

**EXHIBIT NO. ___(JHS-24)
DOCKET NO. UE-060266/UG-060267
2006 PSE GENERAL RATE CASE
WITNESS: JOHN H. STORY**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-060266
Docket No. UG-060267**

**FIFTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
JOHN H. STORY
ON BEHALF OF PUGET SOUND ENERGY, INC.**

AUGUST 23, 2006

Puget Sound Energy, Inc.
Docket Nos. UE-011570, UG-011571
Direct Testimony: Jim Lazar
PCA
Exhibit ____ (JL-T)

BEFORE THE

WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**DOCKET NOS. UE-011570
UG-011571**

DIRECT TESTIMONY

OF

JIM LAZAR

ON BEHALF OF

THE PUBLIC COUNSEL SECTION OF

THE WASHINGTON STATE ATTORNEY GENERAL'S OFFICE

POWER COST ADJUSTMENT

1
2 **Q. PLEASE STATE YOUR NAME, ADDRESS, AND A BRIEF SUMMARY OF**
3 **YOUR EXPERIENCE.**

4 A. My name is Jim Lazar, I am a consulting economist based at 1063 Capitol Way S. in
5 Olympia, Washington, and have been engaged in electric and natural gas utility rate
6 consulting since 1979. I have appeared before the Commission on more than fifty
7 occasions, testifying in proceedings involving each of the regulated gas and electric
8 utilities.

9 **Q. WHAT WAS THE NATURE OF YOUR INVOLVEMENT IN THE POWER**
10 **COST ADJUSTMENT (PCA) PORTION OF THIS PROCEEDING?**

11 A. I was retained by Public Counsel to review many issues in this proceeding, including
12 the Company's proposed PCA. I participated in the collaborative discussions which
13 resulted in the Stipulation on the proposed PCA.

14 **Q. WHAT IS YOUR PRINCIPAL CONCLUSION WITH RESPECT TO THE**
15 **FAIRNESS OF THE PCA STIPULATION?**

16 A. The proposed PCA is consistent with the public interest, and the stipulation should be
17 approved.

18 **Q. WHAT WERE THE PRINCIPAL INTERESTS THAT PUBLIC COUNSEL**
19 **ADDRESSED IN THE DEVELOPMENT OF THIS PCA?**

20 A. We had many interests. Conceptually, the parties had agreed that there would be a
21 PCA in the Interim Stipulation. That left a myriad of details to be resolved.

22 First, we were interested in a mechanism that was consistent with past Commission
23 directives on what should and should not be addressed in a PCA. We wanted a
24 mechanism that was fair for customers, did not result in frequent rate changes, and
25 provided a significant incentive for the Company to minimize power supply costs.
Second, the mechanism had to share risk between the Company and ratepayers in a

1 manner consistent with the understanding that went into the Interim rate case
2 stipulation which set the equity capitalization ratio and the return on common equity.

3 Third, we wanted a mechanism that would be relatively easy to administer.

4 **Q. PLEASE DISCUSS HOW THE PROPOSED PCA ADDRESSES YOUR**
5 **INTEREST THAT THE PCA BE CONSISTENT WITH PAST COMMISSION**
6 **DIRECTIVES.**

7 A. First, the proposed mechanism clearly defines which power supply costs are to be
8 tracked by the PCA and which are not. It does not permit tracking of costs which are
9 under the Company's control, such as the availability of the Colstrip plant, or changes
10 in the prices of certain long-term contract resources.

11 Second, past Commission directives have specified that a PCA should only track costs
12 which are weather-related. This mechanism deviates slightly from that previously
13 enunciated policy, but with the \$20 million dead band, I believe that there will be no
14 PCA deferrals under circumstances that do not involve significant variations from
15 "normal" weather. It is impossible to isolate all weather factors. For example, while
16 the output of the Company's hydroelectric facilities is directly traceable to weather, the
17 cost of natural gas is affected not only by weather in the Northwest, but also by weather
18 in California and in the East, by gas drilling activity, and by other factors. By including
19 gas costs for the Company's combustion turbines in the mechanism, any variation in
20 gas costs, whether related to weather or not, we have gone beyond the previous
21 directive. However, this is the principal risk that is outside of the Company's control,
22 and therefore appropriate to include in a PCA.

23 **Q. HOW DOES THE PCA MECHANISM CONTAINED IN THE STIPULATION**
24 **ENSURE THAT RATE CHANGES WILL BE RELATIVELY INFREQUENT?**

1 A. The mechanism requires two significant deviations from “normal” power costs before
2 rates would change.

3
4 First, no costs are deferred for future collection until allowable power costs exceed
5 normalized power costs by at least \$20 million. This is the so-called “dead band.”

6
7 Second, the amount of deferred power cost must reach \$30 million before a surcharge
8 is triggered. Given the sharing mechanism, power costs would have to exceed normal
9 levels by a total of about \$62 million before a surcharge would be triggered. This is
10 likely to be relatively infrequent. While a single “bad” year might result in \$40 million
11 or more of excess power costs, under the mechanism, only \$10 million would be
12 deferred under such a situation. In most cases a “bad” year or group of years would be
13 followed by one or more “good” years that would erase some or all of the deferred
14 power costs before a surcharge would be triggered.

15
16 The mechanism does, however, provide Puget with a measure of security in the event
17 of multiple “bad” years in a row. In the first four years, the “cumulative” cap provides
18 extra protection, and after the Company’s capital structure has been rebuilt and the
19 cumulative cap expires, the mechanism continues to provide protection against
20 consecutive bad years through the deferral and sharing mechanism.

21 **Q. HOW DOES THE PCA MECHANISM PROVIDE A STRONG INCENTIVE
22 FOR PUGET TO CONTROL POWER SUPPLY COSTS?**

23 A. The Company is always exposed to some percentage of the cost of any power supply
24 cost in excess of the normal level set in this general rate case. It must absorb the first
25 \$20 million, half of the next \$20 million, 10% of the next \$80 million, and 5% of any
amounts in excess of \$120 million. Even in the first four years, when the “cumulative

1 cap” is in effect, the Company is exposed to a small portion of the excess power cost.
2 Similarly, if the Company can lower power cost below the normal level, it will retain
3 all or a portion of the savings. The mechanism provides strong incentives for the
4 Company to control power supply costs.

5 **Q. HOW IS THE PROPOSED MECHANISM CONSISTENT WITH THE**
6 **STIPULATION REACHED IN THE INTERIM PROCEEDING THAT THE**
7 **PCA SHARE RISK EQUITABLY BETWEEN THE COMPANY AND**
8 **RATEPAYERS?**

9 A. The sharing mechanism ensures that the PCA only triggers a rate surcharge when
10 circumstances are severely outside the “normal” range. This is consistent with the 11%
11 return on equity that the parties stipulated to. In other Western jurisdictions, such as
12 Nevada, where utilities are entitled to 100% recovery of prudently-incurred power
13 supply costs, the allowed returns on equity are much lower than this.

14 **Q. FINALLY, WHAT ASPECTS OF THE PROPOSED PCA MAKE IT EASY TO**
15 **ADMINISTER?**

16 A. First, the calculations to be performed are not particularly difficult, as evidenced by the
17 relatively succinct exhibits appended to the Stipulation. Second, the requirement for
18 the Company to file quarterly reports ensures that the parties remain aware of the
19 current state of circumstances, so we can mobilize resources in a timely fashion if costs
20 move toward the surcharge range. Finally, the relatively wide dead band and the \$30
21 million minimum deferral to trigger a surcharge make it relatively unlikely that it will
22 be necessary to perform the detailed review of costs in a surcharge proceeding except in
23 fairly extreme circumstances. Obviously the experience of the last few years makes us
24 all keenly aware that extreme circumstances CAN occur, but we expect they will
25 remain rare.

Q. ARE ALL OF THE DETAILS RESOLVED WITH RESPECT TO THE
CALCULATION OF THE APPROPRIATE LEVEL OF COSTS AGAINST
WHICH DEFERRALS ARE TO BE MEASURED?

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A. The parties have not had an opportunity to review the underlying dollar amounts in each and every entry into the Exhibits which accompany the Stipulation to confirm that they are accurate. However, I believe that the language of the Stipulation is clear enough that this is really an auditing function for the future, not a matter where disagreement is likely. Because it is possible that not every potential situation has been considered, all of the parties have the right to request changes in the mechanism at any time in the future. I am optimistic that such changes will not be needed, but there is no “lock” on any of the methods for any period of time.

Q. WHAT IS YOUR SUMMARY POSITION WITH RESPECT TO THE PCA MECHANISM AND STIPULATION?

A. The Commission should find that the Stipulation is consistent with the public interest, and the Stipulation should be approved. The PCA mechanism should become effective as of July 1, 2002.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Exhibit T-____ (MRL- 2T)
Docket No. UE-011570
Witness: Merton R. Lott

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Washington Utilities and
Transportation Commission,**

Petitioners,

v.

Puget Sound Energy Inc.,

Respondents.

**DOCKET NOS. UE-011570 and
UG-011571 (Consolidated)**

TESTIMONY OF

MERTON R. LOTT

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

**REVENUE REQUIREMENT, RATE SPREAD AND RATE DESIGN,
POWER COST ADJUSTMENT, TIME OF USE, LINE EXTENSION
AND BACKUP DISTRIBUTION SERVICE**

June 7, 2002

1 **Q. Please state your name and business address.**

2 A. I am Merton Lott . My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box
3 47250, Olympia, WA 98504.

4

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by the Washington Utilities and Transportation Commission as the
7 Energy Coordinator.

8

9 **Q. How long have you been employed by the Commission?**

10 A. Since May 1974.

11

12 **Q Have you previously testified in this proceeding?**

13 A Yes, in the interim portion of this case I sponsored Exhibit 451T.

14

15 **Q. What is the purpose of your testimony?**

16 A. I am the general policy witness for Staff in support of the Settlement Stipulation filed
17 with the Commission on June 6, 2002. My testimony also addresses the following
18 settlement terms:

19 1. Electric Revenue Requirement

20 2. Electric Rate Spread

21 3. Electric Rate Design

22 4. Time of Use (TOU)

1 5. Backup Distribution Service for Schedules 448 and 449

2 6. Power Cost Adjustment (PCA)

3 7. Electric Line Extensions

4

5 **Q. Does Staff provide testimony supporting the other specific settlement terms?**

6 A. Yes. Ms. Joelle Steward supports the conservation, low income, and service quality
7 index (SQI) agreements. Ms. Graciela Etchardt supports the agreement on relocation and
8 underground conversions.

9

10 **Q. Are you presenting any exhibits?**

11 A. Yes. Exhibit ___(MRL-3) supports the agreed revenue requirement of \$58.8 million.

12

13 **Q. Please briefly discuss the Staff's analysis of PSE's general rate case filing up to this**
14 **point.**

15 A Yes. There has been a team of seven staff members, including myself, analyzing
16 different aspects of PSE's filed case. Most of my time has been spent discussing issues
17 in the various collaboratives that were established by the Commission's Order approving
18 the March Interim Settlement. In addition, I have focused my review on rate spread and
19 rate design, including TOU, along with analysis of power supply with regards to the PCA
20 and the revenue adjustments in the revenue requirement calculation. Staff members Mr.
21 Russell, Mr. Parvinen, and Mr. Hua focused on auditing PSE's results of operations
22 during the test period and were assigned various adjustments by broad topical area. Mr.

1 McIntosh was responsible for the variable power supply issues. He also participated in
2 development of the proposed PCA, and worked on various rate design and avoided costs
3 issues, most specifically the Backup Distribution Service for Schedule 448 and 449
4 customers. Further, Mr. McIntosh and I worked together in evaluating the King County
5 agreement. Ms. Steward was responsible for issues related to conservation, low-income,
6 TOU rate design, and service quality. Ms. Etchart reviewed PSE's goals and
7 achievements during the rate plan period, the Company's performance relative to its
8 peers, and she worked on the collaborative with the cities related to underground
9 conversions. In addition, Staff consulted with Dr. Randall Woolridge to analyze cost of
10 money issues. Dr. Woolridge is a Professor of Finance, the Goldman, Sachs & Co. and
11 Frank P. Smeal Endowed Faculty Fellow in Business Administration, and Director of the
12 Smeal College Trading Room in the College of Business Administration of the
13 Pennsylvania State University. Dr. Woolridge has testified on numerous occasions
14 before state utility commissions.

15
16 **REVENUE REQUIRMENT**

17 **Q. Turning to revenue requirement issues, do you have any introductory comments on**
18 **the Revenue Requirement Settlement Terms?**

19 A. Yes. In the March Interim Settlement, agreements were made concerning revenue
20 requirement for both gas and electric operations. The maximum electric increase was
21 agreed to be \$89.7 million. The maximum increase for gas service was agreed to be
22 \$56.2 million.

1 In addition, the parties agreed to collaborate on initiatives, such as conservation
2 and low income, that could increase revenue requirement above the maximum increase
3 identified in the interim settlement. The Revenue Requirement Settlement Terms now
4 presented deal only with the portion of revenue requirement that is included within the
5 cap.

6 In addition to the revenue requirement settlement, other agreements affect the
7 total revenue to be collected by PSE. Both the Low Income Settlement Terms and the
8 Conservation Settlement Terms increase the total revenue and rates to be collected from
9 each customer class. Further, certain TOU costs incurred by the Company will be
10 recovered directly from those customers participating in the program.

11 Finally, as part of the revenue requirement settlement, an agreement was made
12 which increases the cap on electric revenue requirement to \$99,441,756, while decreasing
13 the cap on revenue requirement in the gas portion of the case to \$46,529,746. Settlement
14 Terms for Revenue Requirement, ¶ 3. The electric cap increased because of the four-
15 factor common cost allocator and a correction to the allocation of Personal Energy
16 Management (PEM) costs.

17
18 **Q. Excluding the low income, conservation and TOU additions to the revenue**
19 **requirement, will PSE's revenue increase by \$58.8 million as a result of the Revenue**
20 **Requirement Settlement Terms?**

21 A. No. Included in the pro forma adjustments was an adjustment embedded in the
22 Company's filing to reduce Washington jurisdictional revenues for Schedules 448 and

1 449 to a distribution cost-of-service based rate. A portion of this adjustment is directly
2 related to transmission rates under federal jurisdiction. While the parties did not agree
3 upon the exact level of rate changes for Schedules 448 and 449, it is certain that
4 Washington jurisdictional revenues for these customers will decrease substantially. To
5 resolve this issue, the parties agreed to present revenue requirement and rate spread based
6 on restating these revenues to a cost-based distribution rate. However, in the rate design
7 settlement, an agreement to phase-in the rate reduction is included. This agreement
8 involves the \$3 million surcharge to Schedule 448 and 449 customers through Schedule
9 126 for the period July 1, 2002 through June 30, 2003, and the corresponding credit to all
10 other customers of \$3 million through Schedule 127. Rate Design Settlement Terms, ¶7,
11 last bullet.

12
13 **Q. Please describe Staff's work on the case prior to reaching settlement on revenue**
14 **requirement.**

15 A. Staff began its audit of PSE's books soon after PSE made its filing in this case in
16 November 2001. Staff began by reviewing the Company's filed case and work papers in
17 detail. Staff reviewed several years of actual results of operations and detailed budget
18 data for comparative purposes. Then, Staff performed a detailed audit of the test period.
19 Staff reviewed PSE's response to nearly 500 data requests and made numerous field
20 visits to review internal records and interview Company personnel.

21

1 **Q. Please briefly describe Exhibit ____ (MRL-3).**

2 A. Yes. Page 1 of Exhibit MRL-____ (MRL-3) is an illustration of PSE's actual and adjusted
3 results of operations for the test period ended June 30, 2001, and depicts the settled
4 revenue requirement of \$58.8 million (column (f), line 6). Pages 2 through 5 show the
5 revenue, expense, and/or rate base impacts of each adjustment, the total of which is
6 brought forward to page 1, column (d). Pages 6 through 32 are the detail of each of the
7 adjustments amounts shown on pages 2 through 5. Page 33 is the calculation of the
8 conversion factor. The shaded areas on pages 6 through 33 indicate changes from the
9 Company's original filed case. Exhibit ____ (MRL-3) is in the same format as Company
10 witness Mr. Karzmar's Exhibit ____ (KRK-E3), for comparative purposes.

11
12 **Q. As well as proposing revisions to PSE adjustments in its direct case, did Staff and
13 other parties propose additional adjustments during the collaborative process?**

14 A. Yes, as a result of the audits of PSE's books and reviews of Company work papers and
15 data requests, the parties proposed many additional adjustments during the collaborative
16 process. The proposed additional adjustments are shown in the "Miscellaneous
17 Operating Expense" adjustment, on page 15, adjustment 2.10. The proposed operating
18 expense adjustments are shown on lines 19 through 22 and the rate base adjustments are
19 shown on lines 38 through 40.

20

1 **RATE SPREAD and RATE DESIGN**

2 **Q. Please explain what interests Staff believes are achieved by the settlement rate**
3 **spread in this case.**

4 A. The rate spread was developed to achieve various sound ratemaking principles. First, the
5 Commission has often stated that cost of service is one tool it will use in setting rates.
6 The rate spread Staff agreed upon considers the various cost studies prepared by the
7 Company in its original testimony and in several data request responses by the Company.
8 No one cost study is accepted by all parties, but the general result of all cost studies
9 indicates that Schedules 25 and 26 and Schedules 448 and 449 were paying above their
10 respective cost of service. This is true for Schedules 448 and 449 even after moving to
11 the cost of service distribution rates as discussed earlier in my testimony.

12
13 **Q. Please continue.**

14 A. Staff considered significant the current rate differential between Schedules 26
15 (secondary) and 31 (primary). These schedules are generally related to customers of
16 similar loads, but the current differential creates an incentive for a Schedule 26 customer
17 to move to Schedule 31, even though the change is not cost effective on a total system
18 basis. The settled rate design removes the differential between these schedules over time.
19 Another principle applied in the settled rate spread is gradualism. This principle is
20 reflected in the proposal to move rates closer to cost, and in the proposal to phase-in over
21 3 years the elimination of the rate differential between Schedules 26 and 31.

22

1 **Q. Does the resulting rate spread result in class revenue requirements that are just and**
2 **reasonable?**

3 A. Yes. The proposed rates are closer to each class' cost of service, and the major rate
4 inequities in rate schedules 26 and 31, and 448 and 449 are resolved over a two to three
5 year period.

6
7 **Q. Does the proposed rate design meet the public interest test and send appropriate**
8 **price signals to customers?**

9 A. In general, I believe it does. While there is substantial disagreement between some
10 parties on what costs should be included in each portion of the rates for each class, the
11 proposed rates achieve cost recovery for PSE through the customer charges that is similar
12 to other electric company customer charges regulated by the Commission. In his rate
13 design testimony, Mr. Lazar discusses the costs the Commission has included in a
14 customer charge and what costs should be included in a customer charge. Staff does not
15 disagree with Public Counsel's position on this issue.

16

17 **Q. Please continue.**

18 A. The proposed rates also move closer to recovering all demand-related costs for large
19 customers (Schedules 25 and above) through their demand charge. This includes the
20 movement in Schedule 25 of the demand charges included within the first energy block.

1 In general, the proposal moves heavily away from direct seasonal rates, however,
2 as described by Mr. Lazar, the proposed residential rates still result in winter high use
3 customers paying higher rates due to the further increase in the tail block rate.

4
5 **Q. Please describe the purpose of the new Schedules 126 and 127.**

6 A. As discussed earlier in my testimony, these schedules are created to phase in the decrease
7 in Schedules 448 and 449 to the new distribution cost-based rates included in the pro
8 forma revenue adjustment. This item could have been treated through the revenue
9 requirement and rate spread portions of the case, but we agreed to accept PSE's pro
10 forma adjustment and deal with the phase-in in the rate design portion of the settlement.

11
12 **TIME OF USE**

13 **Q. Please describe Staff's position on Time of Use.**

14 A. In Cause No. U-78-05 implementing PURPA, the Commission concluded that, if cost
15 effective, TOU billing may be implemented. Staff's position is based on this principle.

16 In this case, however, there has been no reliable analysis which indicates that the
17 benefits of mandatory TOU would offset the costs of the program. The most extensive
18 analysis presented by PSE to the TOU Collaborative relied upon costs savings for
19 capacity costs of distribution and possible double counting of capacity costs related to
20 power supply. Correcting only for the collaborative's agreement on capacity avoided
21 costs, the study results show increased system costs due to the implementation of TOU.
22 This correction still assumes distribution capacity benefits associated with shifted load

1 that may not materialize. In addition to the errors in the measurement of capacity
2 savings, Public Counsel states that the Company under-measures the cost of the program,
3 specifically with respect to environmental impacts. While I understand Public Counsel's
4 position, I am not convinced that there is reliable evidence at the current time to support
5 or refute this position.

6
7 **Q. What does Staff believe needs to be studied further by the TOU Collaborative to**
8 **determine whether TOU is cost effective?**

9 A. In addition to the review of the environmental impacts of load shifting in the Northwest,
10 Staff is concerned that the evaluation of the program during the last year is incomplete
11 and the design for the control group may not fairly capture the actual level of load
12 shifted. Further, the level of conservation strictly attributable to this program and not
13 paid for through other sources such as the conservation rider needs to be determined,
14 including an analysis of the persistence of conservation. In addition, a better analysis of
15 which costs can actually be saved should be performed. Both the distribution and
16 transmission savings have been measured on an accounting approach rather than through
17 an economic analysis. Further, PSE's consultants identified the potential of utilizing
18 TOU metering during extreme peak periods which may be a useful alternative to TOU
19 rates for the collaborative to examine. Their analysis indicated that substantial benefits
20 may be possible from the implementation of such a program.

21

1 **Q. The TOU Settlement Terms call for customers who participate in the TOU program**
2 **to pay \$1 per month to participate in the program. Why is that appropriate?**

3 A. As indicated earlier in my testimony, the cost effectiveness of a mandatory program has
4 not been demonstrated. As the majority of the benefits associated with the program relate
5 to the reduced power costs between the peak and off-peak periods, and the customers
6 who participate in the program receive these benefits through lower energy charges, it is
7 appropriate that those customers who choose to participate in TOU bear the majority of
8 the incremental cost of providing this service.

9

10 **BACKUP DISTRIBUTION SERVICE**

11 **Q. What are Schedules 458 and 459?**

12 A. Schedules 458 and 459 are back-up distribution tariffs for self-generators served under
13 Schedules 448 and 449 service.

14

15 **Q. Why is it necessary to revise Schedules 458 and 459?**

16 A. Current Schedules 458 and 459 resulted from the *Air Liquide* settlement in Docket No.
17 UE-001952. The schedules allow a credit based only on the number of generators at a
18 site with no requirement that the generators are operable or even scheduled for operation.
19 This resulted in billing disputes because some customers interpreted the schedules to
20 apply the credit based on the number of generators operating in fact, while other
21 customers interpreted the credit to apply to the number of equipment whether or not the
22 equipment was operating. The proposed Schedules 458 and 459 correct this unintended

1 consequence of the *Air Liquide* case. If the revisions are approved, customers will be
2 billed for their total load served by PSE distribution resources.

3
4 **POWER COST ADJUSTMENT**

5 **Q. Please identify Staff's interest in the creation of a Power Cost Adjustment (PCA).**

6 A. Staff's interests derive from the long running dialogue between electric utilities and this
7 Commission concerning power cost recovery. This dialogue started in the early 1980's
8 with the Energy Cost Adjustment Clause (ECAC), and continued through the
9 Commission's rejection of Washington Water Power's request in Cause No. U-88-2363,
10 the ultimate elimination of ECAC, the creation and elimination of the Periodic Rate
11 Adjustment Mechanism for Puget Sound Power and Light, and the Commission's
12 rejection of Avista's request for a PCA in Docket No. UE-991606.

13 The principles the Commission established from this dialogue are the interests
14 Staff brought to the collaborative: (1) rate payers should receive the benefits of a cost-of-
15 capital reduction related to the transfer of risk; (2) the costs to be recovered through a
16 PCA should be weather related; (3) the procedure should be a short-run accounting
17 procedure that reflects short run costs and long-term resources acquisitions which
18 increase costs should be excluded from the mechanism; and (4) rate payers should not be
19 faced with constant frequent changes in power costs and changes in power costs should
20 be easily explainable to the public.

1 **Q. Does the proposed PCA meet all of these interests?**

2 A. Yes.

3

4 **Q. Please describe how the PCA Settlement Terms meet Staff's interests.**

5 A. With respect to the cost of capital, the March Interim Settlement included an 11% equity
6 return and a 40% equity ratio. The parties agreed to propose a PCA that would be
7 consistent with these capital cost elements. From Staff's viewpoint, these capital costs
8 reflected consideration of a PCA mechanism which eliminated the risk of extreme
9 impacts of variable power supply, rather than an elimination of all variable power supply
10 risk. The PCA the parties propose leaves PSE at risk for a substantial portion of variable
11 power supply risks, while protecting the Company from extreme events such as occurred
12 during the last year. Further, PSE remains partially at risk in all situations for at least a
13 portion of increased power supply costs.

14 With respect to the relationship of the PCA to weather, the testimony of Mr. Lazar
15 fully covers this issue and Staff concurs with his comments. It is possible that events
16 other than weather may impact market prices and therefore impact this PCA mechanism.
17 Staff believes that such factors, like weather, will most likely be out of the control of PSE
18 and understandable to the public.

19 The proposed mechanism is limited to short-run power cost changes and has
20 specific measures to deal with new resources not currently included in general rates.
21 However, in the collaborative PSE expressed the need to deal with increased costs
22 associated with adding new resources for growth or replacing old low-cost resources.

1 Thus, new resources will not be recovered directly through the PCA, but the Company
2 may periodically update its general rates to reflect increased power supply costs
3 associated with new resources or increased costs of existing resources. These Power Cost
4 Only rate proceedings are an exception to the general rule that a company should not be
5 allowed to file single issue rate cases. For that reason, these single issue rate cases are
6 limited and under certain events will trigger a general rate case to true-up all costs.
7 Further, these single issue rate cases will look at all costs included within the PCA
8 mechanism. And, the Company will be required to support these rate proposals in the
9 same detail it must support power supply costs in a general rate proceeding.

10 Finally, the PCA has two mechanisms to limit the number of rate changes the
11 Company actually files. First, the dead band is designed to cover approximately one
12 standard deviation of the cost variability associated with stream flow. This means that
13 about two thirds of the time cost fluctuation attributable to hydro conditions alone will
14 not trigger any deferrals. (Note, other cost changes may well make these events happen
15 more often.) The second element is that the Company will not file rate changes unless
16 the deferrals reach a \$30 million trigger or appear that they will in the near future. If
17 hydro were the only cost fluctuation, there would be few if any filings in a 40 year
18 period. Of course, as can be seen from last couple of years, events tend to compound
19 each other.

20

1 **Q. Do you have any closing comments on the PCA proposal?**

2 A. Yes. At page 2 of his testimony, Mr. William Gaines provides a number of policy
3 justifications for establishing a PCA. I agree generally with his testimony and believe
4 that the PCA proposal the parties are presenting meets those policies.
5

6 **ELECTRIC LINE EXTENSIONS**

7 **Q. Please describe the Line Extension Settlement Terms and the goals it accomplishes.**

8 A. The proposed line extension policy achieves the goals described in Mr. Lazar's
9 testimony, which I will not repeat here, while at the same time giving consideration to the
10 costs currently included in rates. In addition, the proposed line extension policy for
11 residential customers has been updated to the current costs being experienced by PSE.
12 For new residential customers, this represents the biggest change in the policy. In Staff's
13 viewpoint, updating these costs is long over due. The Company should consider
14 modifying these cost more regularly to avoid increased rate impacts of adding new
15 customers. The policy also treats commercial line extension development similar to the
16 residential plat development by requiring up-front payment of the extension subject to
17 refund if service is actually taken.
18

19 **Q. Does this conclude your testimony?**

20 A. Yes.

**EXHIBIT NO. _____ (WAG-10T)
DOCKET NO. UE-011570 and UG-011571
WITNESS: WILLIAM A. GAINES**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

**DIRECT TESTIMONY OF WILLIAM A. GAINES
ON BEHALF OF PUGET SOUND ENERGY, INC.
REGARDING POWER COST ADJUSTMENT ("PCA") MECHANISM
SETTLEMENT**

JUNE 7, 2002

PUGET SOUND ENERGY, INC.

DIRECT TESTIMONY OF WILLIAM A. GAINES

POWER COST ADJUSTMENT ("PCA") MECHANISM SETTLEMENT

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5 **Q: Please state your name, business address, and position with Puget**
6 **Sound Energy, Inc.?**

7 A: My name is William A. Gaines. My business address is 411 108th Avenue
8 N.E., Bellevue, Washington 98004. I am Vice President Energy Supply
9 for Puget Sound Energy, Inc. ("PSE", or the "Company").

10 **Q: Have you prepared testimony in this proceeding.?**

11 A: Yes, I have. I filed direct testimony in the General Rate Case, and I also
12 filed testimony in the Interim Proceeding.

13 **Q: Have you prepared an Exhibit describing your education, relevant**
14 **employment experience, and other professional qualifications?**

15 A: Yes, I have. My qualifications are referenced at Exhibit 152.

16 **Q: Did you participate in the PCA collaborative on behalf of the**
17 **Company?**

18 A: Yes. I represented the Company in this collaborative, along with Kimberly
19 Harris, George Pohndorf, John Story and Jim Elsea. The parties
20 participating in the PCA collaborative brought an impressive set of skills
21 and talents to the table. Therefore, the Company had several
22 representatives participating in the collaborative to enable the Company to
23 engage in discussions covering a broad range of policy and technical
24 expertise. The consensus proposal that has been brought forward to the
25 Commission reflects the thorough and complete analysis of important
26 policy and technical issues.

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Q: What were some of the policy issues considered by the parties in arriving at a settlement?

A: There were a number of policy issues considered by the parties, bearing upon a variety of interests. Speaking for the Company, the PCA settlement reflects a balancing of policy considerations and interests, including the following:

- The need to rebuild and maintain the Company’s financial stability through timely recovery of prudently incurred energy supply costs.
- The balance between providing customers with certainty and rate stability, as well as price signals when appropriate.
- The challenge of maintaining a financially healthy utility in the context of volatile wholesale energy supply markets.
- The need for a mechanism that appropriately and equitably shares power cost variances between shareholders and ratepayers.
- The need to position the Company to effectively compete in capital markets.
- The need for a mechanism that provides proper incentives to the Company to manage its resource portfolio in a way that is efficient, cost effective, and makes appropriate use of power cost risk management techniques.

I do not mean to suggest that this list is exhaustive, or that other members of the PCA collaborative would articulate these policy issues in the same way. Certainly, from my perspective, these were important considerations

1 and were the subject of extensive dissuasion over the course of the last
2 six weeks.

3 **Q: Does the proposed settlement appropriately address the technical**
4 **aspects of a PCA mechanism?**

5 A: The proposed PCA mechanism is the product of collaboration and
6 compromise. Each of the parties brought certain objectives and proposed
7 PCA structures to the process. However, I am confident that, for purposes
8 of settlement and in the spirit of compromise, matters such as the detailed
9 elements of the Company's power costs and proposals for differentiating
10 among these costs, were carefully considered. I am also convinced that
11 accounting issues were duly considered and addressed in this proposal. I
12 believe that the parties arrived at an agreement on a PCA mechanism that
13 will be implemented in a way that implements the parties' intentions.

14 **Q: Will the proposed PCA meet the Company's financial needs?**

15 A: Certainly during the initial four year period, the \$40 million cumulative cap
16 on PSE's exposure to excess power costs will assist the Company in
17 achieving its equity rebuilding targets. Beyond that period, I believe that
18 the proposed PCA will provide the Company with a mechanism that gives
19 the Company some level of protection from extreme variances in its
20 energy supply costs.

21 **Q: Does the proposed PCA comport with Commission precedent?**

22 A: Yes, it does. In WUTC v. Avista Corp, Docket Nos. UE-991606
23 (September 2000) the Commission restated the factors it considers when
24 approving a PCA mechanism. These principles are summarized as
25 follows:
26

1 • *Ratepayers should receive the benefit of a cost of capital*
2 *reduction for a PCA to be approved:* In this case, a cost of capital
3 reduction was agreed to in the March 2002 SETTLEMENT STIPULATION
4 AND APPLICATION FOR COMMISSION APPROVAL OF SETTLEMENT
5 (herein, the "March Settlement"). The March Settlement calls for a 11%
6 return on equity.

7 • *A power cost adjustment mechanism should be linked to*
8 *those factors that are weather related:* Commission precedent has looked
9 to weather related variances as an aspect of the Company's power costs
10 beyond its reasonable control. For example, the Commission made the
11 following policy clarification when it considered the ECAC:

12 The purpose of the ECAC is to recognize explicitly in rates the nexus
13 between weather conditions in the Northwest and the cost of operating the
14 existing Puget system. Tying the ECAC to this link between weather
15 changes and operating costs is central for two very important reasons.
16 First, weather patterns are beyond the control of the company, and
17 second, and most significantly, that vast majority of customers can
18 intuitively understand the weather /cost link.

19 *WUTC v. Puget Sound Power & Light, Cause No. U-81-41 (December*
20 1988). The variances addressed by the proposal are weather related.

21 • *A power cost adjustment mechanism should be a short-run*
22 *accounting procedure that reflects changes in short-run cost affected by*
23 *unusual weather.* The proposed PCA accounts for short-term weather or
24 market related cost variances on a monthly basis. These variances (i.e.,
25 the deferred balance of power costs, with interest) would be brought
26 forward (as an increase or decrease to general rates through a surcharge
 or credit) on a periodic basis, to be collected or refunded during the same
 season in the following year.

1 **Q. Are there other important aspects of the settlement?**

2 A. Yes. The parties have recognized the immediate need for PSE to
3 revitalize its resource planning processes and to make decisions about longer
4 term supply resources. Toward that end, the settlement provides for periodic
5 Power Cost Only Rate Reviews which would be completed on an accelerated
6 timeframe and which would provide for timely inclusion of new resource costs in
7 rates.

8 [BA021500104]

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3 Fifth Avenue, Suite 5000, Seattle, Washington 98104.

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1959

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INDEX OF WITNESSES

3

4

PANEL ON RELOCATION AND

PAGE:

5

UNDERGROUND CONVERSION:

1963-2028

6

KIMBERLY HARRIS, GRACIELA ETCHART, CARY ROE

7

8

9

STATEMENT BY WILLIAM A. GAINES:

2030-2039

10

11

PANEL ON TIME OF USE RATES/PROGRAM:

2040-2100

12

GEORGE R. POHNDORF, JR., JIM LAZAR, MERTON R. LOTT

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1 on Monday.

2 JUDGE MOSS: Want to do that now or --

3 CHAIRWOMAN SHOWALTER: Yeah, why don't we.

4 JUDGE MOSS: Why don't we go ahead and hear

5 that now. Mr. Gaines -- this is in the nature of a

6 statement, not testimony, or do we need to go ahead

7 and swear Mr. Gaines? That's my question.

8 MR. QUEHRN: I think you probably do, from
9 the standpoint if you want him to answer the
10 questions that were asked yesterday.

11 JUDGE MOSS: Okay, fine. Let's do that.

12 Mr. Gaines, if you'll remain standing and raise your

13 right hand.

14 Whereupon,

15 WILLIAM A. GAINES,
16 having been first duly sworn by Judge Moss, testified
17 as follows:

18 JUDGE MOSS: Thank you. Please be seated.

19 Do you want to assist Mr. Gaines, Mr. Quehrn?

20 MR. QUEHRN: Just as a point of beginning,

21 and I have not scurried back through my notes to

22 refer to the two questions, but I trust that you

23 recall those questions and maybe can just, if you

24 would, please, Mr. Gaines, respond to them at this

25 time?

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1 MR. GAINES: Yes, the questions yesterday
2 had to do with the relative market price of power
3 winter versus summer, and I believe there was a bench
4 request that asked the company to submit the forward
5 price of power at the Mid-Columbia point and at the
6 Columbia-Oregon border point into the future. And we
7 have that information here in duplicate -- or more
8 than duplicate, I guess. And so we'll make that
9 available as a response to the bench request.

10 But what the data generally shows is that
11 even today, for the year '02 and '03, the price of
12 power in the forward market is slightly higher in the
13 summertime than it is in the wintertime. And that
14 difference has been even more exaggerated. The last
15 time I looked at this data was about two months ago.
16 The difference has collapsed some since then, but
17 it's still there. And it's generally reflective of
18 the fact that the West, as a whole, is summer
19 peaking, because of the influence of California and
20 the Desert Southwest loads, which are relatively
21 larger than the loads in the Pacific Northwest.

22 I think that question was actually one that
23 was punted to me by Mr. Lazar yesterday.

24 JUDGE MOSS: Yes, that's correct. All
25 right. And will those be provided later or did you

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1 want to hand those up now or -- if we need more
2 copies, we can have that data later.

3 MR. QUEHRN: This was bench request number
4 -- I believe it was number -- I think this is Exhibit
5 575, Your Honor, and I'll hand it up now.

6 JUDGE MOSS: That's correct, Exhibit 575.
7 Thank you.

8 MR. QUEHRN: Then I think, Your Honor, just
9 in addition to that, Mr. Gaines wanted to address his
10 availability on Monday.

11 MR. GAINES: Yes, I do have a schedule
12 conflict on Monday, and as I'm sure you know, I
13 submitted testimony and planned to respond for the
14 company to your questions about the power cost
15 adjustment feature of this settlement, but I now
16 understand that you're planning to take up the PCA
17 next Monday, and I do have a conflict that won't
18 allow me to be here on that day, and I do apologize
19 for that.

20 It really is unfortunate, because I had
21 been looking forward to responding to your questions
22 and actually having some dialogue about the PCA
23 that's a part of this proposal, but in my absence,
24 the company would plan to put up two replacement
25 witnesses, John Story and Jim Elsea.

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1 Mr. Story and Mr. Elsea each have attended
2 all of the PCA collaborative sessions, they've been
3 involved in drafting the PCA portion of the
4 stipulation and all of its exhibits and have a very
5 good sense of what the company is trying to
6 accomplish with the PCA. And of course, if there's
7 any follow-up for me, I will be happy to respond to
8 bench requests or through whatever other mechanism
9 may be appropriate.

10 I don't want this to be testimony, really,
11 but while I'm here and while I'm sure that a lot of
12 these issues will be taken up Monday, there are three
13 things about the PCA that I'd like to point out just
14 quickly. First, the feature of the PCA proposal that
15 works for the company from a financial point of view
16 is the \$40 million cumulative cap on the company's
17 exposure to power cost variations in the first four
18 years. That's a very important feature for us.

19 Second, the accelerated power cost rate
20 only rate review processes that are included in the
21 PCA stipulation are also important because of the
22 company's near-term need to do long-term resource
23 planning and acquisition. And in fact, we intend to
24 kick that process off immediately on the termination
25 of these proceedings.

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1 And then, thirdly, it became clear, at
2 least to me, during the power cost collaboratives,
3 that there's not a sufficiently broad understanding
4 of the sorts of hedging and risk management
5 activities that the company now undertakes in the
6 management of its power supply costs. And because
7 those -- the costs and the benefits of those hedging
8 and risk management activities will flow through the
9 PCA mechanism and because the impacts of them on
10 customers will now be more direct, the company thinks
11 it's important to have some more dialogue with Staff
12 and with other parties so that there's a good
13 understanding of what the company plans to be doing
14 in this area. And we'll be doing that over the next
15 several weeks.

16 That's really all I have to say about the
17 PCA. I'm sure you'll enjoy hearing from Mr. Story
18 and Mr. Elsea next Monday about the mechanics of the
19 mechanism.

20 CHAIRWOMAN SHOWALTER: Well, I'm sorry you
21 can't be here. Obviously, we have scheduled things
22 on the fly, because that's the only way we were able
23 to do this.

24 MR. GAINES: Yes, I do feel badly about it,
25 but I would look forward to following up, if

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1 necessary, through whatever mechanism is appropriate.

2 COMMISSIONER HEMSTAD: I have one question
3 of Mr. Gaines. I guess I don't know how to read this
4 529. And it was the same on the -- let's see, this
5 is the Cobb reference. And the assertion is that the
6 summer costs are now higher than the winter costs.
7 Would you explain that to me, as how that is
8 demonstrated, say, for the year 2002?

9 MR. GAINES: Well, we looked at -- we call
10 the summer the third quarter, for example, and --
11 let's see. I guess I'm looking at calendar year '03.
12 We called the summer the third quarter and we called
13 the winter December, January and February, and if you
14 group them that way, there's about a two mill
15 differential, with summer being higher than winter.
16 If you look at individual months in this table, it is
17 true that there's an individual month in the
18 wintertime that's higher than the summer.

19 COMMISSIONER HEMSTAD: All right. I was
20 looking at 529 and --

21 MR. GAINES: Oh, I'm sorry.

22 COMMISSIONER HEMSTAD: -- the Cobb
23 references, which are annualized, or by summer and
24 winter, and I see -- I take it, for example, 2002,
25 the figure \$29.33 is the cost, and winter is \$30.92?

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1 And the same is also true of the on-peak, the winter
2 is higher than the summer. The differences may not
3 be significant, but I'm trying to understand this.

4 MR. GAINES: I hadn't looked at this data
5 before just now. This is the results of our power
6 cost modeling process, as opposed to the forward
7 market prices that we were talking about yesterday.
8 And you're right. It does look like, at least for
9 some of these years, the model is showing higher
10 wintertime costs, at least in the early years.

11 COMMISSIONER HEMSTAD: But apparently 575
12 attempts to demonstrate to the contrary.

13 MR. GAINES: 575 is the actual forward
14 market price as of today. And as I mentioned, I
15 watch this fairly regularly, and up until about two
16 months ago, the differential was really quite large
17 in favor of summer prices. The sheet that I've
18 submitted today as 575, that differential has
19 collapsed some, but the summer still generally is
20 higher. It's not as pronounced as I would have
21 thought.

22 CHAIRWOMAN SHOWALTER: Well, can you just
23 explain to me what months and year you were looking
24 at in the summer, compared to what months in the
25 winter to establish that proposition, and what

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1 column?

2 MR. GAINES: I was looking at calendar year
3 '03. And let's just take the first column, Mid-C
4 peak. If we average together July, August and
5 September of '03, that's about 34 mills, and if we
6 average together December, January and February,
7 that's about 32 and three-quarters mills, so there's
8 about a one and a quarter mill differential in that
9 case. And as I say, we snapshotted this as of --
10 looks like yesterday or Wednesday, and this
11 differential has collapsed in the last month or two.

12 CHAIRWOMAN SHOWALTER: I'm sorry. You're
13 looking at the first column, Mid-C Peak?

14 MR. GAINES: Yes.

15 CHAIRWOMAN SHOWALTER: On Exhibit 575?

16 MR. GAINES: Yes, mm-hmm.

17 CHAIRWOMAN SHOWALTER: And --

18 MR. GAINES: I'm down at the line that's
19 titled July '03.

20 CHAIRWOMAN SHOWALTER: Right. So the
21 36.85, 39.55 there?

22 MR. GAINES: I guess I'm actually looking
23 at the Mid-C flat column, I'm sorry. It's the third
24 column from the left.

25 CHAIRWOMAN SHOWALTER: And why would you

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1 look at that? Why wouldn't we look at peak?

2 MR. GAINES: We could.

3 CHAIRWOMAN SHOWALTER: I mean, if you look
4 at that, I'm just -- I think I was looking at June,
5 July, August. Maybe that's -- maybe it should be
6 July, August, September.

7 MR. GAINES: Right. June really is part of
8 the runoff period in the spring.

9 CHAIRWOMAN SHOWALTER: But it's awfully
10 close. I mean, it's --

11 MR. GAINES: It is awfully close. It's
12 closer than I would have expected, based on the last
13 time I've looked.

14 CHAIRWOMAN SHOWALTER: Well, I guess, in
15 some sense, the numbers speak for themselves,
16 whatever we make of the numbers.

17 MR. GAINES: Mm-hmm.

18 COMMISSIONER OSHIE: Mr. Gaines, just for
19 clarification, in PSE's tariffs, what are the summer
20 months and what are the winter months?

21 MR. GAINES: I'm going to have to --

22 COMMISSIONER OSHIE: Because there's
23 seasonal differences.

24 MR. GAINES: I'm going to have to defer
25 that question to someone who's more familiar with the

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1 tariffs.

2 MR. LOTT: I believe it's October through
3 March is winter.

4 COMMISSIONER OSHIE: Thank you.

5 JUDGE MOSS: All right. We're finished
6 with our housekeeping and other discussions with Mr.
7 Gaines. You're excused.

8 MR. GAINES: Thank you.

9 JUDGE MOSS: And we have our time of use
10 panelists available, and I think we'll just launch
11 into questions from the bench.

12 CHAIRWOMAN SHOWALTER: I'll start with a
13 general one, which is we approved the first time of
14 use pilot, I believe in April or May, for an initial
15 period of five months, at least as I recall it was to
16 go through September 1st. Do you recall if that's
17 correct?

18 MR. POHNDORF: I think that's about right.
19 I can't remember exactly, but it seemed like it was
20 April or May when we approved it.

21 CHAIRWOMAN SHOWALTER: In any event, I
22 recall very distinctly, since we had extensive
23 discussions about it, saying how important it was --
24 it would be to gather data and analyze the data so
25 that by the end of that period, which actually was

2102

1 BEFORE THE WASHINGTON UTILITIES AND
2 TRANSPORTATION COMMISSION
3 WASHINGTON UTILITIES AND)Docket No. UE-011570
4 TRANSPORTATION COMMISSION,)Docket No. UG-011571
5 Complainant,)
6 v.)Volume XVII
7)Pages 2102-2228
8)
9 PUGET SOUND ENERGY,)
10 Respondent.)
11 _____)

8
9 A settlement hearing in the above
10 matter was held on June 17, 2002, at 9:38 a.m., at
11 1300 S. Evergreen Park Drive Southwest, Olympia,
12 Washington, before Administrative Law Judge DENNIS J.
13 MOSS, Chairwoman MARILYN SHOWALTER, Commissioner
14 RICHARD HEMSTAD, and Commissioner PATRICK OSHIE.

15 The parties were present as
16 follows:
17 PUGET SOUND ENERGY, by Markham
18 Quehrn and Kirstin Dodge, Attorneys at Law, Perkins
19 Coie, 411 108th Avenue, N.E., Bellevue, Washington
20 98004.

19 NORTHWEST ENERGY COALITION and
20 NATURAL ENERGY RESOURCES COUNCIL, by Danielle Dixon,
21 219 First Avenue South, Suite 100, Seattle,
22 Washington 98104 (Via teleconference bridge.)

21 AT&T WIRELESS, by Traci
22 Kirkpatrick, Attorney at Law, Davis, Wright,
23 Tremaine, LLP, 1300 S.W. Fifth Avenue, Suite 2300,
24 Portland, Oregon 97201 (Via teleconference bridge.)

24 Barbara L. Nelson, CCR
25 Court Reporter

2103

1 FEDERAL EXECUTIVE AGENCY, by
2 Norman J. Furuta, Associate Counsel, Department of
3 the Navy, 2001 Junipero Serra Boulevard, Suite 600,
4 Daly City, California 94014-1976 (Via teleconference
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31

2104

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2

INDEX OF WITNESSES

3

4

PANEL ON PURCHASE COST

PAGES:

5

ADJUSTMENT MECHANISM:

2106-2223

6

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JIM LAZAR, MERTON R. LOTT, JIM ELSEA and JOHN STORY

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1 JUDGE MOSS: Let's be on the record. Good
2 morning, everyone. We are reconvened in our
3 proceedings styled WUTC against Puget Sound Energy,
4 Docket Numbers UE-011570 and UG-011571. Our subject
5 matter this morning is going to be the PCA. Let's do
6 take brief appearances for the record, since we have
7 31 parties and we have a changing cast of characters
8 each day, it seems. Ms. Dodge.

9 MS. DODGE: Thank you. Kirstin Dodge, with
10 Perkins Coie, for Puget Sound Energy.

11 MR. QUEHRN: Good morning. Mark Quehrn,
12 with Perkins Coie, for Puget Sound Energy.

13 MR. VAN CLEVE: Brad Van Cleve, for the
14 Industrial Customers of Northwest Utilities.

15 MR. FFITCH: Simon ffitch, for Public
16 Counsel.

17 MR. CEDARBAUM: Robert Cedarbaum, for
18 Commission Staff.

19 JUDGE MOSS: Any appearances through the
20 bridge line?

21 MS. DIXON: Yes, this is Danielle Dixon,
22 with Northwest Energy Coalition, Natural Resources
23 Defense Council.

24 MR. FURUTA: And Norman Furuta, Federal
25 Executive Agency.

2106

1 JUDGE MOSS: All right.

2 MS. KIRKPATRICK: Traci Kirkpatrick, for
3 AT&T Wireless.

4 JUDGE MOSS: Any others? Okay, thank you.

5 We have the appearances. We have two witnesses who
6 have previously been sworn, Mr. Lazar and Mr. Lott,
7 and of course you remain under oath. Mr. Story and
8 Mr. Elsea, if you'll please rise and raise your right
9 hands.
10 Whereupon,

11 JOHN STORY and JIM ELSEA,
12 having been first duly sworn by Judge Moss, testified
13 as follows:

14 JUDGE MOSS: Thank you. Be seated. Did
15 any of the witnesses have a prepared narrative that
16 they wished to -- all right. We have another subject
17 matter to cover first, so let's do that, and then
18 we'll turn to that question that I was in the midst
19 of asking.

20 CHAIRWOMAN SHOWALTER: I have one little
21 set of questions on time of use, which I'd like to
22 ask now, so we can then move on to the next subject.
23 And maybe Mr. Pohndorf could come to the table here,
24 and the other witnesses are still empaneled. And I
25 will send this out as a bench request, anyway, but I

2107

1 wanted to understand your oral answers first, in case
2 it triggers some other question.

3 The question I had last Friday was are the
4 meters of customers who are not on time of use
5 tariffs, but who are equipped with time of use meters
6 read four times a day, that is, for PEM-only
7 customers who are not TOU customers, are their meters
8 read four times a day, and if so, can those PEM-only
9 customers get on the Internet and read their daily
10 use in blocks of time?

11 And Mr. Pohndorf, I think you weren't
12 certain of the answer and you may not be today, but
13 depending on what your answer is, I have another
14 question.

15 MR. POHNDORF: Okay. Let me tell you my
16 understanding as it is. We have a very large number
17 of customers who have the advanced meters installed,
18 and then there is a subset of those customers where
19 we have the network set up that transmits that
20 metering information in such a way that they can be
21 read four times a day. There are customers who we
22 are reading four times a day who are getting the
23 information kind of out of that subset.

24 CHAIRWOMAN SHOWALTER: Who are not TOU
25 customers?

2108

1 MR. POHNDORF: Who are not on the time of
2 use program. In fact, I'm one of those customers. I
3 get the information, but I don't get the time of use
4 billing. They can, as I understand it, those
5 customers who are getting the time of use information
6 on their bill, like me, can get on the Internet and
7 check their usage four times a day.

8 CHAIRWOMAN SHOWALTER: Okay.

9 MR. POHNDORF: Or check what it is over
10 those blocks. I guess they can check it as many
11 times a day as they want.

12 CHAIRWOMAN SHOWALTER: All right. Then my
13 next question is relevant. And that is are all of
14 the directly assigned time of use charges, i.e., the
15 dollar-sixteen a month after removing the ten cents
16 recovered from the conservation rider, are all of
17 those time of use charges solely attributable to the
18 incremental cost of the time of use program? For
19 example, billing for time of use or recordkeeping
20 required for time of use.

21 And conversely, are the costs associated
22 with personal energy management, but not TOU, for
23 example, the meter reading we talked about or the
24 data processing or the Web page information, are all
25 of those costs fully recovered from general revenues?

2109

1 What I'm trying to get at is are the
2 proposed new costs for TOU customers only for costs
3 that they only receive -- or for services they only
4 receive as a TOU customer versus anything that they
5 might also receive as a PEM-only customer?

6 MR. POHNDORF: Mm-hmm. Yeah, I think I
7 understand the question. First of all, that dollar
8 is, as I understand it, a meter reading cost, so that
9 dollar would apply -- it would be a cost to the
10 company from Schlumberger, whether you're a time of
11 use billing customer or the information customer.
12 Then there are the other 26 cents, and I don't know
13 how much of those 26 cents are -- is fully required
14 for ultimate billing and how much of that is data
15 handling that would apply, as well, to the
16 information-only customers.

17 I think maybe at the heart of your question
18 is that if we recover the \$1.26 for the time of use
19 billing customers, are we recovering any of the
20 incremental cost to do the information-based program,
21 because how we have it set up right now is we are
22 recovering the \$1.26 for the customers only -- for
23 only the customers who are on the time of use
24 billing.

25 CHAIRWOMAN SHOWALTER: Under the proposal.

2110

1 MR. POHNDORF: Under the proposal. Yeah,
2 under the proposal. And what happens with the cost
3 to metered customers who are only on the PEM
4 information, is that in the revenue requirement. Is
5 that --

6 CHAIRWOMAN SHOWALTER: Yes, that's one way
7 to put the question.

8 MR. POHNDORF: Yeah. It's my understanding
9 that cost for the information-only customers is not
10 being recovered, but that's just my understanding. I
11 don't know if, Mert, you have a different
12 understanding.

13 MR. LOTT: Well, I can explain my
14 understanding. My understanding, Chairwoman, is that
15 currently there are information-only customers. If
16 the company wants to continue providing customers
17 with that information, it is not included in the
18 revenue requirement. It's been our assumption that
19 they would provide the information probably not to
20 all the customers that they have been providing it to
21 currently.

22 That does not stop the PEM program, because
23 the PEM program was there before these four meter
24 reading -- four-time-a-day meter reads and it will
25 continue. In other words, the Web site is there and

2111

1 the ability to go in and check whatever -- I'm not a
2 customer, so I've never checked this, but will be in
3 two months. But the PEM program continues, but the
4 time of use portion of that, unless the company
5 volunteers to do that, and I seriously doubt that
6 they'll spend \$1.26 where they can't get revenue to
7 continue it, so I would imagine that, for the most
8 part, the customers who are getting information only
9 will stop getting those four-time-a-day meter reads,
10 would be my understanding.

11 In other words, there are automated meters
12 out there that will be read the once a month along,
13 you know, where they record the once a month as a
14 permanent reading. Now, I'm not sure exactly what's
15 included in the PEM program, other than I know that
16 when I went up there and looked at -- a long time
17 ago, this is about three to four years ago, when we
18 went up there and looked at the automated meter
19 reading and we went online and we looked at the
20 information, there was timely information on the Web
21 site that I saw related to that particular customer
22 that we were looking up, but that was not this
23 four-time-a-day recorded information and --

24 CHAIRWOMAN SHOWALTER: Well, that seems at
25 odds with Mr. Pohndorf's testimony that he's just

2112

1 given. I guess there are a couple of questions. Not
2 a few months ago, but today, if I get on the -- I
3 happen to be a time of use customer, but if I were
4 not, but I had -- let's say I'm a time of use
5 customer who then gets off, because -- then will I or
6 won't I today be able to pay to get on the Internet
7 and see my four-times-a-day use?

8 Another issue has been introduced, which is
9 does the company have plans to abandon the
10 four-times-a-day meter reading for PEM-only
11 customers?

12 MR. POHNDORF: Let me take both parts of
13 that question. As I understand it, the company has
14 these various buckets of customers. One bucket of
15 customers are the current time of use billing
16 customers. There's another bucket of customers who
17 are the time of use information-only customers. If
18 you opt out of the time of use billing, I'm not
19 certain as to whether you go into that time of use
20 information-only or you just fall off and you don't
21 get time of use information. So I don't quite know
22 the answer to the specific question there.

23 As far as the company's plans are
24 concerned, I know this is a question that the company
25 is still sorting through, what do we do with all

2113

1 these information customers. Do we continue to
2 provide them information over the Internet and
3 through their bills, or just what do we do with the
4 information-only program, and we have not come to a
5 conclusion on that yet.

6 CHAIRWOMAN SHOWALTER: But in terms of what
7 the general revenues will cover --

8 MR. POHNDORF: Yeah.

9 CHAIRWOMAN SHOWALTER: -- can you answer
10 definitively whether or not they do cover the
11 information-only activities?

12 MR. POHNDORF: I would say that there are
13 certain activities involved in the information-only
14 program, such as maybe promotional materials, general
15 Web site costs, those sorts of things that are
16 recovered through the revenue requirement. I don't
17 believe that the incremental meter reading cost to
18 get the four-times-a-day information for the
19 information-only customers, I do not believe that
20 that cost is covered in the revenue requirement.

21 CHAIRWOMAN SHOWALTER: Okay. I think that
22 at least informs me and we'll issue a bench request,
23 anyway, on it. And you now understand what I'm
24 getting at, so --

25 MR. POHNDORF: I think that's a good idea,

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1 because others will be able to give you more specific
2 information through that data request.

3 CHAIRWOMAN SHOWALTER: Thank you.

4 JUDGE MOSS: All right. Then, turning back
5 to the purchase cost adjustment mechanism, I was
6 asking if any of the witnesses had a prepared opening
7 narrative statement or if we can just launch right
8 into our questions.

9 MR. LOTT: The answer was, as far as I
10 know, nobody has an opening statement.

11 JUDGE MOSS: Okay. Thank you, Mr. Lott.
12 So we're ready for questions from the bench.

13 CHAIRWOMAN SHOWALTER: Well, maybe we could
14 begin with the mechanics of the PCA and how it works,
15 and you could start to take us through that. I think
16 we understand there are different bands, but let's
17 start first with -- we understand that the sharing
18 bands represent annual figures, and the examples
19 included in the Exhibit C to the PCA agreement appear
20 to be based on annual calculations. First of all, is
21 that correct?

22 MR. LOTT: Yes.

23 CHAIRWOMAN SHOWALTER: And then, is the
24 comparison of the actual cost to base cost done
25 annually, monthly, or daily?

2115

1 MR. LOTT: It would be done on an annual
2 basis. The company, for bookkeeping purposes, would
3 estimate as they went through the year, but it would
4 be done on an annual basis. So you would not run
5 into a question about shaping of cost in particular
6 months versus the actual cost in a particular month.

7 MR. LAZAR: There is one exception to that,
8 which is if, on a forecast basis, is it expected that
9 there will be very high power costs, a more rapid
10 filing mechanism is provided for. That is there sort
11 of to anticipate a power crunch type situation where
12 it might be desirable to have a surcharge rate in
13 effect during a drought so that customers respond as
14 the drought occurs, rather than wait till the end of
15 collection of annual data.

16 That's the only exception, is if there's a
17 forecast of a \$30 million bulge or deferral amount.

18 CHAIRWOMAN SHOWALTER: Okay. And where is
19 that forecast?

20 MR. LOTT: I just want to make something
21 clear. That still does not change that the deferral
22 will be calculated on an annual basis. The company
23 doesn't have to wait for the final deferral and can
24 file ahead of time on an estimated basis, but the
25 deferral would still be on an annual calculation.

2116

1 And that's -- did you get the reference number?

2 MR. LAZAR: Yeah, the reference is the
3 second bullet on Point Four, which is on page two of
4 the settlement.

5 CHAIRWOMAN SHOWALTER: Okay. So there's a
6 projected increase in the deferral balance, but the
7 deferral balance is still whatever it is and is
8 adjusted annually?

9 MR. LOTT: That's correct.

10 CHAIRWOMAN SHOWALTER: Okay. So when are
11 the debits and credits to the deferral account done?
12 Are they done annually or do they occur monthly or
13 daily and then you find out what happens at the end
14 of the year?

15 MR. LOTT: What do you mean by debits and
16 credits? You mean what's actually entered on the
17 company's books? I mean, to me, that's debits and
18 credits. What I would assume is that every month the
19 company will make estimates about whether they are --
20 whether there's a need to start or a right to start
21 accruing an asset or a liability on their books
22 depending on what's going on in that particular year.
23 So at the end of July, they'll look at it and say,
24 Huh, yeah, we're within a dead band probably, so we
25 won't defer anything. But if something extraordinary

2117

1 starts to happen and it looks like they're going to
2 have a deferral, they would probably, in some
3 fashion, figure out a methodology to accrue a
4 deferral or liability on their books.

5 Okay. At the end of the year, June 30th,
6 you would now have a full year. You could calculate
7 the actual balances. You would true up any of those
8 monthly entries you may have made approaching that
9 time frame, and you would then make the filing that
10 the company would submit by -- I think it's at the
11 beginning of August. Staff would -- Staff and other
12 parties would review that deferral that was
13 calculated for the year ended June 30th and bring it
14 in front of the Commission for acceptance, whether
15 there was any dollars in it or not.

16 But that would be the intent, is that by
17 June 30th, the numbers -- or it takes the company a
18 month, of course, to do their accounting, but at the
19 end of June 30th, the actual deferral for the whole
20 year would be calculated and then brought to the
21 Commission for final acceptance.

22 MR. STORY: John Story, for the company. I
23 agree with Mert. This is a yearly adjustment and we
24 will true it up at the end of the year. But during
25 the year, each month we will make the estimate and

2118

1 book something on the financials.

2 CHAIRWOMAN SHOWALTER: Okay. And so --
3 let's say mid-year, you appear to be exceeding the
4 \$20 million cap. Am I right that, technically, you
5 don't exceed it until the end of the year, if that
6 should prove to be the case?

7 MR. STORY: That's correct.

8 CHAIRWOMAN SHOWALTER: On the other hand,
9 if you project that it will be exceeded early in the
10 year, you have a right to come in and trigger a --
11 try to get a surcharge approved based on that
12 projection?

13 MR. STORY: Well, the trigger for the
14 surcharge is 30 million deferred.

15 CHAIRWOMAN SHOWALTER: I'm sorry.

16 MR. STORY: The 20 million, we would look
17 at that, anyway, just to see if we should have a
18 deferral put on the books. And you're correct, we
19 would look at the remaining part of the year and try
20 to true up the estimate.

21 CHAIRWOMAN SHOWALTER: Maybe we could turn
22 to the examples that you've provided us that show how
23 this would work in a typical and an unusual year or
24 set of years, and just walk us through it. First of
25 all, just tell us where it is.

2119

1 MR. LOTT: You're trying to look at, like,
2 Exhibit C; is that what you're referring to? Or do
3 you want to go through all the calculations Mr. Elsea
4 created here that fall into his calculation of an
5 annual deferral?

6 CHAIRWOMAN SHOWALTER: Yeah, Exhibit C is
7 --

8 MR. LOTT: Exhibit C is intended to
9 demonstrate how the \$40 million cap, the cumulative
10 cap would work. And it tries to show it under
11 various scenarios of actually exceeding that \$40
12 million cap and what the company would be then liable
13 for once they exceeded the \$40 million cap. I'm
14 looking at Example One. I just want to make sure
15 everybody's looking at Example One.

16 CHAIRWOMAN SHOWALTER: Is everybody on
17 Example One?

18 MR. LOTT: Just trying to -- Jim, you want
19 to --

20 MR. ELSEA: Sure. The place to start on
21 Example One of Exhibit C is line 16, column C, where
22 you see the credit for 5.83. That is the difference
23 between the allowed level of power cost and the
24 normalized level that's going to be set for this
25 settlement. And that's 5.83 million, and that's on

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1 an annual basis. So that number came from Exhibit B,
2 and we can go back to that, if you'd like. But so
3 for the first year --

4 CHAIRWOMAN SHOWALTER: Can you just go over
5 that again, the allowed level and the normalized
6 level?

7 MR. ELSEA: Yes. It might be helpful to
8 turn back one page to Exhibit B.

9 CHAIRWOMAN SHOWALTER: Okay.

10 MR. ELSEA: The nature of the PCA is to
11 calculate the difference between actual -- or what
12 we've called actual and allowed power costs and the
13 normalized level that's set in rates. And the
14 allowed power costs are in lines four through 28, and
15 it starts off with the fixed component and the return
16 on our production rate base in line five, and then
17 other fixed costs, which include items such as
18 production O&M, property taxes. And that level of
19 cost out into the PCA periods will not change from
20 the normalized level that was agreed to as part of
21 the revenue requirements in this settlement. So
22 those numbers won't change from period to period as
23 we're calculating the PCA deferral.

24 Lines nine through 16 represent variable
25 components of the allowed power cost, and they will

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1 change. They will be based on actual bookings for
2 the year. So we're adding up the fixed components,
3 which don't change, the variable components, which
4 will be a result of actual conditions through line
5 18, and that's the subtotal, and then there are some
6 adjustments that were agreed to in the collaborative
7 related to prudence, Colstrip availability, contract
8 prices and new resources. And that comes down to
9 line 28, which is a total allowable cost, and we're
10 comparing that total allowable cost with the
11 normalized baseline costs that were in this
12 settlement. And the normalized baseline rate can be
13 seen there on line 31. It's the \$44 per megawatt
14 hour, \$44.463 per megawatt hour. That normalized
15 rate is multiplied times our actual delivered
16 megawatt hours during this PCA period to come up with
17 a baseline normalized cost.

18 CHAIRWOMAN SHOWALTER: So just so I know
19 which way this is going --

20 MR. ELSEA: Okay.

21 CHAIRWOMAN SHOWALTER: -- does this mean
22 that, in this particular example, the total allowable
23 costs were less than the baseline power costs,
24 because line 28 is less than line 31, and does that
25 mean that, in this example, the company didn't need

2122

1 to spend as much money as the baseline would provide
2 for?

3 MR. ELSEA: That's correct.

4 CHAIRWOMAN SHOWALTER: So was this a good
5 month or time period for the company?

6 MR. ELSEA: Actually, if I looked at this
7 example, I would say that, except for the Colstrip
8 adjustment, this month was just about as forecast.
9 But it appears that there was a penalty on Colstrip
10 in the example that we've done, which created this
11 credit, which looks like our costs were lower, but
12 really it's saying our allowed costs are lower.

13 CHAIRWOMAN SHOWALTER: All right. Well,
14 maybe good is not a very good term.

15 MR. ELSEA: Right.

16 CHAIRWOMAN SHOWALTER: But in --

17 MR. LOTT: Absent looking at those
18 adjustments between lines 21 and 24, the company's
19 costs were below those that were pro formed into this
20 rate case. But, I mean, Jim is referring back up to
21 the adjustments on lines 21 to 24, so the
22 quantitative -- or qualitative statement good doesn't
23 necessarily apply, because you have to look at what
24 those adjustments were for.

25 CHAIRWOMAN SHOWALTER: Right. But given

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1 the assumptions that are going into what is baseline
2 in this particular time frame that they didn't -- the
3 costs did not get up to baseline; is that correct?

4 MR. ELSEA: That's correct.

5 CHAIRWOMAN SHOWALTER: All right.

6 JUDGE MOSS: Just again, for the clarity of
7 our record, that was Mr. Elsea you were referring to
8 as Jim. We have two Jims, even on this witness
9 panel, so it's potentially possible that our record
10 will not be clear if we don't use surnames.

11 MR. LOTT: Yes, I'm very bad at that. I'm
12 sorry.

13 CHAIRWOMAN SHOWALTER: All right. Keep
14 going.

15 MR. ELSEA: All right. So as you pointed
16 out, line 33 is the difference between the baseline
17 costs on line 31 and the allowable costs on line 28,
18 and because that \$5.8 million is a credit, that is --
19 and I'll just go ahead and use your term, it is to
20 the good. Our allowed costs were less than our
21 normalized costs set in rates.

22 And the lines 37 through 40 are there to
23 show how that difference of \$5.8 million of credit
24 would be shared between the customer and the company.
25 And because that 5.8 million is within the dead band

2124

1 of 20 million, there is no amount that flows to the
2 customer on line 43. But the total difference of 5.8
3 million is important, so that's the company's share,
4 is the 5.8 million credit, and that does flow to
5 Exhibit C.

6 CHAIRWOMAN SHOWALTER: And this page that
7 we're looking at, Exhibit B, is the annual exercise?

8 MR. ELSEA: Yes, it is.

9 CHAIRWOMAN SHOWALTER: So 5.8 million is
10 within the \$20 million dead band. Now, then, what
11 did you say does happen to the 5.8? I understand it
12 goes over here as a credit, but --

13 MR. LOTT: Now, because the \$40 million
14 cap, he carries it forward to Exhibit C, so now turn
15 to Exhibit C, column C, line 16.

16 CHAIRWOMAN SHOWALTER: Okay. And I think,
17 just so -- I think I understand where this is going.
18 Tell me if I'm right. That the 5.8 million does not
19 exceed 20 million, so nothing is done about it at
20 that time. However, the 5.8 million does count
21 against the cumulative \$40 million cap.

22 MR. ELSEA: That's right, yes.

23 CHAIRWOMAN SHOWALTER: And that's what
24 we're seeing on the next page, Exhibit C?

25 MR. ELSEA: That's correct. And that's why

2125

1 it's important to be looking at both the company's
2 share and the customer's share, because the company's
3 share will be measured against that \$40 million cap,
4 and it is a cumulative over the four-year period.

5 CHAIRWOMAN SHOWALTER: Okay.

6 MR. LOTT: Yes. So now you're at column C,
7 line 16, the \$5.83 million. That is also in column
8 G, which was the company's share of that amount, and
9 it's also for the cumulative cap in column J. And
10 it's also in column K, because that is the cumulative
11 cap without the cap. In other words, if there hadn't
12 been a cap, that's what the balance would be. Since
13 that's the first year, it's spread into each one of
14 those columns.

15 CHAIRWOMAN SHOWALTER: Commissioner
16 Hemstad, did you have a question?

17 COMMISSIONER HEMSTAD: Well, I think I'll
18 hold my question, which is a more generalized one,
19 until later.

20 MR. LOTT: Second thing Mr. Elsea did was
21 to assume, in the second year, that the result of
22 Exhibit B was a \$30 million number. You can see that
23 on line 17, column C.

24 CHAIRWOMAN SHOWALTER: And what does that
25 mean?

2127

1 has absorbed that loss. That would be -- that would
2 have been flowed through their income statement.
3 That's what their earnings per share that they would
4 include to their stockholders would include.

5 CHAIRWOMAN SHOWALTER: All right.

6 MR. LOTT: This is before tax, of course.
7 The company would get the tax benefits of those.
8 This example continues, then, trying to get to this
9 particular case, so in -- on line 18, year three, he
10 added another \$30 million, it's another poor year,
11 two poor years in a row. And again, the sharing
12 between those would have been what's shown in columns
13 D and G, a five million and 25 million. But as can
14 be seen over in column K, 25 million took the company
15 over their \$40 million cap.

16 Mr. Elsea, I think, can better explain
17 exactly, then, how he calculated the cumulative
18 percentage -- I mean, the cumulative dollars, but in
19 essence, once he got to the \$40 million cap, he then
20 took one percent of that dollars -- once he exceeded
21 the \$40 million, he took one percent of this
22 company's share and put that into -- so he took the
23 one percent of the \$4,170,000 shown in column H, and
24 he put that into the company's share. And so when
25 you add the 25 million, which was the company's

2128

1 share, subtracting the \$4.17 million in column H,
2 which was that over the cap, and then added back one
3 percent of that amount, you then get to the total of
4 40 million-oh-four, or 40,000 -- \$40,040,000 shown in
5 column J, and that would compare -- so the company
6 now has exceeded their cap, and the ratepayers are
7 going to pay the difference between -- would pay the
8 difference. And the ratepayers' share, the
9 difference between the J and the K, instead of just
10 continuing to apply the annual sharing band.

11 CHAIRWOMAN SHOWALTER: Which is L?

12 MR. LOTT: Actually, I don't -- no, because
13 it should only be 4.13 million is the difference, so
14 -- L is just how much you're over the cap, over the
15 40 million cap using the normal annual sharing.

16 CHAIRWOMAN SHOWALTER: So the 4.13 is just
17 not shown here because that's a different mechanism?

18 MR. ELSEA: Actually, it shows in column E.

19 CHAIRWOMAN SHOWALTER: Oh, yes.

20 MR. ELSEA: Columns D, E and F are the
21 customers' portion.

22 CHAIRWOMAN SHOWALTER: Right.

23 MR. LOTT: Okay, now --

24 CHAIRWOMAN SHOWALTER: Just so I
25 understand, this is just what happens to an

2129

1 assignment of burdens between the shareholders and
2 the ratepayers. It doesn't describe itself a
3 triggering of a rate change, or does it?

4 MR. LOTT: No, this doesn't. The
5 triggering of the rate change is written into the
6 documents. The company will be allowed to file --
7 after one of these annual filings, they'll be allowed
8 to file when they're around \$30 million or more.
9 Again, we don't -- if they're 29.7, we don't want to
10 say you're not around your \$30 million. But when
11 they're around \$30 million, they will file a tracker.
12 Or in the instance that -- for example, last August,
13 when they knew that they were in trouble for this
14 coming winter, they would have probably filed a
15 tracker at that time based on the estimates for the
16 winter of 2001-2002.

17 So there's two circumstances that will
18 cause the company to file for a tracker. One is when
19 their cumulation gets over this \$30 million number,
20 or two, when they think and they have good reason to
21 think that they're going to be above the \$30 million
22 in the near future and it's a good time to tell
23 customers that there's a problem. We don't have
24 hydro, we're going to have high costs.

25 And that, to us, was very important. You

2130

1 know, going back to previous Commission orders, it's
2 a good idea to have a reason to tell the customers,
3 you know, there's a problem out here. You know, you
4 can help us by -- because the hydro is bad or prices
5 are wrong.

6 CHAIRWOMAN SHOWALTER: Okay. Just tell me
7 if this is conceptually right. What I envision is an
8 annual exercise, and then also a cumulative tracker.
9 And on the annual exercise, I envision a bell curve,
10 which shows a dead band of 20 million at the center
11 of it, plus or minus, and then that bell extends out
12 for other increments, and in the center of the bell
13 curve, the company accepts all of the cost or
14 benefit, and as the bell curve extends out, the
15 company takes a smaller and smaller proportion of
16 either the cost or benefit until you get out to a one
17 percent -- one to 99 percent ratio, is it, or is it
18 just the five and 95?

19 MR. LOTT: No, it's actually the five and
20 95. I'll tell you that we kind of designed the PCA
21 pre this \$40 million cap. But the company was having
22 problems with this first four-year period, and so
23 kind of look at the two things as separate.

24 The \$40 million cap explained in Exhibit C
25 is kind of separate from the long-term PCA mechanism

2131

1 that we have, and the attempt in Exhibit C was we
2 were looking at -- Staff was looking at probable hits
3 to the company. In other words, we didn't expect the
4 company to be sitting out here getting banged for \$50
5 million a year, but the company was very concerned
6 about that, as you heard Mr. Gaines talk the other
7 day. And when the company proposed trying to limit
8 their risk during this equity building period, it
9 seemed like something that Staff and Public Counsel
10 had little problem accepting that consideration and
11 realizing that we needed to get them through this
12 first four-year period.

13 So it is like one cap laid on top of
14 another mechanism. The mechanism, as we designed it,
15 was without the \$40 million cap, and the \$40 million
16 cumulative cap was laid on top of it with an intent
17 to help the company achieve their equity ratios
18 during that first four years.

19 CHAIRWOMAN SHOWALTER: All right.

20 MR. LOTT: That's how I kind of view it, is
21 everything besides the \$40 million cap was one design
22 and the \$40 million cap was laid over the top of it
23 in order to protect the company from, you know, from
24 the problems during that first four years.

25 CHAIRWOMAN SHOWALTER: But, well, just keep

2132

1 telling me if my concept is correct or not. I
2 envision this bell curve exercise going on every
3 year.

4 MR. LOTT: Yep.

5 CHAIRWOMAN SHOWALTER: And we see where in
6 the bell curve the assignment of responsibility is.
7 And if it's within the \$20 million dead band, it's
8 all assigned to the company and we go out the bell
9 curve, but at the same time we're doing that four
10 bell curve years in a row, we're keeping track of how
11 much to the bad the company has accepted or --
12 including anything in the \$20 million dead band each
13 year; is that correct?

14 MR. LOTT: That's correct.

15 MR. STORY: That's correct.

16 MR. ELSEA: I'd like to help you clarify
17 this by looking at the fourth year on Exhibit C,
18 because each of the first three years, at lines 16,
19 17 and 18 are just as you described, the bell curve,
20 we shared the \$30 million between the company and the
21 customer. In the fourth year, there was another year
22 with \$30 million of cost overrun, if you will, and in
23 that case, when you do the bell curve sharing and
24 move \$25 million to the company, which is in column
25 G, that exceeds the cap -- not only does it -- well,

2133

1 the cap was exceeded the year before, but not only
2 does it exceed the cap in that year, but if you look
3 at column F, that's the cumulative deferral balance.
4 And column F will show you that, yes, we can see that
5 year four is going to put us over the \$30 million
6 trigger, and if we anticipated year four from the
7 beginning, we would be able to put a surcharge on
8 rates to be able to have people control their usage
9 and possibly help us lower costs during that period.
10 So I think the fourth year serves as a good example
11 of what you were talking about.

12 CHAIRWOMAN SHOWALTER: Okay. So if you
13 look at the -- by the end of the third year, you've
14 gone just over the \$40 million cap; correct?

15 MR. ELSEA: Right.

16 CHAIRWOMAN SHOWALTER: But by the end of
17 the next year, you're at the \$40 million cap, but
18 there is an extra, you know, \$30 million or so that
19 needs to be covered somehow. So where in this
20 process either would there be a trigger for a
21 surcharge or could there be a trigger for a
22 surcharge?

23 MR. LOTT: Looks like it would be at the
24 end of year three, when the cumulative deferral would
25 be over \$40 million. Therefore, it's obviously over

2134

1 the \$30 million. So the company would be filing a
2 surcharge -- wait a minute, I'm looking at the wrong
3 space. It's at the end of the year four. I'm
4 looking at the wrong column. So someplace either at
5 the end of year four or someplace during year four,
6 when the company realized that that was going to
7 happen.

8 CHAIRWOMAN SHOWALTER: And what line are
9 you calling year four, 19?

10 MR. LOTT: Year four, that's line 19. You
11 see the balance, the deferral balance goes up -- in
12 column F, as Mr. Elsea was explaining the \$43.88
13 million is the deferral balance to be recovered. So
14 either at the end of year four or sometime during
15 year four, when the company knew that this was going
16 to happen, the company would have filed a deferral
17 filing.

18 CHAIRWOMAN SHOWALTER: Okay. Now let's
19 assume that that happens and there is a surcharge to
20 collect some or all of that expected \$30 million,
21 that is, the amount in column K that exceeds the 40
22 million, or might it be more than the \$30 million?

23 MR. LOTT: Well, they might have filed --
24 let's say the company -- say the company really
25 thought things were really going to be bad, and they

2135

1 filed for \$70 million. And --

2 CHAIRWOMAN SHOWALTER: Actually, but I
3 guess this is one of my questions. Is the
4 entitlement -- or I don't know if it's entitlement or
5 expectation. Is the expectation that the company
6 will collect only the amount that exceeds 40 million,
7 or that once you get up to 40 million, you kind of go
8 back into the 40 million and start collecting some of
9 it?

10 MR. LOTT: You try to bring the deferral
11 balance back to zero, or close to zero. So the
12 company, at the end of year four, would file a case
13 for \$43.88 million.

14 CHAIRWOMAN SHOWALTER: And where did -- oh,
15 I see.

16 MR. LOTT: That's the balance in column F.
17 So the company would actually make a rate filing to
18 recover their full deferral balance at that time.

19 CHAIRWOMAN SHOWALTER: All right.

20 MR. LOTT: Now, they may have made an
21 estimated filing before that, but if they waited
22 until the end of year four, saw this result, they
23 would file for the whole \$43.88 million.

24 CHAIRWOMAN SHOWALTER: So at that point,
25 let's say there is a surcharge, it's to collect

2136

1 43.88, does any of that revenue count against or
2 offset a \$40 million cap going forward, or once
3 you're at 40 million, you're at 40 million, and
4 basically anything else that's added must be added,
5 although there would be the possibility, I guess, of
6 some good years that would subtract from it.

7 MR. LOTT: The \$40 million cap is the
8 company's absorption of cost, not deferral. It helps
9 create the deferral. In this case, the deferral has
10 been changed by about \$26 million because of the \$40
11 million cap. At the end of the four-year period, the
12 company has -- so now the \$40 million cap has ended,
13 the company has full right to receive the full \$43.88
14 million.

15 CHAIRWOMAN SHOWALTER: I see.

16 MR. LOTT: If that result had happened a
17 year earlier, there would be some concern that the
18 cumulative cap might reverse some of the deferral,
19 because the company might have a decent year and
20 things might reverse, but, in this particular case,
21 because there's no question about it, 100 percent of
22 the \$43.88 million is the company's money, and
23 there's -- and it could go the other way. If these
24 numbers were reversed, it would be the ratepayers'
25 money. There would be no question about it. That

2137

1 was a deferral.

2 Once the normal bell curve, the annual bell
3 curve numbers are calculated, absent the \$40 million
4 cap, those deferrals are the company's money to
5 collect. There's just an agreement that they would
6 wait to file until a trigger balance of approximately
7 \$30 million was reached. And again, it's -- an
8 important column is the column F, and that's the
9 column -- that's the column that will trigger a
10 deferral filing.

11 CHAIRWOMAN SHOWALTER: All right. And I
12 think you answered this question just now, but I'm
13 just going to ask it again. In this Exhibit C, it
14 just so happens that it did take four years to reach
15 the \$40 million cap, and the \$40 million cap is a cap
16 for a four-year period under the agreement, but if
17 the \$40 million cap were reached in the year two at
18 the end of year two, and the surcharge were
19 triggered, then the whole thing simply happened in
20 the first two years; is that correct? And in year
21 three --

22 MR. STORY: Actually, if you look at --

23 CHAIRWOMAN SHOWALTER: -- there's no cap,
24 because you already absorbed the 40 million?

25 MR. LOTT: I'm looking at Example Three,

2138

1 Chairwoman. Is that a good one? Or Four. Three or
2 Four. They're kind of the reverse of each other, so
3 let's look at Four, since that's the one where the
4 company would be charging a surcharge.

5 MR. STORY: Example Three.

6 MR. LOTT: You're right. Example Three is
7 the one they'd be charging the surcharge. Sorry. In
8 Example Three, you can see these are all just numbers
9 Mr. Elsea projected in his run. So the first year he
10 has a bad year of \$30 million, which the company had
11 to absorb 25 million. The ratepayers -- there would
12 have been a \$5 million deferral that would be sitting
13 on the company's books with the company having full
14 right to recover that \$5 million. No questions.

15 The second year, we had an extreme year,
16 similar to last year. There was a hundred million
17 dollar extra cost. Under the proper scenario,
18 without the four-year cap, the ratepayers would have
19 paid \$64 million of this balance, the company would
20 absorb \$36 million. Unfortunately, that \$36 million
21 now crossed over the four-year cap by \$21 million.

22 CHAIRWOMAN SHOWALTER: When you said the
23 ratepayers would have paid, did you mean that --

24 MR. LOTT: No, would have absorbed. That
25 means on the deferral side. So if you look at column

2139

1 D.

2 MR. STORY: Assigned.

3 CHAIRWOMAN SHOWALTER: They are responsible
4 for that.

5 MR. LOTT: Assigned. Responsible's a good
6 word.

7 CHAIRWOMAN SHOWALTER: Okay.

8 MR. LOTT: Okay. They would have been
9 responsible for 64 million out of the hundred million
10 dollars, but they're going to get more than that.
11 And the reason why they're going to get more than
12 that is, assuming this \$40 million cap -- remember,
13 that's four-year cumulative, so you really don't know
14 what the balance of that is going to be until the
15 four years is up, but there is what is shown in
16 column H and I as reductions in the company's
17 portion, therefore increases in the ratepayers
18 portion, and column I is then the one percent of the
19 column H amounts, and that's why, in column E, you
20 see 20.8 million, and that's -- that is column H and
21 I being transferred over to the customers, because
22 the company's exceeded the cap.

23 Now, there's two things that happen in this
24 year. Number one, the \$40 million cumulative cap has
25 been at least temporarily exceeded. Number two, the

2140

1 \$30 million balance was exceeded, as you can see by
2 column F, showing \$89.8 million. Even without the
3 cumulative cap being exceeded, \$30 million was
4 exceeded. The company would obviously, sometime
5 during year two or at the end of year two, file for a
6 deferral mechanism to recover all or most of the
7 \$89.8 million. They may be very careful about
8 collecting the portion that's in column E, because
9 that could reverse on them, but they would definitely
10 recover \$69 million at that point in time, and I
11 think that they would probably file for the full \$69
12 million. They might file for more than \$69 million.
13 And that's what would be filed for at that time.

14 CHAIRWOMAN SHOWALTER: All right.

15 MR. LOTT: But there's two caps being
16 exceeded there. Number one is the \$30 million
17 trigger. It's not really a cap, but the \$30 million
18 trigger. In other words, the deferral was exceeding
19 \$30 million, and that's what has them file a rate
20 proceeding.

21 The other cap, which is the cap, which is
22 the four-year cumulative cap, is they exceeded their
23 \$40 million share, as can be seen by adding lines 42
24 and 43. Those two numbers add up to 51 -- 61. Boy,
25 I'm good today. Sixty-one million dollars, so that's

2141

1 why they're \$21 million over that cap, and they only
2 take one percent of that portion, so that means they,
3 as shown in column I, are responsible, then, for
4 \$200,000, which shows that the company's total share
5 of cost at that -- in column J, is at \$40,200,000.

6 CHAIRWOMAN SHOWALTER: All right. And so
7 in this scenario, things get better in the fourth
8 year.

9 MR. LOTT: Yeah, it kind of flip-flopped,
10 and this is kind of important, because the cumulative
11 cap, remember, runs through the full four years.
12 It's possible that in one year they exceed, as they
13 did in both years two and three, shown on lines 43
14 and 44, but in year five -- I mean, four, then the
15 company has reversal of that amount, and you see in
16 column H the \$36 million number.

17 And so basically, in that last year, the
18 company is going to absorb most of the costs -- I
19 mean, the ratepayers are going to get most of the
20 benefits back, not all. I mean, you can play around
21 with these numbers. If you have an exceedingly good
22 year in that last year, you could have actually had a
23 full reversal of all prior -- of all prior amounts
24 over the cap. In this case, we still were left
25 slightly over the \$40 million cap, as can be seen in

2142

1 column J.

2 CHAIRWOMAN SHOWALTER: But if J happened to
3 be under 40 million, let's say it was 35 million,
4 then what happens?

5 MR. LOTT: Yeah, in other words, this
6 number over here became 120. I played with that just
7 one time and it made that number negative 120. Now
8 your total cumulative cap would have been un --
9 there's a -- remember I told you originally when
10 they, back in year two, they had a deferral balance
11 showing of \$89.8 million there in column F, but 20.8
12 of that had to do with them exceeding their cap? If
13 you had this huge turnaround in the fourth year,
14 that's why they need to be careful that -- there's no
15 ban on them filing for it, but that's why they need
16 to be careful in years one, two, and three about
17 filing for some of that cumulative cap, because it
18 could potentially reverse, and then they would owe
19 money back to the ratepayers, because they charged
20 for something that now did not exceed the cumulative
21 cap.

22 CHAIRWOMAN SHOWALTER: Okay. Stop right
23 there. Let's say they did do the surcharge that did
24 cover that original 20 million and now there's a big
25 reversal and now it's under 40 million at the end of

2143

1 four years. Where is it in the agreement that shows
2 that that is owed back to the ratepayers?

3 MR. LOTT: Well, it would come out, and Jim
4 -- I mean, Mr. Elsea has calculated these things
5 correctly. Remember, at no place in the schedule
6 does he show when the company's actually going to
7 file for rates. We would be looking in this
8 calculation at the actual year-to-year numbers and
9 accumulate the totals. So when you go down, what is
10 the customers' responsibility over this period of
11 time, you can see that in column F, Mr. Elsea has
12 properly calculated at the end of those four years,
13 \$25.9 million.

14 Now, if the company had actually gone out
15 and collected \$80 million back in year two because of
16 the severe situation that struck the company, then
17 the company would be owing -- let's assume they
18 collected \$80 million. The company, instead of
19 having a deferral of \$25.9 million in there, in other
20 words, since they would have had a big credit that
21 would have been received from the customers, let's
22 say 60 million, as I said, this balance would be now
23 a credit of 35 million. Instead of an asset for the
24 company, it would be a liability to the ratepayers of
25 35 million, and the company now would have to refund.

2144

1 So if they -- you would have a refund at
2 that point in time to the customers because of this
3 reversal. And part of that reversal is a reversal of
4 the \$20.8 million that was accrued in column E
5 because they exceeded the cap. And you know, it's --
6 these four years are all going to play together in
7 that calculation.

8 And again, there's nothing to stop the
9 company from filing 89.8 million. In fact, I would
10 expect that they would file for something very close
11 to that.

12 I mean, we created a rather severe
13 situation here, one year that exceeds costs by a
14 hundred million dollars, and then, two years later,
15 it -- they are below the projected cost by a hundred
16 million dollars, just to show you how extreme that is
17 in the weather normalization adjustment, standard
18 deviation. In other words, where two-thirds of the
19 population fall is only \$20 million from the center
20 line, so you're talking about something five times
21 one standard deviation to get to those two years that
22 are included in this example.

23 So these examples are put in here to show
24 what would happen in these strange things. I just
25 want to point, strange things do happen. Look at the

2145

1 last two years, so --

2 CHAIRWOMAN SHOWALTER: Okay. Is the answer
3 to my question on page two of the settlement
4 agreement, third bullet?

5 MR. LAZAR: Yes.

6 MR. QUEHRN: Yes.

7 CHAIRWOMAN SHOWALTER: Where the sentence
8 reads, The cap is removed at the end of the fourth
9 year and any deferred balances associated with the
10 cap are set for refund or collection at that time?

11 MR. LOTT: That's correct.

12 CHAIRWOMAN SHOWALTER: Thank you. You
13 raised one thing, and that is this bell curve is
14 symmetrical, conceptually, in that there can be \$20
15 million, or the outer bands can be positive or
16 negative, and they operate symmetrically on the
17 ratepayers and the shareholders. But in reality,
18 isn't it the case that it's more likely that we'll be
19 at the ends of the bell curve on the expensive side
20 of the bell curve than the other side.

21 And by that, I mean, isn't it more likely
22 -- I hope it's not very likely, but it's more likely
23 that the company will build toward the \$40 million
24 cap to the bad for the company than it would be the
25 reverse and the ratepayers would stand to gain simply

2146

1 because there's a limit to how cheap the resources
2 can ever be in four years?

3 MR. LOTT: When you look at the 40-year
4 water study, and Mr. Elsea ran this scenario, you
5 would never have a surcharge or a refund. The only
6 thing that varied is the hydro, consistent with what
7 actually happened during the 40-year hydro study.
8 There would be a balance, by the way, at the end of
9 that 40 years, because the population in the 40-year
10 study itself, which only varies hydro, is not
11 perfectly symmetrical. There are, however, other
12 factors, and my guess is that you're right. But if
13 you look at the last two years, two years ago, the
14 company had an extremely good year and it wouldn't
15 take -- and it's when they can sell their resources
16 on the market. And if they can sell their resources
17 on the market and the market price is high and they
18 can sell, they could have a very good year.

19 Hydro is probably not the thing that will
20 drive a very good year; it's a good market and them
21 having power to sell. If you have an average year
22 with good market prices, then they will make money
23 and that will be there for the ratepayers. A very
24 great hydro year probably will not be -- and they
25 could guess better than I would, but a very great

2147

1 hydro year is not necessarily the year that would be
2 their best year. It would be a great market year
3 with decent hydro.

4 CHAIRWOMAN SHOWALTER: Maybe we could turn
5 to a different subject. And if you would look at the
6 settlement that's on page six, it's under paragraph
7 12, and it says that the parties will verify in due
8 course the accuracy of the specific numbers, making
9 up the power cost baseline rate.

10 Has that verification occurred and are you
11 asking for approval of a specific power cost baseline
12 rate?

13 MR. LOTT: At this time, Staff is not ready
14 to verify Mr. -- the company's numbers. We're fairly
15 confident that the company utilized the record that
16 they have in front of them to calculate these
17 numbers, but we need a couple months to actually go
18 out and go through this. This is not something we
19 were doing during the proceeding.

20 The company worked very hard over a few
21 days. I suspect the company would want to check
22 their own numbers and make sure that they pulled off
23 the right numbers. We needed to get something in
24 front of you that showed how the numbers were
25 calculated.

2148

1 We agree with how the company's put
2 together the numbers. And I think that's -- as we
3 looked through what they pulled off and what they're
4 attempting to pull off, I think Mr. Elsea has a
5 couple minor name changes that he told me about, but
6 other than that, we're comfortable with what's
7 included in there; we're just not comfortable that we
8 know what the numbers are, and we would like to have
9 time. They are the numbers that come from that pro
10 forma statement that's included in the revenue
11 requirements. And I think that that's the important
12 part about this, is that -- the fallout of that
13 revenue requirement calculation and what was included
14 in that. So they are what they are.

15 CHAIRWOMAN SHOWALTER: Normally, you would
16 think, if we approve a general rate case, there would
17 be a compliance filing and, before the rates went
18 into effect, we would all know with a fair amount of
19 specificity what would happen. Now, I guess we will
20 know, because it's in the settlement, a rate, but I
21 guess I'll ask the attorneys.

22 Is it a problem that we would be approving
23 an order without having pinned down specifically,
24 prior to rates going into effect, what this baseline
25 rate is, baseline rate?

2149

1 MR. CEDARBAUM: Well, I don't think it's a
2 problem, and I think that way because you're not
3 really, in this situation, you're not really
4 approving a rate to ratepayers; you're approving the
5 base from which you are -- the company would be
6 calculating a deferral, at least that's my
7 understanding.

8 And I'm assuming that that verification by
9 Staff and other parties would take place and whatever
10 corrections might need to be made to those deferrals
11 could also be made. So it's not a rate that you're
12 actually not -- that you're approving without the
13 complete accuracy that you would need; it's the basis
14 from which the deferrals would happen.

15 CHAIRWOMAN SHOWALTER: So we're approving a
16 mechanism and what is done under that mechanism comes
17 forward with some more particularity a little bit
18 later?

19 MR. CEDARBAUM: I think that's correct.
20 And our witnesses can verify that or agree or
21 disagree with that. And again, as Mr. Lott
22 indicated, that -- the reason why Staff was
23 comfortable proceeding this way is that the
24 presentation of the company included in the exhibits
25 to the stipulation were ones that Staff agrees with.

2150

1 The numbers are what they are. They can't change,
2 it's just a matter of verifying that the numbers on
3 the exhibits are the exact numbers that should be
4 there. And if there are any corrections that need to
5 be made, that can be done on a going forward basis
6 without any actual rate implications at that time.

7 MR. LOTT: Just to clarify that, from
8 Staff's viewpoint, one of the advantages in our
9 revenue requirement presentation of this case is it
10 is specific adjustment to adjustment. We didn't just
11 come out and say, Here's the revenue requirement. We
12 have before you a full pro forma statement and a
13 specific rate of return with all the calculations.

14 And therefore, Staff believes that what's
15 included in there is something that is on the
16 company's books. We have audited that to a large
17 extent, but this is something we will verify to make
18 sure that the company is not cheating themselves or
19 cheating the customer by having made a mistake in
20 pulling these things off in a two to three-day period
21 over a weekend, working 12 hours a day. And that's
22 my assumption of what they did. They did this --
23 worked very hard to get this completed and double
24 checked, but Staff had no chance to repeat that work
25 at this time.

2151

1 CHAIRWOMAN SHOWALTER: All right. Sticking
2 on the subject of verification, if you look at
3 paragraph 13 on this same page six, the second line,
4 it says, Exhibit B, based on the company's
5 presentation, and is subject to verification.

6 MR. LOTT: That's referring to Exhibit A,
7 again. Exhibit B refers to Exhibit A.

8 CHAIRWOMAN SHOWALTER: Okay. So --

9 MR. LOTT: The \$44 that Mr. Elsea was
10 talking about earlier on line 31 is based on Exhibit
11 A.

12 CHAIRWOMAN SHOWALTER: All right. So are
13 you asking for our acceptance or approval of the
14 figures in Exhibit B or is --

15 MR. STORY: The methodology.

16 CHAIRWOMAN SHOWALTER: -- Exhibit B a
17 matter that's subject to later verification?

18 MR. LOTT: It's the methodology. And we're
19 just not saying that the \$44.463 on line 31 is
20 correct. The other numbers are calculations that Mr.
21 Elsea made for the example.

22 MR. STORY: Right. They're just pulled out
23 of the air. It is the methodology that we're asking
24 for approval on.

25 CHAIRWOMAN SHOWALTER: All right.

2152

1 MR. LAZAR: It is the methodology that
2 we've reached agreement on. As a practical matter,
3 it could be as late as the first PCA filing in August
4 of '03 that the Commission might be asked to deal
5 with a difference of interpretation of what numbers
6 belong where. We don't think that's likely. We
7 think we've got a tight mechanism. But the annual
8 filings that are due under this mechanism will be
9 subject to review, so --

10 MR. STORY: I would just add to that, what
11 Mr. Lazar said a little bit. The company would need
12 a little bit more settlement as to the numbers. We
13 are looking for people to verify these numbers very
14 quickly, like it says in the settlement, so that we
15 can go ahead and book the appropriate amounts.

16 We agree with Mr. Lott, is that these
17 numbers were pulled out very quickly, and we tried to
18 tie them into a moving revenue requirement. We have
19 not had the chance, either, to go back and truly
20 verify that they matched the revenue requirement that
21 was being developed at the same time, and we --
22 that's just an audit process.

23 CHAIRWOMAN SHOWALTER: All right. Then, on
24 the question of the power cost baseline rate, is this
25 intended to be a unit rate, that is, dollars per

2153

1 megawatt hour, or a total dollar amount?

2 MR. LOTT: Yes, it is a unit cost, and that
3 number is shown, as estimated by the company at this
4 point in time, As \$44.463 per megawatt hour. And
5 that's the number we need to verify.

6 CHAIRWOMAN SHOWALTER: Right, okay. Also,
7 before we leave this page six, I have some questions
8 on page -- on paragraph 11.

9 JUDGE MOSS: I just wanted to interject a
10 question. Are there plans to somehow inform the
11 Commission when this verification occurs and what the
12 results of that are? I understand there will be
13 reports periodically and a suggestion was that it
14 will be in the company's interest to get this
15 verification at an early date, so those reports would
16 accurately reflect what's actually occurring. So is
17 there some mechanism by which the parties intend to
18 inform the Commission of the status of things?

19 MR. LOTT: I had personally, one person,
20 fully intended to do that. And maybe a good idea
21 would be, as soon as this docket is completed, to
22 open up a docket Staff investigation to report back
23 to the Commission on that very subject, so that the
24 Commissioners would have an item to track; also, so I
25 have something to charge my time to. But I think

2154

1 that would be a good idea. I mean, just something --
2 you know, I had intended to do that, and I figured
3 after the gas case was completed or even while the
4 gas case was being completed, Staff could start a
5 full review of those numbers.

6 JUDGE MOSS: Should the Commission make
7 that a condition of any approval, then, that there be
8 such a filing or --

9 MR. LOTT: I think they should just require
10 that such a -- I think condition of approval would be
11 the wrong word, but --

12 JUDGE MOSS: Well, that's how we require
13 things.

14 MR. LOTT: You just required it. Oh, I see
15 what you mean by condition. Sorry.

16 JUDGE MOSS: Right. It's just a mechanism.

17 CHAIRWOMAN SHOWALTER: I'm going backwards
18 a little bit, but while I'm on this page, I have a
19 question about paragraph 11. This is one of those
20 paragraphs that read as if it's an expectation of the
21 parties to the Commission, but that if the Commission
22 approves, it may take on some different meaning. It
23 says, One objective is to have the new power cost
24 rate in effect by the time the new resource would go
25 or goes into service, and it's -- then it's the next

2155

1 two sentences I'm concerned about. It says, Upon
2 receipt of such filing, hearings would be scheduled
3 to review the appropriateness of adjusting the power
4 cost rate. And then the second sentence is, Those
5 hearings would consider only power supply costs.

6 And seems to me, if we approve this, that
7 arguably the Commission is binding itself to what can
8 or cannot be considered, whereas if the word said
9 could, we would not be. And I'm wondering what the
10 parties intend. Do you intend us to be approving
11 something that sets out definitively what kind of
12 hearing can be had and what it considers, or is this
13 sort of the first category, if this is how we see it
14 working?

15 MR. LOTT: This, from my intent, when we
16 originally were talking to the company, knowing that
17 they needed new resources, was an attempt to -- for
18 the limitations that we put into this, in other
19 words, this three-year concept and there's the fact
20 the company can't just, you know, for 25 years keep
21 coming in for these things, was to go to single-issue
22 ratemaking related to production costs so that the
23 company could adjust their power cost baseline,
24 production cost baseline, the 44 -- whatever it was
25 that we have included in this \$44 per megawatt hour.

2156

1 It was intended so that the company could come in for
2 that without having to justify whether their overall
3 costs were -- had improved or they had suffered
4 attrition or suffered positive attrition to their
5 rate of return, or negative attrition. And the
6 intent was to be able to allow the company to be able
7 to file those single-issue ratemaking cases.

8 And so say I don't know whether we're
9 saying we're binding the Commission, but the intent
10 was to allow them to file these things along the
11 guidelines that we included in the stipulation.

12 MR. STORY: I would agree with what Mr.
13 Lott was saying. It's on the parties that we're
14 trying to make this determination right here as to
15 what would be allowed in a power cost rate. It's the
16 sentence that's following all that, It is
17 contemplated that this review would be completed
18 within four months, I think addresses more the
19 Commission. If the Commission finds that something
20 has to be done other than what we've contemplated,
21 that's where the Commission has discretion.

22 CHAIRWOMAN SHOWALTER: Well, but that
23 sentence is pretty clear. It's contemplated. But
24 then the next one is, Within 30 days following the
25 four-month review, the Commission would issue an

2157

1 order. Again, if that's a prediction of the parties
2 about what we'd do, it's different when we say it,
3 and so if we say, the Commission will issue an order,
4 then that means we will. If we say here the
5 Commission may issue an order -- I'm just trying to
6 understand how much the parties expect us to pin down
7 in this paragraph exactly what will and won't be
8 heard, what can and can't be heard, and what time
9 lines it is, and then we have to figure out for
10 ourselves how comfortable we are with binding that.

11 My sense is you want to be pretty certain
12 that the company's entitled to bring a single-issue
13 rate case before us and that we would say in this
14 order that we will entertain that idea and we will
15 not hear arguments from the parties that, No, no, no,
16 you can't do this, because that would be single-issue
17 ratemaking, because the parties agreed and the
18 Commission agreed to entertain that. I'm a little
19 less certain on the time lines.

20 MR. QUEHRN: Mark Quehrn, for Puget Sound
21 Energy. Generally speaking, I don't think there was
22 any intention here to try to hold the Commission's
23 feet to the fire with respect to any time line.
24 Obviously, where the language in here in terms of
25 contemplation and expectation, as far as how quickly

2158

1 the Commission would act, those are things that
2 obviously Commission action is going to dictate what
3 truly occurs.

4 As Mr. Story said, I think certainly there
5 was an attempt in this agreement to get the positions
6 of the parties specifically stated as to what our
7 expectations were and what our positions would be in
8 those type of -- in the circumstances that are
9 anticipated by paragraph 11.

10 MR. LAZAR: Our goal here was to have a
11 narrow process and a tight time frame. Obviously, we
12 -- I can imagine circumstances under which the time
13 frame might not work. And if it doesn't work, it
14 doesn't work, but our goal was, and I think all of us
15 shared this, was to have a narrow set of issues
16 addressed and have it addressed in a very efficient
17 fashion, and we would hope that the Commission would
18 join in that efficiency, but if it can't be done, it
19 can't be done.

20 CHAIRWOMAN SHOWALTER: And as to the scope
21 of the proceeding, how about that? Is that an
22 expectation or is that a desire on the part of the
23 parties, not only to bind themselves, but to, for
24 example, prevent the Commission from requiring
25 something beyond what would be the power cost rate

2159

1 special case?

2 MR. QUEHRN: Again, Mark Quehrn, for Puget
3 Sound Energy. I think the scope of the proceeding
4 would initially be determined by the subject matter
5 raised in the filing. And consequently, I don't know
6 that such a filing would otherwise raise other
7 issues, in terms of what's being anticipated for this
8 power cost-only rate review.

9 Beyond that, I think this is a desire and I
10 would -- you know, we can hear other counsel on this
11 point, too -- that it be clear as an aspect of
12 approving the settlement that were such a proceeding
13 initiated, that it would not be something that the
14 Commission would refuse to hear or undertake on the
15 basis of some concern such as single-issue ratemaking
16 or something else. Yes, we do want you, again, to
17 approve this as an appropriate procedure, as a means
18 of accomplishing these objectives. No, I don't think
19 we are as concerned if it's 33 days or, you know,
20 again, as practical circumstances would dictate when
21 these proceedings are heard.

22 MR. LAZAR: There is one protection in here
23 in this regard already in paragraph nine. If the
24 cumulative effect of the PCA increases go beyond five
25 percent increase in general rates, that triggers a

2160

1 general rate case filing where everything would be on
2 the table.

3 In some other jurisdictions that I have
4 worked in, commissions have, on occasion, taken power
5 cost adjustment type filings, ruled on the issues
6 that were capable of being ruled on, but bifurcated
7 the case and continued hearings on items that
8 couldn't be resolved within the time line that was
9 traditional for power cost adjustments.

10 And I don't know if there -- I've had
11 experience with that in other states. It might be
12 possible that the Commission would use that kind of a
13 mechanism here. We're hopeful that these will be
14 pretty well-defined, pretty easily understandable
15 proceedings.

16 CHAIRWOMAN SHOWALTER: All right. Similar,
17 just similar use of the word would, which I think is
18 confusing, is on the previous page five, beginning at
19 paragraph eight, where it says, In addition to the
20 yearly adjustment for power cost variances, there
21 would be a periodic proceeding specific to power
22 cost. And then, in the third sentence says, In
23 either case, the company would submit -- it seems
24 like, at least in that last sentence, it would be, In
25 either case, the company may submit, because you're

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1 saying the company's entitled to submit the power
2 cost-only filing.

3 And I'm not sure about there would be a
4 periodic rate proceeding. The company's entitled to
5 have a periodic rate proceeding. I don't know, but
6 the word would just doesn't prescribe or allow; it's
7 in the subjective tense or some kind of tense.

8 MR. LAZAR: As a practical matter, it's
9 sort of unavoidable. The company has some very large
10 resources that expire during the next few years, that
11 it will have to acquire some sort of replacement
12 resource to replace. So while you're certainly
13 correct that the company has this right and
14 conceivably could not; as a practical matter, it's
15 going to happen.

16 CHAIRWOMAN SHOWALTER: I'm just trying to
17 get the words down to, if we are approving this
18 agreement, what is it that this Commission is
19 approving, prescribing, prohibiting, allowing,
20 predicting, and the word would is a particularly
21 ambiguous word, I think, coming from us.

22 MR. QUEHRN: I would like to consult just
23 for a minute on this, if I could, please?

24 CHAIRWOMAN SHOWALTER: We could take a
25 break and then --

2162

1 MR. QUEHRN: Thank you.

2 JUDGE MOSS: We'll be in recess for 15
3 minutes.

4 (Recess taken.)

5 JUDGE MOSS: Back on the record, please.

6 CHAIRWOMAN SHOWALTER: All right. I think
7 I finished with my woulds and coulds. Oh, unless you
8 have another answer. Maybe we're not. I'm sorry.

9 MR. QUEHRN: Well, actually, the Chairwoman
10 asked a very good question, and I just wanted to
11 confer, since we were really speaking to the intent
12 of the parties.

13 Referring us back to page five, paragraph
14 eight, you had asked the question about the first
15 would in the sentence, and should that would be a
16 could. And I think the answer is it could more
17 accurately -- the word could more accurately reflects
18 the intent of the parties. In other words, there'd
19 be no point in filing a proceeding if it wasn't
20 necessary. So it is permissive to the company, not
21 mandatory.

22 CHAIRWOMAN SHOWALTER: Actually, wouldn't
23 it be can? There can be periodic proceedings?

24 MR. QUEHRN: I haven't worked through all
25 the grammatical implications of can. I have could.

2163

1 Could works. But I think it's the same concept.

2 CHAIRWOMAN SHOWALTER: All right. Well,
3 we'll contemplate it further and clarify what is
4 meant here is that it's permissive for the company to
5 bring periodic proceedings.

6 MR. QUEHRN: Right. And just in fairness
7 to the other discussion, in any case, the -- what
8 goes with that filing, the second and third would, be
9 if you will, in the paragraph, that it would always
10 be the company's burden to meet the requirements that
11 are laid out in the paragraph.

12 CHAIRWOMAN SHOWALTER: Okay. Do you have
13 any comments on paragraph 11, any further comments?

14 MR. QUEHRN: I had felt, Chairwoman, that
15 we had covered that. Again, that we're looking for
16 the Commission to approve the procedure, but with the
17 understanding that it's an expedited procedure, but
18 obviously the specificity of 30 days is not something
19 that I think, under the circumstances, that we would,
20 again, I think as I said before, expect to hold the
21 Commission's feet to the fire, something like that.
22 That's not the intent. The intent is just to make
23 clear that these processes need to move along on a
24 narrow scope and as quickly as we can.

25 MR. CEDARBAUM: Commissioners, just for the

2164

1 record, for Staff, that's also my understanding of
2 Staff's intent, as well, with respect to paragraph
3 11, that there's a substantive side of that. That
4 would be the power cost type proceeding, being
5 single-issue ratemaking, and that is something that
6 the parties are agreeable to and are asking the
7 Commission to also agree to.

8 But with respect to the process, that these
9 are expectations of the parties and if the Commission
10 can meet them, great; if for some reason the
11 Commission can't meet them, that's not a problem.

12 CHAIRWOMAN SHOWALTER: All right. So for
13 the single-issue ratemaking, you want it clear from
14 the Commission that that is okay. The other part is
15 somewhat aspirational.

16 MR. CEDARBAUM: I think that's correct.

17 CHAIRWOMAN SHOWALTER: All right. A
18 follow-up question on the power cost baseline rate.
19 You said that it was intended to be a unit rate, that
20 it's something like the unit rate of \$44.463 per
21 megawatt hour, but that is subject to verification.
22 My question is what is the divisor that produces
23 that? That is, there's -- I assume that in order to
24 get this dollar per megawatt hour, you have to have
25 dollars on the top divided by something that produces

2165

1 that figure, and what is the something? Is it
2 current load levels or what would it be?

3 MR. STORY: It's the test year delivered
4 load. It's shown on line 28.

5 CHAIRWOMAN SHOWALTER: Line 28 of?

6 MR. STORY: Of Exhibit A. That's the load
7 that's divided into line 25 on exhibit --

8 CHAIRWOMAN SHOWALTER: We can't hear you
9 very well because of the --

10 MR. STORY: It's -- the baseline dollars
11 that we're using are in line 25, the 847 million on
12 Exhibit A, and the test year delivered load is shown
13 on line 28.

14 MR. QUEHRN: Just to clarify, that's page
15 one of Exhibit A, line 28.

16 CHAIRWOMAN SHOWALTER: So it's the -- the
17 divisor would be the test year load in megawatt
18 hours?

19 MR. STORY: Delivered load, yes, that's
20 correct.

21 CHAIRWOMAN SHOWALTER: Test year delivered
22 load?

23 MR. STORY: Yes.

24 CHAIRWOMAN SHOWALTER: Okay. Thank you.

25 JUDGE MOSS: I have a question for counsel,

2166

1 and I'll direct it to you, Mr. Cedarbaum. I was
2 looking at these provisions in connection with WAC
3 480-09-310, and I want to focus your attention there
4 on two points. One is that that rule has certain
5 requirements with respect to general rate or rate
6 filings where there would be a greater than three
7 percent increase, but then there are certain
8 exceptions stated in part two or paragraph two of the
9 rule. And I noticed that there's language in here
10 that makes reference to periodic, and I'm wondering
11 if it's the intention that this mechanism, if you
12 will, this single-issue ratemaking filing is intended
13 to fall within the exception providing that periodic
14 rate adjustments for electric utilities as may be
15 authorized by the Commission are not considered
16 general rate increases for companies regulated under
17 Title 80?

18 MR. CEDARBAUM: Your Honor, I don't have
19 the rule right in front of me. It's a little
20 difficult for me to respond. If --

21 JUDGE MOSS: All right. Mr. Cedarbaum,
22 I've furnished you with a copy of the rule, and you
23 might take a look there at the first part of the
24 rule, but then look down at numbered paragraph two,
25 and you'll see there's some exceptions.

2167

1 MR. CEDARBAUM: Your Honor, I'm not sure
2 that the parties specifically contemplated where in
3 this rule this might fall, but I think it would fall
4 within that section of the rule that you've cited me
5 to.

6 Also, to the extent that there might be
7 some special exception this rule required for these
8 types of filings, then the parties would be asking
9 for that type of exception to be made.

10 I guess I would also say that, with respect
11 to the filing requirements in the rule that you
12 provided me are somewhat already covered or would be
13 covered by the types of testimony and exhibits that
14 the company would be required to file on a power
15 cost-only rate review.

16 If you look at paragraph eight of the
17 stipulation, page five, it's fairly detailed as to
18 what must come with that filing, and Mr. Lott may be
19 able to add to that, or add to what I would say, but
20 many of those items are the types of items that would
21 be filed along with a general rate case filing with
22 respect to power cost issues.

23 JUDGE MOSS: Well, my concern relates to
24 paragraph nine, which requires the company to file
25 for general rates only if the amount exceeds five

2168

1 percent. And it seems that that would either call
2 for there to be an exception under WAC 480-09-310, or
3 for the Commission to, in any order approving this,
4 to grant a waiver.

5 And so that really is the heart of my
6 question, as to whether we might simply refer in such
7 an order to the fact that this would constitute a
8 periodic rate adjustment, as excepted by paragraph
9 two of the rule, or whether we would need to
10 explicitly consider a waiver. Mr. Quehrn, did you
11 have some comment on this?

12 MR. QUEHRN: Yes, thank you, Your Honor. I
13 have reviewed the rule, and I think the words, quote,
14 Periodic rate adjustment for electric utilities as
15 may be authorized by the Commission, end quote, would
16 be an appropriate exception to that rule if the PCA
17 settlement is approved for the power cost-only cases.

18 JUDGE MOSS: And therefore, we would not
19 need to explicitly order a waiver?

20 MR. QUEHRN: I would be -- that would be my
21 view, yes, Your Honor.

22 MR. LAZAR: We discussed this within the
23 collaborative, because we knew there was a difference
24 between the five percent language in number nine and
25 the language in the rule, and it was my understanding

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1 that this was a periodic adjustment mechanism, and
2 therefore might not be covered by the rule, and
3 that's one of the reasons that the language in number
4 nine is there, is to make sure that eventually,
5 within -- if rates go up quite a bit, that we would
6 see a general rate filing.

7 JUDGE MOSS: Are you comfortable with the
8 idea that this would fall within the exception stated
9 in the rule, Mr. Cedarbaum, or do you want to follow
10 up with me on that later?

11 MR. CEDARBAUM: No, I'm comfortable with
12 that, Your Honor. As I stated before, it seemed that
13 that portion of the rule would apply. Again, not
14 being specifically aware of all the discussions that
15 may have occurred, I guess I was backing that up with
16 the notion of the waiver, but it sounds like the
17 parties are clear that that portion of the rule would
18 apply.

19 JUDGE MOSS: Thank you very much.

20 CHAIRWOMAN SHOWALTER: All right. I think,
21 as long as we're close to page five, could you turn
22 to paragraph seven? It's about new resources. And
23 it says, New resources with a term of less than or
24 equal to two years will be included in the allowable
25 PCA costs, then goes on to explain a little bit about

2170

1 it.

2 I guess my question is does this provide an
3 incentive one way or another to engage in short-term
4 contracts versus long-term contracts or building
5 versus contracts? Does it have any effect on that
6 dynamic?

7 MR. LOTT: It could, yes, and that was one
8 of the other subject matters we talked about in this.
9 We were talking about -- the four people sitting
10 right here sat there one afternoon and we were
11 talking about, along with Mr. Gaines, by the way,
12 talking about that exact issue, and we were concerned
13 about that, and we don't know what will happen down
14 the road.

15 One of the parts of this mechanism is --
16 and the whole power supply area is a reemphasis that
17 the parties agreed to to the integrated resource
18 planning process, and that new resources should be
19 coming out of the integrated resource planning
20 process. And in other words, there should be
21 discussion about and the company should be following
22 that process. And if there is unintended
23 consequences that happened, in other words, if it
24 looks like that problem that you've already
25 identified happens, then somebody's going to have to

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1 point it out in a prudence proceeding, either if it's
2 less than two years, through one of these mechanisms,
3 or in the integrated resource planning process, or in
4 one of these short-term rate cases, resource-only
5 rate cases.

6 It is one of the concerns of Staff and even
7 the company was concerned about it, and it's
8 something that's going to have to be watched. And it
9 has not been the company's plan and is definitely not
10 Staff's thought that the company should be going to a
11 market purchase type of portfolio or a short-term
12 type of portfolio. It is Staff's belief that the
13 company should be going to a utility-type portfolio,
14 where they have the resources and control the
15 resources.

16 If that's a direction that does not come
17 out of least cost planning, if least cost planning
18 moves more toward short-term portfolio, then this
19 portion of this will have to be looked at again to
20 make sure that we're still consistent with the intent
21 of costs flowing through this mechanism.

22 But I think you can't cover everything, and
23 this is one of the areas that is definitely going to
24 have to be watched to make sure that that incentive
25 doesn't get utilized by the company in a fashion that

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1 is not favorable to the ratepayers. And again, our
2 main check on that is through the integrated resource
3 planning process that all the parties, in particular,
4 Danielle Dixon and NRDC were concerned with and
5 brought very heavily to the process is that we needed
6 to reemphasize integrated resource planning process.

7 MR. STORY: One concern the company had in
8 this area was that if you shorten that time period,
9 our planning horizon generally will go out beyond one
10 year, and what we didn't want to happen was that if
11 we go out and do a quarterly purchase say at this
12 time of year for the third quarter of next year, that
13 that would be considered a new resource outside of
14 this procedure.

15 Mr. Lott's exactly right. We all had the
16 concern about the incentives, and it would be
17 reviewed in the least cost planning as to the type of
18 resources and the mix that the company is using to
19 meet its load.

20 CHAIRWOMAN SHOWALTER: I guess I see three
21 mechanisms at play. One is the PCA, which is fairly
22 objective, and I think creates fairly clear
23 consequences and therefore incentives for the
24 company. Another is the integrated resource plan,
25 which is a very soft process in that it doesn't come

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1 out with, at least -- correct me if I'm wrong, but it
2 doesn't come out with prescriptive directions or
3 consequences. And then the third is prudence, which
4 is fairly definitive, but it's after the fact.

5 And setting prudence aside, it seems to me
6 if you look at a PCA versus an integrated resource
7 plan, and what you can anticipate and what you can't,
8 you can anticipate what's going to happen under a
9 PCA, but it's difficult to anticipate consequences of
10 an integrated resource plan or this Commission's
11 review of it. So it strikes me that the PCA is a
12 stronger mechanism than an integrated resource plan,
13 which leads you to wonder whether it is, as you say,
14 a check. It's a process that could be some sort of a
15 check. Now, the prudence is a different question.

16 MR. QUEHRN: Mark Quehrn. If I may just
17 add a thought here, and this is actually addressed
18 later on in the agreement. There is a commitment on
19 the company's part and as reflected, frankly, in all
20 of these agreements that are before the Commission on
21 -- a commitment on the part of the collaborating
22 parties to aggressively pursue the integrated
23 resource planning process and to do so in a
24 collaborative effort. And I think, as you've heard
25 the witnesses speak and certainly the company's

2174

1 intention to do just that, and make that a -- again,
2 as it says, quoting from the agreement, one of the
3 company's important responsibilities to pursue. And
4 I think that's certainly the way the company is
5 looking at that issue and how it tends to address it
6 in collaboration with the interested parties.

7 CHAIRWOMAN SHOWALTER: Taking the prudence
8 mechanism, I'm not sure what this sentence means in
9 seven, the second sentence. The prudence of these
10 resources will be determined in the Commission's
11 review of the annual PCA report. Does that mean what
12 it says, that we will be determining whether the
13 company prudently entered into what annually?

14 MR. QUEHRN: What I'd like to do is this
15 was another issue that was talked about quite a bit
16 in the collaborative, and if I could defer to the
17 witnesses first, and then, if there are legal issues
18 you want to follow up, I'd be happy to do so.

19 MR. LOTT: The question was is when do you
20 review the prudence of different types of resources.
21 It was agreed in the collaborative that short-term
22 purchases, in other words, those things less than two
23 years, would -- issues related to the prudence of
24 those items would be brought up in the evaluation of
25 the annual deferral. Anything longer than two years

2175

1 would either be brought up -- the prudence of those
2 would either be brought up in a general rate case or
3 in one of these power supply-only proceedings.

4 CHAIRWOMAN SHOWALTER: So for example, if
5 we were in one of these annual reviews and the
6 company had entered into a 18-month contract, we
7 could determine did you or didn't you get a
8 reasonable price for that contract. That would be
9 one measure of prudence. Would another measure of
10 prudence be, Well, why are you entering into all of
11 these 18-month contracts. Shouldn't you have a
12 better balance and should you really have entered
13 into so many 18-month contracts. Would that be an
14 appropriate question for prudence in this annual
15 proceeding?

16 MR. LOTT: I would think that that would be
17 a good subject matter to at least bring up and
18 discuss when the party or the Commission thought that
19 the company was going in the wrong direction through
20 their short-term purchasing process. It would also
21 include things like fuel purchases, you know, various
22 hedge mechanisms the company might have used or other
23 things. But my thought was yes.

24 MR. LAZAR: To the extent the mechanism
25 creates a bias, I think it's a bias in favor of

2176

1 long-term resources, but it's not much of a bias. We
2 tried to keep it as neutral as we could and have a
3 workable mechanism. I think that if the company were
4 using a series of short-term acquisitions and the
5 parties were concerned about it, the annual PCA
6 review would be one venue to take that up in, but the
7 biennial least cost planning process that's addressed
8 in Section E of the stipulation clearly is an
9 additional area that we would expect to take that up.

10 CHAIRWOMAN SHOWALTER: Why do you say it's
11 a bias toward long-term resources?

12 MR. LAZAR: The certainty of cost recovery
13 is greater. These long-term resources trigger a
14 power cost-only rate review, where the base power
15 cost is reset and the recovery of those costs is --
16 would be built into that. If, on the other hand, it
17 was -- were short-term acquisitions and there was not
18 a power cost-only rate review, then any deviation
19 from the costs that are in the power cost rate that's
20 being set at this time would be eating up the dead
21 band. That is, the company would be at risk for
22 those deviations unless and until there were a power
23 cost only-rate review.

24 The company, I think, is at more risk with
25 short-term resources than with long-term resources.

2177

1 But if you can buy cheaper in the short run, that may
2 provide a -- some balance to that. You'd have more
3 risk with short-term resources, more certainty with
4 long-term resources, the way the mechanism is set up.
5 But we tried as best we could to keep it as neutral
6 as reasonably possible, given a recognition that
7 there have to be short-term transactions for the
8 utility to maintain loads and resources in balance.

9 CHAIRWOMAN SHOWALTER: I would have thought
10 that you would have to weigh the dynamic you just
11 described against the certainty that comes with the
12 PCA in terms of what the company's exposure is. I
13 mean, that there is also a measure of certainty in
14 the PCA mechanism and what the company will or won't
15 be liable for under it, whereas the longer term is,
16 in a way, more speculative, isn't it?

17 MR. LAZAR: The longer term is more
18 speculative, but the way this mechanism is designed
19 is we hope that the long-term resources will come
20 before the Commission for review in those power
21 cost-only reviews prior to those resources being
22 effective or, in the short run, if that can't be
23 done, the mechanism provides for the lesser of the
24 cost or what's embedded in the power cost rate to go
25 into effect in the interim. So say long-term

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1 expensive resource, the company has a pretty strong
2 incentive to get a power cost-only review to occur
3 coincident with the resource entering into service.

4 CHAIRWOMAN SHOWALTER: You just said prior
5 to the resources being effective.

6 MR. LAZAR: There's language in here.

7 CHAIRWOMAN SHOWALTER: But I think if you
8 could look at that paragraph 11, page six.

9 MR. LAZAR: It was the first sentence of
10 that that I was referring to, is to have the new
11 power cost rate in effect by the time the new
12 resource would go into service.

13 CHAIRWOMAN SHOWALTER: All right. Does
14 this mean that this is before it's used and useful?
15 I'm a little confused.

16 MR. LOTT: No, the intent of that was so
17 that the company would try to make filings for new
18 resources on a timely fashion that would try to get
19 the new resource or the new rates, the new baseline
20 to go into effect at the same time the new resource.
21 For example, if the company had a new -- I'll just
22 call it -- what did we call those -- a new CT go
23 online and that was going to go online January 1,
24 they would file something so that they would get
25 rates to go into effect at that same January 1 time

2179

1 frame.

2 CHAIRWOMAN SHOWALTER: Okay. Actually, the
3 sentence says, By the time the new resource would go
4 into service. And maybe what caught my attention is
5 I think Mr. Lazar on the stand here said before it
6 takes effect, or something to that effect.

7 MR. STORY: Actually, I think what Mr.
8 Lazar was talking about is the last sentence of
9 paragraph seven, of where, if they're not able to get
10 rates adjusted, there is a mechanism to put a new
11 resource in at a lower than actual -- or the lower of
12 the actual or the embedded cost of power costs.

13 CHAIRWOMAN SHOWALTER: This is the last
14 sentence of paragraph 11?

15 MR. STORY: Paragraph seven.

16 CHAIRWOMAN SHOWALTER: Seven, I see. I was
17 on 11. All right. So this is a bridge, but then it
18 can be reviewed in a power cost only, and that's over
19 in 11, and that is -- that's phrased by the time,
20 which seems to be after the time.

21 MR. STORY: Yeah, that was the intent. We
22 know that it's not always possible to match these
23 things exactly, so the bridge is in seven, and 11 was
24 the intent to have it in effect.

25 CHAIRWOMAN SHOWALTER: All right. Then the

2180

1 third piece of this dynamic was the integrated
2 resource plan, which is on page seven, paragraph 16;
3 is that right? This, on the last sentence, has a
4 recommendation, and it -- the last phrase says, With
5 opportunities for public comment prior to final
6 determination.

7 What do you mean by final determination
8 there? Final determination of what?

9 MR. LAZAR: This refers back to the
10 incentive penalty mechanism. There is not currently
11 an incentive or penalty mechanism in place to reward
12 or penalize companies for their performance in the
13 least cost planning process or under the least cost
14 plan once it's reviewed and accepted.

15 And the recommendation here is let's look
16 at incentive and penalty mechanism within the context
17 of the WAC and have public comment on the incentive
18 and penalty mechanisms, is my understanding of what
19 we were trying to get to in this language.

20 CHAIRWOMAN SHOWALTER: To put into the WAC
21 incentives and penalties, is that what you mean, or
22 --

23 MR. LAZAR: Well, I don't think we, the
24 parties that were working on this, got that focused
25 on the legal mechanism. We want to -- the parties

2181

1 that were particularly interested in this, two of
2 them are not at the table here, were interested in
3 having an incentive and/or penalty mechanism apply to
4 Puget for its performance as a portfolio manager, and
5 the negotiating parties realized that the one way to
6 approach this was within the Commission's least cost
7 planning WAC, and we've referred to that mechanism.

8 But whether the appropriate place to
9 implement the incentive or penalty mechanism is
10 through the WAC or through some other means, I don't
11 think we reached that point in the collaborative.

12 CHAIRWOMAN SHOWALTER: I think it leads to
13 the general question, which maybe isn't before us, is
14 to be addressed later, but do we, don't we have
15 authority to impose penalties for failure to comply
16 with the least cost plan? Is that what you're
17 getting at here?

18 MR. LOTT: Well, I think what we were
19 talking about is an incentive mechanism that would
20 have both rewards and penalties based on something.
21 We've done rewards and penalties in the past related
22 to conservation. I don't think we've ever had one on
23 the supply side, but I think that this is -- this is,
24 again, it's not something that the parties are
25 agreeing to a particular mechanism or the Commission

2182

1 or anybody else. There are some people that were
2 suggesting -- all we suggested here was that the
3 parties thought it was appropriate to discuss
4 portfolio management and whether there should be
5 rewards or penalties associated with such an
6 incentive mechanism included in those integrated
7 resource planning development.

8 CHAIRWOMAN SHOWALTER: In any event,
9 though, this paragraph is pretty clear that this is a
10 statement of agreement of the parties and not
11 anything in particular required of the Commission.
12 Am I right on that? Other than the first sentence is
13 a declarative statement, or the first two sentences
14 are, but the rest is that the parties agree this is
15 important and recommend that the Commission address
16 it later. As far as operative language, there really
17 isn't any?

18 MR. QUEHRN: This is Mark Quehrn, for the
19 company. That's our understanding, yes.

20 CHAIRWOMAN SHOWALTER: All right.

21 MR. CEDARBAUM: Commissioners, just for
22 Commission Staff, again, that is also the Staff's
23 understanding. This was a really a placeholder
24 provision for the issue on rewards and penalties
25 and/or penalties, and that we're recommending the

2183

1 least cost process, least cost planning process as a
2 forum for that to happen, but it is a recommendation.

3 MS. DIXON: This is Danielle Dixon on the
4 bridge line, and I would second what Mr. Cedarbaum
5 just said and, in addition, I think the only
6 operative word in there is to address as soon as
7 possible. My understanding is that the company and
8 the parties plan to begin collaborating on Puget's
9 least cost plan very soon following an order in this
10 case.

11 CHAIRWOMAN SHOWALTER: Let's see. If you
12 could turn to Exhibit B to the settlement, if you
13 look at line 31, that says \$849,710,975. Now, then,
14 if you look at Exhibit A-1, line 25, that says
15 847,615,110. So are these meant to be the same? Is
16 one subject to verification? Can you explain why
17 these are different, or maybe they don't even mean to
18 be describing the same thing.

19 MR. LOTT: Remember, this is a unit cost
20 thing. So if you look at that line 31, you'll see
21 the number 44.463. Go back to --

22 CHAIRWOMAN SHOWALTER: Wait, wait, wait,
23 which exhibit?

24 MR. LOTT: Looking at Schedule B, you
25 quoted the number 849,000 -- million, sorry, on line

2184

1 31.

2 CHAIRWOMAN SHOWALTER: Mm-hmm.

3 MR. LOTT: That number was based on the
4 unit cost of \$44.463 shown over to the side. Now, go
5 back to Exhibit A-1, and right next to the \$847
6 million number is the 44.463. As Mr. Story indicated
7 a little while ago, that that 44.463 was calculated
8 by dividing the 847 million by the line 28 volume
9 numbers of 19,063,000 megawatt hours.

10 Now, going back to Exhibit B and looking at
11 the line 30, there's the PCA period loads of
12 19,110,000 megawatt hours. You see that's a slight
13 growth from the one period to the other period, and
14 therefore, when the nineteen-one-ten is multiplied
15 times the unit cost, you will get a slightly higher
16 number.

17 CHAIRWOMAN SHOWALTER: So my real question
18 should have been why are those two numbers different,
19 and the answer is one's a different year than the
20 other?

21 MR. LOTT: That's a slightly different
22 volume associated with it; correct.

23 CHAIRWOMAN SHOWALTER: Okay. I think
24 there's one set of questions concerning page four.

25 MR. LOTT: Page four of the exhibit or page

2185

1 four of the settlement?

2 CHAIRWOMAN SHOWALTER: Of the settlement.

3 All right. Let's see. All right. The total revenue

4 requirement here includes both wheeling revenues and

5 costs associated with certain major transmission

6 facilities. Am I right there?

7 MR. LOTT: Yes.

8 MR. STORY: That's correct.

9 CHAIRWOMAN SHOWALTER: All right. Is this
10 calculation consistent with the way power and
11 transmission costs and revenues have been included in
12 the test year and pro forma power costs in the past?

13 MR. LOTT: Companies -- okay. I didn't
14 quite understand the second part of your question.
15 The -- let me -- I'll answer what I thought was the
16 first part of the question.

17 CHAIRWOMAN SHOWALTER: All right.

18 MR. LOTT: The calculations in the
19 company's Exhibit A, that Staff still needs to
20 verify, are consistent with the way things have been
21 pro formed in this case.

22 CHAIRWOMAN SHOWALTER: And how about
23 compared to pro forma power costs in the past?

24 MR. LOTT: The pro formas in this case are
25 very consistent with what was done back in the 1992

2186

1 rate case with restricted power supply. I mean,
2 different adjustments have been done differently, you
3 know, but we are calculating production costs from
4 these pro forma statements. So you know, wages were
5 pro formed differently in 1992 than they were here
6 and --

7 CHAIRWOMAN SHOWALTER: Okay. Then why have
8 only specific transmission costs and revenues and not
9 all transmission costs and revenues been included?

10 MR. LOTT: We were trying to get the
11 transmission costs that were related to bringing the
12 power to Puget's system, as opposed to transmission
13 costs moving power through Puget's system. So if you
14 looked at the specific transmission costs that we
15 tried to identify, other than the wheeling costs,
16 they are the Colstrip lines, the Third AC and the
17 Northern Inner Tie. Those are shown -- those were
18 the items that the company identified and Staff and
19 other parties have agreed to now, the company
20 identified as company-owned transmission that related
21 to bringing power to Puget's system, integrated
22 system, as opposed to transmission within Puget's
23 system.

24 CHAIRWOMAN SHOWALTER: So what are the
25 implications for including these transmission costs

2187

1 and revenues in power costs should the company's
2 proposal to form and join RTO West come to pass?

3 MR. STORY: At that time, I think there
4 would be a filing required to address the RTO. We
5 did discuss that a little bit in the collaborative,
6 and the intent of this is only if things remain the
7 way they are right now. The RTO would throw a whole
8 different environment into this and we would have to
9 see what the RTO impacts were.

10 CHAIRWOMAN SHOWALTER: Well, assuming the
11 RTO West proposal looked something like the current
12 one, current proposal, what would the issues be for
13 us to consider vis-a-vis these provisions?

14 MR. STORY: One concern I think would still
15 be there is that we wanted to make any new purchased
16 power --

17 CHAIRWOMAN SHOWALTER: Can you get the mike
18 a little closer?

19 MR. STORY: Sure. One of the concerns we
20 had was to make any new purchased power contract
21 equivalent to the ones that the company currently
22 has, so to bring that power to the company would
23 include some sort of transmission expense if it was
24 outside the company's area. We would still have to
25 do that under the RTO, so that we could make the --

2188

1 like if it's a purchased power contract from Oregon,
2 we could make it comparable to a company-owned
3 resource within Puget's area. So it would be one
4 consideration.

5 JUDGE MOSS: Mindful of the hour, it is
6 12:00, I think we'll take -- the Commission has some
7 other business that needs to be conducted at the
8 luncheon hour, in addition to obtaining nourishment,
9 and so we will take a recess from 12:00 until 2:00.
10 So we'll see you back then, and you can all have a
11 lovely, leisurely lunch on the waterfront on this
12 beautiful day.

13 (Lunch recess taken.)

14 JUDGE MOSS: Let's be back on the record.
15 I have one matter to take up, a couple of matters,
16 actually, before we get back into questions on the
17 PCA.

18 One, off the record, Ms. Dixon suggested
19 that -- or stated that she was concerned that the
20 Commissioners might require some additional
21 clarification with respect to paragraph 16 that we
22 discussed somewhat earlier. And so I will put it to
23 the bench whether they feel that they need some
24 additional clarification from Ms. Dixon with respect
25 to the paragraph 16 on page seven of the PCA issue

2189

1 agreement, the one that Mr. Cedarbaum described as a
2 placeholder paragraph?

3 CHAIRWOMAN SHOWALTER: No.

4 JUDGE MOSS: No, the bench does not feel
5 that it requires any further clarification with
6 respect to that paragraph, Ms. Dixon, so we won't
7 need your statement. Thank you.

8 MS. DIXON: Thank you.

9 JUDGE MOSS: I have a question, and I'm not
10 sure if it should go to anybody on the panel or maybe
11 counsel would be able to respond to this. It's a
12 clarifying question with respect to what has been
13 referred to as the umbrella stipulation.

14 And looking at page two of that, there's a
15 Arabic number three, paragraph Arabic number three,
16 and the question relates to the sentence that begins
17 on line 38 and a half. It says, The participating
18 parties that executed the conservation and low income
19 issue agreements present these gas -- I'm wondering
20 if there's a compound verb and the verb should be
21 will present. We had a little trouble understanding
22 the sentence otherwise.

23 MR. CEDARBAUM: Your Honor, Commissioners,
24 we have presented natural gas rates, or at least a
25 proposed cost recovery mechanism for natural gas

2190

1 rates to recover the cost of the low income program,
2 and we're asking the Commission to approve that.

3 JUDGE MOSS: In this settlement
4 stipulation?

5 MR. CEDARBAUM: Yes.

6 JUDGE MOSS: I don't recall seeing gas
7 rates in the settlement.

8 MR. CEDARBAUM: Well, the rates themselves
9 would come in a compliance filing, but as far as the
10 low income stipulation, there is a proposed cost
11 recovery, essentially a rate spread proposal on how
12 those costs will be recovered.

13 MR. LAZAR: It's in the last page of
14 Exhibit G.

15 JUDGE MOSS: Exhibit G?

16 MR. LAZAR: Yes.

17 JUDGE MOSS: Well, let's take a quick look.
18 And that's paragraph 23 there?

19 MR. LAZAR: No, this is Exhibit G to the
20 umbrella stipulation.

21 JUDGE MOSS: Oh.

22 MR. LAZAR: The low income assistance
23 stipulation has a final page, which is the gas rate
24 spread.

25 MR. CEDARBAUM: Just to add to that,

2191

1 there's a --

2 JUDGE MOSS: Wait a minute. Let's get this
3 clear first. I have the settlement terms for low
4 income in front of me. It's a five-page agreement
5 exclusive of the --

6 CHAIRWOMAN SHOWALTER: I have G.

7 MR. CEDARBAUM: That's right.

8 JUDGE MOSS: That's what I'm looking at.

9 MR. CEDARBAUM: And then, if you turn to
10 the attachment to that.

11 JUDGE MOSS: Oh, there's an attachment to
12 it. Oh, okay.

13 MR. CEDARBAUM: Those show the rates that
14 we are -- at a compliance filing will reflect if the
15 Commission were to approve the settlement.

16 JUDGE MOSS: And that's the third column
17 from the left, rates per therm?

18 MR. LAZAR: Yes.

19 JUDGE MOSS: Okay. All right. Well, that
20 clarifies that.

21 MR. CEDARBAUM: And then, with respect to
22 conservation, we have agreed, in the conservation
23 tab, which is Tab F, to a cost recovery mechanism,
24 and that's -- that's the discussion under subpart L
25 that begins on page nine. And we haven't attached to

2192

1 this part of the agreement a specific per schedule or
2 rate per schedule proposal to kind of carry forward
3 that cost recovery, but, again, that would come in
4 the compliance filing.

5 JUDGE MOSS: And the gas piece of that is
6 in paragraph 38 there?

7 MR. CEDARBAUM: Yes, it is.

8 JUDGE MOSS: Okay, all right. I think that
9 clears that up. Thank you. Now, I have another
10 question, and this goes, initially, at least, to you,
11 Mr. Lott, with respect to some of your testimony this
12 morning. You touched at one point, in one of your
13 responses, on the paragraph four at the settlement
14 terms for PCA. That's on page two of the issue
15 agreement.

16 And the first bullet there, under Arabic
17 four, includes that sentence, The surcharging of
18 deferrals can be triggered by the company when the
19 balance of the deferral account is approximately 30
20 million. And your comment this morning, I believe,
21 was to the effect that it was phrased that way
22 because if it was 29.7 million, you wouldn't want to
23 cut off the opportunity. But my -- I'm a little
24 concerned about the lack of precision here in that I
25 can foresee a day when someone might say, Well, 25.1

2193

1 million is approximately 30 million, or somebody else
2 might say 29.4 is not approximately 30 million, so
3 you see my concern.

4 So I wanted to get a sense of what
5 specifically the parties had in mind by using this
6 type of a trigger stated in terms of approximately an
7 amount.

8 MR. LOTT: I see Mr. Quehrn getting ready
9 to answer this question, but I'll give a first
10 attempt at it. My thought was is that when the
11 company's in a position where they're sitting very
12 close to that number and it looks like the number's
13 going to get larger, then I would suspect the company
14 would be filing. If, on the other hand, the company
15 was in a good position and it didn't look like a bad
16 -- did I say that the wrong way? I'll try that
17 again.

18 If in a year they were sitting, like, at
19 twenty-nine and a half and there was -- the company
20 knew that they had poor hydro, then they might file
21 for the twenty-nine and a half million dollars at
22 that point in time. On the other hand, if the
23 company was in a good hydro situation or a good
24 market situation and the balance had built up to that
25 number, then I would not expect them to be filing.

2194

1 But I think the intent was they wouldn't
2 file until there was a \$30 million balance,
3 generally. But, remember, there was this right to
4 file before the balance actually got to \$30 million.

5 You'll notice that on the refunds, they're
6 required to file when it gets to \$30 million, and
7 that was --

8 JUDGE MOSS: I did notice that.

9 MR. LOTT: Right. So the company had no
10 option not to refund. That doesn't mean that the
11 Commission or the Staff might not suggest that they
12 hang on to the money, but that the company would have
13 to file.

14 JUDGE MOSS: Mr. Quehrn, did you have
15 something to add?

16 MR. QUEHRN: Actually, I was just moving
17 the microphone at the time.

18 JUDGE MOSS: You have to be careful of your
19 body language in here.

20 MR. QUEHRN: I understand that.

21 CHAIRWOMAN SHOWALTER: It's like an
22 auction.

23 JUDGE MOSS: What is your bid? No, just
24 kidding. All right. Well, my sense, from what
25 you're saying, Mr. Lott, is what is contemplated by

2195

1 this language is something very close to 30 million,
2 29 and a half, you've mentioned, 29.7 perhaps earlier
3 today. We're not talking about 25 million, for
4 example?

5 MR. LOTT: No, again, I think it depends on
6 the circumstances. If they're below \$30 million and
7 the circumstances do not indicate a situation where
8 the company was coming up short, then -- in fact,
9 we're going to have a good year, then I would suspect
10 they would sit on the twenty-nine and a half million.
11 I think there would have to be some -- and the
12 company might, with a \$32 million balance, decide to
13 do the very same thing, knowing that they were having
14 a good hydro year, a good market year, because things
15 turn around by the end of July in some years, you
16 know.

17 Since you're dealing with October through
18 January and then the hydro starts flowing in the
19 months, my guess, April through June, things may be
20 totally different by the time the deferral had been
21 accumulated than when the deferral was being
22 accumulated, so -- I'm just not trying to be too
23 strict on the company and say that they can't file
24 for a slightly smaller amount.

25 JUDGE MOSS: And like yourself, while I

2196

1 look forward to being fully employed in the future,
2 I'm not sure that I really want to have to come in
3 and listen to argument about what approximately
4 means. I wanted to have a better idea of that.
5 Thank you for clarifying that.

6 COMMISSIONER HEMSTAD: I'd say
7 approximately means about.

8 JUDGE MOSS: Now, one final piece, somewhat
9 in the nature of housekeeping, before we get back to
10 the PCA questions. Over the luncheon recess, I was
11 able to prepare a set of bench requests that relate
12 to time of use conservation agreement, low income
13 service quality index, and rate design. Some issues
14 we've talked about and some we haven't. So I want to
15 distribute those now.

16 And I've also had some discussion, and we
17 may have to supplement this later this afternoon with
18 two or three additional questions, but in the
19 meantime, I'll go ahead and pass these out so you all
20 will have those, and I'll get them filed with the
21 records center for other parties sometime today if we
22 finish before 5:00.

23 All right. And I think, with that, we are
24 ready to return, and I think Chairwoman Showalter has
25 a few more questions, and the other Commissioners, of

2197

1 course, may have some questions to chime in with, as
2 well.

3 CHAIRWOMAN SHOWALTER: And I hope not many
4 more, but picking up where Judge Moss left off on the
5 \$30 million, assume that we have gotten to
6 approximately 30 million or more and that there is a
7 surcharge. Is there any cap on the surcharge or
8 credit level?

9 MR. LOTT: There's no cap included in the
10 mechanism. The company would be accruing interest at
11 this point in time one way or the other, and there is
12 no cap placed in here. We talked about that and we
13 thought, depending on the circumstances, you may --
14 nobody contemplated that you would absolutely or, on
15 the opposite side, never push it out for over more
16 than one year. Again, it depends on the
17 circumstance, you know, price signals are something
18 that -- it could be that raising the prices at that
19 time may be a bad price signal, and therefore
20 spreading it out may be in the company's interest.
21 It is possible for all sorts of situations to exist,
22 but the intent was to amortize the balance over a
23 one-year period and with no cap.

24 CHAIRWOMAN SHOWALTER: All right. Can
25 there be more than one surcharge or credit in place

2198

1 at one time?

2 MR. LOTT: Well, I would assume that you
3 would, if you had a second case that came in at that
4 time, you would change the surcharge to recover the
5 balance from that time forward.

6 CHAIRWOMAN SHOWALTER: So there would only
7 be one surcharge, but it could be the result of two
8 actions?

9 MR. LOTT: Right.

10 CHAIRWOMAN SHOWALTER: Then is there
11 anything in the agreement that says that the
12 surcharges or credits can be triggered only annually
13 or can they be triggered or occur one quarter into
14 the July to July year?

15 MR. LOTT: Well, from a strict deferral
16 basis, it can only be triggered annually, since the
17 deferral is strictly on an annual basis. That is, we
18 tried to make it so that the company could come in
19 and file when they could demonstrate that the balance
20 could climb in that direction. So in other words, if
21 you remember last August, the company knew that they
22 were in trouble for that coming winter, they would
23 have then probably filed a surcharge last August,
24 which is exactly what they tried to do last year, and
25 that would have implemented a surcharge starting

2199

1 probably in September or October, based on that
2 proposal.

3 CHAIRWOMAN SHOWALTER: All right.

4 Switching areas, I want to ask one follow-up to an
5 earlier question, and it was about what happens if
6 Puget joins an RTO West, and I believe your answers
7 were in terms of what happens to the power costs, but
8 what about inclusion of transmission revenues? Would
9 transmission revenues be affected by the RTO West
10 proposal vis-a-vis this proposal?

11 MR. STORY: I've not looked at the most
12 current RTO proposals. I couldn't answer that. We
13 could answer that on a per bench request, if you'd
14 like.

15 CHAIRWOMAN SHOWALTER: All right. If it's
16 not in there, we'll probably add it.

17 MR. STORY: Okay.

18 CHAIRWOMAN SHOWALTER: And I want you to
19 know, I understand that RTO West is a tentative
20 proposal at this point and not definitive, but there
21 is a proposal and I think you might at least be able
22 to answer in terms of the factors that might be
23 before this Commission with respect to those
24 transmission revenues.

25 MR. STORY: Okay.

2201

1 levels. Do you really believe this is going to be
2 relatively easy to administer, and secondly, in a
3 much larger context, harkening back to the history of
4 ECAC, that's E-C-A-C, and the PRAM, P-R-A-M, which
5 struck me the public never did understand it, how
6 will a generally reasonably informed member of the
7 public understand this program?

8 MR. LAZAR: I do think this will be
9 relatively easy to implement. And I say that in the
10 -- you know, in comparison to a general rate
11 proceeding, very easy to administer, as compared to
12 the gas tracking mechanism, only slightly more
13 complex. So from an administrative perspective of
14 the people who work with it, I don't think it's a
15 difficult mechanism.

16 Turning to the public, I do think this will
17 not be an easy thing for the public to understand.
18 Fortunately, they will very seldom have need to
19 understand it or be affected by it, because, as we
20 indicated in our -- in my testimony, we were
21 interested in a mechanism that wouldn't result in
22 frequent rate changes, the combination of the dead
23 band, the deferral mechanism, the sharing mechanism
24 and the trigger. I think that this mechanism very
25 likely will only be triggered under extreme weather

2202

1 conditions.

2 This is not a weather-only PCA. It
3 incorporates other factors, but because of the size
4 of the dead band and the amount of the sharing and
5 the size of the trigger, it's almost impossible for
6 me to imagine circumstances that would cause a
7 surcharge to trigger without a severe weather
8 situation associated with it. And as the Commission
9 has said in a number of the PCA orders, the public
10 can understand a linkage between a surcharge and
11 weather.

12 Also, I will say that I think it is very,
13 very unlikely that this mechanism will trigger a
14 refund. The asymmetry of power costs, as the
15 Chairwoman was speaking to before the lunch hour, is
16 such that it's very, very unlikely that there will be
17 a refund. That means that I think there will be very
18 few rate changes as a result of this mechanism and
19 those that do occur, I'm almost certain, will be
20 associated with extreme weather circumstances that
21 the public will be able to understand. So it won't
22 happen often, and when it does happen, I think that
23 there will be an easy to explain reason for the rate
24 changes.

25 MR. LOTT: Just to give you my answer to

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1 that. When I look at it, when you go back, we have
2 the PGA that we apply to the gas companies, and we
3 had the ECAC, which you mentioned earlier. Those are
4 very easy mechanisms to administer, generally
5 speaking. There's this hundred percent flow-through
6 and it's fairly easy to calculate. In the ECAC's
7 case, however, there were a lot of problems, because
8 you were measuring only variable costs, and
9 unfortunately the company owns power plants,
10 therefore, the relationship between them.

11 We tried to correct those things in the
12 PRAM, and the PRAM was also not that difficult to
13 administer, more so than the ECAC, but the PRAM
14 brought in new resources and new resources caused a
15 lot of problems with huge rate increases and huge
16 deferrals related to new resources when the -- other
17 than the, you know, Tenaska, Encogen, and these other
18 new resources coming on, there was no real reason for
19 rate increases or these large deferrals.

20 This mechanism follows the PRAM much closer
21 than follows the ECAC. It tries to take care of the
22 problems that were included in the ECAC, tries to
23 remove increases that aren't related to fluctuations.
24 It uses those single-issue rate cases in order to
25 deal with new resources, so that the ratepayers will

2204

1 understand when they get one of those type of rate
2 increases, and it will obviously, as Mr. Lazar said,
3 fluctuate for things other than weather -- and that
4 is basically market prices.

5 And I think that is something else that the
6 ratepayers -- that's the call I get most often,
7 especially from larger customers, is, The price is
8 down, why isn't my rate going down; the price is up,
9 why aren't the rates going up. So I get a lot of
10 calls from middle size customers, not residential
11 customers. They look at the market, for some reason.
12 I don't know why, but they do, and they ask that,
13 both in electric and gas. It's not just gas. They
14 ask that on the electric side, too.

15 COMMISSIONER HEMSTAD: What's going to
16 happen at the end of the four-year period, attempting
17 to look forward to the -- does this program, by its
18 own terms, terminate or does it continue until
19 revised?

20 MR. LOTT: No, this mechanism does not end.
21 The only thing that ends at the end of the four years
22 is the four-year cap. After the end of four years, I
23 mean, there are some thing things that will push the
24 company into a general rate case, filing one of those
25 single-issue rate cases. After the end of three

2205

1 years, the company would then have to turn around and
2 file another general rate case. Obviously, anybody
3 that finds a problem with this can bring it in front
4 of the Commission and we can talk about that, but the
5 intent was is this would be an ongoing process, this
6 mechanism would hopefully last for a long period of
7 time, with modifications that take care of unintended
8 consequences, which, if they don't happen, we'll be
9 very lucky. But, I mean, something will go wrong,
10 and hopefully we can correct it, rather than
11 eliminating it just because there's a problem.

12 MR. LAZAR: You also have the Avista
13 settlement before you. That settlement contains a
14 built-in review period. This one does not. That's a
15 distinction between the two. We're confident that
16 this one is well enough designed that the parties
17 didn't see a need to propose something like that.

18 CHAIRWOMAN SHOWALTER: But, on the other
19 hand, nothing prohibits any of the parties from
20 coming in and seeking review?

21 MR. LAZAR: That's correct.

22 CHAIRWOMAN SHOWALTER: Well, actually, just
23 to follow up to that question, I realize, of course,
24 the company can come in and seek a review, but what
25 is the ability of a non-company party coming in and

2206

1 seeking a modification, I guess through a complaint?

2 MR. LOTT: Well, in U-8141, Staff and other
3 parties -- that's the beginning of ECAC, but Staff
4 and other parties made a petition to the Commission
5 to reopen, or I can't remember exactly how we
6 reopened it, but we reopened U-8141 to that
7 discussion. And I remember testifying in that
8 proceeding and the Commission putting out an order
9 and telling the company they had to do something in
10 the next general rate case.

11 In other words, that reopening of U-8141
12 did not eliminate the ECAC, but it put bounds on the
13 company to do things, and in the next general rate
14 case, the Commission then eliminated ECAC. Of
15 course, any general rate case, the Commission would
16 have the right to relook at this, also.

17 CHAIRWOMAN SHOWALTER: Right. But what if
18 it's not at the time of a general rate case?

19 MR. LOTT: That's what I'm saying. I think
20 it would be better for Mr. Cedarbaum to --

21 MR. CEDARBAUM: A number of processes come
22 to mind. The general rate case is one, but a
23 petition to reopen or rehear, whichever is the
24 appropriate name, would be another. A complaint
25 process would be another if the standing requirements

2207

1 of the statute were met. I suppose, I mean, there's
2 nothing in our agreement that prohibits during any of
3 the annual filings or the power cost-only reviews if
4 something -- there's just some major glitch and a
5 party wanted to propose how to fix that. I don't
6 think that's really anticipated, but not precluded,
7 either.

8 So it seems to me like there are a number
9 of ways to go. And others might come to mind, but
10 those are the four that come to mind immediately.

11 CHAIRWOMAN SHOWALTER: Okay.

12 MR. LOTT: Just a reminder. Every year we
13 would plan to bring the company's calculation of the
14 deferral in front of you. The company, of course,
15 can make a petition at any time, but in our review of
16 those deferrals, we might suggest that there's a
17 problem at those points in time, which is when I
18 would suspect that Staff would probably suggest
19 something.

20 MR. LAZAR: The mechanism specifically
21 provides that the prudence review of short-term
22 resources would be done at the time of the annual
23 deferral review, and so if those became
24 controversial, that might either cause the Commission
25 to make a decision to reopen the mechanism or the

2208

1 parties to ask the Commission to do so.

2 CHAIRWOMAN SHOWALTER: Mr. Quehrn.

3 MR. QUEHRN: Commissioner, I would only
4 add, I think, that it is also the parties' intention
5 that within circumstances that have been anticipated
6 and reflected in the stipulation is that this would
7 be, as Mr. Lazar first said, a mechanism that would
8 survive for an indefinite period of time, until, as I
9 say, either we're in a general rate case or something
10 else would require us to revisit it.

11 So it's -- I don't think it's intended,
12 particularly during the first four years, that it's
13 going to be revisited.

14 CHAIRWOMAN SHOWALTER: But can it be, is
15 the question, and can it be revisited on motion of
16 someone other than the company. And I think Mr.
17 Cedarbaum gave the answer yes.

18 MR. QUEHRN: Well, I don't have any dispute
19 with the procedures that Mr. Cedarbaum is referring
20 to. I mean, they were all there in the law. I would
21 agree with that. I was just adding that I think it
22 is the parties' intentions that this thing is going
23 to be with us for at least four years.

24 MR. LAZAR: Because we're reasonably
25 certain that there will be a general rate case in the

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1 fourth year of this mechanism, because of the way
2 it's structured, that is, if the company requests a
3 power cost-only review after year three, that
4 triggers a general rate case. My guess is that
5 unless there's some egregious problem with it, that
6 that will be the time that the parties would look to
7 fine-tune it.

8 COMMISSIONER HEMSTAD: I have one other --
9 call it a practical problem or practical concern.
10 With the annual filings that will occur here that
11 will specify a period of time, and then with possibly
12 other kinds of filings, are we going to find
13 ourselves in a situation where it will be difficult
14 for Commissioners to have the conversations with
15 Staff or any of the parties about how this whole
16 system is working because of ex parte requirements
17 and the like that will make that kind of conversation
18 difficult?

19 MR. LOTT: I can only answer part of that,
20 I suspect, and that is that there will be Staff
21 reviewing those deferrals and trying to bring a
22 recommendation to you. I don't know whether those
23 are things where there's an ex parte rule or not, and
24 I don't know, but there will be other Staff that can
25 talk about the policy, and talking about the policy

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1 about what's going on is a different matter than
2 reviewing the deferrals that are in front of you at
3 that time.

4 MR. CEDARBAUM: Commissioner, I guess it
5 seems to me like it would work an awful lot as the
6 PGA mechanism works now in terms of deferrals. I
7 mean, there are filings made by the company, but I
8 don't think that prevents any discussion ongoing with
9 the Commissioners and Staff.

10 Now, you know, once a filing is made,
11 that's subject to Commissioner review and approval,
12 according to paragraph four on page two. That's the
13 deferral, annual report. And I would expect that
14 could come before the Commission in open meeting for
15 approval, and so you would have similar processes for
16 that.

17 Now, if there's a power cost-only review
18 case actually filed, and that's going to go to
19 hearing, that's a different animal.

20 So I think sort of the ongoing way this
21 could work in terms of the deferral filings is pretty
22 analogous to how a PGA works today. It wouldn't
23 present any major obstacles to any ongoing
24 discussion.

25 COMMISSIONER HEMSTAD: That's all I have.

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1 CHAIRWOMAN SHOWALTER: Mr. Lazar, I have
2 one more now that we had turned to your testimony. I
3 have a little question mark on page four of your
4 testimony, Exhibit 551. And it's line seven through
5 11. You're talking about the relationship of the
6 return on equity to this surcharge versus utilities
7 able to recover a hundred percent of prudently
8 incurred power cost. Can you just explain this
9 dynamic a little bit more?

10 MR. LAZAR: Yes. Exhibit B to the
11 settlement stipulation, which is the revenue
12 requirement stipulation, sets forth a specific
13 capital structure and rate of return by element.
14 That was negotiated at the time of the -- that the
15 return on equity component of that was negotiated as
16 part of the interim, and the interim committed the
17 parties to negotiating a PCA that equitably shared
18 risks.

19 This PCA mechanism, in my opinion, does
20 equitably share risk in recognition of the return on
21 equity that was allowed. A mechanism that had, say,
22 a \$5 million dead band and a \$5 million trigger,
23 rather than a \$20 million dead band and a \$30 million
24 trigger, would assign much more risk to the
25 ratepayers than the mechanism that's before you.

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1 CHAIRWOMAN SHOWALTER: I see.

2 MR. LAZAR: And the Commission has been
3 very clear in the past that one of the conditions for
4 a power cost adjustment mechanism needs to be a cost
5 of capital adjustment. The cost of capital
6 adjustment needs to be of the right order of
7 magnitude to fit with the PCA.

8 If we had a hundred percent flow-through
9 PCA, we would think that the stipulation return on
10 equity was too generous. If we had a zero
11 flow-through PCA, as is the current case in rates
12 today, arguably the return on equity stipulation
13 would have been too -- well, it would not have been
14 generous enough as the balance between the structure
15 of the PCA and the level of the return on equity that
16 were important for us in the negotiations.

17 CHAIRWOMAN SHOWALTER: So in lines 10 and
18 11, where you're contrasting this PCA with a utility
19 that gets a hundred percent recovery, i.e., it's a
20 lower risk to that other company?

21 MR. LAZAR: Right. The Nevada Commission
22 has recently issued two orders, one for Nevada Power,
23 one for Sierra Pacific Power. The return on equity
24 for Nevada Power was 10.2 percent; the return -- or I
25 think, and for Sierra Pacific was about the same.

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1 And one was 10.17, the other was 10.2. In that
2 state, there is a statutory guarantee of a hundred
3 percent recovery of prudently-incurred costs. Now,
4 in that jurisdiction, there was a little prudence
5 disallowance in the amount of some \$400 million, but
6 that was within the prudence review part of it, not
7 within the statutory flow-through part of it. They
8 received much lower returns on equity, but their
9 mechanism exposes their companies to less risk than
10 this mechanism exposes PSE to.

11 CHAIRWOMAN SHOWALTER: So what you're
12 saying, in the lines seven and eight and nine, is
13 that you, in your view, the risk that -- the risk
14 allocation between shareholders and ratepayers
15 appropriately corresponds to the 11 percent return on
16 equity?

17 MR. LAZAR: Yes.

18 MR. QUEHRN: Madam Chairwoman, if I could
19 add here -- Mark Quehrn, for Puget Sound Energy. I
20 think the operative word here is range. As Mr. Lazar
21 has testified, there is a range of different types of
22 PCAs among various jurisdictions that look at the
23 degree of risk that's being shared between the
24 customers and shareholders and return on equity, and
25 I think this does fall within the range, but we would

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1 just want to make it clear for the record that there
2 is a range.

3 COMMISSIONER OSHIE: I have a question for
4 the panel. On page five, paragraph six, entitled
5 Adjustment for Availability of Colstrip, I really
6 have two questions, and they can -- the first
7 question is why was this section of the -- included
8 in the agreement, its purpose, and two, does it
9 matter to the parties why Colstrip would be made
10 unavailable to the company?

11 MR. STORY: This paragraph was added. It
12 was a concern in the ECAC that when a plant went
13 down, we were recovering the plant costs in rates and
14 also recovering the replacement power costs. So to
15 address that issue, we came up with this mechanism of
16 adjusting the revenue requirement down for Colstrip
17 when it was out for any long period of time, and this
18 would be a long period of time if you got an average
19 availability factor down below 70 percent.

20 So it's, in essence, giving some of the
21 money back that we collected for plant recovery when
22 we're actually getting recovery on the replacement
23 power cost.

24 COMMISSIONER OSHIE: I guess I don't have a
25 good feel for what the long period of time would be

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1 at 70 percent.

2 MR. LOTT: Well, I just want to explain how
3 we got to this number, but this is the four plants
4 combined, so they have one, two, three and four, and
5 they get about -- even though one and two are
6 substantially smaller plants, they're not
7 substantially smaller for Puget because of a lot
8 larger percentage ownership. So basically, you have
9 four plants that run at about an average of 85
10 percent capacity -- I mean, not capacity,
11 availability each year.

12 These plants, during the last ten years,
13 when combined together, never dropped below the 70
14 percent number that we have here, although it got
15 very, very close in one year, if I remember, on a
16 combined basis, because not only did the two -- one
17 or two went down for a substantial time, the other
18 plants were having some problems at the same time, so
19 there was a substantial reduction in availability.
20 But even in that worst year, they didn't go below 70
21 percent.

22 When we went to the company and tried to
23 talk to them about this, we said, Well, we could give
24 you a reward, you know, a scenario that gave you
25 benefits and minuses, which is what the PRAM had had

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1 in it. In other words, it chose an 85 percent
2 number. If it did better than 85 percent, the
3 company got to keep the benefits; if it went below 85
4 percent, it cost them money. We asked them whether
5 that's what they wanted. They said no. We said,
6 Okay, we still want to protect against very bad
7 years. And after working this out, this was a
8 mechanism that only looked at years in which there
9 was a substantial hit in one of those plants,
10 probably six months, along with the rest of the
11 normal outages of those things.

12 You asked what type of availability, you
13 know, did we consider, you know --

14 COMMISSIONER OSHIE: I was --

15 MR. LOTT: -- the reasons for the
16 availability and shortage.

17 COMMISSIONER OSHIE: Right, exactly, Mr.
18 Lott.

19 MR. LOTT: And obviously, if the company
20 had a very good reason for an availability, you know,
21 the plants going down, such as -- this is something
22 they would probably know about ahead of time, and
23 that's something they could bring to the Commission
24 in one of these rate case-only proceedings.

25 I'm trying to think of, in my own mind, we

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1 were trying to think about what type of events would
2 take this out. Obviously, a major breakage in one of
3 their turbines, the structures. Something would have
4 to severely happen in one of those plants. And in
5 fact, they did, in the early years of Colstrip Three
6 and Four, have two major outages at Three and Four, I
7 believe. I can't remember which ones went down.
8 Three went down before Four came in for a six-month
9 period, and I think Four went down for another
10 six-month period, or something like that, back in the
11 late '80s. These are very major outages.

12 And again, it's the availability. It's not
13 the capacity factor. If for some reason these plants
14 aren't running, but are available to run, this thing
15 does not apply. It's only when they can't run. And
16 so therefore, I'm trying to think, politically, for
17 example, maybe, if for some reason, for air reasons,
18 they were told they couldn't run because they didn't
19 meet clean air requirements, I think the company
20 would probably have to file a rate case, you know, a
21 power cost-only rate proceeding immediately to change
22 the results. I think that if there were some other
23 major reason why one of these plants went down, you
24 know, something that stopped Colstrip from being
25 operable for some reason or another, other than just

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1 a major break at one of these plants, then I think
2 the company would probably come before the Commission
3 with some type of request. I mean, that was -- I
4 mean, we were trying to -- but I can't think of what
5 that situation would be, but --

6 MR. LAZAR: The genesis of this language is
7 the prior Commission orders in the '81 Puget
8 proceeding, U-8141, where the ECAC was created and
9 then eliminated, the '88 water power PCA case, and
10 the '99 water power Avista general rate case, where
11 the Commission made it very clear in the multi-part
12 test that a PCA mechanism should be weather-related.
13 The unavailability of Colstrip, should it occur, is
14 not likely to be weather-related.

15 So by normalizing Colstrip availability, as
16 was done in the PRAM, we take that non-weather factor
17 out of the calculation, and that's part of the reason
18 that I testified earlier that I think it's very
19 unlikely that this mechanism will trigger without a
20 corresponding significant weather event that the
21 public would understand. There are non-weather
22 things tracked in here, but a bunch of the big ones
23 have been normalized out.

24 COMMISSIONER OSHIE: That's it. Thank you.

25 MR. ELSEA: Well, I might add that

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1 sometimes Colstrip is unavailable to us because of
2 weather conditions such as fires in Montana, where we
3 can't get the power out of Montana to the state of
4 Washington.

5 COMMISSIONER OSHIE: And would that trigger
6 the adjustment clause under paragraph six?

7 MR. ELSEA: I think --

8 COMMISSIONER OSHIE: That's really --
9 that's the heart of my question --

10 MR. ELSEA: Right.

11 COMMISSIONER OSHIE: -- whether a work
12 stoppage or other force majeure occurrence would
13 trigger the language, operable language within
14 paragraph six?

15 MR. ELSEA: Yes, I agree with Mr. Lott that
16 it would trigger it, but in those circumstances, the
17 company would probably come in for a resource-only
18 rate case.

19 The number is also, just to reiterate, the
20 availability number of 70 percent, it's all of -- all
21 four units of the plant out for three months, or two
22 of the units out for five or six months, which can
23 happen, but is unlikely.

24 MR. LAZAR: The corresponding line in the
25 exhibit, Exhibit A-1, line five, is the production

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1 rate base. That is, the investment in these plants
2 remains in rate base and a component of rates
3 throughout the mechanism. And what this provision
4 does is it provides that the ratepayers are assured
5 of getting something for that payment.

6 A problem that we had in the ECAC is when
7 Colstrip went down, the fixed costs remained in rates
8 and the replacement power costs for the outage flowed
9 through the ECAC and, in our opinion, the ratepayers
10 were paying twice for power they only received once.
11 This provides assurance that the ratepayers will pay
12 once and only once for the power they receive.

13 COMMISSIONER OSHIE: Okay. Thank you.

14 CHAIRWOMAN SHOWALTER: This really is my
15 last question, I think. On page seven of the
16 agreement, paragraph 15, this is a sentence that
17 begins with, Unless otherwise ordered by the
18 Commission, and then there follow two phrases. One
19 is changes in rates to PCA shall be charged on a
20 basis, and then the second is, and changes in rates
21 attributable to adjustments in the power cost rates
22 shall be charged, et cetera.

23 And my question is does the phrase "unless
24 ordered by the Commission" apply to both parts of the
25 sentence, both phrases starting with the words

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1 "changes in rates?"

2 MR. QUEHRN: Yes.

3 CHAIRWOMAN SHOWALTER: Thank you.

4 JUDGE MOSS: Okay. I have one more. I
5 guess it was Friday, Mr. Gaines testified briefly and
6 punted the ball. He mentioned that there were three
7 things about the PCA that were of particular
8 significance to the company, and my notes reflect
9 that one was the \$40 million cumulative cap in the
10 first four years, the second was the accelerated
11 power cost rate review, and we've talked a good bit
12 about those today. The third, I believe, was cost
13 and benefits regarding the hedging mechanism. And I
14 was -- I want to ask to be pointed to the parts or
15 part or parts of the settlement terms that he was
16 referring to with that last point.

17 MR. LOTT: I believe Mr. Gaines was talking
18 about he wants to talk about the hedging activities
19 that the company might be able to do. I don't think
20 there's anything in this statement that says exactly
21 -- I mean, the company hedges purchases today, and
22 those are costs that the company incurs related to
23 the purchase of power, and they would be in the 555
24 account, which is purchased power account.

25 They also hedge fuel costs. As you

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1 remember, we were talking about that in the interim
2 portion of this case, they've hedged substantial
3 portions of the fuel costs. So those type of hedging
4 costs would obviously flow directly into the
5 mechanism, because those costs would be either the
6 fuel expense or they would be the purchased power
7 cost that the company's currently talking about.

8 Mr. Gaines has again and again brought up
9 the subject of wanting to discuss the possibilities
10 of doing different types of hedging activities. His
11 plan was to talk -- have a -- he wants to sit down
12 with some of the other parties, in particular, Staff
13 and anybody else that wants to, and go over the type
14 of activities the company thinks that they can do and
15 talk about whether those are part of power costs.
16 And that would also be part of this integrated
17 resource planning discussions that would be taking
18 place.

19 Now, I would -- maybe Mr. Story or Mr.
20 Elsea can talk more about what he was talking about,
21 but that is the way Staff recalls the discussions on
22 hedging.

23 MR. STORY: Yeah, Mr. Lott is correct.
24 There are a lot of costs in the power cost accounts
25 that we've identified for the PCA that would fall

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1 under the definition of hedging, and we just want to
2 make sure that everybody's clear as to the type of
3 hedges that would be allowed in the PCA. To do that,
4 we're going to meet with Staff and other interested
5 parties within the next few weeks to go through those
6 and identify the types of hedges that we're talking
7 about to go into the PCA. It will mean that for
8 hedges that are considered more risky, that they
9 would consider staying on the company's side, that we
10 would have to identify them out of those accounts.

11 JUDGE MOSS: Okay. But there's nothing
12 specific in the mechanism that speaks to the point.
13 Okay, fine.

14 MR. STORY: No.

15 JUDGE MOSS: Thanks. Any other questions
16 from the bench? Do the parties have anything further
17 to offer for our record at this time?

18 MR. QUEHRN: Your Honor, I have just a
19 procedural question with respect to the bench
20 requests that was handed out.

21 JUDGE MOSS: Yes.

22 MR. QUEHRN: In terms of responding to this
23 request, should our responses be regarding what I
24 think would be Exhibit 576?

25 JUDGE MOSS: Actually, that's right. 576

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1 is the next exhibit number, and those will be the
2 responses to bench requests. And I didn't give them
3 any special designation, so --

4 MR. QUEHRN: And then it is a request to
5 all parties, not just to the company, it appears.

6 JUDGE MOSS: I directed it to all parties,
7 because our experience in this proceeding has been
8 that sometimes a question will prove more appropriate
9 for one party than another. But the company should
10 take the principal initiative in assuring that all
11 the questions are responded to. And I suppose in
12 this vein I should say, too, I have included
13 tomorrow's date as -- I'll call it an aspirational
14 date. I'm sure the company will be as interested as
15 we are in getting the answers to the Commission at
16 the earliest possible point in time, so we probably
17 won't fine you a thousand dollars a day or anything
18 if it takes a little extra time, but --

19 MR. QUEHRN: We will respond promptly, Your
20 Honor.

21 JUDGE MOSS: Mr. Cedarbaum.

22 MR. CEDARBAUM: I guess maybe you've
23 answered my question, but it was also with respect to
24 the bench requests. It sounds like you're expecting
25 -- or are you expecting one answer from the company,

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1 and that we should try to get input into that answer
2 to the best we can?

3 JUDGE MOSS: Yeah, I want to be flexible
4 here. The preference is to have one answer. If the
5 parties have some disagreement, though, or if
6 somebody feels like an answer is not complete or what
7 have you, then certainly they would have the
8 opportunity. That's the other point, is I don't want
9 to cut you off from the opportunity if you have
10 something to say on the question.

11 MR. CEDARBAUM: Okay. Would it be then
12 appropriate if -- we can try to work with the company
13 and hopefully they can provide us drafts and we'll
14 work back and forth, but if they were to provide
15 responses tomorrow and we wanted to add to that,
16 could we do that the next day?

17 JUDGE MOSS: Sure, but you might just want
18 to have a bench request collaborative in the spirit
19 of the proceedings. All right. Do counsel have
20 anything further? All right. The witnesses are
21 excused. Appreciate your testimony very much in this
22 and other panels, for some of you. Our -- well, I
23 think, in light of the outstanding bench requests, I
24 don't think -- I think the only other exhibits to be
25 furnished, Mr. ffitich, would be the public comments,

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1 which you'll get to me in due course?

2 MR. FFITCH: That's correct, Your Honor.
3 They're being prepared and sent out to you today.

4 JUDGE MOSS: All right. Well, I'll say
5 that we are standing in recess, in light of the fact
6 that we do have some more matters coming into the
7 record. One further thing.

8 CHAIRWOMAN SHOWALTER: Well, just -- there
9 was an unanswered question about transmission
10 revenues, and we could either add to our bench
11 request when we file it or you can work it in
12 somehow, but I think the expectation was you were
13 going to respond to that.

14 MS. HARRIS: May I ask a clarification on
15 the RTO type? Are you looking at the revenues or the
16 costs of transmission? Earlier today, we were
17 talking about the different costs of transmission,
18 and then later on this afternoon it was on the
19 different revenues maybe that we would receive for
20 our transmission facilities. Is it both, Chairwoman?

21 CHAIRWOMAN SHOWALTER: I've now forgotten
22 where this came up, but there was -- in a portion --
23 it was a table, had to do with the table of
24 establishing revenues, and there was -- there were
25 some transmission -- at the moment, I don't remember

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1 if it was costs or revenues -- put one in one place
2 and some others in the other place. And my question
3 was how would these be treated or affected if RTO
4 West, as proposed, came into being.

5 You are welcome to take the question for
6 what it is. If you see meaning in the question and
7 factors at issue both in this settlement and
8 potentially in RTO West, the question really is
9 what's the potential interrelationship.

10 MS. HARRIS: Okay, thank you.

11 JUDGE MOSS: And I don't see any reason why
12 the response to that can't be included in the
13 response to the bench requests. You understand the
14 question?

15 MS. HARRIS: I understand the question.

16 JUDGE MOSS: All right. As I mentioned
17 earlier, too, we may need to supplement the bench
18 requests. If so, I'll get an official copy out today
19 and I'll e-mail that, as well, so people will have
20 that right away if we do supplement it. What you
21 have now is a courtesy copy. You'll notice it's
22 unsigned.

23 All right. If there's nothing further,
24 any closing remarks from the bench?

25 CHAIRWOMAN SHOWALTER: Well, you tried very

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1 hard and did your part, and we're trying very hard

2 and hope to do ours.

3 MR. QUEHRN: Thank you.

4 JUDGE MOSS: Thank you very much. We're in

5 recess.

6 (Proceedings adjourned at 3:12 p.m.)

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