

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
2 COMMISSION

3 In the Matter of the Proposal by )  
PUGET SOUND POWER & LIGHT )  
4 COMPANY )  
5 to Transfer Revenues from PRAM ) DOCKET NO. UE-951270  
Rates to General Rates. )

6 -----)  
7 In the Matter of the Application )  
of )  
8 PUGET SOUND POWER & LIGHT )  
and )  
9 WASHINGTON NATURAL GAS COMPANY ) DOCKET NO. UE-960195  
VOLUME 15

10 For an Order Authorizing the ) Pages 2150-2403  
Merger of WASHINGTON ENERGY )  
11 COMPANY and WASHINGTON NATURAL )  
GAS COMPANY with and into PUGET )  
12 SOUND POWER & LIGHT COMPANY, and )  
Authorizing the Issuance of )  
13 Securities, Assumption of )  
Obligations, Adoption of )  
14 Tariffs, and Authorizations )  
in Connection Therewith. )  
15 -----)

16 A hearing in the above matter was held on  
17 November 12, 1996, at 9:15 a.m. at 1300 South  
18 Evergreen Park Drive Southwest, Olympia, Washington  
19 before Chairman SHARON L. NELSON, Commissioners  
20 RICHARD HEMSTAD and WILLIAM R. GILLIS, and  
21 Administrative Law Judge MARJORIE R. SCHAER.

22  
23  
24 Lisa K. Nishikawa, CSR, RPR  
25 Court Reporter

1           The parties were present as follows:

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

6           FOR THE PUBLIC, ROBERT F. MANIFOLD,  
7 Assistant Attorney General, 900 Fourth Avenue, Suite  
8 2000, Seattle, Washington 98164.

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

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

15           NORTHWEST INDUSTRIAL GAS USERS, by PAULA  
16 PYRON, Attorney at Law, 101 SW Main, Suite 1100,  
17 Portland, Oregon 97204.

18           INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES,  
19 by CLYDE H. MACIVER, Attorney at Law, 601 Union  
20 Street, 4400 Two Union Square, Seattle, Washington  
21 98101.

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

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

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

31           NATURAL RESOURCES DEFENSE COUNCIL and  
32 NORTHWEST CONSERVATION ACT COALITION, by DEBORAH  
33 SMITH, Attorney at Law, 401 North Last Chance Gulch,  
34 Helena, Montana 59601.

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## I N D E X

2	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS	EXAM
3	STORY	2156	2161	2202	2206	2188
	KARP	2211	2213	2228		2226
4	STEINMEIER	2229	2231			2248
			2256			
5	VITITOE	2261	2263	2303	2304	2294
	SONSTELIE	2316	2317			2346
6			2362			
	AMEN	2370	2373			2386
7						
8	EXHIBIT			MARKED	ADMITTED	
9	23				2206	
	TS-110, TS-111, TS-113				2261	
10	TS-230			2154	2157	
	TS-233			2154	2157	
11	237				2163	
	238				2168	
12	239			2154	2185	
	240			2154	2185	
13	241			2155	2155	
	TS-242			2195	2195	
14	T-243			2210	2210	
	T-244			2210	2210	
15	T-245, 246-256			2212	2213	
	257			2213	2214	
16	T-258, 259			2229	2231	
	T-260			2261	2263	
17	261-264			2261	2264	
	265			2261	2284	
18	266			2265		
	T-267, 268			2315	2317	
19	269-274			2368	2368	
	T-275			2368	2371	
20	TS-276			2369	2372	
	TS-277			2369	2377	
21	278			2370	2373	
	279			2395	2396	
22	T-280, 281, 282			2397	2397	
	283			2398	2400	
23	284, T-285, 286			2399	2400	
	287			2402	2402	
24						
25						

## P R O C E E D I N G S

1  
2 JUDGE SCHAER: Let's be on the record. The  
3 hearing will come to order. This is a hearing before  
4 the Utilities and Transportation Commission for the purposes  
5 of presentation of cross-examination of the direct case of  
6 the Commission staff, public counsel, and intervenors in the  
7 rebuttal case of the joint applicants in dockets No.  
8 UE-951270 and 960195. Today's date is November 12, 1996.  
9 We are in the Commission's hearing room in Olympia,  
10 Washington.

11 Before we went on the record this morning,  
12 a number of exhibits for Mr. Story were distributed.  
13 I would like to go through them at this time. Marked  
14 for identification as Exhibit TS-230 is a document  
15 which reads in the upper right-hand corner Exhibit  
16 TS-JHS-9, revised 11-11-96. Again, that's been marked  
17 for identification as Exhibit 230.

18 Next is a document, handwritten designation  
19 in the upper right-hand corner Exhibit TS-JHS-12, page  
20 1 of 9, revised 11-11-96. This has been marked  
21 Exhibit 233 for identification.

22 Then two exhibits were distributed by  
23 public counsel this morning. First is marked at the  
24 top Response to Public Counsel Data Request No. 199,  
25 and it's a multi-page document.

1           Are there other responses in here or is it  
2 just the one response, Mr. Manifold?

3           (Marked Exhibits TS-230 and TS-233.)

4           MR. MANIFOLD: Just the one response.

5           JUDGE SCHAEER: Marked that for  
6 identification as Exhibit 239.

7           And second is a multi-page document which  
8 reads on the cover John Story Rebuttal Filing  
9 Workpapers for Exhibit No. JHS-13, and I've marked  
10 that for identification as Exhibit 240.

11           (Marked Exhibits 239 and 240.)

12           MR. MANIFOLD: Your Honor, if I may, there  
13 is one more document yet to be copied. I think I've  
14 made agreement with counsel that we can stipulate this  
15 in and put it -- mark it now and put it in as soon as  
16 we have adequate copies. It would be the company's  
17 response to staff data request No. 227.

18           JUDGE SCHAEER: Is that the stipulation, Mr.  
19 Van Nostrand?

20           MR. HARRIS: Yes, it is.

21           JUDGE SCHAEER: Thank you, Mr. Harris.

22           Have other parties --

23           MR. MANIFOLD: No.

24           JUDGE SCHAEER: -- been apprised of this?

25           Perhaps you would like to check with Mr.

1 Cedarbaum briefly, since it was his data request.

2 MR. CEDARBAUM: Your Honor, I have no  
3 objection to that exhibit.

4 JUDGE SCHAER: Does any other party wish to  
5 see this or to make objection? Okay. Then I'm going  
6 to mark for identification as Exhibit 241 the company  
7 response to staff data request 227.

8 And it's my understanding that parties have  
9 agreed that that may be entered by stipulation, is  
10 that correct? So I'll admit that exhibit at this  
11 time.

12 Mr. Van Nostrand, would you like to  
13 identify the additional exhibits that have been  
14 distributed for your witness this morning.

15 (Marked and admitted Exhibit 241.)

16 MR. VAN NOSTRAND: Yes, your Honor.

17 JUDGE SCHAER: Thank you.

18 Whereupon,

19 JOHN STORY,  
20 having been previously duly sworn, was called as a  
21 witness herein and was examined and testified as  
22 follows:

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24

25

## DIRECT EXAMINATION

1

2 BY MR. VAN NOSTRAND:

3 Q. Mr. Story, do you have what has been marked  
4 for identification as Exhibit TS-231?

5 A. Yes, I do.

6 Q. And is this the revised JHS-12 which was  
7 discussed on the record on Friday?

8 A. I'm sorry. Isn't that Exhibit 233? That's  
9 the way I marked it.

10 JUDGE SCHAEER: I have got -- either got 230  
11 or 233 we should be taking up.

12 MR. VAN NOSTRAND: 230 is JHS-9?

13 JUDGE SCHAEER: Yes.

14 Q. Do you have what has been marked for  
15 identification as Exhibit TS-230?

16 A. Yes.

17 Q. Can you describe this document.

18 A. It's a financial model run using a \$75  
19 million cumulative rate reduction instead of \$103  
20 million. It's the only difference between the  
21 original one and this one.

22 Q. And this would be substituted for the JHS-9  
23 originally prefiled with the rebuttal testimony?

24 A. Yes.

25 Q. And you also have what's been marked for

1 identification as Exhibit 233?

2 A. Yes, I do.

3 Q. Can you describe that document.

4 A. It's a model run correcting for the same  
5 item, taking out the \$103 million cumulative rate  
6 reduction and putting in a \$75 million cumulative rate  
7 reduction.

8 Q. You would propose that this be substituted  
9 for Exhibit JHS-12 which was prefiled with the  
10 rebuttal testimony?

11 A. Yes.

12 MR. VAN NOSTRAND: Your Honor, I would move  
13 the admission of Exhibit 230 and 233.

14 JUDGE SCHAEER: Any objection?

15 MR. CEDARBAUM: No.

16 JUDGE SCHAEER: Exhibits TS-230 and TS-233  
17 will be admitted.

18 (Admitted Exhibits TS-230 and TS-233.)

19 MR. VAN NOSTRAND: Your Honor, we have also  
20 prepared revised Exhibits 110, 111, and 113, which  
21 would be substituted exhibits for Mr. Torgerson's  
22 testimony, which merely carried forward these very  
23 same model runs in his testimony, since without having  
24 the revised exhibits put in they would not be a match  
25 between the run which Mr. Torgerson describes and the



1 model which Mr. Torgerson sponsors. We have distributed  
2 those to staff and public counsel this morning. We  
3 would propose to substitute those for Exhibits 110,  
4 111, and 113 which were previously admitted so the  
5 record is consistent and complete.

6 JUDGE SCHAEER: Is there any objection by  
7 that to any party or does anyone need more time to  
8 look at these before responding?

9 MR. CEDARBAUM: Mr. Van Nostrand, can you  
10 just specify again which exhibits were substituted  
11 for.

12 MR. VAN NOSTRAND: Exhibit 110, 111, and  
13 113. It would be Exhibit --

14 JUDGE SCHAEER: TS-110 would be JPT-11.

15 MR. VAN NOSTRAND: Right.

16 JUDGE SCHAEER: TS-111 would be JPT-12, and  
17 TS-113 would be JPT-14.

18 MR. MANIFOLD: I'm missing 110 then. I  
19 just have two.

20 MR. VAN NOSTRAND: These were just  
21 distributed. We would not have any problem if staff  
22 and public counsel wanted to have additional time to  
23 review and ascertain that they are what we say they  
24 are.

25 JUDGE SCHAEER: Let me ask one other

1 question. There is certain evidence in your rebuttal  
2 case which other parties are going to be allowed to  
3 file surrebuttal regarding, and are all three of these  
4 exhibits within that category?

5 MR. VAN NOSTRAND: Yes, your Honor.

6 JUDGE SCHAEER: And also, are the two new  
7 exhibits from Mr. Story? I know that JHS-12. Is  
8 JHS-9 -- I think -- I don't think that it is, but I'm  
9 wonderering if it should be, since people are just  
10 getting these this morning.

11 MR. CEDARBAUM: I'm sorry, what's the  
12 question?

13 JUDGE SCHAEER: Do you want to have a right  
14 to look at JHS-9 and these three exhibits that are  
15 just being put in as part of what you can look at and  
16 file your surrebuttal regarding?

17 MR. CEDARBAUM: It was my understanding  
18 that we already could.

19 JUDGE SCHAEER: I know that you could on  
20 JHS-12, but --

21 MR. VAN NOSTRAND: JHS-9 is not included  
22 within the 12th supplemental order.

23 JUDGE SCHAEER: JHS-9 is not. I'm just  
24 wondering if it should be expanded to cover that,  
25 since you've not seen this until this morning.

1 MR. CEDARBAUM: We would appreciate that,  
2 your Honor.

3 JUDGE SCHAEER: Does that seem fair to you,  
4 Mr. Van Nostrand?

5 MR. VAN NOSTRAND: Yes, it does, your  
6 Honor.

7 JUDGE SCHAEER: Okay.

8 MR. CEDARBAUM: And just so -- I'm sorry to  
9 belabor the details of which exhibits we're looking  
10 at, but the replacement pages for TS-110, those were  
11 the top secret pages that were inserted into Mr.  
12 Torgerson's testimony, is that right?

13 MR. HARRIS: Yes, that's correct.

14 MR. MANIFOLD: Okay.

15 MR. CEDARBAUM: Your Honor, I don't  
16 anticipate a problem if the only changes were to  
17 replace the 103.4 with the 75 and a half, but I guess  
18 I feel more comfortable if we could hold this off  
19 until later on this morning or maybe right after  
20 lunch to make sure we understand what we've got here.

21 JUDGE SCHAEER: Okay. Why don't you bring  
22 up Mr. Torgerson's revised exhibits again right after  
23 the lunch hour.

24 MR. VAN NOSTRAND: Okay.

25 JUDGE SCHAEER: And at that point, you'll

1 need to then distribute them if they are going to be  
2 admitted to the bench and other parties are allowed  
3 to have them other than staff and public counsel. Let  
4 me again indicate also that I'm orally modifying the  
5 12th supplemental order to add Exhibit JHS-9 as one to  
6 which parties can file surrebuttal, since they have just  
7 received the revised exhibit this morning.

8                   Did you have questions then for Mr. Story,  
9 Mr. Cedarbaum?

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

11

12                   CROSS-EXAMINATION

13 BY MR. CEDARBAUM:

14           Q.     Mr. Story, just a couple of questions first  
15 on the revisions to your exhibits that we've received  
16 this morning. They both show revision dates of  
17 November 11, 1996, and that would be for Exhibits  
18 TS-230 and 233?

19           A.     That's correct.

20           Q.     And my understanding is is that as of that  
21 date you've revised your exhibits to include a staff  
22 proposed electric reduction of 75 and a half million  
23 whereas prior to that date your exhibits included 103.4  
24 million, is that right?

25           A.     That's right.

1 Q. And that's the only change that was made?

2 A. Yes.

3 Q. Turning to the subjects I was prepared to  
4 ask you about, on Friday I distributed a couple of  
5 exhibits for you. One was marked for identification  
6 as Exhibit 237. Do you have that?

7 A. Yes, I do.

8 Q. And do you recognize that as the company's  
9 response to staff record requisition No. 20 with  
10 respect to levelized fixed charges?

11 A. It's Mr. Flaherty's response, that's  
12 correct.

13 Q. So you include testimony in your rebuttal  
14 case at pages 9 to 10 with respect to the issue of  
15 levelized versus unlevelized fixed charges?

16 A. That's correct.

17 Q. And does Exhibit 237 appear to you to be a  
18 true and correct and complete copy of Mr. Flaherty's  
19 response to that staff record requisition?

20 A. It's what he used to come up with the rate,  
21 that's correct.

22 MR. CEDARBAUM: Your Honor, I would offer  
23 Exhibit 237.

24 MR. VAN NOSTRAND: No objection.

25 JUDGE SCHAEER: That document is admitted.

1 (Admitted Exhibit No. 237.)

2 Q. If you could look at the first page of the  
3 response under the column Other Taxes, there's an  
4 amount of \$4,000 that continues until the 31st year or  
5 until the 30th year. Do you see that?

6 A. Yes.

7 Q. And beginning with the 31st year, that  
8 number disappears, and we just have zeroes down the  
9 page?

10 A. Yes.

11 Q. And is it correct that the properties  
12 covered by this document continue to be assessed taxes  
13 throughout their lives?

14 A. Yes. But I don't agree with that column  
15 the way it's calculated in the first place.

16 Q. You don't?

17 A. No, I don't.

18 Q. What corrections would you make to it?

19 A. First off, he's taking a 4 percent rate  
20 times the plant in service, and it most probably  
21 should be against the revenue requirement.

22 I got looking at this yesterday, and if you  
23 look on page 2, the first column that goes all the way  
24 down to the bottom, he's got a present value of  
25 \$177,000, and on \$100,000 investment, you wouldn't

1 expect that kind of present value over this time  
2 period. I expected to see something in the 130 to  
3 \$140,000 range. So I had this rerun, based on our way  
4 of doing it, and his rate is high. It's the rate he  
5 used. I would say that it's overestimated the  
6 savings.

7 Q. By how much?

8 A. The rate I would come up with is about 12.5  
9 instead of 15.05.

10 Q. And a bottom line dollar figure, how much  
11 savings?

12 A. Well, his savings is higher. I didn't  
13 calculate that. I didn't have the capability of  
14 calculating that at the time.

15 Q. But revised -- using your correction, that  
16 would revise what he estimated the merger savings to  
17 be of 370 million downward?

18 A. By a slight amount, yes.

19 MR. CEDARBAUM: Perhaps, your Honor, what  
20 we can do is, I haven't seen the revision that Mr.  
21 Story just commented on.

22 A. It's not been provided to anybody. I'm  
23 just making a comment. I'm not supporting that  
24 column. That column is what's in there. I think it's  
25 why he got the 15 percent. Looks like it was picked

1 up in the wrong calculation.

2 MR. CEDARBAUM: And I guess what I'm saying  
3 is, I still think, since I'm cross-examining Mr. Story  
4 on this subject and he has now disagreed with the  
5 company's expert witness on this subject, that I'm  
6 entitled to see his documentation, which I would like  
7 to do. And I would like to reserve the ability to  
8 re-call Mr. Story if necessary to ask him more  
9 questions in this area after I've had a chance to  
10 review that document.

11 JUDGE SCHAEER: Mr. Story, can you rerun  
12 that column using I believe you said the 12 and a half  
13 percent rather than 15?

14 THE WITNESS: I can provide our calculation  
15 of what this would calculate into, sure.

16 JUDGE SCHAEER: When could you do that?

17 THE WITNESS: As soon as I can make a phone  
18 call.

19 JUDGE SCHAEER: Okay. Why don't you provide  
20 that to Mr. Cedarbaum at the end of the morning break  
21 and we'll see what we need to do about finishing your  
22 questioning then or recalling you later in the  
23 proceeding if necessary.

24 MR. CEDARBAUM: Thank you.

25 Q. Mr. Story, then based on Mr. Flaherty's



1 worksheet, are you saying that you would have assumed  
2 that that Other Taxes column on page 1 would continue  
3 to show taxes throughout the life of the property?

4 A. Right. And I would have most probably used  
5 a rate of one percent and that would have been  
6 property taxes. And then I would have used a rate of  
7 four percent on growth -- or on revenues.

8 Q. If you could look at your JHS-16, which is  
9 Exhibit 236.

10 A. I have that, yes.

11 Q. Before we turn to Exhibit 236, looking back  
12 on Exhibit 237, that first page of the document, can  
13 you tell me which column property insurance is  
14 included in, since there is no separate column  
15 delineated for that subject?

16 A. I had to assume it was in other taxes.

17 Q. And that would also be true for the  
18 revision that you're going to show us today?

19 A. No. We put it in a separate column.

20 Q. On Exhibit 236, the fourth and last page,  
21 do you have that?

22 A. Yes, I do.

23 Q. It calculates a revenue requirement  
24 percentage based on a hypothetical \$100,000 original  
25 cost of investment, is that right?

1 A. Yes.

2 Q. And Mr. Flaherty in his presentation  
3 performed similar calculations, only he took it a step  
4 further by levelizing the percentages, is that right?

5 A. That's correct.

6 Q. New subject. Like to spend a few minutes  
7 talking about the severance pay issue. Do you have  
8 before you what's been marked for identification as  
9 Exhibit 238?

10 A. Yes, I do.

11 Q. And that is Mr. Vititoe's response to staff  
12 data request No. 98?

13 A. Yes.

14 Q. Have you seen this document before?

15 A. I've seen it before, yes.

16 Q. Does it appear to you to be a complete and  
17 accurate version of that response?

18 A. It appears to be, yes.

19 MR. CEDARBAUM: Your Honor, when I first  
20 prepared my cross-examination for Mr. Story, I thought  
21 Mr. Vititoe was going to go first, and so I recognize  
22 this response was prepared by Mr. Vititoe or under his  
23 supervision, but at this point I would offer it through  
24 Mr. Story.

25 MR. VAN NOSTRAND: No objection.

1 JUDGE SCHAEER: Document is admitted.

2 (Admitted Exhibit 238.)

3 Q. During the testimony and cross-examination  
4 of Mr. Flaherty, we established that the severance  
5 cost of four executives was about \$400,000 each. Do  
6 you recall that? Would you accept that subject to  
7 your check?

8 A. I remember a \$200,000 number.

9 Q. The \$400,000 amount I've just asked you  
10 about is based on an average wage for the executives  
11 of about 208,000?

12 A. Right.

13 Q. And is it correct that Mr. Flaherty based  
14 the average of the wage for the wages on the top four  
15 executives at Puget and the top four executives at  
16 Washington Natural?

17 A. That's correct.

18 Q. And you believe that amount is appropriate  
19 for estimating severance costs, is that correct?

20 A. I believe the amount is appropriate.

21 Q. Looking at Exhibit 238, it appears that  
22 this exhibit identifies eight individuals who will  
23 continue as executives at Puget Sound Energy, is that  
24 right?

25 A. That's correct.

1 Q. Would you accept subject to check that  
2 according to the attachments on the exhibit, these  
3 eight people included seven of the eight highest paid  
4 executives for both of these companies?

5 A. Yes, it does.

6 Q. Subject to check, would you agree that the  
7 average wage of executives, excluding those eight that  
8 will continue, is \$106,683?

9 A. I don't believe so.

10 Q. Just as a mathematical calculation off of  
11 the attachments to this exhibit, if we were to exclude  
12 the eight that will continue as executives, our  
13 calculation, subject to check, is that the average  
14 wage of those remaining executives is the 106,683  
15 figure that I gave you. Would you accept that  
16 mathematical calculation subject to your check?

17 A. No. I think what you've done is you  
18 haven't given me all the details of what you did. I  
19 think on Puget Power's pay at risk on the last page of  
20 the exhibit, you took base salary and divided it by  
21 the remaining officers. You took base salary and  
22 divided it by the remaining officers to get an  
23 average. You would have to take the -- add in the  
24 target, the first column of target. That puts them at  
25 100 percent of pay.

1 Q. Okay. So you're saying we should take the  
2 1,489,000, add to that the percentages that are shown  
3 in the target column, and then divide by the remaining  
4 executives?

5 A. Right. But that's still not correcting the  
6 problem. I mean, if you want to correct this all the  
7 way through, like you're only -- you're looking at  
8 this as if we were saying those four officers were  
9 leaving from the top group. I think what Mr. Flaherty  
10 was trying to do is get a cost of an executive group  
11 as to what it would normally cost to have those  
12 officers leave. At the time, we didn't have a plan as  
13 to what it was going to cost for the different groups.

14 If you look in the workpapers for the VSP,  
15 for Mr. Flaherty on page 424, he lists the average  
16 cost as a paid benefit of 5,000, paid benefit of one  
17 month, and a paid benefit of two weeks paid per year.  
18 That was on all employees, except he pulled out four  
19 executives and said they were going to be paid  
20 something different.

21 What the actual plan is is that for  
22 nonunion it's the 5,000 below pay at risk level. It's  
23 one month's salary, two weeks a year, two weeks a year  
24 of service, three-month minimum salary release. Then  
25 at the pay at risk level it's \$10,000, two weeks paid

1 per year, and a minimum of one year, and then an  
2 executive level it's one half year minimum.

3           So if you make all those corrections,  
4 actually the estimate is low as to what the cost is.

5       Q.     So just as I understand it, then, the  
6 company has revised the severance pay package since  
7 Mr. Flaherty testified and that has had an impact of  
8 lowering the severance cost, is that what you're  
9 saying?

10       A.     It actually increases the severance cost  
11 from what he was estimating.

12       Q.     When did that occur?

13       A.     It has been provided over the first three  
14 months of the year.

15       Q.     But Mr. Flaherty testified in July.

16       A.     That's what his estimates were based on.  
17 We didn't -- we're not going through and truing up his  
18 estimates. Like Mr. Weigand testified to and Mr.  
19 Torgerson last week, we know that he's made errors in  
20 his estimates. He did the best job he could at the  
21 time. We're not trying to true those up. As we go  
22 forward, we will get the right numbers. We know what  
23 the targets are. They are not unreasonable estimates  
24 even with these minor errors. There are some going  
25 both ways. If you want to make corrections, you have

1 to make them both ways. It's spinning your wheels.

2 It's not very productive.

3 Q. Do you have workpapers with respect to the  
4 discussion you just gave me on the severance costs?

5 A. They would have to be based on his  
6 estimates again of who's leaving, because we don't  
7 have that, you know, who's leaving yet. We have some  
8 volunteers. Other people are going to have to be  
9 moved around. I mean, basically we had 300 people  
10 volunteer to leave the company at the end of the  
11 merger.

12 Q. With respect to -- I would like to focus  
13 just on executive severance costs. The plan right now  
14 is that the eight people that are listed on Exhibit  
15 238 are the highest -- seven of those eight are the  
16 highest paid executives, and those eight are going to  
17 remain at the company, Puget Sound Energy, if the  
18 merger is approved?

19 A. Right.

20 Q. And that was -- that factual pattern was  
21 what Mr. Flaherty was estimating severance costs on?

22 A. That was the best information he had.

23 Q. And that's what the company's case is  
24 presently based upon?

25 A. We have said all along that these estimates

1 are --

2 Q. Is the answer to that question yes or no?

3 A. Yes.

4 Q. And if we were to look at page 4 of Exhibit  
5 238, the calculation that I asked you to accept  
6 subject to check, if we were not to include that  
7 target percent column, would you accept subject to  
8 check the 106,683 figure that I gave you before?

9 A. I would accept it, but I would accept it as  
10 being wrong.

11 Q. What does the target percent column  
12 represent?

13 A. That's the percentage of their base salary  
14 that is at risk. When their salaries are set, it is a  
15 100 percent level that's set, and then a piece of  
16 their salary is put at risk. They have certain goals  
17 they have to meet. If they don't meet those goals,  
18 they don't get this piece of their salary, so they  
19 would be being paid less than 100 percent of market.

20 Q. Do you have a worksheet or a recalculation  
21 of the severance costs for executive people?

22 A. We can provide one, but we would have to  
23 also provide one for pay at risk, because they are  
24 different than what's in Mr. Flaherty's testimony.

25 Q. Is it correct that the staff used the



1 amount of \$129,968 in its executive severance  
2 calculation?

3 A. That's correct.

4 Q. And that's the same amount that Mr.  
5 Flaherty used to determine the merger savings?

6 A. That's an average salary going forward,  
7 right.

8 Q. With respect to environmental remediation  
9 costs, is it correct that Puget and Washington Natural  
10 have quantified probable future remediation costs and  
11 those have been booked as liabilities?

12 A. That's a requirement of FASB, yes.

13 Q. On page 18 of your rebuttal testimony, you  
14 claim at line 10 that Mr. Schooley does not address  
15 future costs.

16 A. I'm sorry. I have got the wrong page.

17 Q. Page 18, line 10 -- well, begins on line 9  
18 actually. You say that he, referring to Mr. Schooley,  
19 does not address future costs?

20 A. Right.

21 Q. Is it correct that Mr. Schooley's  
22 calculation included an estimated future expense at  
23 Puget of \$1,550,000?

24 A. If he picked up what's on the books, that  
25 can be true, yeah.

1 Q. And he also included interest on the  
2 environmental remediation costs at Washington Natural  
3 in the amount of \$4,487,000? Would you accept that  
4 subject to check?

5 A. I would have to accept that subject to  
6 check.

7 Q. Is it also correct that Mr. Schooley  
8 includes the identified and probable insurance  
9 recoveries but he doesn't include any potential  
10 future insurance recoveries?

11 A. That's correct. That's the problem.

12 Q. If your request for an accounting order on  
13 environmental remediation were granted, how long would  
14 the deferred costs for those items stay on the balance  
15 sheet?

16 A. Our proposal is as soon as we know the  
17 final costs for any particular project -- like we have  
18 a couple right now that are done; there's no more  
19 insurance recovery or anything else -- we would ask  
20 for recovery or amortization, and it would be  
21 amortized over three years.

22 Q. Do you have any anticipated end point for  
23 when all the amortizations would be finished?

24 A. Some of these are subject to lawsuits;  
25 could be additional costs. Those estimates are based

1 on our best guess right now as to what's going to  
2 happen with these sites. It's an SEC requirement that  
3 you do that. They will be trued up as it goes along.  
4 I couldn't estimate when it would be done.

5 Q. I guess I'm looking for a ballpark range of  
6 the end of five years, the end of ten years, something  
7 in between.

8 A. I would imagine that what we have currently  
9 identified -- there's a report we send down either  
10 quarterly or semiannually that gives an estimate on  
11 each one of these, and I think most of those are  
12 within three years, four years.

13 Q. With respect to conservation issues,  
14 the proposal to offset conservation against property  
15 gains, in your direct testimony you proposed to offset  
16 conservation costs against deferred property gains, is  
17 that right?

18 A. Yes.

19 Q. And is that the extent of your proposal or  
20 is there something else that is now included based on  
21 your rebuttal testimony?

22 A. No. We were just using the liability to  
23 offset an asset, and then the remaining balance,  
24 whatever it is at the time we do it, would be  
25 amortized over three years.

1           Q.     I guess the confusion that we have was that  
2 in your rebuttal testimony on page 15, lines 8 to 9,  
3 you mentioned treating regulatory assets and  
4 regulatory liabilities as offsets to one another,  
5 which led us to question whether or not you were  
6 expanding the proposal to offset conservation costs  
7 against deferred property gains. But what you're  
8 saying today is that you are not expanding that  
9 proposal?

10          A.     No. I was just talking about those two  
11 items.

12          Q.     Staying on page 15 of your rebuttal  
13 testimony, at line 12, the implication of that -- or  
14 actually begins on line 11 through half of 13 -- it  
15 appears that you're implying the conservation costs  
16 and property gains are nonrecurring or unexpected. I  
17 guess my question is, what does that sentence mean?  
18 Elaborate on that testimony.

19          A.     Well, there I was getting a little bit  
20 beyond the subject of the paragraph, because the  
21 thought there I had was the -- I was sort of thinking  
22 of storm damage as an unexpected cost, a regulatory  
23 asset that gets spread over three years. In context  
24 of conservation, that wouldn't be an item unless we  
25 were to get an order where we couldn't defer

1 conservation anymore, you know.

2 Q. With respect to conservation and property  
3 gains, this testimony was not meant to imply that they  
4 are nonrecurring or unexpected?

5 A. No.

6 Q. The last sentence in that paragraph  
7 beginning on line 13 -- the sentence begins on line  
8 13 -- can you explain what that statement means and  
9 specifically whether or not tariffs will be filed to  
10 reflect the cost or benefits of tariffs for each year.

11 A. No. What I was talking about there is as  
12 we go forward and we pick up a test year, as all these  
13 different items amortize, whatever is in the test year  
14 is the amount that we would include in rates.

15 Q. On page 17 of your rebuttal testimony, you  
16 discuss the staff's proposal with respect to the  
17 amortization of storm damages. Is it correct that in  
18 Docket UE-951270 Puget included an adjustment for  
19 storm damages?

20 A. That's correct.

21 Q. And is it correct that that adjustment  
22 showed an increase in the amortization of  
23 extraordinary property damages for the Inaugural Day  
24 storm of January 1993?

25 A. Yes.

1 Q. And the net cost to the company for that  
2 storm was \$10,961,000, would you accept that subject  
3 to check?

4 A. I know the amount. That's not the net cost  
5 of the storm. The storm was about \$16 million. The  
6 10 million was what came in after the cutoff from the  
7 last rate case.

8 Q. Is it correct that the Inaugural Day storm  
9 increased the annual amortization by \$1,826,959?

10 A. Yes. Amortizations changed in that case  
11 for both that and land.

12 Q. Now, if Docket UE-951270 had become a  
13 typical full-blown general rate case and staff did not  
14 contest the figures for the storm damage adjustment, is  
15 it correct that the amortization of the Inaugural Day  
16 storm cost would have just begun this past month in  
17 October?

18 A. Yes. And the rates would have increased or  
19 changed based on whatever the order was.

20 Q. Has the amortization of those costs begun?

21 A. No.

22 Q. Has Puget revised the amortization  
23 schedules of any other regulatory assets according to  
24 the adjustments that were included in the 1270 docket?

25 A. No.

1 Q. So there's been no amortization of the net  
2 gains on property sales since the last general rate  
3 case?

4 A. Could you ask that a different way? We  
5 have been amortizing property sales since the last  
6 rate case, which was 1262.

7 Q. There was an adjustment in the 951270  
8 docket for sales of property since the last general  
9 rate case?

10 A. We have not adjusted that either. All  
11 adjustments have stayed at the 921262 level.

12 Q. Exhibit 235, which is your JHS-14, that's  
13 Puget's report of property sales for 1995, is that  
14 right?

15 A. That's correct.

16 Q. And pages 3 and 6 present the sales of the  
17 GO parking lot and the OBC land to Puget Western, is  
18 that right?

19 A. That's correct.

20 Q. On page 3, where you have the parking lot  
21 listed, it shows a book value of \$177,245, is that  
22 right?

23 A. That's correct.

24 Q. And it was sold to Puget Western for the  
25 about 4.8 million figure?

1 A. It was transferred, yes.

2 Q. So that netted Puget Power a gain on that  
3 sale of \$4,655,000, is that right, the difference  
4 between the two?

5 A. No. You would have to take taxes into  
6 consideration and some of the transfer fees. But it's  
7 close.

8 Q. On page 6 of the exhibit where you showed  
9 the OBC building land, that shows a book value at the  
10 bottom of the page of about 48 and a half thousand  
11 dollars?

12 A. That's correct.

13 Q. And it was sold to Puget Western for the  
14 4.3 million, is that right?

15 A. It was transferred, yes.

16 Q. Well, it says right above it, Sold to Puget  
17 Western, Incorporated.

18 A. That's what it says, but it was transferred  
19 in accounting terminology. You can't sell to  
20 yourself.

21 Q. Does Puget Power currently own title to  
22 that property?

23 A. We own Puget Western, so we can't register  
24 a sale until it's actually sold to a third party. It  
25 is transferred at that price. The gain is deferred on



1 Puget's books. There's an intercompany cancellation  
2 of the gain or loss, if you would.

3 Q. Subtracting those two numbers, subtracting  
4 the 48,000 from the 4.3 million, left a gain to Puget  
5 Power of \$4,275,000 approximately?

6 A. Yes.

7 Q. And so the sum of the gains on those two  
8 properties is about \$8.9 million?

9 A. Subject to tax, yes.

10 Q. In your direct testimony you claimed that  
11 the deferred property gains are 12.2 million as of  
12 December 31, 1995. Do you recall that?

13 A. Yes.

14 Q. So the gains from these transfers of the  
15 OBC land and the parking lot represent a substantial  
16 portion of that 12.2 million?

17 A. That's correct.

18 Q. With respect to the parking lot, is it true  
19 that the company is now using this parking lot for its  
20 own fleet of vehicles?

21 A. We currently are using it, yes.

22 Q. To park vehicles?

23 A. Yes. But the property is for sale.

24 Q. To who?

25 A. Anybody that wants to buy it.

1 Q. Would that be -- two accountants asking me  
2 to ask you a joke.

3 A. You have to ask it.

4 Q. I'm not going to do it.

5 You say on the parking lot the company is  
6 now parking its own vehicles and the employees are  
7 parking their vehicles?

8 A. For convenience, yes.

9 Q. Is it correct that the sale of the parking  
10 lot or transfer of the parking lot to Puget Western  
11 occurred in May of '95 and that it was leased back by  
12 Puget effective June 1, 1995?

13 A. Right, subject to sale.

14 Q. On page 19 of your rebuttal testimony,  
15 about two-thirds of the way down the page -- excuse  
16 me -- about two-thirds of the way into line 6, you  
17 state that Puget did not have to obtain Commission  
18 authorization to dispose of these properties because a  
19 determination was made at the company that the  
20 properties were not necessary, is that right?

21 A. That's right. They aren't necessary.

22 Q. If those properties were still useful to  
23 the company, would it have to obtain Commission  
24 authorization?

25 A. If they were operating properties and

1 useful in the operation of the company, yes, but  
2 that's not what these are.

3 MR. CEDARBAUM: Thank you, Mr. Story.  
4 Those are all my questions.

5 JUDGE SCHAEER: Mr. Manifold, did you have  
6 questions?

7 MR. MANIFOLD: Yes.

8

9 CROSS-EXAMINATION

10 BY MR. MANIFOLD:

11 Q. Do you know what the asking price is for  
12 the parking lot property?

13 A. No, I don't.

14 Q. Do you know how many of the pieces of  
15 property that were transferred from Puget to Puget  
16 Western have subsequently been resold -- or sold by  
17 Puget Western?

18 A. I don't have a count with me, no.

19 Q. There are some?

20 A. Sure. Once they are transferred to Puget  
21 Western -- the property settlement agreement specifies  
22 that we transfer them at market price. That's what  
23 we've done. Once they go to Puget Western, Puget  
24 Western will develop them, market them, sell them.  
25 Some they have taken losses on.

1 Q. Do you have what's been marked as Exhibits  
2 239 and 240 in front of you? 239 is response to public  
3 counsel data request 199 and 240 is your workpapers for  
4 JHS-13.

5 A. Yes, I do.

6 Q. Are those accurate, to the best of your  
7 knowledge?

8 A. Yes.

9 MR. MANIFOLD: Your Honor, I would move for  
10 the admission of Exhibits 239 and 240.

11 MR. VAN NOSTRAND: No objection.

12 JUDGE SCHAEER: Those documents are  
13 admitted.

14 (Admitted Exhibits 239 and 240.)

15 Q. Mr. Lehenbauer's testimony at page 7, line  
16 6, he says, quoting, Puget has also spent significant  
17 money on tree trimming and cable replacement programs.  
18 Exhibit 239 gives us a sense of what the past and  
19 budgeted amounts for tree trimming have been?

20 A. Yes.

21 Q. Exhibit 241, which we will be making copies  
22 of to distribute, I just want to ask you to make sure  
23 my copy is accurate. On a couple of pages there are  
24 crosses through certain sets of materials. Were those  
25 on the copy when provided?

1           A.       Yes.  We were asked to provide the accounts  
2 560 through 598, so some of these pages have accounts  
3 outside that range.  We just put an X through them.

4           Q.       Okay.  Regarding your Exhibits 230 and 233,  
5 I have a few questions about those.  Am I correct that  
6 both of those do not include best practices savings  
7 and power stretch savings?

8           A.       That's correct.  If you look at the bottom,  
9 wherever there's a zero, that means it's not been  
10 included, so --

11          Q.       Are schedule 48-related sales restated at  
12 tariff rates or at projected schedule 48 rates for  
13 these two exhibits?

14          A.       They were at Schedule 49.

15          Q.       They are at their original tariff rates?

16          A.       Yes.

17          Q.       What about the Georgia Pacific and  
18 Bellingham Cold Storage?

19          A.       The only adjustment here would be Arco.

20          Q.       So Arco is in this projection at its  
21 special contract rate, not a restated rate?

22          A.       That's correct.

23          Q.       Did you also do another run of what is in  
24 230, Exhibit 230, with the best practices and power  
25 stretch estimations included?

1           A.       That would be JHS-8, which I now think is  
2 Exhibit 96.

3           Q.       Do any of the financial forecasts that  
4 you've presented in JHS-7 through 12 include all three  
5 of the following elements: restating all special  
6 contracts and Schedule 48 at tariff rates, including  
7 all best practice and power stretch goals at the  
8 original company estimates, and zero rate changes during  
9 the five-year rate plan period, that is, one forecast  
10 that has all three of those elements?

11          A.       You're asking for the -- everything to be  
12 restated at Schedule 49, Arco included?

13          Q.       Yes.

14          A.       No.

15          Q.       Do any of those forecasts reflect basically  
16 public counsel's case concerning the BPA credit?

17          A.       No.

18          Q.       The BPA residential exchange matter?

19          A.       No. Quite frankly, we couldn't figure out  
20 how to forecast it.

21                   MR. MANIFOLD: Thank you. No further  
22 questions.

23                   JUDGE SCHAER: Mr. Freedman?

24                   MR. FREEDMAN: I have no questions, your  
25 Honor.

1 JUDGE SCHAER: Mr. Wright, do you have  
2 questions for this witness?

3 MR. WRIGHT: No questions, your Honor.

4 JUDGE SCHAER: Ms. Smith?

5 MS. SMITH: I have no questions.

6 JUDGE SCHAER: Mr. Merkel?

7 MR. MERKEL: No questions.

8 JUDGE SCHAER: Commissioners, do you have  
9 questions for Mr. Story?

10 CHAIRMAN NELSON: No.

11

12 EXAMINATION

13 BY COMMISSIONER HEMSTAD:

14 Q. Mr. Story, I'm still not entirely clear on  
15 the legal nature of the transfer of the properties  
16 that have been discussed. Is actual title transferred  
17 so that title transfer fees are paid, for example --

18 A. On the transfer to Puget Western?

19 Q. Yes.

20 A. Yes, there is a transfer of title. We  
21 can't recognize the gain between Puget Power and Puget  
22 Western because there's -- it's a subsidiary.  
23 However, we do treat it as a gain for ratemaking  
24 purposes.

25 Q. But where the man on the street or the

1 person on the street would consider a legal transfer  
2 of ownership?

3 A. Yes.

4 Q. And it's the company's position that these  
5 transfers are permissible because they are surplus or  
6 unnecessary properties for the operation of the  
7 business?

8 A. That's correct. If I might just point you  
9 to that letter that's my JHS-14, you'll see all sorts  
10 of properties in there that have been transferred. I  
11 mean the -- not just OBC and general office; these are  
12 all properties that are no longer needed in the  
13 business. I mean, we may park our cars on this  
14 parking lot until something is built there, but we can  
15 always park the cars someplace else.

16 Q. How does the company determine that a  
17 property is no longer needed or is unnecessary? Prior  
18 to the transfer, for example, the parking lot was used  
19 to park cars of the company or for employee parking,  
20 and after the transfer the same situation is true.  
21 What has changed?

22 A. The parking that we're doing currently now  
23 is more of a convenience. If that property is sold,  
24 it's basically three acres of asphalt in downtown  
25 Bellevue. The proposed usage of that land is most



1 probably retail. It's along the new Bellevue public  
2 corridor, and what they would like to do is develop  
3 theaters and retail shops on that land.

4 Q. So there's a higher value use for the  
5 property than merely as a parking lot?

6 A. Yes.

7 Q. How was the value of that property  
8 determined at the time of the transfer?

9 A. Under the property settlement agreement, we  
10 agreed that any property over \$50,000 would be  
11 appraised by a third party, open market appraiser.  
12 He's a registered property appraiser. And they go out  
13 and look at similar properties, what the best use of  
14 the property is, and they come up with a market value.  
15 And we transferred it at that price.

16 Q. But now the property is on the market for  
17 resale?

18 A. Yes. Currently there's a bid on it, but  
19 nobody's bought it. What somebody is looking at is a  
20 development of a some retail shops and theaters on  
21 there, but they are doing the planning right now and  
22 the deal has not closed. I don't know anything more  
23 than that about it.

24 Q. And is it the expectation that the sale  
25 price will be higher than the transfer price?

1           A.     It is expected to be higher. We have had  
2 it go the other way where we have had properties  
3 transferred and they actually sold for less.

4           Q.     Does Puget handle all of its property sales  
5 in this kind of an arrangement, namely, moving the  
6 property out from the control of the regulatory  
7 utility?

8           A.     No. Sometimes we'll have people walk in  
9 and ask to buy the property, they buy property under  
10 the lines or whatever, and we'll keep an easement on  
11 the land. That's pretty much a straight deal between  
12 the company and the individual. Sometimes we'll  
13 market it directly because we know a buyer is  
14 available. The ones that you tend to see transferred  
15 to Puget Western are the ones that are going to need  
16 work or some sort of marketing. We are not into  
17 marketing of the property.

18          Q.     What has the Commission, if you are aware,  
19 said about the appropriateness of these kinds of  
20 transfers in the past? Has it said anything?

21          A.     U-892688 is the case that put property  
22 sales sort of up in this light, if you would. 921262  
23 we went through this process. It was the same sort of  
24 thing where we transferred properties to Puget Western  
25 based on an appraised value. There was no problem.

1 It's in compliance with the agreement, the property  
2 settlement agreement.

3 COMMISSIONER HEMSTAD: That's all the  
4 questions I have.

5

6 EXAMINATION

7 BY JUDGE SCHAEER:

8 Q. Mr. Story, on page 4 of your testimony,  
9 lines 22 through 24, you discuss the difference of \$10  
10 million between Dr. Lurito's financial forecast and  
11 Exhibit TS-34, is that correct?

12 A. Yes.

13 Q. Can you provide detail of what the \$10  
14 million difference is comprised.

15 A. He just asked us to take \$10 million in  
16 there, put \$10 million in there. It was his request.

17 Q. So Dr. Lurito asked you to do what?

18 A. They -- I can't remember now if it was a  
19 cost or -- they asked us to just put in \$10 million of  
20 I believe cost savings into a given year and then in  
21 each subsequent year inflate it by the percentage  
22 change in savings on Mr. Flaherty's savings summary  
23 page. It was just what he was trying to do was come  
24 up with a sensitivity analysis, what he calls a  
25 sensitivity analysis. As you change these dollars

1 going forward, it has impacts on different parts of  
2 your income statement. And what he would do is then  
3 take each one of those years, take the actual dollars  
4 that staff was trying to adjust that year by, and  
5 through interpolation try to correct the model runs.  
6 And all we did was correct for that.

7 Q. On page 5 of your testimony at lines 5 and  
8 6, you state that staff's adjustment would require the  
9 company to issue additional debt. Please explain why.

10 A. It was an additional cost. If you have to  
11 go out and spend an extra \$10 million, you would have  
12 to get the money from somewhere. The only way you  
13 could do it if you've got a balanced cash statement is  
14 to issue \$10 million in debt.

15 Q. In the forecast that you have rerun using  
16 different assumptions, in JHS-8, 9, 10, and 11, have  
17 you included a page showing each change you made and  
18 the total impact of those changes compared to the base  
19 forecast?

20 A. We've provided workpapers which would be  
21 part of the exhibit to different parties that would  
22 show that. It's a difficult model run to look at  
23 because you get multiple impacts, as you can imagine.  
24 It's hard to break out each individual item. We could  
25 do that.

1 Q. You could do that?

2 A. Well, what we would have to do is run the  
3 model by each adjustment. You would have to start  
4 with your model run, take the first adjustment you're  
5 correcting for, run it, and then start with that model  
6 run, make a correction, so you could see the actual  
7 impact of each run. Normally, what you find is  
8 happening on these is they impact cash, which impacts  
9 debt, and that in turn impacts taxes and some of the  
10 other revenues and items occasionally.

11 Q. As bench request No. 6 would you provide us  
12 with the workpapers that you just described which show  
13 the changes that you made in your forecast?

14 A. You want the same workpapers that we  
15 provided to the other parties?

16 Q. Are those still accurate, given that you  
17 have filed revisions -- revised copies of these  
18 exhibits today or --

19 A. We're providing revised workpapers today  
20 also. They just haven't been run yet.

21 Q. Okay. If you could provide those  
22 workpapers, then, in response to bench request No. 6.

23 JUDGE SCHAEER: And I believe at this stage  
24 of the proceeding it would make sense just to give  
25 that an exhibit number so we may use those figures if

1 we need to. So let's mark as Exhibit TS-242 company  
2 response to bench request No. 6, which is the workpapers  
3 supporting JHS-8, 9, 10, and 11.

4 And is there any objection to that being  
5 part of the record?

6 (Marked Exhibit TS-242.)

7 MR. VAN NOSTRAND: No, your Honor.

8 JUDGE SCHAEER: I will admit that late-filed  
9 exhibit.

10 (Admitted Exhibit TS-242.)

11 MR. CEDARBAUM: Your Honor.

12 JUDGE SCHAEER: Yes, Mr. Cedarbaum.

13 MR. CEDARBAUM: I don't have any objection.  
14 I just want to make sure that what's provided is what  
15 you're looking for. I don't recall those workpapers  
16 actually breaking out, you know, each item  
17 item-by-item and showing what the run would look like.  
18 I could be wrong about that. I think what they just  
19 show were the underlying calculations for those  
20 exhibits, which do not do the exercise you wanted.

21 A. No. Like I was saying, we haven't run them  
22 on an individual basis. They are consolidated. All of  
23 the adjustments run through at the same time.

24 Q. I'm just about to be told what I want.  
25 We're looking for something like what Mr. Talbot

1 provided, if you look at Mr. Talbot's Exhibit TS-104.

2 A. What was it before?

3 Q. That was NHT-7. At page 5, which is the  
4 last page of that exhibit, and then if you also look  
5 at Exhibit TS-99 which was NHT-2, the last page of  
6 that exhibit, or that entire exhibit, you will see is  
7 where Mr. Talbot provided a reference case.

8 A. You're looking at page 4 of THS-2?

9 Q. Well, I think the entire exhibit is his  
10 reference case after the cover sheet. He's given us a  
11 reference case, and then in Exhibit 104, which is  
12 NHT-7, he has on the last page shown the adjustments to  
13 the reference case made in an alternative forecasts, so  
14 that we can compare the alternative to the base forecast  
15 or the reference forecast. We would like something like  
16 that for your forecast. Are we going to get something  
17 like that for bench request No. 6?

18 A. You're going to get something that looks  
19 much more complex, but it would be similar. We could  
20 -- what we would do is have to run each one of the  
21 model runs for -- our base case would be basically  
22 JHS-7, and we would run an adjustment from that. And  
23 then we would have to run each series of adjustments  
24 until we built up to JHS-8. Then we would have to run  
25 a series of adjustments to do JHS-9. And we could

1 label them as to which adjustment is doing what. So  
2 it'll be a lot of paper, because this is sort of a --  
3 it's a different model than what he was probably using  
4 here. He was using something pretty simple. Each run  
5 will be two pages, basically.

6 Q. And how many adjustments are we talking per  
7 exhibit?

8 A. Well, the first one is -- I mean, if you're  
9 used to looking at these, they are not complex.  
10 That's my only concern. We can try to make it look  
11 simple -- simplify it, but then it's not going to be  
12 what everybody else has seen. The JHS-8 has about  
13 five adjustments to it. JHS-9 has two adjustments  
14 from JHS-8. JHS-10 starts with a different forecast,  
15 which is a record requisition 19, and it has two  
16 adjustments to it. Then JHS-11 has one adjustment.  
17 JHS-12 has one adjustment.

18 Q. So if you had about two pages for each  
19 adjustment, I think that's a reasonable amount of  
20 paper. I don't want 500 pages of computer  
21 printout, but --

22 A. No. It will be summarized.

23 JUDGE SCHAEER: Okay. Well, then let's have  
24 what you just described be bench request No. 6, and  
25 that response will be Exhibit TS-242.



1 Q. Mr. Martin testified that a revision to his  
2 fixed charge adjustment would be appropriate to  
3 address the concern you've raised in your testimony at  
4 page 89 starting at line 21. Do you recall that  
5 testimony?

6 A. Yes.

7 Q. Have you reviewed the adjustment Mr. Martin  
8 said he would make?

9 A. Yes, on facilities, yes.

10 Q. And in your opinion, is it appropriate?

11 A. No. I don't think it's any better estimate  
12 of what we're trying to do here of trying to get a  
13 general idea of what the savings are. And I think  
14 what I'm talking about is erroneous calculations in  
15 that year. It's directly related to the facilities  
16 charge. I think the other day when Mr. Martin was on  
17 the stand, he said he had redone his numbers. I  
18 haven't seen that redo. And he said it would actually  
19 come up with a bigger savings. That tends to make me  
20 think he made a second problem that we didn't talk  
21 about or created a second problem that we didn't talk  
22 about in my testimony, which is, he took the gross  
23 value of the facilities and in that -- when you start  
24 using this kind of levelized or unlevel -- unlevelized  
25 fixed charge rate and you move out into the future,

1 now you are not looking at a plant that is starting  
2 at day one. You have a plant or a facility that has  
3 many layers of depreciation in it. You have  
4 retirements. You have additions. Each one of those  
5 has a different start date for this type of  
6 calculation, and to try to adjust his rate for all of  
7 those differences is very difficult. That's why you  
8 use a levelized charge rate and everything is treated  
9 the same. So I mean, it's a way of doing it. I don't  
10 think it's any way that's any better. In some ways  
11 it's worse.

12 Q. On page 11 of your testimony, you discuss  
13 Mr. Martin's adjustment to the unit cost on Exhibit  
14 28, is that correct?

15 A. That's correct.

16 Q. Given that Exhibit 28 is a forecast, why  
17 would it be incorrect to calculate the unit cost using  
18 both costs and units from UE-951270?

19 A. That's not what's included in our current  
20 rates, and what we're trying to do is measure the  
21 impact on our current rates as to where we have to get  
22 savings to cover future costs.

23 Q. On page 12 of your testimony at lines 12  
24 and 13, you state that a fair sharing of the merger  
25 benefits will occur and it will be measured based on

1 the cost to provide service, is that correct?

2 A. That's correct.

3 Q. How exactly would these measurements be  
4 performed and what studies or company documents would  
5 be used to support them?

6 A. We would still be required to file  
7 Commission basis reports going forward and we would  
8 provide those every six months, so actually I see  
9 those as sort of a training, if you would, on-the-job  
10 training on how we are going to do these things in the  
11 future. There will be some discussion, I'm sure, as  
12 to the proper allocations as those things are first  
13 designed, but that's where they would be reported.

14 Q. And again, looking at page 12 of your  
15 testimony, you discuss Mr. Schooley's adjustment to  
16 the executive separation costs, including the cost to  
17 achieve the merger. Do you agree with Mr. Schooley  
18 that the average salary cost used in this adjustment  
19 and those used in the savings adjustment for the  
20 executive separations should be the same, at least to  
21 the extent that the same four executive employees are  
22 involved?

23 A. Well, the last bit there is what throws me  
24 off some. Like I talked about with Mr. Cedarbaum  
25 earlier, I think what Flaherty was trying to do was

1 come up with a cost to achieve these savings and he  
2 used four executives to come up with a cost. That's  
3 the best information he had at the time. I think if  
4 you're going to make this kind of change, you should  
5 go through and change it to what the actual program is,  
6 and we should do that throughout Mr. Flaherty's  
7 estimates, because that's what they were, his  
8 estimates, and as you get better information, they are  
9 going to change. I don't think this is appropriate.  
10 It does measure -- I think the way he did it at the  
11 time he did it was appropriate.

12 Q. Let me back off to the more general  
13 question. Do you agree with Mr. Schooley that the  
14 average salary costs used in this adjustment and those  
15 used in the savings adjustment for executive  
16 separations should be the same?

17 A. No. They were used differently. Again,  
18 what Mr. Flaherty was trying to do was, when he did  
19 the savings, he used just an average salary which  
20 included some secretaries, administrative  
21 assistants' time -- or salaries. And when he took  
22 those five people, he just said, okay, on an average  
23 this is what the salary savings are going to be. When  
24 he was trying to actually calculate the cost for  
25 a different class of employee, he was saying that that

1 was more expensive than what his average was, and he  
2 used the top four executives of each company.

3 JUDGE SCHAEER: Is there any redirect for  
4 this witness?

5 MR. VAN NOSTRAND: Yes, your Honor.

6

7 REDIRECT EXAMINATION

8 BY MR. VAN NOSTRAND:

9 Q. Mr. Story, in response to questions from  
10 the bench you mentioned the property transfer issue in  
11 the 1989 rate case. How does the property settlement  
12 agreement you referred to relate to the 1989 rate  
13 case?

14 A. Well, out of the '89 case, there was a  
15 decision that we should go back I think 15 years and  
16 recapture property gains and pass them through to the  
17 customer, and that was built into the order. We -- I  
18 may not use the right terms here -- we sued the  
19 Commission over that as to whether that was  
20 appropriate or not, and it went through one level of  
21 the court system and it was going on to the next, the  
22 appeals court, and we worked out a settlement  
23 agreement as to how property sales would be handled in  
24 the future. We modified what happened in U-892688 to  
25 fit within the guidelines of what was still a revenue

1 requirement for that case, but we only looked at five  
2 years of history on property gains instead of 15. We  
3 changed the amortization and also the calculation of  
4 what would be allowed in rate base to fit still within  
5 the revenue requirement I think within \$20,000 over a  
6 three-year period to come up with a settlement agreement.  
7 The settlement agreement provides that anything less than  
8 \$50,000 -- and that's normally off the tax records or some  
9 estimate within the company -- generally what we do is if it  
10 looks like it's over 30,000 we'd send it out for appraisal.  
11 Anything less than 50,000 we had transferred at the tax  
12 rate, whatever the property tax rate is for the property.  
13 Anything over 50,000 we would get an appraisal and we would  
14 book the market value of the property. Again, we defer the  
15 gain or the loss until the next rate case. If it's  
16 transferred to Puget Western, they can do with it whatever  
17 they want to do with it.

18 Q. When you say you defer the gain or loss,  
19 then how is that treated for ratemaking purposes?

20 A. Under the agreement, it was -- we would  
21 hold those gains or losses until the next general rate  
22 case, then we would start amortization on the approved  
23 amounts, and that's what happened in the 921262.

24 Q. Mr. Cedarbaum directed you to your Exhibit  
25 235, which is the report filed with the Commission on

1 property transfers for the year 1995, in particular  
2 pages 3 and 6. Do you recall that?

3 A. Yes.

4 Q. Those gains related to the general office  
5 parking lot and OBC. How are those -- how were those  
6 treated for ratemaking purposes?

7 A. They were deferred in a deferred gain  
8 account to be addressed in this case.

9 Q. And as far as gains between ratepayers and  
10 shareholders, how were they treated?

11 A. Well, the gains would be going to the  
12 shareholder or the ratepayer based on the amount of  
13 time the property was held in utility property, which  
14 I didn't mention earlier. There is a split; if  
15 property is held on the utility's books and nonutility  
16 property for some time, then the gain is allocated  
17 between the company and the customer.

18 Q. And was the procedure followed with respect  
19 to OBC land and the general office parking land  
20 consistent with the settlement agreement?

21 A. Yes.

22 MR. VAN NOSTRAND: I have no further  
23 questions, your Honor.

24 JUDGE SCHAEER: Mr. Van Nostrand, would you  
25 please remind me what we did with the new Exhibit 23?

1 Did you ever identify this and tell us what it is or  
2 get it admitted?

3 MR. VAN NOSTRAND: No.

4 JUDGE SCHAEER: Would you like to do that.

5 MR. VAN NOSTRAND: Yes, I would, your  
6 Honor.

7 JUDGE SCHAEER: Okay. It kind of got away  
8 from me too.

9 Q. Mr. Story, do you have before you what is  
10 marked as your revised JHS-3?

11 A. Yes, I do.

12 Q. Is this the exhibit which is currently  
13 included in the record as Exhibit 23 of this  
14 proceeding?

15 A. Yes.

16 Q. And these revised pages which are dated  
17 1-11-96, would you describe what they do.

18 A. They just add another six months to the  
19 previous exhibit. At the beginning of the case, we  
20 told -- we informed everybody we would be updating  
21 this as we got new information, so this puts in the  
22 new, restated information to the most current date.

23 Q. When was that restated information  
24 prepared?

25 A. For Puget it was done at the end of



1 October, and for WNG it was done three months earlier  
2 because they are on a different year.

3 MR. VAN NOSTRAND: Your Honor, I would move  
4 the admission of these revised pages as a substitute  
5 for the Exhibit 23 already in the record.

6 JUDGE SCHAEER: Is there any objection?  
7 Then the copy of Exhibit JHS-3 which indicates it was  
8 revised November 4, 1996 will be included in the  
9 record as a complete substitute for the existing  
10 Exhibit 23, is that correct?

11 MR. VAN NOSTRAND: Yes. Thank you, your  
12 Honor.

13 (Admitted Exhibit 23.)

14 JUDGE SCHAEER: Does anyone else have anything  
15 further for Mr. Story?

16 MR. CEDARBAUM: I have just a couple short  
17 questions.

18 JUDGE SCHAEER: Go ahead, Mr. Cedarbaum.

19

20 RE-CROSS-EXAMINATION

21 BY MR. CEDARBAUM:

22 Q. Mr. Story, with respect to -- this is  
23 something I forgot to ask you before, so I apologize for  
24 going beyond the scope of recross here, but with  
25 respect to Ms. Lynch's Exhibit 28 CEL-3, is it your

1 understanding that what she shows there for production  
2 O&M excludes production depreciation expense?

3 A. I've got some of the detail before me right  
4 now. Could you repeat the question.

5 Q. As she shows production O&M expense on her  
6 exhibit, is it correct that production depreciation  
7 expense is excluded from her exhibit?

8 A. You're talking about Table 1?

9 Q. Yes.

10 A. Yes.

11 Q. You were also asked questions about Dr.  
12 Lurito's sensitivity analysis, the \$10 million plus or  
13 minus. Would you accept subject to check that that  
14 was asked through a staff data request No. 153 which  
15 part A asked as follows: please rerun the NEWCO  
16 financial forecasts provided in your response to staff  
17 data request No. 38C with the only changed assumption  
18 being a \$10 million decrease in O&M expense in 1997,  
19 inflated at the synergies saving rate for the years  
20 1998 through 2001?

21 A. Right. There were several runs on that.

22 Q. I'm just asking --

23 A. That was one of them, yes.

24 Q. And then part B was as -- rather than a \$10  
25 million decrease, it asked for a \$10 million increase?

1 A. Yes.

2 Q. Finally, with respect to this settlement  
3 agreement that you referenced concerning property  
4 sales, is it correct that your proposal in this case  
5 would seek to change the treatment that was settled  
6 upon?

7 A. Yes. It's proposing to change the holding  
8 of the gains and losses until a general rate case and  
9 start them as we accrue them.

10 MR. CEDARBAUM: Thank you. That's all I  
11 have.

12 JUDGE SCHAEER: Anything further for this  
13 witness?

14 MR. VAN NOSTRAND: No.

15 JUDGE SCHAEER: Let's be off the record for  
16 our morning recess. While we're off the record, let's  
17 change witnesses.

18 (Recess.)

19 JUDGE SCHAEER: Let's be back on the record  
20 after our morning recess. During the recess, Mr.  
21 Freedman and Mr. Merkel each distributed revised  
22 testimony for witnesses Opatrny and Anderson, and it's  
23 been represented to me that no parties have questions  
24 for these witnesses at this time, and I have just  
25 polled the commissioners and we also don't have

1 questions for these witnesses.

2                   It's my understanding that you wanted to  
3 put this testimony in by stipulation of the parties  
4 then, is that correct, Mr. Freedman?

5                   MR. FREEDMAN: Yes, it is correct.

6                   JUDGE SCHAEER: Are you also representing  
7 Mr. Merkel's person since he's not here?

8                   MR. FREEDMAN: I would be happy to.

9                   JUDGE SCHAEER: Wonderful.

10                  MR. MANIFOLD: We had questions for  
11 Opatrny, but not for Anderson.

12                  THE COURT: I'm sorry. They had not  
13 checked with you?

14                  MR. MANIFOLD: We talked about Anderson but  
15 not Opatrny.

16                  MR. FREEDMAN: She can be here tomorrow  
17 afternoon to testify.

18                  MR. MANIFOLD: Let's talk about that before  
19 we do that.

20                  JUDGE SCHAEER: Let's go ahead and mark Mr.  
21 Anderson's testimony, which is -- is this a supplement  
22 to what's already been filed by Mr. Anderson or is  
23 this a replacement?

24                  MR. FREEDMAN: I think in the case of the  
25 PUD Association's testimony it's supplemental.

1                   JUDGE SCHAER: Let's mark as Exhibit T-243  
2 prefiled direct testimony of Tom Anderson, which is  
3 numbered TA-T at the top. That would be T-243. And  
4 let's mark for identification as Exhibit T-244  
5 prefiled supplemental direct testimony of Tom Anderson,  
6 which is identified at the top as WPUD-2.

7                   And it's my understanding, Mr. Freedman,  
8 that you wanted to offer these exhibits at this point,  
9 is that correct?

10                   (Marked Exhibits T-243 and T-244.)

11                   MR. FREEDMAN: Yes, by stipulation.

12                   JUDGE SCHAER: Is there any objection to  
13 their entry into the record without Mr. Anderson  
14 appearing as a witness?

15                   MR. HARRIS: No, your Honor. I would add  
16 only, though, that part of our agreement is that by  
17 stipulation we will be offering certain of Mr.  
18 Anderson's data request responses and we will have  
19 those available tomorrow.

20                   JUDGE SCHAER: All right. Anything further  
21 regarding this? Then I will admit Exhibits T-243 and  
22 244 into the record.

23                   (Admitted Exhibits T-243 and T-244.)

24                   While we were off the record Mr. Karp has  
25 assumed the witness stand. Will you please stand and

1 raise your right hand, sir.

2 Whereupon,

3 MICHAEL KARP,

4 having been first duly sworn, was called as a witness

5 herein and was examined and testified as follows:

6

7 DIRECT EXAMINATION

8 BY MR. MANIFOLD:

9 Q. Would you please state your name and  
10 address.

11 A. Michael Karp, 31 Appaloosa Road,  
12 Bellingham, Washington.

13 Q. Did you cause to be predistributed certain  
14 testimony and exhibits in this matter?

15 A. Yes, I did.

16 MR. MANIFOLD: Your Honor, could I have  
17 those marked.

18 JUDGE SCHAEER: Yes. The prefiled testimony  
19 of Mr. Karp I'll mark for identification as Exhibit  
20 T-245; as Exhibit MK-2 I will mark for identification  
21 as Exhibit 246; as Exhibit MK-3 I will mark for  
22 identification as Exhibit 247; as Exhibit MK-4 I will  
23 mark for identification as Exhibit 248; as Exhibit  
24 MK-5 I will mark for identification as Exhibit 249;  
25 MK-6 mark for identification as Exhibit 250; MK-7 as

1 Exhibit 251; MK-8 as Exhibit 252; MK-9 as Exhibit 253;  
2 and MK-10 -- excuse me -- MK-10 as Exhibit 254; MK-11  
3 as Exhibit 255; MK-12 as Exhibit 256.

4 Are those all of the exhibits that were  
5 filed for Mr. Karp, Mr. Manifold?

6 (Marked Exhibits T-245, 246 through 256.)

7 MR. MANIFOLD: Yes.

8 Q. Is what's been marked as Exhibit T-245 your  
9 prefiled testimony in this matter?

10 A. Yes.

11 Q. Is it true and correct to the best of your  
12 knowledge?

13 A. Yes, it is.

14 Q. Does what has been marked as Exhibits 246  
15 through 256 constitute the exhibits accompanying your  
16 testimony?

17 A. Yes.

18 Q. Are they true and correct, to the best of  
19 your knowledge?

20 A. Yes, they are.

21 MR. MANIFOLD: Your Honor, I would move for  
22 the admission of Exhibits T-245 and Exhibits 246  
23 through 256.

24 MR. VAN NOSTRAND: No objection.

25 JUDGE SCHAEER: Those documents are

1 admitted.

2 (Admitted Exhibits T-245 and 246 through  
3 256.)

4 MR. MANIFOLD: Mr. Karp is available for  
5 cross-examination.

6 MR. VAN NOSTRAND: Your Honor, would you  
7 have marked for identification the exhibit which we  
8 just distributed.

9 JUDGE SCHAEER: I'll do that now, Mr. Van  
10 Nostrand.

11 MR. VAN NOSTRAND: Thank you.

12 MR. MANIFOLD: You distributed something  
13 for Mr. Karp?

14 MR. VAN NOSTRAND: Yes.

15 JUDGE SCHAEER: I have a multipage exhibit  
16 states at the top Public counsel responses to Puget  
17 WNG data requests, appears to be responses to 345,  
18 346, 351, 353, 357, 358, 359, and 443. And I will  
19 mark these as Exhibit 257 for identification.

20 (Marked Exhibit 257.)

21 MR. VAN NOSTRAND: Thank you, your Honor.

22

23 CROSS-EXAMINATION

24 BY MR. VAN NOSTRAND:

25 Q. Good morning, Mr. Karp.



1 A. Good morning.

2 Q. James Van Nostrand, counsel for Puget  
3 Power. Do you have before you what's been marked for  
4 identification as Exhibit 257?

5 A. Excuse me. 257 is the data request?

6 Q. Data request response.

7 A. The total responses?

8 Q. Yes.

9 A. Yes.

10 Q. Do you have that before you?

11 A. Yes.

12 Q. And you recognize that as your responses to  
13 certain data requests submitted to you by joint  
14 applicants?

15 A. Yes.

16 Q. These are your responses?

17 A. Yes, they are.

18 Q. Are they true and correct, to the best of  
19 your knowledge?

20 A. Yes.

21 MR. VAN NOSTRAND: Your Honor, I move the  
22 admission of Exhibit 257.

23 MR. MANIFOLD: No objection.

24 JUDGE SCHAEER: Document is admitted.

25 (Admitted Exhibit 257.)

1 Q. Mr. Karp, your testimony refers to PSE's  
2 commitment to spend up to \$1 million annually for low  
3 income weatherization, refers to that on page 7 there  
4 at the bottom of the page. Do you understand that  
5 this \$1 million would, under the company's proposal,  
6 not be recovered in rates but would be essentially  
7 funded by PSE shareholders?

8 A. Yes.

9 JUDGE SCHAER: Mr. Karp, I'm going to ask  
10 you to pull the microphone closer to you and to speak  
11 directly into it because people in the back of the  
12 room cannot hear you, which would mean people in the  
13 conference bridge also cannot hear you, sir.

14 THE WITNESS: Is this better?

15 JUDGE SCHAER: Yes, thanks.

16 Q. Turning to your recommended conditions for  
17 the merger on page 16, you talk about a .45 percent  
18 funding level for low income weatherization. Is this  
19 part of the regional review recommendations?

20 A. It's part of the recommendation in its  
21 draft form as it heads into its final recommendation.

22 Q. And if adopted on a regional basis, would  
23 that mean that all utilities in the region would agree  
24 to spend .45 percent of electric revenues on these  
25 activities?

1           A.     It's my understanding that that's the  
2 intent going into recommendation to each of the  
3 states, and the states, the legislature, would most  
4 appropriately act on the recommendation and that would  
5 be for public and private utilities.

6           Q.     And in terms of where we are with that  
7 process, how close is that to being a final  
8 recommendation now in the regional review process?

9           A.     With all due respect to Chairman Nelson, who  
10 is on that steering committee, I believe there is a  
11 December date for a final recommendation that  
12 concludes the -- that process. They are in a hearing  
13 process right now, a few more hearings and at least a  
14 couple of weeks' worth of steering committee meetings.

15          Q.     Is it your recommendation that PSE be  
16 required to fund at this level whether or not any  
17 action adopted at that level is taken at the regional  
18 level?

19          A.     It would be my recommendation. I should  
20 note that the investor-owned utilities on the steering  
21 committee who are representing Puget Power, Puget Sound  
22 Energy, have been supporting that level of funding,  
23 which is about three percent of gross operating revenues  
24 of each company for public purposes, of which low income  
25 weatherization about \$30 million a year is part of that

1 recommendation. That 30 million equates to about the four  
2 and a half tenths of a percent of gross operating revenues,  
3 so the companies have been supporting that all along.

4 Q. The other recommendation you had was for  
5 the two percent -- or .2 percent of gross operating  
6 revenues being applied to gas operations. Now, I take  
7 it this does not come out of the regional review  
8 process?

9 A. That's correct.

10 Q. And it's based on legislation adopted in  
11 Wisconsin, is that right?

12 A. That's one of the states that's most  
13 prominent in that type of activity as a state that  
14 uses gas heating predominantly and has that  
15 recommendation set I think since the early 1980s. The  
16 intent is that as part of public purposes or to  
17 demonstrate a commitment in the public interest to  
18 low-income households for those that do use gas that  
19 there should be some direct benefit from the merger,  
20 and this is one of the forms that can take.

21 Q. Would there be a similar requirement  
22 imposed on other gas utilities in the region?

23 A. In discussions I've had recently with the  
24 Northwest Gas Association, it's my understanding that  
25 there's a commitment to go to each legislature and be

1 part of the solution on a fuel-blind low-income energy  
2 assistance and weatherization package that comes from  
3 the energy system that is the gas and electric utilities  
4 at a minimum.

5 Q. Is there a commitment to spend .2 percent  
6 of revenues for these activities?

7 A. There hasn't been a dialogue as to what  
8 level of activities that I know of as far as  
9 regionwide.

10 Q. It's your recommendation that PSE be  
11 required to fund at this level whether or not anybody  
12 else in the region goes along?

13 A. Yes.

14 Q. Another part of your testimony talks about  
15 the carbon monoxide remediation problem, and you  
16 propose a condition of the merger in relation to that  
17 issue. Is there something about the merger in and of  
18 itself which causes a concern about carbon monoxide  
19 poisoning to become a greater problem?

20 A. No. May I expand on that?

21 Q. Yes.

22 A. It's -- really, it's an opportunity for the  
23 company on the gas side to demonstrate again some  
24 benefits that are in the public interest in a merger  
25 proceeding, that is, I'm not confident that without a

1 program such as that direct program for efficiency and  
2 carbon monoxide remediation for low income that they  
3 will see very direct benefits from this merger. This  
4 assures that at least at a minimum that there are some  
5 benefits to meet the need which I and others believe is a  
6 substantial need.

7 Q. How do you propose that these costs be  
8 recovered? I guess -- would they be recovered in rates?

9 A. Is that for the gas only or both?

10 Q. And for the carbon remediation, both.

11 A. You are recovered, yes, as a cost of doing  
12 business.

13 I should note that Mr. Amen in his rebuttal  
14 testimony addressed that issue to the extent of saying  
15 that if the stake holders thought that the \$1 million  
16 that was put aside for weatherization decided to use  
17 those funds for this type of activity, if I'm correct  
18 in reading his response, that that could be an  
19 appropriate use.

20 MR. VAN NOSTRAND: I have no further  
21 questions, your Honor.

22 JUDGE SCHAEER: Mr. Wright, did you have  
23 questions -- excuse me. Mr. Cedarbaum, did you have  
24 questions of this witness?

25 MR. CEDARBAUM: No, I don't.

1 JUDGE SCHAER: Mr. Wright, did you have  
2 questions of this witness?

3 MR. WRIGHT: No, your Honor.

4 JUDGE SCHAER: Ms. Smith?

5 MS. SMITH: I have just a few, your Honor.

6

7 CROSS-EXAMINATION

8 BY MS. SMITH:

9 Q. Good morning, Mr. Karp.

10 A. Good morning.

11 Q. Mr. Karp, in your testimony you endorse the  
12 concept that Puget Sound Energy should promote and  
13 accomplish certain programs with regard to low-income  
14 households. Is one of those programs that you promote  
15 fuel switching from electric space and water heating to  
16 natural gas heating?

17 A. Where appropriate, mm-hmm.

18 Q. And as you went through with Mr. Van  
19 Nostrand right now, you propose that that level be  
20 accomplished for the electric side of Puget Sound  
21 Energy's business four and a half million dollars  
22 annually?

23 A. Yes.

24 Q. Is this throughout the term of the rate  
25 stability period?

1 A. Yes.

2 Q. Okay. And in addition to fuel switch- --  
3 would this entire four and a half million dollars be  
4 dedicated to fuel switching?

5 A. No. The intention is that the very great  
6 majority of those funds are for weatherization of  
7 homes, of which, trying to define broadly, that may  
8 include fuel switching, energy education, other types  
9 of activity, maybe even -- well, the company spoke to  
10 manufactured housing, and I'm not clear as to what  
11 their intentions are, but a fairly broad definition.

12 I was thinking about the Washington Water  
13 Power fuel switching program. That seemed to be fairly  
14 successful and seems like that would benefit those  
15 households.

16 Q. And so the Washington Water Power-type  
17 program is a program you would endorse for Puget Sound  
18 Energy?

19 A. Yes.

20 Q. Okay. You acknowledged in your questions  
21 to Mr. Van Nostrand and also in your prefiled  
22 testimony, I believe, that Puget Sound Energy's  
23 committed to spending \$1 million of shareholder money  
24 for low-income programs, is that correct?

25 A. That's correct, except that --



1           Q.     Mr. Karp, just one moment. My question is  
2 going to be, why don't you find that adequate? Why do  
3 you endorse the concept of four and a half percent of  
4 revenues for the electric side of PSE's business?

5           A.     I don't find the 1 million adequate, to  
6 begin with, because the language is "up to \$1 million,"  
7 and that isn't exactly a comfortable commitment that a  
8 million dollars will be spent. I'm also not  
9 comfortable that that's adequate because there is no  
10 delineation in particular budgets for the types of  
11 activities that are mentioned in Mr. Sonsteli's  
12 testimony. Lists a number of things, including  
13 manufactured housing, and it doesn't give a clear  
14 picture as to how much money might be spent for what  
15 type of activity, therefore, low income weatherization  
16 might be just a small amount of that money up to -- I  
17 don't believe the \$1 million is adequate, because I tried  
18 to demonstrate what the need is in my testimony in Puget  
19 Power's territory service area for the number of low-income  
20 households that there are and how many homes have been  
21 weatherized to date and what that gap looks like, which is  
22 substantial.

23                     One can argue whether 77,000 households  
24 are remaining, or some version of that, but there's a  
25 substantial amount of households remaining to be

1 weatherized, and that direct efficiency for those  
2 households is really critical for them in trying to  
3 have affordable energy.

4 Q. Is it also true that even at the four and a  
5 half percent level of revenues that the 20-year  
6 recommended goal by the conference of review steering  
7 committee still won't be met with regard to low-income  
8 assistance programs?

9 A. Based on my calculations, it looks that  
10 way, using some average costs.

11 Q. Mr. Karp, I would like to focus now on your  
12 testimony concerning, well, your endorsement of fuel  
13 switching as an appropriate low income assistance  
14 program. Do you believe that Puget Sound Energy will  
15 pursue fuel switching for low-income households, or  
16 for any households, for that matter, if the company  
17 stands to lose fixed costs margins each time it fuel  
18 switches?

19 A. I would have my doubts as to the scale of  
20 that type of investment. Again, Mr. Sonsteli in his  
21 direct testimony spoke to that, and it wasn't very  
22 specific as to what that commitment looked like other  
23 than this is a type of activity that might take place.  
24 So I would be concerned as to how many units, if any,  
25 might get accomplished.

1 Q. Would you agree with me, Mr. Karp, that a  
2 loss margin of about \$600 per customer would be a  
3 powerful disincentive to the company to do fuel  
4 switching?

5 A. At first, certainly at first glance, that  
6 would be my opinion.

7 Q. Okay. Mr. Karp, I would like to ask you  
8 just a couple of questions now about -- and these  
9 would be to follow up on Mr. Van Nostrand's questions --  
10 your proposals for funding the measures that you  
11 endorse for low-income households. How is it exactly  
12 that you would propose to fund your measures for  
13 low-income households both for the electric and the  
14 natural gas sides of the business? Does your proposal  
15 envision that shareholders would fund the entire amount,  
16 for example?

17 A. I would start with the million dollars  
18 offered from the shareholders and then supplement the  
19 difference, both the remaining approximately three and  
20 a half million dollars a year for the electric side  
21 and about 840,000 a year on the gas efficiency. And  
22 then another couple hundred thousand is what I  
23 recommended, all of that together, as a cost of doing  
24 business, basically, from ratepayers.

25 Q. May I interrupt you right there?

1 A. Yes.

2 Q. Do you believe that that amount of money  
3 can be collected within the rate proposal being  
4 endorsed by public counsel in this proceeding or do  
5 you believe that there would be some sort of separate  
6 mechanism that would be necessary or that may be  
7 necessary to collect those funds?

8 A. To the extent that it can be captured  
9 within this proceeding and not require a supplemental  
10 proceeding, I would say -- it's -- it's beyond my  
11 expertise. I would probably defer that to Mr. Lazar,  
12 who has more expertise on that matter.

13 Q. Do you reject a tracker mechanism?

14 A. Again, I would rather defer that to Mr.  
15 Lazar. I'm not that comfortable with those economics.

16 Q. Let me just ask you, although I suspect I  
17 know the answer. Do you endorse or object to a  
18 proposal for nonbypassable systems benefit charge to  
19 recover these costs?

20 A. Yes. Ideally from a regional level,  
21 especially as a response to the comprehensive review,  
22 that -- that's what I would recommend.

23 Q. You would endorse the concept of a  
24 nonbypassable system benefit charge for PSE to recover  
25 the costs of its low-income programs?

1           A.       I'm making -- I'm trying to actually  
2 clarify. I want to make a distinction about the  
3 comprehensive review and the effective date of that,  
4 which is down the road a piece some years, and at that  
5 point I would think that that would be an appropriate  
6 mechanism. In the interim up to that point, I would  
7 suggest that as a cost of doing business for a public  
8 purpose, that for a vital and essential public purpose,  
9 that this would come out of accommodation of shareholders,  
10 as I mentioned, and rates.

11                   MS. SMITH: Thank you, Mr. Karp. Your  
12 Honor, I have no further questions.

13                   JUDGE SCHAER: Mr. Freedman?

14                   MR. FREEDMAN: I have no questions, your  
15 Honor.

16                   JUDGE SCHAER: Mr. Merkel?

17                   MR. MERKEL: No questions.

18                   JUDGE SCHAER: Commissioners, did you have  
19 questions for Mr. Karp?

20                   CHAIRMAN NELSON: Yes.

21

22                                   EXAMINATION

23 BY CHAIRMAN NELSON:

24           Q.       Mr. Karp, at page 3 of your testimony you  
25 indicate the annual bill for low-income people is

1 \$840, is that right?

2 A. That's what I understand to be the annual  
3 energy bill, not the annual electricity bill  
4 necessarily.

5 Q. That includes gas, electricity?

6 A. It's an average energy bill. And for those  
7 65 percent in the state that are low-income heat with  
8 electricity, that would have been melded into that  
9 average that I got from the Department of Community  
10 Development.

11 Q. You mention it seems with approval programs  
12 in Wisconsin and California, is that right?

13 A. Yes.

14 Q. Were those programs authorized by the state  
15 legislature or simply by the state public utilities  
16 commission?

17 A. I believe Wisconsin was sanctioned by the  
18 legislature and California also by the legislature.

19 CHAIRMAN NELSON: Thank you. That's all I  
20 have.

21 COMMISSIONER HEMSTAD: I have no questions.

22 COMMISSIONER GILLIS: I have no questions.

23 JUDGE SCHAEER: Is there any redirect for  
24 this witness?

25 MR. MANIFOLD: Yes, briefly.

## REDIRECT EXAMINATION

1

2 BY MR. MANIFOLD:

3

Q. Is it your understanding that public  
4 counsel's witness Neil Talbot took into consideration  
5 your recommendations in doing his financial forecasts?

6

A. Yes.

7

Q. Given that the comprehensive review is at  
8 this point a draft and that the final recommendation  
9 will be made in early December, why do you recommend  
10 that this Commission make a specific requirement on  
11 Puget Sound Energy?

12

A. I think, as I mentioned earlier, that there  
13 has been a commitment from Puget Sound Energy, as part  
14 of the investor-owned utility team represented on the  
15 steering committee, the comprehensive review, for that  
16 level of commitment, and there's been support all along.  
17 For this proceeding as a merger proceeding, again, in  
18 order to ensure that there's direct benefit to low-income  
19 households, this will be an opportunity for the company  
20 to make such a commitment.

21

MR. MANIFOLD: Thank you. No other  
22 questions.

23

JUDGE SCHAER: Anything further for this  
24 witness? Thank you for your testimony. Let's go off  
25 the record for a brief moment to change witnesses.

1 (Discussion off the record.)

2 MR. VAN NOSTRAND: Call Mr. Steinmeier.

3 JUDGE SCHAEER: Let's be back on the  
4 record. While we were off the record, Mr. Steinmeier  
5 took the stand.

6 Whereupon,

7 WILLIAM D. STEINMEIER,  
8 having been first duly sworn, was called as a witness  
9 herein and was examined and testified as follows:

10 JUDGE SCHAEER: Did any party have exhibits  
11 for Mr. Steinmeier? I'm going to mark Mr.  
12 Steinmeier's rebuttal testimony for identification as  
13 Exhibit T-258 and I'm going to mark his Exhibit WDS-2  
14 as Exhibit 259 for identification.

15 Go ahead, Mr. Van Nostrand.

16 (Marked Exhibits T-258 and 259.)

17 MR. VAN NOSTRAND: Thank you, your Honor.

18

19 DIRECT EXAMINATION

20 BY MR. VAN NOSTRAND:

21 Q. Mr. Steinmeier, can you state your name and  
22 spell it for the record, please.

23 A. My name is William D. Steinmeier,  
24 S T E I N M E I E R.

25 Q. And do you have before you what's been



1 marked for identification as Exhibit T-258?

2 A. That's correct.

3 Q. And you recognize that as your prefiled  
4 rebuttal system in this proceeding?

5 A. Yes, I do.

6 Q. Do you have any additions or corrections to  
7 make to Exhibit T-258 at this time?

8 A. A small correction on page 1, line 11. At  
9 the end of the line the word "and" should be changed to  
10 "as."

11 Q. And as corrected, if I asked you the  
12 questions set forth in Exhibit T-258, would you give  
13 the answers as set forth therein?

14 A. Yes, I would.

15 Q. And do you also have before you what's been  
16 marked for identification as Exhibit 259?

17 A. I do.

18 Q. And is that the exhibit accompanying your  
19 prefiled rebuttal testimony?

20 A. Yes, it is.

21 Q. Do you have any additions or corrections to  
22 make to that exhibit?

23 A. On page 2 I would simply add that in  
24 addition to the testimony previously filed listed on  
25 this exhibit, on October 29 I had rebuttal testimony

1 filed in the Kansas case, which is the last item on  
2 page 2; on November, 5 rebuttal testimony in the  
3 Oklahoma case, which is the second item listed on page  
4 2. With that update, the exhibit is correct.

5 Q. And was it prepared under your direction  
6 and supervision?

7 A. Yes, it was.

8 MR. VAN NOSTRAND: Your Honor, I move the  
9 admission of Exhibit T-258 and Exhibit 259.

10 JUDGE SCHAEER: Any objection?

11 MR. CEDARBAUM: No.

12 JUDGE SCHAEER: Those documents are  
13 admitted.

14 (Admitted Exhibits T-258 and 259.)

15 MR. VAN NOSTRAND: Mr. Steinmeier is  
16 available for cross-examination.

17 JUDGE SCHAEER: Mr. Cedarbaum, did you have  
18 questions?

19 MR. CEDARBAUM: Yes, I do.

20

21 CROSS-EXAMINATION

22 BY MR. CEDARBAUM:

23 Q. Good morning, Mr. Steinmeier. My name is  
24 Robert Cedarbaum. I am representing the Commission  
25 staff in this case.

1           In your testimony, you indicate that you are  
2 an attorney and a consultant doing business as a  
3 professional corporation in Missouri, and then you  
4 also indicate on page 3 at the bottom that the lawyers  
5 in this case will argue about what public interest  
6 means in their briefs.

7           Do I take it from that testimony that  
8 you're appearing today not in a legal capacity?

9           A.     That's correct.

10          Q.     Is it also correct that you've never  
11 testified before in a merger proceeding?

12          A.     That's correct.

13          Q.     And you've also not published any articles  
14 or treatises or other documents specifically with  
15 respect to mergers?

16          A.     That's correct.

17          Q.     Is it also correct that you were first  
18 contacted to testify in this case on September 27,  
19 1996?

20          A.     To the best of my recollection, that would  
21 be the date.

22          Q.     That was the date that you gave us in  
23 response to our data request No. 172.

24          A.     Then that was the date.

25          Q.     So I take it, then, that your familiarity

1 with this case, with the parties' positions in the  
2 case, and with the statutes and rules that apply to  
3 this case began sometime after that, the 27th of  
4 September?

5 A. I had some familiarity with Washington  
6 statutes and regulatory process prior to that date,  
7 but as to the specific facts of this case and the  
8 testimony in this case, it would be after that date.

9 Q. Who contacted you specifically to testify?

10 A. Mr. Weaver at Puget Sound.

11 Q. And at the time Mr. Weaver contacted you,  
12 did he indicate what the company's position would be  
13 in its rebuttal testimony?

14 A. He indicated primarily what staff and  
15 public counsel were proposing to do in terms of the  
16 rate plan.

17 Q. Did he indicate to you at that time what  
18 either -- what Puget and Washington Natural's  
19 positions were with respect to the staff or public  
20 counsel merger rate plan proposals?

21 A. Obviously, the company had some concerns  
22 about staff and public counsel's proposals in those  
23 regards, and that was the issue that he wanted me to  
24 look at.

25 Q. So going into preparing your testimony, you

1 were aware of those concerns from the company's point  
2 of view?

3 A. Certainly.

4 Q. Is it a general understanding of your  
5 philosophy with respect to a merger that you believe a  
6 merger should be approved unless it would cost some  
7 direct detriment to the public?

8 A. That is consistent with my general view of  
9 the matter, yes, sir.

10 Q. And that's as you answered in response to  
11 data request No. 174 to the staff?

12 A. I'm sure I would not have answered the data  
13 request contrary to that. And if you tell me that was  
14 the number of the data request, I'll gladly take your  
15 word for that.

16 Q. In data request 175 that staff asked you,  
17 we asked whether the public interest standard  
18 precludes consideration of whether the ratepayers are  
19 better off with the merger than without. And in part  
20 of your answer, you said that the question was academic  
21 because all parties agree that the merger provides  
22 some benefits. Do you recall that?

23 A. You will forgive me, Counsel, for not  
24 having memorized all my answers to your data  
25 responses. I am now refreshing my recollection as to

1 what I wrote to you. (Reading.)

2 Q. If you're looking at your response to our  
3 data request No. 175 --

4 A. Yes.

5 Q. -- where we asked you the question that I  
6 just indicated, your response in the first sentence  
7 says that it appears to Mr. Steinmeier that this  
8 question is academic in this case due to the positive  
9 benefits that will result from this merger as outlined  
10 by Mr. Sonstelie.

11 A. Yes.

12 Q. And then you say no one seems to contest  
13 the fact that the merger produces benefits. Is that  
14 right?

15 A. That's right.

16 Q. In your response you also indicate that you  
17 believe the Commission should not require proof that  
18 ratepayers are better off. And this is toward the  
19 bottom. Do you see that, your response, again in your  
20 response to data request No. 175 that you believe that  
21 the Commission should not require proof that  
22 ratepayers are better off with the merger than without  
23 the merger in order to approve the merger? Do you see  
24 that?

25 A. Yes, I do.

1 Q. When you say that the Commission should not  
2 require proof, do you mean to say that the Commission  
3 could not require that proof?

4 A. As in many matters of practical application  
5 of legal standards, there is a line somewhere beyond  
6 which I believe requiring excessive conditions as a  
7 condition of merger would probably come into conflict  
8 with the property rights of the share owners of the  
9 companies involved.

10 Q. I'm not sure that answered my question.

11 Is it your testimony that the Commission  
12 could not require proof that ratepayers are better off  
13 with the merger than without, granted that there might  
14 be a line at which those benefits would cross, in your  
15 opinion, some legal prohibition, but could the  
16 Commission require proof that ratepayers are better  
17 off with this merger than without as opposed to your  
18 opinion that the Commission should not require that  
19 proof?

20 A. Well, specifically under Washington law as  
21 I've suggested, that -- that is an issue that local  
22 counsel will certainly address. The major thrust of  
23 that portion of my rebuttal testimony is simply to  
24 indicate that in past merger cases approved by this  
25 Commission, there has not been applied a standard that

1 specific customers or that all customers receive rate  
2 decreases as a benefit as a result of a merger.

3 Q. So you have no opinion as to whether or not  
4 the Commission could require that proof?

5 A. Not ultimately.

6 Q. At page 5 of your testimony, you discuss the  
7 Water Power-Sierra Pacific and the Pacificorp-Utah  
8 Power and Light mergers. Is it correct that your  
9 review of those two merger proceedings was limited to a  
10 review of the orders from those cases and not the  
11 testimony that underlied them?

12 A. That is correct.

13 Q. With respect to the Water Power merger, is  
14 it correct -- and that was from this Commission's  
15 proceeding -- that merger resulted in -- that  
16 proceeding resulted in stipulation amongst the  
17 parties? Is that right?

18 A. Yes.

19 Q. Is it correct or would you accept subject  
20 to check that the stipulation in that case required an  
21 accelerated amortization of DSM costs?

22 A. Yes.

23 Q. Is it also true that the stipulation in  
24 that case required a fair sharing of the benefits from  
25 the merger between the Water Power and Sierra Pacific



1 divisions?

2 A. May I have a moment to --

3 Q. Sure.

4 A. -- review my notes? Counsel, I'm not  
5 readily finding what I need, and I'll be glad to accept  
6 subject to check.

7 Q. Sure. Let me state it this way. Would you  
8 accept subject to check that in the Water Power-Sierra  
9 Pacific merger, the stipulation specifically stated  
10 that the applicant shall ensure that fairness in the  
11 distribution of merger-related benefits between the  
12 two commissions is achieved?

13 A. Certainly.

14 Q. With respect to the Pacific or Utah Power  
15 and Light merger, is it correct that that merger  
16 resulted in rate decreases for Washington ratepayers?

17 A. The Pacificorp?

18 Q. Yes.

19 A. Ultimately did, 1.4 percent, as I understand  
20 it, in 1989.

21 Q. And that merger also resulted in an  
22 increased investment in DSM, is that correct, or would  
23 you accept that subject to your check?

24 A. I would.

25 Q. And it also extended the rate holdout

1 period that was proposed by Pacificorp from 4 to 5  
2 years? You have to answer orally so we can get this on  
3 the record.

4 A. That sounds correct. I haven't memorized  
5 the details.

6 Q. The Pacificorp merger was approved by  
7 this Commission in approximately July 1988, is that  
8 right?

9 A. Yes.

10 Q. And at that time, there was no FERC  
11 initiative to restructure the electric industry and to  
12 require open access transmission, is that right?

13 A. In 1988?

14 Q. That's right.

15 A. Well, there were certainly ample  
16 discussions at the FERC about opening the transmission  
17 grid.

18 Q. But the what was called the MEGA-NOPR and  
19 FERC order 888 postdated the Pacificorp merger by six,  
20 eight years?

21 A. Those specific orders did, yes. There were  
22 transmission access NOPRs that were issued in the late  
23 '80s, '87, '88 time frame.

24 Q. With respect to the Pacificorp merger, is it  
25 also correct that there's nothing in the order that

1 discusses special contracts by Pacificorp with large  
2 industrial customers that provides those customers with  
3 significant rate discounts?

4 A. I don't recall.

5 Q. Would you accept subject to check that it  
6 does not discuss that topic?

7 A. I simply don't know.

8 Q. Do you also not know that in the  
9 Commission's order with respect to Pacificorp that  
10 there was no discussion concerning providing discounts  
11 to large industrial customers by tariff?

12 A. I do not know.

13 Q. Your testimony at page 5 again indicates  
14 that on line 17 that for Pacificorp the merger savings  
15 were part of a tracker filing to include offsetting  
16 changes. Do you see that?

17 A. Yes, sir.

18 Q. Are you aware that during the same time  
19 frame as the merger for Pacificorp that it had just  
20 recently completed a general rate case filing with  
21 this Commission in September 1986 in cause number  
22 U-8602? Are you familiar with that?

23 A. Generally, yes.

24 Q. Would you accept subject to check that the  
25 Washington-allocated share of the benefits from the

1 Pacific merger that the Commission required be passed  
2 on to ratepayers were offset by cost pressures that  
3 were recognized in that general rate case?

4 A. I would.

5 Q. And those cost pressures included rate base  
6 additions associated with production properties?

7 A. Yes.

8 Q. It also included the reflection in the  
9 company's revenue requirement of a statutory change to  
10 the federal income tax rate brought about by the 1986  
11 tax act?

12 A. That I don't recall specifically, but I'll  
13 accept that subject to check.

14 Q. Would it also include the tracking of new  
15 allocations that were agreed to in the 1986 case?  
16 Would you accept that subject to check?

17 A. If you say so.

18 Q. So the tracker filing that you reference in  
19 your testimony came during the same time frame,  
20 approximately, that the company's revenue requirements  
21 were updated in the context of a general rate case, is  
22 that right?

23 A. Not long after a general rate case, yes,  
24 sir.

25 Q. Is it also correct that the Commission's

1 order approving the Pacific-Utah merger, it made a  
2 specific -- it made a finding that the merged  
3 utilities would realize significant benefits and it  
4 concluded, quote, Washington ratepayers receive an  
5 equitable share of the benefits, closed quote?

6 A. Well, yes. The Commission, I think, was  
7 rightfully --

8 Q. Excuse me, Mr. Steinmeier. Your answer is  
9 you agree that that's what the Commission order said?

10 A. I'm sorry. I was in the process of  
11 answering the question.

12 Q. I just need a yes or no, and then you can  
13 certainly explain.

14 A. Would you ask me again, please.

15 Q. Is it correct that the Commission found  
16 that Washington ratepayers receive an equitable share  
17 of the benefits from the Pacific-Utah merger?

18 A. Yes. The Commission was, I think, rightfully  
19 distressed that PacifiCorp had offered rate reductions  
20 as part of the merger proposal. And Utah, I frankly  
21 have enjoyed reading the Commission's language about  
22 the -- who was the woe-ee and who was the woe-er, and  
23 the extent to which being the woe-ee or the woe-er  
24 seemed to dictate whether customers were going to be  
25 offered a rate reduction resulting from the merger.

1           In neither case, as I understand the  
2 circumstances were, did you have an ongoing  
3 progression, however, of annual rate increase pressure  
4 as you've seen in the first half of this decade with  
5 Puget Sound. And there was no significant allegation  
6 that I've seen indicated that either Pacificorp or  
7 Washington Water Power was not achieving its authorized  
8 return at the time of the merger filings. Those issues  
9 clearly in my mind distinguish the present case. And  
10 in neither case did I see a Commission holding that in  
11 fact rate decreases period or rate decreases to all  
12 customers were necessary in order to find that the  
13 proposed merger was consistent with the public  
14 interest.

15       Q.     In just making and explaining your answer  
16 just now, I take it that you relied upon the company's  
17 presentation in this case to come to the conclusions  
18 that you drew with respect to cost pressures and the  
19 rest?

20       A.     Not entirely. In terms of their cost  
21 pressures, yes, I've read their testimony in this  
22 case, including the chart in Mr. Sonstelie's direct  
23 testimony. It indicates the rate activity, annual  
24 rate changes of the companies.

25       Q.     Finally, in your testimony there's a

1 section toward the end about a critique of the staff  
2 and public counsel rate plans, and you used the term  
3 at various times a fair rate of return or a fair  
4 return.

5 A. Yes, sir.

6 Q. What is your definition of a fair rate of  
7 return in that testimony? And I mean quantify. How  
8 would you quantify it?

9 A. How would I quantify it?

10 Q. Right. What is your quantification of a  
11 fair rate of return as you've used it in your  
12 testimony?

13 A. I am not a rate of return witness.

14 Q. So you didn't have any particular fair rate  
15 of return in mind when you presented this testimony?

16 A. Returns for electric utilities are  
17 intending to be --

18 Q. Is your answer yes or no to my question,  
19 and then you can explain.

20 A. -- between 11 and 11.5. I'm sorry. I  
21 apologize, except that once I get into my answer, I  
22 have forgotten what to say yes or no to.

23 Q. My question was, you did not quantify a  
24 rate of return for your testimony?

25 A. I did not calculate one, no.

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

3                   JUDGE SCHAEER: Let's go off the record for  
4 just a moment.

5                   (Discussion off the record.)

6                   JUDGE SCHAEER: Go back on the record.

7

8                                   CROSS-EXAMINATION

9 BY MR. MANIFOLD:

10            Q.       Mr. Steinmeier, my name is Robert Manifold.  
11 I'm representing public counsel here.

12                   In response to one of the public counsel  
13 data requests, you provided a copy of your rebuttal  
14 testimony before the Florida Commission and Florida  
15 Power and Light case that you referenced earlier in  
16 bringing up to date your vita.

17            A.       Yes, sir.

18            Q.       Is it true that in that proceeding Florida  
19 Power and Light sought and obtained permission to use  
20 revenues in excess of its current revenue requirement  
21 to accelerate the amortization of high cost generating  
22 facilities?

23            A.       Yes, sir.

24            Q.       Is it true that an industrial customer,  
25 Florida Steel, proposed that instead of the



1 accelerated amortization that rate concessions to  
2 industrial customers should be provided?

3 A. Yes.

4 Q. Is it correct that on page 2 of your  
5 testimony in that case you stated your opposition to  
6 Florida Steel's proposed rate concessions, stated,  
7 quote, Florida Power and Light's proposal to  
8 accelerate nuclear amortization is both appropriate  
9 and necessary to mitigate potential stranded costs in  
10 an increasingly competitive electric market. In  
11 addition, Mr. Bartsch, B A R T S C H, of Florida Steel  
12 has presented no evidence suggesting that Florida  
13 Steel is in fact an at-risk customer or that Florida  
14 Power and Light's current rate levels are driving  
15 industrial customers off the system, closed quote?

16 A. Yes, sir. I so testified.

17 Q. Is it true that on the following page you  
18 stated, However, without clear evidence that a major  
19 customer's departure is otherwise imminent, that its  
20 imminent departure is directly related to its  
21 electricity cost and that the new load retention rate  
22 would not unfairly be subsidized by other customers,  
23 all of Mr. Bartsch's proposal would do -- excuse me --  
24 all Mr. Bartsch's proposal would do is provide a  
25 discriminatory rate discount to large customers, while

1 ignoring the very changes in electric markets that have  
2 motivated FP&L's proposal in the first place?

3 A. Yes, sir.

4 Q. Did Puget or Mr. Weaver ask you to review  
5 its resources to -- regarding strandable costs on  
6 Puget's system?

7 A. No, sir.

8 Q. Did Puget ask you to evaluate its schedule  
9 48 discounts to large customers?

10 A. I understand that that case has been  
11 decided and its implications for this case well  
12 covered by other witnesses. I have not reviewed it.

13 Q. Finally, different subject regarding the  
14 Water Power-Sierra Pacific proceeding. Is it your  
15 understanding that Water Power committed to not raise  
16 electric rates or gas margins for five years? Would  
17 you accept that subject to check?

18 A. I would.

19 Q. Is it your understanding that that is  
20 precisely what public counsel is proposing in this  
21 proceeding?

22 A. Those elements may be included in public  
23 counsel's proposal. There are also issues related to  
24 the residential exchange credits, other factors that  
25 are of concern to the companies.

1 Q. And the residential exchange credit as  
2 proposed by public counsel would result in no change  
3 in electric rates paid by residential customers as a  
4 result of the merger for the five-year period, the  
5 same as in the Water Power case?

6 A. I don't know.

7 MR. MANIFOLD: No further questions.

8 JUDGE SCHAER: Mr. Wright, did you have  
9 questions?

10 MR. WRIGHT: No, your Honor.

11 JUDGE SCHAER: Mr. Freedman?

12 MR. FREEDMAN: I have no questions, your  
13 Honor.

14 JUDGE SCHAER: Mr. Merkel?

15 MR. MERKEL: I have no questions.

16 JUDGE SCHAER: Commissioners, did you have  
17 questions for Mr. Steinmeier?

18 CHAIRMAN NELSON: Just one.

19

20

21 EXAMINATION

22 BY CHAIRMAN NELSON:

23 Q. Mr. Steinmeier, I'm curious about the  
24 Electric Utility Shareholders Alliance. You describe  
25 it as an ad hoc initiative to participate in that

1 congressional process. Is it a subset of Edison  
2 Electric or how did it come to be formed? Could you  
3 just give me a little background on that?

4 A. Sure. Number one, no, it is not a subset  
5 of Edison Electric Institute, has no relationship with  
6 Edison Electric Institute, and we're not even  
7 soliciting EEI for funding for Electric USA.

8 Really came into existence through, you know,  
9 sort of happenstance way, as I talked to different  
10 people around the country who are concerned about  
11 proposed congressional mandates on retail wheeling.  
12 I have been expressing views for some time of concern  
13 that shareholders could really get unfairly clobbered  
14 if retail electric restructuring were to occur in a  
15 fashion that was not very carefully orchestrated in  
16 terms of timing and sequence, which is why I continue to  
17 believe that restructuring decisions ought to be made  
18 at the state level and not by a date certain as  
19 established by the federal Congress.

20 I've also been concerned that shareholders  
21 as real people have not had a voice in that debate  
22 that was clear and discernible. There tends to be a  
23 consideration of electric utilities as faceless monoliths  
24 on one side of the debate and consumer interests on the  
25 other, when in fact 64 percent of the common stock of

1 electric utilities in the United States is owned by  
2 individual investors and much of the institutional  
3 investment is held by real women and men who are counting  
4 on their pension funds or mutual funds for their  
5 retirement and to help provide for their families.

6           So there was a group of people who shared  
7 these concerns, decided that there needed to be some  
8 organization that was speaking up for shareholder  
9 interests. We created Electric Utilities Shareholders  
10 Alliance, rolled it out in late August. We are  
11 receiving support from hundreds of grassroots groups  
12 that share our opposition to federally mandated retail  
13 wheeling, some investor-owned electric utilities. Some  
14 rural electric cooperatives have now joined us. That's  
15 a rather unusual alliance, but they are saying our  
16 membership in our cooperatives is an investment -- an  
17 investment-like or a shareholder-like relationship,  
18 and we share your concern about Congress changing that  
19 by a date certain for the whole country.

20           The International Brotherhood of Electrical  
21 Workers is also supporting the USA.

22           CHAIRMAN NELSON: Thank you.

23

24   EXAMINATION

25 BY COMMISSIONER HEMSTAD:

1           Q.     Mr. Steinmeier, in your closing statement  
2 in your testimony on line -- on page 9, starting at  
3 approximately line 18, you say, However, the clear  
4 trend in recent years is to allow a sharing of merger-  
5 created savings between customers and shareholders in  
6 recognition of the costs and risks borne by the  
7 utilities in order to make the deal which creates  
8 merger savings.

9                     In a generic sense, what do you mean when  
10 you say the costs borne by the utilities in that  
11 statement?

12           A.     I mean both the transaction costs of  
13 accomplishing the merger, the transition costs of  
14 accomplishing the merger, and the acquisition or  
15 merger premiums.

16           Q.     And is it your view that under the  
17 recommendation of staff and public counsel that those  
18 kinds of costs are not recoverable?

19           A.     Yes, sir. Well, I'm not exactly sure of  
20 the treatment of transaction and transition costs, but  
21 Mr. Sonstelie speaks very directly to the difficulties  
22 under a declining rate or a rate reduction rate plan  
23 that the company would have recovering its costs  
24 associated with the merger.

25           Q.     It's those out-of-pocket transaction,

1 transition costs that you're focusing on in that  
2 statement?

3 A. I'm actually referring to all three, and in  
4 many states in all three categories, transaction cost,  
5 transition cost, and acquisition premium.

6 Q. Thank you. And what are the risks of a  
7 merger that you have in mind in that statement?

8 A. The risks I think essentially are that in  
9 fact the merger will not produce the kinds of  
10 long-term enhanced financial stability or financial  
11 returns for share owners that they hoped it would when  
12 they agreed to merge the companies. Nobody can  
13 predict with absolute certainty how any business  
14 transaction is going to result.

15 Q. Would it be your view that that risk is  
16 significant as against not merging?

17 A. It's my experience in the case of utility  
18 mergers that that risk is less than it is in  
19 unregulated industry and, no, I would not think that  
20 the risk of nonachievement of financial goals is a  
21 significant risk in the case of this or other utility  
22 mergers.

23 Q. One of the assertions that has been made in  
24 this proceeding is that one of the benefits of the  
25 merger is to have the potential of reducing

1 competitive risk. Do you think that's a significant  
2 benefit?

3 A. You're speaking of the benefit to the  
4 company of being able to compete in an increasingly  
5 competitive utility environment?

6 Q. No. I'm focusing on the issue of the  
7 elimination of competitive risk by the fact of the  
8 merger of these -- the fact of this horizontal merger  
9 between the electric and the gas company.

10 A. So the competition between these two  
11 companies would be eliminated?

12 Q. That's right.

13 A. Well, two things very briefly on that.  
14 Number one, I have not read in the testimony that I  
15 have read in the case that concern being raised.  
16 However, from personal experience I see a lot of  
17 advantages in combination utilities and really have  
18 not felt that that loss of interfuel competition, so  
19 to speak, is a series or inherent risk.

20 In my experience, a utility that stands to  
21 provide either service to a customer feels a much  
22 greater level of freedom to be honest with the  
23 customer in evaluating which option is going to better  
24 suit that customer's needs than one utility that has  
25 to sell electric in order to make any money from that



1 customer or another who has to sell gas in order to  
2 make money from that customer. So I think there are  
3 some inherent advantages in my view and in my experience  
4 in combination utilities.

5 Q. Finally, your statement which exists that  
6 there should be a fair sharing of benefits between the  
7 shareholders and the ratepayers, how about the issue  
8 of sharing among classes of ratepayers themselves? In  
9 other words, in the current environment and  
10 specifically in the recently adopted Schedule 48,  
11 industrial customers are achieving the benefit of the  
12 substantial reduction in rates or the potential to  
13 have that at least, but that's not the case with  
14 regard to so-called core customers. Should there be  
15 an equitable sharing of benefits between industrial  
16 customers and core customers?

17 A. Commissioner, without the benefit of all of  
18 the testimony and argument that you are going to hear  
19 on that issue before you wisely decided, I think all I  
20 would venture to suggest is that my reading of the  
21 statutory standard, but particularly with a mind to  
22 how it's been applied in the past, would not indicate  
23 to me that in order to meet the statutory standard for  
24 approval of the merger there is any particular  
25 distribution of rate effects that needs to be

1 demonstrated.

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

4                   COMMISSIONER GILLIS: No questions.

5                   JUDGE SCHAEER: I have just one.

6

7   EXAMINATION

8 BY JUDGE SCHAEER:

9           Q.       Referring again to your testimony at page 5  
10 regarding previous mergers that were approved by this  
11 Commission which you have reviewed, did you review the  
12 orders or testimony in docket UT-910499, which was the  
13 merger of Continental Telephone and General Telephone  
14 of the Northwest?

15           A.       No, I did not.

16           Q.       Would you except subject to your check that  
17 rate reductions took place as a result of that merger  
18 for the customers of both companies?

19           A.       I would accept that subject to check. It's  
20 certainly not my testimony that rate reductions never  
21 happen in the context of merger cases; they sometimes  
22 do, but obviously that depends in large measure on the  
23 unique financial circumstances and earnings experience  
24 and cost experience of the companies involved in the  
25 merger.

1 JUDGE SCHAER: Thank you. Did you have any  
2 redirect, Mr. Van Nostrand?

3 MR. VAN NOSTRAND: No, your Honor.

4 JUDGE SCHAER: Is there anything further  
5 for this witness?

6 MR. MANIFOLD: Just one question.

7 JUDGE SCHAER: Go ahead, Mr. Cedarbaum.

8

9 CROSS-EXAMINATION

10 BY MR. CEDARBAUM:

11 Q. Mr. Steinmeier, prior in preparing your  
12 testimony in this proceeding, is it correct that you  
13 did not review the staff testimony of witnesses  
14 Schooley and Maglietti?

15 A. That is correct.

16 Q. And you also did not review the testimonies  
17 presented by any of the intervenors other than certain  
18 testimony by public counsel?

19 A. I would have to check, but I believe that's  
20 correct.

21 Q. Okay. You can check your response to our  
22 data request 168 for that.

23 MR. CEDARBAUM: Thank you. That's all I  
24 have.

25 JUDGE SCHAER: Is there anything further

1 for Mr. Steinmeier? Thank you for your testimony.

2                   Let's take our lunch recess at this time,  
3 and please return and be ready to go at 1:30. We're  
4 off the record.

5                   (Lunch recess taken at 12:15 p.m.)

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## AFTERNOON SESSION

2

1:35 p.m.

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JUDGE SCHAER: Let's be back on the record after our lunch recess. While we were off the record, some documents have been distributed that I believe relate to revisions to Mr. Torgerson's testimony, and I would first like to have someone identify what those are, please.

9

MR. HARRIS: Your Honor, those are the revised Exhibits 110, 111 and 113. There are replacements for JPT-11, JPT-12 and JPT-14.

12

JUDGE SCHAER: Okay. Let's -- so the one that's marked JPT-12 revised sheet 1 of 4 is a revision to TS-111?

15

MR. HARRIS: That is correct.

16

JUDGE SCHAER: Is this a complete replacement or just a supplement, or how do we treat this?

19

MR. HARRIS: Complete replacement, your Honor.

21

JUDGE SCHAER: Okay.

22

And the next document in my stack appears to be pages of testimony. And what is the exhibit number on these, please?

25

MR. HARRIS: JPT-11, which is TS-110.

1 JUDGE SCHAEER: Is this a complete  
2 replacement or just replacement of certain pages?

3 MR. HARRIS: On TS-110 it's a complete  
4 replacement. And I'm sorry for the confusion, your  
5 Honor, but on 111, it is -- TS-111 which we just  
6 discussed, it is a replacement of the first three  
7 pages. Page 4 of 4 did not change.

8 JUDGE SCHAEER: Okay. And the next document  
9 reads at the top JPT-14 revised.

10 MR. HARRIS: Which is substitute pages for  
11 TS-113. And, again, they are substitute pages for page  
12 1, page 2 and page 3. Page 4 did not change.

13 JUDGE SCHAEER: Okay. Did you wish to offer  
14 those revisions at this time?

15 MR. HARRIS: Yes, the joint applicants  
16 would offer those revisions.

17 JUDGE SCHAEER: Is there any objection?

18 MR. CEDARBAUM: I don't think so. My  
19 understanding is that those revised pages for Mr.  
20 Torgerson just follow through the change that Mr.  
21 Story discussed this morning of changing the 103.4 to  
22 75 and a half.

23 MR. HARRIS: That is correct.

24 MR. CEDARBAUM: I have no objection on that  
25 basis.

1                   JUDGE SCHAER: Then those documents are  
2 admitted into the record. We have a completely  
3 revised TS-110 which is JPT-11. We have new pages 1  
4 through 3 of TS-111 which is JPT-12. And we have new  
5 pages 1 through 3 of TS-113 which is JPT-14. Those  
6 are admitted.

7                   For Mr. Vititoe I have one prefiled exhibit,  
8 which is his rebuttal testimony, WPV-2. I will mark  
9 that for identification as Exhibit T-260.

10                  And the following documents have been  
11 distributed. They'll be marked -- response to public  
12 counsel data request No. 45 I'll mark for  
13 identification as Exhibit 261; the response to public  
14 counsel data request 325 I will mark for  
15 identification as Exhibit 262; the response to staff  
16 data request No. 65 I will mark for identification as  
17 Exhibit 263; and the response to public counsel data  
18 request No. 187 I will mark for identification as  
19 Exhibit 264.

20                  And a final exhibit that has been provided  
21 to me entitled at the top Comparison of Puget Power  
22 Rates Plus PRAM5 with Neighboring Utilities for  
23 Puget's Average Residential Customer, the date of  
24 October 1, 1995, I will mark that Exhibit 265 for  
25 identification.

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

3 (Admitted Exhibits TS-110, TS-111 and  
4 TS-113.)

5 (Marked Exhibits T-260, 261 through 265.)

6 MR. HARRIS: Yes, your Honor. The joint  
7 applicants call William Vititoe.

8 JUDGE SCHAER: Mr. Vititoe, please remain  
9 standing for just a minute.

10 Whereupon,

11 WILLIAM P. VITITOE,  
12 having been first duly sworn, was called as a witness  
13 herein and was examined and testified as follows:

14 JUDGE SCHAER: Go ahead, Mr. Harris.

15

16 DIRECT EXAMINATION

17 BY MR. HARRIS:

18 Q. Good afternoon, Mr. Vititoe. Could you  
19 state your name for the record, please.

20 A. William P. Vititoe, V as in Victor,  
21 I T I T O E.

22 Q. Do you have before you your prefiled  
23 rebuttal testimony in this proceeding?

24 A. I do.

25 Q. And it's been marked for identification as



1 Exhibit T-260?

2 A. Yes.

3 Q. Is it your understanding that consistent  
4 with the Commission's 12th supplemental order in this  
5 proceeding that certain deletions need to be made to  
6 the testimony?

7 A. Yes, I understand that.

8 Q. Could you please turn to page 5, lines 23,  
9 24.

10 A. Yes.

11 Q. Beginning with the sentence "An alternative  
12 to our rate stability plan," is it your understanding  
13 that a deletion begins there and carries forward to  
14 page 6, lines 1 through 11, and the deletion is  
15 completed where the answer states "no" period?

16 A. I understand that.

17 Q. And then if I could direct your attention  
18 to page 15, lines 1 and 2.

19 A. Yes.

20 Q. Is it your understanding that the sentence  
21 that reads "Mr. Heidell presents the performance based  
22 rate proposal that I mentioned" shall also be deleted?

23 A. Yes, I understand that.

24 Q. Do you have any other changes or additions  
25 to your testimony?

1           A.     I do not.

2                   MR. HARRIS:   Your Honor, joint applicants  
3 would offer what's been marked for identification as  
4 Exhibit T-260.

5                   JUDGE SCHAEER:  Any objection?

6                   MR. CEDARBAUM:  No.

7                   JUDGE SCHAEER:  That document is admitted.  
8                   (Admitted Exhibit T-260.)

9                   MR. VAN NOSTRAND:  Mr. Vititoe is available  
10 for cross-examination.

11                   JUDGE SCHAEER:  Mr. Cedarbaum, did you have  
12 questions?

13                   MR. CEDARBAUM:  No, I don't.

14                   JUDGE SCHAEER:  Okay.  Mr. Manifold?

15                   MR. MANIFOLD:  Yes, a few.

16

17                                   CROSS-EXAMINATION

18 BY MR. MANIFOLD:

19           Q.     Good afternoon.

20           A.     Good afternoon, Mr. Manifold.

21                   MR. MANIFOLD:  Will the company stipulate  
22 to the admission of Exhibits 261, 262 and 263 and 264?

23                   MR. HARRIS:  Yes.

24                   MR. MANIFOLD:  I would so move.

25                   JUDGE SCHAEER:  Those documents are

1 admitted.

2 (Admitted Exhibits 261 through 264.)

3 Q. Mr. Vititoe, as we've discussed, Mr.  
4 Torgerson was kind enough to refer a question to you.  
5 I must confess to you I think he smiled when he did  
6 so.

7 A. I wouldn't doubt that.

8 Q. Are you prepared to answer that question  
9 regarding the gas company's fiscal year recently  
10 announced return on equity recently, results about  
11 what the return on equity would be?

12 A. I'm prepared to give you a preliminary  
13 answer to that question. We will be prepared to  
14 provide a more complete exhibit by the end of business  
15 this coming Friday. The preliminary answer is that  
16 based on the Commission basis providing for an 11 to  
17 11 and a quarter percent return, we earned  
18 approximately 10 percent in fiscal 1996 for Washington  
19 Natural.

20 Q. Is that prior to weather normalization?

21 A. That is using the Commission -- I know so  
22 far that the adjustment we've taken into consideration  
23 is the Commission's 20-year adjustment throwing out  
24 the low and the high.

25 Q. So that is a weather-normalized basis?

1 A. With that adjustment, yes.

2 Q. And is that from continuing operations?

3 A. I'm sorry, I do not have further detail to  
4 know of whether that's in total or continuing  
5 operations. We will furnish that on Friday.

6 MR. MANIFOLD: Since it looks to me like  
7 we're not going to be here on Friday -- at least  
8 that's all of our fond wishes, I believe -- I wonder  
9 if we should make some provision for that to be marked  
10 and accepted into the record.

11 MR. HARRIS: We wouldn't have any objection  
12 to having it included as part of the record.

13 JUDGE SCHAEER: Should we make that  
14 late-filed Exhibit 266? Would you describe that with  
15 more particularity so I know what that would be.

16 (Marked Exhibit 266.)

17 MR. MANIFOLD: Yes. It's the request which  
18 we made of Mr. Torgerson which would be for the gas --  
19 Washington Natural Gas return on equity for the most  
20 recent fiscal year from continuing operations  
21 including weather normalization.

22 JUDGE SCHAEER: Mr. Cedarbaum.

23 MR. MANIFOLD: I'm sorry. That's on a  
24 financial basis.

25 MR. CEDARBAUM: I was going to say it's a

1 little hard to know whether or not to object when I  
2 haven't seen the document, so I wonder if we could  
3 make some kind of a provision for objections to that  
4 or -- I would like to reserve the ability to object.  
5 I would like to reserve somehow the ability to ask  
6 questions about it, although I'm not quite sure how  
7 that can work. Again, I have difficulty not objecting  
8 to a document that I just haven't seen.

9 MR. MANIFOLD: And I of course have some  
10 difficulty wanting to put into the record a document  
11 we haven't seen yet either, and since I don't think we  
12 need this witness to do this, why don't we defer that  
13 exhibit until some subsequent discussion among counsel,  
14 if that would be acceptable.

15 JUDGE SCHAEER: Okay. That would be fine.  
16 I will leave that marked as Exhibit 266, but I will  
17 not rule upon its admissibility at this point, and if  
18 you wish to bring something back in that vehicle,  
19 please take that responsibility to so inform the bench.

20 Q. Mr. Vititoe, could you confirm that the  
21 company's response to public counsel data request No.  
22 268 which asked of you whether the company was aware  
23 of any alternative rate plan such as an incentive  
24 regulation PBR or price cap plan adopted by any  
25 Commission since 1990 have been done so without a

1 service quality index or similar monitoring tool and  
2 that -- to paraphrase your answer, it was that the  
3 joint applicants have not researched this issue and  
4 you went on to explain how you had come up to develop  
5 the one that you proposed.

6 A. That would still be my statement.

7 Q. Mr. Torgerson touched on one other thing  
8 which I think he referred to you, which was apparently  
9 there was some -- one or more meetings between and among  
10 yourself and Mr. Sonstelie and the Commissioners at  
11 some point after the merger was announced and, I take  
12 it, before now. Do you recall that?

13 A. I recall that there was one meeting. The  
14 meeting had been scheduled with Mr. Sonstelie and the  
15 commissioners and policy staff to talk about the  
16 restructuring of the electric industry. We felt that  
17 since we had announced the merger plan that it would be  
18 appropriate that Mr. Torgerson, I believe Mr. Davis  
19 but I'm not exactly clear about that right now, and  
20 myself would sit in on that meeting. That is the only  
21 meeting I'm aware of.

22 Q. Okay. And do you know when that meeting  
23 was?

24 A. My recollection, it was in the July time  
25 frame, but I'm not -- I don't know -- no, it was not

1 in July. I do not know when it was.

2 Q. Would you accept subject to your check that  
3 that was in late October or early November of '95?

4 A. I would accept that.

5 Q. Do you know if there was another meeting in  
6 April of '96?

7 A. I understand from looking at Mr.  
8 Torgerson's testimony and his cross-examination that  
9 he referred to such a meeting. I was not a part of  
10 that meeting.

11 Q. Do you know anything about such a meeting?

12 A. Do I know any of the details of the  
13 meeting?

14 Q. Well, who was at it, whether -- yes.

15 A. I know Mr. Torgerson apparently was, and I  
16 think he indicated that Mr. Sonstelie was there and  
17 possibly Ms. Vortman, but I do not know that from  
18 firsthand knowledge.

19 Q. And that meeting in roughly April was with  
20 the Commissioners and policy staff again?

21 A. I think that it was, but here again, since I  
22 was not a part of that meeting, I don't know for sure.

23 MR. MANIFOLD: Thank you. I have no  
24 further questions.

25 JUDGE SCHAEER: Okay. Ms. Pyron, did you

1 have questions for Mr. Vititoe?

2 MS. PYRON: Just limited.

3

4 CROSS-EXAMINATION

5 BY MS. PYRON:

6 Q. Good afternoon, Mr. Vititoe.

7 A. Good afternoon.

8 Q. In referring to your testimony on page 6 at  
9 line 12, your testimony states that PSE will consider  
10 any proposal as long as it provides PSE an opportunity  
11 to earn at their return and --

12 CHAIRMAN NELSON: Ms. Pyron, you need to  
13 bring the microphone closer to you.

14 Q. Referring to your testimony, Mr. Vititoe,  
15 do you see where I've referenced beginning about line  
16 12, on page 6, are there other rate plan alternatives  
17 recommended by PSE at this time?

18 A. No, there aren't any rate plan alternatives  
19 that are recommended by us that -- one of the things  
20 that is -- that has concerned me with this proceeding  
21 is that we're -- is that we're dealing with two  
22 things. We're dealing with a merger on the one hand,  
23 and on the other hand we're dealing with whether or  
24 not the company is going to overearn. And Mr.  
25 Torgerson, I think, was very, very clear that that



1 was not the intent for the company to overearn. As a  
2 result, we had suggested in our rebuttal, which has  
3 been stricken, the possibility of a PBR. That  
4 obviously didn't fly, and that's fine. As I've thought  
5 about this issue, it seems to me that one alternative  
6 that might be acceptable is to take the company's  
7 proposed plan and put a cap on it, therefore, we would not  
8 have to worry about whether or not staff or public  
9 counsel's figures were right or the company's figures  
10 were right. If it's capped, then you know that we're not  
11 going to overearn. If that's in a form of a proposal, I  
12 don't know, but it's what I've been thinking about might  
13 be something that would break this stalemate.

14 Q. Mr. Vititoe, when you say proposed plan,  
15 you mean the originally filed rate plan?

16 A. The filed rate plan by the company.

17 Q. And by that, what do you mean with regard  
18 to electric and gas rates?

19 A. That electric rates would go up one percent  
20 except for one year and gas rates would stay the same.

21 Q. For five years?

22 A. Yes.

23 Q. And when you say a cap, what do you mean by  
24 a cap? A cap on what?

25 A. A cap on earnings.

1 Q. And what would be your proposal if that cap  
2 was exceeded?

3 A. If the cap were to be exceeded, we should  
4 come back before the Commission and work how we would  
5 distribute that excess to our customers. Here again, I  
6 haven't gone through the details of the plan. The cap  
7 has to be reasonable, obviously. Obviously one year  
8 does not a career make, and so we need to look at it  
9 over a period of time. And I'm glad we have assistance  
10 at the bench across the room now.

11 Q. Are you making a specific proposal on the  
12 cap?

13 A. No, I am not.

14 Q. Are there any other changes to the  
15 company's proposal on its direct case other than the  
16 revenue cap that you're proposing?

17 A. No. Here again, I'm not sure I'm proposing  
18 it. I'm just saying it might be an alternative to  
19 break the stalemate, one that I in good faith could  
20 probably, if it's a reasonable cap, take to my board  
21 of directors as a recommendation to approve a merger  
22 order.

23 Q. Are you proposing any other changes in the  
24 company's proposal in this case?

25 A. Yes. Yes. I'm still proposing a change in

1 public counsel's position supported by staff in terms  
2 of the penalties for our service performance.

3 Q. I'm sorry, Mr. Vititoe. I guess what I  
4 meant by my question is, are you proposing anything  
5 else other than what's in your written testimony which  
6 is Exhibit 260?

7 A. No, I am not. I am not.

8 MS. PYRON: I have no further questions at  
9 this time. Thank you.

10 JUDGE SCHAER: Thank you. Mr. Wright, did  
11 you have questions of Mr. Vititoe?

12 MR. WRIGHT: None, your Honor.

13 JUDGE SCHAER: Mr. Freedman?

14 MR. FREEDMAN: I have no questions, your  
15 Honor.

16 JUDGE SCHAER: Mr. Merkel?

17 MR. MERKEL: A few.

18

19 CROSS-EXAMINATION

20 BY MR. MERKEL:

21 Q. Good afternoon, Mr. Vititoe. I am Joel  
22 Merkel --

23 A. Good afternoon, Mr. Merkel.

24 Q. -- Washington PUD Association.

25 You have said in your testimony that the

1 joint applicants would not support legislation  
2 granting PUD's authority to sell gas because the  
3 district's request for legislative support doesn't  
4 involve a level playing field, is that correct?

5 A. That is correct.

6 Q. I have looked through the joint applicants'  
7 testimony in search of any other testimony, studies,  
8 reports, data, documentation which supports or  
9 quantifies the so-called unlevel playing field that  
10 you've said in your testimony exists.

11 Am I correct that your one page on that  
12 subject is the only testimony in the applicants' case  
13 asserting that there's an unlevel playing field?

14 A. The unlevel playing field can take a couple  
15 of forms. One form --

16 Q. Would you please answer the question first.  
17 The question was, is there any data, studies,  
18 analysis, report, anything in the applicants' case  
19 which quantifies your assertion?

20 A. Nothing that we have filed.

21 Q. Thank you.

22 Now, among other things, you've said that  
23 PUDs have authority to use eminent domain powers with  
24 respect to gas facilities or would have if they got gas  
25 authority to condemn gas facilities of investor owned

1 utilities, and that would create an unlevel playing  
2 field. Is that correct?

3 A. That's correct. That is one of the areas.

4 Q. Okay. Would you drop your opposition to  
5 legislation authorizing PUDs to provide gas service if  
6 the ability to condemn investor-owned utility facilities  
7 was not included?

8 A. If the ability to condemn special tax  
9 advantages and being subject to the WUTC were all  
10 included, I would drop my objection.

11 Q. So merely the elimination of eminent  
12 domain authority alone would not do it?

13 A. That is correct.

14 Q. Okay. Are you aware of experiments in  
15 other states involving direct access for gas service  
16 at the retail level?

17 A. I don't understand the question.

18 Q. Well, are you aware that in other states  
19 utility commissions have approved and investor-owned  
20 utilities are engaging in pilot programs and  
21 experiments much like the pilot that was approved  
22 in the schedule 48 proceeding for electricity?

23 A. Yes, I am. Yes.

24 Q. Do you believe that the -- on a regulatory  
25 basis we're moving toward direct access for gas?

1 A. By direct access you mean open access?

2 Q. Open access.

3 A. Yes, I do.

4 Q. If we had open access for gas, do you think  
5 there would be the same incentive to condemn  
6 facilities? Or perhaps I'll phrase the question  
7 another way. Could you explain to me why it would  
8 make any sense for a PUD to condemn facilities if open  
9 access was available?

10 A. Well, I don't know what the PUD's motive is  
11 for wanting to get into the natural gas business, so I  
12 think you would be better able to answer that question  
13 than I do. I don't know that condemnation has a direct  
14 bearing on it.

15 Q. Do you see any economic advantages to  
16 condemning distribution facilities if you can -- well,  
17 just let me ask you as a gas purveyor, if you could  
18 provide service to the customers of another gas  
19 utility without acquiring their facilities, can you  
20 see some -- any economic reasons to actually acquire  
21 their facilities?

22 A. Well, in all probability, not. You could  
23 ask that same question in terms of why did Enrod  
24 decide they needed to acquire PGE as opposed to just  
25 being able to have access to PGE's markets, so I think

1 the question is more complicated than just a yes or  
2 no.

3 Q. Would you agree that open access would  
4 reduce the incentive?

5 A. Yes.

6 Q. Did I hear you correct, did you state  
7 that the access to federal power was one of the level  
8 playing field issues that you're concerned about?

9 A. Only insofar as the investor-owned  
10 utilities should have the same access to federal  
11 power and the same rights.

12 Q. Is it your belief that the wholesale power  
13 rates offered today by the Bonneville Power  
14 Administration are significantly better than market  
15 rates generally?

16 A. The market rates generally, the answer is  
17 yes.

18 Q. Would you accept subject to check that  
19 BPA's firm power rate for preference customers is 25  
20 mills?

21 A. Subject to check.

22 Q. Would you agree that the -- do you have an  
23 estimate of what the rate for power in -- from non-BPA  
24 sources will be over the next five years, say?

25 A. I really think that if this merger goes

1 through a year from now I can answer that question,  
2 but I think Mr. Sonstelie would have a better estimate  
3 of that answer than I would.

4 Q. I'm thinking of wholesale rates, not retail  
5 rates.

6 A. I understand the question.

7 Q. Okay. Are you aware that many BPA  
8 preference customers have been seeking permission from  
9 BPA to reduce their demand on BPA?

10 A. Yes, I am.

11 Q. Why are they doing that, to your knowledge?

12 A. Because they see it's a market power that  
13 may even be under cost that is available to them today  
14 in this area.

15 Q. So you're saying you believe they are  
16 leaving BPA because there's cheaper power available  
17 from other sources?

18 A. In this area there are some cheaper  
19 alternatives.

20 Q. Are you aware that Washington Water Power  
21 recently brought a proposal to this Commission for  
22 approval of a sale of power to the Tosco refinery in  
23 Bellingham?

24 A. I am aware of that.

25 Q. And are you aware that Tosco previously



1 purchased power from the Whatcom PUD, a customer of  
2 BPA?

3 A. I'm aware of -- from the PUD, yes, mm-hmm.

4 Q. And would you agree that the reason Tosco  
5 switched retail providers was that Washington Water Power  
6 was able to offer Tosco a better price than the Whatcom  
7 PUD?

8 A. Yes. I would assume that's the case.

9 Q. If you're correct that there is a level  
10 playing field problem which gives PUDs an unfair price  
11 advantage over investor-owned utilities, can you explain  
12 to me why so many PUDs are seeking to reduce purchases  
13 from BPA and how it is that Washington Water Power with  
14 non-BPA resources can offer a lower price to Tosco and  
15 take that customer away from the Whatcom PUD?

16 A. I think you've changed the nature of the  
17 question around. We started talking about provision  
18 of gas service, and that's where I made my answers,  
19 and now you've shifted it around to the electric  
20 arena. Here again, I don't feel that I'm the best  
21 qualified person to answer electric questions.

22 Q. Your testimony is the only testimony in  
23 this case dealing with the unlevel playing field with  
24 respect to electric utilities, isn't it?

25 A. It related to gas.

1 Q. So are you now testifying that there is no  
2 unlevel playing field as to the electric?

3 A. I haven't really given any thought to that  
4 question.

5 Q. Your testimony is that the only unlevel  
6 playing field issue relates to gas?

7 A. I'm saying that -- my testimony -- what I  
8 was referring to was an unlevel playing field if the  
9 PUDs were to go into the gas business, and that was why I  
10 could not be supportive of legislation. That is the  
11 issue that we were talking about.

12 Q. Well, suppose for a moment that PUDs had  
13 gas authority. Would you agree that there is no  
14 comparable agency to the Bonneville Power  
15 Administration which would provide gas supplies to  
16 PUDs if they had authority to buy and sell?

17 A. Yes, I would agree with that.

18 Q. So there's no preferential better rate  
19 available from a federal agency for gas; it's all the  
20 open market?

21 A. That's correct.

22 Q. So is that an unlevel playing field in gas?

23 A. Level playing field still has the other  
24 things that I ask you to take into consideration that  
25 you enumerated. Be glad to repeat them.

1 Q. Could you repeat them, please.

2 A. Yes. One is the right of condemnation;  
3 second, tax advantages; and third, to be subject to  
4 the Washington Utilities and Transportation  
5 Commission.

6 Q. With respect to tax advantages, do you  
7 consider the fact that PUDs are a nonprofit  
8 organization and do not pay income tax to be a level  
9 playing field issue?

10 A. No, I do not.

11 Q. So the only tax issue you consider to be  
12 important is the ability to issue tax exempt bonds, is  
13 that it?

14 A. The ability to issue tax exempt bonds, the  
15 ability -- you misunderstood my answer. The ability  
16 to not have to pay taxes, both of those areas.

17 Q. Do not have to pay taxes to whom?

18 A. That was your question, was just a moment  
19 ago. Repeat your first question.

20 Q. Well, I thought you answered that you did  
21 not consider the fact that PUDs are nonprofit  
22 organizations and do not pay income tax.

23 A. No, I did not say that. That's why I  
24 wanted to correct that, if that was your impression.

25 Q. So you do think the fact that they do not

1 pay income tax is a level playing field issue?

2 A. It is a level playing field issue.

3 Q. Aren't there a lot of nonprofit  
4 corporations that do business in commerce generally in  
5 the United States?

6 A. Most of them that do have to separate out  
7 those things that are commercially oriented and those  
8 things that are strictly nonprofit. I don't know of any  
9 gas operations that do that.

10 Q. Well, for example, most of us in the  
11 Northwest are familiar with REI, which is a  
12 cooperative. Do you consider it an unfair advantage  
13 that REI operates in commerce in competition with  
14 other suppliers of similar goods and services and yet  
15 they are a non- -- because they are a nonprofit  
16 corporation they don't pay tax?

17 A. I'm not sure REI was established for a  
18 specific purpose. I don't know whether that purpose is  
19 still necessary. If they -- if we were to establish a  
20 new REI today and it wasn't because of a sparse territory,  
21 unwillingness to serve by anyone else --

22 Q. REI is, in case you're unfamiliar with it,  
23 is a outdoor equipment supplier.

24 A. I was referring to Rural Electric  
25 Operation, which is what I'm familiar with in the

1 upper Midwest --

2 Q. No. I was referring --

3 A. -- where they get preferential tax  
4 treatment.

5 Q. I was referring to Recreational Equipment  
6 Incorporated, which is a co-op, well-known co-op in  
7 Seattle, which supplies hiking, climbing,  
8 mountaineering equipment, competes with companies like  
9 Enos Bay, Eddie Bauer, L.L. Bean.

10 My question to you is simply, do you object  
11 to the form of a nonprofit corporation which does not,  
12 by reason of its form of doing business, does not pay  
13 income tax? Do you object to such a corporation being  
14 involved in commerce?

15 A. Only if I have to compete with it.

16 Q. I direct your attention to Exhibit 265.

17 A. I'm sorry, is this 265?

18 Q. Yes.

19 JUDGE SCHAER: 265 for identification at  
20 this point.

21 Q. Would you accept subject to check that the  
22 table on the front page of 265 is an excerpt from the  
23 company's response to public counsel data request 228  
24 and was made part of -- an exhibit to this case as  
25 part of the staff's --

1           A.     Subject to check.

2           Q.     And would you accept subject to check that  
3 the table which appears on the succeeding page is an  
4 excerpt or is a listing of the utilities which appear  
5 on the first page in descending order of their rates?

6           A.     Subject to check, yes.

7           Q.     And do you notice that Washington Water  
8 Power and Pacific Power and Puget Power are also all  
9 lightly highlighted in gray?

10          A.     Yes.

11          Q.     And by my calculation, Washington Water  
12 Power and Pacific Power have the 5th and 8th lowest  
13 rates among the 24 utilities serving in the state of  
14 Washington, represented on that table at least. My  
15 question is, if it is true, as you say, that there is a  
16 level playing field problem which gives publicly-owned  
17 utilities an unfair competitive advantage over  
18 investor-owned utilities, why are the investor-owned  
19 utilities among the lower -- among the utilities  
20 with the lower residential rates in this table?

21          A.     I take you back again to my response. I  
22 said that my testimony was referring to gas.

23          Q.     So you have no knowledge of there being any  
24 unlevel playing field as far as electricity is  
25 concerned?

1           A.     I really haven't, as I indicated before,  
2 given that a lot of thought.

3           Q.     But you have agreed that there's no level  
4 playing field problem as far as gas supply, because  
5 there's no equivalent to the Bonneville Power  
6 Administration?

7           A.     That's correct.

8           Q.     Okay. You've said, I think, with respect to  
9 nonprofit corporations not being taxed, the only  
10 unfairness is that you don't mind them being in  
11 business but you don't want to have to compete with  
12 them?

13          A.     And I would assume those that have to  
14 feel that way.

15                   MR. MERKEL: I would ask that Exhibit 265  
16 be admitted at this time.

17                   MR. HARRIS: No objection.

18                   JUDGE SCHAEER: The document is admitted.

19                           (Admitted Exhibit 265.)

20          Q.     Do you know if investor-owned utilities  
21 receive investment tax credits?

22          A.     My assumption is that they do.

23          Q.     Do they receive tax deferrals?

24          A.     Again, I assume that they do.

25          Q.     Have you ever heard of a tax provision

1 allowing the use of tax-exempt bonds for pollution  
2 control financing or under the so-called two county  
3 rule under which investor-owned utilities might  
4 qualify?

5 A. I've heard of that.

6 Q. To your knowledge, would a PUD have access  
7 to tax deferrals or investment tax credits?

8 A. I would assume so, but I really have no  
9 idea.

10 Q. You've testified earlier that PUDs don't  
11 pay taxes because they are nonprofit corporations.  
12 You're aware of that?

13 A. Mm-hmm.

14 Q. Aren't tax deferrals and tax credits  
15 credits against tax? You don't have to pay tax. How  
16 could you get a tax deferral for it?

17 A. I'll accept that.

18 Q. Okay. Do you have any idea how large the  
19 tax deferrals and credits and use of tax-exempt  
20 financing for investor-owned utilities are in comparison  
21 to the benefits provided by tax-exempt financing for  
22 public utilities?

23 A. I have no idea.

24 Q. Might be close, might be far apart, you  
25 don't know, correct?



1 A. I have no idea.

2 Q. Can you think of any financial advantages  
3 which investor-owned utilities have over PUDs?

4 A. No, not off the top of my head.

5 Q. Well, isn't it correct that investor-owned  
6 utilities such as PSE can own stock in other  
7 corporations?

8 A. Yes, that's true.

9 Q. And doesn't Puget have a joint venture with  
10 a company called Itron in -- called Metricom, a joint  
11 venture is called Metricom?

12 A. Well, we have -- you know, there is a joint  
13 venture that Puget has had with Itron. I'm not sure  
14 that that's an ongoing venture.

15 Q. Does Puget own stock in a company called  
16 ConnxT?

17 A. Yes, it does.

18 Q. Is it correct that Washington Natural Gas  
19 as parent company owns and operates a security service  
20 as a subsidiary?

21 A. It owns and operates a subsidiary of which  
22 security services is a part.

23 Q. Is the purpose of the investment in these  
24 companies to make money?

25 A. It is.

1 Q. Isn't that a financial -- well, let me ask  
2 another question. Are you aware that Washington Water  
3 Power has a subsidiary that recently opened an office  
4 in Georgia?

5 A. Well, I'm aware that Washington Water Power  
6 has subsidiaries, but I'm not sure where they opened  
7 offices.

8 Q. And have you heard of Pacific Power  
9 purchasing a company in Australia?

10 A. I'm sorry. Pacific Power?

11 Q. PacifiCorp, Pacific Power & Light.

12 A. Yes.

13 Q. Do you know if PUDs can invest in the stock  
14 of private companies?

15 A. I do not know what PUDs can or cannot do.

16 Q. Well, do you think -- is the -- you said  
17 earlier the purpose of these investments -- or maybe I  
18 should ask you again. Is the purpose of these  
19 investments to make money?

20 A. Yes.

21 Q. Now, let me ask you: Do you know if PUDs  
22 can invest in these, in similar types of corporations?

23 A. I don't know.

24 Q. If they couldn't, do you think that would  
25 be an advantage that investor-owned utilities have over

1 PUDs?

2 A. Yes, I think so.

3 Q. Depending on the success of the investment,  
4 it could be quite a significant advantage, couldn't  
5 it?

6 A. Or in the case of some investments, quite a  
7 disadvantage.

8 Q. Are you aware that PUDs in Washington  
9 generally provide three utility services at the  
10 present time, electricity, water, and sewer?

11 A. Yes.

12 Q. In the interest of leveling the playing  
13 field, would PSE agree to changing the law to limit  
14 PSE to providing those three services?

15 A. No.

16 Q. Can you explain why? Wouldn't that level  
17 the playing field?

18 A. I don't think that's in the customers' best  
19 interest. That's what this is all about.

20 Q. Isn't it correct that one of the ways an  
21 investor-owned utility can raise capital is to issue  
22 stock?

23 A. Yes.

24 Q. To your knowledge, can a PUD issue stock?

25 A. I don't suppose it issues stock.

1 Q. Would you be -- would you agree that being  
2 able to issue equity as a means of raising capital is  
3 a financial advantage of investor-owned utilities like  
4 PSE over PUDs?

5 A. Well, the cost of debt is generally less  
6 than the cost of equity, so maybe if we could do all  
7 debt, we would be in a better position.

8 Q. You could do all debt now, couldn't you?

9 A. I don't think we would find that  
10 acceptable.

11 Q. Does anybody force you to issue stock?

12 A. The market.

13 Q. If an investor-owned utility wants to  
14 construct a generating resource over 250 average  
15 megawatts in Washington state, do you know whether  
16 there would have to be a vote of the ratepayers of  
17 the utility before the resource could be constructed?

18 A. I don't know that there would have to be a  
19 vote of the ratepayers. There would certainly have to  
20 be a lot of hearings.

21 Q. Before EFSEC and other citing environmental  
22 agencies, correct?

23 A. I assume, yes.

24 Q. Do you think PUDs are subject to the same  
25 kinds of hearings?

1 A. I would assume that they are.

2 Q. Are you aware that PUDs would also be  
3 required to submit the question of whether to  
4 construct a facility of that size to a public vote?

5 A. I don't know what the rules are for PUDs.  
6 I stated that earlier.

7 Q. Well, if it's correct that PUDs don't have  
8 to -- or do have to submit such an issue to a public  
9 vote and investor-owned utilities don't, wouldn't that  
10 be a significant advantage?

11 A. It might or might not; it could be an  
12 advantage.

13 Q. In the interest of leveling the playing  
14 field, would you be willing to support legislation  
15 that would make such a requirement applicable to PSE?

16 A. So that they could vote? No. But I would  
17 support legislation to where municipals didn't have  
18 to take a vote.

19 Q. Do you know if an investor-owned utility in  
20 Washington is subject to any retirement of a competitive  
21 bidding law which requires the use of competitive bidding  
22 for contracts over \$35,000?

23 A. I really do not know.

24 Q. Is PSE -- would PSE be subject to such a  
25 competitive bidding law?

1           A.     I don't know.

2           Q.     Well, assuming for a moment that PSE is not  
3 subject to such a competitive bidding law and that  
4 PUDs are subject to such competitive bidding laws, in  
5 the interest of leveling the playing field, would you  
6 be willing to have PSE be subject to any competitive  
7 building laws which apply to PUDs?

8           A.     No. But I would be willing to support not  
9 having the PUDs having to be subject to those laws.

10          Q.     You've listed two instances in which you  
11 would be willing to change the law to level the  
12 playing field, but you've agreed that it's -- doesn't  
13 it imply that the playing field is not level until  
14 those laws are changed and they disadvantage the PUDs?

15          A.     It's all a matter of a degree, but yes.

16          Q.     Do you know if documents in the possession  
17 of PSE would be subject to the Washington public  
18 disclosure laws?

19          A.     They are subject to the disclosure to the  
20 WUTC. Is that something different than the Washington  
21 disclosure laws?

22          Q.     I worded the question so that it said  
23 documents in the possession of PSE. Documents in the  
24 possession of the UTC would be another matter. But  
25 your internal documents, your financial documents not

1 made available to the UTC, or any document, any  
2 internal memorandum, planning, anything that you want  
3 to talk about, is any document in the possession of  
4 PSE subject to the Washington public disclosure laws,  
5 to your knowledge?

6 A. I'm not really familiar with the Washington  
7 public disclosure laws.

8 Q. Assuming for a moment that PUDs are subject  
9 to public disclosure laws and PSE would not be, in the  
10 interest of leveling the playing field, would you be  
11 willing to have PSE be subject to any public  
12 disclosure requirement applicable to PUDs?

13 A. I think the answer there is obviously no,  
14 because we run afoul of the SEC if we would do  
15 something like that.

16 JUDGE SCHAEER: Mr. Merkel, can you give me  
17 an estimate of how much more you have.

18 MR. MERKEL: Just another minute or two.

19 JUDGE SCHAEER: Okay, thank you.

20 Q. Is PSE required to elect its board of  
21 directors by a vote of its ratepayers?

22 A. No. No, it is not. Wait just a minute.  
23 No, it is not.

24 Q. Assuming for a moment that such a  
25 requirement applies to PUDs, in the interest of

1 leveling the playing field, would PSE be willing to  
2 become subject to such a requirement?

3 A. No, because PSE is subject to the  
4 requirements of the Securities and Exchange Commission,  
5 and that would be the control over PSE, whereas there  
6 are differnt controls over the PUDs.

7 Q. Well, I have hoped through this line of  
8 questioning that I could get you to agree, in the end  
9 here at least, that PUDs and investor-owned utilities  
10 are quite different creatures and each has different  
11 requirements that apply to it, its own burdens, its own  
12 benefits, its own advantages. Would you at least agree  
13 to that?

14 A. I would agree to that, subject to the fact  
15 that the differences are certainly to different  
16 degrees.

17 MR. MERKEL: No further questions.

18 JUDGE SCHAER: Mr. MacIver, did you have  
19 questions of this witness?

20 MR. MacIVER: No, your Honor.

21 JUDGE SCHAER: Ms. Smith?

22 MS. SMITH: No, your Honor.

23 JUDGE SCHAER: Commissioners, did you have  
24 questions of Mr. Vititoe?

25 CHAIRMAN NELSON: Yes, a couple.



1

2

EXAMINATION

3 BY CHAIRMAN NELSON:

4 Q. Good afternoon.

5 A. Good afternoon, Chairman.

6 Q. I would like to ask you a few questions  
7 about what we're calling public purposes for the sake  
8 of the comprehensive review.

9 And I realize that your background is in  
10 gas, but -- in gas and your company has been involved  
11 with low-income weatherization and assistance programs  
12 and so on. Are you familiar with the concept of imposing  
13 a nonbypassable system benefit charge to fund low-income  
14 weatherization and assistance programs and energy efficiency  
15 programs?

16 A. Generally with the concept, yes.

17 Q. Do you or the future PSE have an opinion  
18 about how it would approach funding such programs or  
19 what position it might take should legislation appear?

20 A. Well, we think it's a very, very important  
21 public policy question, and if such legislation were  
22 to appear, why, we would want to actively work to be  
23 supportive of the right level of support.

24 Q. So could we expect to see what was Puget's  
25 and Washington Natural's good citizenship continue in

1 the future?

2 A. Yes.

3 Q. What is the corporation's present intention  
4 with respect to least cost planning and conservation  
5 acquisition?

6 A. Well, our plans for least cost planning  
7 would be to continue as we have, developing those  
8 least cost plans, having them approved by this  
9 Commission. We're not anticipating any change in  
10 that.

11 Q. So not anticipating any great change in  
12 either one?

13 A. That's right.

14 CHAIRMAN NELSON: Okay. Thank you.

15

16 EXAMINATION

17 BY COMMISSIONER HEMSTAD:

18 Q. Mr. Vititoe, I believe your testimony and  
19 that of other witnesses with the company go to the  
20 point that the proposed merger provides significant  
21 savings benefits. The staff and public counsel would  
22 allocate those benefits in a larger share to  
23 customers, but the company's position, as I understand  
24 it, is to object to that because those benefits are  
25 not known and measurable, if that's a simplified

1 paraphrase. If the savings are only speculative, how  
2 would you have the Commission judge that the merger is  
3 in the public interest for consumers?

4 A. Well, I think a couple of ways,  
5 Commissioner. One, if we look at what the escalating  
6 costs will be for our Puget Sound Energy as we did in  
7 our pro forma for that so-called statement 28 or  
8 Exhibit 28, what we do in there is that we offset a  
9 portion of those increased costs with the one percent  
10 increase in electricity, we offset another portion of  
11 those increased costs with all of the synergy savings,  
12 and we still have \$80 million over that five-year period  
13 that we have to offset in order to have rates remain  
14 stable. So we certainly have, I think, shared the  
15 benefits of this merger with the customers as well as  
16 with the share owners.

17 To the speculative part of the question  
18 about the stretch objectives, if you look at that  
19 table that we provided to the rating agencies that -- from  
20 1996 to 2000, we did have a year 1996 in there. And I  
21 can tell you that for Washington Energy, which the year  
22 has just closed, that we missed our figure of our return  
23 by 42 basis points. And even if you take weather  
24 normalization and say that that's 22 cents, which is what  
25 we said in our news release, you still have 20 cents we

1 missed it by. That was one year out. So they are a  
2 stretch. They are speculative. They are not known and  
3 measurable. And that's why in answer to the question I  
4 got earlier about other alternatives, I think the issue --  
5 you know, we really feel enthusiastic about this merger.  
6 We think that there is something in this merger for the  
7 customers. We also think there's something in this  
8 merger not only for the share owners but for the  
9 communities. These are two companies that have been  
10 interested in being an active part of their communities,  
11 and we want to continue. As I just answered the question  
12 to the chairman, we want to continue to be good community  
13 citizens. We want to be based and controlled here in the  
14 Puget Sound area. We think this merger gives us an  
15 opportunity to do that.

16           What I suggested a few minutes ago is that  
17 maybe we can get off this issue of whether or not the  
18 company is going to overearn by putting a cap on the  
19 company's proposal. Maybe that would be satisfactory.  
20 At least it's a thought.

21           Q.     In the absence of the merger, I believe  
22 it's the testimony of the joint applicants that  
23 neither company would be able to avoid a request for  
24 a rate increase in the coming years. Given the  
25 competitive pressures that both companies face, how

1 would rate increases improve your ability to earn a fair  
2 return?

3 A. I think I have to answer that question  
4 maybe separating out gas and electric.

5 We are more than competitive in our costs  
6 of providing gas service today to our customers. The  
7 reason I conclude that is that there is a study that  
8 indicates how companies are doing in terms of their  
9 operation and maintenance expense per customer. With  
10 what we've done over the last two years, we're in the top  
11 quartile. If we're in the top quartile and if my figure  
12 is right, which we're going to firm up, that we earned  
13 about ten percent, something is missing somewhere. So,  
14 you know, I don't think it's because our gas prices aren't  
15 competitive. Our gas prices are competitive for our  
16 transportation, and we will continue to be competitive  
17 and will continue to work on that.

18 On the electric side, first we have to have  
19 an opportunity to earn a fair rate of return, and once  
20 having done that, while we're doing that, we have the  
21 opportunity to start working on those kinds of things  
22 that will bring down the lack of competitiveness on  
23 the electric side, which is primarily their power  
24 costs, because they didn't have indications of how  
25 they stack up in their industry, and they are doing

1 very, very well on an expense basis. So we know and  
2 we've said from the very start, we have a power cost  
3 issue, we need to work on it. I am not sure that in  
4 the case of Puget that that would cause them not to go  
5 for additional rate increases, even though it would  
6 increase their -- make them less competitive. I know  
7 you'll ask Mr. Sonstelie that.

8           But in the case of Washington Natural, I  
9 don't think it will make us less competitive. And if  
10 my analysis turns out to be as I think it is, we will  
11 be in a position to come back in and ask for rates  
12 with this Commission.

13           COMMISSIONER HEMSTAD: Thank you.

14

15                               EXAMINATION

16 BY COMMISSIONER GILLIS:

17           Q.     Mr. Vititoe, in your opinion, will the  
18 merger increase the exposure of business risk for the  
19 shareholders of Washington Natural Gas relative to a  
20 stand-alone company?

21           A.     Commissioner Gillis, I don't believe so.  
22 They have a lot of risk today. They have a risk of  
23 our balance sheet and they have a risk of, with our  
24 size, being taken over. I think it's a shift of risk.  
25 I think, if anything, it lowers the risk somewhat. It

1 certainly doesn't increase the risk, in my opinion.

2 COMMISSIONER GILLIS: Thank you.

3

4 EXAMINATION

5 BY JUDGE SCHAEER:

6 Q. Mr. Vititoe, statutory parties, Commission  
7 staff and public counsel and the company all seem to  
8 agree that some form of rate plan is an appropriate  
9 condition for approval of the proposed merger, and  
10 obviously there is disagreement about the nature of  
11 what should be in that rate plan. Have you or do you  
12 plan to pursue aggressive negotiations to reach a  
13 settlement on this issue?

14 A. We would be very glad to. We did not call  
15 off those negotiations. They were called off by other  
16 parties. We would be willing to start this afternoon  
17 on those negotiations. So, yes, we have said we'll  
18 look at any reasonable alternative.

19 Q. Okay. And similarly, the rate plan, most  
20 of the parties seem to agree that some formal service  
21 quality process is appropriate to ensure continued  
22 high-quality service in the face of cost cutting  
23 pressure, and again, the proposals vary widely. Do you  
24 think this is an area on which agreement might be  
25 reached between the applicants and the parties if you

1 were to sit down and negotiate?

2 A. May I take just a minute with that  
3 question?

4 Q. Okay. And let me just tell you because of  
5 what you said in your last question, I don't know the  
6 history of negotiations that have gone on, and I really  
7 don't need to be told those as far as your answer.

8 A. I would not intend to --

9 Q. I am forward looking.

10 A. -- because they are confidential.

11 The answer to your question is yes. But it  
12 takes more than that. When I saw the proposal for this  
13 service index, I really felt insulted. It said you're  
14 guilty without being proven guilty. I have worked in the  
15 utilities industry for 35 years. I have been involved  
16 directly or indirectly with customer service for most of  
17 those 35 years. I took two Bell operating companies  
18 through the divestiture of AT&T and in both instances  
19 needed to downsize those companies considerably and  
20 improve service during that period of time. We have  
21 downsized Washington Natural over the last two and a  
22 half years. We have improved service during that period  
23 of time. And for somebody to tell me that you're going  
24 to act in a different, irresponsible manner to customers  
25 was really insulting. And so I had to get over the



1 emotion of that, to start with.

2 I don't think that the plan that public  
3 counsel is putting forth is the right plan for these  
4 two companies. Rich Sonstelie and I walked down in  
5 the streets and sat in the service clubs and in the  
6 economic development organizations of this company  
7 every day on a face-to-face basis. We have to look at  
8 those customers and we have to be able to answer their  
9 questions about the kind of service that we give.

10 The telecommunications industry in several  
11 of the regional Bell operating companies have put in  
12 place in states regulatory public affairs managers that  
13 have no control over the service quality that that entity  
14 gives in the state. And whether it's Greenwich,  
15 Connecticut or whether it's Denver, Colorado, that's not  
16 Seattle and Bellevue. We're here. We can't say "somebody  
17 else did it." Rich and I have to look those customers in  
18 the eye and say we're responsible for whether that  
19 service is good or it's not good. I think there's a  
20 whole lot of difference there. We're responsive to  
21 this community, we're responsive to wanting to be sure  
22 that our customer service is ever improving, and that's  
23 what we're committed to and that's what we both stated  
24 we're committed to.

25 Going back to answer your question,

1 yes, we'll be glad to continue to talk about some  
2 resolution of that issue.

3 Q. Wish you success.

4 A. Thank you.

5 JUDGE SCHAEER: Is there any redirect for  
6 this witness?

7 MR. HARRIS: Just one or two questions,  
8 your Honor.

9

10 REDIRECT EXAMINATION

11 BY MR. HARRIS:

12 Q. You were asked questions from the bench,  
13 Mr. Vititoe, about the speculative nature of merger  
14 savings in general. Would you classify merger synergy  
15 savings differently than stretch goals, if you were  
16 talking about whether one or the other was  
17 speculative?

18 A. Yes, I would. We sat down with Deloitte &  
19 Touche as they were developing the merger savings. We  
20 worked alongside of them. We think that we -- it's not  
21 going to be a slam dunk by any means. We think we could  
22 achieve those. The best practices and the power cost  
23 reductions are highly speculative. We've indicated  
24 they're speculative. We've indicated that as we met with  
25 the rating agencies. That's why we separated those out,

1 so we could talk about them separately. They are a  
2 different animal than synergies.

3 MR. HARRIS: That's all I have.

4 JUDGE SCHAEER: Is there anything further  
5 for Mr. Vititoe?

6 MR. CEDARBAUM: Yes, I have some questions.

7 JUDGE SCHAEER: Go ahead, Mr. Cedarbaum.

8

9 RECROSS-EXAMINATION

10 BY MR. CEDARBAUM:

11 Q. Mr. Vititoe, with respect to negotiations --  
12 and I agree that we can't get into the substance of  
13 that, but isn't it correct that with respect to rate  
14 plan issues there have been no formal negotiations  
15 between staff, the company and public counsel?

16 A. I think that's correct.

17 Q. Isn't it also correct that any discussions  
18 which did occur were really very informal and did not  
19 occur until after the company's rebuttal case was  
20 filed? Again, that's with respect to rate plan-type  
21 issues.

22 A. I think that's probably correct.

23 Q. So during the time that we were doing  
24 discovery on your rebuttal case and answering  
25 discovery on our own cases, you're suggesting that we

1 also should have been engaged in formal negotiations  
2 to try to work this case out?

3 A. I was not -- did not intend by my comment  
4 to be critical. All I was indicating is that we were  
5 willing and are willing to continue to have those  
6 negotiations.

7 Q. With respect to the best practices and  
8 power stretch, I understand that there's a  
9 disagreement about the amount of those savings, but  
10 you would agree that there's no doubt that those  
11 savings at some level will occur.

12 A. Well, we're gambling that we can get at  
13 least 80 million of it.

14 Q. So again, best practice savings will happen  
15 and power stretch savings will happen?

16 A. Some will happen.

17 Q. Finally, with respect to the rate cap  
18 proposal that you tossed out here, you began -- you  
19 prefaced that discussion with what I understood to be  
20 your fear that there was a concern from our side that  
21 the company might overearn. Can you point to me where  
22 in the staff case that concern arose?

23 A. No. No, I can't at all. And I didn't --  
24 I didn't intend to infer that there was somewhere in  
25 the case that indicated that. May be, may not, but I

1 just don't know. It's just my feeling in terms of  
2 looking at staff's rebuttal testimony, looking at the  
3 testimony that's taken place during the last week and  
4 couple of days that there seems to me that for some  
5 reason there's a lack of trust here. And I don't --  
6 maybe it's because I haven't lived through this era  
7 for five years or ten years and I'm relatively new.

8 Q. You're young.

9 A. It seems like there's a lack of trust. And  
10 the lack of trust seems like it -- you know, I try to  
11 figure out what does that mean. Well, it kind of  
12 means to me that somebody thinks somebody is hiding  
13 something. Let me tell you, I'm not a part of hiding  
14 something. I feel as strongly about that as I do for  
15 what I have done for service during my career. You  
16 know, I have too high principles and too much  
17 integrity to hide something. I may be wrong sometime,  
18 but I'm not going to be hiding. And I just get the  
19 sense that somebody doesn't trust somebody in this  
20 whole thing and that's what's keeping this thing  
21 apart.

22 It is my opinion -- obviously, I have a  
23 parochial feeling. I am so enthused about what this  
24 merger can do for everybody, with our customers first  
25 in mind and our communities in mind, that I wanted it to

1 happen, so I've been trying to sit back and not talk to  
2 everybody that's in the forest and just try to sit back  
3 and take a look at what might be able to break this thing  
4 free, what might be able to cause the kind of confidence  
5 and respect for each other that we can trust what each  
6 other has to say. End of speech.

7 Q. So as I understand your testimony, there  
8 was nothing specifically in the staff case that caused  
9 you to think there was a concern about overearning;  
10 this was just your -- basically a gut feeling from  
11 observing the process?

12 A. That is correct.

13 Q. Granted that you probably don't have  
14 specifics in mind about how this rate cap proposal  
15 might work, but what type of return on equity were  
16 you thinking of as a cap?

17 A. I'll answer that. But the important thing  
18 is that we don't need to design a complex plan that  
19 everybody has to figure out how everybody can get out  
20 of it. To me, it's very simple; we do it on a  
21 commission basis. We figure what the return is. If  
22 it exceeds the cap, we come in, we figure out how to  
23 take those overearnings, if there are any, and give  
24 them back to the customers.

25 In answer to your specific question and --

1 and I hope we don't try to design something that's as  
2 complicated possibly as the PBR or whatever. That's  
3 not necessary. Let's make it simple.

4           In answer to your question, I think a cap  
5 should be 200 basis points over what the authorized  
6 return is.

7       Q.     Okay. So if we were to take Dr. Lurito's  
8 10.6 combined authorized return that he calculated,  
9 you're saying 12.6 would be the cap?

10       A.     If that's what you took. I would try to  
11 convince you that the most recent thing this  
12 Commission has done looks to 11 and 11 and a quarter  
13 percent and that should be the starting point.

14       Q.     So perhaps even higher, to 13 and 13 and a  
15 quarter, would be the cap?

16       A.     Yes.

17       Q.     And then would there be 100 percent share  
18 -- would all earnings or savings -- earnings above  
19 that cap go to ratepayers or would there be a sharing  
20 between shareholders and ratepayers?

21       A.     I think we can work that out, but that's  
22 where it's going to get complicated, so I think if we  
23 look at it in terms of how that -- at that point in  
24 time that that happens. And by the way, nobody will be  
25 happier than I will be if that could happen to occur.

1           At that point in time we look and see that  
2 "does that look like that, that can continue" and make a  
3 simplistic judgment that, yeah, there's no reason to  
4 think that you did it this year, you can't do it next  
5 year. Then I think we can come up with some kind of a  
6 sharing mechanism that pretty much all goes to the  
7 customers. May go to the customers in different ways.  
8 It may go to the customers on an immediate basis in terms  
9 of reducing their rates or it may go to the customers in  
10 terms of our doing something with accelerated depreciation  
11 or whatever that benefits customers over the long term. I  
12 don't know the mechanics. I probably couldn't figure them  
13 out if I am -- yeah, I probably could if that's what I  
14 decided to do, but I think we can figure out something that  
15 is simple that'll play that we can all feel comfortable  
16 with.

17       Q.     So it's possible, then, or you wouldn't  
18 preclude the possibility that there might be a split  
19 of those savings between shareholders and ratepayers,  
20 50/50, 75/25?

21       A.     I wouldn't preclude the possibility, but  
22 you wouldn't find me in here pressing that issue hard.

23       Q.     And the period of time that this would  
24 occur would be over the five years --

25       A.     Over the five years, yes.



1 Q. -- that we've already discussed?

2 During that five-year time period, it would  
3 be possible for the company -- the company's earnings  
4 would depend on the expenses that the company incurred  
5 during that five-year period, is that right?

6 A. Well, yes.

7 Q. Okay. What sort of a procedure or what  
8 kind of a process would we have set up to examine  
9 whether or not those expenses were reasonably  
10 incurred?

11 A. I don't know. See, now you're starting to  
12 design this plan that's a lack of trust and kind of a  
13 plan --

14 Q. I'm sorry to interrupt. You can finish  
15 your question, but you offered this out, and now I'm  
16 trying to respond by, you know, three or four main  
17 issues that come to mind.

18 A. Fine. Thank you. I think that we can sit  
19 down together and figure what Commission staff can  
20 look at to see whether or not they feel that the  
21 expenses that we incurred are reasonable expenses for  
22 management to incur.

23 Q. But you have no specific plan in mind?

24 A. No.

25 MR. CEDARBAUM: Thank you. Those are all

1 my questions.

2 JUDGE SCHAEER: Mr. Manifold.

3 MR. MANIFOLD: Yeah, a couple of questions.

4

5 RE CROSS-EXAMINATION

6 BY MR. MANIFOLD:

7 Q. Your comments about you and Mr. Sonstelie  
8 living and working in this area and the  
9 responsibilities you have, I take it, were to  
10 differentiate your role from that of a US WEST  
11 somewhat similarly situated person?

12 A. Well, several of the current regional Bell  
13 operating companies.

14 Q. Do you believe that Central Maine Power  
15 Company is a locally headquartered company for the  
16 state of Maine?

17 A. I imagine that it is.

18 Q. How about New York State Electric and Gas  
19 Company for New York?

20 A. Yes, NYSEG is located in Bellingham, or  
21 whatever it is, New York.

22 Q. Niagara-Mohawk Power as to New York?

23 A. Mm-hmm.

24 Q. San Diego Gas and Electric -- excuse me.  
25 San Diego Electric and Gas?

1           A.     In California.  San Diego, mm-hmm.

2           Q.     Okay.  And were you aware that all of those  
3 have had rate plans that included service quality  
4 indexes in them similar to those recommended by Ms.  
5 Alexander?

6           A.     I'm aware that based on reading her  
7 testimony that all of those have some form of plan.  
8 I don't know how close it resembles hers, but I'm aware  
9 that they have some plan.  I don't know what the  
10 conditions were under which those plans were imposed.

11          Q.     Finally, regarding your comments on finding  
12 some way to resolve this case, by my calendar our  
13 briefs in this case are due three weeks from this  
14 Friday.  That intervening period between now and then  
15 includes the NARUC and the NASUCA annual meetings and  
16 the Thanksgiving holiday, reducing the number of  
17 in-office working days for at least myself to a very,  
18 very few.  Would you accept that subject to your check?

19          A.     All I can say is that every day between now  
20 and December the 6th I'm available.

21          Q.     Well, are you -- the schedule in this case,  
22 as you may recall, was originally agreed to in one  
23 schedule, and then subsequently, I think in part due  
24 to your direction, was changed to the current  
25 schedule.  My question is, would you be willing to

1 change at least from your perspective that schedule  
2 to allow adequate time to do that by pushing the briefs  
3 out to some January date?

4 A. Well, I'm not sure, because I don't have  
5 any guarantee that we're going to come to an  
6 agreement. I would like to see us go on a force march  
7 and see if we can't come to some kind of an agreement,  
8 and I think if we don't try to design a perfect plan  
9 where everybody has to watch everybody else, we can do  
10 that.

11 Q. Did Mr. Davis keep you apprised of the  
12 nature of the discussions that we had with him over  
13 the last couple weeks or that we had on a couple of  
14 occasions over the last couple of weeks?

15 A. I don't want to say he doesn't keep me  
16 apprised, because he does, but --

17 Q. Loaded question.

18 A. -- if you asked me to answer the question  
19 of what did you and he talk -- I mean --

20 Q. I'm not going to ask that.

21 A. To answer, myself I can't remember what he  
22 said. He probably apprised me of it and I don't have  
23 the foggiest idea now what it was. I might be able to  
24 resurrect it if I thought hard enough on it, but I  
25 don't know.

1 Q. That was a foundation question.

2 A. Well, I probably didn't do a lot for the  
3 foundation.

4 Q. I hear that. I hear that.

5 Other than the status that Mr. Davis does  
6 keep you apprised but you don't remember what he tells  
7 you, I hear that. Maybe we should just leave it  
8 there, and I guess I would suggest that you contemplate  
9 and we can obviously have further informal discussions  
10 whether you think it would be fruitful to change the  
11 briefing schedule if the Commission were so inclined in  
12 order to allow, you know, a fullness of time or even a  
13 half fullness of time in order to continue those  
14 discussions.

15 A. I think we should talk about that

16 MR. MANIFOLD: That's all the foundation I  
17 have for this witness.

18 JUDGE SCHAEER: Okay. Is there anything  
19 further for Mr. Vititoe? Thank you for your  
20 testimony, sir. Let's go off the record briefly to  
21 change witnesses.

22 (Discussion off the record.)

23 JUDGE SCHAEER: Let's take our recess at  
24 this time. We're going to go off the record at this  
25 time for our afternoon recess. Please return and be

1 ready to go at ten minutes after 3:00. We're off the  
2 record.

3 (Recess.)

4 JUDGE SCHAEER: Let's be back on the record.  
5 Would you call your next witness, please, Mr. Van  
6 Nostrand.

7 MR. VAN NOSTRAND: Yes, your Honor. The  
8 joint applicants call Rich Sonstelie.

9 JUDGE SCHAEER: Mr. Sonstelie, would you  
10 please stand and raise your right hand.

11 Whereupon,

12 RICHARD R. SONSTELIE,  
13 having been first duly sworn, was called as a witness  
14 herein and was examined and testified as follows:

15 JUDGE SCHAEER: Mr. Van Nostrand, you  
16 prefiled rebuttal testimony for Mr. Sonstelie which I  
17 have marked for identification as Exhibit T-267, and  
18 then I have received one exhibit from public counsel  
19 which I will mark for identification as Exhibit 268.  
20 That exhibit is the responses to public counsel data  
21 request 228, 229 and 236, and, again, I will mark that  
22 as 268. Go ahead, please, Mr. Van Nostrand.

23 (Marked Exhibits T-267 and 268.)

24 MR. VAN NOSTRAND: Thank you, your Honor.

25

DIRECT EXAMINATION

1

2 BY MR. VAN NOSTRAND:

3 Q. Good afternoon, Mr. Sonstelie.

4 A. Good afternoon.

5 Q. Could you state your name and spell it for  
6 the record, please.

7 A. It's Richard R. Sonstelie,

8 S O N S T E L I E.

9 Q. And you have before you what's been marked  
10 for identification as Exhibit T-267?

11 A. Yes, I do.

12 Q. And do you recognize that as your prefiled  
13 rebuttal testimony in this case?

14 A. Yes.

15 Q. And do you understand that in accordance  
16 with the 12th supplemental order we will be excluding  
17 from Exhibit T-267 lines 16 to 17 on page 2?

18 A. Yes, I do.

19 Q. On page 4, lines 11 and 12, the sentence  
20 which states, "Both companies are currently  
21 under-earning and have demonstrated a need for rate  
22 relief"?

23 A. Yes.

24 Q. On page 5, lines 22 and 23, the phrase  
25 stating "as a result, both companies on a stand-alone

1 basis would have a need for rate increases"?

2 A. Yes.

3 Q. Continuing on page 8, line 18, through page  
4 9, line 18?

5 A. Yes.

6 Q. And finally, as so modified, if I asked you  
7 the questions set forth in Exhibit 267, would you give  
8 the answers as set forth in that document?

9 A. Yes, I would.

10 MR. VAN NOSTRAND: Your Honor, I move the  
11 admission of Exhibit T-267.

12 JUDGE SCHAER: Any objection?

13 The document is admitted.

14 (Admitted Exhibit T-267.)

15 MR. VAN NOSTRAND: Joint applicant would  
16 also stipulate to the admission of Exhibit 268.

17 JUDGE SCHAER: That document is admitted.

18 (Admitted Exhibit 268.)

19 MR. VAN NOSTRAND: And Mr. Sonstelie is  
20 available for cross-examination.

21 JUDGE SCHAER: Mr. Cedarbaum, did you have  
22 questions?

23 MR. CEDARBAUM: Yes, I have a few.

24

25



## CROSS-EXAMINATION

1

2 BY MR. CEDARBAUM:

3 Q. Hello, Mr. Sonstelie.

4 A. Hello, Mr. Cedarbaum.

5 Q. Back in August of this year, you testified  
6 on cross-examination, and at that time you agreed with  
7 the principle that the merger benefits should be  
8 equitably shared among gas and electric customers. Do  
9 you recall that?

10 A. Yes, I do.

11 Q. And at the time you testified and at the  
12 time the company filed -- or both companies filed their  
13 testimony in this proceeding, that occurred before  
14 schedule 48 was approved by this Commission, is that  
15 right?

16 A. That's correct.

17 Q. And was it also before the Commission  
18 approved the contracts with Bellingham Cold Storage  
19 and Georgia-Pacific? Would you accept that subject to  
20 check?

21 A. I would accept that subject to check. I  
22 don't remember that date.

23 Q. With respect to both the special contracts  
24 and schedule 48, those resulted in lost revenues to  
25 the company, is that right?

1           A.     Let's see.  The two special contracts do.  
2  I don't know whether Schedule 48 will or not.  I mean,  
3  you know, the reductions don't occur until later  
4  and, obviously, we have some ability to try to  
5  mitigate that, but -- certainly has the potential.

6           Q.     And there was a number included in the  
7  staff case of 121 million related to lost revenues for  
8  the two special contracts and Schedule 48?

9           A.     I don't recall that number.

10          Q.     Would you accept that subject to your  
11  check?

12          A.     Yes.

13          Q.     Now, we've been talking about basically --  
14  and I guess let me back up for a point.  The company  
15  has committed to be at risk for those lost revenues,  
16  is that right?

17          A.     That's correct.

18          Q.     Now, with respect to the benefits from the  
19  merger, we've pretty much identified three main pots,  
20  the synergy savings, the best practices, and the power  
21  stretch savings, is that right?

22          A.     No.  You've identified those three pots.

23          Q.     I don't mean to place a dollar on them.  I  
24  just mean we've talked about those three concepts.

25          A.     I believe -- I believe the savings

1 associated with the merger which we all agree on are  
2 the synergy savings, 350 million, \$370 million. The  
3 other two pots, as you identify them, which we won't  
4 name the number on, are not identified savings. They  
5 are targets that were set in discussions with rating  
6 agencies. So they are not benefits of the merger.

7 Q. Let me restate it. They are categories of  
8 savings that have been discussed in this proceeding?

9 A. They are categories of targeted savings, and  
10 they have been discussed in this proceeding, yes.

11 Q. Is it the company's position that because  
12 of the lost revenues that result from the Bellingham  
13 Cold Storage and Georgia-Pacific special contracts and  
14 Schedule 48 that Puget Sound Energy will have to be  
15 able to keep whatever savings might arise from power  
16 stretch and best practices in order to earn a fair  
17 rate of return?

18 A. No.

19 Q. So in order to earn a fair rate of return,  
20 these companies -- Puget Sound Energy does not have to  
21 keep dollars of power stretch savings and best  
22 practice?

23 A. No, that's not what I said. It has nothing  
24 to do with -- I mean, it's not related to Schedule 48  
25 and the special contracts. It's related to the fact

1 that given the foregone rate relief, the merger  
2 savings themselves, the synergy savings, are completely  
3 passed on to customers. If we take those other two  
4 categories and also completely pass them on to  
5 customers, which I believe is what staff and public  
6 counsel ultimately suggest, although in two very  
7 different forms, then the companies are not -- the new  
8 company would not be financially viable going forward.

9 Q. I'm trying to understand how that got to  
10 answering my question.

11 A. I'm sorry. Maybe you better try it again  
12 if I didn't.

13 Q. Let me ask it this way: If there were no  
14 lost revenues from the special contracts or schedule  
15 48, would the company's rate plan as proposed -- would  
16 the company be required to propose the rate plan that  
17 its proposing?

18 A. The company's proposed rate plan predates  
19 any negotiation on schedule 48, so that rate plan was  
20 proposed in our filing in February. We didn't even  
21 begin negotiations with customers until after that,  
22 Mr. Cedarbaum, so there was no connection.

23 Q. So if the company -- if the company did not  
24 -- was not facing \$121 million of lost revenues,  
25 you're saying that the rate plan that's being proposed

1 in this proceeding would not change?

2 A. Well, that's correct. That rate plan  
3 predated that. The discussion that we had on schedule  
4 48 was an indication that since the time of submitting  
5 the rate plan, you know, additional potential cost  
6 pressures or potential revenue reductions in this  
7 case included schedule 48, which we didn't know of  
8 during the time we submitted the rate plan.

9 Q. Now you do know of it?

10 A. Yes.

11 Q. And given the fact that you know of that,  
12 those lost margins, lost revenues, and lost revenues  
13 from the special contracts, are you -- does your rate  
14 plan -- is there anything about that rate plan that's  
15 -- that is still required to go forward?

16 A. Everything about the rate -- I mean, we've  
17 not changed our proposal on the rate plan, Mr.  
18 Cedarbaum. I'm sorry, I'm just not following the  
19 question; I'm not trying to avoid it. We have not  
20 changed the filing on the rate plan. You know, in our  
21 discussion with -- in our rate proposal, in our  
22 discussion with rating agencies, et cetera, you know,  
23 we were aware of competitive pressures that we had,  
24 competitive issues we had, but we did not have a  
25 schedule 48 response.

1 Q. Let me just see if I understand one more  
2 time. It's your testimony that if the company's --  
3 Puget Sound Energy does not need to keep best practice  
4 and power stretch savings, whatever those amounts  
5 might be, in order to earn a fair return?

6 A. No, that's not my testimony.

7 Q. So is it your testimony that Puget Sound  
8 Energy has to keep best practices and power stretch  
9 savings in order to earn a fair return?

10 A. I'm saying that, yes, that absent those, we  
11 have no opportunity to earn a fair return if those  
12 were passed through because of the very speculative  
13 nature of them.

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

16 JUDGE SCHAEER: Mr. Manifold, do you have  
17 questions for Mr. Sonstelie?

18 MR. MANIFOLD: Yes, I do, just a few.

19

20 CROSS-EXAMINATION

21 BY MR. MANIFOLD:

22 Q. Mr. Torgerson was kind enough to refer some  
23 questions to you as well. There were two sets of  
24 them. The first concerned the company Puget's  
25 internal financial forecasts, some of which have been

1 made exhibits in this case and which formed part of  
2 the basis for the presentation that the company then  
3 made to the rating analysts in January, whenever that  
4 was.

5 A. January.

6 Q. Okay. Can you tell us anything about when  
7 those financial forecasts were prepared?

8 A. Those particular forecasts I believe were  
9 prepared in the December time frame, but it doesn't  
10 mean every piece of the forecast, Mr. Manifold, was  
11 new in December. In other words, you know, they were  
12 updated to some extent. I mean, there are a lot of  
13 forecasts -- parts of the forecasts that don't  
14 particularly change month to month, particularly the  
15 longer-term aspects of it, but those particular  
16 forecasts, to the best of my recollection, were in the  
17 December time frame. In preparation, we send them out  
18 in advance to the rating agencies, so we are -- in that  
19 time frame so we can then follow up on them. That's as  
20 best as I can remember.

21 Q. Were there other forecasts prepared as  
22 well?

23 A. The only other piece -- and I don't think  
24 it was really a forecast, but I believe people were  
25 provided with numbers that were discussed with the

1 board of directors, but they are basically the same  
2 sets of numbers.

3 Q. Based on the same financial forecasts?

4 A. Yes.

5 Q. And who or what department prepares those  
6 within Puget?

7 A. Financial planning department. That's Mr.  
8 Elsea, who reports to Mr. Gaines, Mr. Don Gaines, not  
9 Bill Gaines.

10 Q. He's the treasurer?

11 A. Yes, Mr. Gaines is the treasurer.

12 Q. I guess you've indicated those formed the  
13 basis for presentations that were made to the board of  
14 directors, is that what I understood your --

15 A. Well, there were a lot of discussions with  
16 the board of directors. Those were included in the  
17 discussions, yes.

18 Q. And are those the sort of -- are those  
19 financial forecasts -- I mean to speak about these  
20 specifically, but if it's a general answer that's okay  
21 too -- the sort of thing that are shared with the  
22 officers of the company?

23 A. No, not typically, because we have got a  
24 real concern about, you know, how much -- particularly  
25 longer-term forecasts and particularly uncertain



1 forecasts -- how wide a distribution we have on that.  
2 We generally limit that pretty severely. And I don't  
3 recall discussing those generally with the officers.

4 Q. Another question that Mr. Torgerson  
5 referred to you was regarding either one or two  
6 meetings with the Commission and its staff that  
7 apparently you set up. It looks like you're ready to  
8 answer that. Why don't you go ahead and answer that  
9 question.

10 A. Yes, I heard your question. I came in just  
11 in time for those.

12 Q. Did you set up some meeting last fall?

13 A. Yes. There was one set up. I don't  
14 remember if it was right at the end of October or the  
15 beginning of November, but it was in that time period.  
16 That was held in Seattle that Mr. Vititoe and I  
17 attended and others. I don't remember who all was in  
18 attendance. Where we -- that was relatively soon  
19 after the announcement, and we just had a -- as I  
20 remember, the meeting had already been set up with Mr.  
21 Manifold to talk about electric issues. I had been  
22 trying to get around, do a better job of, frankly, keeping  
23 the commissioners and others informed on electric issues,  
24 and I think we just kept it on the schedule. And, of  
25 course, it ended up being more appropriate to discuss what

1 Mr. Vititoe and my vision of the new company was, which was  
2 really what we were talking about in that meeting.

3 Q. And there was some -- are you familiar with  
4 some other meeting that was in the March/April time  
5 frame?

6 A. Yes. Actually, it was in February. And  
7 somebody found out it was February 7, which sounds  
8 right to me.

9 Q. And what was that meeting?

10 A. That was a meeting to talk about -- I had  
11 been at the Edison Electric Institute CEO meeting, the  
12 one that normally occurs in about the second week in  
13 January every year. I had been to that, and the  
14 entire meeting was devoted to issues around industry  
15 structure, open access, you know, where's the industry  
16 going in the long run type thing. And I found the  
17 meeting very interesting and felt it would be really  
18 appropriate to have a discussion that basically talked  
19 a little bit about what was our vision in terms of the  
20 ultimate open access, you know, open competition that  
21 was going on. Partly, Mr. Manifold, the industry at  
22 that time -- I think it's getting better, but the  
23 industry at that time was still, you know, relatively  
24 divided on the issue of whether this was a good thing  
25 to have happen, you know, particularly open retail

1 access.

2 Q. There was talk around that time of EEI  
3 turning it into two organizations, wasn't it?

4 A. There very much was, and it is less deeply  
5 divided than it was then. At that time, I think the  
6 split was very near 50/50. I think there are only  
7 about 25 percent of electricians in the just-say-no club  
8 today, but it was more than that then.

9 Q. So that meeting concerned open access,  
10 future retail wheeling, not touching on merger-related  
11 issues?

12 A. No. As I remember, there was -- the best of  
13 my recollection, there was nothing merger related in  
14 that. I think the discussion was about the future of  
15 the industry, and particularly I know my part of it.  
16 I discussed specifically some of the things that had  
17 been discussed at the EEI meeting.

18 Q. In your direct testimony, I want to ask you  
19 a couple questions about the company's commitment of  
20 up to a million dollars a year for low income  
21 purposes. You weren't here for Mr. Karp's testimony  
22 earlier, I don't think.

23 A. No, I wasn't.

24 Q. You're familiar with in general terms his  
25 recommendation of four and a half million dollars' --

1 A. Yes.

2 Q. -- commitment from the electric side?

3 My first question is, is the \$1 million  
4 commitment, is that for electric or electric and gas?

5 A. It's a commitment for Puget Sound Energy,  
6 so it's electric and gas, but I might point out that  
7 the million dollar commitment said specifically these  
8 are not monies that we would ask for some specific  
9 recovery on. That doesn't mean there might not be  
10 other expenditures that are made that, you know, that  
11 we're asking for, you know, some recovery on the wires  
12 or wherever.

13 Q. So the intent wasn't to put that as the  
14 upper boundary so much as that was the commitment on  
15 those particular terms for that particular recovery,  
16 or nonrecovery, if you will?

17 A. Yes. Maybe I can help, Mr. Manifold. The  
18 concept was that this particular vulnerable group of  
19 customers during a time when there was a lot of  
20 uncertainty around, you know, where's the industry  
21 going to be going with open competition and concerns  
22 about whether programs like this would still be  
23 maintained and potential stranded benefits, et cetera,  
24 it was a commitment on our part that said during this  
25 rate stability period, whatever ends up getting worked

1 out in terms of recovery mechanism, et cetera, we will  
2 commit to that level of expenditure without asking  
3 that to be picked up by any customer. Would have been  
4 in effect savings from the merger, however you want to  
5 term it, but it was basically that commitment.

6 Q. What's the company's commitment in either  
7 Puget Sound Energy or Puget Power regarding the public  
8 purposes portion of the comprehensive review that's  
9 going on right now?

10 A. Well, there -- I don't have my direct  
11 testimony with me. I think on page -- I think it's  
12 page 19 of my direct testimony,

13 Q. That sounded like a hint to me.

14 A. I do talk about a number of those -- you  
15 know, that isn't the comprehensive -- I think it's  
16 page 19. Does it look right? Do you see a listing  
17 there?

18 Q. Yeah, it's on pages 18 and 19.

19 JUDGE SCHAER: Would you like to see a copy  
20 of that, Mr. Sonstelie?

21 THE WITNESS: I think counsel's --

22 JUDGE SCHAER: (Handing.)

23 A. That says our DSM commitment includes the  
24 following elements and lists quite a number of  
25 bullets that I think get to --

1 Q. Yeah, I don't mean to have you repeat  
2 those. Well, well, specifically is the company  
3 supporting the comprehensive review process three  
4 percent goal?

5 A. Not yet, because I don't know that we really  
6 have had a chance to really, you know, examine all  
7 aspects of it. But in concept, the idea of the three  
8 percent goal, we're going to have to look at two  
9 issues. One, are the -- whatever investment is made,  
10 are they justified? You know, can we look a customer  
11 in the eye and say there's a real benefit being  
12 provided to you as a customer and to society? And  
13 secondly, we're going to need to look at the nature of  
14 the recovery mechanism associated with that and make  
15 sure that that's done in a way that's truly competitively  
16 neutral. And the reason I hesitate on saying that we  
17 support it now is the recovery mechanisms I've heard  
18 discussed don't pass my test on competitively neutral at  
19 this point.

20 Q. Is the -- sorry, I don't really mean to  
21 belabor this, but just to make sure I know where Puget  
22 Power at least is.

23 The IOUs are represented, if you will, by  
24 an IOU member of the comprehensive review. Mr. Karp's  
25 testimony earlier today, as I heard it, was that that

1 IOU member of the comprehensive review had supported  
2 the three percent public purposes goal, and so Mr.  
3 Karp's interpretation was that Puget presumably,  
4 therefore, supported that.

5       A.     Yeah, I read that part of Mr. Karp's  
6 testimony. And I admit I wasn't here, but I think it  
7 got a little confusing, at least to me. I think you've  
8 got to separate between what's going on right now in  
9 the market transformation area, which is what a lot of  
10 what this is dealing with, with the newly set-up board  
11 of directors on that. Puget is represented by Mary  
12 Smith on that. Mr. Gannon indicated to me that his  
13 company had signed that agreement, but that isn't for the  
14 three percent. I mean, that agreement is basically the  
15 limited three-year plan which I think our share amounts  
16 to something over a million dollars. So that's the piece  
17 where Mr. Gannon has signed that, to the best of my  
18 knowledge. As a matter of fact, I know he did, because I  
19 asked him directly, and I expect we will. I haven't had a  
20 chance to look at it, frankly, but Mary Smith has been our  
21 representative all the way along, and I've got a lot of  
22 confidence in her, and she felt quite good about the work  
23 that had been done so far. So that's sort of phase one.  
24 The second question about the three percent, you know, I  
25 don't have a conceptual problem with the idea of three

1 percent. It's let's see, you know, what the investments  
2 are, let's see how the recovery mechanism would occur.

3 Q. Everyone who has supported the three  
4 percent presumably has done so based upon it being  
5 used on cost-effective measures.

6 A. I hope so. That's certainly -- knowing Mr.  
7 Gannon, you know, if he did end up talking positive  
8 about three percent -- I know him pretty well, and I  
9 can't believe he didn't mean that it was, you know,  
10 cost-effective conservation and renewables and however  
11 else it might be used.

12 Q. To the extent that that is restricted to  
13 things that are cost-effective, would you agree that  
14 we're not really talking about a social program here,  
15 we're talking once again, as Puget has in the past,  
16 about how to obtain energy resources in a  
17 cost-effective manner?

18 A. Absolutely. And that's why I referred you  
19 to my direct testimony. I mean, we still believe that  
20 investments in demand side management and other areas  
21 like that that are cost-effective for our customers  
22 must be a part of a going forward, you know, approach to  
23 meeting energy needs. That's just in the public interest  
24 to continue that. And we definitely plan to continue that  
25 in Puget Sound Energy. I think Mr. Vititoe indicated



1 that too.

2 Q. My understanding is on the comprehensive  
3 review the comment period ends this week, so have you  
4 formulated what Puget Power's comments will be for  
5 that?

6 A. I haven't personally. I don't know whether  
7 we have, Mr. Manifold.

8 Q. As I understand the way in your direct  
9 testimony that you mentioned the \$1 million a year --  
10 excuse me. I keep wanting to call it one dollar, but  
11 I -- the \$1 million a year, that that would be  
12 included in operating expenses for regulatory  
13 reporting purposes during the rate plan period, so to  
14 the extent that the company -- hopefully not, but to  
15 the extent that the company needed to seek interim  
16 rate relief or made any other filings regarding its  
17 return, the \$1 million expense would be accounted for  
18 as an expense for those purposes. Is that the way I'm  
19 reading your testimony? I want to verify if that's  
20 your intent.

21 A. That's probably right. I don't think the  
22 million dollars -- I wasn't trying to indicate the  
23 million dollars is going to somehow be the number that  
24 breaks the company and makes it necessary to come in  
25 for emergency rate relief, but I think it is a cost

1 from that standpoint, yes.

2 MR. MANIFOLD: Okay, thank you. No other  
3 questions.

4 JUDGE SCHAER: Mr. MacIver, did you have  
5 questions for Mr. Sonstelie?

6 MR. MacIVER: No questions, your Honor.

7 JUDGE SCHAER: Ms. Pyron?

8 MS. PYRON: No questions, your Honor.

9 JUDGE SCHAER: Mr. Wright?

10 MR. WRIGHT: Yes, your Honor.

11

12 CROSS-EXAMINATION

13 BY MR. WRIGHT:

14 Q. Good afternoon, Mr. Sonstelie.

15 A. Good afternoon, Mr. Wright.

16 Q. I represent Bonneville Power Administration  
17 in this proceeding, and I wanted to ask a couple of  
18 brief questions about -- that pertain to the  
19 residential exchange. In your testimony at page 11,  
20 you had listed a number of areas that you concluded  
21 were not within the proper scope of this proceeding  
22 and are appropriately the subject of other proceedings  
23 and reviews. Bonneville had initially intervened in  
24 this proceeding as a reaction to Puget's initial rate  
25 stability plan, which envisioned a five-year period of

1 one percent rate increases which would occur without  
2 the benefit of an adversarial proceeding before the  
3 Commission. It was Bonneville's opinion that such --  
4 that these types of rate increases create certain  
5 administrative problems for Bonneville in calculating  
6 ASC. The public counsel has presented a rate plan  
7 that very definitely, I think, makes the residential  
8 exchange an issue in the proceeding in that it  
9 envisions any decline in benefits being paid for by  
10 Puget, I guess, in a very simple terms. And I wondered  
11 if you could explain, given those two perceived interests  
12 in a proceeding, if you could explain why you believe the  
13 residential exchange is not appropriately within the  
14 scope of this proceeding, and if you could, where you  
15 would see such issues being resolved.

16 A. All right. There are -- I think, as I  
17 understood your question, there are two different  
18 aspects of the residential exchange that potentially  
19 enter into the proceeding. One is public counsel's  
20 proposal for us to absorb any reductions that would  
21 occur in schedule 94. And, you know, clearly you have  
22 seen from our rebuttal testimony we believe that's  
23 very inappropriate that the residential exchange and  
24 the level of the exchange, et cetera, is something  
25 that gets worked out in a separate process, and that

1 it's also inappropriate for us to somehow absorb the  
2 impact of a credit to make it disappear.

3           By indicating that these issues should be  
4 worked on later, I don't mean to indicate that the  
5 issue of how administratively, you know, the exchange  
6 would be handled with Bonneville. That's something that I  
7 believe in every proceeding that I've been a part of and  
8 since the exchange has been around we've generally been  
9 able to work out with Bonneville in terms of  
10 administratively how the exchange is handled, given things  
11 like -- I mean, we had decoupling, we have had a number  
12 of quite different regulatory plans in this state, all of  
13 which we were able to work successfully with Bonneville to  
14 indicate how would that be handled from an administrative  
15 purpose, and I would think that would still occur.

16           I must take exception with your -- despite  
17 the fact that you're treating me very pleasantly and  
18 others did too, that this is not an adversarial  
19 process. I think it is an adversarial process, and it  
20 is meant to be. You know, there is a competition of  
21 ideas and the tough questioning that's associated with  
22 an adversarial process. So I disagree with that  
23 mischaracterization.

24           Q.       Perhaps I could clarify. I didn't mean to  
25 suggest that this is not an adversarial proceeding.

1 It is. I agree with that. I was trying to elicit a  
2 response to your suggestion that the residential  
3 exchange should not be an issue in this proceeding,  
4 and I think you've responded to that, but I didn't  
5 mean to suggest that this is not an adversarial  
6 proceeding.

7           The point I was trying to make with respect  
8 to the exchange is that generally historically an ASC  
9 filing is -- has been the result of some sort of  
10 adversarial rate proceeding before a Commission, with  
11 some exceptions, for example, like the PRAM experiment  
12 and things like that, historically.

13         A.     And in fact, there have been exceptions, as  
14 you point out, and my feeling is that, you know, that  
15 is something that we would work with Bonneville on as  
16 we have in the past.

17         Q.     In what context, I wonder? In a context  
18 before this body or --

19         A.     No. Typically, what has happened is, you  
20 know, we have sat down with Bonneville and talked  
21 about how administratively costs are handled for  
22 average system cost determination purposes. When you  
23 have something that is in any way, you know, unusual,  
24 a departure from, you know, traditional ratemaking  
25 practices, you end up having those kind of discussions

1 because Bonneville has, you know, its process, and to  
2 the extent that there's a variation in that, we I  
3 believe have been able to work that out with Bonneville  
4 in the past.

5 Q. If I could just ask one more quick  
6 question: In your testimony you at -- I believe line 8,  
7 page 11, you say the public counsel has demonstrated  
8 no basis for its proposal to have PSE bear the risk  
9 for maintaining the current level of credit.

10 And paraphrased, I think one of the points  
11 that public counsel's expert made, public counsel I  
12 think believes two things, perhaps, one that perhaps  
13 there are indirect benefits from the exchange that  
14 flow to the shareholders and so in that sense it is  
15 not unfair to have the shareholders bear some of the  
16 risk of a diminishment of the exchange benefits. And I  
17 think the other point -- one of the other points that  
18 was made was that in the rate stability plan in its  
19 totality there had to be some assurance that  
20 residential customers would be treated fairly and  
21 receive some of those benefits. So I guess my question  
22 to you would be to simply respond to that and explain  
23 perhaps why you believe that that kind of proposal is  
24 unfair.

25 A. All right. Let me cover your two points.

1 The first, the issue of whether there is some  
2 unquantified benefit to shareholders associated with  
3 that, I don't know that there is. Clearly to the  
4 extent that the amount of the exchange drops, then  
5 whatever that benefit to shareholders will drop too.  
6 So whatever benefit is there, if there is one, is it's  
7 also going to be diminished, so shareholders, if they  
8 are getting some benefit, will see a reduced benefit.

9           Secondly, in terms of the issue of the idea  
10 of providing benefits to our residential and small  
11 farm customers, the action that has caused that to  
12 become a major problem is the actions the Bonneville  
13 Power Administration took last summer and the actions  
14 they took to significantly change the nature of their  
15 contracts with the direct service industries and then  
16 decide on their own judgment that 7(b)(2) was  
17 triggered and they would give significantly lower  
18 costs to their public customers, and that in fact a  
19 significant portion of that would be borne by our  
20 residential and small farm customers. That's the  
21 action that is causing a problem for our residential  
22 and small farm customers, not an action that Puget  
23 Power took but in fact a cost shifting action that  
24 Bonneville took.

25           Q.     And in reference to that point, is that

1 essentially a question of Bonneville's rate setting?

2 A. Yes, it is.

3 Q. The forum in which Bonneville sets its  
4 rates, would that be one of the other proceedings that  
5 you believe would be a more appropriate forum for  
6 working out any exchange problems?

7 A. We worked that forum pretty hard last year  
8 without significant results. One of the other forums  
9 we tried to work on was Congress. We had some results  
10 there by extending the benefits at basically their  
11 same level for one more year. It's a little hard to  
12 know exactly what forum to successfully work those  
13 issues with Bonneville given the lack of review that  
14 really occurs.

15 Q. I'm sorry. I didn't really hear. Lack of?

16 A. Because of the lack of review that really  
17 occurs post-Bonneville decision.

18 Q. Could you explain that?

19 A. We don't -- you know, Puget Power,  
20 appropriately Puget Sound Energy in the future, we  
21 don't get to set our own prices and make decisions  
22 about allocated between parties and this sort of  
23 thing. We can come up with proposals, but there's an  
24 independent regulatory commission that really makes  
25 that decision. And that's just something that,



1 whether you're talking about transmission rates or  
2 whatever, doesn't really exist with Bonneville Power  
3 Administration.

4 MR. WRIGHT: Thank you. I don't have any  
5 more questions.

6 JUDGE SCHAEER: Thank you. Ms. Smith, do  
7 you have any questions?

8 MS. SMITH: I have a few questions.

9

10 CROSS-EXAMINATION

11 BY MS. SMITH:

12 Q. Good afternoon, Mr. Sonstelie.

13 A. Good afternoon, Ms. Smith.

14 Q. My name is Debra Smith, and I'm representing  
15 Natural Resources Defense Council and Northwest  
16 Conservation Act Coalition in these proceedings. I  
17 would like to start by asking you a couple of  
18 additional questions following up on the conversation  
19 you had with Mr. Manifold concerning the public  
20 purposes recommendations that we're seeing from the  
21 comprehensive review steering committee.

22 In particular, Mr. Sonstelie, are you aware  
23 of -- that the draft recommendations by the steering  
24 committee include a proposal for a competitively neutral  
25 mechanism that would allocate a minimum of three percent

1 of Northwest utility revenues to investments in energy  
2 efficiency, low income services, and renewable power?

3 A. Could I ask you just one clarification on  
4 the question?

5 Q. Certainly.

6 A. A proposal that there be a competitively  
7 neutral mechanism or a proposal that includes a  
8 competitively neutral mechanism?

9 Q. A proposal that there would be a  
10 competitively neutral mechanism.

11 A. Yes.

12 Q. Are you aware of that?

13 A. Yes, I am aware of that.

14 Q. Do you have any reason to doubt within  
15 Puget Power's current service territory or the  
16 proposed service territory of Puget Sound Energy that  
17 such investments could be made cost effectively at the  
18 three percent level?

19 A. No, I don't really have any doubt on that,  
20 because the people that have been working on it from  
21 our company I think have a degree of credibility with  
22 me and have felt that that sort of level was  
23 achievable if it's spent the right way.

24 Q. Okay. I'll ask you to make a series of  
25 assumptions now. Assuming that the comprehensive

1 review retains the three percent minimum  
2 recommendation, and assuming that a competitively  
3 neutral funding mechanism is available, and further  
4 assuming that such measures that PSE would pursue  
5 would be cost effective, will PSE be willing to  
6 request allocation of the necessary funds from this  
7 Commission?

8 A. Okay. I want to think of your three -- if  
9 there's --

10 Q. The three percent minimum recommendation  
11 stays, that's one.

12 A. And it truly is cost effective and there  
13 is a competitively neutral way to collect that?

14 Q. Yes.

15 A. Yes, I think if those three criteria were  
16 all met to our satisfaction, then, you know, we would  
17 be pursuing the public interest clearly at that  
18 particular point in time and I could request that. But  
19 all three of those would have to be met.

20 Q. Okay. Thank you.

21 Switching to another area of questions, Mr.  
22 Sonstelie, are you generally familiar with NRDC/NCAC  
23 witness Tom Powers' proposal for using a revenue cap  
24 mechanism with regard to recovery of fixed costs of  
25 PSE's transmission and distribution system?

1           A.     Boy, just very generally familiar. I'm  
2 familiar that he has -- that he has proposed that. I  
3 certainly haven't looked at the mechanism.

4           Q.     Mr. Sonstelie, based on what you know about  
5 the mechanism or what you understand the mechanism to  
6 be -- well, first let me ask this. Do you understand  
7 that under Dr. Powers' proposal, Puget's, PSE's that  
8 is, fixed cost recovery of transmission and  
9 distribution -- let me back up. Under Dr. Powers'  
10 proposals, PSE would recover the fixed costs for its  
11 T&D systems on something other than sales of energy?

12          A.     I don't know whether they would or not. I  
13 know that that is what he indicates his proposal would  
14 do. I mean, there's a difference between yes, I know  
15 it would do that versus yes, I believe that's the  
16 basis for his proposal.

17          Q.     Okay. My question was to the latter,  
18 whether --

19          A.     Yes, it is the basis for his proposal.

20          Q.     Okay. Understanding that part of his  
21 proposal, do you have any objection in principle to  
22 PSE using such a mechanism?

23          A.     No. My objection -- any objection I have  
24 and the reason I put it in the shouldn't-be-done-right-  
25 now is not that I think the principle is unacceptable.

1 It's that we, frankly, haven't had a chance to even  
2 look at this and to see what impacts it would have to  
3 see if it would really work, to understand other  
4 implications of it. But it's not an objection in  
5 principle. I don't have an objection in principle.

6 MS. SMITH: Okay, thank you. No further  
7 questions.

8 JUDGE SCHAER: Thank you. Mr. Freedman,  
9 did you have questions?

10 MR. FREEDMAN: No, I don't, your Honor.

11 JUDGE SCHAER: Mr. Merkel?

12 MR. MERKEL: No, I don't, your Honor.

13 JUDGE SCHAER: Commissioners, did you have  
14 questions for Mr. Sonstelie?

15 CHAIRMAN NELSON: Yeah, a couple.

16

17 EXAMINATION

18 BY CHAIRMAN NELSON:

19 Q. Good afternoon.

20 A. Good afternoon, Chairman Nelson.

21 Q. You and Mr. Vititoe both made a big point  
22 about the fact that the policymaking authority  
23 remains local --

24 A. Yes.

25 Q. -- I am wondering if I should give the

1 Oregon Commission about the Portland General-Enron  
2 merger. Does the fact that it's a Texas utility,  
3 Texas whatever it is, make a big difference, in your  
4 mind?

5 A. Yes, I think it makes a very big  
6 difference. I think their -- my understanding is that  
7 a significant amount of decisionmaking authority, you  
8 know, will be shifted to Houston, and I think that makes  
9 a difference.

10 Q. This is kind of a surprise, so if you don't  
11 want to answer it, just say so, but I mean, would you  
12 think that would make it not in the public interest of  
13 Portland General's publics?

14 A. I would rather answer it this way, if I  
15 could. I think that is a public interest issue that  
16 clearly needs to be looked at in that situation. I  
17 don't think, Chairman Nelson -- the reason I wouldn't,  
18 you know, indicate the judgment, there's nothing that  
19 makes it absolutely not in the public interest to have  
20 some out-of-state utility involved, but there are  
21 certainly significantly more public interest issues  
22 raised in a situation like that.

23 Q. Well, the other IOU spokesperson on the  
24 comprehensive review is from Portland General, and  
25 recognizing that no one on the comprehensive review

1 represents a caucus of any sort, he has proposed with  
2 respect to the residential exchange proposal that  
3 would monetize the exchange benefits. Do you have --  
4 does Puget or PSE or you have a view about that  
5 Portland General proposal?

6 A. No. Actually, I haven't seen that Portland  
7 General proposal.

8 Q. The comprehensive review did encourage the  
9 parties with BPA and the other exchanging utilities to  
10 try to settle. Do you have any knowledge about how  
11 those settlement negotiations are doing?

12 A. Yes. They are not going on right now.  
13 They were going on fairly -- Mr. Swofford was our  
14 representative, and he spent a lot of time on them  
15 in the -- Chairman Nelson, I think it's August,  
16 September -- July, August, September time frame. He  
17 was very heavily involved in them, and discussing the  
18 specific numbers that were there by both parties is  
19 inappropriate in that discussion, but I don't believe  
20 the parties were very far apart, which is a disappointment  
21 on my part. And according to Mr. Swofford, the BPA  
22 people indicated that they really didn't feel they wanted  
23 to continue that discussion, that they thought we just  
24 ought to wait, see what happened.

25 Q. So is there any chance of successful

1 negotiations, in your view, or not?

2 A. I hope so. I think with -- particularly  
3 with the comprehensive review, I believe BPA and all  
4 the parties, including us -- we have so many things on  
5 the table, it seems to me that settling the exchange  
6 would be an awfully good thing to get done, especially  
7 if it's true that we're just not really that far apart  
8 on, you know, the differences in terms of how that  
9 settlement might work out.

10 Q. So today, November 12, you would be mildly  
11 hopeful that something might be achieved?

12 A. Yes. I think that's a fair term. We have  
13 -- I haven't talked directly to Mr. Hardy yet. I'm  
14 trying to stay one step removed from it since Mr.  
15 Swofford has been very involved with Mr. Curtis. I  
16 think they had very good discussions. But I'm  
17 disappointed, and I think he is too, that right now  
18 they are in hiatus, and, you know, I think we ought to  
19 get it settled.

20 Q. I'm going to leave in a very short time to  
21 go to another hearing on the comprehensive review  
22 draft. Is it Puget's or Washington Natural's  
23 intention to file comments on the draft?

24 A. I believe we are filing comments on the  
25 draft. I know that a couple of issues I discussed



1 that I hope are going to appear in the comments  
2 include my concern that we just talked about a little  
3 bit, about whether a mechanism for recovery of the  
4 three percent, or whatever gets decided, can truly be  
5 made and will truly be made competitively neutral, and  
6 some of the ideas that have been discussed on that to  
7 date I don't believe are competitively neutral.  
8 That's one input that I gave our people, but I know  
9 we're working on something. I just -- I don't  
10 actually know what the deadline is for the draft. I  
11 guess I just heard that earlier.

12 Q. I hope the company will -- or companies  
13 will.

14 And I guess that's -- just to follow up on  
15 some of the questions about what is competitively  
16 neutral, rumors are flying around that the public's  
17 will, 95 percent of them, will tomorrow commit to a  
18 three percent tax or fee for public purposes. Does  
19 that help alleviate the notion of getting to  
20 competitively neutral?

21 A. That helps a great deal. The original  
22 proposal -- and I'm not sure if it was the proposal  
23 from the comprehensive review as much as the proposal  
24 that I heard from parties not from Puget who were  
25 involved in the review -- that sort of said the IOUs

1 all pick up this and then Bonneville does it, and  
2 Bonneville doing it sort of takes care of the publics. I  
3 had a real problem with that as being anything that was  
4 competitively neutral.

5 Q. Well, then, as to PSE, how do you envision  
6 -- what will its least cost planning and conservation  
7 acquisition programs look like in the future, assuming  
8 that we get past this next step, which is planning a  
9 competitively neutral way to continue to do what the  
10 region has been doing?

11 A. On a least cost planning, I believe the  
12 concept that was -- this state didn't perhaps pioneer  
13 but was certainly among the very first to do that. I  
14 think that still makes a lot of sense because the public  
15 input part of it I think may be the most -- makes the  
16 most sense going forward. These are very weighty  
17 decisions that need to be made, and I don't think they  
18 need to be made in closed rooms. There will be a  
19 complication which I don't think keeps you from doing  
20 least cost planning, the complication with -- having to do  
21 with divulging competitive strategies, et cetera, in a more  
22 competitive business. I just think it's something you got  
23 to pay attention to rather than something that says you  
24 shouldn't do least cost planning. Again, I think we can  
25 deal with that.

1           Secondly, in terms of the commitment to its  
2 just, say, conservation and renewables, you know, the  
3 test must continue to be that they are cost effective,  
4 that they really provide benefits to customers. The  
5 test -- I don't believe the philosophy and the test have  
6 changed. The economics are what have changed. I mean,  
7 the point is there's a lot of very inexpensive gas  
8 available right now, and some of the programs that would  
9 have passed earlier cost effectiveness tests don't do  
10 that right now. But, you know, I still think conceptually  
11 the sort of test that ought to be applied are still the  
12 same sort of test.

13           If I could add one thing to that, Chairman  
14 Nelson: The part of what I think we all need to work  
15 on in doing that -- and hopefully we can do that  
16 through the least-cost planning process -- we need to  
17 pick our time frames because I think there's a tendency  
18 in a more competitive environment to really shrink your  
19 time frames when you're looking at things. And as a result,  
20 you know, you look at things that if there's not a -- if  
21 they don't make sense in a five-year time frame or one-year  
22 time frame or sometimes less, then you're not going to  
23 look at them. I think there's mostly upside to the idea of  
24 an open, competitive electric utility business.

25           I think one of the potential downsides is

1 getting that time horizon very much shrunk and not  
2 continuing to look with a long-term time horizon. And  
3 I think absent looking at a long-term time horizon,  
4 you can significantly disadvantage conservation, as an  
5 example, investments. So that would -- I don't think  
6 it changed the fact that they must be cost effective,  
7 but I do think we need to talk about time frame.

8 CHAIRMAN NELSON: Thank you.

9

10 EXAMINATION

11 BY COMMISSIONER HEMSTAD:

12 Q. Mr. Sonstelie, I asked Mr. Vititoe a  
13 question along the same line. On the one hand, in  
14 the absence of the proposed merger, I believe you or  
15 others stated you would be forced to seek rate increases.  
16 At the same time, you take the position that you are  
17 at risk of losing customers to competitors. I believe  
18 Mr. Vititoe indicated that Washington Natural Gas could  
19 deal with that. And the question, then, with respect to  
20 Puget: How would rate increases help you in light of the  
21 competitive risks that you're facing?

22 A. Well, in responding to that, let me give a  
23 piece of background, if I could, Commissioner. That  
24 dilemma of the company's competitive situation and the  
25 company's financial situation and the fact that to

1 successfully serve customers you must both be  
2 financially sound and be able to compete to the extent  
3 the competition has opened up -- and it's limited right  
4 now, but we believe that it will open up, that dilemma  
5 is exactly why we have been in front of you with this  
6 merger proposal, is we felt that we needed to think  
7 outside the box. We were sitting there a year and a  
8 half or two years ago -- really about a year and a  
9 half ago, already having worked out a plan that the  
10 periodic rate adjustment mechanism would be phased out  
11 and all the parties were working on that plan. That  
12 took away one way of covering additional costs in the  
13 future.

14                 Recognizes that it was not the best option  
15 to continue to have periodic rate increases to cover  
16 costs that were going to continue to escalate, and,  
17 therefore, we had to find a way to offset that, find  
18 a way to find benefits, to find cost reductions that  
19 could somehow offset that. And while some of those  
20 cost reductions surely, Commissioner, would be in the  
21 form of working very hard on, you know, every aspect  
22 driving down or cost of doing business and the power  
23 costs and everything like that, uniquely this \$370  
24 million are savings that are not produced from any  
25 other way I know of other than this particular merger.

1           If that opportunity for \$370 million went  
2 -- a way of savings went away, I don't know a way to  
3 reestablish that level of savings through something  
4 comparable and we will be back into this same dilemma  
5 of trying to balance that need to be competitive with that  
6 need to be financially viable, to be able to  
7 serve our customers. And that's a tough balancing act.

8           COMMISSIONER HEMSTAD: That's all I have.

9                           EXAMINATION

10          BY COMMISSIONER GILLIS:

11           Q.     Mr. Sonstelie, I wanted to return to sort  
12 of the topic of generic -- generically referring to  
13 public purposes, the energy efficiency, renewables,  
14 low income rate assistance, R&D, in that broad  
15 package. Would you agree that there may be  
16 cost-effective investments in these generic public  
17 purposes that are difficult to offer in a competitive  
18 environment, that is, the pressures to keep rates  
19 stable and competitive may outweigh the test of  
20 minimizing long-run cost to a company in competitive  
21 environment?

22           A.     Well, I think in fact that's happening,  
23 yes. I think it's happening all over the country.  
24 And, you know, I think -- as I expressed to Chairman  
25 Nelson, I think that's one of the few concerns I have

1 about the introduction of competition in the business,  
2 because I think most of that introduction has dramatic  
3 benefits and that's the one that has a potential  
4 detriment.

5 Q. Appears to me that none of the three rate  
6 proposals that are offered in this proceeding directly  
7 take on the issue of how the generic public purposes  
8 will be provided on a going forward basis. Would you  
9 agree with that characterization?

10 A. Yes, that is correct, Commissioner, but I  
11 believe all the parties pretty much agreed. I know we  
12 had conversations with staff that we were setting  
13 aside the issue of establishing mechanisms through  
14 which these public purposes could continue to be  
15 followed, and we're certainly committed to that, and I  
16 believe all the parties are. So it was not with the  
17 intent that that wasn't important or we didn't need to  
18 get right to that but with the idea that that was not  
19 something we would deal with in this particular  
20 proceeding.

21 Q. What forum would you suggest that that be  
22 addressed in the future?

23 A. I believe our idea was that we were going  
24 to get together in a collaborative basis and try to  
25 propose for the Commission, I think I indicated in my

1 direct testimony, the idea of a nonbypassable-type  
2 charge. We mentioned both Washington Natural Gas and  
3 Washington Water Power, where this Commission has  
4 specifically implemented something where -- where --  
5 models that ought to be looked at, but that doesn't  
6 mean it has to be one of those two models.

7 Q. Do you have any concerns that all three  
8 rate proposals are basically stability proposals with  
9 different levels? I'm not asking you to agree to that  
10 part. I recognize that staff proposal action for a  
11 rate decrease and public counsel is level and yours is  
12 just a slight increase over time for the rate  
13 proposals.

14 But as planned out over five years, I guess  
15 is what I'm trying to say, a proposal for five years,  
16 do you have any concern that a commitment to  
17 predictable rates -- is probably a better word to  
18 cover all three -- restricts your flexibility in  
19 providing public purposes if a collaborative approach  
20 you're talking about does not succeed? Does that make  
21 sense?

22 A. I guess I -- Commissioner, I never thought  
23 the collaborative approach couldn't succeed. I  
24 haven't really considered that. I think we all have  
25 the same goal on that. There are collaborative



1 approaches where there's significantly different goals  
2 that I think have a lot of risk associated with them.  
3 This is one where I think one of the reasons that the  
4 parties were willing to put it off was the idea that  
5 we've got a pretty good history, actually an excellent  
6 history, in this state of successfully dealing with these  
7 and having incentives to continue the public purposes, if  
8 you will. So I think the track record in this state and  
9 with the companies that are regulated in this state is  
10 very strong on that, and I think that's a minimal risk.

11 Q. Can PSE be effective in dealing with these  
12 issues unilaterally if the region is not either  
13 willing or able to address the public purpose issue  
14 over the long run?

15 A. You know, in terms of accepting up to a  
16 fixed percentage, et cetera, which was discussed, I  
17 think if that makes sense as public policy, it makes  
18 sense within the region. And that's what I like about  
19 the regional reviews approach, is recognition that if  
20 -- to use the example of renewables, Commissioner, I  
21 mean if renewables are developed, something like wind,  
22 the region being in on developing that to me makes  
23 tremendously more sense than expecting that one utility  
24 and its customers are going to somehow make that  
25 investment to hopefully keep that a viable technology.

1 So it just doesn't make a whole lot of sense to me that we  
2 try to, you know, fragmentize it and have it be one  
3 utility that decides it's going to be a good citizen and  
4 one Commission that is anxious to promote that public  
5 purpose and others that don't or Public Power not stepping  
6 forth. And from what Chairman Nelson said, I think that  
7 sounds like we're going a long way towards Public Power  
8 stepping much forth.

9 Q. I'm not sure I followed the answer. You're  
10 saying you do require the region as a whole to take, I  
11 guess, a common step for you to be effective in  
12 addressing these issues?

13 A. No, I didn't mean to say that. I did  
14 confuse it.

15 The idea -- I mean, we have plans already  
16 for, you know, continuing investments on behalf of our  
17 customers, and we need -- absent whether the region  
18 agrees on a three percent target or not, we need  
19 to work that out no matter what. I was trying to set  
20 aside the question of a commitment to a specific  
21 regional target, et cetera. That's what I think the  
22 whole region needs to do.

23 But, no, we still have to deal with that  
24 issue of how do we have an appropriate recovery  
25 mechanism for those public purpose-type expenditures.

1 We need to deal with that in any event.

2 COMMISSIONER GILLIS: Okay, thank you.

3 JUDGE SCHAEER: Chairman Nelson.

4

5 EXAMINATION

6 BY CHAIRMAN NELSON:

7 Q. One last minor question. Can you just tell  
8 me who you met with and where on February 7.

9 A. Well, to the -- if it's the right date  
10 -- and somebody called back to see if we could get the  
11 date -- it was in a conference room right back there  
12 (pointing). And --

13 Q. The best of your recollection.

14 A. -- I was there, Mr. Torgerson was there --  
15 I'm trying to think of the players around the table.  
16 I was there, Mr. Torgerson was there, Ms. Vortman was  
17 there I believe, Mr. Davis was there I believe from us.  
18 Somebody from staff was there, but I don't remember who  
19 for sure. And I believe Commissioner Gillis was there.

20 Q. Was I there?

21 A. No, I don't believe so.

22 Q. That's why I don't remember. Thank you.

23 A. And I apologize, I don't remember whether  
24 Commissioner Hemstad was there or not, but I remember  
25 a question Commissioner Gillis asked, which is why I

1 remember he was there but you were not there.

2 CHAIRMAN NELSON: Thank you.

3

4 EXAMINATION

5 BY JUDGE SCHAEER:

6 Q. Okay. Mr. Sonstelie, I'm wondering if I  
7 might be able to get you to expand a bit on one of the  
8 themes that you propounded regarding the BPA exchange,  
9 which was your strong statement that we ought to get  
10 it settled.

11 The statutory parties and the company, all  
12 of which seem to agree that some form of rate plan is  
13 an appropriate condition for approval of the proposed  
14 merger, although there is disagreement about the  
15 nature of the rate plan, have you or do you plan to  
16 pursue aggressive negotiations to reach a settlement  
17 of this issue in this case?

18 A. Absolutely.

19 Q. And similarly, most parties seem to agree  
20 that some type of formal service quality process is  
21 appropriate to ensure continued high-quality service  
22 in the face of cost cutting pressure. Although the  
23 proposals differ widely, do you think this is an area  
24 on which agreement might be reached between the  
25 applicant and the parties?

1           A.     Yes.  I certainly hope so.  Mr. Vititoe's  
2 eloquent discussion around that I wouldn't attempt to  
3 follow up on because I couldn't do it nearly as well  
4 as he did, but a reminder to me and to others, we do  
5 propose that there be a service quality program and  
6 that there be reporting to the Commission and that  
7 there be penalties for noncompliance, so it's not like  
8 we're saying it's totally inappropriate to do that.  
9 Our problem was the form and the amount suggested by  
10 public counsel, not the idea of having one.

11                 JUDGE SCHAEER:  Thank you.  Is there any  
12 redirect for this witness?

13                 MR. VAN NOSTRAND:  No, your Honor.

14                 JUDGE SCHAEER:  Anything further?

15

16                                 CROSS-EXAMINATION

17 BY MR. CEDARBAUM:

18           Q.     Mr. Sonstelie, are you willing to agree to  
19 a postponement of the December 6 briefing date to  
20 conduct those negotiations?

21                 MR. MANIFOLD:  My question.

22           A.     Not at this point, Mr. Cedarbaum, but let  
23 me tell you what I think.  What I propose we do is  
24 that the parties get together in whatever days Mr.  
25 Manifold left for us there when he eliminated a whole

1 series of days, that we get together as quickly as  
2 possible and take a look at whether we believe that  
3 there is some significant probability of being able to  
4 reach some sort of agreement, and I think we all need  
5 to take a look at that and try to make that judgment.  
6 If I felt there was a significant possibility of doing  
7 that and that some small amount of additional time  
8 would in fact enable that to happen or give that a  
9 very high probability of happening, I wouldn't have  
10 any problem with that. My concern is just agreeing  
11 that we'll move some date and just having an  
12 additional amount of time not to reach a settlement.  
13 We've been going -- we've got two companies that have  
14 been working on this for a long time as well as a lot  
15 of people in this room, I realize, and that wouldn't  
16 be appropriate.

17 Q. Just one final question, maybe more out of  
18 curiosity than anything. But other than Mr. Harris and  
19 Mr. Van Nostrand, are there other lawyers that will be  
20 working on the brief in this case? I see Mr. Johnson  
21 in the background. Has he participated in this case?

22 A. I have no idea.

23 MR. CEDARBAUM: Thank you.

24 A. I don't know the answer.

25 MR. VAN NOSTRAND: We could use some help

1 if you would have some suggestions.

2 MR. MANIFOLD: I'll help you with yours.

3 JUDGE SCHAEER: Mr. Manifold, did you have  
4 anything further?

5 MR. MANIFOLD: Other than my generous  
6 offer, no.

7 MS. SMITH: Excuse me, Judge. May I ask one  
8 follow-up question? Actually, it's a clarification  
9 question on a series of questions that Commissioner  
10 Gillis asked, just very quickly.

11

12 CROSS-EXAMINATION

13 BY MS. SMITH:

14 Q. Mr. Sonstelie, you were discussing with  
15 Commissioner Gillis the parties' proposal to carve out  
16 or to put aside from this proceeding certain public  
17 purpose issues. Are you able to point to something in  
18 Tom Powers' testimony that would support the notion  
19 that NRDC and NCAC support either the companies' or  
20 staff's proposal to completely deal with those issues  
21 outside of this docket?

22 A. No.

23 Q. So would it be more accurate to say that  
24 only some of the parties would like to address those  
25 issues completely outside of this docket?

1 A. Yes.

2 MS. SMITH: Okay, thank you. No further  
3 questions.

4 JUDGE SCHAEER: Is there anything else for  
5 this witness? It's been mentioned to me up here that  
6 it looks like you're going to have a extra day and a  
7 half day to sit down and negotiate, so thank you for  
8 your testimony. Let's go off the record for just a  
9 moment to change witnesses.

10 (Discussion off the record.)

11 JUDGE SCHAEER: Let's be back on the record  
12 after a brief recess to change witnesses. When we  
13 were off the record, Mr. Amen assumed the stand.  
14 Before we take his testimony, I want to go through on  
15 the record certain bench request responses that the  
16 Commission wants in the record or certain requests we  
17 will make today that we would like to assign an  
18 exhibit number to the responses to.

19 We would like to have the response to bench  
20 request No. 2 admitted to the record, and we will have  
21 that admitted as Exhibit 269.

22 MR. MANIFOLD: That would be both the  
23 original response and the supplemental?

24 JUDGE SCHAEER: Yes. So I should say  
25 responses to bench request 2.



1                   We would like to have the following  
2 portions of the response to bench request No. 4  
3 admitted -- entered into the record. We will make  
4 this Exhibit 270. We would like the responses to  
5 record requisitions 8, 13, 19, 21, 33, and 43.

6                   As bench request No. 7, which I will mark  
7 the response to as Exhibit 271, this was a question  
8 previously asked of Mr. Story and one that he was not  
9 able to bring a response to the hearing with him on.  
10 We would like to have the amount of conservation  
11 expenditures on Puget's books and an identification of  
12 what accounts those amounts are in.

13                   As bench request No. 8, which we will give  
14 Exhibit No. 272 to, we would like the Commission staff  
15 to provide the source for the numbers shown on lines  
16 3, 12 and 13 of Exhibit Top Secret 177.

17                   MR. CEDARBAUM: What were those line  
18 numbers again?

19                   JUDGE SCHAER: 3, 12, and 13.

20                   MR. CEDARBAUM: And the exhibit number, I'm  
21 sorry?

22                   JUDGE SCHAER: TS-177.

23                   As bench request No. 9 to the Commission  
24 staff, we will give the response number 273. We would  
25 like you to provide a breakdown of the adjustment

1 included on line 37 of Exhibit TS-177.

2                   As bench request 10 -- actually, this is --  
3 we'll call it bench request 10, or 274, just so we have  
4 a convenient place to put it in the record. We're  
5 going to admit into the record pages 35, 43, 424, 425,  
6 and 428 of the response to staff data request No. 6,  
7 which were filed in to accompany the response to bench  
8 request No. 4 as record requisition No. 22. So those  
9 are documents that have already been filed in response  
10 to bench request 4, but we're just going to put in  
11 those particular pages.

12                   MR. CEDARBAUM: What's the exhibit number  
13 for those pages?

14                   JUDGE SCHAER: That's Exhibit No. 274.

15                   And then I have --

16                   MR. MANIFOLD: Your Honor --

17                   JUDGE SCHAER: Yes.

18                   MR. MANIFOLD: -- I got lost on that last  
19 one. The Exhibit 274 is going to be the pages you  
20 mentioned of staff's -- of the response by the  
21 applicants to staff data request No. 6 which was  
22 provided in response to bench request 4?

23                   JUDGE SCHAER: Yes, as part of their  
24 response to record requisition No. 22.

25                   MR. MANIFOLD: Okay. Thank you.

1           JUDGE SCHAER: We don't want to put the  
2 whole thick document in, but we want to put in those  
3 pages that deal with employee separation.

4           Is there any objection by anyone to any of  
5 those documents being included in the record?

6           They are so included.

7           (Marked and admitted Exhibits 269 through  
8 274.)

9           MR. CEDARBAUM: Is there a schedule under  
10 which you want us to provide this? By Friday? By --

11          JUDGE SCHAER: I think one week from today.  
12 Does that burden anyone unduly?

13          MR. CEDARBAUM: That's fine.

14          JUDGE SCHAER: So those responses should be  
15 provided by Tuesday, November 19.

16          And then Mr. Amen has prefiled rebuttal  
17 testimony which I will mark for identification as  
18 Exhibit T-275. And an exhibit has been distributed, I  
19 believe, by Commission staff which is top secret and  
20 confidential, which states at the top Revised October  
21 18, 1996 Exhibit Number dash RJA-6 and this -- is this  
22 your exhibit or the company's exhibit?

23          (Marked Exhibit T-275.)

24          MR. CEDARBAUM: No. That was a prefiled  
25 exhibit of Mr. Amen's.

1 JUDGE SCHAER: I'm sorry. So Exhibit  
2 TS-276 is Exhibit RJA-6.

3 (Marked Exhibit TS-276.)

4 MS. PYRON: I'm sorry, your Honor. Did you  
5 say that would be TS-276?

6 JUDGE SCHAER: Yes.

7 And then distributed today is a multi-page  
8 document which I will mark as Exhibit 277 for  
9 identification. It states, Response to public counsel  
10 data request No. 240.

11 Were there any other exhibits distributed  
12 for Mr. Amen?

13 (Marked Exhibit 277.)

14 MR. HARRIS: Yes, your Honor. There's a  
15 single-page exhibit that says at the top Interim Rate  
16 Relief.

17 JUDGE SCHAER: Was that prefiled or  
18 distributed? I see it here now. I seem to have one  
19 copy.

20 MR. VAN NOSTRAND: I forgot to give you  
21 another one. (Handing.) Fairly new at this.

22 JUDGE SCHAER: Nobody's tired.

23 So this is from the company. I'll mark as  
24 Exhibit 278 for identification a one-page document  
25 with the title at the top Interim Rate Relief.

1 (Marked Exhibit 278.)

2 Would you like to call your witness, Mr.

3 Harris?

4 MR. HARRIS: Joint applicants call Ronald

5 Amen.

6 JUDGE SCHAEER: Would you raise your right

7 hand, sir.

8 Whereupon,

9 RONALD J. AMEN,

10 having been first duly sworn, was called as a witness

11 herein and was examined and testified as follows:

12 JUDGE SCHAEER: Thank you. Go ahead, Mr.

13 Harris.

14

15 DIRECT EXAMINATION

16 BY MR. HARRIS:

17 Q. Good afternoon, Mr. Amen. Do you have  
18 before you what has been marked for identification as  
19 Exhibit T-275?

20 A. Yes, I do.

21 Q. Do you recognize that as your prefiled  
22 rebuttal testimony in this proceeding?

23 A. Yes.

24 Q. Did you file revisions to that prefiled  
25 rebuttal testimony on October 18?

1 A. Yes, I did.

2 Q. Could you briefly describe the nature of  
3 those revisions?

4 A. The revisions were to add a missing table  
5 of contents that had been left out of the original  
6 document.

7 Q. As revised, is what's been marked for  
8 identification as Exhibit T-275 complete and accurate,  
9 to the best of your knowledge?

10 A. Yes.

11 Q. Was it prepared under your direction and  
12 control?

13 A. Yes.

14 MR. HARRIS: At this time, joint applicants  
15 would offer Exhibit T-275.

16 JUDGE SCHAEER: Objections?

17 Document is admitted.

18 (Admitted Exhibit T-275.)

19 Q. You also have before you what's been marked  
20 for identification as Exhibit TS-276?

21 A. Yes.

22 Q. Was that exhibit also revised on October  
23 18?

24 A. Yes, it was.

25 Q. Is it complete and accurate?

1 A. Yes.

2 Q. Was it prepared under your direction?

3 A. Yes.

4 MR. HARRIS: Joint applicants would offer  
5 what's been marked for identification as Exhibit  
6 TS-276.

7 JUDGE SCHAEER: Mr. Amen, is that a complete  
8 replacement for what had been filed before that?

9 THE WITNESS: Yes, your Honor.

10 JUDGE SCHAEER: Is there any objection?

11 MR. MANIFOLD: No.

12 MR. CEDARBAUM: No.

13 JUDGE SCHAEER: That document is admitted.  
14 (Admitted Exhibit TS-276.)

15 Q. Finally Mr. Amen, do you have before you  
16 what's been marked for identification as Exhibit 278?

17 A. Yes.

18 Q. Could you please describe what that is.

19 A. That's a document entitled Interim Rate  
20 Relief. It outlines the standards for interim rate  
21 relief as developed in a Pacific Northwest Bell  
22 company cause U-7230 in 1972, and it outlines some  
23 bullet points that describe the process for seeking  
24 interim rate relief that are largely similar to those  
25 that were used in Washington Natural Gas Company's 1995

1 general rate case and request for interim rate relief.

2 Q. What is your understanding of how this  
3 document was developed?

4 A. My understanding is that it was developed in  
5 cooperation with Commission staff as something that  
6 would give a description in the record of the kinds of  
7 requirements that the company could expect to satisfy  
8 under such a standard.

9 MR. HARRIS: The joint applicants at this  
10 time would offer what's been marked for identification  
11 as Exhibit 278.

12 JUDGE SCHAEER: Any objection?

13 MR. CEDARBAUM: No.

14 JUDGE SCHAEER: The document is admitted.

15 (Admitted Exhibit 278.)

16 MR. HARRIS: Mr. Amen is available for  
17 cross-examination.

18 JUDGE SCHAEER: Mr. Cedarbaum, do you have  
19 questions?

20 MR. CEDARBAUM: Yes, I do.

21

22 CROSS-EXAMINATION

23 BY MR. CEDARBAUM:

24 Q. With respect to Exhibit 278, Mr. Amen, can  
25 you describe how -- the last bullet you show on this



1 page specifies a rate spread for any interim rate  
2 relief that might be granted. Can you describe how  
3 that rate spread would include schedule 48.

4 A. It would include all of the nonenergy  
5 components of schedule 48.

6 Q. So it would include the transition charge?

7 A. No.

8 Q. It would not?

9 A. No.

10 Q. So is it the company's position, then, that  
11 the transition charge in schedule 48 is energy  
12 related?

13 A. Yes, that's correct. You recall we had  
14 quite a spirited discussion last time I was on the  
15 witness stand about the transition charge, and there is  
16 in my direct testimony and exhibit quite a description  
17 of the transition charge as it relates to the energy  
18 component of schedule 48.

19 Q. What are the other energy-related charges  
20 in schedule 48 that the interim rate relief would  
21 not apply to? Is it just the energy charge itself?

22 A. The commodity itself.

23 Q. So all remaining charges, then, would be  
24 subject to the interim rate proposal?

25 A. I believe so.

1 Q. Okay. Turning away from Exhibit 278, were  
2 you in the hearing room when Mr. Maglietti testified  
3 on the gas transfer price issue?

4 A. Yes, I was.

5 Q. And do you basically agree with his  
6 description of those scenarios that are in an exhibit  
7 in this case and also his general description on how  
8 the methodology would work?

9 A. Yes, I do.

10 Q. At page 4 of your testimony at line 10, you  
11 refer to a develop and retain the business task force.

12 A. Yes, I see that.

13 Q. Referring your attention to Exhibit 277 for  
14 identification, do you recognize that as your response  
15 to public counsel data request No. 240 in which you  
16 provided documents and other memoranda related to that  
17 task force?

18 A. Yes. Specifically, I think our response to  
19 public counsel data request 240 provided a draft  
20 working document by the develop and retain business  
21 task force, which is a group of employees that have  
22 been charged with making recommendations to management  
23 of PSE regarding the kinds of ways in which the  
24 company can respond to the competitive arena that it  
25 will face as a new company.

1 Q. And what is attached to the cover sheet of  
2 Exhibit TS-277 are not the entire document but  
3 sections of the task force's draft marketing plan?

4 A. Yes. I believe there are four pages of  
5 that larger document that have been attached to the  
6 cover page.

7 MR. CEDARBAUM: I would move the admission  
8 of Exhibit TS-277.

9 MR. HARRIS: No objection.

10 JUDGE SCHAEER: I had not identified this as  
11 a top secret document. Is this a top secret document?

12 MR. HARRIS: Yes, it is, your Honor.

13 JUDGE SCHAEER: Okay. I was glancing  
14 through it very briefly sitting here. I didn't really  
15 see the kinds of data that were highly sensitive and  
16 top secret in these four pages for which the  
17 Commission came up with the top secret designation.  
18 Am I missing something here?

19 MR. HARRIS: No, I don't believe you are,  
20 your Honor. I think the other area we discussed back  
21 when we developed the top secret designation  
22 specifically concerned marketing plans, given the move  
23 to a competitive environment, and this is a document  
24 that concerns the company's future marketing plans, and  
25 that's the reason for the TS designation.

1           JUDGE SCHAEER: Okay. I will now designate  
2 this document as top secret and admit it as Exhibit  
3 TS-277. Please treat this document as top secret if  
4 it's in your possession.

5           (Admitted Exhibit TS-277.)

6           MR. CEDARBAUM: Just by way of  
7 clarification, Mr. Amen, Exhibit TS-277, again, is a  
8 draft marketing plan of this develop and retain  
9 business task force which, as I understand it, has not  
10 been approved by management yet.

11          A. That is correct. In fact, this particular  
12 task force is somewhat unique in that it's dealing  
13 with an area of the company that's not really been  
14 even assigned to a particular officer of the new  
15 company. And as such, this particular work product is  
16 going through an integrate process, so it has not been  
17 approved by management.

18          Q. Are there any other draft marketing plans  
19 that are being -- that are circulating around the  
20 companies?

21          A. Not that I'm aware of.

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

24           JUDGE SCHAEER: Mr. Manifold, did you have  
25 questions?

1 MR. MANIFOLD: No.

2 JUDGE SCHAEER: Mr. MacIver?

3 MR. MacIVER: No, your Honor.

4 JUDGE SCHAEER: Ms. Pyron?

5 MS. PYRON: Just a few.

6

7 CROSS-EXAMINATION

8 BY MS. PYRON:

9 Q. Good afternoon, Mr. Amen.

10 A. Good afternoon, Ms. Pyron.

11 Q. In turning to Exhibit 278 -- do you have a  
12 copy before you?

13 A. Yes.

14 Q. And the last bullet proposes a rate spread  
15 for interim rate relief, is that correct?

16 A. Yes.

17 Q. Is that proposal for a basis for rate  
18 spread a part of the Pacific Northwest Bell standard,  
19 to your knowledge?

20 A. I don't know that it is, Ms. Pyron. It's  
21 been, I think, adopted through the history of the  
22 application of this interim rate relief standard from  
23 time to time. It was used in the Washington Natural's  
24 interim rate relief proposal in its 1995 general rate  
25 case. I will say that it's merely a method by which

1 the interim rate relief is to be spread. Obviously, if  
2 the case would proceed to a full general rate case,  
3 then there would be a lot of discussion I would  
4 anticipate regarding the ultimate spread of revenues  
5 in that general case. But this is designed to merely  
6 go towards the interim rate relief.

7 Q. It's your testimony, then, that PSE is not  
8 making any commitment with regard to rate spread for  
9 the accompanying general rate case proceeding itself?

10 A. That's correct.

11 Q. Would you agree, Mr. Amen, that if rates  
12 are not aligned with cost of service, that a rate  
13 spread that is like the rate spread in Exhibit 278  
14 exacerbates that misalignment from cost of service --  
15 let me rephrase that. Would a rate spread like this  
16 move the rates further away from cost of service if  
17 they were already misaligned?

18 A. I guess to some degree it would. It  
19 depends on the relative relationship of those rates to  
20 cost of service. If there are certain classes, for  
21 example, that are below their -- the system cost of  
22 service, then ultimately you would expect there would  
23 be classes that are above, and so some are going one  
24 direction while others should go the other. And if  
25 this is a method by which you spread an increase to

1 all classes, then there may be some instances of what  
2 you suggest.

3 MS. PYRON: Thank you, Mr. Amen. I have no  
4 other questions at this time, your Honor.

5 JUDGE SCHAER: Thank you. Mr. Wright, did  
6 you have questions?

7 MR. WRIGHT: I have no questions. Thank  
8 you.

9 JUDGE SCHAER: Ms. Smith?

10 MS. SMITH: I have no questions.

11 JUDGE SCHAER: Mr. Freedman?

12 MR. FREEDMAN: I have no questions, your  
13 Honor.

14 JUDGE SCHAER: Mr. Merkel?

15 MR. MERKEL: Just two or three.

16

17 CROSS-EXAMINATION

18 BY MR. MERKEL:

19 Q. Mr. Amen, at page 3, line 16 through 19 of  
20 your testimony, you refer to PSE being able to offer  
21 unity design and trenching services to overlapping  
22 utilities. I don't see anything there about PSE  
23 purchasing unity design and trenching services from  
24 overlapping utilities which happen to offer such a  
25 service. Do you foresee circumstances in which you

1 would purchase or use the unity trenching -- unity  
2 design and trenching services of such utilities?

3 A. Certainly if those unity trenching and  
4 design services provided by other parties were more  
5 economic for the company than to provide those  
6 services themselves, I would expect the company to  
7 pursue those.

8 Q. Can you give me any explanation of how you  
9 would decide whether they are more economic or not?

10 A. Well, I would compare the cost of designing  
11 and installing the facilities myself as the utility to  
12 the cost that someone else would charge me for those  
13 same facilities.

14 Q. At page 4, lines 7 through 18, you testify  
15 concerning PSE's marketing plans, and you state that  
16 PSE will provide all customers with comprehensive  
17 information to make informed, unbiased energy choices,  
18 is that correct?

19 A. That's correct.

20 Q. Would you agree that the greatest end use  
21 efficiency and the lowest end use cost to consumers  
22 would typically be gas or space heating?

23 A. In today's environment here in the Pacific  
24 Northwest, yes, gas is more economic for residential  
25 space heating.



1 Q. Would that also be true in the typical case  
2 for water heating, cooking, and clothes drying?

3 A. Certainly for water heating and clothes  
4 drying. I think it's debatable that it's  
5 cost effective for cooking, but certainly it's  
6 preferred by chefs all over the world.

7 Q. And you would expect to bring these facts  
8 to the attention of consumers in the areas where PSE  
9 provides gas service with overlapping utilities  
10 providing electric service?

11 A. Yes.

12 Q. In an area in which PSE provides gas  
13 service which overlaps with an area where an  
14 electric-only utility provides electric service,  
15 wouldn't that utility be promoting inefficient use of  
16 energy by serving space heating, water heating,  
17 cooking, and clothes drying end use loads?

18 A. Which utility are you talking about?

19 Q. Any electric-only utility with which your  
20 service territory overlaps.

21 A. Well, if you mean areas where PSE will  
22 serve natural gas and where that territory overlaps  
23 with an electric provider other than PSE, I believe  
24 our rates are more cost effective for gas to provide  
25 those end uses with energy.

1 Q. Would you conclude from that that the  
2 overlapping electric-only utility would be promoting  
3 inefficient use of electricity by serving those end  
4 use loads?

5 A. I don't know that it would be promoting  
6 inefficient use. I'm just suggesting that gas is more  
7 cost effective for those end uses in our service area  
8 than electric.

9 Q. So less cost effective you would agree with,  
10 it would be?

11 A. That's what I just said.

12 Q. So if an electric-only utility wants to  
13 compete with a combination utility for these loads,  
14 would you agree is that a disadvantage because it  
15 cannot offer the most cost-effective energy source for  
16 these end uses?

17 A. Generally speaking, yes.

18 Q. Do you believe it would be in the best  
19 interest of consumers to have a choice of more than  
20 one gas provider?

21 A. Many of them do today.

22 Q. I don't think that precisely answers the  
23 question. Do you believe it is in the interest of the  
24 consumers to have a choice?

25 A. I believe it is in the interest of

1 customers to have choice, yes.

2 Q. Is service under schedule 48 limited to  
3 existing customers of Puget?

4 A. I don't believe so.

5 Q. Does PSE intend to promote the use of  
6 schedule 48 by new loads within PSE's territory --  
7 PSE's electric territory?

8 A. I don't know if "promote" is the right word;  
9 it is certainly available as an optional service to  
10 customers both existing and new. It was designed with  
11 existing customers in mind.

12 Q. But it is available, you believe, for new  
13 customers?

14 A. Yes.

15 Q. Does PSE intend to use schedule 48 to offer  
16 service to existing customers of other utilities,  
17 either by direct access over the other utility's  
18 distribution system or by bypass?

19 A. I don't see the connection there, Mr.  
20 Merkel. This is a bundled sales service. It includes  
21 distribution service. And if some other electric  
22 provider was distributing the power to the end use  
23 customer, it wouldn't be appropriate to have it be  
24 accomplished under schedule 48.

25 Q. It would not be?

1           A.     No.  You would be paying for distribution  
2 service twice, it seems to me.

3           Q.     I'm trying to understand it, and forgive me  
4 if I ask it twice, but my understanding is you said  
5 schedule 48 would not be an appropriate tariff to use  
6 to serve a customer of another utility either by  
7 direct access over that utility's system or by bypass.

8           A.     No.  I think I said if the customer was  
9 being served over some other electric utility's  
10 distribution system, it would be inappropriate and I  
11 can't imagine duplicating facilities being  
12 cost effective for the customer either, so --

13          Q.     I'm just really asking a narrow question.  
14 Do you think schedule 48 within the terms of that  
15 schedule offers you the latitude to offer that service  
16 under those circumstances, not whether it's  
17 cost-effective or appropriate but --

18          A.     I believe I've answered it twice now.

19          Q.     Okay.  The final question:  Is the fact that  
20 PSE can offer both gas and electric service, in your  
21 opinion, to customers give it an advantage in pursuing  
22 service to large loads?

23          A.     I think that's true.  We have said all  
24 along that this allows -- this merger allows this  
25 company to be a total energy services provider to

1 customers in our service area, so I think it is  
2 advantageous to customers as well.

3 MR. MERKEL: No further questions.

4 JUDGE SCHAEER: Commissioners, did you have  
5 questions for Mr. Amen?

6 COMMISSIONER HEMSTAD: I do not.

7 COMMISSIONER GILLIS: I do not.

8

9 EXAMINATION

10 BY JUDGE SCHAEER:

11 Q. Mr. Amen, on page 2 of your rebuttal  
12 testimony -- I'm looking at line 6 and 7 and again at  
13 lines 20 through 24 -- you say that Mr. Maglietti's  
14 market concentration studies aren't necessary for  
15 distribution since distribution is an actual monopoly.  
16 Is that correct?

17 A. That's correct.

18 Q. Do you believe electric generation or gas  
19 supply marketing are natural monopolies?

20 A. Well, historically as they have been  
21 bundled, if you will, with the transmission and  
22 distribution system, they have tended to be natural  
23 monopolies. As we're seeing them evolve, however, we  
24 find that electric generation and the natural gas  
25 commodity is becoming deregulated in many respects.

1 Q. Would you object to performing market  
2 concentration studies for electric generation and/or  
3 gas supply marketing?

4 A. Only to the extent that I believe studies  
5 of this kind can be performed with information that's  
6 available in the public domain. I don't know that  
7 there's anything that the company would have specific  
8 to this issue that could only be provided from its own  
9 records such that they could be conducted with or  
10 without the company consenting.

11 Q. At the bottom of page 3 of your testimony,  
12 you say you don't believe it's necessary to develop  
13 plans with overlapping utilities in order to obtain  
14 benefits similar to those available in combined  
15 companies' service territory, is that correct?

16 A. Yes.

17 Q. At line 16 through 19 you go on to state  
18 that the Puget Sound Energy will be able to offer  
19 unity design and trenching service to others, is that  
20 correct?

21 A. That's correct.

22 Q. By saying that PSE will offer these  
23 services, do you mean that PSE would perform these  
24 services strictly for hire rather than as part of some  
25 joint program through the utilities?

1           A.     No, I wouldn't preclude the company from  
2 pursuing them jointly with other companies. I think  
3 that in fact even before our merger with Puget, WNG  
4 was pursuing joint trenching and design efforts with  
5 Puget and we were doing it on a cost sharing basis; we  
6 weren't charging -- strictly charging one or the  
7 other. In fact, we may have also pursued it with  
8 others as well, but I would not preclude us doing it  
9 in a cooperative venture.

10          Q.     How would PSE and its ratepayers benefit  
11 from the company offering these services?

12          A.     Well, I think that my testimony discusses  
13 that. There are a lot of cost-reducing efficiencies  
14 from joint utilities operations such as this.

15                 Joint trenching, for example, means that  
16 you have one trench instead of multiple trenches being  
17 constructed at various times by multiple utilities,  
18 say in a new development, and there's a great deal of  
19 efficiency gained there from those coordination  
20 efforts and the cost of having one contractor do it as  
21 opposed to many.

22                 In addition, unity design goes one step  
23 further, and you can incorporate the kinds of  
24 materials that other utilities would -- the kind of  
25 infrastructure that they would need to have installed,

1 actually install it for them, design the systems  
2 according to their specifications. This reduces costs  
3 for developers, will reduce costs for the utilities  
4 themselves in providing utilities service to the  
5 customers. It should reduce the costs of the homes  
6 built in those developments where the developer can  
7 avoid or reduce cost. I think it has a lot of  
8 potential opportunities for cost savings.

9 Q. Does Puget or WNG participate in any joint  
10 planning or construction activities with utilities  
11 other than themselves at the present time?

12 A. My recollection is that we have made some  
13 efforts to do joint construction planning and  
14 trenching with utilities other than Puget Power. I  
15 can't recall the exact names. I would be speculating,  
16 but I believe we have.

17 Q. On page 4 of your testimony, lines 7 and 8,  
18 you say that Puget Sound Energy has made a commitment  
19 to provide all customers with comprehensive  
20 information to make informed unbiased energy choices,  
21 is that correct?

22 A. That's correct.

23 Q. What type of information will you be  
24 supplying customers so that they can make an informed  
25 choice?



1           A.       Well, while I am not presently involved in  
2 the development of those materials and I'm not sure  
3 that we've gone very far down that path, I can give  
4 you an example of something that we have already  
5 developed that I expect will continue with PSE.  And  
6 that's an energy select program with WNG where we  
7 provide consumers with information on energy use of  
8 various kinds of energy products, appliances.  We  
9 provide them with access to comparative costs for  
10 various utilities in our service area.  We also  
11 provide them with access to a registered dealer  
12 network so that they can have a method by which they  
13 can choose both the energy type, the particular  
14 appliance, as well as the retailer of those products.  
15 And we qualify those registered dealers under a  
16 program we've developed that requires them to adhere  
17 to certain performance standards, service quality  
18 guidelines, and we feel it gives the consumer some  
19 comfort in making such choices in terms of both the  
20 energy type that they wish to use in their home as  
21 well as the kinds of service providers they want in  
22 their home.

23           Q.       Should the Commission set standards for  
24 information disclosure for all market participants to  
25 ensure that customers can compare information from

1 competing service providers?

2           A.     Yes.  I think that that would be  
3 appropriate.  One of the things that -- one of the  
4 issues we've seen in the emerging competitive  
5 marketplace is the issue of the third party providers  
6 of energy and what kinds of standards should apply to  
7 them as well as the local utility provider, whether it  
8 amounts to, say, credit requirements, performance  
9 standards, how will these third parties be regulated,  
10 if you will, in the provision of competing energy  
11 services.

12          Q.     On page 6 of your testimony at lines 16  
13 through 19, you concur that new services developed  
14 during the rate stability period should be filed with  
15 cost information but with the caveat that cost  
16 justification for new services should not become  
17 burdensome, is that correct?

18          A.     Yes.

19          Q.     Can you clarify what you would consider  
20 burdensome in this context?

21          A.     Well, I've filed a number of new services  
22 over the years with cost studies, and some have been  
23 more burdensome than others.  I guess the -- it's a  
24 qualifying term that goes to the degree to which new  
25 services who oftentimes are somewhat experimental in

1 nature. You may not have a very in-depth amount of  
2 cost data that you can draw upon from history because  
3 it's a new service. It may be a totally new class of  
4 service heretofore not offered or contemplated. So I  
5 think it's going to require some flexibility both on  
6 the part of the company and the regulators to work  
7 through those issues and try and experiment a bit with  
8 some of these new services.

9 Q. Is PSE as part of the merger requesting  
10 waivers of rules and Commission orders requiring that  
11 electric or gas service rates, including those under  
12 special contracts, be shown to be compensatory?

13 A. No.

14 Q. On page 7 of your testimony, lines 19 to  
15 23, you say it's not necessary to file a total company  
16 cost of service rate design case at the end of the  
17 rate stability period because PSE contemplates filing  
18 cost based transportation rates for electric retail  
19 access, is that correct?

20 A. That's correct.

21 Q. Do you believe that the cost analysis which  
22 will accompany PSE's retail access filing will be  
23 sufficient to develop rates for all other utility  
24 services and for all customer classes?

25 A. It's hard for me to say sitting here today

1 that it will be comprehensive, say, for all other  
2 classes of service. However, because we are charged  
3 with providing cost support for nondiscriminatory  
4 transportation services, out of that generally falls  
5 the cost of delivering service to the other classes as  
6 well.

7           However, I believe that if at the end of  
8 the rate stability period we were at the point of  
9 realizing that the various cost studies that we had  
10 filed over the course of that period had not  
11 adequately served to assess all classes, I don't  
12 believe we would have difficulty in filing such a cost  
13 of service study at that time.

14           As staff and the company have discussed  
15 these issues, we realize that we're in a transition  
16 period. We have cost of service techniques and  
17 methodologies evolving. Those that the rules that  
18 apply today for, say, embedded cost of service, may  
19 not be appropriate five years from now. So it would  
20 probably be wise at that point, if we haven't done so  
21 in the interim, to revisit those.

22       Q.     Finally, were you present in the hearing  
23 room when Commission staff witness Mr. Maglietti  
24 reviewed two scenarios related to gas acquisition  
25 practices for the two companies, which I believe are

1 reflected in Exhibit 199?

2 A. Yes.

3 Q. Was Mr. Maglietti's description consistent  
4 with the second pricing alternative described on page  
5 10 of your rebuttal testimony?

6 A. Just double-check which one that was.  
7 (Reading.) Yes, it is.

8 Q. In your opinion, is it true that under the  
9 two scenarios outlined on Exhibit 199, the electric  
10 generation side of the equation, would not receive any  
11 benefits associated with the decrease in gas  
12 acquisition costs for the combined company and that  
13 all benefits would accrue to the gas sales side of PSE  
14 operations?

15 A. The benefits I believe that the electric  
16 side would receive is competitively priced natural  
17 gas, market-priced gas, for electric generation, and  
18 that which the gas company with its experience in gas  
19 acquisition could achieve for the electric side.

20 But I will agree that the benefits I  
21 believe you're speaking of, in terms of the price that  
22 we charge the electric generation side of the  
23 business, that exceeds our cost would flow back only  
24 to the gas customers through the PGA mechanism.

25 Q. Could you elaborate on any proposals you

1 may have for extending possible benefits in gas  
2 acquisition efficiencies to the electric generation  
3 side of company operations?

4 A. Other than those that I've tried to  
5 describe to you just now as our ability to purchase  
6 natural gas at very competitive prices, I can't think  
7 of any at the moment.

8 Q. Okay.

9 JUDGE SCHAER: Is there any redirect for  
10 this witness?

11 MR. HARRIS: No, your Honor.

12 JUDGE SCHAER: Is there anything further  
13 for Mr. Amen? Thank you for your testimony.

14 What I believe we have remaining, then, are  
15 -- let's take up first the public exhibits that were  
16 distributed by Mr. Manifold. I have a large red  
17 folder of customer letters and an addendum to that  
18 document of customer letters. Should I mark them both  
19 with the same number, Mr. Manifold, or would you like  
20 separate numbers?

21 MR. MANIFOLD: Doesn't matter to me.

22 JUDGE SCHAER: Then let's mark the red  
23 folder and the addendum as Exhibit 279.

24 (Marked Exhibit 279.)

25 MR. MANIFOLD: Your Honor, these are the

1 written correspondences which have been received by  
2 either public counsel or the Commission itself,  
3 together with a compilation organized both in  
4 alphabetical order and by zip code, with a simple  
5 chart on for, against, or other, and I would move for  
6 their admission.

7 JUDGE SCHAER: Is there any objection?

8 These documents are admitted.

9 Let's go off the record for just a moment.

10 (Admitted Exhibit 279.)

11 (Discussion off the record.)

12 JUDGE SCHAER: While we were off the  
13 record, I was checking to make sure Exhibit 277 had  
14 been admitted.

15 Let's next take up the testimony of Ms.  
16 Opatrny. I believe, Mr. Freedman, that you have  
17 prefiled rebuttal -- direct testimony from Ms.  
18 Opatrny.

19 MR. FREEDMAN: Yes.

20 JUDGE SCHAER: And then you have yesterday  
21 distributed amended pages 22 to the end for that  
22 testimony, is that correct?

23 MR. FREEDMAN: That's right. In addition,  
24 there are two exhibits to Ms. Opatrny's testimony as  
25 filed -- as originally filed, and those will be

1 unamended.

2 JUDGE SCHAER: I am going to mark for  
3 identification as Exhibit T-280 the prefiled direct  
4 testimony of Carol Close Opatrny. Please note that  
5 pages 22 to the end of that document were revised on  
6 November 12.

7 I'm going to mark for identification as  
8 Exhibit 281 Exhibit CCO-2 and as Exhibit 282 Exhibit  
9 CCO-3. And what was the agreement that had been  
10 reached regarding these documents, Mr. Freedman?

11 (Marked Exhibits T-280, 281, and 282.)

12 MR. FREEDMAN: I believe that there is no  
13 opposition to their being admitted by stipulation.

14 JUDGE SCHAER: Are you so offering them at  
15 this time?

16 MR. FREEDMAN: I would move for the  
17 admission of Exhibits T-280, 281, and 282 into the  
18 record of this case.

19 JUDGE SCHAER: Is there any objection to  
20 those documents? They are admitted.

21 (Admitted Exhibits T-280, 281, and 282.)

22 MR. HARRIS: No, your Honor, subject to Mr.  
23 Freedman's prior agreement that certain responses to  
24 data requests would also be admitted, and we have  
25 those prepared and are ready to distribute those.



1 JUDGE SCHAER: Would you please do that  
2 now.

3 MR. HARRIS: Yes, we will, and we would  
4 like to at the same time, just to get everything  
5 completed, distribute the exhibits for Mr. Oakes and  
6 Mr. Anderson.

7 JUDGE SCHAER: Okay. Let's go off the  
8 record for just a moment to allow all of those  
9 documents to be distributed.

10 (Discussion off the record.)

11 JUDGE SCHAER: Let's be back on the record.  
12 While we were off the record, certain documents were  
13 distributed. Marked for identification as Exhibit No.  
14 283 are a set of responses of Public Utility District  
15 No. 1 of Snohomish County to joint applicants' data  
16 request No. 802.

17 (Marked Exhibit 283.)

18 MR. HARRIS: It is just the single data  
19 request and response, and the attached papers are  
20 excerpts from the document that was attached to 802.

21 JUDGE SCHAER: Okay. So this is a portion  
22 of the response to the joint applicants' data request  
23 No. 802.

24 I'm going to mark for identification as  
25 Exhibit 284 a set of documents which are the

1 Washington Public Utility District Association  
2 responses to applicants' data request No. 707, 725,  
3 728, 733. Again, that has been identified as Exhibit  
4 284.

5 I'm going to mark for identification as  
6 Exhibit T-285 the prefiled direct testimony of George  
7 Oakes on behalf of the City of Seattle. This document  
8 states in parentheses above that title Errata  
9 Substitute.

10 And I'm going to mark for identification as  
11 Exhibit 286 responses from the City of Seattle to  
12 joint applicant data requests 910, 914, 916, and 917.

13 Mr. Harris, did you want to offer these  
14 documents or describe the stipulation regarding them?

15 (Marked Exhibits 284, T-285, and 286.)

16 MR. HARRIS: Sure. Before I offer 286,  
17 just for the record, those are selected responses from  
18 the City of Seattle to the joint applicants' data  
19 request. The responses have been reformatted by  
20 separating them out and setting them forth each on a  
21 separate page with the request itself. There were  
22 no other changes made to it.

23 With that, by stipulation, joint applicants  
24 would offer Exhibit -- what's been marked for  
25 identification as Exhibit 283, 284, and 286 and then

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1 what's been marked for identification as Exhibit 285  
2 is also being offered by stipulation.

3 JUDGE SCHAER: Is there any objection to  
4 any of those documents being included in the record?

5 They are all admitted.

6 (Admitted Exhibits 283, 284, T-285,  
7 and 286.)

8 MS. PYRON: Question of clarification, your  
9 Honor.

10 JUDGE SCHAER: Yes.

11 MS. PYRON: The Anderson testimony is not  
12 being admitted, is that correct?

13 JUDGE SCHAER: The Anderson testimony was  
14 admitted yesterday as Exhibit T-243, Counsel.

15 MS. PYRON: Thank you.

16 JUDGE SCHAER: You're welcome.

17 MR. MERKEL: Just to clarify, the  
18 supplemental testimony was T-244?

19 JUDGE SCHAER: Yes, that's correct. There  
20 was supplemental testimony that was distributed  
21 yesterday. If you don't have it, check with Mr.  
22 Merkel. That was admitted as Exhibit T-244.

23 MS. PYRON: Thank you, your Honor.

24 MR. MacIVER: Exhibit T-244 applies to  
25 that, applies to that witness?

1 JUDGE SCHAER: Yes.

2 Is there anything further that needs to  
3 come before us today? Mr. Cedarbaum?

4 MR. CEDARBAUM: Just one matter, your  
5 Honor. This morning when I cross-examined Mr. Story,  
6 there were some questions outstanding for him  
7 concerning the levelized fixed charge issue. And he  
8 was allowed to leave for some personal matters. I'm  
9 not suggesting that we come back tomorrow and have  
10 another hearing, but I do have some questions for him  
11 on that subject, and what we've agreed to do is to  
12 handle it informally outside the hearing either by  
13 stipulated interrogatories or maybe mini-deposition or  
14 something that will work out. I was just wondering if  
15 we could reserve today as the next exhibit in order a  
16 number that we would then associate with that document  
17 when it does come in, and we'll try to have that done  
18 as soon as possible.

19 JUDGE SCHAER: Okay. I'm going to mark  
20 that response, in whatever form you get those  
21 questions answered, as Exhibit 287. And you'll need  
22 to come up with some method for finding out what parties  
23 want to see that and letting them see it before it's  
24 put on the record. But I am going to admit that at this  
25 time.

1 (Marked and admitted Exhibit 287.)

2 MR. CEDARBAUM: Thank you.

3 JUDGE SCHAEER: And Mr. Manifold, have you  
4 figured out anything more on Exhibit 266?

5 MR. MANIFOLD: No, I haven't, and I don't know  
6 that we will be able to before we close today, so I would  
7 suggest that I take the responsibility for determining  
8 whether or not we can come to some agreement in proposing  
9 some solution if any is agreed upon.

10 JUDGE SCHAEER: So you don't want me to -- I will  
11 continue to reserve that number that you may use to identify  
12 something that you come up with, but I will not rule on its  
13 admission at this point then but let you come up with  
14 hopefully a stipulation if there is something that needs to  
15 be entered --

16 MR. MANIFOLD: Okay.

17 JUDGE SCHAEER: -- at some later date in these  
18 proceedings.

19 MR. MANIFOLD: Could I ask at this point if there  
20 are any other parties besides the joint applicants and staff  
21 and public counsel who are interested in that issue? I  
22 thought so.

23 JUDGE SCHAEER: Is there anything further that  
24 needs to come before us today? Ladies and gentlemen, thank  
25 you very much for your efforts to get these proceedings

1 concluded in a thorough but expeditious manner, and we are  
2 off the record.

3           Before we go off the record, the briefing date in  
4 this matter at the current time is December 6, and so we  
5 will look to hear from you then, unless other arrangements  
6 are made in the meantime.

7           With that, we are off the record.

8           (Concluded at 5:35 p.m.)

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