and the witness panel includes Mr. Lott, as I've
8 indicated; and Mr. Lazar, who is approaching us now in
9 the center aisle; and Mr. Schoenbeck, who is rising there
10 in the blue shirt; and Mr. Pohndorf for the company.

11 MR. FFITCH: Your --

12 JUDGE MOSS: Yes, sir.

13 MR. FFITCH: Before we begin with this panel,
14 just to clarify for Mr. Dittmer who is on the phone,
15 you've indicated he's excused subject to recall. And
16 with your permission, he will just now go on about his
17 business and we'll contact him by telephone if the bench
18 needs to recall him.

19 JUDGE MOSS: That would be perfectly acceptable,
20 Mr. ffitch.

21 MR. FFITCH: Thank you, Your Honor.

22 MR. FURUTA: Your Honor, I don't know if this is
23 an appropriate time, but Norm Furuta for FEA.

24 At some point I wanted to clarify, we had originally
25 signed the rate spread stipulation, but wanted to make

1 clear that there were two other collaboratives that we
2 were involved in. For some reason or another, our
3 signature block didn't appear on the drafts that were
4 circulated, so our name actually doesn't appear on - it's
5 the rate design and the PCA collaboratives. But during
6 the course of negotiations, we worked it out that I would
7 state on the record that we were involved in those
8 collaborations, we do approve of the resulting
9 stipulations and that we support them, and that we
10 actually have a witness that is available on call for all
11 three of those areas.

12 In light of the questioning - the written questions
13 that have been submitted by the commissioners, it appears
14 that our witness probably - it's not necessary for him to
15 be on telephone call. It appears that the designated
16 panel members are - are more appropriate to answer those
17 types of questions.

18 So if it's alright with the commissioners, I'll go
19 ahead and let our witness know that he doesn't have to
20 remain on standby for the rest of the --

21 JUDGE MOSS: Mr. Furuta, that is consistent with
22 the arrangements we made at prehearing, that if the
23 parties were comfortable with the panel that was being
24 presented live was adequately informed to address the
25 commission's questions with respect to a particular piece

1 of the settlement proposal, that we would not need to
2 have the so-called - the on-call witnesses, as it were.

3 If we get stuck and we need somebody, then we'll make
4 the appropriate arrangements to supplement the record.

5 MR. FURUTA: That would be fine.

6 JUDGE MOSS: And you can do that. I appreciate
7 you coming up to counsel table so that we were able to
8 hear you clearly and so forth.

9 Unless somebody has pawned it, there should be a
10 microphone out there somewhere, so maybe we can find out
11 where it is if people need to - here on the table, so
12 people can use that if they need to. Okay.

13 All right. For those of you who have not been sworn,
14 would you please rise and raise your right hand and I'll
15 swear you at this time.

16

17 GEORGE POHNDORF, Having first been duly
18 JIM LAZAR, sworn, testified as
19 MR. SCHOENBECK, follows:

20

21

JUDGE MOSS: Please say, "I do."

22

ALL WITNESSES: I do.

23

JUDGE MOSS: Please be seated. And, of course,

24

Mr. Lott remains under oath.

25

Our subject matter is rate spread. Do any of the

1 witnesses have preliminary narrative testimony before we
2 launch into our matrix of questions?

3

4

(No audible response.)

5

6

7

8

9

10

JUDGE MOSS: Hearing no indication, then we will start with Question 1. It was - it's - this first question relates to the rate spread stipulation, which is Exhibit C to the settlement stipulation, and the specific reference is to Page 2.

11

12

13

14

15

The question is: The table on Page 2 of the rate spread stipulation is okayed by summary class. Please indicate whether the table includes all rate schedules, and if so, where the schedules fall into the summary classes.

16

17

18

19

And the example given are 31, 43, 49, 448, 449, et cetera. So I think basically to match up the descriptive descriptors in this table to the corresponding rate schedules.

20

21

So, Mr. Pohndorf, would you be the most appropriate witness for this?

22

23

24

MR. POHNDORF: Sure. And I think the easiest way to do this is march down the table and explain these general classifications.

25

The first one that says RESSVC, that's residential

1 service and that's Schedule 7. The next one is
2 Schedule 24, it says SECSVC 2 - 24. The one after
3 that --

4 CHAIRWOMAN SHOWALTER: Mr. Pohndorf, you might
5 as well - since - let's have each - each row have both a
6 descriptor and a number, so residential is No. 7, and
7 24 is small nonresidential, whatever it may be.

8 MR. POHNDORF: Yeah. That's - that's secondary
9 service 24, and that's Schedule 24. The --

10 JUDGE MOSS: And what is secondary service?

11 MR. POHNDORF: Oh, what is secondary service?
12 It's service to - to - actually, the secondary
13 service 24, it serves very small commercial customers at
14 the secondary service volt - voltage level.

15 The next line, the - the third row, there is
16 "secondary service 25," that's larger commercial
17 customers. Again, Schedule 25. The next one, "secondary
18 service 26," that's Schedule 26.

19 CHAIRWOMAN SHOWALTER: What is that - oh, I'm
20 sorry.

21 MR. POHNDORF: I should just back up. Under
22 Schedule 25, where it says "secondary service 25," that
23 also includes Schedule 29, which is a - a schedule, I
24 believe, that's only populated by one customer.

25 MR. LAZAR: No, that's irrigation - secondary

1 irrigation.

2 MR. POHNDORF: Secondary irrigation. Excuse me.

3 So I believe we're now on primary service at PRISCV.

4 COMMISSIONER HEMSTAD: I don't believe you
5 said - what is 26?

6 MR. POHNDORF: Oh, 26 is simply Schedule 26,
7 but - what is it?

8 CHAIRWOMAN SHOWALTER: Who is the customer?

9 MR. POHNDORF: Oh, who are the customers. These
10 are even larger commercial customers. Generally is the -
11 as the schedules go up, kind of an overall class, it goes
12 from smaller to larger customers.

13 JUDGE MOSS: Would that - for example, a large
14 grocery store?

15 MR. POHNDORF: It could be, yes.

16 MR. LAZAR: Maybe I can use an example.
17 Twenty-four would be the little deli that we go to for
18 sandwiches over in the next office park over.

19 Twenty-five would be this building, and 26 could be
20 the company's headquarters at One Bellevue Center or a
21 Fred Meyer, Costco-size store.

22 JUDGE MOSS: Thank you.

23 MR. POHNDORF: Okay. Then on to primary
24 service. Those are Schedules 31, 35, and 43.

25 CHAIRWOMAN SHOWALTER: Why don't you tell us

1 what 31, 35, 43 are.

2 MR. POHNDORF: Those are customers served at
3 primary voltage.

4 Schedule 31 customers are customers who tend to have
5 their own distribution system.

6 Thirty-five is the one I referred to once before,
7 that's - that's one with just one customer, I believe.

8 MR. LOTT: Irrigation.

9 MR. POHNDORF: It's an irrigation schedule.
10 Forty-three is schools.

11 The next classification, retail wheeling, these are
12 Schedules 448, 449, 458, and 459. 448 and 449 and 458
13 and 459 were schedules that resulted from the early Air
14 Liquide settlement.

15 High voltage are Schedules 46 and 49. These are
16 typically very large customers who are served at high
17 voltage, such as an oil refinery.

18 The next - next line is lighting service and there
19 are a number of schedules here. They are 50, 52, 53, 54,
20 55, 57, and 58.

21 And then firm resell is actually --

22 CHAIRWOMAN SHOWALTER: Before you go --

23 MR. POHNDORF: Oh, sure.

24 CHAIRWOMAN SHOWALTER: Maybe you don't need to
25 tell me each one of 50, 51, 52, 53, et cetera. But

1 generally what does this class describe and why are there
2 different schedules?

3 MR. POHNDORF: It generally describes the street
4 lighting schedules. The differences between the
5 schedules are something that maybe Mert or Jim could
6 speak to better than - than I. They have more history on
7 that.

8 MR. LAZAR: There's both street lighting
9 schedules and area lighting schedules. And within the
10 street lighting schedules, some of the cities own their
11 own facilities and only buy energy from the company; and
12 others, the cities contract with the city to provide the
13 pole, the illuminator maintenance, and energy. And the
14 same is true in the area lighting schedules.

15 So they're - they're divided up because the costs are
16 quite different and the company's providing just energy
17 or the entire lighting service.

18 MR. POHNDORF: Okay. And then the last line is
19 firm resell. This had been discussed a bit in the review
20 requirement panel. This is an allocation of cost to,
21 effectively, the marinas that Kimberly Harris talked
22 about.

23 CHAIRWOMAN SHOWALTER: In what schedules?

24 MR. POHNDORF: Yeah. They're FERC schedules.
25 We don't have a retail rate schedule for these customers.

1 CHAIRWOMAN SHOWALTER: If we don't have a
2 schedule, how do we - what is this increase? Is that the
3 off-system increase that's assumed here, the
4 nonjurisdictional increase?

5 MR. LOTT: This was the question that you asked
6 earlier and Ms. Harris answered. This is where they'll
7 have to go to FERC to request rate increase on these
8 customers in order to achieve that.

9 CHAIRWOMAN SHOWALTER: Okay. So for - for
10 purposes of this chart, the settlement said that we would
11 approve - would - if we do approve, would approve the
12 entire column called "Percentage Increase" with the
13 exception of the bottom one, "Firm Resell." It's
14 something that we would approve - it's something that's a
15 natural fallout from what would be approved; is that
16 correct?

17 MR. LOTT: What you're approving is the
18 assumption that the - that the company is responsible for
19 collecting those fees. They could get more or less from
20 FERC.

21 CHAIRWOMAN SHOWALTER: Are we even approving an
22 assumption? We're simply approving everything but that
23 last percentage; isn't that right?

24 MR. LAZAR: Perhaps as the witness who testifies
25 in multiple jurisdictions - in many jurisdictions there

1 would be a separate jurisdictional cost allocation study
2 and assignment of certain costs to the nonjurisdictional
3 customers that would come out of the revenue requirement,
4 we'd be done with it. This company has such a small
5 nonjurisdictional revenues requirement that there's not
6 two studies done. They just get a column in the regular
7 cost allocation study.

8 And for the purposes of the collaborative, we said
9 we're going to assume those guys pay their share. And if
10 they do, great; and if they don't, not our problem.

11 CHAIRWOMAN SHOWALTER: But from our point of
12 view, if we approve it, we are approving everything other
13 than - we are not approving a firm resell increase.

14 MR. POHNDORF: That's correct.

15 MR. LAZAR: That's correct.

16 JUDGE MOSS: Okay. Does that complete the
17 response, Mr. Pohndorf?

18 MR. POHNDORF: Yes, it does.

19 JUDGE MOSS: And others. All right, then.

20 Let's look at Question No. 2. And the reference
21 here, we're in Exhibit C to the settlement stipulation,
22 and on the first page there, we see some discussion at
23 Part B, and there's an Arabic 2 associated with that as
24 well.

25 The cost of service study assumed - referred to there

1 assumed a revenue deficiency of \$89.7 million whereas the
2 settlement stipulation specifies \$58.8 million revenue
3 deficiency. Did the parties make any adjustments in the
4 proposed rate spread to account for the \$3.9 million
5 difference in the two revenue deficiencies amounts?

6 MR. POHNDORF: What we did here is, we looked at
7 the cost of service study that's relevant to a range of
8 revenue requirements, and then we applied the - the
9 \$58.8 million revenue increase across the schedules using
10 the - the proportions - the same relative proportions
11 as - as was for - indicated by the cost of service study.
12 So we basically looked at it proportionately.

13 MR. LAZAR: It's quite unusual to have a cost of
14 service study done at the final revenue requirement. I
15 can remember one or two times in my 20 years at the
16 commission where that's been done, but in general one
17 does a cost of service study, argues over the
18 methodology, but does one at some assumed revenue level
19 and applies those relative class results to whatever
20 revenue requirement results.

21 JUDGE MOSS: All right. Let's look at
22 Question 3. Does the proposed rate spread move the
23 various classes closer to unity with cost of service than
24 is the case in current rates? And if so, by how much?

25 And if you can explain that to us, we would

1 appreciate it.

2 MR. POHNDORF: I'll take the first part of the
3 answer. It does move the classes generally closer to
4 cost of service. We would have to respond by a bench
5 request to tell you by exactly how much. We'd actually
6 tried to calculate that this morning on a laptop, but we
7 haven't had - had time to do that today so we could
8 respond in a bench request to that.

9 JUDGE MOSS: All right. This case has been
10 through a considerable process, and sitting here today, I
11 have no idea what the next bench request number is. So
12 I'm just going to say that will be Bench Request No. 100
13 and we will reserve Exhibit No. 528 for that. So thank
14 you for that suggestion, Mr. Pohndorf, and we'll
15 appreciate knowing that. And let us know if it's going
16 to be delayed beyond tomorrow.

17 And that was the first part of the question. Was
18 there more?

19 MR. LOTT: I just wanted to point out that we
20 did utilize looking at this cost of service study. There
21 is no firm agreement that this is the right cost of
22 service study. So when you say "move closer to unity,"
23 the staff's position, I think, is in my testimony that
24 they did move closer, but to what cost of service study
25 we can make the calculation that Mr. Pohndorf has stated,

1 but again different parties would indicate different cost
2 of service studies. This is one that we utilized in
3 setting that rate spread issue.

4 JUDGE MOSS: For purposes of settlement
5 stipulations that would be the relevant --

6 MR. LOTT: But, again, there - the parties all
7 have their own idea what the proper cost of service study
8 is. Some people, if they use their own cost of service
9 study, would come up with a different answer --

10 JUDGE MOSS: I see.

11 MR. LOTT: -- is all I'm trying to suggest.

12 CHAIRWOMAN SHOWALTER: So this moves the classes
13 closer to cost-based on a yardstick, that yardstick is
14 the cost of service study. It's not particularly
15 endorsed by anybody, but it is a study, is that - am I
16 right so far?

17 MR. POHNDORF: That's right.

18 CHAIRWOMAN SHOWALTER: And now what - what is
19 the date of that cost of service study? You know, get
20 the right year.

21 MR. LAZAR: April 11th of this year.

22 CHAIRWOMAN SHOWALTER: All right. So it's a new
23 cost of service study?

24 MR. POHNDORF: Yes.

25 MR. LAZAR: It's the methodology, the

1 assumptions, the allocation methods that there's not
2 agreement on. And what the parties agreed on is that the
3 rate spread that we have agreed on is reasonable and this
4 was the principle reference point used by the
5 collaborative in reaching that.

6 The parties who didn't like this study also had other
7 reference points that we referred to in reaching that
8 conclusion.

9 CHAIRWOMAN SHOWALTER: I see. Because later on
10 we have some questions, but there's reference to a 1992
11 or earlier study. It's the 1992 case. So I was a little
12 unclear - I think it was maybe your testimony later that
13 it's within reasonable range of another older cost of
14 service study?

15 MR. LAZAR: This study has the current year
16 costs and the methodology that the commission explicitly
17 adopted in the '92 case utilized. And that is one of the
18 rare cases where the commission ordered a cost of service
19 study to be done on the final revenue requirement. It
20 was a very specific order, and how cost of service was to
21 be done in that case. But that doesn't mean that parties
22 would agree that that's the right way to do it in this
23 case.

24 CHAIRWOMAN SHOWALTER: Right.

25 MR. LAZAR: But the methodology from '92, the

1 data, the costs, the consumption, the peak demands are
2 all updated.

3 CHAIRWOMAN SHOWALTER: Thank you.

4 COMMISSIONER HEMSTAD: I'd like to pursue that.
5 I haven't looked at or reread the '92 case. It's my
6 first big case on this commission. Could you briefly
7 describe or - for - for - to refresh my memory and the
8 other commissioners, what was encompassed in the
9 methodology order?

10 MR. LAZAR: The '92 case actually had two
11 dockets. There was a 920499, which was a rate spread and
12 rate design docket; and it was immediately followed by
13 921262, which was the revenue requirements case. And the
14 commission's decisions on methodology were split between
15 the two orders.

16 Just most generally with respect to production plant,
17 the commission ruled that the peak credit method that
18 assigns a small percentage, I think 14 percent, of
19 production plant to peak demand and the balance to annual
20 energy be used with respect to transmission plant, that
21 the same method used for production plant be used with
22 respect to distribution plant, that everything down to
23 and including the transformer be allocated based on
24 demand and that the service drop from the pole to the
25 house, the meter, meter reading, and billing be allocated

1 on a per-customer basis.

2 And finally, that the administrative and general
3 costs be allocated based upon the - most of them on the
4 subtotal of all other costs that were allocated in the
5 study, with exceptions for such things as insurance that
6 was related to property and some other specific
7 administrative costs. That was after --

8 MR. SCHOENBECK: Two hundred hours of demand.
9 Two hundred hours of demand.

10 MR. LAZAR: Oh, yes. And the - the costs that
11 were classified as peak-demand-related and production and
12 transmissions then got allocated on the classes based
13 upon the 200 highest hours of demand on the system.

14 Each of those major elements that I've described was
15 contested by one part - one or more parties in that case
16 and the commission made what, in my experience, is the
17 most explicit set of decisions on cost allocation that -
18 that have been made here.

19 CHAIRWOMAN SHOWALTER: Mr. Schoenbeck, would you
20 like a microphone? We don't want to leave you out.

21 MR. SCHOENBECK: I'm just fine.

22 CHAIRWOMAN SHOWALTER: Very lucid, so . . . Now
23 you have to sit still.

24 MR. SCHOENBECK: Yeah, I guess so.

25 JUDGE MOSS: I was going to furnish the other -

1 one of the other witnesses with a lavalier mike, but one
2 of them that was up here is missing. So if somebody has
3 that and cares to produce it, that will work.

4 COMMISSIONER HEMSTAD: Well, Mr. Pohndorf, so
5 the cost study that was currently done was based upon the
6 '92 methodology?

7 MR. POHNDORF: That's correct.

8 COMMISSIONER HEMSTAD: And I suppose the point
9 is that with the passage of time - and like the other
10 parties or even the company might have some different
11 views on that today. But for purposes of the settlement
12 that methodology was accepted?

13 MR. POHNDORF: That's right. And actually, if
14 you look in the settlement terms for rate spread we - we
15 call that out explicitly in Paragraph B(2), I believe.
16 Yes. That was it was for purposes of settlement only.

17 JUDGE MOSS: All right, then. We can look I
18 believe at Question 4 on our matrix. And the reference
19 here is to your testphoney - testimony, Mr. Pohndorf, and
20 that's - and I'd ask the court reporter to transcribe
21 only as I corrected myself.

22 MR. POHNDORF: I appreciate that.

23 JUDGE MOSS: Freud would have a field day with
24 me sometimes.

25 Exhibit 535, Page 4, Lines 11 through 17. And there,

1 Mr. Pohndorf, you're testifying with respect to some BPA
2 dollars and I'll read the question.

3 The indication is that the BPA dollars were not
4 included in the calculation of percentage increase for
5 the residential class. What percent increase does the
6 residential class receive if the BPA dollars are
7 included?

8 MR. POHNDORF: Considering all BPA dollars, and
9 if you look at what the customers' net bills look like
10 before the rate case and then what they look like as of
11 this October when the BPA print steps up a bit, the
12 typical residential customers will see a 7 percent bill
13 decrease.

14 CHAIRWOMAN SHOWALTER: But I guess my question,
15 without BPA it's 5.27 percent?

16 MR. POHNDORF: Yes.

17 CHAIRWOMAN SHOWALTER: With BPA what is - what
18 happens to that 5.27 percent?

19 MR. POHNDORF: It will be slightly smaller. But
20 this calculation here is a little bit more complicated,
21 and I think Jim and I can explain that, in that these
22 increases on the 5.27 and the 107.9 look at the
23 \$31 million - \$31.8 million as an increase on top of a
24 base rate, that is the - the customer's rate not
25 considering any residential exchange, and then decreased

1 by 10.85 mils.

2 So it's just on that basis decreased by 10.58 mils,
3 not on a basis decreased by the full amount of the
4 exchange. And if that's not clear, I understand. But --

5 CHAIRWOMAN SHOWALTER: We know you understand.

6 MR. LAZAR: Maybe I can explain it another way.

7 MR. POHNDORF: Sure.

8 MR. LAZAR: The 10.85 mils residential exchange
9 credited that was in effect during the merger rate
10 stipulation period was rolled into general rates on
11 June 30th of 2001, at the end of that - that contract
12 with Bonneville. These rates are calculated against the
13 rates that were in effect, then, on July 1st, 2001 after
14 that transfer. And these percentages are against those
15 general rates, including the transfer to general rates of
16 that exchange credit but not including any exchange
17 credits that are reflected in schedule 1994 that is over
18 and above the - the 10.5 mils that were transferred to
19 general rates.

20 The interim stipulation provided that rate spread in
21 this case would be done on the basis of the July 1, 2001
22 rates. And so this calculation follows that. If you
23 took the - the - I'll call it the penny, if you took the
24 penny back out, then the base against which we're
25 measuring goes up by about \$100 million. The percentage

1 increases all go down a little bit because the - the
2 denominator grows. The dollar amounts would remain
3 exactly the same. The change per kilowatt hour would
4 remain exactly the same. The impact on the customer's
5 bill in dollars would remain exactly the same.

6 CHAIRWOMAN SHOWALTER: Same as what.

7 MR. LAZAR: As - as what's in the stipulation.
8 As the - the percentages are measured against that July 1
9 base. And that's the reason why the increase for
10 Schedule 24, for primary service, for high voltage, and
11 for lighting all coming out exactly the same is the
12 methodology that the collaboratives said those classes
13 that are paying well above their fair return rate will
14 get a smaller than average increase; those that are
15 paying well below will get a larger than average
16 increase; and the rest will get the residual increase.
17 And that came out to 5.1 percent. Those are the residual
18 classes.

19 But that was all consistent with the interim
20 stipulation based upon the July 1 general rates. You
21 have to pick some kind of a base to measure against. The
22 stipulation shows the - the rates that were in effect
23 after that transfer.

24 CHAIRWOMAN SHOWALTER: All right. But I think
25 what I'm interested in is a - beginning, let's say,

1 October 1 - I forgot when the new BPA credit starts. But
2 isn't - I think it's October 1st. On that day there's
3 going to be a credit on the customer's bill that says
4 "BPA credit." I - how much - what percent credit is
5 that?

6 MR. LAZAR: That --

7 CHAIRWOMAN SHOWALTER: It's a percent. It will
8 be a percent, right?

9 MR. LAZAR: No. It won't be a percent. It will
10 be a cent per kilowatt credit. The amount that is
11 currently in effect is 1.456 cents per kilowatt hour.

12 CHAIRWOMAN SHOWALTER: Right. I don't think I
13 want to know what's currently in effect.

14 MR. LAZAR: The one that will be in effect
15 October 1 will be 1.817 cents per kilowatt hour.

16 CHAIRWOMAN SHOWALTER: Okay. 1.817 cents per
17 kilowatt hour. Now, is it possible to multiply that by
18 something to - to tell me what kind of offset against
19 5.27 percent that would be? Or is that not possible?

20 MR. LAZAR: I have prepared a calculation of all
21 of the rate impacts that are happening and will happen if
22 the stipulation is approved. That includes the exchange
23 credit, the expiration of the interim, the assumption
24 that this stipulation is adopted, the Schedule 127 credit
25 that is a part of the stipulation, the estimated effect

1 of the change in the conservation tariff rider, an
2 estimated effect of the low income rider, and the change
3 in the exchange credit.

4 CHAIRWOMAN SHOWALTER: But you haven't separated
5 those things out?

6 MR. LAZAR: Well, I've calculated them as a
7 group to see what happens to a customer's bill from
8 then - you know, from - from rates in effect before
9 January 1 of '02, that is before the interim and today,
10 and July 1, if this stipulation is approved there on
11 October 1 after everything is presumably in effect.

12 CHAIRWOMAN SHOWALTER: All right. But --

13 MR. LAZAR: We can provide that whole
14 calculation to you. But it's such a large number of
15 changes that to isolate one is a little challenging.

16 CHAIRWOMAN SHOWALTER: Maybe I could try it this
17 way. If you look at the 5.271 increase, can you tell me
18 how many cents per kilowatt hour that increase is?

19 MR. LAZAR: It's about three and a half mils a
20 kilowatt hour.

21 CHAIRWOMAN SHOWALTER: Okay. Then am I right
22 that if all I'm looking at is the 5.27 percent increase
23 and I wish to compare an offset called "the October 1
24 Bonneville rate," that I would subtract from 3.5 mils per
25 kilowatt hour 1.817 cents or mils? I think I did - I

1 meant cents before. I would subtract from 3 cents -
2 3.5 cents per kilowatt hour, 1.817 cents per kilowatt
3 hour - no.

4 MR. LOTT: I think you should only be
5 subtracting change and the credit on October 2, not the
6 total rate on October 2nd.

7 CHAIRWOMAN SHOWALTER: I see.

8 MR. LOTT: You take the 1. - 1.817 cents and you
9 would subtract the current credit, and I thought I heard
10 Jim say it was 1.4.

11 MR. LAZAR: Fifty-six.

12 MR. LOTT: Fifty-six. And you take the
13 difference in those two rates and what would that be?

14 MR. LAZAR: About three and a half mils.

15 MR. POHNDORF: About three and a half mils.

16 CHAIRWOMAN SHOWALTER: Okay. So I would
17 subtract from three and a half cents, three and a half
18 mils.

19 MR. LAZAR: No, no. They're both about three
20 and a half mils. They're about the same size.

21 CHAIRWOMAN SHOWALTER: All right. So --

22 MR. POHNDORF: So that's a total of the . . .

23 CHAIRWOMAN SHOWALTER: Well, I'm sorry I'm
24 having a hard time understanding this. Are you saying
25 that in addition to the - to the 5.27 percent, there

1 exists a current credit?

2 MR. LAZAR: That's correct.

3 CHAIRWOMAN SHOWALTER: And that current credit
4 becomes something the same or different on October 1?

5 MR. LAZAR: That's correct. It goes up - the
6 amount of the credit increases by 3.61 mils per kilowatt
7 hour. So other things equal, residential rates would
8 decline by 3.61 mils per kilowatt hour on October 1.

9 CHAIRWOMAN SHOWALTER: I think that's my
10 question - the answer to my question. Thank you.

11 JUDGE MOSS: All right. Let us turn to Question
12 No. 5. We're still on Exhibit 535 and the reference is
13 to Page 3 there. And it would be the - I believe the
14 second question and answer. Again, I don't have line
15 numbers on my sheet. I have funny looking symbols.

16 So if you look there, Mr. Pohndorf testifies that
17 service Schedules 25, 26, 29, 448, 449, and 459 recover
18 more funds than it costs to serve those schedules.
19 However, the cost of service that is reflected in the
20 appendix to Exhibit C to the settlement stipulation,
21 Page 2 of 28, seems to indicate that only Schedule 25 is
22 above parity on the basis of realized real return.

23 Please explain.

24 MR. POHNDORF: The line on Page 2 of 28 for the
25 cost of service study that I relied upon for that

1 statement is Line 13. And what Line 13 does is, it looks
2 at the total revenue requirement. So it looks at not
3 just where rates are before a rate increase but looks at
4 adding in an increase per this case.

5 And then if you look through the various columns of
6 that, it shows that those rate schedules I listed are
7 above parity. That's - that's the line we were looking
8 at to see whether a given rate schedule was above parity
9 rather than looking at realized ROR. So, for instance,
10 Schedule 24 you see a 102 percent. That indicates that
11 that is above parity. Whereas, for residential service,
12 right before it, it's a 97 percent. That indicates it's
13 below parity.

14 JUDGE MOSS: All right.

15 Let's turn to Question 6. And still in your
16 testimony, Mr. Pohndorf. We're now at Page 4, Lines 5
17 through 10. And we can also refer to Exhibit 552 which
18 is Mr. Lazar's prefiled testimony regarding electric rate
19 spread at Page 2, Lines 3 through 12.

20 And the question: Certain modifications are proposed
21 to reduce the differentials between Schedules 26 and 31.

22 First please describe these two schedules and the
23 kind of customers they serve.

24 Second - and that may have already been answered -
25 second, the proposal is evidently to increase Schedule 31

1 rates while decreasing Schedule 26 rates in each of the
 2 next three years. Are these rate changes to occur on any
 3 particular schedule? I think "time schedule" there as
 4 opposed to "rate schedule." Are they anticipated to be
 5 compliance filings? If so, where is this time schedule
 6 described in the rate spread stipulation?

7 MR. POHNDORF: Just to review a bit, Schedule 26
 8 services secondary voltage for customers with demands
 9 greater than 350 kilowatts. Schedule 31 is primary
 10 voltage with customers that typically require their own
 11 distribution system.

12 And what we found is that Schedule 31 basically has
 13 two sets of customers, some large customers with demands
 14 greater than 250 kilowatts. And that indeed many of the
 15 customers between Schedule 26 and 35, these large
 16 customers are very similar except that some Schedule 31 -
 17 Schedule 31 customers own their own transformer.

18 What - what we had anticipated in terms of a
 19 compliance filing is that upon the commission's order in
 20 this case, there would be just be one compliance filing
 21 immediately and it would lay out those one percent
 22 changes, so it would have a tariff with sort of the
 23 programmed rate changes and the dates by which they would
 24 be enacted already on the compliance filing with - with
 25 this - with this order, and that those rates would be

1 based on pro forma billing determinants per the
2 assumptions in this case. So there would be - just be
3 one compliance filing. The changes would be every year,
4 every July 1st.

5 MR. CEDARBAUM: Your Honor, if I might add, just
6 for the record, that the - the schedule, maybe not - not
7 with that spec - specificity, but this is described in
8 the rate design part of the stipulation, which is Tab D
9 on Page 2, the third bullet under Item No. 7. It was not
10 specified that way in the ratespread stipulation, but it
11 is in the rated design.

12 JUDGE MOSS: Okay. Thank you. Appreciate the
13 clarification.

14 I'm not sure what there might be to add by Mr. Lazar
15 looking at Question 7. Mr. Lazar describes certain
16 phase-in provisions for Schedules 126 and 127 related to
17 Schedule 449.

18 And the question is to please explain the purpose of
19 the phase-in. And where is this specified in the rate
20 spread stipulation or perhaps elsewhere in the
21 stipulation?

22 MR. LAZAR: It is on Page 3 of the rate design
23 stipulation. It is the third bullet on that page, where
24 it is described. And the purpose of it --

25 CHAIRWOMAN SHOWALTER: Mr. Lazar, can you speak

1 into the mike or have it on.

2 MR. LAZAR: Oh, I'm sorry. It is contained
3 on - on Page 3 of the rate design stipulation and the
4 third bullet on that page. And the purpose of that is,
5 for the first year that rates would be in effect,
6 essentially the retail wheeling customers would get about
7 half of the overall rate decrease that they would receive
8 in this proceeding. The permanent rates would go into
9 effect that would provide, I'm going to say, roughly a \$6
10 million decrease in what they will pay.

11 But for the first year, they'll pay a surcharge of
12 \$6 million and that surcharge will go away. And that was
13 done so that a single filing would put the permanent
14 rates into effect, but the other customer classes would
15 benefit from that \$3 million in the first year.

16 JUDGE MOSS: All right. And staying with
17 Mr. Lazar's testimony, Page 1, for purposes of Question
18 8, Mr. Lazar identifies a reasonable range of payment to
19 cost within a class at 90 to 110 percent. Does this
20 ranges simply reflect the inherent inaccuracy of cost
21 studies? Do the parties offer any other factors besides
22 the cost study in support of their agreement on rate
23 spread?

24 MR. LAZAR: I'll start the response with, yes,
25 it reflects the inherent inaccuracy of cost studies, but

1 it also takes other factors into account. Factors that
2 the commission has often cited in orders include
3 gradualism, perceptions of equity in fairness, economic
4 conditions in the service territory, and rate shock. And
5 we took all of those things into account in - in the
6 collaborative.

7 Other parties may have other factors that - that they
8 gave consideration to.

9 JUDGE MOSS: Anybody have anything to add?
10 Okay.

11 Our negotiation question, No. 9, refers to Mr. Lott's
12 testimony, Exhibit 562, and some discussion of rate
13 spread that appears at Page 7 of that testimony.

14 The question is: Staff - or Mr. Lott testifies that,
15 quote, gradualism, close quote, is an important principle
16 when determining rate spread. What is the appropriate
17 time frame for moving to parity?

18 MR. LOTT: Well, that's a good question. I
19 mean, I think if we - it seems like if you were moving to
20 parity over any time frame, you would finally get there.
21 But it's kind of - and I think I've heard other people
22 say - a moving target, the man to my left here, as Jim
23 has referred to that, and I agree.

24 I worked a lot of these cost service studies. One
25 seems to go one way, and you go to the next general rate

1 case and all of a sudden they're farther away or closer
2 than they should have been. I think that's one of the -
3 one of the concerns.

4 There's also complete disagreement as to what the
5 costs are and there's dis - disagreements in - in how
6 good the cost studies - cost of service studies are. The
7 commission, in a lot of cases when there's been large
8 increases, has used three-year amortization - three-year
9 periods supposedly or three movements, one-third- or
10 one-half-type approaches, sometimes referring to rate
11 shock and sometimes referring to gradualism.

12 Again, I think it depends on the person, which side
13 of the parity line they're on, how quickly they want to
14 move - want to move to it. It's just an idea of not just
15 all of a sudden jumping one class of customers' rates
16 increase or cost increase, why - you know, by substantial
17 or greater than other classes when you've had numerous
18 rate proceedings that say these rates are fair, just, and
19 reasonable and all of sudden this class needs a ten
20 percent and another class needs no increase. There just
21 doesn't seem to be make - I think that's kind of the
22 basis of gradualism as opposed to rate shock, is that
23 there are problems that are - that go on in these studies
24 and - and movement towards them.

25 New theories will come up and change the idea of

1 where you're going to be. I - I don't have a specific
2 time frame that says you're supposed to get there in
3 three years, four years, two years, one year.

4 CHAIRWOMAN SHOWALTER: This is more of a comment
5 than a question, but we had a little discussion about
6 this same issue yesterday in the Avista settlement case,
7 and part of it is that you tend to be looking at these
8 questions only in the contention of a general rate
9 increase rate case. That's when the company wants more
10 money, that's usually when there are going to be other
11 increases. And so it - it - aggravates the rate shock
12 issue to be dealing with a general rate increase and at
13 the same time reallocating the rates among customers.

14 So general rate cases tend to be never the right time
15 to go - get very far toward parity. The right time seems
16 to be when things are going well, when some kind of
17 surcharge is coming off, or somehow there's a little
18 wiggle room to make an adjustment that doesn't have such
19 a big effect. But we tend not to be in proceedings at
20 those times.

21 Yesterday we had discussion of - of, well, when a
22 certain deferral account gets down to zero and a
23 surcharge needs to be removed, that's a good time. I
24 don't think - maybe there is a similar period here. Is
25 there any time, whether it's a date certain or a type of

1 event, that would likely be a better time to make some
 2 adjustments toward - toward parity than, say, today?

3 MR. LOTT: I - I generally agree with that last
 4 comment. It always seems to me when I was working with
 5 the commission, well, we're going to move one-third, but
 6 when are we going to move the other two-thirds. But on
 7 the other hand, one of the things we're doing with this
 8 case is, when there's a major discrepancy, you know, in a
 9 class or different Schedule 31, 126 problem, or the
 10 Schedule 448 problem, is we've designed things that will
 11 get there or it's - we didn't do it at all at once. We
 12 didn't make 31 jump up to 26's levels.

13 In this case we're proposing three-step phase-in of
 14 those type of things. So when we see a major
 15 discrepancy, I think we need to design something to get
 16 there.

17 When - when Jim has referred to 90 to 110 percent
 18 range as being in the range of normal range to move
 19 towards parity, but said when you're sitting there with
 20 449, something so far out of that bracket, you can't do
 21 that. You can't sit there and say 449 should be paying
 22 200 percent and on gradualism move them down to 167
 23 percent. That wouldn't be fair to - you know, never go -
 24 never - never have a plan to get them down closer than
 25 100 - than 90 to 110.

1 So our plan is to get Schedule 448, 449 down into
 2 that range of reasonableness in a relatively quick period
 3 of time.

4 The Schedule 31, 126 is not that 90 to 110 percent
 5 range problem. It's a problem with two schedules, that
 6 there's just this incentive that's inappropriate between
 7 the two schedules and therefore we have a - we - we are
 8 looking forward. We're not doing it all at once because
 9 there are customers on Schedule 31 who won't appreciate
 10 being moved up towards the cost of service that quickly,
 11 doing it in one year. So when there's that much
 12 discrepancy, the problem you're trying to resolve - but
 13 again, you look at all the problems, you look at the
 14 range of reasonableness.

15 I'm not saying that 90 to 110 is the proper range of
 16 reasonableness. I think it's an idea, though, to
 17 consider - consider the, you know, problem with cost of
 18 service studies in the first place.

19 And to me, yes, if there is a major problem, I think
 20 you need to look forward and try to say, How are we going
 21 to resolve this problem? And we did that in this case
 22 related to two issues. We did that in Northwest Natural
 23 Gas case, with industrial customers. We moved them to
 24 cost of service in order to give those medium-sized
 25 industrial customers in that area rates they really could

1 utilize. And I think when you see a major problem, you
2 have to figure out a way to resolve it. But I think when
3 you have minor problems, you can live with them.

4 MR. LAZAR: Just a couple of points. First of
5 all, there's no consensus on how to measure parity.
6 There are as many ways of measuring cost of service as
7 there are people doing testimony.

8 And secondly, there's no consensus that parity itself
9 should be a goal. In some jurisdictions commissions have
10 found that some classes of customers are riskier than
11 others and should pay a different rate of return than
12 others. On Puget System the secondary general service
13 class, which is the one paying the premium over parity as
14 we've measured in this exhibit, is also the class that's
15 been growing by far the fastest. And all sorts of
16 arguments about, well, shouldn't they be allocated some
17 of the costs of growth? We haven't had those arguments.
18 We're not presenting anything to you in the stipulation
19 on that. But those are issues that come up when you
20 start talking about whether parity itself should be a
21 goal.

22 JUDGE MOSS: Okay. And it is a small point, but
23 for the clarity of the record, we have had several
24 references by various witnesses to "Jim," and that would
25 be Mr. Lazar for the record. And I would ask that we try

1 to use surnames for the purposes of a clear record. I
2 recognize you all have spent quite a bit of time together
3 over the last few months and know each other quite well
4 by now. Some other commission ten years from now may not
5 know who Jim is. Or may. You may be seeing Mr. Lazar.

6 UNIDENTIFIED PERSON: I think I might be
7 interrupting a phone call here.

8 JUDGE MOSS: All right. You are actually
9 interrupting a hearing, and so I'd appreciate it if those
10 on the conference bridge line would remain silent. And
11 if you have called in by mistake, you can hang up now.
12 Thank you.

13 All right. Question No. 10, and the reference here
14 is to the stipulation on rate spread. There's a table
15 again on Page 2. We had a question about this before and
16 some or all may have been responded to, but let me read
17 this question and we'll see.

18 The proposed rate spread includes firm resale with a
19 37.3 percent increase. What is this class? Are these
20 wholesale transactions that are not jurisdictional to
21 this commission? How can costs be allocated to this
22 class? And please explain.

23 MR. LOTT: Other than the last question, I think
24 we've answered all of these questions.

25 How can cost be allocated to this class? Because

1 they created costs. But they are - they are firm
2 customers, so that's --

3 JUDGE MOSS: These are the ports and --

4 MR. LOTT: These the ports.

5 JUDGE MOSS: Well, you said the last part hadn't
6 been answered --

7 MR. LOTT: That's how you can allocate cost to
8 them. We can allocate cost to them because they create
9 cost and they are firm customers, so there is --

10 JUDGE MOSS: I thought we had covered that
11 ground but wanted to be certain. All right.

12 Are there any more questions from the bench
13 concerning the rate spread at this time? Apparently not.

14 Well, with that, then, I think what we'll do is . . .
15 We'll - we'll excuse this panel subject to recall . . .

16 And did I see a hand go up? Mr. Quehrn, just
17 stretching.

18 We'll excuse this panel subject to recall as before
19 and the next panel will be the rate design panel.

20 UNIDENTIFIED PERSON: Which is the same panel.

21 JUDGE MOSS: Which is the same panel. Okay. It
22 is the same panel for rate design. So rather than take a
23 break now, we'll press ahead and see how much time it
24 takes us to get through this, and perhaps we will be able
25 to complete it prior to our usual afternoon break.

1 So let us begin.

2 First question: We understand the rate design
3 proposals to implement the following general themes:

4 A. Remove seasonal differentiation in energy
5 charges;

6 B. Implement or preserve seasonal differences in
7 demand charges;

8 C. Rebalance between certain schedules to remove
9 disparities.

10 Is this a correct interpretation of the intent of the
11 parties? And have we missed any themes?

12 MR. LAZAR: Yes. This is a correct
13 interpretation. I would add three things.

14 First is to simplify rates where - where that could
15 be done easily. Best example is the residential rate,
16 the elimination of the seasonality. We had input from
17 the companies' customer service people who actually
18 answer the phone, and they said that the seasonal
19 changeover and prorate of bills at that time was very
20 confusing to customers. And since we were looking at
21 removing seasonality, that simplification was an - an
22 attraction to making that change.

23 A second was to increase the eversion of the
24 residential rate to reflect the cost characteristics of
25 residential usage.

1 And a third was to, in the large user schedules, to
2 try and set the demand charges equal to the demand costs
3 as measured in the cost study.

4 JUDGE MOSS: Okay. Number 2. And we may wish
5 to - wish to refer to Mr. Pohndorf's testimony, Exhibit
6 535, Page 7, and Mr. Lazar's testimony, Exhibit 553, Page
7 2, specifically Lines 4 through 14.

8 The parties support the elimination of the seasonal
9 rate structure with the argument that, quote, there is
10 little difference between summer and winter marginal
11 energy costs, close quote. This is a departure from
12 previous theory. Is this based on experience or on model
13 projections? Please explain and provide any available
14 evidence to support this departure.

15 So perhaps if there's some elaboration on your last
16 response, Mr. Lazar, or if someone else wishes to speak
17 to this . . .

18 MR. POHNDORF: I think I'll start and then
19 Mr. Lazar can add that - add his points.

20 We looked at a model projection from the aurora model
21 and it was part of the response to a Public Counsel
22 Request 19 that indicated marginal energy costs are not
23 largely different on a projected basis, summer to winter.

24 We also looked at our recent experience - again,
25 it's - it's in energy cost not - not capacity cost - and

1 saw a similar trend. This is different than things were
2 last time we were in a general rate case.

3 CHAIRWOMAN SHOWALTER: How recent is the Aurora
4 model - or the Aurora projections that were being used?

5 MR. POHNDORF: They were run for this case. I'm
6 not exactly sure on what date they were run. I don't
7 know if --

8 MR. LAZAR: We received the response, I believe,
9 in February of this year. And when we - during the PCA
10 collaborative, we referred to these and there wasn't a
11 newer set of results shared with us at that time.

12 MR. POHNDORF: The model was run on
13 November 15th, 2001.

14 CHAIRWOMAN SHOWALTER: I'm just wondering, if
15 either the data or the model, one or the other, were
16 affected basically by events, would it be the same today?
17 Or would those types of projections be the same? Or has
18 anyone observed any trends in forward prices and that
19 kind of thing?

20 MR. LAZAR: The forward prices show sub -
21 somewhat higher summer prices than winter prices. That
22 is consistent with the Aurora model results of the
23 Northwest Power Planning Council, produced prior to the
24 energy crunch back in April of 2000. I served on their
25 regional technical forum and those were showing summer

1 prices slightly higher than winter prices.

2 The company's - Aurora results showed summer off-peak
3 prices lower than winter off-peak prices and summer
4 on-peak prices higher than winter on-peak prices. But
5 taken as a whole, not much differentiation at all.
6 That's as shown in the response to Public Counsel Data
7 Request 19. I think we have copies - you asked for
8 available evidence and we do have, I think, copies of
9 that available for the bench if you'd like.

10 MR. FFITCH: That's correct, Your Honor. We had
11 copies made of the response to Public Counsel Request
12 No. 19, and I can tender those now for the record if you
13 would like us to do that.

14 JUDGE MOSS: All right. I had - I think that's
15 an idea we will subscribe to and . . .

16 MR. LAZAR: Now, I also have, but have not
17 printed, the power planning council's results from late
18 '99, early 2000 era, before the crunch happened. I don't
19 have results from them during or post-power crunch; that
20 is, May 22, 2000 through June 1st, '01 I refer to as the
21 power crunch period. But these are 10, 15, 20-year
22 forecasts. They shouldn't be heavily influenced by
23 short-term events.

24 JUDGE MOSS: All right. I'm going to mark as
25 Exhibit 529 what bears the title "Loss Adjusted Power

1 Cost at COB" - I should - COB is California-Oregon
2 border, and that will be a bench exhibit. And absent
3 objection, it will be admitted as marked.

4 MR. QUEHRN: Your Honor.

5 JUDGE MOSS: Yes.

6 MR. QUEHRN: No objection. This isn't clear if
7 it was the complete response. As long as we could have
8 the complete response in the record, that would be fine
9 with the company.

10 JUDGE MOSS: This was response to data request
11 which --

12 MR. QUEHRN: 19 - Public Counsel's 19.

13 JUDGE MOSS: All right. So the response to be
14 Counsel Data Request 19, which is - includes the loss
15 adjusted power cost at California-Oregon borders, as I
16 just described it, we can have the full response
17 submitted for the record so that the exhibit is complete.
18 And you can furnish that either later today or tomorrow.

19 MR. QUEHRN: Thank you, Your Honor.

20 JUDGE MOSS: Thank you.

21 Had the witnesses completed their response to
22 Question 2?

23 MR. LAZAR: I also looked at some historical data
24 and I worked on this for a number of years, and it was
25 based on history that I made the statement in my

1 testimony that comes up in one of the - your Question 5.
2 And except for the power crunch period, recent history of
3 actual has also been slightly higher in the summer than
4 the - than the winter.

5 It's a big change from where we were 20 years ago.
6 Twenty years ago, we had a strong winter seasonality, but
7 the California dog seems to be walking the Northwest
8 tail.

9 JUDGE MOSS: Mr. ffitch, did you have something?

10 MR. FFITCH: I was just going to inquire what
11 exhibit number had been attached to this document.

12 JUDGE MOSS: 529.

13 MR. FFITCH: 529.

14 JUDGE MOSS: All right. Let's look at
15 Question 3 on our matrix. And again, the reference is to
16 Mr. Lazar's testimony, Exhibit 553, at Page 2. This may
17 have been answered in part, but let's see if there's some
18 elaboration.

19 Mr. Lazar argues that one justification for
20 increasing the end block retail rates by 150 percent of
21 the average increase is that the company has limited
22 amounts of low cost energy. Did the parties use any data
23 to size the blocks to the amount of low cost energy
24 available to the company? What will be the actual rate
25 for this block?

1 MR. LAZAR: In the collaborative we did not use
2 any data to size the block. That is the existing block
3 size and it was not studied for change. It was studied
4 for change, I believe, in the '89 proceeding, but it had
5 been - been 400 kilowatt hours and was increased by the
6 commission to 600 at that time.

7 The actual rate for this block before the residential
8 exchange credit will be 6.27 cents per kilowatt hour.

9 JUDGE MOSS: Okay. Let us look at Question 4 in
10 our matrix. Continuing on this point, if the company's
11 loads vary seasonally and the company has insufficient
12 low cost energy to meet higher winter loads, isn't it
13 faced with seasonal differentiated energy costs? How can
14 we square this with the statement that "Energy rates
15 should no longer be seasonally differentiated because
16 costs or value do not vary by season"?

17 MR. LOTT: I think both me and Jim Lazar refer
18 to the fact that because of the tail block rate would be
19 more utilized during the winter - during the winter heat
20 load, that the average rate that these customers would
21 pay would be substantially higher during the winter than
22 during the summer. So there - I mean that is part of the
23 answer, as you're looking for collection of the higher
24 cost, and the average rate being charged to these
25 customers will be substantially higher during the winter

1 if the loads are higher during the winter.

2 MR. LAZAR: Because hydro is - is a - can be
3 stored and in the Northwest is stored for use in the
4 winter, the - the low cost energy is available in the
5 winter. The 600 kilowatt hour initial block is not -
6 does not change by season. For example, in Seattle's
7 system, it's a different size block summer and winter on
8 this existing and proposed rate. So for Puget it's 600
9 year-around.

10 It might be easier analytically to think of this as
11 dedicating the benefits of the - economic benefits of the
12 low cost resources to meeting essential needs of
13 customers, which is what the commission adopted when it
14 adopted the baseline rate concept back in the generic
15 rate proceeding under 7805.

16 One of the goals of this rate design was to get that
17 tail block fairly close to the market cost of energy,
18 plus the delivery costs at the load factor of upper block
19 usage for residential customers and holding down the
20 initial block allow that tail block to more accurately
21 reflect the cost of serving customers' discretionary
22 usage.

23 JUDGE MOSS: Okay. Mr. Lazar, you've already
24 referred once to our Question 5, but I'll put it in the
25 record and we'll see.

1 Mr. Lazar states, quote, For the past five years or
2 so, summer energy prices at trading points in the
3 Northwest have been higher than winter prices, close
4 quote.

5 The reference there is to page - well, I can't make
6 that reference. But anyway . . .

7 This seems startling and inconsistent with our
8 experience for years outside of 2000 and 2001. It appears
9 not to be the case this year, for example.

10 Is this statement right?

11 MR. LAZAR: The statement is correct. It is
12 correct for this year so far. It appear - the forward
13 prices for the summer are significantly higher than the
14 prices from the winter that we've immediately come
15 through. The summer prices were higher in '99 than the
16 winter prices. And, of course, from the May of 2000 to
17 June of 2001, we had chaos and I don't want to ascribe
18 much meaningful long-term predictably to what happened
19 between the announcement of the drought on May 22nd and
20 the FERC "must offer" order that took effect at the
21 beginning of June and helped bring order back - back to
22 the marketplace.

23 But the - looking back, the last five years, except
24 for the crunch, it's been true. Looking forward, in the
25 forward markets, it appears to be true. It may be useful

1 to pose that question to Mr. Gaines who will be on the
2 PCA panel as well. He's in that market every day that
3 he's not in this hearing room.

4 CHAIRWOMAN SHOWALTER: Are there - are there any
5 distinctions to be made between forward prices versus
6 short-term prices versus spot market prices? I'm trying
7 to see why there appears to be confusion on this point
8 but - or, for example, what about the forward prices for
9 the next winter - next winter?

10 MR. LAZAR: I think questions on the forward
11 market should be put to Mr. Gaines --

12 CHAIRWOMAN SHOWALTER: Okay.

13 MR. LAZAR: -- when he's on the stand tomorrow.

14 JUDGE MOSS: He must be out in the market. I
15 don't see him here.

16 All right. Let's look at Question 6. Mr. Lazar
17 states that more steeply inverted rate design ensures
18 that customers with lower levels of usage do not
19 subsidize large users.

20 This statement appears to assume high wholesale
21 prices. Would low wholesale prices change the direction
22 of any subsidy? And perhaps we should talk about
23 confirming or not the assumption first, Mr. Lazar.

24 MR. LAZAR: Yeah. It does not assume high
25 wholesale prices. And so that assumption is incorrect.

1 There are two different approaches that we discussed
2 in the collaborative that support the steeply inverted or
3 the inverted block rates. Even with this change, this
4 company will have the least steeply inverted rates of the
5 three regulated utilities in the state. Pacific and
6 Avista have more steeply inverted rates.

7 The first methodology is the baseline methodology
8 that the commission adopted and has implemented over the
9 last 22 years, that an initial block, to meet essential
10 needs, should be priced at a low cost and that - the
11 genesis of that was originally hydro allocation of each
12 company's limited hydro power.

13 But the second methodology that we discussed within
14 the collaborative is to recognize that upper block usage,
15 and in particular space heat usage, has a very poor load
16 factor. Those big transformers sit out there all year
17 waiting for a cold day in the winter to arrive, and if
18 you don't charge a higher price for the energy that flows
19 on those - on - on those high-load months, you're
20 shifting the costs to the low-load period.

21 The wholesale cost - the rate design analysis that I
22 prepared and presented to the collaborative was a part of
23 the - the discussions, certainly not all of it, showed
24 that with a 3.7 cent winter wholesale cost, the delivered
25 cost of energy for space heat, including the production,

1 transmission, distribution, demand costs, and losses, and
 2 so forth, that 3.7 wholesale cost of energy translates
 3 into a 9.25 cent retail cost of energy to meet space
 4 heating loads because of the very poor load factor of
 5 space heating usage, because all of the capacity has to
 6 be available from generation down to the transformer at
 7 your houses all year to provide that type of service.

8 Customers who have gas heat already pay for the
 9 comparable costs in their gas rates, which is why
 10 residential gas rates are so much higher than those for
 11 other classes. And using the load factor approach, you
 12 can melt all of the power together, ignore the hydro
 13 allocation concept, and you still get a pretty steeply
 14 inverted block rate. Because to meet nonheating
 15 residential uses, about 5 cents a kilowatt hour by the
 16 same methodology, so 5 cents for nonheat, 9 cents for
 17 space heat, based on the same wholesale power cost.

18 JUDGE MOSS: Okay.

19 CHAIRWOMAN SHOWALTER: I was following that, at
 20 least toward the end. But I'm trying to tie it back to
 21 the question of - of why it is or isn't a subsidy?

22 MR. LAZAR: By giving every customer an - a
 23 price for their nonheating use that is commensurate with
 24 the cost of serving nonheating use, which I said is about
 25 a nickel.

1 CHAIRWOMAN SHOWALTER: Right.

2 MR. LAZAR: And a price for the heating use,
3 which is commensurate for the supplying heating use,
4 which is about 9 cents, you have a cost-based rate, even
5 if you're starting from the same wholesale power cost for
6 everything. The inverted rate moves in that direction.

7 If you instead look at it as a hydro allocation,
8 giving everybody their share of the cheap hydro - which
9 on Puget system was a little over 600 kilowatt hours a
10 month at one time, last time I remember looking at it;
11 but the hydro's gone down and customers have gone up
12 since then - was a method that the commission had
13 repeatedly endorsed, the baseline rate concept.

14 CHAIRWOMAN SHOWALTER: Does this mean that
15 there's an assumption that space heating should come out
16 of the second block, or at least after the lowest block
17 is used for the lesser cost power? I mean --

18 MR. LAZAR: The commission made an explicit
19 finding that space heat was not an essential need and
20 should not be served out of the low cost baseline block.

21 But if you instead abandon all of that history and
22 just look at what would a cost rate base rate be today,
23 based on a uniform wholesale cost but recognizing the
24 differences in load factor between the end uses, you
25 would get almost exactly the rate designed that's in this

1 stipulation. You can get there either way.

2 And if you combine the two, you get a rate design
3 like Seattle's, with a three-cent initial block and 16 or
4 18-cent tail blocks.

5 JUDGE MOSS: All right. Let's look at
6 Question 7, and with that we're returning to
7 Mr. Pohndorf's testimony, Exhibit 535, and the references
8 to Pages 7 and 8.

9 Mr. Pohndorf states that there were common rate
10 design elements applied to nonresidential general service
11 customers. Yet the settlement appears inconsistent with
12 regard to only partial elimination of the summer-winter
13 rate differential for general service customers.

14 Please explain. And please reconcile Mr. Pohndorf's
15 testimony at Page 7, Lines 17 and 18 with Lines 3
16 through 25.

17 MR. POHNDORF: Thank you. I appreciate this
18 question, because it leads me to an error in my testimony
19 that I'm sorry about.

20 CHAIRWOMAN SHOWALTER: You don't know how good
21 that makes us feel.

22 MR. POHNDORF: We put this testimony together
23 quickly, as you may imagine, and there was a line left
24 over from an earlier draft. So I would like to direct
25 you to that so it could be stricken. And that is Page 7,

1 Lines 17 and 18 should be stricken in their entirety.
2 That statement is incorrect.

3 CHAIRWOMAN SHOWALTER: I hope it makes you feel
4 good that we're catching inconsistencies.

5 MR. POHNDORF: It does. I certainly appreciate
6 that.

7 CHAIRWOMAN SHOWALTER: So without that sentence
8 everything else flows.

9 MR. POHNDORF: It is consistent. And I believe
10 the rest of it explains why we do not fully eliminate
11 seasonal differentials. But if you have further
12 questions on that, we're happy to answer them.

13 MR. LOTT: I would also like to - when I read
14 George's testimony, I wasn't 100 percent sure whether it
15 represented staff's viewpoints. Why - particular, we're
16 looking at two schedules. We're looking at Schedules 24
17 and 25.

18 Schedule 24 is an - as you say, it's small commercial
19 customers, secondary service customers. Schedule 24 does
20 not have the demand charge. In all the larger classes
21 there is seasonally differentiated rates between, for
22 demand charges. The demand charges are therefore
23 included in the - in the energy rates. Unlike the
24 residential class, you do not have the inverted block
25 structures in the commercial class schedules, and

1 therefore the demand charges are not included in the - in
2 the same way that they could be compensated for in the
3 residential by having a large tail block, which means
4 that people that used high consumption during certain
5 times of the year would end up paying a higher price.
6 Okay.

7 Another issue that will to be taken into
8 consideration and one of the - there's multiple parts.
9 This is particularly related to Schedule 24, is what is
10 the impact on customers within the class. Are there
11 customers within the class that are getting substantial
12 increases because of the shift that you make. In other
13 words, when you eliminate the summer-winter differential
14 does this all of a sudden hit season because they're 100
15 percent. Summer customer, some park lighting, whatever
16 it is, you know, for baseball games or whatever the
17 situation may be, there could be customers in that class
18 who now, all of a sudden, get a huge increase because
19 their rate has jumped up to the winter rate which you had
20 been by totally eliminating it. So there were multiple
21 issues being looked at.

22 First of all, the demand charges - again, I'm looking
23 at Schedule 24 - the demand charges are seasonally
24 differentiated and there is nothing in Schedule 24 to
25 compensate for that, other than energy charges. Okay.

1 And second of all, there was concern about making
2 sure that customers within a class didn't get more than
3 about 50 percent of the average increase that class took.
4 So if a class took a six percent increase we were trying
5 to avoid a customer in that class getting more than like
6 a nine percent increase. So that's some of the reasons
7 we kept some of those seasonal differentiation in there.
8 There are more reasons associated with that.

9 Schedule 25, the seasonal differentiation in the
10 energy rate is in the first block for the first 20,000
11 kilowatt hours. Those charges are related to the demand
12 charge for that first 15 - 50 kilowatts of demand. The
13 company has no - no demand charge for the first 50
14 kilowatts of demand in Schedule 25. That - that amount
15 is in the differential between the first block and the
16 second block.

17 Now, again, the rate is not even an inverted block
18 rate, it's a declined block rate. That decline is
19 because you're removing the demand charges in the second
20 block. Those demand charges are paid - are paid through
21 a direct demand charge. Therefore the addition to the
22 price in Schedule 25 is directly - and this is, I think,
23 the area I had a little problem with George's testimony,
24 caught it too late. But the - the increase in - and the
25 reason why the winter rate in Schedule 25 is higher is

1 directly related to the demand charges in Schedule 25
2 being higher during the winter than they are during the
3 summer in the remainder of Schedule 25 for loads above 50
4 kilowatts. And therefore the difference in the
5 summer-winter and the initial block in Schedule 25 is
6 related to the differential in the demand charges.
7 So . . .

8 JUDGE MOSS: Okay. And again, for the clarity
9 of the record, the reference is to George or to
10 Mr. Pohndorf.

11 MR. LOTT: Sorry.

12 JUDGE MOSS: That's fine.

13 MR. LOTT: I apologize.

14 JUDGE MOSS: That's fine. All right.

15 Reference for Question 8 is to the rate design issue
16 agreement, which is part of Tab E. And we're looking
17 specifically at the Paragraph No. 7, which is on Page 2
18 there. Please describe the effect of the agreement to
19 provide refunds to Internet Service Providers for costs
20 charged to those customers under then-existing line
21 extension policy. Were these customers charged amounts
22 inconsistent with or in violation of the existing
23 approved policy? Is this a rebate?

24 Please explain the rationale, details including
25 magnitude of refunds, and legal basis. And I think we

1 may need to hear from counsel as well as from witnesses
2 with respect to this particular question.

3 CHAIRWOMAN SHOWALTER: And - and actually,
4 before you do, one other question. Looking at the
5 Internet Service Provider section, it says, "based upon
6 the line extension policy in effect as of the date
7 below," and I would like to know what "the date below"
8 refers to, and then the rest of the questions.

9 MS. DODGE: "The date below" refers to the date
10 that the issue agreement was executed. And just so you
11 know, it was a - I think it originally read "the current
12 line extension policy," and that was just clarified, so
13 we have a fixed date.

14 JUDGE MOSS: So that was the policy - or
15 actually the tariff, I should say, the tariff schedule in
16 effect. That's Tariff Schedule 85 and line extension.

17 CHAIRWOMAN SHOWALTER: But what was the date?

18 JUDGE MOSS: June 5th, 2002.

19 MS. DODGE: It's still in effect now.

20 JUDGE MOSS: Currently in effect.

21 Okay. With that clarification, Mr. Pohndorf is
22 leaning forward so he's no doubt primed to give us a
23 response.

24 MR. POHNDORF: These customers, and there are
25 three of them, served under special contracts until this

1 rate case is decided. Those special contracts called
2 for, in this rate case, these customers being put onto a
3 general rate. And the application of the line extension
4 policy is - as described in the settlement stipulation,
5 is part of the process of putting them onto Schedule 31.

6 These are customers who have paid up-front for
7 facilities that they do not own or operate. And that
8 is - that - that is - the intent of applying line
9 extension policy is to make them like Schedule 31
10 customers so we have a rate - a rate of general
11 applicability to handle them - handle those customers on.
12 The amount is about one and a half million dollars let's
13 - and that's as for the amount.

14 CHAIRWOMAN SHOWALTER: That's the amount of?

15 MR. POHNDORF: Of the refund.

16 CHAIRWOMAN SHOWALTER: Is this a refund under a
17 special contract or under new tariffs?

18 MS. QUEHRN: Are you directing the question --

19 JUDGE MOSS: I think the question needs to go to
20 counsel. This is essentially a legal question. As I
21 understand the situation, the - the - these customers -
22 these Internet Service Provider customers have initiated
23 service under their existing special contracts. Those
24 special contracts have provisions which require that they
25 pay for the installation of certain facilities, and this

1 provision of the settlement stipulation appears to
2 contemplate they will be refunded the payments they have
3 already made under those special contracts, which I might
4 note are considered to be tariffs under our law in this
5 state.

6 And so the question - our questions are addressing
7 that point and our concerns with what that might imply in
8 terms of the statutory prohibition against rebates.

9 MR. QUEHRN: Thank you, Your Honor. I just
10 wanted to make sure that the question was directed to the
11 company and we'll have Mr. Glass respond to the question.
12 Thank you.

13 JUDGE MOSS: Okay. Mr. Glass, have you entered
14 an appearance in this proceeding?

15 MR. GLASS: I did about a month ago in this
16 proceeding with the King County settlement.

17 JUDGE MOSS: That's fine. Thank you very much.

18 MR. GLASS: And when these Internet data centers
19 were put onto special contracts, it was contemplated that
20 at the end of that period, at the end of this rate case,
21 they would go onto a rate of general applicability. At
22 that time the company required them, through their
23 special contracts, to pay completely up-front all of the
24 costs of the facilities that were installed for service
25 to those customers. That total cost amounted to, I

1 believe, 1.5 million for all three customers.

2 Now, they are - as a result of this settlement,
3 they're going to be placed on Schedule 31. They - and -
4 they are - they sort of fall between. Because of the
5 voltage of their service and the type of service, they
6 need somewhere between 31 and 49, but they have been
7 placed most appropriately under 31. Under Schedule 31,
8 the line extension policy would enable them to have a
9 revenue credit for the costs that they have paid up-front
10 for the facility that ultimately will remain owned and
11 operated by the company.

12 UNIDENTIFIED PERSON: Hello.

13 JUDGE MOSS: Go ahead.

14 MR. GLASS: In - in order to place them into
15 this category of customers and to treat them equally as
16 other customers are - are - they need to or be afforded
17 these - these credits, basically, under the current line
18 extension policy so that they will basically be placed
19 into this same category. It would be under Schedule 31
20 and 85, it - you would not have them pay their full costs
21 up-front without any credit.

22 So it's sort of a creature of timing and transition
23 that, in order to get them onto Schedule 31, the company
24 deems it appropriate to give them the credits that they
25 would deserve under Schedule 85.

1 CHAIRWOMAN SHOWALTER: You mentioned 31 and 85.
2 I'm not sure which is correct, but in any event, if a
3 brand-new customer comes and is on one or the other --

4 MR. GLASS: Schedule 31 is the type of electric
5 energy they get. Schedule 85 is particular to the line
6 extension policy.

7 CHAIRWOMAN SHOWALTER: So if there is a new
8 customer who has paid for some - some facilities already,
9 not paid to Puget, but somehow installed them, then are
10 you saying that that new customer would not have to -
11 well, obviously wouldn't have to pay because they
12 wouldn't have incurred the cost.

13 MR. GLASS: If I understand your hypothetical,
14 if there was a new customer coming onto the system, would
15 be served under Schedule 31, that had or was in the
16 process of paying for facilities or had paid for
17 facilities that would then become owned and operated by
18 the company for provision of service under Schedule 31 to
19 those customers, they would get the same type of credit
20 under Schedule 85 as we are proposing to do to these
21 Internet data center customers.

22 CHAIRWOMAN SHOWALTER: Well, they would get -
23 they would get a credit, they wouldn't get a refund.

24 MR. GLASS: They would get a credit under
25 Schedule 85. It's - yes.

1 CHAIRWOMAN SHOWALTER: I guess the question
2 we're trying to get at, I think, is there - there may be
3 equities here, I'm not saying there aren't, but we're -
4 we're trying to determine under the law whether these
5 customers were obligated to do something under our tariff
6 and did it. And that was then and this is now, and that
7 it's difficult to reach back --

8 MR. GLASS: Right.

9 CHAIRWOMAN SHOWALTER: -- under a tariff unless
10 there's something that says we can do it.

11 MR. GLASS: It would not be my word to use
12 "refund" at all with respect to this situation. It is a
13 credit that is afforded under Schedule 85, which is the
14 line extension policy. That would be the correct way
15 legally, I think, to categorize this.

16 CHAIRWOMAN SHOWALTER: Mr. Cedarbaum, do you
17 have any comment?

18 MR. CEDARBAUM: I - not beyond what Mr. Glass
19 has stated. That's my understanding of - of that
20 situation and I agree with his interpretation of how it
21 should be interpreted legally. And I - it sounds to me
22 like our use of the word "refund" in the stipulation was
23 probably just a bad idea and that we should have said
24 "credit" instead and would have helped clarified things.

25 CHAIRWOMAN SHOWALTER: That word wouldn't have

1 jumped out at us.

2 MR. CEDARBAUM: It was the sets of eyes you were
3 talking about helped out in this situation.

4 COMMISSIONER HEMSTAD: It might have obfuscated
5 it a bit more.

6 MR. CEDARBAUM: I wouldn't put it that way.

7 CHAIRWOMAN SHOWALTER: Well, I - I - so then - I
8 guess, then, the question is, if these customers go onto
9 Schedule 31 and are eligible under 31 for a credit
10 apparently, or - or in general customers are eligible for
11 a credit, then is - does - is the credit under 31 going
12 to operate in the same way it would to any customer? Or
13 are we doing something unusual in our administration of
14 this credit?

15 MR. CEDARBAUM: I think it's probably best for
16 Mr. Glass to answer that one, because he's been a lot
17 more involved with the details of this.

18 MR. GLASS: The credits for the line extension
19 come through operation of Schedule 85. And that is
20 correct - you are correct that every other customer
21 under - that has served with electric service under
22 Schedule 31 that has this type of facilities will get
23 credits under Schedule 85 for the cost of their line
24 extension that they have paid for.

25 JUDGE MOSS: So it treats everybody the same.

1 MR. GLASS: Correct.

2 JUDGE MOSS: So there's no problem with
3 discrimination with customers similarly situated.

4 MR. GLASS: Correct.

5 JUDGE MOSS: Thank you. Appreciate the
6 clarification.

7 All right. That brings us to Question 9, which is
8 the final question in this set. And the reference here
9 is to the rate design issue agreement at Page 3, where
10 Subsection 7 continues. Certain rate adjustments are
11 proposed for Schedules 448, 458, 449, and 459. These
12 involve new Schedules 126 and 127 and have been mentioned
13 in both the revenue requirement and the rate spread
14 stipulations.

15 Please help us understand what the parties are
16 addressing with these adjustments. Again, I note some of
17 these points have been addressed previously, but perhaps
18 if we could have a succinct response to this question
19 here, it would be helpful.

20 MR. LOTT: You're right. We've tried to answer
21 this, I think, related to another collaborative panel.

22 Again, 126 is a surcharge on Schedule 448, 449
23 customers. And Schedule 127 is intended to be a credit
24 to all other customers, all other sales customers, that
25 the company has. I believe that's the correct schedule.

1 This thing is of a - the surcharge is intended to
 2 approximately three million dollars over the next year.
 3 That surcharge is, as I described before, a phase-in of
 4 the great reduction caused by the changes that we
 5 discussed earlier. These are the changes associated with
 6 - I think Ms. Harris response to Chairwoman Showalter
 7 tried to describe the pieces included in the current
 8 rates. These customers are receiving a substantial
 9 decrease and over this - I don't want to get into this
 10 two-year, one-year period - by July of next year, if this
 11 thing's approved and that decrease is being phased in.

12 And that is the purpose of this thing, rather than
 13 putting in a rate that would be higher than this and
 14 having to file a new Schedule 48 - I mean 448 and 449
 15 next year. This surcharge represents the 44 - you know,
 16 when you add to the rest of the 448 rates, that
 17 represents the rates 448 customers would get for the
 18 first year. Then once removed, now we have 448 where we
 19 believe it belongs at the end of this process.

20 MR. SCHOENBECK: I guess I would simply - and I
 21 would characterize it as - I guess I would just simply
 22 characterize that the schedule as a - as a mechanism to
 23 transition from a bundled delivery rate, "bundled" being
 24 both transmission and distribution costs, as well as
 25 ancillary services, to - to a truly unbundled delivery

1 rate. And it's just a vehicle to get to the endpoint at
2 the end of the phase Mr. Lazar alluded to.

3 JUDGE MOSS: All right. That brings us to the
4 end of this particular matrix. And let me ask if there
5 are additional questions regarding rate design? All
6 right.

7 We'll go ahead - we'll keep the panel for now and
8 we'll take our afternoon recess for 15 minutes. So
9 around 10 before the hour by the wall clock. We're in
10 recess.

11

12 (Brief recess.)

13

14 JUDGE MOSS: All right. Let's be back on the
15 record.

16 I - I have one follow-up question, which is in the
17 form of a bench request. And I'd draw your attention,
18 Mr. Lazar, and yours, Mr. ffitich, as counsel. The bench
19 request - Mr. Lazar you referred a number of times in
20 your responses to certain forward prices. I believe
21 those may have been California-Oregon border forward
22 prices. The bench request would be if you could provide
23 us with supporting documentation regarding those forward
24 prices. Is that something that you could provide to us?

25 MR. LAZAR: I believe that it would be more

1 effective to have Mr. Gaines to provide that when he's on
2 the stand tomorrow. And he has just indicated that he
3 thinks he can do --

4 JUDGE MOSS: I wonder if there's similar data
5 available with respect to the mitsey (phonetic).

6 MR. LAZAR: Yes, there is.

7 JUDGE MOSS: Mr. Gaines has been out in the
8 market this afternoon, has the most current data for us.
9 His colleagues can explain the joke later. All right.

10 Well, we'll expect to receive that in response to the
11 bench request and - why don't I do this. I'll go ahead
12 and reserve No. 575 for it. That's at the end of our
13 exhibit numbers.

14 MR. LAZAR: My reason for deferring that is, I
15 see these when I met my client in California, and my
16 access to them from here is not very good and Mr. Gaines
17 has easier access to equivalent data here.

18 JUDGE MOSS: Sure. Thank you. Just so we get
19 it, that's the concern.

20 All right. Were there any follow-up questions from
21 the bench or shall I turn it over to the chair?

22 CHAIRWOMAN SHOWALTER: Do you want to excuse the
23 witnesses?

24 JUDGE MOSS: I suppose that would be polite of
25 me to do that. This witness panel is excused subject to

1 being recalled.

2 CHAIRWOMAN SHOWALTER: Okay. Let's have a
3 process discussion. We've - we've finished the first
4 three sections. First question, and I - it's probably
5 for the counsel to answer - is, does anybody have
6 heartburn if the commission puts on a separate track the
7 city's undergrounding issues? And by "separate track" I
8 mean potentially get an order on it out before an order
9 on the other matters?

10 Real question is, is this severable or is this
11 enmeshed in any way? And if it is, tell us, with the
12 other issues when.

13 MS. DODGE: I think that in terms of - the
14 settlement as a whole is integrated. I think it causes
15 everyone a lot of heartburn to take anything out. In
16 terms of practicalities of rates or otherwise, I do not
17 believe that there is substantive overlap with other
18 areas.

19 CHAIRWOMAN SHOWALTER: Anyone else want to add
20 to that?

21 MR. CEDARBAUM: I think I agree with that, that
22 that as a substantive matter, the city's issue is not
23 interrelated with everything else and could be broken
24 out. And I don't think staff would object to that
25 happening. I would just indicate, though, that - that I

1 think it is a - is an exception to our settlement that
2 really does present everything else as a package and
3 we've heard about that, but the remaining pieces are very
4 much interrelated. But as to the city's issue I don't
5 think staff would have any heartburn, as you say, with
6 respect to that.

7 JUDGE MOSS: If I might interject.

8 Mr. Charneski has been here today, but did not enter
9 an appearance this morning. He's representing one of the
10 cities in the case. I would like to give him the
11 opportunity to enter his appearance at this time and make
12 a statement.

13 MR. CHARNESKI: Yeah, I didn't earlier because
14 Kent had not intervened with respect to any of the other
15 issues that have been addressed. But certainly state on
16 this issue I think part of the concerns about putting it
17 on a separate track is that, as you know from litigation
18 filed last fall - or argued last fall, a number of cities
19 had potential concerns with projects that would be
20 delayed. And I can't speak for anyone now except Kent,
21 but I will say Kent does not have that concern now
22 because interim agreements have been worked out so that
23 the projects are moving forward subject to adjustment
24 later to be consistent with any order the commission
25 might enter. So I don't want you to think that Kent is

1 being held up on projects if you don't go ahead and order
2 or rule separately, in all fairness.

3 MS. DODGE: I should just probably add that be -
4 I noted that the representatives for the other cities
5 isn't here, maybe because we're on calendar a fixed time
6 1:30 tomorrow, and probably should be heard as well.

7 CHAIRWOMAN SHOWALTER: Well, I'm assuming and we
8 can confirm it tomorrow afternoon that the cities in
9 general very much want an order by July 1 because of the
10 construction schedule. I'm not sure I even want to ask -
11 start to ask questions about constructions and contracts
12 subject to a later tariff. But - but I'm - I'm assuming
13 that the cities do have a compelling reason, although we
14 would ask them about that tomorrow.

15 So my real question to this crowd is: Is there
16 anything substantive that would be problematic if we put
17 it on a separate track?

18 I fully understand the sense that everybody has
19 worked on this together and everyone would like the issue
20 decided by July 1. We're just trying to be practical.
21 And - and what I hear so far is it would be disappointing
22 not so much to have the cities issue handled separately
23 so much, as not to finish the rest of the issues also by
24 July 1? Is that about right?

25 MR. CEDARBAUM: Well, I - I think that's right.

1 And just to be clear, if you look at the cities
2 stipulation, which is Tab I, other than the cities and
3 Sound Transit and King County, the only other two
4 signatories on that are the staff and the company. And
5 part of our stipulation is that if - if any one of the
6 agreements that we signed is modified or rejected by the
7 commission, we can back out of everything we've signed
8 including, in this case, the cities agreement.

9 But with respect to the cities, because it is
10 substantively not interrelated with the others, I think
11 staff is - is willing to - to go that route if the
12 commission wants to issue that order prior to its order
13 on the rest of the stipulation.

14 CHAIRWOMAN SHOWALTER: Okay. Well, let's turn
15 to the rest of the issues now.

16 The next question is: Whose world is going to end or
17 what is the heartburn of our not getting this order out
18 by July 1 but instead having a date of August 1? And
19 assume for purpose of the question that we would have a
20 one-month interim rate that is sufficient to cover the
21 company's needs. We can - the third area will be, what
22 might that rate look like?

23 But right now I would just like some discussion on
24 the problems, if any, of carrying this case one month.

25 MS. DODGE: There are a number of concerns, one

1 is the question of finality and moving forward. There's
 2 still work on the gas case coming up. Parties have spent
 3 a couple of months working on this and I think the idea
 4 for many is to - to have that finality and move forward.

5 There are also a number of items within the
 6 stipulation that are tagged to the July 1st date.
 7 Examples being, for example, the power cost adjustment
 8 mechanism. There's an overall cap for the four-year
 9 period that commences July 1, 2002 and goes forward to
 10 2006. There is a conservation filing called for as of
 11 August 1, 2002 that's going to require a lot of work
 12 before that date. The cost of capital, the cost of
 13 short-term debt projection, was updated for the July 1st,
 14 2002 period forward. Now, I don't know that a month
 15 would change that or not. I just don't know. But it is
 16 one of the - again, a point where the July 1st date was
 17 important.

18 And then I think there's - there's also - there was
 19 some discussion at the prehearing conference and perhaps
 20 someone from conservation can speak to that, that funds
 21 start to build up, that a month of not accruing those
 22 funds might make a difference. For example, the low
 23 income fund and things like for the coming winter.

24 And then - and then the - I think the overriding
 25 concern as well is in terms of perception from financial

1 markets about the settlement, about the settlement being
 2 a good one. It's going to be accepted and move forward.
 3 It may not be entirely rational, but there's a concern
 4 that the markets will not understand that this is
 5 simply - that the commission needs more time,
 6 particularly if you have say an Avista settlement that
 7 goes through relatively quickly and is approved and then
 8 somehow Puget Sound Energy settlement was not approved
 9 and will be delayed for further investigation by the
 10 commission, that that would send a fairly negative
 11 signal.

12 The company will - is on track, or thought it was, to
 13 deliver new rates by July 1, 2002. And now we're talking
 14 about not having that, and it's hard to quantify or make
 15 tangible exactly what that impact will be, but there's
 16 significant concern about it.

17 CHAIRWOMAN SHOWALTER: Any other comments?

18 MR. CEDARBAUM: I - I would just - I agree with
 19 all of what Ms. Dodge just said, although I can't speak
 20 to the perception of Wall Street as well as the company
 21 can, obviously.

22 But I would just add that the current situation we're
 23 in now is, we're - we're coming up to the end of the
 24 interim rate surcharge that's to end June 30th. And
 25 after that, the - the exception of the parties was that

1 we would analyze what the company needed for, in terms of
2 permanent relief, going forward and have that effective
3 July 1.

4 In our stipulation by agreement we have found that
5 the - that the company has a revenue requirement of an
6 additional about 59 million in general rates to begin
7 July 1. And so that's an important interest to try to
8 follow through on. And I don't think you completely get
9 there by allowing temporary rates to go into effect
10 because there's still that lack of certainty, lack of
11 permanence, that a temporary rate situation has the
12 permanent rates do not.

13 So I think there's a recognition that July 1 is a
14 critical date because that's the date on which we believe
15 the company needs permanent general relief to go into
16 effect to maintain its - its financial well-being.

17 And it's a little - I guess, just to add to that or
18 separate - separate subject, it's a little bit difficult
19 to separate out the - whether the rates go into effect on
20 July 1 or not, it's a little bit difficult to separate
21 out trying to cure that with temporary rates but not look
22 at the type of mechanism that the temporary rate would
23 come through if those were interrelated subjects. And so
24 we can discuss that as --

25 CHAIRWOMAN SHOWALTER: Well, okay. Let's -

1 let's turn to that. Let's assume that for . . . Oh, I'm
2 sorry. Mr. ffitch.

3 MR. FFITCH: I'm sorry, Madam Chairwoman, but I
4 guess I wanted to comment on Question 2.

5 CHAIRWOMAN SHOWALTER: Okay.

6 MR. FFITCH: And also later on the question that
7 you were just getting into.

8 But Question 2, I think is - what is your level of
9 concern with August 1, and I just want to echo the
10 comments - very strongly echo the comments - of staff,
11 counsel, and counsel for Puget Sound Energy. We are very
12 supportive of the company's effort here to get rates
13 effective July 1st, the company and other parties to the
14 collaborative. But I want to give the company particular
15 credit here, has really participated in the
16 collaboratives in an extremely constructive and
17 productive fashion and, I think, met all the targets that
18 we set ourselves to meet in the interim settlement with
19 the goal of getting rates effective July 1st.

20 And we have reached agreement with them, as well as
21 the other parties, on all the issues that we had with the
22 expectation and the understanding that - that that was an
23 important interest of theirs. And so we strongly support
24 them here today and actually achieving that for the
25 reasons that they laid out.

1 And in addition to that, as Ms. Dodge has pointed
2 out, there are large numbers of interrelated pieces here
3 that are all keyed to the July 1st date. And we just
4 have a problem with - with what happens when you start to
5 sort of deconstruct that. So without belaboring the
6 point, we very strongly agree with counsel's previous
7 comments and do have heartburn with August 1st.

8 MR. ROSEMAN: Ron Roseman representing
9 conservation of the low income community.

10 As Ms. Dodge said, in addition to our community
11 clients totally supporting the company in - in the
12 settlement of this case, we're also concerned that
13 several programs that were thought through, that people
14 could start gearing up to address the winter heating need
15 of the low income community, could be put off by a month.

16 There's a brand-new program, there's to be additional
17 start-up time, training, publicity, in order to let
18 people know about the program to avail of it - avail
19 themselves of it during the winter months. And we are
20 very concerned that that would be delayed if put - put
21 off for a month in - as - as Ms. Dodge mentioned in the
22 conservation area.

23 There's a tremendous amount of work that needs to be
24 worked out with the advisory boards on developing
25 conservation programs for the upcoming year. There is

1 a - a planning document that needs to be presented to the
2 commission, I think, by August 1st saying what those
3 programs are going to be. There are many, many people
4 involved who will be working with the company on that,
5 and July is the month for that to be accomplished.

6 CHAIRWOMAN SHOWALTER: Is there any work going
7 on about that now?

8 MR. ROSEMAN: No. The first meeting I believe
9 in conservation is Tuesday of next - of next week; is
10 that correct? I think that's correct. Microsoft is
11 involved, and the conservation community, and it's all
12 geared on this August 1st deadline.

13 CHAIRWOMAN SHOWALTER: But those meetings are
14 going to occur before our order is out?

15 MR. ROSEMAN: The conservation apparently is.
16 The low income one cannot because it's - it's - it's
17 driven by those communities - those community action
18 agencies having income to start doing the publication -
19 the publicity, hiring staff, getting up with a brand new
20 program.

21 MR. FFITCH: I - perhaps Mr. Pohndorf wants to
22 add to this, but with the conservation programs, I think,
23 as I understand it, what's occurring is that in the
24 interest of getting the work done that needs to be - get
25 done under the stipulation by August 1st, the parties

1 have diligently decided to at least have the first
2 meeting as soon as possible, which I believe was
3 scheduled for - for next week, to get started on that
4 work. I mean that's, I think, a characterization of
5 what's going on there.

6 MS. DODGE: Part of the concern is that some
7 work may be able to be done ahead of an order, but
8 without the final order it's a little bit working toward
9 a vacuum.

10 CHAIRWOMAN SHOWALTER: Okay. Let's turn not -
11 don't - I mean, believe me, we're going to do the best we
12 can. We are going to try very hard to juggle our
13 schedule, but we've just got to take into account all
14 possibilities.

15 So turning to a one-month surcharge if we need one.
16 The idea that we have would be - would be - look similar
17 to the current interim surcharge, that it would be a flat
18 percentage amount across classes, sufficient and informed
19 to - to a cover - and informed by the revenue discussion
20 that we had this morning.

21 In other words, it would not be implementation of the
22 settlement agreement because that would prejudice our
23 issues and we would rather not do that. It would be an
24 amount, you know, at least equal to what the company says
25 it needs. And so I - and I recognize several of the

1 issues that you laid out would still be issues with such
2 a surcharge. But let's talk about that type of flat rate
3 surcharge.

4 MS. DODGE: There's no question that it would be
5 better and very important to have dollars coming as
6 opposed to nothing for - for a gap period. I mean,
7 there's no question that's extremely important.

8 CHAIRWOMAN SHOWALTER: No. We're not
9 contemplating a gap.

10 MS. DODGE: In terms of filling the gap,
11 however, there is a significant concern that extending
12 interim rates would be very much not as - as helpful and
13 a step backwards rather than moving forward with the new
14 rates on a temporary basis, because it's - it's a -
15 again, it's a step backwards from going toward finality,
16 going towards some signal in terms of, you know, the
17 likelihood of where things will come out.

18 We had this discussion a little bit on Tuesday, that
19 there's a very high level of confidence among, I think,
20 all of the parties here that - that ultimately there will
21 be approval of the settlement. We are not - of course,
22 the commission needs to conduct its own independent
23 process. But still, the risk of having things changed
24 from temporary rates that would be put into effect
25 subject to refund, we believe is quite low --

1 CHAIRWOMAN SHOWALTER: I didn't say subject to
2 refund.

3 MS. DODGE: Okay. That's even better. But it -
4 but it's better to take a step forward. That's still -
5 then - then you're making some progress. Again, some of
6 the perceptions in terms of the company's ability to
7 deliver on its statement that it will go out and set up
8 the case and get rates in effect by a certain date, that
9 you are making progress towards delivery of what you said
10 you will do and have committed to do. And that - that
11 even though it may not seem completely rational, again,
12 from perspective of just - you feel - need more time to
13 look at this, and still yet that sends an important
14 signal that we're moving forward.

15 CHAIRWOMAN SHOWALTER: Any other comments?

16 MR. CEDARBAUM: Yes, commissioners. Let me
17 start by just explaining kind of the foundation that I
18 think we're starting from and then look at the options
19 that you may have. We are currently under an interim
20 rate of surcharge to collect \$25 million from April 1
21 through the end of June. At the end of June that
22 surcharge will go away and the commission's order
23 allowing that surcharge said there's a need for interim
24 rate relief, and that will be satisfied by collection of
25 that 25 million ending June 30th. After June 30th

1 there's really no basis without some further process for
2 interim emergency relief to continue.

3 CHAIRWOMAN SHOWALTER: Why isn't the hearing -
4 formal hearing on it would be tomorrow, since we issued a
5 notice that said it would be tomorrow, but we have taken
6 testimony on the company's revenue requirement. Why
7 wouldn't the commission be - have the basis to issue an
8 interim rate of one month based on the discussion and
9 testimony and evidence that it has in front of it today
10 and tomorrow?

11 MR. CEDARBAUM: I'm trying to characterize this
12 portion of the interim rate discussions as emergency rate
13 relief under the PMB standards that was applied - that
14 were applied in the interim phase of the proceedings that
15 led to your nine supplemental order. That's what I'm be
16 talk - that's what I'm trying to limit my discussion to
17 now.

18 What I'm saying is that we've had this discussion
19 about revenue requirements but it hasn't applied an
20 emergency relief rate standard. We would need to figure
21 out whether the company is in need of additional rate
22 relief past June 30th to go down that road of options.

23 I would also add that part of the settlement in the
24 interim relief phase also had one of these "escape to
25 litigation" clauses, that if the commission materially

1 changed the stipulation, all parties have the option of
2 going to litigation. If what you're saying is you may
3 want to change that \$25 million amount of emergency rate
4 relief to some larger amount, it's a possibility that
5 escape clause could be triggered.

6 CHAIRWOMAN SHOWALTER: That's this rate case,
7 isn't it? In other words, wasn't - that litigation would
8 be over general rate issues, which we're in the middle
9 of?

10 MR. CEDARBAUM: I'm talking solely about the
11 hearing you scheduled for Friday, which was to consider
12 whether or not to amend your nine supplemental order on
13 emergency rate relief would be modified.

14 CHAIRWOMAN SHOWALTER: I see.

15 MR. CEDARBAUM: And part of that process and
16 stipulation at that point in time had a provision that
17 allowed parties to send to litigation an emergency rate
18 relief - emergency rate relief portion of the case if the
19 commission changed the stipulation at that level, which
20 was the \$25 million.

21 CHAIRWOMAN SHOWALTER: And what would be
22 litigated?

23 MR. CEDARBAUM: Whether or not the company had
24 the need for emergency rate relief past July 1st. All
25 I'm saying, we've talked about interim rate relief and I

1 just want to make it clear I'm not - the options you have
2 available to you beginning July 1 without some additional
3 hearing process don't involve emergency rate relief.

4 But now we can talk about the options that are
5 available absent emergency rate relief, what - what the
6 commission's typically call temporary rates.

7 CHAIRWOMAN SHOWALTER: Okay.

8 MR. CEDARBAUM: There are two items that I think
9 you need to consider. The first are all of these
10 practical consequences of - if all you were to do were to
11 implement the additional revenue requirement we've agreed
12 under a particular rate spread but not allow the PCA to
13 go and do a fact and the low income surcharge and all
14 those other things that practical trigger dates for
15 implementation, then all those other elements of
16 stipulation can't be on the schedule that - that we've
17 agreed that they can be.

18 And with respect to the PCA, you - that's a more
19 difficult consequence because deferrals that were
20 supposed to start July 1 wouldn't be starting July 1. So
21 those are those practical, serious problems.

22 But there's also the package-deal problem, and that
23 is that we've presented a package to the commission,
24 anyone who signed onto that package can escape and send
25 the case to litigation if there's a material change to an

1 agreement they - they executed and all the other
 2 agreements that they executed.

3 And so it's the staff's position that if you're going
 4 to allow temporary rates, it should be the entire package
 5 beginning July 1 and that - that can be with refunds. I
 6 think it's the staff position that it should just be
 7 temporary rates without refunds or surcharges, just
 8 temporary rates until the commission's final order were
 9 to come out. But a refund mechanism is available to you
 10 if you want to do that, and a surcharge mechanism could
 11 be available to you if it was appropriately designed.
 12 And there's some retroactive rate-making problems with
 13 that which we would have to avoid but that we could
 14 figure out a way of doing those.

15 CHAIRWOMAN SHOWALTER: And what are those
 16 problems?

17 MR. CEDARBAUM: Well, the problem is - I think
 18 when we were thinking about this on Tuesday during the
 19 prehearing conference, I think perhaps I muddled the
 20 record so may be my fault. I think we all had in mind a
 21 surcharge rate beginning July 1st. And then if
 22 commission orders came out August 1st, that through a
 23 rate design change caused somebody's rates to go up over
 24 the temporary rates, that they would be surcharged back
 25 to July 1, and that's a retroactive rate-making problem.

1 I think that could be cured, though, if - if the
2 company could calculate how much of the difference under
3 temporary rates and permanent rates was - would have
4 applied for that interim period of time, or temporary
5 period of time, and then applied that to the entire
6 customer class perspective from the date of the
7 commission's final order that we can avoid the rate -
8 retroactive rate problem.

9 CHAIRWOMAN SHOWALTER: Because it would become a
10 revenue need of the company's perspective that needs to
11 be met somehow?

12 MR. CEDARBAUM: Going forward, that's right.
13 And it would be assessed against a class in total as
14 opposed to an individual by customer basis.

15 So again, it's the staff's position - and, you know,
16 at some course when Mr. Lott may be back on the stand, he
17 can explain the staff position better than I can from the
18 rate-making perspective.

19 It's the staff's position that if the commission -
20 that the commission has the option without running the
21 risk of the "escape to litigation" clause of having
22 temporary rates on the package that we presented to you
23 and that that be done without refunds and without
24 surcharges. But the staff does not object to refunds or
25 a properly crafted surcharge along the lines that I just

1 discussed.

2 CHAIRWOMAN SHOWALTER: And why isn't temporary
3 rates along the lines of a package a material change that
4 would - why wouldn't that itself be a material change?
5 That is, we didn't adopt it by July 1.

6 MR. CEDARBAUM: Well, it could be. I guess what
7 I'm saying is that there's risk that if you were to - if
8 you were to allow to go into effect temporary rates on
9 less than the package, then any party could exercise
10 their rights, which we - you know, as - as a group would
11 support their right to do so, to have the case go to
12 litigation.

13 Now, how real is that risk? I can't speak for other
14 parties and I'm not sure I can speak today for staff, but
15 it's a - it's - it's a risk. So I'm not saying you - you
16 couldn't do it. I'm just saying you run the risk of the
17 house of cards crumbling.

18 CHAIRWOMAN SHOWALTER: And we're balancing that
19 risk against our own needs to understand the package as
20 well as trying to balance our other obligations. So we
21 are - we recognize the risk. And we recognize the
22 drawback of having to do something like this, and we
23 still haven't decided we will. We're just trying to --

24 MR. CEDARBAUM: I understand that. I - you
25 know, I can understand the frustration from both sides of

1 this bench on that issue. I'm just trying to explain
2 what options I think you have available to you.

3 CHAIRWOMAN SHOWALTER: And explain to me if
4 there's a difference legally, not in terms of the
5 dynamics here, between temporary rates that reflect the
6 package versus a temporary rate that is - looks like a
7 flat surcharge on all classes.

8 MR. CEDARBAUM: The difference is - is that the
9 latter is not what - what we reflected in the
10 stipulation.

11 CHAIRWOMAN SHOWALTER: I - I understand. And
12 I'm just saying legally, from the commission's point of
13 view, getting through a month, is there a legal
14 difference between a temporary rate that's 4.-something
15 percent or something along - something between 4 and 5
16 percent on all classes versus the set of different rates
17 that will be embodied in the settlement agreement?

18 MR. CEDARBAUM: Well, the parties have presented
19 to you a stipulation which says that the rates spread in
20 the rate design that we propose result in just fair
21 reasonable sufficient rates. You would have to decide
22 that you have a record before you to decide something
23 else. But that's not the party's proposal to you.

24 CHAIRWOMAN SHOWALTER: So we would have to find,
25 based on whatever record we have or would develop, that

1 such a flat surcharge was fair, just, and reasonable for
2 one month?

3 MR. CEDARBAUM: I think so.

4 CHAIRWOMAN SHOWALTER: Any other questions?

5 MR. FFITCH: May I be heard, Madam Chairwoman?

6 CHAIRWOMAN SHOWALTER: Sure.

7 MR. FFITCH: Other parties may have comments.

8 First of all, I would like to agree with the careful
9 discussion that Mr. Cedarbaum has just engaged in. I'd
10 also just like to perhaps help with an answer to a
11 question that you just asked, which is: What's the legal
12 difference between implementing a temporary rate that's
13 consistent with the settlement versus some other
14 temporary rate that - that has not been requested? And I
15 think an additional answer to that question is one that
16 Mr. Cedarbaum mentioned earlier, which is that there
17 actually is no pending request for interim relief before
18 the commission.

19 The pending request for interim relief has been ruled
20 upon and adjudicated and the interim relief is being
21 collected and expires on June 30th.

22 There is no pending petition before the commission
23 right now for interim or emergency relief under the PMB
24 standard or any other standard. The only remaining
25 pending request is for general rate relief under the

1 general rate request standard.

2 Of course, we have one other matter before the
3 commission, which is the parties' resolution of that
4 general rate case. But - and that kind of leads me to my
5 additional comments, if you will.

6 How do we look at this at public counsel? In a way,
7 it's very simple. Puget filed a general rate case which
8 included an interim rate relief request. The interim
9 rate relief request was resolved by agreement, which I've
10 just mentioned, and the amount of \$25 million to be
11 collected by June 30th was established. That amount is
12 almost collected. We're almost there.

13 That also provided that the company's general rate
14 request would be resolved in one of two ways. They would
15 either bring before you a settlement of that proceeding -
16 or excuse me - settlement of those requests or some
17 subset of the requests for rates to be effective July
18 1st; or we would litigate the unresolved issues, some or
19 all of them, for rates to be effective in the normal
20 course of general rate case litigation. And, in fact, we
21 have an established schedule for those issues should
22 they not be resolved through the settlement. We have a
23 schedule for litigating those issues which takes us out
24 to electric and gas rates effective in the fall.

25 The situation that we're in right now is that we

1 have, I think, successfully achieved the goal of settling
2 all of the issues in the general rate case by the
3 deadline that we had established in presenting them to
4 the commission for rates to be effective July 1st. If,
5 however - I'm sorry, I forgot to - I forgot one other
6 critical piece of sort of the lay of the land, if you
7 will.

8 The understanding has always been that, in fact, if
9 we didn't meet July 1st and if the case didn't settle and
10 if issues were going to be litigated, there would be a
11 gap. This case has built into it the potential for a
12 gap. Puget's interim recovery goes away if the case
13 isn't settled and rates take effect by July 1st. That
14 was the agreement. No party came in saying Puget gets
15 some kind of interim rate - rate relief, no matter what,
16 on July 1st. Nobody has agreed to that. The agreement
17 is as I described.

18 So we would expect, and I think perhaps other parties
19 would expect, that if issues are not resolved, if issues
20 are going to go to litigation, if there's some other kind
21 of basis for rates adopted by the commission, that we
22 would be into the gap situation, rather than a basis
23 for - because that would trigger - I think as Bob is
24 suggesting, that would trigger the litigation escape
25 clause. And as long as things are being litigated, we

1 don't have general rates going into effect until later in
2 the year.

3 Having said that, I've already indicated that I agree
4 with - with the staff comments and we agree with staff,
5 if the commission wishes to adopt temporary rates on the
6 basis of the stipulations of all of the parties to this
7 case, which are based upon the agreement that has been
8 placed before you, we would not object to that.

9 You had asked if there were, you know, legal problems
10 with that that were somehow different from other interim
11 relief legal problems. And I guess my answer to that
12 is - and I believe it's an adequate answer - is that that
13 could be done through the stipulation of all the parties
14 to the settlement and that would address a concern that -
15 that's been raised about that and that - that would
16 adequately address that, in my view.

17 CHAIRWOMAN SHOWALTER: What concern was that,
18 that was addressing?

19 MR. FFITCH: Well, you were - you were
20 analogizing the problem of temporary interim rates. I -
21 I'm just sort of tracking your question to - to
22 Mr. Cedarbaum, which was, as I understood it, that: If
23 there are problems with interim - with - with new interim
24 rates on some other basis, why aren't there problems with
25 temporary rates that are fashioned to carry out the

1 stipulation?

2 And I - I guess I'm simply saying that in the latter
3 instance, I think that, as has already been presented to
4 the judge on Tuesday at the prehearing conference, you
5 would have the latter set of rates presented as a
6 recommendation of all the parties. I can't speak for all
7 of the parties and they're going to get a chance to
8 address that today again if they want to. But my
9 understanding is that would have a broad support and
10 would, in effect, be something that the parties can
11 stipulate to as a way of going forward. Whereas other
12 approaches, I think, would not have that same support.

13 And I - for - to state public counsel's position, we
14 would strongly object to the adoption of any other
15 interim - form of interim relief for the company for the
16 reasons that I've stated.

17 However, we strongly support implementation of this
18 settlement. We, again, give great credit to the company
19 for its efforts in the settlement process and we strongly
20 support them having these rates effective July 1st.

21 CHAIRWOMAN SHOWALTER: Okay. Would anyone else
22 want to be - like to be heard?

23 MR. SPIGAL: Yes, Madam Chairwoman. We would
24 join in staff comments. We strongly support the rates
25 being effective July 1st. We're respectful of the

1 commission's need for time to deliberate and consider the
 2 information that's been provided and the testimony and
 3 the settlement agreements, but we think it's important
 4 that the rates that came out and the proposals that came
 5 out of the settlement be adopted.

6 What we're concerned about, even if there's an
 7 interim rate process or interim rate applied, based on
 8 the totality of the settlement, that it sets the rates up
 9 for splintering if the commission is going to go into and
 10 tinker with, make changes, and - what has been a very
 11 protracting process.

12 And I should say that Microsoft participated in five
 13 of the collaboratives and that Puget was extremely
 14 constructive, as well as other parties that participated
 15 in the collaboratives were extremely constructive and
 16 cooperative. It was probably the less adversarial
 17 process that I can remember participating in. We came
 18 out of it with a package. And if the prospect is the
 19 commission is going to splinter that settlement package
 20 as result of its deliberations, I think that makes it
 21 very challenging.

22 I think that it increases - it does two things:
 23 increases the probability that there be litigation and I
 24 don't know who will litigate and I'm not saying that
 25 Microsoft would, but it was a package deal; and second, I

1 think it - it sends a signal about future efforts to
2 settle highly contested rate cases as opposed to
3 litigating issues. That's not helpful.

4 JUDGE MOSS: Mr. Gibson.

5 MR. GIBSON: Thank you, Your Honor. I'm here
6 representing - this is Kirk Gibson, WorldCom. I'm also
7 speaking on behalf of AT&T Wireless in this particular
8 instance.

9 I want to say that my 18 years of experience up and
10 down the West Coast has been on all three sides of the
11 rate case, and that's the commission, the company, and
12 now an intervenor. And I wanted to say that the
13 collaborative process that was used in this case was one
14 that provided the most access to those parties that
15 normally don't play. This is a very expensive process
16 and when you think about the 31 parties that are in this
17 process, it provided access to them that - unprecedented
18 in my experience.

19 And what I want to say - I'm not going to belabor
20 everything that's been said, and you have a job to do and
21 you have to do it in the best way that you think
22 possible. But what I would urge you to think of is, you
23 have - you can take great comfort in the fact that
24 31 parties participated in this collaborative, 31 very
25 diverse parties, and they came up with a deal. That's

1 all I would say. Thank you.

2 MR. VAN CLEVE: Thank you, Your Honor.

3 Brad Van Cleve for ICNU.

4 First, I just want to state for the record that we
5 would be willing to stipulate with going forward with a
6 temporary implementation of the settlement and that
7 wouldn't trigger the material change clause as Mr. ffitch
8 suggested. And I also agree with everything that
9 Mr. ffitch said.

10 And in particular I just want to point out that I
11 think the record before the commission right now is based
12 on normalized results of operations and justifies a
13 permanent rate increase. And Mr. ffitch indicated a
14 different type of record based on the company's current
15 financial condition and projected financial results would
16 be necessary to implement some other kind of rate relief.
17 And that's all I have.

18 CHAIRWOMAN SHOWALTER: Anyone else? Ms. Harris?

19 MS. HARRIS: If I may. We strongly support -
20 well, step back. We strongly support the temporary rates
21 to include the entire settlement. And I'll only speak
22 dynamics, because I don't have to speak legally anymore.
23 But with the dynamic from the company's concern is, if
24 you just put the rate impact as temporary rates and we do
25 not incorporate all the other provisions and all the

1 other programs as part of the collaborative, basically
2 what the company's done is to leave all the other
3 collaborative members behind. I have my money, thank you
4 very much. And I haven't - I haven't necessarily
5 implemented all of the issues that they brought to the
6 table. And maybe that doesn't - you know, it's not
7 heartburn, it's kind of that in the pit of my stomach I
8 have left most of the collaborating parties behind.

9 CHAIRWOMAN SHOWALTER: Well, let me just say it
10 would not be you, Ms. Harris, that did it.

11 MS. HARRIS: I'm feeling this.

12 CHAIRWOMAN SHOWALTER: And the commission would
13 have in front of the settlement agreement in which all
14 parties were not left behind. They collaborated and gave
15 a proposal. So I - I - should this occur, I don't think
16 you should take such an action on your own conscience.

17 MS. HARRIS: I understand that. And thank you.
18 I'll be able to sleep at night now. But I guess my - my
19 concern is - is that Tuesday, on the hearing, we had
20 unanimous support as far as implementing on a temporary
21 basis the settlement. All parties agreed to that within
22 minutes. And the support of the collaborative parties as
23 far as giving the commission enough time to look and ask
24 those questions, we want to give you that - we want to
25 give you the time and - and the necessary process to

1 approve this settlement. But the most that - it is all
2 dynamic.

3 The more you can keep us together, the more we will
4 stay together and you can already hear splintering in the
5 room, as far as the longer that this draws out and the
6 more that we are splintered, even temporarily, you start
7 to see doubt and you start to see the splintering of the
8 group. From the company's basis, you know, and just
9 understanding the dynamic of this group, the settlement,
10 although we appear to be very unified, is very, very
11 fragile. And - and my concern is that the longer that
12 this period is drawn out, the more fragile the settlement
13 becomes. And - and so I understand the time constraints.

14 The biggest concern that I had on my Monday - or on
15 Tuesday wasn't necessarily the temporary rates. All the
16 parties got beyond the temporary rates very quickly. As
17 long as we could put the entire settlement into effect on
18 a temporary basis, the parties were fine. I think the
19 largest concern we had was that hearings would continue
20 through the month of July. It was kind of this - that
21 the uncertainty and the doubt would continue for a long
22 period of time. That - we had quite a bit of discussion
23 off the record and when Judge Moss was not in the room
24 with us because that creates this type of doubt and
25 uncertainty. So I realize that we're having a legal

1 discussion but I think that the dynamic is very
2 important.

3 CHAIRWOMAN SHOWALTER: Well, one concern we have
4 with temporary rates is that it puts into place all -
5 many, many, many elements. Some of which we literally
6 have not had time even to read yet. We have a little
7 ways between now and July 1st. But I'm saying we simply
8 have not analyzed them.

9 So what happens if it turns out we really can't buy
10 it? I'm not saying that will happen. I don't want
11 implications to be drawn. But one of the effects of
12 putting everything into place July 1 is not just a rate,
13 it's many, many features, is that then, if it should
14 happen we don't accept it, we've gone one way one month
15 and another way another month. A surcharge, which would
16 be a reduction in the current surcharge, is something
17 that's easily implemented and easily adjusted one month
18 later as distinct from a raft of changes.

19 MS. HARRIS: We actually went back and - and -
20 and it may be more helpful to maybe prepare some sort of
21 an exhibit. But we thought about that, the company did,
22 after - after the prehearing conference, as far as what
23 are the different - what - what are the price signals
24 that we're going to be - not necessarily price signals,
25 but the rates we're sending to our customers. And no

1 matter which level or which method you implemented for
2 temporary rates, we all run the prospect that the
3 customers are going to see different rates in June, July,
4 August, and then we'll put the gas rates in in September.

5 So no matter which method, I think implementing the
6 entire settlement proceeding, you actually have the
7 possibility that you will send less confusing price
8 signals to the - to the customers than any other method
9 that's being proposed, because we're - I guess we're all
10 very comp - confident that we have proposed a settlement
11 that you will approve.

12 So if you put it into effect, called it "temporary"
13 on July 1 and called it "permanent" on August 1, the
14 customers will never know.

15 CHAIRWOMAN SHOWALTER: Of course. But that's if
16 things go swimmingly. If they - but we - we have to
17 think in a - in a nonprejudiced way, a neutral way, what
18 will happen if we don't? That is, we have not yet
19 approved this or any portion of it.

20 MS. HARRIS: Right.

21 CHAIRWOMAN SHOWALTER: We may do all of it but
22 we go into it in an impartial mode, trying to understand
23 every piece of it. So yes, if we agree it's not a
24 problem if we were going to do that, we could approve it
25 today and it would be even less of a problem, but we've

1 got to take a look at it.

2 MS. HARRIS: And I think we anticipate if you
3 make changes, it will be changes to the rates on
4 August 1. But my point is, if you put temporary rates
5 into effect that are not the interim rates they currently
6 receive and they're not the permanent that may go into
7 effect August 1, they're going to have to have some sort
8 of a rate signal in July that isn't the same as June or
9 August anyway.

10 I guess that was our point of - if this is the type
11 of process because of the time constraints that we're
12 looking at, shifting rates for the customers at this
13 point, I guess, is a given. And we were just looking at
14 a method that maybe would give the smoothest transition
15 into permanent rates for our customers that we could see
16 possible.

17 CHAIRWOMAN SHOWALTER: Some of the issues are -
18 what I would call programmatic rather than just a rate,
19 and I'm not sure that I even know all of them. But it
20 seems to me somewhat problematic to implement a program
21 or a change in a service and get started for one month or
22 less - well, it would be less. We would not expect to
23 get an order August 1st, it would be before August 1st.
24 Then if something switches, whatever announcement or - or
25 hiring or something has gotten under way, has to be

1 undone, which is different than a rate of 5 percent
2 versus 5.2 percent.

3 MS. DODGE: Madam Chairwoman, I'm not sure that
4 there are that many programmatic that would directly
5 affect the customer within the course of a month.

6 CHAIRWOMAN SHOWALTER: Maybe you can tell me
7 what you think there is of that sort and maybe --

8 MS. DODGE: Well, for example, I mean, if
9 conservation gets off the ground and is going forward,
10 low income planning, and so forth, a lot of that is kind
11 of the back - is - is preparation work. It's background
12 work. It's not that customers are going to see an end
13 product at that point in July and then become confused if
14 that's adjusted.

15 So whereas that they - if they have a rate now, if
16 there's some sort of interim rate put in that's not the
17 final, there's 100 percent chance that will change in
18 August. That's what we're saying. There is some less
19 percentage chance that the settlement would be
20 disapproved or changed and so that there would be any
21 change at all in August going forward with temporary
22 rates and the whole package.

23 MR. KURTZ: Madam Chairwoman, Mike Kurtz for
24 Kroger. Can I take one additional stab at clarification?
25 I've listened to this whole discussion as everyone has.

1 First of all, if you don't think you're going to
2 approve the package eventually, you shouldn't put it in
3 on a temporary basis or any basis. Now, no one thinks
4 that's the commission's general lean. If you do think
5 that ultimately the commission may approve this package,
6 if - if we've gotten over sort of the initial - this is
7 an imperfect analogy - but TRO standard on an injunction
8 standard, if you think there's a substantial likelihood
9 that this package would ultimately be approved, then it
10 does make sense to put it in on a temporary basis, the
11 whole package, for July 1. It would not be prejudging.
12 You would still have the opportunity to make changes to
13 the package, but that would probably be the least
14 disruptive way to go because of all of the - the moving
15 parts that have been described.

16 CHAIRWOMAN SHOWALTER: All right. And I want to
17 say, I don't think we won't and I don't think we will.
18 We're genuinely - or I'm genuinely approaching this from
19 an impartial point of view until I make my way through
20 the parts of the package.

21 Well, we're nearing --

22 MR. STOKES: Madam, Chad Stokes. Northwest
23 Industrial Gas Users.

24 I just want to echo the comments of staff and public
25 counsel and say we would agree to implement the

1 settlement in this interim period before the permanent
2 rates are in as well.

3 CHAIRWOMAN SHOWALTER: I - I just want to assure
4 everyone in the room that if we did not have two straight
5 weeks of Olympic Pipeline rate hearings and the other
6 things we have to get out, I guarantee you we would get
7 the order out by July 1. And we haven't made a decision
8 whether, despite all of that, we will still get it out by
9 July 1. But I just want you to know we - we understand
10 the desire to have the package adopted by July 1 and we
11 understand the consternation if we can't make it. But
12 we've - we simply have to, one way or the other, be able
13 to satisfy ourselves what is in there and whether it's in
14 the public interest.

15 So I - I think maybe we ought to take just a little
16 pause here.

17

18 (Brief pause in proceedings.)

19

20 CHAIRWOMAN SHOWALTER: All right. We're at the
21 end of this day and we need to take a break in order to
22 accomplish a few things before our 6:30 hearing. We are
23 going to talk about this among ourselves, what we've
24 heard this afternoon, and we'll take it up again tomorrow
25 afternoon at 1:30. I think we'll probably begin at 1:30

1 with the city since they are counting on that time slot,
2 but they did not expect that we would need the whole
3 afternoon, so we will continue.

4 And I apologize to those prospective witnesses in the
5 room who wondered would they get on today, will they get
6 on tomorrow. We are marching through this as we need to,
7 so . . .

8 Ms. Dixon.

9 MS. DIXON: I'm just wondering if you -
10 Danielle Dixon. Sorry.

11 I'm wondering if you could tell us what time you
12 estimate the hearing going until tomorrow. Is this going
13 to be an all-nighter or a 5 o'clock end time? Is there
14 something that the commission has in mind or Judge Moss
15 has in mind?

16 JUDGE MOSS: Well, I think the pretend death
17 march hearings that we held a year ago taught us a
18 lesson, so I don't really anticipate it will be an
19 all-nighter. Our typical hearing day runs into 5 o'clock
20 in the afternoon, and sometimes we will extend that if it
21 appears that we can finish for that case. I would want
22 to retain some flexibility in that regard and not make a
23 hard and fast pronouncement at this juncture.

24 CHAIRWOMAN SHOWALTER: Well, I should say we
25 currently have the commissioners scheduled at 4:00, two

1 other dockets to discuss. So maybe we can move that
2 around. But our current time slot for this, I believe,
3 ended at 4:00.

4 JUDGE MOSS: Oh, I wasn't even fully aware of
5 that.

6 MR. STOKES: Your Honor, Chad Stokes. We have
7 the conflict because our panelist for the low income and
8 conservation is not available for tomorrow's hearings.
9 It was our understanding that was going to be finished
10 this afternoon.

11 JUDGE MOSS: I don't know what to tell you,
12 Mr. Stokes. We're proceeding as expeditiously as we can
13 and it took us all day to get through the three issues
14 that we dealt with today. And, of course, a typical
15 course of a hearing is to commence on the day noticed and
16 to proceed from day to day thereafter until complete, if
17 possible. In this instance, even that may not be
18 possible, but we've been trying to accommodate people's
19 schedules as best we can.

20 CHAIRWOMAN SHOWALTER: Are there other panelists
21 who are familiar with the terms and questions that we
22 likely would ask?

23 JUDGE MOSS: That's been our process so far, is
24 to have a panel that we are sure can answer the full
25 range of questions, and if we're satisfied we have that

1 panel, then the presence of a particular witness is not
2 necessary.

3 MR. STOKES: Right. I guess we'll have to make
4 counsel available for that. That will be fine. You
5 know, if there's no other way to accommodate
6 Mr. Schoenbeck.

7 JUDGE MOSS: We have an - actually, don't we
8 have a rather significant panel? We have a panel - on
9 conservation we have a panel of six witnesses including
10 Mr. Schoenbeck. And on low income we have - well, he's
11 not on that one. So your concern would be with
12 Mr. Schoenbeck's availability on conservation?

13 MR. STOKES: Yes, Your Honor.

14 JUDGE MOSS: Well, we have five other witnesses.

15 MR. FFITCH: I was just going to note, Your
16 Honor, the panel - the panel witnesses are those that
17 have filed prefiled testimony on conservation and low
18 income --

19 JUDGE MOSS: With the exception of
20 Mr. Schoenbeck did not prefile testimony.

21 MR. FFITCH: Those - I believe those witnesses
22 would be available. I can't speak for all the parties.
23 Our witness would be available on the conservation panel.

24 JUDGE MOSS: All right. The only witness
25 availability problem I believe I'm hearing is

1 Mr. Schoenbeck for the Northwest Industrial Gas Users,
2 and it appears to me that our panel may well be adequate
3 to the task. And of course we would miss having
4 Mr. Schoenbeck's presence.

5 CHAIRWOMAN SHOWALTER: You know, another thing
6 we can do, if it turns out there's a question that only
7 Mr. Schoenbeck can ask, we can put a little bench request
8 that he can respond to.

9 MR. STOKES: Thank you.

10 JUDGE MOSS: We'll find a way to accommodate the
11 problem.

12 All right. Anything else? Any other housekeeping
13 matters?

14 Ms. Dixon.

15 MS. DIXON: I'm sorry. Danielle Dixon. One
16 more.

17 In the past I seem to remember that the commission
18 has on occasion held hearings on the weekend, and since
19 I'm trying to reshift around my travel schedule for this
20 weekend, just wanted to ask up-front now, is there any
21 consideration to extending the hearings over this coming
22 weekend?

23 CHAIRWOMAN SHOWALTER: We'll - we have to talk
24 among ourselves about how we're going to juggle our
25 calendar. What I can tell you is that we have, you know,

1 among other things, about a hundred pages of rebuttal
2 testimony that came in on the Olympic Pipeline case that
3 we haven't read yet. In other words, we have just
4 mountains of other things that we have to get through
5 where - with real deadlines, statutory deadlines. So I -
6 I think it's quite unlikely. But - but we need to talk
7 about what we're going to do and see if we're - there are
8 any extreme remedies.

9 MS. DIXON: Thank you.

10 MR. CEDARBAUM: Commissioners, just one quick
11 point on that point. And I don't know - I'm not on the
12 Olympic Pipeline case, luckily. And I don't know if it's
13 going to take a full two weeks, your hearings, or not,
14 but in your discussions on scheduling, if you could
15 consider a day of that, you know, maybe next week to take
16 out of the Olympic Pipeline block of time to finish the
17 hearings on this case, that would, I think, be helpful
18 for the parties because we're anxious just to have the
19 hearings over with.

20 CHAIRWOMAN SHOWALTER: And just for your
21 information, we've already taken two days out of - in
22 fact, I think more, maybe four days out of the originally
23 blocked time. And if you're interested in the Olympic
24 Pipeline case, go read the last several orders as to how
25 it's proceeding.

1 COMMISSIONER HEMSTAD: She means by that, not
2 well.

3 JUDGE MOSS: Not to put too fine a point on
4 things. Is there anything else?

5 CHAIRWOMAN SHOWALTER: It's actually the most
6 recent order by Judge Wallace is something you attorneys
7 would be interested in.

8 JUDGE MOSS: All right. It appears that the
9 limits of human endurance have been reached and that
10 there is nothing further to be said this afternoon. So
11 let us be in recess until 1:30 tomorrow afternoon.

12

13 (Proceedings adjourned at 5:06 p.m.)

14

15

16

17

18

19

20

21

22

23

24

25

C E R T I F I C A T E

I, CARMAN PRANTE, a duly authorized Notary Public in and for the State of Washington, residing at Elma, do hereby certify:

That the foregoing proceedings were taken before me on the 13th day of June 2002, and thereafter transcribed by me by means of computer-aided transcription; that the deposition is a full, true and complete transcript of the testimony of said testimony;

That I am not a relative, employee, attorney or counsel of any party to this action or relative or employee of any such attorney or counsel, and I am not financially interested in the said action or the outcome thereof;

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal this 17th day of June 2002.

CARMAN PRANTE
CR#2513