BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION

In the Matter of the Proposal by)
)
PUGET SOUND POWER & LIGHT)
COMPANY)
) DOCKET NO. UE-951270
to Transfer Revenues from PRAM)
Rates to General Rates.)
--------------------------------)
In the Matter of the Application)
of)
)
PUGET SOUND POWER & LIGHT)
and)
WASHINGTON NATURAL GAS COMPANY) DOCKET NO. UE-960195
) VOLUME 6
For an Order Authorizing the) Pages 723 - 951
Merger of WASHINGTON ENERGY)
COMPANY and WASHINGTON NATURAL)
GAS COMPANY with and into PUGET)
SOUND POWER & LIGHT COMPANY, and)
Authorizing the Issuance of)
Securities, Assumption of)
Obligations, Adoption of)
Tariffs, and Authorizations)
in Connection Therewith.)
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A hearing in the above matter was held on August 5, 1996, at 9:00 a.m. at 1300 South Evergreen Park Drive Southwest, Olympia, Washington before Chairman SHARON L. NELSON, Commissioners RICHARD HEMSTAD and WILLIAM R. GILLIS and Administrative Law Judge MARJORIE R. SCHAER.

Cheryl Macdonald, CSR
Court Reporter

The parties were present as follows:

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF, by ROBERT CEDARBAUM, Assistant Attorney General, 1400 South Evergreen Park Drive Southwest, Olympia, Washington 98504.

FOR THE PUBLIC, ROBERT F. MANIFOLD, Assistant Attorney General, 900 Fourth Avenue, Suite 2000, Seattle, Washington 98164.

PUGET SOUND POWER & LIGHT COMPANY, by JAMES M. VAN NOSTRAND, Attorney at Law, 411 - 108th Avenue NE, Bellevue, Washington 98004.

WASHINGTON NATURAL GAS COMPANY, by MATTHEW R. HARRIS, Attorney at Law, 6100 Columbia Center, 701 Fifth Avenue, Seattle, Washington 98104.

NORTHWEST INDUSTRIAL GAS USERS, by EDWARD FINKLEA, Attorney at Law, 101 SW Main, Suite 1100, Portland, Oregon 97204.

INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES, by CLYDE H. MACIVER, Attorney at Law, 601 Union Street, 4400 Two Union Square, Seattle, Washington 98101.

WASHINGTON WATER POWER COMPANY, by DAVID MEYER, Attorney at Law, 1200 Washington Trust Building, Spokane, Washington 99204.

PUBLIC POWER COUNCIL, by SHELLY RICHARDSON, Attorney at Law, 1300 SW Fifth Avenue, Suite 2300, Portland, Oregon 97201.

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

WASHINGTON PUD ASSOCIATION, by JOEL MERKEL, Attorney at Law, 1910 One Union Square, 600 University Street, Seattle, Washington 98101.

CITY OF SEATTLE, by WILLIAM H. PATTON, Director Utilities Section, 10th Floor Municipal Building, 600 Fourth Avenue, Seattle, Washington 98104.

APPEARANCES (Cont'd.)

PUD NO. 1 OF SNOHOMISH COUNTY, by ERIC E. FREEDMAN, Associate General Counsel, 2320 California Street, Everett, Washington 98201.

BONNEVILLE POWER ADMINISTRATION, by JON D. WRIGHT, Attorney at Law, Routing LQ, P.O. Box 3621, Portland, Oregon 97208.

I N D E X

P R O C E E D I N G S

JUDGE SCHAER: Let's be on the record. This is the fourth day of hearing in dockets No. UE-951270 and UE-960195. Looking around the room it appears that the same counsel are here as were with us last week except that Mr. Wright has joined us. Mr. Wright, would you like to make your appearance now, please.

MR. WRIGHT: Beg your pardon?

JUDGE SCHAER: Would you like to make an appearance?

MR. WRIGHT: Yes.

JUDGE SCHAER: Please.

MR. WRIGHT: Jon Wright for Bonneville Power Administration, attorney.

JUDGE SCHAER: Thank you. Which counsel am I dealing with this morning? Mr. Harris, would you like to call your next witness, please.

MR. HARRIS: Joint applicants call William P. Vititoe.

Whereupon,

WILLIAM VITITOE,

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

JUDGE SCHAER: At the pre-hearing

conference in this matter I marked for identification as Exhibit T-3 the prefiled direct testimony of Mr. Vititoe and this morning Mr. Cedarbaum has distributed a multi-page document marked at the top Response to WUTC Staff Data Request No. 32, and I have marked this as Exhibit 62 for identification.

(Marked Exhibit 62.)

DIRECT EXAMINATION

BY MR. HARRIS:

Q. Good morning, Mr. Vititoe. Would you please state your name for the record and spell your last name.

A. William P. Vititoe, V I T I T O E.

Q. Do you have before you what's been marked for identification as Exhibit T-3?

A. I do.

Q. Do you recognize that as your prefiled direct testimony in this proceeding?

A. I do.

Q. And if I asked you the questions as they're set forth in that prefiled direct testimony, would you give the answers as they're set forth?

A. I would.

MR. HARRIS: Joint applicants offer Exhibit

T-3.

JUDGE SCHAER: Any objections? That document is admitted.

(Admitted Exhibit T-3.)

MR. HARRIS: Mr. Vititoe is available for cross-examination.

JUDGE SCHAER: Mr. Cedarbaum, do you have questions?

MR. CEDARBAUM: I do, Your Honor, thank you.

CROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Good morning, Mr. Vititoe.

A. Good morning, Mr. Cedarbaum.

Q. Referring you first to what's been marked for identification as Exhibit 62, do you recognize this document as your responses to staff data request 32, 33, 34, 68 and 69?

A. I do.

Q. And these were prepared by you or under your supervision or direction?

A. They were.

MR. CEDARBAUM: Your Honor, I would move the admission of Exhibit 62.

JUDGE SCHAER: Any objection? Document is admitted.

(Admitted Exhibit 62.)

Q. Referring you in your testimony, Mr. Vititoe, to page 2, lines 11 through 12, you indicate that "by selling or merging several of our unregulated subsidiaries we eliminated the associated demands of those operations." My first question would be the names of -- if you could provide the names of each unregulated subs that was sold or merged?

A. There were two primarily. One was Unison Biowaste Facility. The other one was Washington Energy Resources Company.

Q. And those two subs were sold?

A. In the case of Unison it was sold. In the case of the Washington Energy Resources Company it was merged into Cabot Oil and Gas.

Q. With respect to Unison when did that sale occur?

A. Subject to check I will say around April or May of '94.

Q. And do you recall the gain or the loss that was taken on that sale?

A. At the time of the sale there was a small gain. I do not recall what it was. In total there had been a loss on that that property.

Q. With respect to the merger of Washington Energy Resources into Cabot, when did that occur?

A. In May of '94.

Q. And can you just describe what the merger arrangement was?

A. By and large the properties of WERCO were assumed by the Cabot Oil and Gas Corporation. In return Washington Energy Company received preferred stock, common stock and some cash.

Q. What was the amount of the cash, do you recall?

A. I do not have that figure in my mind at this time.

Q. Can you provide as the next record requisition the value of the preferred, common and cash that Washington Energy Company received with respect to the merger of Washington Energy into Cabot?

A. Yes, we can.

JUDGE SCHAER: That would be No. 39.

(Record Requisition 39.)

Q. You were in the hearing room last week when Mr. Torgerson testified; is that correct?

A. That's correct.

Q. He indicated last week that absent the merger he believed Washington Natural Gas would need to file for a three to five percent rate increase soon after the rate moratorium ended. Do you recall that?

A. I do recall that.

Q. Can you tell us when senior management at Washington Natural and Washington Energy Company knew of that rate relief need?

A. As we have been looking at the performance for our fiscal year 1996, looking at what's happening to us weather-wise, also what's happening to us, continuing to happen from attrition and customer switching in terms of the services that they are taking, probably about two or three months ago.

Q. So that was after the testimony was filed in this case?

A. That is correct.

Q. Was the need for that rate relief discussed at all with other witnesses in this case for either Puget or Washington Natural?

A. I have discussed the need for that rate relief with Mr. Torgerson.

Q. Was Ms. Lynch advised of that and was that discussed with her?

A. I have not directly discussed that with her. It would not surprise me if that has been

discussed with her.
Q. So you haven't but are you saying that others would have discussed it with her?
A. Others may have discussed it with her.
Q. There's been some discussion throughout the cross-examination of the direct case, and it's also discussed in the prospectus that Mr. Torgerson has in an exhibit to his testimony with respect to the $1.84 dividend per share that NewCo has stated would be the payment to NewCo shareholders. You're familiar with that?
A. I am.
Q. Was that $1.84 dividend expectation discussed at either Washington Energy Company or Washington Natural Gas board meetings?
A. It was.
Q. And that would have been presumably prior or at the time that the merger was being considered?
A. That is correct.
Q. Did anyone at those board meetings ever express any criticism with respect to the $1.84 expectation?
A. Not to my recollection.
Q. Would you agree that since Puget is paying now $1.84 dividend, and I think we also established

that Washington Energy Company is paying a dollar dividend, and it was also established that Washington Energy stockholders will get .86 shares of NewCo for each Washington Energy share, is it true that the total dollars of common stock dividend requirement for NewCo will be larger than Puget and Washington Energy Company combined that they are now paying?

A. That is correct.

Q. Were you aware of that fact when you prepared your testimony in this case?

A. I would think so.

Q. Do you know how many more dollars than Puget and Washington Energy are now paying combined in stock, common stock dividends, that NewCo would have to pay under the $1.84 dividend per share?

A. I do not recall that figure.

Q. But you don't recall it or you didn't look into it?

A. I did not look into it.

Q. So you didn't ask Mr. Torgerson what that amount would be?

A. I did not.

Q. If the merger is not approved by this Commission, Mr. Vititoe, will Washington Energy Company be able to maintain the dollar dividend that it currently pays?

A. Well, that would be highly speculative on my part to answer that question. We will, as we always do, continue to examine the dividend level and make a recommendation to our board based on the circumstances at the time. So I can't specifically answer that question.

Q. So no studies or analyses were performed, to answer that question?

A. No.

Q. Let me just ask you a couple of questions about Cabot, which has been discussed on occasion in this case, and this may be something you can provide by record requisition, but I would like to know by year the value of Washington Energy Company's investment in Cabot since that investment was made and the income that was generated by that investment each year?

A. I'm certain we can provide that. I do not have that right now.

MR. CEDARBAUM: Which number would that be, Your Honor?

JUDGE SCHAER: That would be record request No. 40 and would you like to define which years you're asking for, Mr. Cedarbaum.

MR. CEDARBAUM: Since the investment in Cabot was made.

(Record Requisition 40.)

Q. Do you know if Washington Energy Company has made any studies with respect to the contribution to equity earnings that the investment in Cabot will make until Cabot is sold?

A. I'm not specifically aware of that kind of a forward looking study.

Q. So you're not aware of it but one has been made or one has not been made?

A. I am not aware of whether it has been made or not.

Q. Do you think that kind of a study would be an important study to perform?

A. Considering the variables of any business, and particularly the last few years of the oil and gas production and development business, I think that there are so many variables, including gas prices, that it would be very difficult to make a very factual analysis, as you're suggesting.

Q. But no attempt has been made at that as far as you know?

A. As I indicated, I am not aware of any attempt.

Q. On page 2 of your testimony, this is line 18, you state that Washington Natural Gas compared to 1992 has 28 percent fewer employees. Do you see that?
A. Yes, I do.
Q. Is it your testimony that Washington Natural was not operating as efficiently as it could have operated from 1992 to the present?
A. My testimony indicates that there have been those kinds of reductions, and you could take from that testimony that during the period of time that I have been with Washington Energy and Washington Natural I felt that it could operate more efficiently than it was currently operating, therefore, some of those reductions are attributed to that. Some of the reductions are also attributed to the splitting off of Washington Energy Services Company in October of 1993 prior to the time I was with Washington Energy.
Q. Is part of the reason for the reduction also the pressures that Washington Natural Gas felt competitively?
A. Yes. I think that could be stated.
Q. Is the source of that competition the competition Washington Natural had with Puget?
A. No, I do not feel that Washington Natural and Puget really are in competition.

Q. Has Washington Natural converted customers from gas -- from electric to gas?

A. They have.

Q. And did it have to pursue aggressive action to do so?

A. No, it has not had to.

Q. So those customers just knock down the door?

A. Well, we try to resist, but oftentimes we're not able to. No. I think that customers become increasingly better informed about energy choices for certain applications such as space heating and water heating. As their current utility becomes -- utility being in this sense a furnace or water heater -- tends to become no longer useful or there are new technologies out which are more cost-effective they determine that it's time to shop again and when they do they think that gas is a good alternative.

Q. So there were -- are you aware of the number of electric-to-gas conversions that Washington Natural had over the past three-year period?

A. I could give you an estimate that would be somewhere in the neighborhood of 25 to 30,000.

Q. For each of those three years or in total?

A. Total.

Q. Would that be about evenly split over the past -- and the three years I'm speaking about I guess would be the last three calendar years?

A. The conversion rate has been relatively consistent over the last three calendar years.

Q. Sticking on page 2 of your testimony, lines 22 to 23, you state that the gas industry is changing rapidly. I think these were questions that came from -- were asked of Mr. Sonstelie last week but I could be wrong, but there was discussion about changes in the gas industry retrospectively. Would you agree that the gas industry has changed significantly over the past ten years?

A. Yes, I would.

Q. And those -- that restructuring came about to a large part because of actions taken by FERC beginning in the mid 1980s?

A. Yes, I would agree with that.

Q. And I guess we would be speaking mostly about the rulemakings in order 436 and 500 in the mid '80s, and then order 636 in the early '90s I believe?

A. I think that the two articles that you're referencing in the '80s are correct. 636 I know is correct in the '90s.

Q. And under those FERC initiatives, is it correct that Washington Natural's interstate pipeline provider, Northwest Pipeline, has accepted an open access certificate?

A. Yes.

Q. And so Washington Natural no longer purchases gas from Northwest Pipeline. It uses Northwest Pipeline as a transporter?

A. That's correct.

Q. And Washington Natural Gas has now gone into the open market, competitive market for its gas supplies?

A. That's correct.

Q. Is it also correct that Washington Natural in reaction to these changes in the gas industry has opened up its own system and is providing -- has and is providing unbundled transportation to its market?

A. We have opened up the system to all except our residential customers and we have indicated in the reply to the NOI from the Commission that we are willing to talk with any parties in connection with continuing to open up the system.

Q. So I take it then that over the past few years because of this opening of a system, Washington Natural Gas customers, the service options they have available have also opened up?

A. Yes, I would say that that's correct.
Q. Can you enumerate what those options are?
A. They have the opportunity to select their own provider of the commodity gas and just get transportation or they can get bundled gas and transportation from Washington Natural.
Q. And why would the merger make that more available? In other words, what additional service options to the ones that you have discussed would be made available by the merger?
A. Well, the additional service options over time would be the option for energy choice including kilowatts as well as gas.
Q. Speaking only about the gas side now of the operations, what is currently now, other than nonresidential customers have the ability to take transportation service from Washington Natural Gas. And I guess my question is what about the merger makes that more accessible?
A. My response would be that it makes it more economic for us to extend gas service to more customers.
Q. And with respect to that notion, is it correct that Washington Natural Gas is adding -- how many customers per year is Washington Natural Gas

adding?

A. Roughly 20,000 customers, half from new growth and half from conversions.

Q. And I believe Mr. Sonstelie testified last week that one of the benefits of the merger would be to make natural gas service more available?

A. I think that's correct.

Q. And so with the company's growth and with natural gas becoming more available under the merger that would cause the utility plant service on the gas side to also grow, under a merged scenario?

A. Yes. I think that gas will continue to grow under a merged scenario.

Q. And in comparison to the availability of gas and the growth of utility plant on a stand alone basis under the merged scenario we would see more growth?

A. Yes, we would see more growth.

Q. Changing gears a little bit here. Would you accept subject to check that at fiscal year -- at year end fiscal year '95 Washington Energy Company had outstanding about 24 million shares of common stock?

A. Yes, subject to check.

Q. And at the dollar per share current dividend requirement that would mean that Washington Energy Company has to earn at least $24 million in

order to meet its dividend requirement?
A. That would follow.
Q. It was also stated on the record last week, and I think this appears again in Mr. Torgerson's exhibit, that Washington Energy Company lost $41 million in fiscal year '95?
A. That sounds about right.
Q. So under the proposed merger Washington Energy Company is going to need to generate $65 million more in equity earnings to pay its dividend out of earnings, is that right, the $24 million plus the 41?
A. Well, the 41 lost had some one time events in terms of the write-offs and write-downs that Mr. Torgerson expressed, so I don't know that the math exactly works that way, but obviously we would have to earn the $24 million in order to cover the dollar dividend.
Q. Plus whatever losses Washington Energy Company had that weren't associated with the write-downs of Mr. Torgerson's testimony?
A. I really don't know how to relate that to the previous year. In fiscal year 1996 we would have to earn $24 million in order to cover the dividend.
Q. Assuming that beyond the $24 million

Washington Energy Company continues to have losses,
then Washington Energy Company would have to generate
the $24 million plus the amount of the losses in order
to continue its dividend payment?

A. I'm not sure I understand the question, but
Washington Energy Company doesn't plan to continue to
have losses.

Q. What is the basis of that -- what studies
do you have that would indicate that?

A. The first three quarters' earnings for
fiscal 1996.

Q. On page 4 of your testimony, lines 13 and
14, you state that the $370 million of merger savings
that Mr. Flaherty has projected don't include best
practice savings; is that right?

A. That's correct.

Q. Is it correct that not all of the -- and I
guess just to back up, there is the best practice
savings and estimates of that were discussed quite a
bit last week. Is it your testimony that all of those
best practice savings are contingent upon the merger?

A. No, it is not.

Q. How much of the estimated best practices
are not contingent on the merger?

A. I have no analysis to indicate that. All I know is that there will be a better opportunity for best practices saving in the merged company than there would be in the two companies separately.

Q. So Washington Natural Gas or Washington Energy Company has not performed a study to estimate the best practices that it could achieve absent the merger?

A. Washington Natural Gas has performed a study that indicates what they feel that they could achieve over time through the re-engineering activity that took place during 1995.

Q. Why don't I ask you for that as the next record requisition in order, provide us that study?

A. I will be glad to. I will reference that in response to one of our data requests.

Q. Then you can just point us to that?

A. We will do that.

JUDGE SCHAER: That will be No. 41.

(Record Requisition 41.)

Q. And so it's your testimony that that amount for re-engineering would constitute the amount of best practice savings that Washington Natural could achieve on a stand alone basis?

A. I could have a definition for best practices that would encompass that because it's a whole reordering the way you do business with new processes, and insofar as those new processes are attempted to be the best practices in the industry, the answer to that is yes.

Q. So to you best practices and re-engineering are synonymous?

A. They can be synonymous.

Q. I guess I'm asking you, are they or are they not? Are there any other best practice savings other than re-engineering that Washington Natural can achieve on a stand alone basis?

A. Well, we would have to agree on what's covered under re-engineering in order for us to establish that difference. I think re-engineering very broadly is a matter of best practices.

Q. I guess, let me ask it this way. Is the response to record requisition 41 going to give us all of the best practice saving that Washington Natural has estimated for itself on a stand alone basis?

A. All we have identified so far.

Q. Let me ask you a couple of hypotheticals. I would like you to assume that the merger savings that Mr. Flaherty has estimated failed to materialize and that the $1.84 dividend that's been established can't be paid out of retained earnings. My question is, would that $1.84 dividend that NewCo proposes to set have to be reduced or would NewCo consider coming to this Commission and filing for emergency rate relief?

A. NewCo would not consider coming to this Commission to file for emergency rate relief under the scenario that I think that you've postured. Emergency rate relief would truly only be filed under the guidelines that the Commission has set for emergency rate relief.

Q. So you're saying that under the scenario that I gave you that Mr. Flaherty's $370 million doesn't come through, NewCo would -- and the dividend could not be paid out of retained earnings, NewCo would reduce its dividend?

A. I did not say that. I said that we would not come before this Commission for emergency rate relief. As to what we would do with the dividend would depend on a number of circumstances including whether we thought the situation was temporary or long-term, where we looked as we were in the market with other combination companies in terms of their payout ratios, in terms of their yield and we would make a recommendation to the new Puget Sound Energy board of directors.

Q. And if after that analysis was performed it was determined that the $1.84 dividend had to be reduced, is your answer still the same that, in other words, the dividend would be reduced rather than NewCo coming in for emergency rate relief?

A. If I felt that the dividend should be reduced then it would be my recommendation and discussion with the board of directors that the dividend should be reduced.

Q. And is your answer the same if the best practice savings did not materialize?

A. I think in terms of whether it's best practices, whether it's power costs, whether it's the synergies from the merger, it all adds up to what is economically feasible for the new company, and that would be on the basis on which we would make the recommendation to the board.

Q. But the recommendation would not include or would include coming before this Commission for emergency rate relief?

A. As I indicated previously, only in the unusual circumstance where it fell within the guidelines for requesting emergency rate relief.

Q. Would NewCo consider petitioning the Commission to eliminate or reopen the rate stability

proposal for any reason that it was not able -- that NewCo was not able to pay out the $1.84 dividend?
A. The $1.84 dividend would not be the controlling feature on whether or not the new company asked the Commission to reconsider the rate stability plan.
Q. Has anyone at either company commissioned a study or performed a study to determine what dividend NewCo should start out with to avoid a dividend cut under the scenario where either Mr. Flaherty's savings hadn't materialized or the best practice savings did not materialize?
A. Not to my knowledge.
Q. What, in your view, would be a rational approach to determining a dividend per share for NewCo to start out with if the merger were approved?
A. I think that we have committed the dividend that NewCo would start out with as to what would be a rational approach once NewCo is up and running would be as I indicated previously, a look at our financial performance, look at our payout ratio, a look at our yield, a look at that in terms of being able to attract capital to the business in competition with other combination companies and other alternate forms of investment.

Q. Are you aware of any study or have you made a study of the percentage increase in current gas rates that would be necessary over the rate stability period if the merger were not approved?
A. I am not aware of any study other than the one that Mr. Torgerson alluded to last week.
Q. And that again was --
A. The three to five percent or, I think as he further quantified that, the 12 to $20 million.
Q. He may not have stated but -- he indicated that would be the filing but he didn't indicate for what period of time those rates would be in effect, and the rate stability plan would run through 2001. So the question is what percentage increase over that entire period would be necessary if the merger --
A. To my knowledge that study has not been made.
Q. Again, getting back to best practices. Is it your testimony that only Washington Energy Company or Puget personnel are qualified to identify what those best practices might be?
A. No. That would not be my contention.
Q. So there may be consultant or outside people who could identify those savings?
A. There may be.

Q. Let me ask you just a few questions about Washington Natural's current gas supply contracts. What is the average length of those supply contracts, if you know?
A. I do not know the average length. I think on the outside about 15 years, and obviously on the other side it's a spot market.
Q. Those gas-supply contracts are primarily priced according to market?
A. They're all indexed to market.
Q. And Washington Natural would have gas supply contracts of a fairly short duration?
A. Yes, some contracts with fairly short duration?
Q. And by fairly short I would mean five years or less?
A. Yes.
Q. A few more questions for you on two or three different subject. First being, do you know or would you accept subject to check that in Washington Natural Gas's 1995 integrated resource plan it states that there is upward pressure on natural gas use per customer due to increased penetration of gas fireplace, water heating, cooking, drying and other end uses?

A. Yes, subject to check.

Q. Finally with respect to severance pay, we discussed the mechanics of Mr. Flaherty's savings estimate for that with him, or the cost of those packages with him, and there's an exhibit in the record that shows management's severance pay packages versus union and nonunion, and my question for you is, what were the guiding principles that Puget and Washington Natural used to determine the severance pay package for those various classifications of employees?

A. Two things primarily. One, the previous experience of the two companies and secondly the outside market.

Q. What do you mean by the previous experience of the two companies?

A. The type packages that were offered in terms of the reductions that took place in the last few years.

Q. And at least from Washington Natural's perspective, do you know what principles those past packages were based upon?

A. Based upon the principles of looking at what is common in the industry and also what would be fair to employees.

Q. The severance pay that was estimated for executives was, as Mr. Flaherty used, was based on the top four executives of each company. Do you recall that?

A. I don't recall his answer, no. Subject to check, I will accept that, yes.

Q. Would you also accept subject to check that according to the response to staff data request 98 none of those top four executives are leaving the companies?

A. That's correct.

MR. CEDARBAUM: Thank you, Mr. Vititoe.

JUDGE SCHAER: Mr. Manifold, did you have questions for this witness?

MR. MANIFOLD: Yes, I do.

CROSS-EXAMINATION

BY MR. MANIFOLD:

Q. Good morning. As I heard one of your answers to Mr. Cedarbaum's questions, did you say that in your opinion gas and electric are not in competition with each other, that is, Washington Natural Gas and Puget Power are not in competition with each other?

A. Yes, that's correct.

Q. Could you expand on what you mean by not or what sort of -- what you mean by that?

A. What I mean by that is that it has become obvious that where economically feasible for space heating and water heating that gas is a preferred choice, and electric fireplaces don't look quite as good as gas fireplaces that don't look quite as good as wood fireplaces, so in that sense there really is not competition.

Q. So if I may paraphrase that, they're not in competition in that gas is so much cheaper than electricity the competition is heavily weighted to gas and gas wins any time there is a competition between the two?

A. I think where it's economic, and by that I mean where it can be extended because of existing mains or a reasonable extension rate, that if customers would look at what it would cost to get gas space heating versus electric space heating they would in all probability choose gas space heating. In fact 99 percent do.

Q. That isn't a definition of competition that an economist might use, is it?

A. I'm not an economist but in deference to at least one that I know of in this room I wouldn't

attempt to guess at that.
Q. Has Washington Energy placed advertisements or bill stuffers to encourage use of gas furnaces or gas water heating or gas fire places, for that matter?
A. Washington Natural Gas has not. Washington Energy Services Company, which is a retailer of gas appliances, has.
Q. And do those come in the Washington Natural Gas billing?
A. They do not.
Q. You said in answer to another question that it was more economic to extend gas to customers because of the merger, if I understood your answer. Is that a fair statement?
A. That is correct.
Q. Could you explain what you mean by that?
A. Where we have the opportunity for -- if Puget, for example, is replacing some of their existing facility and we're able to go in while they're replacing that facility, we change the economics. If we're able to go in jointly on an extension to an area that they're going to put electricity into, that changes the economics.
Q. So it has to do with the ability to put in gas distribution facilities more economically because

of the shared savings of doing the joint trenching, for instance?
A. That is correct.
Q. Any other instances in which you could explain what you -- is that the total of what you mean by more economic to extend gas?
A. The other thing would be in terms of being able to work together in some type of a fuel switching activity that would cause gas to replace some existing electric.
Q. The merger savings are estimated to be, as I understand it now, $377 million over a ten-year period. Do you know what the total revenues of the combined companies would be over that period?
A. No. Obviously we can compute that but I do not know what that is.
Q. Could you please do that in response to the next record requisition?
JUDGE SCHAER: It would be No. 42.
(Record Requisition 42.)
A. We will do it on an estimated basis, obviously.
Q. And the attempt is to get that over the same period of time over which the 370 or $377 million savings are estimated?

A. Understood.

Q. At pages 4 and 5 of your testimony, you refer to the new company being a total energy service provider, and that this is a totally new type of company. Would you explain what you mean by that?

A. Yes. That's a respective comment. We would have the opportunity to offer gas services, electric services to our customers. Obviously our major industrial customers today would like to look to one source for provision of their energy. We're not able to provide that today.

Q. When you say a totally new type of company, there are other combined electric and gas companies around, Washington Water Power, for instance. You don't mean new and different compared to other people in the utility industry? You mean new and different compared to what Puget and Washington Natural have been to date?

A. I think both. I think obviously different than what both have been today since they are just one energy source, but also different than the existing combination companies. Just in the short period of time since this was filed, you see that combination companies are starting to act like combination companies rather than having separate gas and separate electric divisions. We made the decision going in that we're not going to have separate gas and electric divisions, that we're going to have a common operation for energy. I think that is different.

Q.   And do you think that will provide the company additional marketing opportunities that would not have been attained by having two separate companies or two separate operating divisions within the same company?

A.   Yes. I feel that that provides additional marketing opportunity in the future.

Q.   Can you give any sense of what you see those to be?

A.   Well, what I see those to be, as I had indicated, with our industrial customers the opportunity for them to have one stop shopping for their total energy services not unlike what an Enron/ Portland General plans to provide.

Q.   Do you anticipate that NewCo would provide other resources, energy-related resources other than natural gas or electricity?

A.   Yes. I think that propane would be provided.

Q.   What about conservation or demand side management?

A. I think that's understood.

Q. Do you have any interest in going into the telephone business?

A. At this time I really do not, at this time.

Q. And is "this time" today or this week or this year or could you put a little parameter on that?

A. That will not be the first emphasis of Puget Sound Energy.

Q. Does Washington Natural resell any dark fiber to other companies?

A. No. We do not have any dark fiber.

Q. Would you anticipate that as a one stop energy shopping company you would be looking to new geographic marketing areas?

A. Well, I think as we see the industry evolve, if the industry evolves to a retail open access situation, why, yes, I think we would be looking into other areas.

Q. And by that you mean -- I want to check that we're both meaning the same thing -- we're talking about outside of the current service territory of these two utilities?

A. That's correct.

Q. You know, I must ask, there's this emphasis upon an energy services company. Isn't oil still part of the energy picture and you don't plan to get into the oil business, I presume?

A. It is to the extent in this part of the country about 10 percent or a little less, and no, we do not plan to get into the oil business.

Q. And that's a declining percentage, I assume?

A. It is a declining percentage. To be a little more accurate, I think we're talking about in terms of the kinds of customers that we supply either electricity or gas service to, that's where I use the 10 percent reference. As to whether or not oil is declining, I think probably oil is not declining when you look at all uses for oil, gasoline, et cetera, et cetera, but in terms of space heating, for example, oil is declining.

Q. One of the concerns that has been expressed in some quarters, at least, about this proposed merger, is the market power and since we're neither one of us economists I will just lay that out there as a noneconomist term. The market power that could be exercised by this larger, more powerful company, vis-a-vis competitors or customers, I take it that that's something you don't think the Commission should be overly concerned about, and I wondered if you could address why that is.

A. I do not think they should be concerned about it. This entity will not have market power in the sense of real control of markets. We will operate in a competitive marketplace with others such as Enron/Portland General. If you're looking at market power, why, you can multiply by ten when you get that kind of a combination. That would be the competition in the future, and I think we need to look forward to that kind of competition.

Q. There's some reference to gas line extension policy after the merger, and it's also referenced in Mr. Amen's testimony. I'm a little unclear of which things to ask you about and which things to ask him.

A. Fine.

Q. What can you say about your anticipation of gas line extension policy after the merger?

A. I think along the lines of the way I answered Mr. Cedarbaum a while ago that we today have an extension policy which was approved by this Commission a little over year ago. We would continue to have that gas extension policy. It would be facilitated as a result of the merger because of the additional opportunities to improve the economics of that extension.

Q. So it isn't really a different policy. It's a different economics applied to the same policy?

A. I am not aware that we have in mind a different policy.

Q. And you would be aware if you did, if the company did, I take it?

A. If we were close, I would be.

Q. Do you have any idea what portion of the estimated merger savings relate to natural gas side of the business?

A. No, I do not.

Q. Going back a moment to the competition or lack thereof between gas/electricity, my understanding of your answer is that the current price of each are such that it's basically no contest. It's possible that in the future prices could change and it could be a more competitive choice for consumers between natural gas and electricity?

A. That's quite possible in the future. I think the thing to remember is that as our new company we've committed to customer choice in an unbiased way.

Q. How will that be -- how will an outsider like this Commission or participants in this proceeding be able to evaluate that that's being done?

A. I think a couple of ways. They will be able to see the way we interact with customers and the kind of information we give customers to help them make an informed choice. They will also be able to use their own good judgment as to based on what they think the price of oil, price of gas and the price of electricity is and see what customers are choosing.

Q. Is it fair to say that while the current economics are as we have discussed that at some future time there could be a circumstance where somebody might want to favor electric space heat over gas space heat, for instance, either because of economics of the fuels or because of corporate policies?

A. Not because of corporate policies. If a customer wants to make a different decision based on the changing economics of the fuels, the customer will be given the information to make that kind of decision, not because of corporate policy.

Q. What if on one side of the business there was a shortage and the other side of the business there's a surplus or, for instance, wouldn't that be a factor that the company would logically want to consider in its own decisions about which fuel to encourage the use of?

A. I think that in the extreme that could

probably be the case, and that would make for a good dialogue with the Commission and the Commission staff to be sure that that was in the best interests of everyone.
Q. On page 12 of your testimony you mention generating lower cost energy at Puget's combustion turbines. Will Puget be given access to Washington Natural's released or brokered pipeline capacity as part of this effort?
A. Well, to the extent that there is excess capacity, our excess gas contracts, we will look in the marketplace to see what those are worth and this electric side of our business in terms of cogeneration, et cetera, we'll be able to depend on those additional capacities just like anybody else.
Q. So you would see that being an arm's length transaction between the gas and electric side?
A. It would be a market rate transaction.
Q. Would revenues from capacity brokering from Washington Natural to Puget be flowed back through the PGA to gas customers then?
A. Ask again, please.
Q. Sure. This one I can. Will revenues from capacity brokering from Washington Natural to Puget be flowed back through the PGA to gas customers?

A. At the present time, yes. We will be talking with the Commission in the future as to whether or not the PGA is something that should be continued over time.

Q. So as long as there's a PGA you would expect that to occur?

A. As long as there's a PGA not related directly to performance-based rates I would expect that to occur.

Q. What are your thoughts about PGA-related performance-based rates?

A. I would be glad to enter into conversation with the Commission about that in the future.

Q. Is the current state of your thinking on that contained in any comment you've put in the gas NOI, in other words --

A. Subject to check I think not.

Q. Are you aware of or familiar with Montana Power Company's current efforts or announced intentions regarding open access on the gas side for all customers including residential customers?

A. I wasn't but I am now.

Q. A little advance planning?

A. A little advance planning.

Q. We discussed this off the record. What is

the nature of that?
A. As best I can tell they're doing several things because they have production, et cetera, that really are not involved directly with this question. What they're doing is they're starting to go to open access on the gas side, what we at Washington Natural did some time ago. They are going to phase down based on the amount of load, phase it down to include residential customers over a five year period of time. So it's kind of a catch-up activity compared to where we are. We did say in the NOI that we were interested in discussing open access with residential customers and we have no limit in terms of load such as in the Montana case. We have not been able to find anyone that's interested in doing that. I would guess the reason we can't find anyone is since our contracts are either spot or are market-based it's hard for the aggregators to come up with enough margin to make that of particular interest to them.
The other thing that you will find interesting in the Montana Power proposal is they're increasing their transportation rates tremendously. Rate stability is a good idea, I think.
Q. Prior to the discussions of the merger -- switching subjects here. Prior to the discussions of

this merger with Puget Power, what sort of planning was Washington Natural doing regarding its own interest in being in some aspect of the electric business?

A. I am going to answer -- give me a little latitude because I'm going to answer this we weren't doing any and then you're going to say there was a data request that indicated that you were doing something, and all I can say is that I was unaware that we were doing anything and that's because it hadn't reached the level yet. It was just one of many ideas that were being explored by our strategic planning staff and so really have not had any activity on the part of the leadership of the company.

Q. What was the nature of that planning or idea expansion?

A. Had you looked at the answer to our data request, it had to do with whether or not we either went into a partnership or established turbine operation in connection with our Jackson Prairie gas supply.

MR. MANIFOLD: I have no other questions.

JUDGE SCHAER: Mr. Finklea, did you have questions of this witness?

MR. FINKLEA: Yes, Your Honor.

JUDGE SCHAER: And perhaps before you begin your questions, could you explain the material that you've predistributed to the commissioners since they weren't in the room when you did so.

MR. FINKLEA: This material (indicating).

JUDGE SCHAER: Yes.

MR. FINKLEA: On the record. I understand from the extensive discussions on Wednesday that those of us who are customers, the Commission staff, public counsel, obviously the commissioners and yourself have access to what has been labeled "top secret" information, and in keeping with my background as a child of the '50s, I recall decoder rings always being used when Dick Tracy and others were dealing with top secret information, so I felt that those who have this information also probably could use the decoder rings, and thanks to a toy store here in Olympia, we have been blessed with these very valuable items.

COMMISSIONER HEMSTAD: I would like to say I plan to use it every day in my daily operations.

MR. FINKLEA: Well, I would assume that in the future, especially given the way this industry and the many industries you regulate are going, it will become more, not less valuable.

CHAIRMAN NELSON: Thank you, Mr. Finklea.

CROSS-EXAMINATION

BY MR. FINKLEA:

Q. Mr. Vititoe, I am Ed Finklea. I represent the Northwest Industrial Gas Users. I just have a few questions. You had a discussion already this morning with staff counsel about some of the changes that occurred in the gas industry over the past ten years. Am I correct that one of the pivotal things that occurred in the gas industry was that the industry had to deal with take or pay, which I am sure you're familiar with as well, but was essentially contractual commitments that pipelines had made to produce which, by the time the transition began, were above the market price of natural gas?

A. Yes, I am familiar with that.

Q. And can you just elaborate a little in your own words rather than me putting the words in your mouth about what that issue was and how the gas industry dealt with take or pay?

A. Just very briefly. The issue obviously was stranded supply contracts with the producers that were overpriced, particularly compared to the spot market and what was going to be available, and the pipelines no longer would be able to offer a sale service gas so therefore they had no need for that supply.

Part of that supply they were able to re-assign to their customers where the customers accepted it. Part of that supply they had to either buy out or buy down. The treatment of that varied depending upon the pipeline, but by and large there were attempts to mitigate those costs to the extent possible and then most of the other charges were flowed through on a usage basis to the end use customer.

Q. So am I accurate to say that today in 1996 gas consumers of Washington Natural, both your transportation customers, who are largely industrial and commercial, and your residential customers have paid for the take or pay that was a critical part of the transition to open access?

A. Very frankly, I don't know whether there's still a surcharge on for that or not. I just don't know that.

Q. Well, not focusing on the specific surcharge on Washington Natural today but in a broader sense, we as gas consumers have been paying for a number of years and whether the surcharge is off or it's about to go off or it will go off sometime soon, it's a controversy that's largely behind us and the surcharges have either already been paid or are coming off soon, correct?

A. I think that's correct.

Q. Am I correct, not to get too far into the analogy, but am I correct that the electric industry in its transition to open access, if it occurs, faces issues similar to take or pay in the sense that today Puget has long-term contracts that are above market and one of the big issues in electric restructuring is how is the electric industry going to deal with these long-term contracts and power resources that have been committed to that are above today's market price of electricity?

A. I think you've stated it. That's the case, yes.

Q. And would you agree that by merging with Puget that Washington Natural is choosing a course that does open itself up to some of those risks associated with this electric transition?

A. No. I don't think I would agree with that because it would not have any -- the resolution of that will not have any impact on the rates that gas customers will be paying. I could probably stretch to say that in terms of total corporate financial structure that there could be some impact but there

should be no direct impact on gas customers.
Q. Well, that was really my question and the point of this inquiry. As gas customers, what in addition to what you just said can you tell us to assure us that if this merger goes forward we will not be facing risks that we wouldn't otherwise face?
A. Washington Utilities and Transportation Commission will continue to help you.
Q. But it would not be the new company's intention to seek some sort of surcharge on gas and electric customers?
A. No, that's what I indicate. That would not impact gas rates. My last answer was in addition to that the Commission will continue the surveillance that they did.
Q. Switching topics then. You discussed with staff counsel also the growth that is occurring in the gas industry for your company, and am I correct that that growth in new customers that you discuss is largely in the residential and commercial sector?
A. That's correct.
Q. So to the extent that customer growth is creating financial pressures on Washington Natural today, that is not something that's being driven by growth in your service to industrial customers?

A. Well, our industrial load is also growing but it's not growing to that extent, so everyone contributes to the growth.

Q. But the pressure from main extensions and investments in new remote areas of your service territory, I take it, is largely on the residential and commercial side?

A. Well, here again, it's largely driven by residential and commercial but not at the exclusion of sometimes being driven by industrial.

Q. Understand, thank you. Then I have a few questions that stem from page 14 of your testimony. At the bottom of page 14 there's a Q and A that begins at line 15 that discusses customer satisfaction surveys. Have you taken any surveys of your industrial customers along the lines of what you're discussing on page 14 regarding customer satisfaction?

A. I can't answer the question specifically as to whether or not we have taken surveys. We have certainly discussed our service capabilities with our industrial customers on an individual basis, and by the way, they seem to feel that our service is very good.

Q. And would it be your intention as you go forward, assuming the merger is approved, to either through surveys or other forms of dialogue continue to have those kinds of discussions with your industrial customers?

A. Absolutely.

Q. One of the reasons that we have heard for the interest that Puget has in Washington Natural is the expertise that your company has on the gas side in dealing with a more open market as opposed to the standard providing of utility service under tariffs. In this new company what assurances can you give your industrial gas customers that that expertise that is with Washington Natural today will not be lost as a result of the merger?

A. I think that both companies will gain from the different managing abilities that they have. Our intent is to improve our abilities to do the kind of activity with the industrial customers as we do today, not just to stay status quo but to improve as we go forward on both the gas and electric side.

MR. FINKLEA: I have no further questions. Thank you.

JUDGE SCHAER: Mr. Frederickson.

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

JUDGE SCHAER: Mr. Patton?

CROSS-EXAMINATION

BY MR. PATTON:

Q. Good morning, Mr. Vititoe.

A. Morning, Mr. Patton.

Q. My name is Will Patton and I represent the city of Seattle. I sit here without one of those rings.

A. I didn't get one either.

Q. Well, you supplied the coded information.

A. Right.

Q. And in other ways maybe that's a situation in which the city of Seattle or the city of Tacoma finds itself in this proposed merger is kind of left out a bit. All the proposals that you have for efficiencies focus on the overlapped territories of the two companies. Is that a correct assessment?

A. No. A lot of the efficiencies and synergies come about by the combination of the companies that enables you to reduce the infrastructure that you have.

Q. That's the savings involved of just combining two organizations; is that right?

A. That's correct.

Q. And after those savings are achieved, the emphasis that you place on why this merged company is a benefit for its customers is in the efficiencies of combining billings, combining service units or service crews; is that right?

A. There are efficiencies by being able to do that where we have common customers.

Q. And likewise, there's an emphasis on the efficiencies of line extension where the two companies overlap, that is, where you can provide electric service as well as gas service at the same time?

A. That's correct.

Q. But that's at the moment anyway not true in Seattle or Tacoma?

A. That is not correct. We have made the same offer to Seattle City Light, to Snohomish and Tacoma, to enter into those kind of joint ventures with those utilities and I personally have made that offer to the head of Seattle City Light as long as a year and a half ago.

Q. Were you here last week when we had testimony from members from both companies saying that their experience with trying to cooperate between the two companies prior to merger did not work out very well?

A. I don't recall that comment. If I can elaborate, we certainly found that once the merger was announced that things happened more easily.

Q. Because of the fact that you have a common management I think was the --

A. No, we don't have a common management, but because prospectively we would be one company, and so some of the, I'll call, natural barriers of being in control of your own destiny, et cetera, tended to break down. That's why it's more efficient to do it on a merged basis than on an arrangement basis.

Q. You said that in your view the customers appreciate a one stop energy customer shopping, prefer a combined company; is that right?

A. I think that the customers prefer to deal with one energy provider for most things, yes.

Q. And that kind of service will be available where the two companies overlap in the future?

A. That kind of service would be available, for example, as you indicated a moment ago for billing, for contacts with offices, bill payment, et cetera, where the territories are in common, yes.

Q. Earlier in your testimony this morning you indicated that in the combined company you wouldn't have a gas division and an electric division but would have a combined company, fully integrated company?

A. That is what I indicated.
Q. When the company is structured in that way, how can you assure the customers that either buy only electricity or only buy gas from that company that the combination is not biasing the expenditures and therefore the rates in one direction or another?
A. Well, two ways. One, there really is not a way to gimmick around the rate structure and in order to favor those that are common and those that are not common. Secondly, we've committed to make the same kind of information available to gas customers and electric customers in areas where we do not have common customers as the same as we do in areas where we do.
Q. So you feel that that will be easily achieved as to decide how many costs should go on one side versus the other?
A. Yes, I think we will be able to identify the proper allocation of costs.
Q. Do you think that the fact that in your view gas is not competitive -- in competition with electricity because it's so much cheaper, doesn't that urge in a combined company into the future that more costs be allocated to the gas side because that's so much more economic for customers versus electric?

A. Well, sure, it could, but it's not going to be because the costs will be properly allocated between gas and electricity.
Q. Isn't that harder to discern if the two operations are completely integrated?
A. I do not think so.
Q. From the perspective of a customer in Seattle or Tacoma who wanted a one stop shopping effort, after this merger -- they can't get it at the moment either because the electric service is provided by both cities?
A. They can't get it at the moment --
Q. After the merger they wouldn't -- or now and after the merger they still wouldn't be able to achieve that one stop energy shopping?
A. They would assuming that Tacoma or Seattle City Light wanted to take me up on our offer.
Q. To do what?
A. To have joint bill paying, if they want to. To have a joint billing if they want to. To have joint trenching.
Q. Or another option would be the city to take over the gas service in those cities?
A. Well, when Puget Sound Energy is up and working and Seattle wants to privatize we'll be glad

to consider a merger with Seattle.

Q. And that's the other option of Puget Sound Energy buying the electricity function of the city of Seattle?

A. Yes, that's an option.

Q. But one of those two options or the combination operation, which your own representatives testified doesn't work very well, are the three options?

A. Not that it doesn't work very well, but that it doesn't work as well.

MR. PATTON: Thank you. I have no further questions.

JUDGE SCHAER: Mr. MacIver.

MR. MACIVER: No questions, Your Honor.

JUDGE SCHAER: Mr. Freedman.

MR. FREEDMAN: I have no questions.

JUDGE SCHAER: Mr. Wright.

MR. WRIGHT: No questions, Your Honor.

JUDGE SCHAER: Mr. Merkel.

MR. MERKEL: Just a couple.

JUDGE SCHAER: Let me inquire. I had an estimate from Ms. Richardson. Does this mean that you're going to be the counsel questioning this witness?

MR. MERKEL: Yes.

JUDGE SCHAER: Thanks.

CROSS-EXAMINATION

BY MR. MERKEL:

Q. I think you've indicated in your testimony that the combined company would provide information to customers who are not currently served by either gas or electric from the company?

A. That's correct.

Q. What would be the purpose of providing information regarding electric service in territories not currently served by Puget?

A. The issue, I think, is the concern that the kind of information that would cause informed choice would only be available where we had common customers, and so we think that it's important that we extend that same kind of information to areas where we do not have common customers.

Q. Would the purpose be to solicit a customer served by some other electric utility to become customers of Puget Sound Energy, electric customers?

A. No, that is not the intent.

Q. What kind of information would you provide?

A. Information would be the comparative costs with different kinds of heating and water heating equipment.

Q. I think you said earlier that one of the benefits of a combined company is that it eliminates any bias which the electric or gas company may in their own have -- may have existed favoring one product over another; is that correct?

A. Yes. I think that is correct.

Q. Do Washington Natural Gas and Puget Sound Power and Light today have a bias favoring one product over another?

A. Well, you know, I'm not going to get into that kind of an argument, whether they have a bias or not, but I can't envision that either company that doesn't offer the other service is going to be knowledgeable about that service and to inform their prospective customers about that alternate service, no.

Q. Do you think those same disadvantages would apply to other utility companies which are either pure electric or pure gas?

A. I'm sorry, what disadvantage?

Q. Well, you just articulated in your answer -- I was referring back to your answer to the previous question. You indicated that either company on its own had a disadvantage in explaining the products to customers because it wasn't a combined company, didn't provide services for both. If I have misstated my understanding of your response, correct me.

A. I think that's essentially the case. They would not have that information available to them.

Q. Well, then wouldn't other companies which are either pure electric or pure gas have the same problem?

A. They would not know about the other service to that degree, yes.

Q. Is that in the best interests of consumers?

A. I think it's in the best interests for consumers to get all the information that they can get from whatever source.

Q. Would it be in the best interests of consumers, all consumers, to be served by a combined company then?

A. I don't know that that's the case. I think it depends on what the degrees of overlap are, what the geography is. A combined company per se, no. A combined company that can develop synergies and provide rate stability I think the answer to that is yes.

Q. So it would be in the interests of

consumers to be served by a combined company if that
combined company is Puget Sound Energy?
A. I didn't say that.
Q. Well, isn't that the case?
A. That is the case for Puget Sound Energy but
that is not what I said. I said that there are lots
of circumstances where it would be, in my opinion, in
the customer's best interests to be served by a
combined company.
Q. Well, do you think that same advantage
would apply in other service territories in which
there is not currently a combined company?
A. I think that it could. I don't know that
it would because I have not studied any other
territories, but it could.
Q. You stated earlier that Washington Natural
Gas and Puget are not in competition; is that correct?
A. That's correct.
Q. With whom do you compete?
A. We are competing more and more with the
marketers and brokers, so far as Washington Natural
is concerned, with those marketers and brokers on the
gas side.
Q. For what class of service?
A. For all industrial load and some commercial

load.
Q. So there's not much competition at all at the residential level?
A. Not today.
Q. I think I heard you testify in response to a question by Mr. Manifold that the ability to market both gas and electric as a combination company enhances your ability to compete with electric suppliers in areas where Puget does not currently serve; is that correct?
A. I don't recall saying anything like that.
Q. Does it enhance your ability to compete in areas -- compete with electric suppliers in areas where Puget does not currently serve?
A. I think I said depending upon what happens in terms of the restructuring of the electric and continued restructuring of the gas markets it would better position us to be able to be competitive with other companies.
Q. Does the other companies include electric suppliers in areas where Puget does not currently serve?
A. My reference were primarily those companies such as the proposed merger of Enron and Portland General. The Coastal Gas Marketings of the world, the

Utilicorps of the world who have just moved into Portland to go after both gas and electric in the Northwest.

Q. Let me be a little more specific. Does the combination put Puget Sound Energy in a better position to compete for electric load with public utility districts and other electric suppliers in Washington in areas where Puget does not currently compete?

A. I think at some point in the future that could be the case.

Q. Do you have any plans or have you had any discussions or can you just tell me your general thoughts about how you would go about that competition?

A. We do not have any plans and have not had any general discussion about that.

Q. So at the present time you have no plans to compete outside -- for electric service outside the service territories presently served by Puget?

A. At the present time we do not have any plans for any specific markets outside of the service territory.

Q. I think Mr. Sonstelie testified that one of the reasons for the discussions with Duke Louie

Dreyfuss was to explore competition for electric service outside of the territories currently served by Puget. Did you hear that testimony?

A. Yes, I did.

Q. Could you reconcile what you've just said with what Mr. Sonstelie said?

A. Yes. I think he said that that alliance would be looked at to do that prospectively. That is not inconsistent with my comment that we have no current plans.

Q. Well, looking prospectively, would you envision the competition occurring at a wholesale level, at a retail level, within the state of Washington, without the state of Washington? Can you describe what you think might occur?

A. Well, prospectively, all of the above.

Q. You indicated it will be more economical to extend gas service as a result of the combined economics of the gas, electric utility. Am I correct in that?

A. That's correct.

Q. Do you intend to tie the acceptance of gas service or electric service to each other in any way?

A. No, we do not.

Q. Can you explain how having a combined

company would better enable Puget Sound Energy to market either electric or gas or both to industrial customers?
A. Yes. Just as others will be offering combined energy services, we would be in a position to likewise offer with those other customers the combined energy service and we're not in a position to do that today.
Q. Would it improve the economics of the service you could offer to those customers having a combined company, that is?
A. I really haven't thought about that and so I am not sure. What it does is it enables the industrial customer to deal with one energy provider. That I see as an advantage to the industrial customer.
Q. Would Puget Sound Energy have any competitors who had the capability in its current service territories to provide dual service to those same industrial customers?
A. Well, I don't know exactly what you mean. In the service territory -- for example, Enron is headquartered in Houston but they have individuals that are working this territory today, so my answer is yes.
Q. Do they have individuals working this

territory for electric service?
A. Yes, they do.
Q. So then you think Enron will be a competitor to Puget?
A. I know Enron will be a competitor.
Q. Are there any other competitors that you know of --
A. Utilicorp, Western Resources. I could give you a list of competitors.
Q. Well, in that there is a list of organizations that will be going into the business of competing on a dual fuel basis, do you think a utility that doesn't have that authority would be at a distinct disadvantage?
A. I don't know. I think that they would be better advantaged to have that capability.
Q. Do you think that's what the customers will want from their energy provider?
A. I think that's what industrial customers will want.
Q. How about commercial customers?
A. Depends on the size of the commercial load. There are some commercial customers that are already seeking that.
MR. MERKEL: Thank you. I have no further

questions.

JUDGE SCHAER: Let's take our morning recess at this time and be back at quarter to 11, at least, at 10:45. We're off the record.

(Recess.)

JUDGE SCHAER: Let's be back on the record after our morning recess. Mr. Meyer, did you have questions of the witness?

MR. MEYER: I have just two or three short questions.

CROSS-EXAMINATION

BY MR. MEYER:

Q. Your company is a one third owner of the Jackson Prairie project, the underground storage project, isn't it?

A. That's correct.

Q. And as such, are you also the designated project operator?

A. We are.

Q. How, if at all, will this merger if approved affect your company's use or plans with respect to future expansion of the Jackson Prairie storage project?

A. We haven't at this time looked at any change in plans. We currently are expanding with our other two partners the Jackson Prairie facility. Those substantial plans will go forward. As to sometime in the future whether or not the merged company would see additional need for capacity, we will work with our two partners to see what's in the best interest of the partnership.

MR. MEYER: Very well. That's all I have. Thanks.

JUDGE SCHAER: Thank you.

COMMISSIONER HEMSTAD: Mr. Vititoe, you will be relieved to know that I don't have any questions.

THE WITNESS: Thank you, Commissioner Hemstad.

COMMISSIONER GILLIS: But I do.

THE WITNESS: Thank you, Mr. Gillis.

EXAMINATION

BY COMMISSIONER GILLIS:

Q. The board of directors for the proposed Puget Sound Energy would originate one third from Washington Energy and two thirds from Puget Power; is that correct?

A. That's correct.

Q. In your current capacity you've recommended to your board of directors some real tough choices, dividend cuts, write-offs. Can you assure us that if you were to make the same tough recommendation to this new board of directors they would be equally willing to listen to you and to make the tough business decisions themselves?

A. Well, I can assure you knowing the individuals that they would certainly be willing to listen to me. I think it would be too much conjecture on my part that I could assure you that they would make the same tough decisions. I think they would, but I can't say that absolutely.

Q. Would you have any hesitation in making the same tough recommendations if, in your judgment, it was the best business decision for the company?

A. I would have no hesitation and I would lobby very hard for that recommendation.

Q. I had a couple of questions pertaining to, I suppose in the category best practices. Are management of gas supply costs within that category of best practices?

A. Yes. I think that my answer to that would be yes, in that while we do, I think, a good job of managing our gas supply costs to date, we have not to date taken advantage of some of the financial instruments that you can use that might make it even better. And our understanding more about those financial instruments could in fact be a best practice.

Q. You've anticipated my question. As a combined company, do you have -- would you have an advantage in managing your gas supply costs?

A. I think broadly we would. As a combined company there might be some opportunity to improve our load factor therefore helping us with managing our gas supply costs.

Q. You mentioned a couple of times the Enron/ PGE development, and both companies are renowned for their expertise in both physical and financial trading and offering hybrid products to their customers. Do you see the new Puget Sound Energy offering customized products with individualized risk management as a new line of business or a direction that you would recommend the company go in?

A. I would see that as a possible future direction. I think that because of our capability and because of those of others that are in the marketplace we would probably have to have an alliance with a third party in order to be successful at that.

Q. Do you see that as necessary to compete with -- you mentioned several new actors mostly in the Portland/Vancouver area at the moment. Do you see that as necessary to offer those types of products to be competitive in the emerging world?
A. I think I do see it that way in terms of the opportunity for that kind of growth to enhance the existing company, yes.
Q. What is your vision to the wholesale side of the business for Puget Sound Energy?
A. Well, to date the only thing that we are concerned with is being able to position ourselves vis-a-vis the competition that we will face from our existing wholesale type service and what could be become wholesale service to our customers, so it's primarily a competitive blocking position, and we have not spent any time looking at how we might expand activities to the wholesale market outside of our area.
Q. So that hasn't been a focus to date?
A. It has not.
COMMISSIONER GILLIS: Thank you.

EXAMINATION

BY CHAIRMAN NELSON:

Q. Mr. Vititoe, a few questions about customer service.

A. Yes, Chairman Nelson.

Q. I appreciate your description of the service guarantee that the company is proposing, and I will look toward to talking to Ms. Lynch about that. My question is more in the context of the medium or longer term. Assuming performance-based regulation or a substitute form of regulation evolves and the market does become competitive, do you see a need for quality of service regulation by this Commission for the end use customer?

A. I am not sure I understand what quality of use regulation would be. I certainly see a need and a place for this Commission in monitoring the quality of service of the company.

Q. Well, to be more specific in the context of the telephone industry, we've had to, some would say, micro manage some of the phone company's performance in terms of install dates, repair dates, and that sort of thing, to actually promulgate rules to give the companies the incentive or at least one company the incentive to perform properly. Do you think there would be a need for that in evolving energy market?

A. I don't believe so. I think that most of us today realize that in order for us to continue to keep our customers with the options, choices they're going to have, that service has to be there, and we've committed up front, and I think not only because it's the nice thing to do but because it's in our own best interests to do it to commit to that quality of service as we go forward. I would not expect to put ourselves in a position to where the Commission would see a need to do that.

Q. Perhaps, though, others, new entrants in the marketplace, perhaps could deserve such treatment?

A. Well -- I mean I can understand why you would say that the market should and the consumers will demand quality service but we have found in other sectors that sometimes that just doesn't pan out.

A. Well, I guess let me answer it this way. I think that until any entrant in the market has proven that they are not responsible in terms of service that, no, we shouldn't presume that they won't be responsible. I think for any of us that become irresponsible, then it's a appropriate that we come under those kind of regulations.

CHAIRMAN NELSON: Thank you, sir.

THE WITNESS: Thank you.

BY JUDGE SCHAER:

Q. Mr. Vititoe, this morning you discussed this Commission helping gas consumers after the merger if they were to face problems with NewCo, and my question to you is if NewCo only files one percent electric increase filings and no gas filings over the next five years, how do you see the Commission helping the gas consumers after the merger? In what form would you see that?

A. Well, I feel that the Commission properly exercises its right of oversight and as a result would have ample opportunity to talk with the company about most anything.

Q. Well, what types of oversight and monitoring do you envision and what reports would NewCo file to facilitate Commission oversight?

A. Well, we will be filing a report based on our quality of service which we're still in the process of developing with staff and public counsel, and I think public counsel indicated there was a next meeting in September and he invited others to come into that process, which we would encourage. So there will be a mechanism there to monitor quality of service. Obviously, our financial data will be available to the Commission on an ongoing basis.

JUDGE SCHAER: Thank you. That's all I

had. Is there any redirect for this witness?

MR. HARRIS: No, Your Honor.

JUDGE SCHAER: Anything further for Mr. Vititoe?

MR. CEDARBAUM: Can I just ask a couple of short questions?.

JUDGE SCHAER: Yes, you may.

MR. CEDARBAUM: Mr. Vititoe, just so the record is clear, there was reference to the PGE/Enron merger. That merger has not been finalized from a regulatory or operational point of view; is that correct?

THE WITNESS: That's correct.

MR. CEDARBAUM: And secondly, both myself and Mr. Finklea discussed with you some restructuring of the gas industry since the mid '80s. Would you agree that those restructuring activities were an important factor in bringing us to an environment where gas is cheap, retail gas service is a cheap alternative?

THE WITNESS: Yes, I would.

MR. CEDARBAUM: Thank you. Those are all my questions.

JUDGE SCHAER: Is there anything further for Mr. Vititoe? Thank you for your testimony.

Let's go off the record for just a moment to facilitate change of witnesses.

(Recess.)

JUDGE SCHAER: Let's be back on the record. At the pre-hearing conference in this matter, prefiled testimony of Ms. Lynch was identified as Exhibit T-26, and her Exhibit CEL-2 was identified as Exhibit 27. Her Exhibit CEL-3 was identified as Exhibit 28.

Marked for identification as Exhibit T-63, Exhibit CEL-4, which is the supplemental direct testimony of Ms. Lynch and as Exhibit 65 -- excuse me, 64 Exhibit CEL-5 which was distributed with the supplemental testimony.

(Marked Exhibits T-63 and 64.)

MR. CEDARBAUM: Can I ask a procedural clarifying question?

JUDGE SCHAER: Yes.

MR. CEDARBAUM: Commissioner Hemstad, you can go first. Exhibit 64 and 65 involves service quality issues, and given the agreement amongst the parties that we had and that was adopted by the Commission to defer those types of issues until a later session should it become necessary, I'm just wondering whether we would want to even offer 64 and 65 now since what we may agree to, if we agree to something, may make those documents not relevant.

JUDGE SCHAER: You're speaking of -- when you speak of 64 and 65, I hadn't actually said 65 yet which was going to be CEL-6 which also came in later.

Mr. Harris, did you want these documents identified at this time?

MR. HARRIS: It was our intention to go ahead and offer them but we didn't expect questioning on them this morning.

JUDGE SCHAER: Is that consistent with the agreement that you have with the company?

MR. CEDARBAUM: Well, I guess maybe I'm being overly cautious about it. I suppose if we end up with an agreement on service quality then we will go back and deal with these documents somehow.

MR. HARRIS: That's fine.

JUDGE SCHAER: So as Exhibit 65 I'm marking Exhibit CEL-6 and as Exhibit 66 for identification I'm marking multi-page document which is labeled at the top Response to ICNU/NWIGU Data Request No. 65. That's Exhibit 66 for identification. As Exhibit 67 for identification, document marked at the top Response to ICNU/NWIGU Data Request No. 62. As Exhibit 68 for identification document marked at the top Response to ICNU/NWIGU Data Request No. 63, and then as Exhibit 69 for identification, a document marked at the top as Response to ICNU/NWIGU Data Request No. 64.

(Marked Exhibits 65 - 69.)

JUDGE SCHAER: Would you like to call your next witness, Mr. Harris.

MR. HARRIS: Joint applicants call Colleen Lynch.

Whereupon,

COLLEEN LYNCH,

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

DIRECT EXAMINATION

BY MR. HARRIS:

Q. Good morning, Ms. Lynch. Could you state your name for the record and spell your last name?

A. My name is Colleen E. Lynch, L Y N C H.

Q. Do you have before you what's been marked for identification as Exhibit T-26?

A. Yes.

Q. Do you recognize that as your prefiled direct testimony in this case?

A. It is.

Q. Do you also have before you what's been

marked for identification as Exhibit T-63?
A. Yes.
Q. Do you recognize that as your supplemental prefiled direct testimony in this case?
A. Yes.
Q. And if I asked you the questions as set forth in your direct testimony and your supplemental direct testimony, would you give the answers as set forth in Exhibit T-26 and T-63?
A. Yes.
Q. You also have before you what's been marked for identification as Exhibits 27, 28, 64 and 65?
A. Yes.
Q. Do you recognize those as the exhibits filed with your prefiled direct testimony and your prefiled supplemental direct testimony?
A. They are.
Q. Are they accurate and complete to the best of your knowledge?
A. Yes.
MR. HARRIS: Your Honor, the joint applicants would offer Exhibits T-26, Exhibit 27, Exhibit 28, T-63, Exhibits 64 and Exhibit 65.
JUDGE SCHAER: Any objections? Those documents are admitted.

(Admitted Exhibits T-26, 27, 28, T-63, 64 and 65.)

MR. HARRIS: Ms. Lynch is available for cross-examination.

JUDGE SCHAER: Mr. Cedarbaum.

CROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Good morning, Ms. Lynch.

A. Good morning.

Q. Your testimony discusses the rate stability plan, and I have some questions about that for you. Under the rate stability plan on the electric side the proposal is for a one percent increase in October of 1997; is that right?

A. That's correct.

Q. Do you know how many dollars from a revenue requirement point of view that one percent translates into?

A. Yes. That one percent is shown in CEL-3 for 1997, and if you look at table 2 of CEL-3 that requested increase in that year would be $3 million.

Q. I'm looking at Exhibit 28 which is your CEL-3 for 1997 amount, and where is the $3 million?

A. Over under requested revenue increase.

Q. Can you tell me which page of the exhibit you're on?

A. If you're looking for the why requested in 1997 due to the one percent it's on table 3, column E.

Q. And so the total revenue requirement increase for the entire rate stability period is the $150.5 million?

A. Right. That reflects one percent per year during the rate stability period.

Q. In your testimony you characterized the rate stability plan as performance-based ratemaking. This is a discussion that begins on page 4. You're not testifying, though, that currently Washington Natural Gas does not have an incentive to increase its operational efficiency; is that right?

A. I am characterizing the one percent increase for electric customers as a form of -- a rather simple form of performance-based ratemaking but I am also -- that's not to the exclusion of limiting the need for efficiencies on the gas side.

Q. But you didn't mean to testify, again, that Washington Natural currently does not have the incentive to increase its operational efficiency on a stand alone basis?

A. No, that's not my testimony.

Q. On page 2 of your testimony, lines 14 to 15, you state under the second item that the rate stability plan will provide stockholders an opportunity to earn a fair rate of return. Do you see that?

A. Yes.

Q. Is it your testimony that stockholders don't currently have an opportunity to earn a fair rate of return?

A. Not at all, but what I'm talking about here is the period post-merger where the situation will be operating under will be quite different from today, and this is attempting to recognize that even during that period we do have a need for -- for that opportunity for our stockholders to earn that fair rate of return.

Q. So your testimony is that -- well, is it your testimony that the rate stability plan will provide NewCo stockholders a better opportunity to earn a fair rate of return?

A. It's my testimony that with the one percent increase on the electric side that will contribute to the company being able to earn its fair rate of return and as it is able to accomplish the various categories of savings that we've been discussing.

Q. What about on the gas side? Let me ask it this way. Would you agree or disagree that the rate stability plan should have no impact on the opportunity to earn a fair return on the gas side of the operation?

A. I don't think I would agree with that in that, as Mr. Torgerson has described, there has been identified a need for a revenue requirement if the merger were not to go forward and if we did not have this rate stability period, so there is a pressure in that form.

Q. Have you or anyone that you know of at the company performed any studies that would show that Washington Natural has a higher probability to earn its fair return on the rate stability plan than under its currently authorized rate of return?

A. I'm not aware of that type of study.

Q. Have you made any studies of what would happen to NewCo's rate of return if something less than Mr. Flaherty's estimated savings materialized?

A. Not that I am aware of.

Q. What about studies with respect to Washington Natural's earned return if the best practices program that Washington Natural were to institute did not happen? In other words, best practice sales did not materialize, have you studied what would happen to Washington Natural's earned return?

A. I have not.

Q. You indicate in your testimony that you're the senior rate analyst at Washington Natural. There's no proposal as part of this merger application to change Washington Natural's rate design; is that right?

A. As part of the rate stability there's no proposal, although that type of change might be included in certain of the carve-outs identified by Mr. Amen.

Q. But no tariffs were filed with this merger that would change the rate design of Washington Natural?

A. That's correct. During the rate stability period, right.

Q. It's true, though, that recently this Commission completed a case that involved a redesign of Washington Natural's rates; is that right?

A. That's right. That was concluded April or May of last year.

Q. And those changes allowed Washington Natural to more properly align its costs -- its rates

-- more properly align its rates with costs; is that right?

A. That's correct. The case was directed to do just that, to restructure the design of the rates in correspondence with the cost of service that was developed in that case.

Q. And presumably the goal of that redesign then was to allow Washington Natural to be more competitive in its markets with that realignment?

A. That's correct.

Q. Would you agree that if any further changes in rate design were necessary for Washington Natural, those could be proposed outside of the context of this merger?

A. Again, it's during the rate stability plan, and my testimony says that there will not be those types of changes.

Q. Assume no rate stability plan.

A. Okay.

Q. There's nothing preventing Washington Natural from proposing further rate design changes should they be necessary outside of this case?

A. After May of '97.

Q. And after May of '97, if that filing became necessary, presumably the tariffs that the company would file would be based upon a goal to allow Washington Natural a better chance of earning its authorized return?

A. I think that the rate designs would follow whatever cost of service came out of that with the interest in effective pricing or to have rates in effect that would cause us or allow us to earn that rate of return.

Q. You referred to Mr. Torgerson's testimony about the three to five percent increase absent the merger after May '97, and Mr. Story's testimony, or his exhibits in the companion case to this one, the 951270 case, claims an additional need of $74 million revenue requirement for Puget. You're aware of those two facts?

A. Yes.

Q. Those two parts of testimony assuming those two rate increases were -- became reality, would it be correct that all else being the same that Puget would be at an increasing disadvantage competitive-wise vis-a-vis Washington Natural? In other words, its rates would be higher with $74 million increase compared to Washington Natural's rates after the three to five percent increase?

A. Well, that's making an assumption as to how that $74 million will be spread and the class to which that would be assigned, but generally that would -- I would expect that to increase the differential between the gas and electric.

Q. Have you made any studies or do you have any knowledge of any studies that were made at Washington Natural Gas that estimate the revenue effect on gas sales if the price of gas rose one percent relative to the price of electricity?

A. I'm not aware of that type of study.

Q. What about if the price of gas were to fall one percent relative to the price of electricity?

A. Again, I haven't done that study.

Q. Looking at page 3 of your testimony, beginning around line 8, you state that there will be critical pressures on Puget's electric costs over the rate stability period. Do you see that testimony?

A. Yes.

Q. Those pressures on Puget's electric costs will occur whether or not this merger is approved by the Commission; is that right?

A. That's correct. Those electric power costs are -- I'm referencing the contractual obligations that we have and those would exist with or without the merger.

Q. So the predominant share of those -- the cause of the critical pressure is predominantly caused by Puget's power cost increases?

A. Well, that's exactly what I've shown on my CEL-3 table one which shows the cost pressures -- which shows those electric power costs pressures over the five-year stability period.

Q. So would you agree, then, that the rate stability plan that you propose along with the best practice savings that have been discussed elsewhere will be used largely to help Puget control the electric rate increases that it would otherwise have to impose absent this merger?

A. I think -- I think it's helping us control the gas side as well to the extent that we have committed to not go for the increase that's been identified.

Q. But in comparing the gas to the electric side the best -- if we were to make a comparison between the two sides, the gas and the electric side, predominantly what the rate stability plan does and what the best practice idea does is to help out Puget maintain or take control of the rate increases that it would otherwise impose?

A. Well, I'm not so sure because what my

testimony and what the rate stability period -- or rate stability proposal is doing is comparing those cost pressures, which are primarily the power costs, to the synergy type savings and it's not really getting to the best practice type savings that your question is referring to.
     Q.   Let's leave out that piece of it then, just the rate stability plan.
     A.   Then on that what I would say is that during the five years of the rate stability plan the I believe it's $322 million or so overshadows the savings portion, the 157 of the merger savings, but again, even with that situation the company, NewCo, is proposing to not go forward with any increase on the gas side.
     Q.   Have you made any studies or do you know of any that have been made that would show what would happen to NewCo's return on equity if the rate stability plan had proposed stable electric rates rather than one percent increases and one percent increases on the gas side rather than no increases?
     A.   I'm not aware of that study.
     Q.   On page 4 of your testimony, on line 1, you refer to what you call cumulative cost control target of about $240 million?
     A.   Yes.

Q. Can you just define -- I think you covered
this somewhat in your testimony but just expand on
what you would -- what you mean by a cost control
target?
A. Well, first of all the cost control target
is shown in my table 4. If you look at it it's the
difference between the costs that we've pointed to or
identified as justifying our one percent increase and
the revenues produced by that one percent increase,
and it's saying that given that revenue string the
management still has to find this $240 million worth
of savings in order to offset the total cost for that
period.
Q. So that's the amount -- even with Mr.
Flaherty's savings estimate there is still a need for
$240 million in additional cost controls or cost
savings?
A. I'm sorry. It's the comparison of -- Mr.
Flaherty's savings estimate are the $157 million. We
have a cost control target of $240 million --
Q. And that cost control --
A. -- including the goals identified by the
157.
Q. Right. Including that and including the
$150.5 million of revenue increases under the rate

stability plan. So as I understand the table it says
if we get all Mr. Flaherty's merger savings, we get
the one percent increases, we still are in the hole
$240 million.
A. The 240 isn't net for the 157. We have to
achieve the 157, but in order to be -- in order to
reach our cost targets we have an additional up to
$240 million. Does that --
Q. I think I understand.
A. So that the 240 is the difference between
the revenues that we get in through the period and our
cost pressures and we're trying to compare that with
the targets and the work that we have to do under Mr.
Flaherty's savings of accomplishing 157 million.
Q. Is it correct if we look at this table that
unless another $83 million of savings over and above
Mr. Flaherty's were achieved NewCo won't earn its
authorized return?
A. I think that's fair. I'm a bit concerned.
This isn't a -- Exhibit 28 is not a revenue
requirement projection, but we would expect that if we
didn't meet these costs then we would probably not be
able to meet our rate of return either.
Q. And according to your table that additional
need would be the $83 million?

A. Yes.

Q. And we got that by taking -- again we're on table 4, column C -- $144 million less nonproduction costs of $61.3 million to arrive at the -- plus --

A. It would be the revenues.

Q. Help me out here.

A. It's the requested revenue under column C.

Q. Right.

A. Which would be generated by a one percent, minus the nonproduction costs for the delivery system, or nonproduction, and then for -- minus the power cost goals, the table 1 power cost goals.

Q. Thank you.

A. Power cost period.

Q. On page 7 of your testimony you discuss emergency rate relief. This is down at the bottom of the page. Did you have in mind or do you know of anyone at the companies having in mind what what would justify NewCo's abandoning the rate stability plan in terms of a fair rate? What type of return would trigger filing for emergency rate relief if you know or if that's been determined?

A. I don't know.

Q. You also in this paragraph and during the deposition both you and Mr. Amen answered questions on this paragraph and so you may need to refer this to him but one of the things we forget to ask you was that it states on page 19 that NewCo can also petition to terminate the rate stability plan, and then there's a laundry list of things which would allow that petition?

JUDGE SCHAER: Page 19 of what --

MR. CEDARBAUM: Line 19, I'm sorry, of page 7.

Q. Can you indicate to me what standards will be applied by this Commission to consider that type of a petition, because, as I understood the testimony in recalling from your deposition, looking at the sentence in your answer beginning on line 18 the notion of emergency rate relief was separate and distinct from the items that are listed in the second sentence that discusses Commission action and things like that.

So my focus is on that word -- on the notion of petitioning the Commission to terminate the rate stability plan what standards would we apply to that petition.

A. What I can talk to you about, and Mr. Amen can talk with you more about, is that since the time of the deposition, we've been looking at this whole issue of triggering the termination for the rate stability plan, recognizing the need to show our commitment to that rate stability plan and what we've done is to, in effect, refine this testimony that I have here so as to limit it to strictly the need for interim rate relief or the situation of open access.

Q. And so I guess my question is, again if open access at the retail level is created by the Commission, state legislature or other regulatory authority, the company will petition to terminate the rate stability plan?

A. May consider.

Q. And is that the -- so that petition is filed. What are the -- what's the Commission going to do with that? What are the standards that the Commission will look to to determine if that petition ought to be granted?

A. I think that I'm going to refer you to Mr. Amen for that.

Q. I have a few more questions for you on your exhibit before we turn to a couple of other subjects. Can you tell me what rate of return on total capital and what return on common equity are implied by your exhibit?

A. My Exhibit 28?

Q. Yes.

A. I can't tell you that. I don't know.

Q. If we look at table 3, with respect to the forecast of revenues, what assumptions regarding rate design are implied there?

A. For the one percent all components of tariffs normally adjusted in a general case would be increased by the one percent. That was identified in a data response where we identified those tariffs.

Q. In I think it was your deposition you indicated that schedule 48 would also be subject to the one percent increase. How would that work with respect to schedule 48 because there are quite a few different kind of charges under that schedule?

A. I think that Mr. Amen could probably describe those. He's actually presenting the schedule for you, but I do know that our intent was and is to adjust schedule 48 by that one percent.

Q. But you don't know if that would be just from a total revenue collected from schedule 48 or how it would actually be applied to the charges under 48?

A. It will be -- I believe it's in the same manner to the component of the rate design itself, so not just to the revenue requirement.

Q. I will try to clarify that with him, then.

I should have asked you this before when we were discussing your table 3 column E. Can you just clarify how those figures were calculated?

A. How those figures were calculated were, for example, in the first year 1997 it reflects rates going into effect in October of that period. Then there's the next year is three months and 12 months just compounding the one percent.

Q. I guess my question is what numbers did you multiply, divide, subtract or whatever to come up with the figures in column E?

A. Well, the numbers that we were using was the column D revenue number and then making some assumptions as to when that one percent price change happens in each of the years so that 25 percent of it would -- again, we're assuming an October implementation and then the remaining 75, so compounding in that fashion.

Q. Your Exhibit 28 doesn't reflect the general increase in gas rates that Mr. Torgerson testified to?

A. Right. 28 deals only with electric.

Q. If you could look at table 2 of your Exhibit 28, you show a figure of $561,730 for nonproduction costs for 1995. Do you see that?

A. Yes.

Q. Hasn't yet been offered yet, but what's been marked for identification as Exhibit 66 is the source for that figure you used; is that right?
A. That's right.
Q. And using Mr. Manifold's exhibit, I'm looking at the second to last page of the exhibit. The source of the number that we discussed off your table comes off of that page from Exhibit 66 by subtracting $1,191,000 labeled "net cost of service" by $629 million labeled "production cost of service." Is that right?
A. That's right, and I guess I would explain this: This source document here is from the cost of service which was prepared in the November filing, the '95 filing for Puget, and using the $74 million informational increase.
Q. That was my next question, was, the document we've been discussing out of Exhibit 66 came out of a cost of service model run and you're saying that that run was performed in conjunction with the UE-951270 part of this proceeding?
A. Yes. This summary schedule here showing functionalized costs was derived from information, cost of service information, prepared in that '95 case, input to it being that $74 million increase.

Q. And I actually didn't bring that part of the case with me. Do you remember what result of operations were used?

A. I know that that was in a data response that I could provide that --

Q. Well, I guess we can find that out. Now, in that cost of service run there would have been power cost data as well; is that right?

A. That's right.

Q. My understanding is that the power cost data that was in that cost of service run was different from the data that Mr. Story supplied you for your Exhibit 28, and my question is, making that assumption, why was it that you didn't just use the power cost data out of the cost of service run? Why did you use Mr. Story's data?

A. Because we were looking to a multi-year period. We needed to -- we were considering the fact that our rate stability proposal was going to be in excess of one year, and as we propose it's five, so we needed that kind of cost projection, and so we felt that this other projection of costs that is the basis for CEL-3 better fit the needs or our -- what we were trying to accomplish with the rate stability period goes beyond just one year's worth of revenue requirement.

Q. Let me ask you then to do this. Let's do it by a record requisition 43 for you to reconcile for us the $629 million number that came off of the cost of service run that's shown -- excuse me, shown on the last page of Exhibit 66 with the -- for 1995 -- with the $547.8 million figure you show on table 1 of your exhibit, PRAM 5 period column C.

A. Okay.

(Record Requisition 43.)

Q. And you can also include your explanation as to why you didn't use the 629 rather than the 547.

Turning away from your exhibit and back to your testimony, your direct testimony, at page 4 you address the driving forces for rate stability -- this is the beginning of your answer on line 14 -- and during your deposition I asked you a question essentially referring to nonresidential customers when you discussed in your testimony major customers operating in competitive markets are demanding rate stability. And I guess my only question on that subject was whether or not you think residential customers are major customers that are demanding rate stability?

A. As a class of customers, they're a major class of customers, but this testimony was referring to the nonresidential, and more specifically I believe residential customers are as interested as any other class in a period of stable rates, and that's how we feel that the one percent translates to stable for them when we compare it to the other types of increases that we would be forced to request if we did not have this rate stability period.

Q. So, in your testimony, where you state at line 17 "our customers are demanding rate stability," you would include residential customers in that statement?

A. I guess I would say that all customers have an interest in rate stability.

Q. And so that would include small commercial customers?

A. Yes.

Q. Looking at page 6 of your testimony you indicate on lines 7 and 8 that the rate stability plan does not apply to FERC approved tariffs, among others, but I am referring to FERC approved tariff section; is that right?

A. Yes.

Q. Why is that? Why wouldn't the rate stability proposal apply -- why wouldn't you apply one to your firm wholesale rates?

A. This is a matter of jurisdiction in that these customers are not under this Commission's jurisdiction.

Q. My question is why wouldn't you? I guess my question would then be why wouldn't you propose one before FERC?

A. As far as I know we haven't determined what we would do with these FERC customers. This proposal is just addressing what we're doing with this jurisdiction.

Q. So there are no plans one way or the other about how to treat rate stability under FERC approved tariffs?

A. Not that I know of.

Q. In your testimony at page 3, and we discussed it earlier, you discuss a number of factors providing upward pressure on electric rates. Do you think that firm wholesale customers are immune from those types of pressures?

A. Not immune, no. I think they attribute as the other class contributes to those cost pressures.

Q. And finally, looking at your qualifications exhibit, you indicate that you went from Puget to Washington Natural in 1994; is that right?

A. I have to check. That's correct.
Q. So Washington Natural was able to take advantage of your skills and knowledge of the electric industry by hiring you; is that right?
A. That's correct.
Q. This is your chance.
A. There was some advantage taken, yes.
Q. And so you're an example of a situation where if Puget needed some expertise regarding changes -- if Puget or Washington Natural needed some expertise involving changes in the gas and electric industry they could go hire those folks, assuming those folks are in existence?
A. I guess I would have to agree that if an organization finds that they need some expertise in a certain area that they can go on the market and see what's available, so I guess I would agree with that.
MR. CEDARBAUM: Thank you. Those are all my questions.
JUDGE SCHAER: Let's take our lunch recess at this time. Please be back in the hearing room at 1:15. We're off the record.
(Lunch recess taken at 11:55 a.m.)

AFTERNOON SESSION

1:20 p.m.

JUDGE SCHAER: Let's be back on the record after our lunch recess. Mr. Manifold, did you have questions for Ms. Lynch?

MR. MANIFOLD: Yes, I do.

CROSS-EXAMINATION

BY MR. MANIFOLD:

Q. In lieu of the top secret exhibit we found the information that we were interested in the Puget annual report.

JUDGE SCHAER: This is to be encouraged.

Q. I wondered if you would accept subject to your check that in the 1995 Puget Power annual report for the -- I'm looking at page 47 -- to show the ten year historical growth in customer energy sales by customer class.

A. Okay, I will accept that subject to check.

Q. You will accept subject to check that the residence class, over that ten years which is '85 to '95 was 1.3 percent, commercial class was 3.9 percent and the industrial class is shown as 3.4 percent.

A. I will accept that subject to check.

Q. And those are, would you accept to your check, that those are compound annual growth rates?

A. Yes.

Q. And that's a public record document.

A. Thank you.

Q. Then would you also accept subject to your check that Puget Power's response to public counsel data request No. 226 or 227 in the Intel proceeding indicates that the 1995 Puget 20-year load forecast indicates the following load growth by customer class, and that would be residential 24 percent, commercial 56 percent, and industrial 66 percent and those are total period, not annual.

A. I will accept that subject to check.

Q. And just to be clear, that's covering the years 1994 through and including the year 2015. So you will accept all that?

A. Yes.

Q. Would you turn, please to CEL-3, Exhibit 28, table 3. Do I understand that in response to questions of Mr. Cedarbaum and in anticipation of some additional questions you have some change to make on this table or --

A. More of a clarification, actually. What's shown in column E is, for example, 1997 the $3 million is the increase that results from the one percent proposal in our rate stability period. Then we show in '98 the $15 million number. That includes the one percent that resulted from the '97. The actual result of the one percent increase is the difference, so it's about -- it's the $12 million difference. Taking that through in the fifth year the $58 million in 2001 represents the difference over today's rates as a result of the five years of the one percent, but the increase in the fifth year is the difference between the 58 and the 43.

Q. So should --

A. What I am considering doing is modifying this to show a delta actually that drives the one percent. That might be helpful.

Q. So you would modify it to show the amount of the annual increase and then the amounts that are in column E are actually the cumulative increase?

A. Over the current rate, yes.

Q. And what's in -- what is currently in column F that is labeled cumulative increase?

A. Column F shows as a result of having this one percent increase through the period the amount of additional revenues that the company would be collecting. For example, we would be collecting, as a result of five years of annual increases of one percent we'd be recovering the $150 million at the end of the fifth year.

Q. In looking down the road for 1998, would you explain what the $19 million figure in column F indicates?

A. That represents collecting $3 million in 1997, the last quarter of '97 plus the $15 million recovered in 1998 of which only $12 million is resulting from a one percent in 1998.

Q. So that $19 million represents the $3 million in 1997 plus that $3 million again in 1998 plus the 1998 one percent increase of $12 million roughly?

A. Yes, I think so. I didn't --

Q. Why don't you take that subject to check?

A. Thank you.

Q. Are you proposing to prepare a revised table 3 or were you waiting for us to ask a record requisition or what would be your inclination here?

A. I think to clarify what we were trying to accomplish with the one percent, I guess I was looking to the opportunity of actually revising table 3.

Q. And so the revision would have -- would be the same through column D and then there would be a new column, for instance, that would have the annual increment amount and then it might have the existing E and F?

A. Right.

Q. With maybe headings that were --

A. A little bit more descriptive heading probably.

Q. Thank you. That's a good way to say it.

JUDGE SCHAER: Mr. Harris, when would the company contemplate providing that revision? Would that be part of your rebuttal testimony or would that be something you would distribute somewhere?

MR. HARRIS: We would distribute it sooner than that. Next week.

JUDGE SCHAER: So is that something we should mark as a revision to this testimony? I'm just wondering how the Commission itself is going to get this if it's going to be a revision to the exhibit.

MR. MANIFOLD: We could make a data request or you can make a bench request and put it in or we can make a data request and have it marked as an exhibit and have it admitted if nobody objects within X days after it's provided.

MR. HARRIS: That would be fine.

JUDGE SCHAER: It could be made a bench request or the company could just -- we could indicate on the record now that there will be a revised page 2

Exhibit 28 that we could ask if there's any objection to admitting that as a late-filed portion of this exhibit.

MR. MANIFOLD: It seems to me that it is common to have revisions usually before they're admitted.

JUDGE SCHAER: Yes.

MR. MANIFOLD: I have no objection to this procedure, and I think it's a good idea. I would want to reserve the right to object once we saw it if it's different than what we thought we were going to see.

JUDGE SCHAER: Well, then why don't we give this its own exhibit number and call Exhibit 70 for identification a revision to table 3 in Exhibit 28.

(Marked Exhibit 70.)

MR. CEDARBAUM: Can I ask a clarification? My understanding of this revision is that it will be a revision only to table 3 to the extent that Ms. Lynch just described. Otherwise the exhibit is not changing?

THE WITNESS: Right. And it's going to be more presentation as opposed to changing the numbers. We're just actually going to detail out the effects of the one percent so it's clear on table 3.

JUDGE SCHAER: I think what we'll do is ask you to provide that and I will rule now that it's admitted, but I will give a 10-day period after it's received for any objections to it to be received and we'll deal with it in that manner so we know what's in the record and what isn't.

So is there any objection to Exhibit 70 going into the record? Hearing none that document will be admitted and, as I just indicated, parties will have ten days after the document is sent to review that document and if you do come up with some concerns that we don't know of now you may raise those by letter to Commission.

(Admitted Exhibit 70.)

JUDGE SCHAER: Please proceed.

MR. MANIFOLD: Your Honor, I don't think we've admitted Exhibit 66 now yet.

JUDGE SCHAER: I don't believe it has been offered. Would you like to offer it now?

MR. MANIFOLD: Yes.

Q. Ms. Lynch, do you have before you what's been marked as Exhibit 66?

A. Yes.

Q. Is that the company's response to the indicated data request?

A. Yes.

Q. Is it true and correct to the best of your knowledge?
A. Yes.
MR. MANIFOLD: Your Honor, I would move for the admission of Exhibit 66.
JUDGE SCHAER: Any objection? That document is admitted.
(Admitted Exhibit 66.)
Q. Would you turn to page 7 of your direct testimony, Exhibit 26. I have some questions about the last paragraph on that page which Mr. Cedarbaum also asked you some questions about. Do I understand that there are two entirely separate conditions that the applicants are proposing be bases for it petitioning to terminate the hold out period one of which is a request for interim rate relief?
A. That's correct.
Q. And the second basis for which it could petition is the second sentence of that paragraph that concerns open retail access and other significant changes as was originally in your testimony?
A. Right. The --
Q. I'm sorry to interrupt but I think we can do this. And as of today your -- the companies through you are modifying this proposal to in essence

strike the words starting on line 20, page 7, starting with "or" through the next line the word "structure."

A. So that it leaves "the situation of interim emergency rate relief or open retail access."

Q. Yes.

A. Yes.

Q. When you say open retail access, what more can you say to define what you mean by that?

A. Well, I know that my understanding of it generally is that our customers have the ability to choose providers of the commodity and that similar to what's going on in the gas side, I guess -- Mr. Amen can talk to more by what we mean by the open retail access.

Q. This concept of open retail access as an opener only applies to the electric side of the business not the gas side?

A. Right. This is a situation pointed at the electric operations.

Q. On the first sentence, the interim emergency rate relief, would that be considered a potential for terminating rate stability or rate predictability proposal independently on gas and independently on electric?

A. The situation is if we were to be in a need

for interim emergency rate relief on the electric, that would not trigger the need -- excuse me. That would not trigger the end of the rate stability period on the gas side.
Q. And vice versa?
A. Yes.
Q. And the petition, just to be very clear, we're not talking about anything triggering it. We're talking about the company being able to petition for it and there is no automatic trigger for termination of the rate stability program?
A. That's right. We would petition to terminate the rate stability proposal when we found ourselves needing to file a request for rate relief. And the decision whether or not to grant that decision would be up to the sound discretion of the Commission.
Q. To make sure I heard correctly, I understood Mr. Cedarbaum to ask you what standards the companies proposed be used to evaluate that petition, and I think you either said you don't know or you referred that to Mr. Amen?
A. I referred that to Mr. Amen.
Q. Will you turn, please, to page 3 of your testimony, around lines 11 and 12. This relates to table 1 of Exhibit 28. Your testimony says that as

described -- "as described by Mr. Story, annual power costs are expected to increase by $80 million during the rate stability period." When we look at table 1 of Exhibit 28 for the year 2001 under column F, I see a number that is virtually $80 million. Is that the $80 million you're referring to?
A. It is.
Q. So the $80 million is not a cumulative increase. It is the amount of the annual increase in 2001 over PRAM 5?
A. That's correct. The cumulative increase is shown in column G.
Q. Looking at table 4 of Exhibit 28, column H. What's labeled merger savings, the total of $157.8 million for five years can be compared to the ten-year number that Mr. Flaherty estimates of 3.77 million?
A. That's right. It's the first five years that is in his Exhibit 15, TJF-3. Not reflecting -- I think there were some changes that were identified to that. This was his original filed exhibit.
Q. So this was actually compared to the $370 million as opposed to the readopted $377 million?
A. Yes.
Q. What's your expectation of the amount of the residential -- BPA residential exchange in the

year 2001?
A. I don't have a number in mind. I don't have -- I can't discuss that. I don't know.
Q. Whatever that is, it would be separate and apart from a company's -- as the company has proposed it that would be separate and apart from its rate predictability proposal or rate stability proposal, any effect of the changes in the BPA residential change?
A. Changes in the exchange are separate. To the extent that there are components of the one percent that need to be affected, as we did in PRAM, those would pass through the methodology.
Q. The revenue numbers that are in your Exhibit 28 were prepared prior to Puget's proposal of schedule 48; is that correct?
A. That's correct.
Q. So they don't incorporate any changes you might make in revenue projections given the potential for a schedule 48 being approved by the Commission?
A. That's right.
Q. Do you still believe that the companies or the merged company has a reasonable opportunity to obtain its goals and to be able to honor the rate predictability conditions with schedule 48 in addition

to the factors that you've previously identified?

A. I think that the existence of schedule 48 adds one more challenge, one more complication to us being able to meet our goals and objectives that we've defined for ourselves during the rate stability period, but I don't believe that it's an impossible thing for us to do with or without 48.

Q. And would your answer be the same including the two Bellingham contracts, Bellingham Cold Storage and Georgia-Pacific, special contracts?

A. Again, I think that those are additional challenges. That's about all I can say that it kind of complicates us being able to achieve all of our objectives, but I don't have much more to say than that.

Q. Does the company still believe it can meet that goal?

A. The rate stability goal?

Q. Yes.

A. Yes. With a lot of work.

Q. Have you provided either on the record or in response to a data request how your Exhibit 28 would be recast if you were to include in it the effect of schedule 48 assuming it were to be adopted and given the company's assumptions on it that it's

presented before and the two Bellingham contracts?
A. We haven't recast 28 for that situation.
Q. Would the information that's in Exhibit TS-35, page 12, allow that to be done? Do you have that available to you? Might look at page 9 for schedule 48, I believe. I notice you're not wearing your ring. You may have problems with this.
A. I think that this would -- I think from this information we could adjust Exhibit 28. I am not so sure if it's as straightforward and just taking one set of numbers and plugging it into 128, but from this I think we could work to modify that.
Q. Let me ask you then as a response to the next record requisition --
JUDGE SCHAER: No. 44.
Q. -- to provide a recast of Exhibit 28 incorporating the changes that you would make to it in light of the two special contracts that have already been approved and assume schedule 48 were to be approved as proposed and further assume that the -- and that the Intel contract were to be approved as filed. Can you do that?
A. We can try.
(Record Requisition 44.)
JUDGE SCHAER: Did you want the King County

contract considered also?

Q. I think King County contract is just they're accepting schedule 48, isn't it, the contract that King County announced in the press that it had signed with Puget, isn't that simply a contract acceptance, schedule 48?

A. I will have to check on that, but whatever the negotiations are, whatever it is, we can attempt to include that.

Q. Yes, thank you. If that is the county acceptance schedule 48, do they in fact have a contract with Puget now since schedule 48 hasn't in fact been approved?

A. If you would talk to Mr. Amen about 48, thank you.

Q. On the Exhibit 28, looking at tables 1 and 2, I have a number of questions about those. Your exercise or goal here was to separate all of Puget's costs into two different categories, one which you've labeled power cost and the other which you've labeled nonproduction costs; is that right?

A. The goal is to identify two major cost pressure types, one being the power costs and the other being nonproduction. It's not necessarily all costs to the extent it's not from a total revenue

requirement view.
Q. The table 1 includes fuel purchased in interexchangeable power secondary sales, wheeling and O and M?
A. That's right. That's what's in Exhibit 66, page 4, it details what's in those power costs.
Q. By O and M, does this include the operating costs for Puget as company-owned power plants except for fuel and purchase power?
A. I can accept that subject to check.
Q. And would you further accept subject to check that that would be the items reflected in FERC accounts 500 through 5 appear?
A. Subject to check, yes.
Q. Except for the fuel and purchased power?
A. Right.
Q. Is it correct that DSM costs are not included in the power cost portion of this exhibit but are in the lower part, the table 2, nonproduction costs?
A. That's correct.
Q. Is it also correct that the return, taxes and depreciation on Puget company-owned power plants is not included in the power cost portion but is included in the lower half of the page, the

nonproduction costs?
A. I believe that's correct to the extent those are lumped into on page 7 here, the general or other cost service where those types of tax and things are lumped in that. I could check that out.
Q. Why don't you accept that subject to check, accept my question as being true subject to check?
A. Yes.
Q. And is it also the case or would you accept subject to check that the return, taxes, depreciation and amortization of the company's investment in WPPSS No. 3, also known as the Bonneville exchange power, is not reflected in the power cost portion of this exhibit that is table 1, and that they are reflected in table 2, the nonproduction costs?
A. I will accept that subject to check, but I thought that there was a data response which detailed certain of those related costs that were in the power costs, and I don't have that, but I will accept that subject to check.
Q. For the power cost of this exhibit, table 1, you assumed or you applied specific escalation rates to different categories as is shown on page 7 of Exhibit 66. That's how you escalated the cost through time up to the year 2001?

A. Page 4?

Q. Yeah. It's the seventh page but it says little four and a circle at the top?

A. That's correct.

Q. And is that intended to reflect the company's best estimate of future costs for these cost categories?

A. For purposes of this forecast, yes.

Q. Why do you condition your answer that way?

A. Because I'm not so sure this is best for -- back up. This forecast was prepared for purposes other than ratemaking, and this ties to those confidential forecasts in the first -- that it ties to those forecasts. I'm sorry.

Q. What do you mean? I don't understand your answer.

A. Could I have the question again?

Q. Yes. Why did you condition -- I asked you if the escalation rates that you used to produce table 1 were the company's best estimate of future costs, for each of those cost categories, and I understood your answer to be rather than yes your answer to be, yes, for the purposes of doing this table?

A. And my answer should have been yes.

Q. Flat yes?

A. That there was estimated power costs, yes.
Q. So there's no other better estimate of power cost calculations?
A. That's right.
Q. You're speaking here on behalf of both Puget and Washington Natural, I take it?
A. Yes.
Q. Let me ask if I may as the next record requisition in order which would be 45 you to provide regarding Exhibit 66, page circle at the top 4, any better or more precise estimates the companies have regarding the escalation factors used there, including but not limited to the document that's referred to in footnote A, the source power forecast 95-04?
(Record Requisition 45.)
A. Okay.
Q. Table 2 on Exhibit 28, the nonproduction costs, rather than having specific escalation factors for elements of those costs, those have been escalated at an average of the consumer price index and Handy Whitman index?
A. That's correct.
Q. And just for the record would you state or describe what the Handy Whitman index is?
A. The Handy Whitman index compares changes --

an example of that is in Exhibit 66, and it compares changes in --
Q. The last page?
A. Yes.
-- changes in costs from 1973 at 100 percent so it's looking --
Q. It's the electric industry-specific construction cost index over an historical period of time?
A. For a specific functional categories of cost.
Q. And when you used 50 percent of the ten-year historical Handy Whitman, did you use that by subsets or was that one number applied to all of what's in table 2?
A. Table 2 uses the same 10 percent -- or ten year average. It's shown in column D at 2.42 percent.
Q. What was your reason or logic in determining which costs or types of things that have costs to put in table 1 and which things are costs of things to put into table 2? How did you decide which ones went into one and which one went into the other?
A. Start with table 2. Actually it's identified as 1995, the 561,730?
Q. Yes.

A. That represents again from the cost of service study that was prepared in combination with the '95 informational case those costs which were not production related costs, so what this shows is the difference between 7.1 and 7.2 is the 56,1730.

Q. The 7.1 and 7.2 are in little circles to designate things on that chart? They're not --

A. Those are line items, right. The power costs forecast again is detailed in this exhibit, and it primarily is to reflect costs which change as a result of contractual obligations in terms of our purchase power and other power supply-type cost changes.

Q. Isn't the cost associated with the company's own resources also a power supply type cost? For instance, depreciation on company plant wouldn't that be a power supply type cost? And so my question would be why did you decide to put that in table 2 rather than table 1?

A. Well, I don't believe that the depreciation expense for those other production costs are in table 2. I believe those are eliminated to the extent that those are production cost of service. I believe the production cost of service line at 7.2 includes depreciation costs for Puget's owned production plant,

so they're not in the 1995 number on table 2.
Q. But it would not include the return or the taxes on that? In other words, it's not a revenue requirement for the company?
A. That's right, the amount in table 1, or in table 2.
Q. So what I'm hearing generally is that table 1 reflects the purchase power which for Puget is not very cheap, dams and some very expensive QFs, and table 2 is other things?
A. Other than production costs, yes.
Q. To your knowledge, is Puget constructing any or planning to construct any major generating plants during the five-year period that we're looking at here?
A. I don't know of any.
Q. To your knowledge?
A. To my knowledge it is not planning.
Q. Would you agree that the investment in existing generating plant will be depreciated during this period?
A. I don't know. I don't know when that depreciation, when it's going to be amortized, when it's going to be depreciated.
Q. Doesn't existing plant generally depreciate

every year?

A. I thought you were asking when that would conclude.

Q. I see why you heard that. I did not intend that. It would be depreciating?

A. It would be depreciating over the rate stability period.

Q. Turning last to DSM investment. That's included in the nonproduction costs in table 2, you accepted that?

A. Yes.

Q. And the amount you included was a revenue requirement of roughly $46 million?

A. That's right. That's what it shows under the cost of service detail.

Q. Does that include the taxes associated with DSM program recovery?

A. I would have to provide that detail. I don't have that detail here.

Q. Could you then in response to the next record requisition in order indicate whether the taxes, some or all of the taxes are included in the DSM program amount of roughly -- well, $46,338,976?

A. Okay.

JUDGE SCHAER: No. 46.

(Record Requisition 46.)

Q. Could you include with that if they are not included in that but are included in someplace else in that chart indicate where they are?

A. Okay.

Q. Do you have available to you Exhibit 56, which was the company's response to public counsel No. 90? It was put in as an exhibit through Mr. Story. Maybe the easiest and quickest and most pleasant way to do this under the circumstances would be to ask you as a record requisition to reconcile his revenue requirement DSM amount of $72.1 million with your $46.3 million, unless you would like to do that now?

A. No, I think I will provide that --

Q. If the answer is obvious?

A. I can work on that.

JUDGE SCHAER: That would be record requisition No. 47.

(Record Requisition 47.)

Q. Am I correct that -- well, in record requisition 47 would you please include an explanation or indication of whether or not the A and G and overhead associated with conservation is included in both either, neither or one of those?

A. Okay.

Q. I have a couple of questions about transmission plant. Would you agree that Puget's transmission investments consist of some major segments outside the service area, primarily the Colstrip transmission and then also a network inside the service area?
A. Yes.
Q. To your knowledge, is Puget constructing any major new transmission segments outside of its service area during the period of time 1996 to 2001?
A. Not to my knowledge. I just don't know. I just don't know.
Q. Could you in response to the next record requisition in order -- well, would you prefer a record requisition or accept subject to check?
A. I will accept subject to check.
Q. So you will accept subject to check that it is not constructing any major new transmission segments outside its service territory during that five-year period per current plans?
A. Yes.
Q. Is it true that in 1992 you were Puget's cost of service witness?
A. That's correct.
Q. In a previous life. And you proposed a

cost of service study that separated transmission into two different categories, that which was generation related and that which was nongeneration related?

A. That's correct.

Q. Would you agree that generation-related transmission investment tends to occur at the generating plants while network transmission expands as loads grow in different parts of the service territory?

A. My understanding of generation transmission is to tie the remote plant into the grid, so yes.

Q. In preparing tables 1 and 26 Exhibit 28, did you make any separation of generation-related transmission from network transmission?

A. No.

Q. Could you look, please, at Exhibit 66, the next to last page, the one we've been on a bit before that has a 7.1 and 7.2?

A. Okay.

Q. On the far left-hand column where it says model run 212, is then labeled generation transmission cost of service?

A. Yes.

Q. And the next line is 213, nongeneration cost of service. Is 213 the nongeneration transmission or network?

A. I believe so, yes.

Q. Will you accept that subject to check?

A. Yes.

Q. Could you provide us with a copy of the cost of service study that underlies this page, this page being the next to last page of Exhibit 66?

A. I could, but again, this was a summary of the cost of service that was provided in the November informational filing.

Q. So in that case only the summary was filed but -- just a moment. So could you provide the or cause to be provided the work papers that accompany the -- or that would have in the normal course of events if it were a rate case accompanied the cost of service study filing in the November case?

A. Yes.

Q. The November noncase, I should say?

A. The informational case?

Q. Yes, the informational. Thank you.

JUDGE SCHAER: That would be record requisition No. 48.

(Record Requisition 48.)

Q. We've talked now and again about the November case, is that UE-951270?

A. Yes.

Q. Final question about the one percent proposal. I think your testimony has been that it would apply to all of the various tariffs that the company -- that Puget has. In the residential tariff, as you know, there's a monthly customer charge and an energy charge. Would the one percent apply to both of those or just the energy charge, in your proposal?

A. The proposal would apply to one percent to both the basic charge and the energy charges.

Q. Do you recall what the monthly customer charge is now? Is it like around $4?

A. $4, 4.50.

Q. $5. So it would be five cents. Would the one percent apply to the water heater rentals?

A. No. I believe that those weren't included. There was a listing of -- maybe it's one of these -- of the tariffs that it would not apply to, but I don't believe that the water heater rentals --

Q. Would you accept subject to check that it does not apply to water heater rentals?

A. Yes.

MR. MANIFOLD: Thank you.

JUDGE SCHAER: Mr. Finklea, did you have questions for this witness?

MR. FINKLEA: Yes, Your Honor.

CROSS-EXAMINATION

BY MR. FINKLEA:

Q. Afternoon, Ms. Lynch. I am Ed Finklea. I represent the Northwest Industrial Gas Users. We have had marked for identification Exhibit 67, which is a response to an ICNU/NWIGU data request No. 62. Were you involved in the preparation of the response to that?

A. Yes.

Q. Now, this question in the data request was to the rate stability proposal. I understand from the previous question that you're testifying to some aspects of that and that Mr. Amen is the proper witness for other aspects. Is that --

A. That's correct.

Q. In your response you specify that as to gas service that the stabilization plan calls for no rate changes for gas service except for changes related to the PRAM mechanism?

A. That's correct.

MR. FINKLEA: Your Honor, we would offer Exhibit 67.

JUDGE SCHAER: Is there any objection? That document is admitted.

(Admitted Exhibit 67.)

Q. Going to page 7 of your prefiled testimony, Exhibit T-26. You have already clarified in response to questions from Mr. Manifold that when referring to retail access you were discussing electric retail access. Is there any implication that we should be reading into this that if for some reason there were additional changes in the gas industry that that could trigger an end to the rate stabilization or are you only discussing the electric industry in that testimony?

A. This testimony is referring to the open access on the electric.

Q. So the advent of perhaps residential gas customers being able to purchase their own commodity, that isn't something that would trigger a change in the rate stability proposal? I just want to make sure we're not misunderstanding something.

A. I believe that's correct.

MR. FINKLEA: I have no further questions.

Your Honor, perhaps I should clarify something. I premarked Exhibit 68 and 69. I distributed those before. I am taking from her earlier answer that because those responses were prepared by Mr. Amen that I actually should offer those when Mr. Amen is on the stand. If it's easier I can simply offer them now but she did not prepare those responses.

JUDGE SCHAER: I think that would be fine, Mr. Finklea.

MR. FINKLEA: Thank you, Your Honor.

JUDGE SCHAER: Mr. Frederickson, did you have any questions?

MR. FREDERICKSON: No questions, Your Honor.

JUDGE SCHAER: Mr. Patton.

CROSS-EXAMINATION

BY MR. PATTON:

Q. Good afternoon, Ms. Lynch.

A. Good afternoon.

Q. Between the time you filed Exhibit 26 and now, as Mr. Manifold pointed out, schedule 48 was filed; is that correct?

A. That's correct.

Q. If schedule 48 had been thought up after the merger was approved by the Commission, would you have considered that a change in the rates?

A. It is a change in the rates. I guess I'm not quite sure of your question.

Q. So if you had thought of and proposed a schedule 48 after the approval of the merger by the Commission and the rate stability period, would that have been in your mind prohibited by the rate stability period?

A. No. I believe that the rate 48 fits into the category identified by Mr. Amen of electric cost of service and rate design whereby we were allowing ourselves to be able to make such necessary changes so it falls into that area.

Q. So this is not a change in the overall revenue requirements. It's just a shifting between customers, that is, schedule 48?

A. I guess I'm not sure I categorized them -- 48 as either one of those. I'm not sure what you mean by shifting of revenues and it's not a revenue requirement flatly.

Q. So the proposal for schedule 48 does not change your estimate of the one percent need for increases by Puget in the rate stability period?

A. Our need for the one percent increase in the rate stability period is prefaced on the costs that we show in CEL-3, Exhibit 28, the power costs, as well as the nonproduction costs and is not premised or assuming any treatment of such as schedule 48.

Q. So in your view schedule 48 doesn't change that need for the income?

A. The need for the one percent is there with or without schedule 48, and, as I said earlier, the existence of schedule 48 just is one more challenge to management to accomplish the goals that we have for that rate stability period.

Q. On page 7 of your Exhibit 26 you talk about circumstances which might prompt the new company to come in and ask for rate relief and one of them is just the principles for interim emergency rate relief and the other for retail access, if retail access should occur. Did you mean by that statement that those are the only two reasons that the new company would ask for a rate change in the new period?

A. Those two situations represent the only time that the company PSE would petition to trigger a termination to the rate stability proposal.

Q. So, if for example, Puget were able to relieve itself of its cogeneration obligations you wouldn't suggest a change in the rates?

A. No. The rate stability proposal we would not be changing or we would not petition to terminate that. The changes that you're talking about are extremely difficult changes that we would have to or are looking to do, and are in categories other than the savings that were comparing the need for this rate stability one percent, the synergy savings, the Flaherty savings, so that's just one more thing that we would need to be looking at.

Q. So the rate stability period for the two parts of the new company are premised on the synergy savings that is the combination of the two organizations?

A. The rate stability proposal is premised on, first of all, the cost projections that we have, the very real, very known cost projections that we have for power costs as well as the objectives or targets that we have in terms of what the new company will be, how they will be doing business and then that -- and this is what I am trying to show on table 4. Those challenges then are compared to the savings that we have to accomplish as identified by Mr. Flaherty, and that's the $157 million.

Q. The Puget side of the company? You propose there be no change in the gas rates; is that right?

A. For gas -- gas rate stability is translated to changes in the PGA and then the nonPGA costs remain the same in recognition of the kind of cost pressures that the gas side of the operation is under.

Q. In your definition or assessment of what you mean by retail access, did you mean to include or exclude the possibility, for example, of Portland General/Enron combination coming to compete directly with Puget Sound Energy without using the Puget facilities for retail wheeling?

A. I guess for that kind of conversation if you could just talk to Mr. Amen about what we envision in terms of open access.

MR. PATTON: Thank you. No further questions.

JUDGE SCHAER: Mr. MacIver, any questions?

MR. MACIVER: No questions, Your Honor.

JUDGE SCHAER: Mr. Freedman.

MR. FREEDMAN: I have no questions, Your Honor.

JUDGE SCHAER: Mr. Wright.

MR. WRIGHT: Yes, Your Honor.

CROSS-EXAMINATION

BY MR. WRIGHT:

Q. Afternoon, Ms. Lynch. I'm Jon Wright representing Bonneville Power Administration, and Bonneville's interest in this proceeding is limited to potential effects of the merger on the residential

exchange programs, and so my questions will be related to the exchange program.
The rate stability plan envision a series of one percent rate increases on the electric side over a five-year period. Is that correct?
A. That's correct.
Q. And I think you previously described the rate increases as being performance-based?
A. What I've described is our package or our proposal in terms of the rate stability proposal as a simplified performance-based mechanism, yes.
Q. And a moment ago, though, you indicated that the rate increase would in part be a reflection of very real power costs or did I misunderstand what you said in response to a question a moment ago?
A. I was referring to the presentation that I made in CEL-3 whereby we show the magnitude of the power costs that are facing us during the rate stability period.
Q. But will the rate increase be based on cost of service?
A. The rate increase will be the one percent, and it's explained or justified by virtue -- it's over explained by the power cost exposure that we have. In addition, as I've presented, there are nonproduction

types of cost pressures that we have as well. But those represent, again, the cost pressures and given that management is under the challenge of dealing with those cost pressures, given the allowance of a one percent increase in rates, that's why we categorize this as being a performance-based ratemaking in that it shares -- it's an opportunity for the company and it shares this cost exposure with the customer.

Q. The annual rate increase will not be the product of a traditional cost of service rate hearing at the jurisdictional level, will it?

A. The annual rate increase will be implemented in a compliance type filing. There will not be the traditional cost of service, because this is not a traditional period of time for us. This is -- and that's one of the things we're requesting and why we're willing to go with this one percent increase. We're looking for the opportunity to make these adjustments without having to go through the activity and exercise of the more traditional cost of service that you're referring to or ratemaking that you're referring to.

Q. Will each of those rate increases trigger a new change period for the purpose of the residential exchange?

A. We think that each of these one percent rate changes for the electric will -- I guess I will back up a bit. To the extent that's the case that we are planning on and have done some preliminary discussions with Bonneville but it seems like there would be a triggering of that to the extent that the tariff changes for electric service but that's -- we're hoping and intend to discuss those requirements in terms of what is necessary from Bonneville agency perspective.

Q. Will there be an appendix one filing as a result of the -- I guess the question, more specifically, is, is an appendix one filing in your judgment the appropriate mechanism for determining average system costs in this rate stability plan?

A. Ideally it would be nice to do it with much less than an appendix one filing. I'm not so sure what we can accomplish working with Bonneville.

Q. Do you anticipate that under the rate stability plan the documentation provided, whatever it might be, would be reviewed in accordance with the 1984 ASC methodology?

A. We intend to meet the requirements that Bonneville has in order to do the review that they need to do. We hope to be able to work with those and get to a place where both -- both parties, both the Bonneville and the company can be responsive to each other, and that we can meet your requirements in terms of your view.

Q. Did I understand you to say earlier that the potential need for this sort of discussion has been suggested to officials at Bonneville outside the context of this proceeding?

A. We have shared the proposal itself with Bonneville and in a data response -- actually it's deposition request No. 4 -- I've stated that it's our understanding that both Puget and Bonneville realize or acknowledge the need to work together to accomplish this, yes.

Q. Has there been any discussion of when the appropriate time for those discussions might be, given that this is, not a done deal at this point. I realize that it amounts to some -- it calls for some conjecture about when would be the appropriate time but has any thought been given to that?

A. I am not aware of a timetable that's been put together in order to accomplish that.

Q. Have there been any thought given to the type of process that might legally be required in order to develop some sort of mechanism for doing this?

A. I don't believe so. And I can definitely check, but at the time that this data response was prepared -- and I don't know anything beyond that -- we acknowledged that there was a need to work together and that's as far as it goes.

MR. WRIGHT: Thank you. No further questions, Your Honor.

JUDGE SCHAER: Mr. Merkel, did you have questions?

MR. MERKEL: No questions.

JUDGE SCHAER: Ms. Richardson?

MS. RICHARDSON: Yes, Your Honor.

CROSS-EXAMINATION

BY MS. RICHARDSON:

Q. Good afternoon, Ms. Lynch. I'm Shelly Richardson and I represent the Public Power Council in these proceedings. Our interests, again, are residential exchange interests. Unlike those of Mr. Wright's client where they're distributing the money my clients are providing the money that flows through the residential exchange so we have some, I think, real concerns about some of the issues that have been raised in this dialogue that you've had with Mr.

Wright, so let me follow up if I could.

I see through looking at your testimony that prior to going over to Washington Natural Gas you had been employed at Puget in the rates department for 11 years?

A. That's correct.

Q. And during your 11 years in the rates department at Puget did you have opportunity to become familiar in a general or a particular sense with how the residential exchange procedure works for jurisdictional utilities such as Puget?

A. Yes.

Q. How intimately were you involved in that procedure?

A. I think for the last -- I don't remember if it was one year or two years -- I was responsible for the preparation of the ASC, of the appendix one.

Q. Very good. So you're then aware probably in greater detail than I am of the requirements of the -- of what's been referred to as the 1984 average system cost methodology which is sort of the rules of the road that Bonneville has to operate by?

A. I was.

Q. You're familiar, then, with the fact that once Puget has made a so-called jurisdictional rate filing with the state Commission, in this case the WUTC, there are a couple of additional layers of review that occur, one at Bonneville and then a subsequent layer of review at the Federal Energy Regulatory Commission?

A. Yes.

Q. So for purposes of a typical retail rate proceeding for jurisdictional utilities such as Puget, you perhaps recollect or would take on my representation that the standard courses for the jurisdictional utility to file a preliminary appendix one with Bonneville within a certain time frame after asking its jurisdictional Commission for an increase in rates or decrease for that matter?

A. I believe that's correct, yes.

Q. Has such a jurisdictional rate change in your opinion occurred with the instant proceedings being filed at this Commission?

A. I don't believe so because -- and I say that because that's why in my testimony I discuss the need to work with Bonneville and not knowing what -- and giving full benefit of having -- accomplishing some gains, we did not -- we did not file the appendix one.

Q. But I think you indicated in response to a question by counsel for Bonneville that you would anticipate filing an appendix one associated with these proceedings or did I misunderstand that question and answer?

A. What I was trying to portray was the need -- we recognized the need to provide or file some information with Bonneville that accomplishes the needs that they get through the appendix one.

Q. Would that filing necessarily have to be a filing requesting a change in the -- in Puget Sound Energy's average system benefit level? For example, could it be a filing for informational purposes without asking for a change?

A. Again, we haven't locked in on what those requirements are. It's possible it could just be informational, if that meets the needs.

Q. In your deposition which has been premarked and admitted in this proceeding as Exhibit 46 -- do you have a copy of your deposition with you?

A. I can get it.

Q. I don't know that you will need it. I just wanted to make sure you had it if you did. You reference in the deposition that your testimony -- and I am reading from page 13 of the deposition -- "my testimony supports and demonstrates the cost basis that can be used by Bonneville for determining the average system cost." Am I reading this accurately? I'm on page 13 of the deposition itself, the first full answer on that page.

A. Yes.

Q. Now, when I turn to your testimony, I don't see a demonstration of the cost basis in the text. Now, setting aside the exhibits, the tables for a moment, if I am to look in the text of your testimony, is there a particular point you direct me to to find the demonstration of cost basis that can be used by Bonneville for determining average system cost?

A. There's a discussion in my prefiled on pages 2 and 3 that discusses those cost pressures. It includes the -- it includes a number of things. It includes the $74 million electric revenue requirement that we've been talking about. It includes the power costs that are shown in CEL-3 and it describes the -- can't find it now but it describes the nonproduction costs as well. Summarizing what's been -- what we've been discussing in CEL-3.

Q. And then as you've directed my attention to CEL-3, is it accurate to say that the focus of cost basis usable by Bonneville for determining the average system cost would be in tables 1 and 2 of CEL-3?

A. That's the prefiled information. Then as we've been discussing there, there are several data responses come provide additional detail to that, those cost representations.

Q. Can you tell me the particular data responses you have in mind when you say that?

A. I'm looking -- I'm thinking of the -- we've been discussing Exhibit 66, which is response to ICNU/NWIGU data request No. 65.

Q. That one in particular?

A. Yes.

Q. Again, to clarify a response to counsel for Bonneville's questioning, I believe that I heard you say that to date a decision has not been made as to whether the one percent annual increases under the rate stability plan would trigger an annual filing with Bonneville for purposes of adjusting the residential exchange benefits?

A. Yes. My testimony is that, again, that we anticipate needing to work with Bonneville to just -- to see what is required.

Q. Finally, I think, you had indicated in response, I believe to Mr. Manifold's questioning, that -- and I will paraphrase here so correct me if I'm wrong, but what I heard was in effect that if this were a more traditional rate case proceeding that components of the one percent annual rate stability increase would pass through the residential exchange, and when you said that it prompted the question for me, did you have particular components in mind or were you thinking along the lines the components which under the 84 methodology which would otherwise be exchangeable? I was struggling to distinguish between what you meant when you said if this were a regular kind of run of the mill rate case versus this merger proceeding and if that somehow changed the cost component which would flow through the exchange?

A. Well, I think that under traditional cost of service ratemaking the process that we would file in terms of Bonneville and the exchange is clear and we would know exactly the steps forward. What I was attempting to describe, I believe, is the fact, again, as I've said several times that we're not quite sure what's going to be necessary, but our full intent is to work with Bonneville, attempting to contrast the traditional ratemaking to the situation that we're supposedly proposing for the rate stability period.

Q. So if I can repeat back and paraphrase, you're not saying that the contract system costs, which may otherwise be exchangeable or different, rather that the procedures are different for getting this information to the agency?

A. Given that there were some differences in how we were able to do PRAM, we anticipate that those similar differences or that type of difference might be the case for working with this one percent rate stability proposal.

Q. Really the last question this time. Has it been -- given your tenure with Puget prior to going to Washington Natural Gas, has it been your experience that Puget or other jurisdictional exchanging utilities are positioned to discuss, negotiate if you will, the average system cost filing that the utility is going to make with Bonneville in advance of making it?

A. I didn't understand your question really.

Q. Let me try again. You've referenced several times that there have been discussions or are discussions going on with Bonneville and the utility and Puget for purposes of treating exchange repercussions coming out of this proceeding. And the question was, given your background at the utility, is this normal course? Do you typically have discussions or are you aware of discussions between the utility that's going to exchange and Bonneville in advance of the utility's filing its residential exchange preliminary and revised appendix once?

A. Well, I know at Puget there's continual conversation and dialogue with Bonneville and I know that especially during the PRAM periods where one started before the next one was trued up that those kinds of conversations were ongoing and so I am not quite sure if that's a yes or no to your question, but it's kind of a continuing discussion or debate on the filing requirements or what's necessary to meet Bonneville's requirements.

MS. RICHARDSON: Thank you very much. That's all, Your Honor.

JUDGE SCHAER: Mr. Meyer.

MR. MEYER: I have none, thank you.

JUDGE SCHAER: Commissioners, do you have questions of Ms. Lynch?

CHAIRMAN NELSON: Yes.

EXAMINATION

BY CHAIRMAN NELSON:

Q. Good afternoon.

A. Hi.

Q. Ms. Lynch, I have to tell you I found your consumers to be the most cynical bunch I've run across in a long time, and I guess I'm disappointed that the guarantee idea hasn't gotten more fleshed out by now. We found in the telephone world that at least with some of our smaller companies that the guarantees can be very useful, both for motivating employees within the utility and with respect to some mitigating consumer dissatisfaction. So the substitute of reports and potential penalties assessed by the Commission is not the best news for me to hear this afternoon. In fact, in the transportation sector when we had penalty authority we found it was really rather frustrating for disgruntled consumers of household goods carriers -- that is sort of the residential consumer, if you will, of the transportation sector -- very frustrating for them to be told that a bad actor in the marketplace could be penalized but none of the money would flow to the injured consumer. It would simply flow into the Commission's revolving fund.

So between now and the rebuttal phase I would like you to see if you can work with the parties in this case to come up with a performance guarantee program that might be more modest than what you originally set out to do, recognizing that electricity is subject to all sorts of things that telecommunications infrastructure isn't subject to, tree trimming and acts of nature and God in this climate. But I would really like to see if you can make a try between now and the rebuttal phase to come up with something in concert with the parties.

I would also like you to think about the further question of -- and this is not going to require an answer of you this afternoon -- the question of performance standards in an evolving marketplace for all actors not just the incumbent utility but the new entrants as well, and I would also like to have you think together with the legislative staff of the Puget and Washington Natural about the possibility of the Commission being given new legislative authority to award damages to injured consumers.

THE WITNESS: Okay.

CHAIRMAN NELSON: Is that pretty clear to counsel?

MR. HARRIS: (Nodding head).

CHAIRMAN NELSON: Thank you.

EXAMINATION

BY COMMISSIONER HEMSTAD:

Q. Good afternoon.

A. Good afternoon.

Q. First, a couple of clarification questions, and I apologize if in the rather lengthy question and answers that have gone on here with regard to the arithmetic of this that perhaps this has already been answered in part.

The company is proposing to transfer $165 million of the PRAM 5 rates into the base rates, and will that occur before the rate stability plan goes into effect, in other words, no electric base rate increase will take place before October 1997? In other words, what is the base you're starting from? Is it before or after the transfer, proposed transfer of the $165 million?

A. The base that we're starting from are today's rates, so including that 165 are general rates or as they are today.

Q. And so the $165 million would be added to the base rates and then the one percent per year stability plan starts?

A. That's correct.

Q. If the stability plan ultimately is not approved, I assume Puget will then proceed to file for the additional $74.3 million that your testimony is additional revenue required but now needed?

A. That's right. If the rate stability plan as proposed isn't approved we would have the $74 million cost pressure on the electric side as well as the three to five percent cost pressure on the gas side.

Q. Okay. Next, with regard to the additional savings needed after the one percent stability plan, again, something like an additional $240 million needs to be attained by the company; is that correct?

A. The $240 million represent the difference the difference between the one percent revenue increase and the cost pressures of which that there's $157 million of merger synergy savings.

Q. And one area where savings are to be attained would be through contract renegotiation. Is that part of the $240 million or that would be -- that would be included within the $240 million target?

A. That's correct. The $240 million is the stream of the power costs without any cost reductions of those supply costs.

Q. Does the company have any targets in mind as to how much money will be able to be attained through contract agreement negotiation?

A. I believe there's something in the confidential exhibits, the TS exhibits, that describes at that time what those power stretch goals were.

Q. And perhaps this has been answered, but I understood Mr. Sonstelie to say, and I might have misunderstood him, that the one percent targets or the one percent rate increase per year would not apply to schedule 48 but it's your testimony that it will apply to schedule 48?

A. The one percent will apply to schedule 48, as our proposal goes.

Q. Can you give us some idea how that will work, because I understand 48 really is, well, a surrogate for the market. Got delivery costs but then you've got the power cost itself. Will there be a surcharge on the amount that the schedule 48 customers would pay for power or will it be one percent applied to the delivery charges?

A. Well, unfortunately, I'm not as familiar with the schedule 48, and I know that Mr. Amen is prepared to discuss those with you.

COMMISSIONER HEMSTAD: That's all I have. Thank you.

COMMISSIONER GILLIS: I have no additional questions.

EXAMINATION

BY JUDGE SCHAER:

Q. I have just a few questions. You've just

told Commissioner Hemstad that you think that the estimates of how much Puget might be able to reduce its purchased power costs through contract negotiation show up in the power stretch goals in the top secret exhibit; is that correct?
A. There is an estimate of that, yes.
Q. And are these estimates reflected in either the power cost projections, which underlie the $240 million cost control figure, or the project merger savings?
A. No. The power cost productions are of the contractual nature, those costs that we're making today. And the merger savings to which we're contrasting that, the 157, do not include those power costs targets either.
Q. At page 4 of your testimony, the last answer on that page you indicate that the rate stability plan is in a spirit of performance-based ratemaking without the attendant complexities. Could you just describe for me briefly what you mean by the attendant complexities of performance-based ratemaking?
A. When we looked at or are considering the more -- hate to call it traditional -- when we were considering performance-based ratemaking there was a

number of different decisions that needed to take place including the collection of inflation factors, the identification of which services the cap would apply to, discounting privileges, and that would this apply to one class and not the other, or does the company have the ability in the proposal period to not apply or implement whatever the result of the PBR is.

Any kind of communication privileges meaning that could you hold over or bank changes that may have come through the calculation from one period to the next. Things such as reopener provisions, what would allow us to abandon or to reconsider the PBR. Dead band considerations, those types of things are what we saw often considered in the context of developing a performance-based ratemaking mechanism.

Q. Looking at a different area. On that basis did you arrive at the figure of one percent as an appropriate level of annual adjustment to accomplish your rate stability proposal?

A. We developed the one percent -- I guess I should back up a bit. In preparing our case we had initially put forward for comment a more traditional performance-based ratemaking mechanism, and that mechanism yielded in the magnitude or the order of -- slightly less than one percent to slightly over one and a half percent, and in conversations that we had in discussing this preliminary proposal and in requisition of what was necessary kind of a minimum of a risk sharing, we came up with the one percent as our proposed increase on the electric side so it accomplishes many of the things that the PBR seemed to.

Q. What cost support do you expect to provide to justify your proposed annual one percent rate increase requests?

A. The cost support is as provided in CEL-3, Exhibit 28. At the time of the filing we would be demonstrating that we have correctly implemented that one percent change.

Q. Now, in your discussions with previous counsel regarding Exhibit 28, I wrote down comments such as Exhibit 28, tables 1 and 2 are not a full revenue requirements view, and that they are based on a forecast prepared for purposes other than ratemaking. Do you think that these two tables provide sufficient cost support for the ratemaking change that you've proposed?

A. Yes. In that through the PRAMs and in the contracts that this Commission has reviewed the power costs have been reviewed and evaluated and then that we have provided the $74 million informational filing for the electric, so I believe that there's -- there is sufficient information on this record to support the one percent that we've suggested.

Q. How do you propose the one percent annual increments would be applied to new varieties of sales service like you've proposed under schedule 48? For example, would the one percent increase be assessed on market-priced power as well as delivery services?

A. I think that we would have to look at just the pricing components of the tariff, but to the extent that those are identified, the one percent would apply to those components. I'm not quite sure what form those other services or what the pricing structure might be for those other services.

Q. On page 3 of your testimony, line 2, you mention a price -- a rate decrease of 5.6 percent in the first half of 1997. How does the dollar amount of this decrease compare to the increases contemplated in the rate stability plan?

A. The 5.6 percent decrease is greater than the one percent over the rate stability period so that rates would be less than what they are going in.

Q. Staying on page 3, looking at lines 21 through 24, what cost control measures and additional savings would you anticipate being able to develop to

close the gap between costs and savings?
A. These other cost control measures, I was referring to the stretch power cost goals and, just before that it recognizes the savings associated with best practices.
Q. In your deposition you stated that the one percent increase does not apply to special contracts; is that correct?
A. That's correct.
Q. And Exhibit 67 shows the rate schedules it would not apply to; is that correct?
A. That's correct.
Q. Given those two cut-outs what percentage of electric revenues would not be subject to the one percent annual increase?
A. I don't have that here but I could provide that.
Q. In response to bench request No. 2 would you please provide that information?
A. Yes.
(Bench Request 2.)
Q. Looking at Exhibit 28, page 1, what is the source for the cost numbers used in the two tables?
A. For the cost numbers for table 1, I guess for both of these tables it's provided -- the detail

is provided in Exhibit 66. Dealing with the nonproduction costs first those represent nonproduction costs as identified from a class level cost of service study. The others are -- the power costs are detailed on this exhibit called net power costs forecasts and include the fuel, purchased power, wheeling, O and M.

Q. Are the units used to calculate columns F and G in table 2 megawatt hours?

A. Those are the units shown in table 1, yes, the delivered load, column B.

Q. Looking at Exhibit 28, table 3, could you explain using the revenue increases for 1997 and 1998 how compounding affected the $15,926,000 shown for 1998 in column F?

A. What I was referring to as compounding was that in 1998 we would have the rate increase identified in '97 and then have a one percent increase on top of that. I could provide and have provided the spreadsheet that has that calculation. I could provide to you.

Q. Would you please provide that in response to bench request No. 3.

(Bench Request 3.)

A. Yes.

Q. And will that information also show for 1998 what was the revenue to which the one percent was actually applied?

A. We could put together a series of work papers that could show that detail.

Q. Would you include that as part of bench request No. 3, please?

A. Yes.

Q. Are the revenues shown on Exhibit 28, table 3, column D, only those revenues subject to the one percent increase?

A. I believe so, yes.

JUDGE SCHAER: Thank you. That's all I have. Did you have any redirect for this witness, Mr. Harris?

MR. HARRIS: Just one or two questions.

JUDGE SCHAER: Let me suggest that we take our afternoon recess and we'll take that up when we get back. Please be back at 3:25. We're off the record.

(Recess.)

JUDGE SCHAER: Let's be back on the record after our afternoon recess. Mr. Van Nostrand, did you have a message for us at this point?

MR. VAN NOSTRAND: I guess I do. Was this regarding the status of the ARCO deferral matter, Your Honor?

JUDGE SCHAER: Yes. I believe the company was going to update that after Mr. Sonstelie's response and your co-counsel indicated that he was going to punt this to you.

MR. VAN NOSTRAND: Okay. I did confer with Mr. Story during the break, and we believe we have agreement of principle worked out with the staff. John Story, Roland Martin have been working together and now the lawyers have to get together to make sure we're comfortable with the language. It's our hope we would have it filed this week, before the end of the week.

JUDGE SCHAER: Thank you. Mr. Cedarbaum may have some --

Mr. Cedarbaum, did you have any brief comment?

MR. CEDARBAUM: My understanding on the timing of that is also hopefully by the end of the week. I'm a little bit more in the dark about just the status of the substance of it, but I think we're progressing, but by the end of the week it is our goal of having something before the Commission.

JUDGE SCHAER: Thank you. Would you like

to ask your redirect now, Mr. Harris?

REDIRECT EXAMINATION

BY MR. HARRIS:

Q. Ms. Lynch, could you clarify, please, what the applicants are relying on as support for the one percent increases?

A. The support that we were looking for -- providing for the one percent increase is contained in Exhibit 28 CEL-3, as well as all the information provided in conjunction with our informational filing for $74 million.

Q. And is it your understanding that the information contained in support or offered in support of the $74 million filing is part of the record in this case?

A. Yes.

MR. HARRIS: No further questions.

JUDGE SCHAER: Is there anything else from any other counsel? Mr. Manifold.

RECROSS-EXAMINATION

BY MR. MANIFOLD:

Q. Just a couple of short things. Ms. Lynch, following up on Commissioner Hemstad's question, would

I be correct in order -- your Exhibit 28 shows a $240 million challenge that the companies would have in the case of a merger, given the assumptions we've discussed perhaps too long earlier today; is that correct?

A. That's correct.

Q. And from that $240 million it's anticipated or estimated that there would be merger benefits of something like $158 million during those first five years so we could subtract $158 million from the 240?

A. That's right. The 158 could be that portion of the cost control targets that management would have to accomplish.

Q. That would leave about $84 million of cost control targets, I think you said. Then if we wanted to see what would happen if the goals identified by the company, which are ambitious goals, in TS-34 would yield, we would look at the third page from the end in Exhibit TS-34, the goals I think you've said for best practices, additional savings and additional power cost stretch goals savings, and we could take -- this is going to be a long compound question, as we discussed in all, and so you could add -- one could add the power cost stretch goals and the best practices goals and take that number in conjunction with the $84 million -- subtract that from the $84 million to see what the company's position would be if it were able to attain all of those goals?

A. You could compare the cost targets -- the $240 million cost target to the merger savings, 157, and then roll in the aggressive savings of the best practice and the power stretch goals and do that kind of comparison remembering that all of those are going to be extremely difficult to achieve, and I guess what you would end up with is what you would end up with.

Q. Finally one question, there's been talk about a five-year rate stability period, and my understanding -- well, there's also been talk about amortizing things over five years. Mr. Story talked about, I believe -- I want to be sure we're all talking about the same five-year period. Your rate stability proposal, as I understand it, goes for -- would go until October 1 of the year 2001? In other words, it would not be a full five years from the expected order on the merger at the end of this year?

A. That's right. It has increases in the '97, '98, '99, 2000 of the one percent.

Q. And zero percent in 2001?

A. Yes.

Q. But the five years that you have been

calculating has been five years starting October --
A. Yes.
Q. -- this year? Not December when we expect a rate order -- or an order?
A. (No response.)
Q. Let me ask this another way. Would you be amenable if the rate stability program were accepted or a version thereof for it being a five-year period from the date of the effective date of the order in this case?
A. I think that -- I mean, this is our proposal but I think that we would be willing to talk about other types of -- other periods for the rate stability proposal.
MR. MANIFOLD: Thanks. No other questions.
JUDGE SCHAER: Mr. Cedarbaum.
MR. CEDARBAUM: Just a few short questions.

RECROSS-EXAMINATION

BY MR. CEDARBAUM:
Q. Ms. Lynch, in response to Mr. Harris's redirect questions you indicated that part of the justification for the company's rate stability plan was Mr. -- the informational filing, Mr. Story's testimony and exhibits in the UE-951270 case that

claims a $74 million additional revenue requirement; is that right?
A. That's correct.
Q. The purpose of that filing was to justify the transfer from PRAM rates to general rates of $165 million not including -- which did not include the $74 million; is that right?
A. I think the purpose of that filing was to demonstrate exactly what it did and that was a $74 million revenue requirement for Puget.
Q. It's your understanding of that filing that that was Puget's opportunity to justify a revenue requirement in addition to the $165 being transferred into general rates?
A. I guess the nature of that filing was informational and it was used to understand -- as I follow it it was used in conjunction with the decision to transfer the $165 million over.
Q. And so assuming that the Commission were to approve the request by Puget -- and there's a joint staff/Puget motion to have that transfer occur -- isn't it correct that the Commission will not investigate the cost or revenues or supporting data of that additional $74 million?
A. That's my understanding.

MR. CEDARBAUM: Thank you. Those are all my questions.

EXAMINATION

BY JUDGE SCHAER:

Q. Ms. Lynch, isn't it true or will you accept subject to your check that at the pre-hearing conference in this matter the company was asked whether they wanted the materials which had been filed in docket No. UE-951270 to be marked for identification, and that they indicated they did not want them marked for identification at that time and that none of those prefiled -- none of that prefiled testimony or exhibits are of evidence in this merged proceeding?

A. I can accept that subject to check. I was under impression that the two dockets were consolidated.

Q. Well, it is correct that the two dockets were consolidated but even after the dockets were consolidated, isn't it true that, for example, your testimony was not part of this record in evidence which the Commission could rely upon until it was received in evidence today?

A. That's true.

Q. Isn't it true that none of the prefiled testimony or exhibits from docket from UE-951270 have been admitted into the record at this proceeding?

A. That's correct.

Q. So isn't it also true then that the Commission cannot rely on those?

A. Unless entered, yes.

JUDGE SCHAER: Thank you. Is there anything further for this witness? Thank you for your testimony. Let's go off the record for just a moment to accommodate change of witnesses.

(Recess.)

JUDGE SCHAER: Let's be back on the record. At the pre-hearing conference in this matter, Exhibit T-29, which is RJA-1, the prefiled direct testimony of Mr. Amen, was identified, and Exhibit 30, which is Exhibit RJA-2 was also identified.

Since that time we've received supplemental testimony for Mr. Amen, which I have marked for identification as Exhibit T-71, and we've received Exhibit RJA-4, which I have marked for identification as Exhibit 72. Marked for identification as Exhibit 73 is a document entitled Response to Public Counsel Data Request No. 34. Identified as Exhibit No. 74 is a document titled Response to Public Counsel Data

Request No. 91. Identified as Exhibit No. 75 is a document entitled Response to Staff Data Request No. 46. And identified as Exhibit C-76 is a document identified at the top as Response to Public Counsel No. 83.

Mr. Manifold, your envelope says public counsel No. 3 and the document inside says No. 83. Is No. 83 correct?

(Marked Exhibits T-71, 72, 73, 74, 75 and C-76.)

MR. MANIFOLD: Just a moment. I'm checking. Yes, it is. The label is incorrect.

JUDGE SCHAER: I'm going to correct the label on the official copy to read No. 83. Would you like to call your next witness, Mr. Harris?

MR. HARRIS: Joint applicants call Ronald J. Amen.

Whereupon,

RONALD AMEN,

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

DIRECT EXAMINATION

BY MR. HARRIS:

Q. Good afternoon, Mr. Amen. Could you state your name for the record and spell your last name, please.

A. My name is Ronald J. Amen, A M E N.

Q. Do you have before you, Mr. Amen, what's been marked for identification as Exhibit T-29?

A. Yes, I do.

Q. Do you recognize that as your prefiled direct testimony in this case?

A. Yes.

Q. Do you also have before you what's been marked for identification as Exhibit T-71?

A. Yes.

Q. Do you recognize that as your supplemental direct testimony in this case?

A. Yes.

Q. And if I asked you the questions as they're set forth in Exhibits T-29 and T-71, would you give the answers as are set forth in those exhibit?

A. Yes, I would.

Q. Do you also have before you Exhibits 30 and 72?

A. I'm sorry, Exhibits 30?

Q. What's been marked for identification as Exhibit 30, which is RJA-2?

A. Yes.

Q. And do you also have what's been marked for identification as Exhibit 72?
A. That's correct, yes.
Q. Do you recognize Exhibit 30 as the prefiled exhibit which is in support of your direct testimony?
A. Yes.
Q. Is it true and accurate to the best of your knowledge?
A. Yes, it is.
Q. Do you recognize Exhibit 72 as the exhibit filed in sport of your supplemental direct testimony?
A. Yes.
Q. Is it true and accurate to the best of your knowledge?
A. Yes.
MR. HARRIS: Your Honor, joint applicants offer Exhibits T-29, Exhibit 30, Exhibit T-71 and Exhibit 72.
JUDGE SCHAER: Is there any objection? Those documents are admitted.
(Admitted Exhibits T-29, 30, T-71 and 72.)
MR. HARRIS: Mr. Amen is available for cross-examination.
JUDGE SCHAER: Mr. Cedarbaum, did you have questions of this witness?

MR. CEDARBAUM: Yes, I do. Thank you.

CROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Mr. Amen, just to begin with, referring you to what's been marked for identification as Exhibit 73, 74 and 75, do you recognize these documents as the company's responses respectively to public counsel data request 34, public counsel data request 91 and staff data request 46?

A. Yes, I do.

Q. And these were prepared by you or under your supervision?

A. Yes, they were.

MR. CEDARBAUM: I would offer Exhibits 73, 74 and 75.

JUDGE SCHAER: Any objection?

MR. HARRIS: No.

JUDGE SCHAER: Those documents are admitted.

(Admitted Exhibits 73, 74 and 75.)

Q. Let me begin with some questions that were referred to you, and actually there was a question referred to you by Mr. Sonstelie last week. It had to do with his testimony on page 5 of his Exhibit T-1 and

I don't know that you need to refer to it, but he testifies there about NewCo's offering to customers of information regarding natural gas and electricity in order to increase their awareness about reducing energy needs and promoting efficient use of resources, and my question to him was how the cost of that provision of information would be treated by NewCo for accounting purposes and he referred that question to you. So what's the answer to that question?

A.   Well, I think at the time those particular materials were developed, would be developed, because I assume you're speaking of materials that have yet to be developed, we would consider the nature of the information and the purpose for those materials and in light of the Commission's guidelines on that type of material, whether it be for customer information related to efficient use of energy and so forth that we would make a determination at that time, as our best estimate of what portion of that material would be something that we would find appropriate for recovery.

Q.   Has that type of information been developed yet?

A.   No, it has not.

Q.   But, as I understand your testimony then

the Commission's rules governing advertising would determine -- would establish the principles under which you would treat this from a utility accounting point of view?
A. Yes.
Q. There were questions referred to you this afternoon from Ms. Lynch involving the rate stability plan, and we were discussing with her that portion of her testimony on page 7 of Exhibit T-26, one of the questions referred to you was what standards would apply to the petition that the company could file with the Commission to terminate the rate stability plan under the -- if one of the events were to happen that are set out in her testimony, and can you provide some guidance on that, what standards would the Commission apply?
A. Which event are you speaking of?
Q. Well, the testimony says that the Commission -- I guess the first sentence says the company can petition when emergency rate relief is warranted, so I understand that. We would apply the Commission's past standards of emergency rate relief, but the next sentence talks about a petition to terminate the proposal if open retail access is created. Is that the only standard? In other words,

open retail access is created, therefore, the company can petition the Commission to terminate the rate stability plan and there's no other standard that we would look to?

A. No. I think first of all you have to consider the results of any legislative or regulatory determination of what open retail access will constitute for utilities in this state, because it is the impact of that that would determine whether or not the company would seek to petition for the elimination or termination rather of the rate stability period. For example, if an open retail access type of result would not address things like potentially stranded cost for jurisdictional utilities that could be something that would trigger such a request. If only part of the equation regarding open retail access is addressed, I think it's quite possible that it could be a triggering event.

Q. Let me ask -- I will come back to that, but let me ask you first then, what is the definition of open retail access as used in her testimony? Are we talking about open retail access across all customer classes for Puget? Less than all classes of customers for Puget? Only some customers within a class for Puget?

A. Well, certainly that could be part of the determination by either a legislative or regulatory action. However, I think what's contemplated is open retail access for all customer classes on a nondiscriminatory basis.

Q. So as used in the company's rate capability plan, the triggering event that would allow a petition to be filed is open retail access for all electric retail customers of Puget?

A. No. I think that again is a bit too broad, and that is I don't think it would be anything that the company would automatically seek by the mere result that we have open retail access. I think it has to do with the parameters, if you will, of that kind of a legislative or regulatory action, and the effect it would have on the company.

Q. And I am trying to understand that because this is the company's proposal. If the company -- if Puget filed a tariff that opened up its distribution system to only one industrial customer or only commercial customers, is that an event that would allow a petition to be filed?

A. Not in and of itself, no.

Q. But it's possible?

A. And again I think you need to consider this in terms of the impact on the company. One of the standards that the Commission has used to judge the appropriateness of both the company's revenue requirement and thus then the rates that recover it are things such as fair, just, reasonable and sufficient. Now, if the result of such an open access program -- again, whether it be legislative or regulatory -- were to only address the rates -- of the company and by which it could provide such retail access, but it had an impact on the company's margin recovery, which it had been previously determined by this Commission to be just, fair and reasonable, I think then we would be in a position where we might have to seek such termination of rate stability.

Q. What if the Commission approved a special contract that allowed retail access for one large industrial customer. Would we apply the same type of analysis?

A. Well, in the case of special contracts under the Commission's existing special contract rules, I think the company has stated that it would not propose anything during the rate stability period that would shift costs to other class of customers including special contracts.

Q. So your answer is no to that --

A. As I had explained it, yes.

Q. Is that different than -- is that what the proposal is, that if a special contract is filed, that allows one customer open access that that is not the type of situation that could allow the company to file this type of petition?

A. I don't think the company contemplated that that would be the case.

Q. You indicated that what you would be looking at would be the impact on the company's margin. Is there any kind of a target or a guideline as to what that impact would have to be in order for open access to allow the company to file a petition?

A. I don't have any target in mind.

Q. I had also asked Ms. Lynch, and Commissioner Hemstad asked this as well, about how the one percent would apply to schedule 48 given that there are a number of separate charges under the schedule. Can you explain how that would work?

A. We anticipated that the one percent would apply to the nonenergy related companies of schedule 48.

Q. And what would those be?

A. Things such as the transportation charge, the customer charge, the transition charge and the DSM component.

Q. That's it on the questions that were referred to you. During your deposition we had discussed with you the items that you list on pages -- the different types of initiatives that you list on pages 1 through 3 of your testimony, and then you also have a list on page 6, and your testimony during the deposition was basically that other than schedule 48 these types of initiatives, maybe not the specifics of them, but at least the general categories were things that could be pursued by the company's absent the merger. And so I guess my question is, can you tell me what it is about schedule 48 that makes it a proposal that cannot be developed by Puget as separate from the merger? And here I'm looking for things in terms of staffing or internal -- the internal situation of Puget that would not allow schedule 48 to be proposed absent the merger.

A. I don't know that I can quite be as specific with you as staffing although --

Q. I didn't mean to limit it. I'm just trying to get you thinking along those lines.

A. Certainly some of the benefits that we believe the merger brings to an initiative such as the schedule 48 filing are the experience that the gas company has had with the kinds of offerings that were contemplated both by schedule 48 and the transition strategy or the transition plan that the company set forth and the document companies to schedule 48. Kind of experience that the gas company has with unbundled energy costs, nondiscriminatory transportation cost-based transportation initiatives, and the kind of things that now the electric industry are dealing with. We think that schedule 48 is benefited by that.

Q. I take it, then, would it be the case then that Puget in the absence of the merger would be able to look outside Puget employees for that type of experience to bring into the company to help it with the schedule 48?

A. That's possible.

Q. Looking in your testimony at page 3, at lines 9 through 12 you discuss NewCo strengthening its relationship with its existing customers, and looking for opportunities to craft programs and service to match their needs. When you use the term existing customers, which customer classes were you referring to?

A. I don't believe I was attempting to exclude any of our customer classes.

Q. Also in your deposition you stated that in

the current evolving competitive environment in the electric industry that individual utilities should undertake new initiatives to meet the needs of customers. Do you recall that?
A. Yes, I think I do.
Q. It's at page 19. Other than schedule 48 filing by Puget, are there other examples that come to mind as new initiatives that Puget has made recently that would meet the need of its customers? And I would be thinking of filings with the Commission that would accomplish that?
A. I recall seeing a list of energy-related services that Puget has offered its customers over the course of the last few years, some that had been offered fairly recently, others that it's contemplating offering in the future. I don't recall a lot of specifics regarding some of those services. A lot of them have to do with assisting customers in both assessing their current energy consumption patterns, offering ways of shaping loads and conserving energy and other things that related to that. There are a number of programs -- again I'm not familiar entirely with their specifics.
Q. So these are tariffed services offered by Puget?

A. Some of them may be. I believe some of them may in fact not be.

Q. Why don't I ask you to itemize those initiatives in the next record requisition.

JUDGE SCHAER: It would be No. 49.

(Record Requisition 49.)

Q. So if you could itemize the initiatives or new service offerings that Puget has made, say, in the last five years, other than the proposed schedule 48 that would meet the needs of its customers as you discuss in your testimony?

A. Certainly.

Q. I have a few questions about your testimony on line extension policies that begins on page 7 of your direct. And again your testimony is that the company wants to -- NewCo wants to reserve the right to make Puget's line extension policies consistent with Washington Natural's, and in your deposition if you recall you indicated that those modifications could also be done by Puget on a stand alone basis. Do you remember that?

A. Yes.

Q. What is the problem or what are the problems with Puget's current line extension policy that need to be fixed?

A. Actually, I don't know that I would characterize Puget's current line extension policy as having problems. I think that in many respects it appears to me to be consistent with the gas company's line extension policy. I think that Puget itself has recognized that it could be improved and in fact I believe that in response to a data request public counsel 166, I believe, we supplied a report, an internal report by a working group within Puget, that identified some areas that it felt could be addressed in their line extension policy, and I believe within that report they drew the conclusion that it would in fact make it more compatible with and consistent with the gas company's line extension policy.

Q. That report that was provided to public counsel's data request 166 was provided on a confidential basis. Is that document confidential?

A. Yes, it is.

Q. Public counsel has a question about this data request.

A. I believe I heard it.

MR. CEDARBAUM: Your Honor, I guess maybe the only way to handle this, I would like to take a two-minute break to make an exhibit out of a page of a document so I can just get past this confidential hurdle. Can I do that?

JUDGE SCHAER: Let's take a moment off the record.

(Recess.)

JUDGE SCHAER: Let's be back on the record.

Q. Mr. Amen, you referred earlier to the company's response to public counsel data request 166 which consists of Puget Power's new business task force tariff strategies report; is that right?

A. That's correct.

Q. Is it correct or would you accept to your check that on the first page of the report itself the following sentence appears: "Each new Puget customer connected to the system through a line extension puts upward pressure on rates because the costs to connect that customer, including any revenue paid upfront, are higher than the related embedded costs included in rates."

A. Yes.

Q. Do you know how long for Puget that sentence is an accurate reading of its line extension experience?

A. I do not.

Q. Do you know when the last time Puget proposed any kind of a significant modification to its line extension policy?

A. I seem to recall the year on the tariff sheets associated with their line extension policy, schedule 85, is 1991, but I haven't reviewed each sheet of schedule 85, so there may be more current updates to it than that.

Q. We're happy to have you accept that date subject to your check.

A. Okay.

Q. Let's refer to your supplemental testimony. At page 3 where you discuss schedule 48 and the proposal that a new class of noncore customers be established, and you indicate at lines 5 through 7 that any obligation other than contractual Puget Sound Energy would have that obligation released in terms of planning for new resources to serve these noncore customers; is that right?

A. That's correct.

Q. Is it correct that Puget has an obligation currently to plan for these customers' resource needs in recent years when it signed several of its purchase power contracts?

A. Yes.

Q. Is it correct that a portion of those new resources were specifically acquired to serve the

needs of large use industrial customers such as those
that would be serve under schedule 48?
     A.   Well, I couldn't say that any of those contracts were specifically identified with any one class or another, but certainly they were entered into to serve the totality of the requirements of all of Puget's customers.
     Q.   In the proposed core/noncore split that's discussed in your testimony, is it the company's suggestion that the Commission should establish a policy that regulated electric utilities would not have an obligation to plan for the resources of its large -- resources to serve the needs of its large customers?
     A.   No, I don't believe that we're suggesting the Commission should modify its rules regarding obligation to serve. I don't think, frankly, they're any different for the electric side of the utility industry than they are for the gas, and with new service offerings which are optional, like schedule 48, where we have redefined by contract our obligation to one another I think it's appropriate that that be allowed to happen much like it has in the gas industry.
     Q.   So you would apply the same basic

guidelines in terms of obligation to serve on the electric side that you have been applied by Washington Natural on the gas side?

A. Yes.

Q. So just so I understand, would Puget then be continuing to assume an obligation to plan for the distribution and transmission needs of these large customers?

A. Certainly we would be continuing to plan to distribute their commodity energy to them through the system.

Q. What about on the transmission side?

A. Yes, under terms of schedule 48 we would.

Q. Are there different costs that the company must incur to serve noncore customers than its core customers?

A. There can be.

Q. Are there similar costs as well?

A. There are also similar costs.

Q. What would be the types of different costs that you would itemize?

A. Well, for example, there may be incremental costs that you would contract for on behalf of the customer related to certain ancillary services that are generally available in the energy marketplace.

Certainly we've seen that develop more on the gas side thus far, but I expect that to continue on the electric side as well, things related to parking, peaking, balancing services and those types of things that the company would essentially provide on cost basis to noncore customers, some unbundled services such as storage, for example, might be something you would apply or provide noncore customers, not that you don't utilize storage for core customers but the nature of the service could be different.

Q. Have any studies or analysis been performed by the companies that would look at the costs that would serve non -- incur to serve noncore customers versus core customers?

A. No.

Q. Would the noncore customers be obligated to pay for the costs of common plant and common expenses?

A. Certainly. In fact the concept that we describe in my testimony is that of an equivalent margin approach to structuring schedule 48 which would include these common costs.

Q. At page 5 of your testimony, your supplemental testimony, you discuss down at the bottom Puget's expectation that it will reduce its responsibility to provide firm power supply resources by approximately 258 average megawatts, and recalling Mr. Sonstelie's testimony from Thursday, he stated that the result of that reduction would be additional resources that can be sold on the secondary market. Do you recall that?

A. Yes, I do.

Q. For ratemaking purposes how would the revenues from those secondary sales be treated? That would be during the rate stability period.

A. Well, certainly during the rate stability period I would anticipate they would be used to offset the reduction in revenues that we would be experiencing by virtue of the offering of schedule 48.

Q. So those dollars then would not flow to -- through to any other customers other than offsetting costs under schedule 48?

A. That's correct.

Q. Let me ask you a few questions about least cost planning and specifically how the combined company would conduct system planning under the Commission's least cost planning rules.

A. Well, the company has attempted to address your question, Mr. Cedarbaum, in response to data request and in fact those that you have given me marked Exhibits 73, 74 and 75 -- 75 being our response to staff data request No. 46 -- attempts to give a narrative description of the approach the company plans to take. We have really not gotten much further at all from the description that you see there.

Q. So this is the current status of the work the company has done for system planning from the least cost planning rule perspective?

A. Certainly be difficult for us to do much more than this until we were actually a merged entity.

Q. You just mentioned a couple of minutes ago the equivalent margin approach. Is it correct that Washington Natural does not now use that approach for its core customers?

A. That's correct. The equivalent margin approach was used fairly early on in the transition in the gas industry to cost-based transportation as a way of making that transition.

Q. Just a few more questions on the one percent increases under the rate stability plan, and schedule 48. You indicated earlier that the one percent would be applied to the schedule 48 transportation charges. Is it correct that transportation and distribution charges are not exchangeable cost under the average system cost methodology?

A. Actually I don't know the answer to that, Mr. Cedarbaum.

MR. CEDARBAUM: Thank you then. Those are all my questions.

JUDGE SCHAER: Mr. Manifold, did you have questions for this witness?

MR. MANIFOLD: Yes.

CROSS-EXAMINATION

BY MR. MANIFOLD:

Q. Good afternoon.

A. Good afternoon, Mr. Manifold.

Q. Do you have in front of you what's been marked as Exhibit C-76? That's the response to public counsel data request No. 83.

A. Yes, I do.

Q. Is that a true and correct copy of the company's true and correct answer to the indicated data request?

A. Yes, it is.

MR. MANIFOLD: Your Honor, I would move for the admission of Exhibit C-76.

JUDGE SCHAER: Any objection?

MR. HARRIS: No.

JUDGE SCHAER: Document is admitted.

(Admitted Exhibit C-76.)

Q. Is any of the information on the first page confidential? It's the data on the pages 2 and 3 that's confidential?

A. I was about to say it hasn't been marked as such although as I said that I noticed the confidential stamp in the corner, but I don't really see on that first page that is confidential.

Q. Is it correct that the Port of Seattle is not a jurisdictional customer of Puget, i.e., not jurisdictional to this Commission?

A. That's correct.

Q. They're a FERC customer?

A. Wholesale customer.

MR. MANIFOLD: Your Honor, the -- I'm not sure -- could we go off the record for a moment?

JUDGE SCHAER: Yes, we're off the record.

(Discussion off the record.)

JUDGE SCHAER: Let's be back on the record.

MR. MANIFOLD: Would you like me to describe that?

JUDGE SCHAER: Yes, please, Mr. Manifold.

MR. MANIFOLD: What was previously admitted and marked as Exhibit C-76 was a three-page document. It turns out that only the third page of that is confidential for purposes of this hearing so the third page which at the top says Schedule 6, Schedule 48 and Special Contract Rate Reductions, that one page will become Exhibit C-76. First two pages of that exhibit in response to data request 83 will become Exhibit No. 77 and the stamp that says the one word confidential that's at the top of those two pages will be stricken. Is that acceptable?

MR. HARRIS: Yes.

(Marked Exhibit 77.)

JUDGE SCHAER: Do you wish to offer Exhibit 77?

MR. MANIFOLD: Yes, please.

JUDGE SCHAER: Any objection?

MR. HARRIS: No.

JUDGE SCHAER: Document is admitted.

(Admitted Exhibit 77.)

Q. In your deposition which has been admitted as Exhibit 47, you were asked some questions about carve-outs and class cost of service issues. Is that correct?

A. Yes.

Q. Your deposition was on June 11. Since then Puget Power has sent a letter to the Commission concerning schedule 48 dated July 15 in which the representation is made that even after -- well, is it correct that the representation was made that Puget commits to not accomplishing or not proposing any cost shifting as a result of schedule 48 either during or after the proposed rate stability period?

A. Yes, I believe that's a correct characterization of that.

Q. And so that would be in essence a position change from what was the case as of the time of the deposition -- in other words, the latter letter controls?

A. Yes, it does.

Q. At the time of your deposition you were asked whether you had reached any conclusion on whether any of Puget's existing tariffs needed to be modified and you said to date you had not. That's at page 22 of the transcript. Have you as of this date made such an assessment?

A. No, I have not.

Q. Regarding the line extension portion of your testimony, in general would the types of changes that Puget is considering regarding line extension have the effect of shifting a larger share of the costs of line extensions on to persons other than the company such as builders or developers?

A. I think generally that would be a fair
statement.
Q. Would the net effect then be to reduce the
company's capital spending and reduce future rate base
and reduce future revenue requirements?
A. I think generally it would be designed to
reduce upward pressure on rates, much like we were
able to accomplish with the gas line extension policy.
Q. Am I correct that any such revenue
requirement effects are not considered in Ms. Lynch's
Exhibit 28?
A. That's correct, they are not considered.
Q. And am I correct they also are not
considered in the estimate of best practices goal
savings that's in one of the TS exhibits?
A. Not to my knowledge.
Q. Do you have or can you get a copy of the
company's response to data request No. public counsel
166?
A. I have it.
Q. I have a question about some of the
confidential markings on this. I understand your
answer to the concern about the first five, six pages
which is a company plan for how it would look at this
area. The next several pages are copies of Washington

Natural and Puget Power currently effective tariffs, and they are in this document stamped as confidential per the protective order?

A. I think someone got a little carried away with the confidential stamp there.

Q. The next section has one page and then after that there are copies of a prefiled direct testimony of yourself, Mr. Vititoe, and Ms. Lynch. They are also stamped as confidential per the protective order in this case. May I assume that that is also a mistake?

A. Yes.

Q. There's also -- appears to be some material that was mailed out by the Southern California Edison Company which is also stamped as confidential and is also some pages from what appears to be a publication entitled Utility Best Practices. Those are also stamped as confidential per the protective order. I assume those are also mistakes?

A. Yes.

Q. Could I ask you to give us a new response to this one with only the parts that are indeed in your best judgment perhaps reviewed by you?

A. Certainly.

Q. Or some other -- well, that are stamped appropriately?

A. Yes.

Q. When a municipality widens a road, is it sometimes necessary to relocate the overhead or even underground utilities?

A. Yes.

Q. Is the cost responsibility for relocations generally spelled out in the franchise agreement between the utility and the municipality?

A. It's my understanding that sometimes they are and sometimes they are not.

Q. In general is the utility required to pay for the cost of relocations to accommodate municipal projects?

A. I think in general that's true, particularly where the municipality or public agency is the cause behind the need for relocation.

Q. My question was the utility usually has to pay in the franchise agreement even if the municipality is the cause?

A. That's correct.

Q. With the private developer, if a private developer requires relocations, is that generally something that is paid for by the private developer?

A. Generally if we can attribute the need for that relocation to a private developer we would seek to recover those cost from that developer.

Q. Referring to your response to public counsel No. 149. Am I correct that the company's intention is to, quote, shift costs to the entity requiring the relocation, close quote? I'm not in confidential material here, am I?

A. No. I just wanted to take a look at it if you don't mind. Yes, I see it.

Q. By that can I assume that since relocations for private developers are generally paid for by the developer already, this reference must mean shifting more costs to municipalities and off of the utility?

A. Well, I think it contemplates perhaps even those cases where it's difficult to identify there is a developer behind it, but certainly where franchise agreements permit it and municipalities are, as you put it, the cause we would attempt to modify our relocation policy accordingly to recover those costs from those entities.

Q. Does that policy take the form of a tariff or how does that manifest itself?

A. Actually, I believe there is a tariff relate to relocation, and seems like schedule 70 and 71 come to mind. I don't have them with me.

Q. If you could just let us know afterwards if that's not the correct numbers. That's not a record requisition.

If a municipality does not have a franchise agreement then the company policies or tariff, as the case may be, would be what would control who pays for the relocation expenses?

A. I'm sorry, I didn't fully get that.

Q. In the instance where a municipality does not have a franchise agreement it would be this tariff or -- that would control who paid for the relocation?

A. I think that would be the idea behind it, yes.

Q. Is it correct that the company has committed that where a franchise agreement provides for the payment of these fees by the utility and where the franchise agreement expires that in general the utility continues to operate as if the franchise agreement continues in existence until such time as it's renewed or dealt with in some manner?

A. Yes. In fact I think you're paraphrasing perhaps another response to public counsel data request, but in fact that would be the case where until such time as a new franchise agreement were to be negotiated that the old one would control.

Q. And if the old one provided that the utility pay for the relocation, and if you adopted the new tariff or policy that the municipality paid for the relocation and a franchise in a particular area expired, which would control?

A. That's a good question.

Q. Thank you. Four days and I got one.

A. One that I hadn't considered yet until this moment.

Q. Would you like to respond to that as a record requisition?

A. Well, perhaps we could supplement it with a record requisition. I think we would try and if we had an expired franchise agreement that where we had a policy we would try and follow that and perhaps discuss that with the particular municipality at that time. I guess it would depend on how our policy was laid out and tariffed and the parameters around it would probably have some impact as to what would be able to do in that regard.

Q. Were you in the room earlier when I was asking questions of Mr. Vititoe?

A. Yes, I was.

Q. And do you recall there were some questions regarding released capacity by Washington Natural that

might be used by Puget?
A. Yes.
Q. And did you hear, as I did, him say that his intent would be that such transactions would continue to be handled at arm's length basis?
A. Yes, I recall that answer.
Q. How would that be accomplished since you're probably the guy that has to make it work?
A. Well, again I seem to recall that this may have been addressed also, to some extent anyway, in a data response, but generally where we would have, say -- if we had had a tariff that would apply it would be according to the tariff and the rates contained therein. If, on the other hand, we did not, it would be based on the market for that particular type of transaction, and there's a fairly robust market today in the gas industry for such things, published indices, electronic bulletin boards of many of the major if not all of the major interstate pipelines. There are hubs around the country that publish similar market transactions so that one can quite easily come up with a market-based price for such a transaction.
Q. What I had in mind is in part an implementation issue. In previous proceedings with Puget there's been some issues around sales on the

third intertie and who gets credit for particular transactions, some of which occur on a very quick basis and it's sometimes difficult to track those for regulatory or ratemaking purposes because they come and go. What thoughts do you have on how these sorts of transactions would be tracked so that one in Olympia would know that those had in fact been credited or debited to Puget and Washington Natural at market clearing price as opposed to some other basis?

A. Well, much of the dilemma with which you've described here is something that has been the subject of comment in the NOI on gas and some of the difficulty we've had with the current paradigm of review on a transactional basis because it is happening very quickly. There's a multitude of transactions happening daily, and to document each one of those transactions is very difficult. However, in the case of a transaction between affiliated entities such as is contemplated by your question, I think perhaps there is a little greater degree of responsibility on the company to document the basis upon which those transactions are priced to give the Commission that comfort.

Q. Given -- at least as long as there is a PGA mechanism, would you agree that there is a

potential -- that if that transaction was not handled on an arm's length basis there would be the potential for the transfer of greater costs into the PGA and corresponding lessening of costs on the electric side of the business and the PGA of course as it works now would be a carve-out from the rate stability period and so consumers would continue to pay PGA costs?
A. Certainly. That is a potential. One that our company would seek to avoid certainly.
Q. On the electric side under that sort of scenario there would be no tracking of the benefit under the rate stability program. It would be part of the management responsibility savings?
A. Yes.
Q. Regarding schedule 48 in a letter dated July 29 to the Commission, Puget represented that under the current rate design industrial customers are paying 100 percent of their allocated cost of service for nonenergy services. That's on page 8 of that letter, but you may be able to answer this without referring to it. Is that statement supported by the Puget 1992 cost of service results in the '92 case which was what was used to come up with the nine mill amount that was workup for schedule 48?
A. I'm not sure I understood your question

entirely, Mr. Manifold, because it seemed to suggest that these customers currently are paying 100 percent. I think it's contemplated by the schedule 48 filing that under the rates in that filing that they would be paying 100 percent of their allocated cost of those nonenergy-related costs as it's stated in that July 29th letter. I can't really speak to what otherwise they may be paying today in their current rates.

Q. What I've attempted to reconcile is that statement with the cost of service study results in the November Puget filing which showed that class at an 88 percent of cost of service study results and I am not sure how to get that reconciliation.

A. Is that 88 percent by the way on a scale of 100 or some other scale?

Q. 100. It's 88 percent of cost of service as calculated by Puget's study. It's one of the documents in the November -- the summary page in the November filing. Maybe what I could do is ask you to respond to a record requisition to reconcile that.

A. I was going to suggest to maybe help you with this a bit is that I think there are something like 36 data requests that we are responding to in the schedule 48 filing that may in fact address this. If they do not we would be happy to try and solve it for you.

Q. Would you want us to outline this?

A. Certainly.

Q. Which would be in Ms. Omohundro's Exhibit CAO-2, page 2 of 13, the column under schedule 46 and 49 shows an 88 percent at line 18 for revenue to revenue requirement, and that's what we've been working off of assuming that's the latest results of how that class is paying, so it was a surprise to see the company assert that they were paying 100 percent.

A. Yes. It seems to me that that may in fact need to be updated, that particular representation, notwithstanding the schedule 48 filing.

JUDGE SCHAER: Just so I'm clear, you've just made a data request in another proceeding and not a record request in this proceeding; is that correct?

MR. MANIFOLD: I was wondering about that myself. I think what we've done -- is that what you think we've done, Mr. Amen?

THE WITNESS: I will leave that up to the experts here as to what we've done. Certainly we'll supply the information.

MR. MANIFOLD: Mr. Van Nostrand, can we consider that an additional informal data request in that other proceeding and could we have that answer within 10 days?

MR. VAN NOSTRAND: That's fine.

THE WITNESS: Certainly.

MR. MANIFOLD: Thank you, Your Honor, for that clarification.

Q. I have a question about the conditions under which the company is proposing that the rate stability period would be terminated, and one of them, as you've testified, as Ms. Lynch has testified, and as Mr. Cedarbaum asked you about earlier, is in the event of open access, and which I understand your answer to be not just if there's open access but if there's open access that it adversely affects or sufficiently adversely affected the company's bottom line?

A. That's essentially what I've testified to, that there could be a broad range of solutions that are deemed to be open access. Whether or not we believe that's a complete answer or not is something we'll have to determine at that point.

Q. My understanding is that Puget itself is going to be making a legislative proposal to our state on the subject of open access and what seemed initially contradictory was that if they were going to make such a proposal and urge its implementation that

that seemed to be an opportunity for termination of the rate stability proposal. Do I understand your answer now to be that it would only be if such a proposal did not adequately deal with things like stranded costs to the company's satisfaction?

A. Exactly. We recognize that that same sort of inconsistency or conflict that you point out for us to sort of unilaterally suggest that that would constitute termination of rate stability when in fact we'll be working with interested parties on formulating an open access proposal does seem, absent the clarification, perhaps to be a little inconsistent.

MR. MANIFOLD: Thank you very much.

JUDGE SCHAER: Let's go off the record for just a moment.

(Discussion off the record.)

JUDGE SCHAER: Mr. Finklea, did you have questions of this witness?

MR. FINKLEA: Yes, Your Honor.

CROSS-EXAMINATION

BY MR. FINKLEA:

Q. Good afternoon, Mr. Amen.

A. Good afternoon, Mr. Finklea.

Q. I just have two questions at this point. And these questions again go to the rate stability proposal. In Ms. Lynch's testimony she discusses the emergency or interim emergency relief standard as one of the items that would apply. Can you explain to me whether that standard is something that the new company would see as applying separately on the gas versus the electric side of the company or is that something that you would consider as a whole company?

A. Seem to recall this was perhaps an earlier question. There was a question asked of an earlier witness similar to this, perhaps Ms. Lynch, but I think it could apply separately depending on circumstances.

Q. I take it from that you think it could apply as a whole company as well or --

A. Well, certainly if the conditions were severe enough and the impact on the ability of the company to finance the ongoing operations of the business referred to the whole company, and we are, after all, proposing to be a total energy company, but because for regulatory purposes there's issues of cost allocation and perhaps even differentiated cost of capital at some point, it's difficult for me to unilaterally say that it could be one or the other.

Could be both.

Q. So the cause of the financial condition would certainly be one of the things that would impact whether gas or electric or both sets of ratepayers would see a request for interim relief?

A. I believe so, yes.

Q. My other question goes to the discussion you were having with Mr. Manifold, and we've had off and on all afternoon about open access. I take it now that it's the company's position that it would not seek to terminate the rate stability proposal for its gas customers simply because of some event stemming from retail access in the electric industry?

A. That's correct.

MR. FINKLEA: Your Honor, those are my only questions and in light of the answers I do not need to after Exhibit 68 or 69.

JUDGE SCHAER: Okay. Thank you. Mr. Frederickson, do you have questions?

MR. FREDERICKSON: No questions.

JUDGE SCHAER: Mr. Patton.

CROSS-EXAMINATION

BY MR. PATTON:

Q. Mr. Amen, earlier I was asking Ms. Lynch to further define open access. As you set it out in your proposal it had not asked for a change from the rate stability period unless open access were granted. Do you include within open access being granted the ability that there is now for a company such as Portland General to come in and compete for customers not using Puget's facilities?

A. To the extent they have that ability, no.

MR. PATTON: Thank you. No further questions.

JUDGE SCHAER: Thank you. Mr. MacIver.

CROSS-EXAMINATION

BY MR. MACIVER:

Q. Mr. Amen, were you in the room when Commissioner Hemstad asked Ms. Lynch about schedule 48 and the fact that in his view it was more or less a surrogate to market rates?

A. I was in the room, yes.

Q. And in connection he was wondering how the one percent tax would apply to schedule 48 and then you subsequently testified that it would apply to the delivery component but not to the energy or the power component; is that correct?

A. You used the term one percent tax, Mr.

MacIver.

Q. I'm sorry, the one percent rate increase as a part of the rate stability plan.

A. Yes, as I believe I testified it would apply to the nonenergy related component.

Q. Now, transition charges as such represent the difference between embedded and the market cost of the commodity and capacity; is that correct?

A. Could you restate that, Mr. MacIver.

Q. Yes. Transition charges represent the difference between the embedded and the market cost of commodity and capacity?

A. Oh, in the context of schedule 48 it represents the difference between the fully embedded total cost and the end state rate that we have identified would exist at the end of the transition period.

Q. Mr. Amen, I refer you to Exhibit 72, the next to the last page which is part of your company's explanation of what schedule 48 is and on that page there's a paragraph labeled "transition charges," and the first sentence reads: "Transition charges represent the difference between the embedded and the market cost of commodity and capacity." Is that not a fact?

A. No. In general I would say that is a true statement.

Q. And as such, transition charges are part of the energy component, are they not?

A. I would disagree with that statement, Mr. MacIver, because while this is a true statement, generally on schedule 5 I think that what's contemplated by schedule 48 and how those transition charges were calculated that it's a bit more than that as I would describe earlier.

Q. Then let me refer you, Mr. Amen, to the paragraph immediately above the transition charge paragraph, under the "equivalent charge rates," and the third sentence reads: "The energy component is further divided into three components: The market cost of commodity, the market cost of capacity, and the remaining transition portion." So, again, in your exhibit attached to your testimony you depict transition charges as a part of the energy component, do you not?

A. Yes, that's how they've been characterized here in this document.

Q. And therefore, the one percent increase in the spirit that they should not be applied to the energy component of schedule 48, the one percent increase in your transition market stability plan should not apply to transition charges, should they, based on your testimony here in Exhibit 72?

A. You make a good case, Mr. MacIver.

MR. MACIVER: Thank you. I have no further questions.

JUDGE SCHAER: Mr. Freedman.

MR. FREEDMAN: I have no questions, Your Honor.

JUDGE SCHAER: Mr. Wright.

MR. WRIGHT: If I could.

CROSS-EXAMINATION

BY MR. WRIGHT:

Q. Jon Wright, Bonneville Power Administration. I just wanted to clarify a couple of things from your prefiled direct. That's Exhibit T-29. On page 1 you mention that one of the regulatory initiatives to be continued under the new company would be to resolve issues related to termination of Puget's periodic rate adjustment mechanism, and my question is, does that resolution implicate the residential exchange program in any way?

A. Not that I am aware of.

Q. And on page 2 -- at line 21 mentions an ongoing regulatory activity. You note tariff changes associated with pass through of credits or surcharges such as municipal utility taxes and BPA irrigation and residential farm exchange credits. My question is, can you say what tariff changes you anticipate particularly related to the BPA irrigation and residential and farm exchange credits?

A.   I didn't have anything in particular in mind when I made that statement, Mr. Wright, but we didn't want to preclude the company from being able to make whatever would be required under those programs.

Q.   And on page 3, in describing issues relating to the PRAM at line 19 you mention the $165 million in annual revenues currently recovered through PRAM rates which will be transferred to general rates. Will that have any effect on the company's average system cost?

A.   I don't believe so.

Q.   And at line 21 you state that the rate reduction will occur once the PRAM deferred balances have been fully recovered in rates. Will that have any effect on the company's ASC?

A.   As I understand it, no.

MR. WRIGHT: No further questions, Your Honor. Thank you.

JUDGE SCHAER: Thank you. Mr. Merkel.

CROSS-EXAMINATION

BY MR. MERKEL:

Q. I just have two or three. In response to the question by Mr. Manifold I think you -- in which he was asking about a triggering event for abrogating the rate stability proposal I have a kind of a follow-on on that. You have committed in the schedule 48 proceeding, as I understand it, to enter into a collaborative process to work with your customers to develop a direct access tariff. Assuming you prepared an agreement with interested parties -- I don't know that it's just customers -- and submitted a direct access filing as a result of that collaborative process, would that trigger the right to abrogate the rate stability plan?

A. Again, I think in and of itself it would not. If it were to be a truly collaborative process and the resulting proposal was something the company could embrace, I suspect that it would not automatically trigger termination of rate stability.

Q. Are you prepared to state or will the company state that any proposal that it makes as a result of a collaborative process in which it joins with interested parties in proposing a direct access tariff will not trigger termination of the rate stability?

A. As long as the issues that the company feels need to be appropriately addressed are handled, yes.

Q. Well, do you envision a proposal which you would embrace that do not address those issues?

A. No, I do not.

Q. So is there any way -- you're qualifying the answer. I'm trying to get an unqualified answer --

A. Well, the nature of these things, Mr. Merkel, is sometimes things are filed that don't deal with the whole picture. I can't imagine the company embracing one that didn't deal with all of our issues so that's the only way in which I would qualify it. I would hate for the company to be characterized as supporting something that we may have been involved in but couldn't fully embrace.

Q. In the event the collaborative process failed you've committed to submit your own direct access tariff -- I think it's by 11 months prior to the end of the rate stability plan -- would that -- can you conceive of any way in which any proposal you

submitted then or prior to that date would trigger your ability to withdraw from the rate stability plan?
A. I don't think I would have to qualify that one. No. I don't anticipate that's something that the company would propose to do that.
Q. The final question. You've committed in your schedule 48 filing to work with other parties, and you've described in your supplemental testimony that you will work with other parties prior to the '97 legislative session to achieve some direct access legislative proposal. What is the timetable and the mechanism to accomplishing that?
A. I really don't have a specific timetable or mechanism in mind at this point other than the company's commitment to join with interested parties in working out some sort of a mechanism and timetable. We really haven't gotten beyond that point.
Q. Would you consider anybody who is a party to this proceeding as interested in the result of that or in that legislation?
A. I would assume by your participation in this proceeding that you are interested in that, yes.
MR. MERKEL: No further questions.
JUDGE SCHAER: Commissioners, did you have any questions?

CHAIRMAN NELSON: No.

COMMISSIONER HEMSTAD: No.

COMMISSIONER GILLIS: I have just two.

EXAMINATION

BY COMMISSIONER GILLIS:

Q. In your direct testimony you describe on page 5 some characteristics of a cost recovery mechanism for DSM that the new company would consider to be desirable. Have your companies considered a nonbypassable distribution charge as one of the options and does that conform with the criteria listed?

A. I think that is something that the company has considered. I know it's a topic of discussion in the regional review process and discussions that the companies had with others in the region, so I think it would be something that we would consider.

Q. The other question on your supplemental testimony, on page 3 you mention that the proposal reflects real time price initiatives as referenced in your direct testimony, and above it you're referring to, I guess, the noncore customers bearing all the energy price risk. Is real time pricing going to be available to all schedule 48 customers if that is

approved?
A. Yes.
Q. It's available immediately or is that something you have to develop still?
A. Well, the proposal in schedule 48 is that the commodity, energy-related portion, would be priced according to an index, a generally available index. I think initially we targeted the California/Oregon border index and thus they have on-peak and off-peak pricing and so as you track that index with the commodity component it becomes real time pricing.
Q. I see. You're not talking about real time metering. You're talking about real time pricing as measured by the COB index?
A. That's correct.
Q. Was that the same reference in your direct testimony as an initiative?
A. As in my direct testimony I think I was giving that as an example of something the company may wish to pursue during the rate stability period, those kind of new service offerings, and so I just cite in my supplemental testimony that as being an example of something I was speaking of in my direct.
COMMISSIONER GILLIS: Thank you.

EXAMINATION

BY JUDGE SCHAER:

Q. Mr. Amen, your testimony indicates that unbundling of delivery from commodity service may be considered during the rate stability period. Do you expect to propose tariffs for local distribution or delivery services that have unbundled electricity generation and supply costs?

A. Well, actually schedule 48 is an unbundled sales tariff. The components are unbundled and separately stated. The delivery component or transportation component, the energy commodity component, certain other aspects of it are in fact unbundled and itemized so to that extent we have before you in another proceeding just such a proposal.

Q. And do you intend to propose that for any other schedules during the rate stability period?

A. I don't think we contemplate schedule 48 being expanded to other schedules at this time.

Q. So that would be limited to your industrial customer class; is that correct?

A. It's the high voltage customer class and in addition to the primary voltage customers who have a load in excess of 2.4 average megawatts, so, primarily they are industrial customers, some commercial.

Q. Do you plan on offering unbundled delivery gas service to the retail core?

A. I think that as we find the gas markets continue to evolve and interest expressed by retail customers perhaps for access to unbundled commodity we would certainly consider it.

Q. One last question. In your testimony under questioning I believe from Mr. Manifold, you discussed that secondary revenues from power that is sold, freed up by schedule 48 and then sold as nonfirm power would be used to offset the shortfall of revenues that the company is receiving under schedule 48. Did I understand that correctly?

A. That's correct.

Q. Now, in the first two years of schedule 48 there is no shortfall; is that correct?

A. Well, on the -- that's correct for the nonenergy component. However, the --

Q. Isn't it true that for the first two years until 1998 that your transition charges are designed to make sure that there's no shortfall?

A. They are in fact. There can be some very minor shortfalls occur, however. In the event that the secondary power cost that we've pegged that transition to for the first year or so, if it ends up being different than the one we've used as an estimate there could be a little winning and losing happen there, but in general you are correct.

Q. So where would secondary market revenues go during those first two years? How would they be applied by the company?

A. Well, there wouldn't be any to the extent we weren't having to resell those resources.

Q. Do you not expect to have to resell resources during your first two years? Is that what I'm hearing you say?

A. Yes.

Q. Why not?

A. Well, the transition charge helps us make up for the difference. In other words, there is no real shortfall occurring.

Q. Isn't it true that during the first two years you will be allowing customers to be purchasing energy in the market and that you will then be freeing up energy that Puget Power has that you will be selling on the secondary market?

A. No, that's not true. We will be pricing our energy at the index. The transition charge, however, makes up the difference in that first two-year period of the index value and the full cost of the bundled sales tariffs such that customers aren't actually purchasing someone else's power in the marketplace. This is not an open access tariff. Schedule 48 is a sales tariff, and while it is unbundled it still is a sales tariff and not access to some other source of power.

JUDGE SCHAER: Thank you. That's all I have. Is there any redirect for this witness?

MR. HARRIS: No redirect.

JUDGE SCHAER: Anything further for this witness?

MR. CEDARBAUM: I've got a couple.

CROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Earlier this afternoon, Mr. Amen, I had asked you whether or not the one percent increase under the rate stability plan applied to the transition charge under schedule 48 and you indicated to me yes. Just a little while ago Mr. MacIver asked the same question and I think you said no. Can you clarify first which is the correct answer?

A. Well, I think as Mr. MacIver pointed out to me so well the material that we provided in support of

schedule 48 would tend to suggest that it would not be appropriate to apply the one percent to the transition charge.
Q. The material he was referring to was your Exhibit 72?
A. That's correct.
Q. And that's -- when you submitted your supplemental testimony I assumed that you had read that material and understood it; is that correct?
A. That's correct.
Q. So at the time I asked the question you also had read that material and understood it. Is that also correct?
A. Yes.
Q. I think Mr. Sonstelie indicated on Thursday that schedule 48 was a negotiated rate, is that correct, between Puget and some of its large customers?
A. The rates were not negotiated. The schedule 48 service offering was part of a negotiation.
Q. Who were the customers that were involved in the negotiation?
A. Certain members of ICNU.
Q. Who specifically?

A. Georgia-Pacific, the air products companies like Air Liquide, Boeing, Weyerhaeuser was a participant. There are others. I can't give you a complete list at the moment.

Q. Do you know which of those customers are members of ICNU that Mr. MacIver represents?

A. I believe all of them were members of ICNU.

MR. CEDARBAUM: Thank you. Those are all my questions.

JUDGE SCHAER: Is there anything further for this witness?

MR. MANIFOLD: Just one last question I think.

Given all that we've heard the last few days about the $74 million and the rate stability program, the goals of the company, is it your testimony that under the company's proposal company has a reasonable opportunity to earn rates -- earn revenues which are fair, just, reasonable and sufficient?

THE WITNESS: Certainly it has an opportunity. It has some significant and daunting challenges ahead of it in order to do so, but the company has through its proposal here I think demonstrated that the resolve to accomplish that as a merged entity.

MR. MANIFOLD: So, yes, with that explanation?

THE WITNESS: Yes.

JUDGE SCHAER: Is there anything further for this witness? Thank you for your testimony, Mr. Amen.

THE WITNESS: Thank you.

JUDGE SCHAER: Is there any other matter that needs to be brought up before we conclude this hearing? Thank you all. We will reconvene this hearing after notice of hearing issues and we are off the record.

(Hearing adjourned at 5:30 p.m.)