BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of: PUGET SOUND POWER & LIGHT COMPANY For Approval of (1) Conservation Asset Transaction under the Washington Conservation Financing Statute and (2) Proposed Tariff Revisions and Rate Mechanism.	DOCKET NO. UE-950195 VOLUME 2 PAGES 13 - 43

A hearing in the above matter was held on April 26, 1995 at 1:30 p.m. at 1300 South Evergreen Park Drive Southwest, Olympia, Washington before Chairman SHARON NELSON, Commissioners RICHARD HEMSTAD, WILLIAM GILLIS and Administrative Law Judge ELMER CANFIELD.

The parties were present as follows:

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

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

FOR THE PUBLIC, DONALD TROTTER, Assistant Attorney General, 900 Fourth Avenue, Suite 2000, Seattle, Washington 98504.

Cheryl Macdonald, CSR
Court Reporter

I N D E X

P R O C E E D I N G S

JUDGE CANFIELD: This hearing will please come to order. This is docket No. UE-950195, Puget Power's conservation asset transaction application. Today's hearing is being held in Olympia, Washington on Wednesday, April 26, 1995. The matter is being held before Sharon L. Nelson, chairman, Richard Hemstad, commissioner and William R. Gillis, commissioner of the Washington Utility and Transportation Commission. I'm Administrative Law Judge Elmer Canfield of the Office of Administrative Hearings.

As indicated on the notice of hearing, today's session is for presentation of the parties' proposed stipulation for approval of the application. I would like to start with appearances, beginning with the applicant, please.

MR. VAN NOSTRAND: For applicant Puget Sound Power and Light Company, James M. Van Nostrand.

JUDGE CANFIELD: Thank you. Next, please. We can just go around the room.

MR. CEDARBAUM: Robert Cedarbaum, assistant attorney general representing the Commission staff.

MR. TROTTER: Donald T. Trotter, assistant attorney general, public counsel section.

JUDGE CANFIELD: Okay. And with that, I've been advised that there are some panel members available as well, so with that why don't I have the proposed panel members identify themselves for the record as well.

MS. KELLY: I'm Andrea Kelly for Commission staff.

MR. MARTIN: I'm Roland Martin for the Commission staff.

MS. STEVENS: Deborah Stevens with the Commission staff.

MR. GAINES: I'm Don Gaines with Puget Power.

JUDGE CANFIELD: Thank you. And I understand, Ms. Kelly, that you have an opening statement to make.

MR. CEDARBAUM: Your Honor, the plan was if the Commission wishes to hear it for Ms. Kelly to give an opening statement and then to have questions from the Commission directed to the panel, and depending on the subject matter would determine which witness is going to testify. I didn't know if you want to, before we get to that, run through the other items that were on the Commission's letter of April 25. The bench request No. 1. The Commission had asked about findings and the status of Mr. Gaines's testimony. Do you want to cover that?

JUDGE CANFIELD: Okay, yeah. Those preliminary-type matters would well be covered ahead of time. Why don't you go ahead, Mr. Cedarbaum.

MR. CEDARBAUM: I guess to take the shorter one first with regard to Mr. Gaines's prefiled testimony, the parties have agreed or the company has agreed to withdraw that prefiling. Much of the testimony did not really support the stipulation and so it didn't seem worthwhile to have that admitted into evidence, although there is a piece of it involving alternatives to this financing that Mr. Gaines I think will testify to this afternoon. That was my understanding that the company has agreed to withdraw his testimony.

With regard to the findings that are necessary, I think that counsel can answer that and answer any questions on that because they are pretty much set forth in the statute. Under 80.28.005, sub 1B, there are findings that the Commission must make or determination that the Commission must make with regard to the expenditures being incurred in conformance with the terms and conditions of the conservation service tariff in effect, that the terms and conditions of the financing are reasonable and that the financing is more favorable to the customer than other reasonably available alternatives.

There's also another finding in 80.28.303 sub 3 that Commission must find that the financing is in the public interest or the stipulation is in the public interest. Now, there is a finding determination that is listed in 80.28.051 B with regard to prudence. However, if you look at RCW 80.28.309 there is essentially a grandfathering provision which says that for all conservation investment incurred before June 9, 1994 where the Commission has previously issued a rate order authorizing the inclusion of those costs in rate base that that investment is by operation of law bondable conservation investment, and the parties are in agreement that that provision applies in this case, and so as to the PRAM 4 layer, we're in agreement that the Commission's order in that proceeding included the PRAM 4 layer in rate base and with regard to prior layers those were included in rate base in general rate case orders. So the necessity of a prudence finding does not have to occur in this proceeding, although as the staff will testify, we did not just stop there.

The staff did do an analysis of the cost-effectiveness of all layers -- of the PRAM 4 layer and on measurement and evaluation of prior layers and so we're prepared to present that analysis and testify to it, if the Commission decides that it has to come to a prudence filing in this proceeding or is just interested in what we've analyzed and what we've concluded from it. But I think those are the essential findings that need to be covered by the Commission's order. If there are any questions on that, I don't know if counsel has anything to add to that or not, but we're ready to proceed with the testimony.

JUDGE CANFIELD: Maybe we could confirm with Mr. Van Nostrand, you did indicate in your comments, Mr. Cedarbaum, that the company was going to request to withdraw the prefiled testimony and exhibit, Mr. Van Nostrand.

MR. VAN NOSTRAND: Yes, that's correct. And if I could add a little bit on to what Mr. Cedarbaum said as far as the necessary findings. We had attached in the original application an appendix D which was a proposed Commission order, and what I would propose to do with it is that if the stipulation is approved is that I will circulate a revised order that modifies that order that we filed to reflect what needs to be changed as a result of the stipulation and then have that agreed upon with Mr. Trotter and Mr. Cedarbaum and serve that down here on the Commission tomorrow to facilitate an order and that order would have the necessary findings in there, so it sort of formalizes what Mr. Cedarbaum referred to in terms of the findings that need to be made, and handle that and revise as necessary in light of the parties' agreement and stipulation.

JUDGE CANFIELD: Okay. So noted. Thank you, Mr. Van Nostrand. Any comments of a preliminary nature, Mr. Trotter?

MR. TROTTER: No.

JUDGE CANFIELD: Okay.

CHAIRMAN NELSON: Do you agree with what's just been said, Mr. Trotter?

MR. TROTTER: Yes. I would have spoken up if I hadn't.

MR. CEDARBAUM: Just one final comment before we move to the panel. We do have two exhibits that consist of data request responses which sort of are the critical ones that staff looked at in terms of its analysis and how we arrived at agreeing to the stipulation. We would like to have those marked as exhibits, and then the witnesses can refer to them as necessary.

JUDGE CANFIELD: Okay. Maybe you could distribute those, then Mr. Cedarbaum.

MR. CEDARBAUM: I also don't know if you want to mark the stipulation itself as an exhibit. It's your preference.

JUDGE CANFIELD: What's that?

MR. CEDARBAUM: I didn't know if you want to mark the stipulation as an exhibit as well.

JUDGE CANFIELD: We can go off the record to discuss marking of exhibits.

(Discussion off the record.)

JUDGE CANFIELD: We're back on the record after a short off-the-record discussion. And exhibits were marked, and just make it clear, Exhibits T-1 and 2 marked for identification have been withdrawn, and I've assigned exhibit numbers as follows: Exhibit 3 is the stipulation for approval of application as filed with the Commission. Exhibit 4 is a series of data responses. The top one is data request No. 6, and there are others included. And then the next exhibit is a confidential exhibit, and that's marked as confidential Exhibit C-5, and will be treated according to the protective order issued in the matter, and also off the record I believe Mr. Cedarbaum indicated that he would be requesting to supplement Exhibit No. 4. Maybe you can just briefly clarify that, Mr. Cedarbaum.

(Marked Exhibits 3, 4 and C-5.)

MR. CEDARBAUM: That's right, Your Honor. Exhibit 4 needs to be revised to include the latest versions of data requests 23 and 26, and I've got those. I just need to copy them and incorporate them into the exhibit, so I will do that. The second aspect of what we would like to supplement the exhibit with is a letter we're getting from -- Puget is anticipating a letter as well -- concerning the issue of callability, and we would like to supplement that exhibit with that letter and so we will get that to the Commission as soon as we receive it but we don't want the Commission's order in this case to be delayed awaiting that receipt. We'll take our chances without the letter if we don't get it in time.

JUDGE CANFIELD: And I understand that that procedure is agreeable with all the parties?

Let the record so reflect, and the exhibits, do all parties stipulate to the admission of those exhibits and the supplementation as identified?

MR. VAN NOSTRAND: Yes.

MR. TROTTER: Yes.

JUDGE CANFIELD: Let the record so reflect. Exhibits 3, 4 and confidential Exhibit C-5 are so entered into the record with the understanding that Exhibit 4 will be supplemented as just discussed.

(Admitted Exhibits 3, 4 and C-5.)

JUDGE CANFIELD: Anything further of a preliminary nature then? Getting back to where we were, maybe I could administer an oath to the panel members. Maybe I can just do that all at once rather than individually so can I get each of you to raise your right hand, please.

Whereupon,

ANDREA KELLY, ROLAND MARTIN, DEBORAH STEVENS,
and DONALD GAINES

having been first duly sworn, were called as witnesses herein and were examined and testified as follows:

JUDGE CANFIELD: Let the record reflect that all did respond in the affirmative. And getting back to where we were a moment ago, Ms. Kelly, do you have a brief opening statement to make?

MS. KELLY: Yes, I do.

JUDGE CANFIELD: Okay.

MS. KELLY: Good afternoon, commissioners. The last time this matter was before you was at the

March 8 open meeting. At that time the staff outlined six outstanding issues in support of our recommendation to set this for hearing, and what we thought would be helpful is if we took each of those issues and discussed how the stipulation addresses each of those issues and satisfies the concerns that staff raised. The first of those issues looks at the savings to ratepayers. That is, when will the savings from this transaction flow through to ratepayers. As filed, the company had proposed at the next general rate case that the ratepayers would begin to get the benefits. In the stipulation we agreed that the benefits would flow through to ratepayers beginning on January 1st, 1996. This will be accomplished by reducing the monthly PRAM deferral balances.

This sharing results in 87/13 split with 87 percent flowing through to the ratepayers over the life of the transaction. We believe this is reasonable given that Puget is not in an over earning position and it's unlikely that this would put them in an overearning position.

Another factor in the sharing is the treatment of the 2 percent equity kicker currently embedded in rates on pre 1991 conservation investment. Under the stipulation the company will continue to collect the 2 percent equity kicker until the PRAM 5 rates go into effect. After that the 2 percent kicker will go away resulting in additional savings to ratepayers.

CHAIRMAN NELSON: When will PRAM 5 go into effect?

MS. KELLY: October 1, 1995. That's what it's scheduled for.

MS. KELLY: Turning to the PRAM 4 layer prudence review, as discussed by Mr. Cedarbaum, we believe that the conditions of section 80.28.309 would apply to this layer. We've also conducted a review of the administrative and advertising expenditures in the PRAM 4 proceeding. And during this proceeding we examined the cost-effectiveness of the PRAM 4 layer, and I would ask you to address your attention to data request No. 7 within your packet, and that will show that each of the programs within the PRAM 4 layer are cost-effective under the TRC test, and my understanding is that they meet the cost-effectiveness criteria with energy savings -- energy benefits only.

For the conservation measures no longer in place, at the request of staff the company provided a cost-effectiveness analysis of the programs of each layer after applying the evaluation results, so after adjusting for measures that were no longer in place or no longer delivering savings, the cost-effectiveness of the programs was not significantly different before it and after the evaluation. The impact of these analyses was to satisfy staff's concerns regarding the potential impact, and we believe that since the cost effectiveness was not dramatically impacted that these qualify for designation as bondable conservation investment.

The fourth item was refinancing options. As we discussed, we're anticipating a letter from the investment bankers and Mr. Gaines can give you a detailed explanation of why this transaction does not qualify for a call option or refinancing. However, in looking at this we believe that it's not unreasonable, the lack of a call provision is not unreasonable given the transaction as a whole, if we look at all of the benefits that are there.

The fifth is the deferral and magnitude of the transaction costs. There's two provisions of the stipulation which help to address staff's concerns regarding the transaction costs. First we've agreed to a declining balance amortization which means that the shareholders will also pay 13 percent of the transaction costs while getting 13 percent of the transaction benefits. In addition, there will be a full review of the unamortized balance of the transaction costs in the general rate case. It's approximately one million dollars will amortize away between now and the next general rate case.

And finally, the loss of flexibility. While staff is concerned about the loss of flexibility associated with the proposed transaction, we recognize that there are substantial savings in financing costs and the reduction in perceived risk associated with converting a regulatory asset to a statutory asset, and those help to outweigh the potential costs of this transaction in staff's opinion.

The final issue that was raised as an administrative concern has to do with schedule 80, which is the way the company proposed to implement the sequestering of revenues in their general rules, and provisions tariffs and what we ask is that the company file those after final pricing so that we know exactly what the price, the full cost of the transaction will be, and then submit those, and we can get them in place for the issuance of the transaction. I'm available for questions as are other members of the panel. I don't know if Mr. Gaines has anything to add at this point, but any questions are welcome.

MR. GAINES: I don't have anything to add. I think that's a very good summary.

CHAIRMAN NELSON: Do you have some questions?

JUDGE CANFIELD: Questions, commissioners?

CHAIRMAN NELSON: Let me try to understand the prudence issue on the PRAM 4 layer. You think it's grandfathered but also you think it's prudent, it passes the cost-effectiveness test. Is that right?

MS. STEVENS: We're saying that we believe that it complies with the RCW.

CHAIRMAN NELSON: That's the 309 is the grandfather?

MS. STEVENS: Right, right. And in addition we did summary prudence evaluation although we didn't do a full blown -- the same kind of prudence evaluation that we would do in a rate case, but all indications are from what we did see that the likelihood of that occurring would be very good, and the company did demonstrate that the costs were incurred in compliance with their schedule 83 conservation tariffs.

MR. GAINES: I would like to add one thing to that. I think the data request No. 7, which Andrea

Kelly mentioned, is a good summary which shows on a program by program basis the levelized cost of each conservation program within the PRAM 4 layer is below the avoided cost associated with that layer. That's true on a program by program basis, and also on the total program which can be seen at the bottom of that exhibit.

CHAIRMAN NELSON: I see it. Thank you.

MS. STEVENS: Actually --

CHAIRMAN NELSON: I had a hard time finding 7 so I'm glad to have a chance to look at it again.

MS. STEVENS: Data request 23 is that same table with the three year verification results and ending results incorporating -- the same are adjusted for those two items.

COMMISSIONER HEMSTAD: This is premised on the assumption that it will carry a favorable rating. Do you have an opinion as to how the costs of these bonds will compare with the costs of the newly issued first mortgage bond?

MR. GAINES: I can address that. And I should mention, the rating agencies this week are fine tuning their ratings but the preliminary indications from all of the agencies are that it would be rated triple A, the highest rating. The rating on this compared with first mortgage bonds, the cost rate will be actually in fairly close but a little bit lower just due to the credit quality. Typically an asset backed structure such as this would have a little bit of a premium to first mortgage bond. First mortgage bond utility market is a very, very huge, highly effective market so the pricing is quite thin. The asset-backed deals because of a complex structure usually carry a premium to the pricing. However, that is overcome by the triple A rating on this.

The other thing to consider when comparing it to a first mortgage bond, which would be debt on the books of Puget Power as compared with this transaction which is structured as a sale and therefore off the Puget's balance sheet, is that that first mortgage bond would have to be balanced with common equity, which of course is a very expensive form of capital so that the true comparison would be a portion of first mortgage debt and equity, which using our existing cost rates is the 11.38, and that is about 300 basis points higher than the estimated pricing of this transaction.

COMMISSIONER HEMSTAD: Since this will then be off your books or not part of your capitalization, do you have an opinion how that would or should affect your equity ratio?

MR. GAINES: On the company's financial statements as reported for -- in our annual report and so forth, the equity ratio of course goes up because you're taking the asset off the books and taking debt off the books and leaving the same amount of equity in place. The equity ratio for regulatory purposes remains unchanged from before the transaction, because you impute both the asset back on in the form of bondable conservation estimate and you include the debt in the weighted average cost of debt calculation, so for regulatory purposes the equity ratio remains unchanged.

MS. KELLY: I would like to add that this is an issue that would be looked at in a general rate case proceeding. The stipulation as is does not preclude staff and other parties from examining what the impact and what the reduction in risk would -- what would happen to that in the context of a general rate case, but we do agree with company that wholesale adjustments to the capital structure are best left to the general rate case.

COMMISSIONER GILLIS: I will follow on with that question. I think it is a very important issue, and I'm no finance wizard, mind you. If I understand it correctly when you calculate the benefits you've assumed that it would be essentially balance sheet neutral, that when you use the -- your authorized rate of return as the benchmark and the -- compared to the financing you would receive from the sale of the bonds as an alternative, a refinancing as the benefits, that authorized rate of return assumes an existing capital structure, and that's important because that tells what the benefits are, but I guess why it is a concern to me is that the issue is what are you going to do with the proceeds from the sale of those bonds if, for example, you were to purchase down your short-term debt there would be less benefit to the ratepayers and presumably company, I suppose. Alternatively, if you were to purchase down your higher cost equity, there would potentially be more, but your supposition is it's neutral, as I understand it.

MR. GAINES: Yeah. There's two things that I would like to address in that. One is the use of the proceeds which I will address second and the first is by using the existing weighted average cost of capital as the starting point that that assumes the certain -- the existing capital structure. That is a true statement. It does assume the existing capital structure. It also assumes the existing return on equity and the other existing cost rates associated with that. The reason for that -- for doing that in this case is that is presently what customers are paying for the financing costs associated with conservation, and so in making the reduction in financing costs calculations, we wanted to compare what customers are currently paying under conservation, way it is presently financed, with the costs they would be incurring going forward when this is all recognized in general rates with the new structure, and that is the valid comparison. I would suspect that the three panelists agree with that.

Regarding the use of the proceeds, what we are planning to do is pay down short-term debt. We would let short-term debt get to -- I think at the end of the year the ratio of short-term as a percent of total capitalization including short-term debt is 8.7 percent, which is twice -- over twice as high as the allowed level in our current capital structure.

The alternative that you had mentioned, which is one could purchase equity, is certainly a valid option to explore, buying back equity. When we look at our long-term financing plans we see that we need equity going forward, and so to buy back equity and incur transaction costs associated with that purchase and then a second time incur transaction costs associated with the issuance of equity going forward seemed like the better alternative would be to leave the existing equity in place.

Certainly there are some benefits associated with solidifying the recovery of this particular asset through the statute, but the real reason for the equity ratio that I'm sure will be addressed and will probably be remembered in the last rate case was that associated with purchased power, and the company's existing portfolio and extensive use of purchased power doesn't change of course as a result of this transaction.

COMMISSIONER GILLIS: I guess I'm still missing the point then. If you're going to use the proceeds to purchase down short-term debt, that seems like the relevant comparison is at least your long run yield curve in that short-term debt relative to the sale price of the bond as opposed to your weighted cost of capital that you've used to calculate the benefits.

MR. GAINES: I would agree with that. Conservation was going to be included in rates financed exclusively with short-term debt, but it isn't. It's included in rates as a component of rate base which is therefore paid for by customers at the weighted average cost of capital.

COMMISSIONER GILLIS: Okay. Question on the transaction costs. I understand the transaction costs are associated with the sale and subject to review in the rate case. Could you expand more on what issues will be addressed in that review?

MR. MARTIN: First I would like to state that we have already gone through a review to a certain degree of the different costs to the extent that they are known at this point, and among other things, if you would like to look at data request No. 3 where the details of the transaction costs, most of them are still estimates. And this will be known basically by the time that this transaction is closed, so in order to preserve our ability to review later, the parties have agreed that it will be subject to full review during the next general rate case.

Among the things that we have reviewed are the trustee fees, restructuring fee and some of the legal fees. There are some other fees that are, as I've said, will be known at the closing of the transaction.

COMMISSIONER GILLIS: From the opening statement of Ms. Kelly there appears to be a principal agreement at least as far as the costs should be shared between -- the transaction costs should be shared between the ratepayers and the company to some extent. I didn't really understand the declining balance amortization. Could you explain that to me a little bit more.

MR. MARTIN: Under the original proposal of the company my understanding was they proposed it to be amortized over a straight line basis over the life of the transaction. However, since this transaction is unique, basically following the amortization schedule of the DSM investment so that it's composed of different layers and there will be terminating in different points of time, if we look at more graphic it's going to be like a declining line, so the concept of declining balance is basically to match the principal with the cost.

COMMISSIONER GILLIS: The transaction costs are all incurred up front, right, or they occur over time?.

MR. GAINES: All up front.

COMMISSIONER GILLIS: You have an amortization schedule of those transaction costs that is tied to the buy-down of the trust essentially; is that right?

MR. GAINES: Yes, that's correct.

COMMISSIONER GILLIS: And so that's where the sharing comes in?

MR. GAINES: That's right. And the amortization of transaction costs in this case is with a twist of rather than doing it straight line doing it on an amortization schedule that ties to the declining balance nature of the asset. With the exception of that piece it's the same treatment transaction costs would incur with any other financing: they incurred up front; they're amortized over the life of the financing. And then the company picks up the portion of those costs that are incurred prior to reflecting that cost in general rates.

COMMISSIONER GILLIS: I guess that's all my questions now.

MR. MARTIN: Like also to make an additional reference with regards to the information on transaction costs. The confidential Exhibit C-5 pertains basically about the fees, underwriting fees.

MR. GAINES: Specifically that Exhibit C-5 contains a comparison of some of the costs of this transaction and how they compare with the other similar transactions.

COMMISSIONER HEMSTAD: Couple more of these market questions, and perhaps this is overlapping some of the earlier questions asked and answered, but now that this asset will be off your balance sheet, does Puget have any reason to believe that Wall Street would impute that to its capitalization as a result of this transaction?

MR. GAINES: Would impute the debt back?

COMMISSIONER HEMSTAD: Yes.

MR. GAINES: We have discussed with the rating agencies -- and they will not because it's the sale to Puget -- they will not impute back the debt to the capital structure. They also will not take the revenue stream that we are allocating to the trust and make a similar calculation that they do with purchased power on that. The reason for that is the purchased power payments are an obligation of Puget. The allocation of revenues to the trust is simply in the form of Puget acting as servicer on the transaction, and those obligations are bankruptcy remote to Puget unlike purchased power.

COMMISSIONER HEMSTAD: There was testimony in the last rate case that suggested the company needed a higher equity ratio to compensate for the so-called regulatory assets. This is a longer regulatory asset on the balance sheet. Do you anticipate that the financial markets will permit you to increase your debt leverage by reducing your equity ratio?

MR. GAINES: Again I would agree with the staff that is something that is better addressed in the context of a general rate case, but just to provide some answer at this time, there were actually two witnesses in that case that talked about the need for the equity ratio with respect to purchased power. There is a very small segment of the testimony related to the treatment of regulatory assets. There's other things going on in the capital markets like the potential changes, structural changes, to the industry making it more competitive that financial members of the -- members of the financial community would treat as increasing risk and therefore requiring more equity, and how all those things play out I think are better addressed in a general rate case. Also when examining not only the equity ratio but then the return on equity associated with it.

COMMISSIONER HEMSTAD: If there were to be some future adjustment to your capital structure, can the company provide any assurances that these financing benefits will be maintained?.

MR. GAINES: The transaction will carry a fixed rate and that rate will be determined upon pricing. That rate won't change as a result of any of the other changes that would happen to other segments of the capital structure. If you're wondering about the savings in terms of the difference between the 11.83 and the cost rate on this, certainly that amount will fluctuate because to the extent equity ratios change or return on equities change or other cost rates change, the spread between the weighted average cost of capital and this transaction would also change. The direction of that is of course currently unknown, and so the best thing it seemed to do was to use the existing capital structure and the existing 11.83. That's the only known at this time, but certainly the difference between the two would be different as a result of changes to the components of the utility cost of capital.

JUDGE CANFIELD: Just one brief question. I don't know if Mr. Gaines or Mr. Van Nostrand would be best able to field this. RCW 80.28.005 sub 4 sets forth different types of finance subsidiaries. Just what type of finance subsidiary is the trust in this transaction?

MR. GAINES: I can address that. It's a grantor trust.

JUDGE CANFIELD: Any additional questions, commissioners?.

COMMISSIONER HEMSTAD: One more. Do we have now in the record sufficient facts to meet the statutory requirements for the findings we have to make?

MR. VAN NOSTRAND: I have one additional question I would like to cover just to go down through those findings. Proceed with that?

COMMISSIONER HEMSTAD: Yes.

MR. VAN NOSTRAND: Mr. Gaines, in terms of whether or not this financing is more favorable to the customer than other reasonably available alternatives, what evidence could you cite to -- in that regard?.

MR. GAINES: There was a couple of things that were included in parts of my testimony that we examined to make sure that these costs were favorable compared to alternatives. First we looked at leaving conservation financed the way it presently is, weighted average cost of capital. The benefits over that alternative are those calculated during this process which are estimated to be 20 to a million dollars. We also examined the use of dibentures being an asset that Puget doesn't own, conservation cannot be financed directly with first mortgage debt. It could be financed with dibentures but dibentures would carry a lower credit rating than Puget's credit rating on the existing first mortgage bonds as they are more risky. It would also require that those dibentures would be equity balanced, if you will, or offset with additional common equity making that alternative most likely more expensive than the first one.

The benefits of this transaction are derived from, one, it being treated as a sale, so it can be financed 100 percent debt off the company's balance sheet and not require equity balancing, and then secondly through the protection mechanisms of one, the statute; two, the variance mechanism; and three, a very small amount of over collateralization enables this to be rated, at least on an estimated basis, triple A by the rating agencies. So it is a structure that can be financed 100 percent in debt and triple A rated which results in a very, very low cost rate.

MR. VAN NOSTRAND: That's all my questions.

COMMISSIONER HEMSTAD: I will address my question to counsel. Are all of you satisfied that there's sufficient factual data in the record now to meet the -- our obligation under the statute with respect to the findings we have to make?

MR. CEDARBAUM: I think I am.

MR. VAN NOSTRAND: Yes.

MR. TROTTER: Yes. It's my understanding that staff's presentation today was based on their conclusion that this transaction was in the public interest. If they disagree with that maybe they should speak now but I think all the other findings are supportive.

JUDGE CANFIELD: Any additional questions? With that then I thank you now for your presentation and counsel -- and I guess Mr. Cedarbaum indicates that a supplement to Exhibit 4 will be forthcoming. It was noted that the parties have requested a speedy decision in this matter, so with that Commission will endeavor to honor that request and it was noted that the Commission should not hold up an order awaiting receipt of those supplemental documents and that's so noted as well. Anything further then?

With that I thank you all. This hearing is adjourned.

(Hearing adjourned at 2:20 p.m.)