

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
2 COMMISSION

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

7 In the Matter of the Application)  
of )  
8 )  
PUGET SOUND POWER & LIGHT )  
9 and )  
WASHINGTON NATURAL GAS COMPANY ) DOCKET NO. UE-960195  
10 ) VOLUME 16  
For an Order Authorizing the ) Pages 2404 - 2550  
11 Merger of WASHINGTON ENERGY )  
COMPANY and WASHINGTON NATURAL )  
12 GAS COMPANY with and into PUGET )  
SOUND POWER & LIGHT COMPANY, and)  
13 Authorizing the Issuance of )  
Securities, Assumption of )  
14 Obligations, Adoption of )  
Tariffs, and Authorizations )  
15 in Connection Therewith. )  
-----)

16  
17 A hearing in the above matter was held on  
18 December 18, 1996, at 11:10 a.m. at 1300 South  
19 Evergreen Park Drive Southwest, Olympia, Washington  
20 before Chairman SHARON L. NELSON, Commissioners  
21 RICHARD HEMSTAD and WILLIAM R. GILLIS and  
22 Administrative Law Judge MARJORIE R. SCHAER.

23  
24 Cheryl Macdonald, CSR  
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 EDWARD  
16 FINKLEA, Attorney at Law, 101 SW Main, Suite 1100,  
17 Portland, Oregon 97204.

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

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

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

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

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

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

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APPEARANCES (Cont'd.)

CITY OF TACOMA DEPARTMENT OF PUBLIC UTILITIES, by GLENNA MALANCA, Senior Assistant City Attorney, P.O. Box 11007, Tacoma, Washington 98411.

IBEW LOCAL 77, by LYNN ELLSWORTH, Attorney at Law, 600 University Street, Suite 2700, Seattle, Washington 98101.

NRDC and NCAC, by DEBORAH SMITH, Attorney at Law, 401 N. Last Chance Gulch, Helena, Montana 59601.

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

2                               JUDGE SCHAEER: Let's be on the record.

3 This hearing will come to order. This is a hearing  
4 before the Washington Utilities and Transportation  
5 Commission for the purpose of presentation of the  
6 stipulation between joint applicants, Commission staff  
7 and public counsel and cross-examination by the  
8 intervenors and commissioners in docket No. UE-951270,  
9 which is a proposal by Puget Sound Power & Light  
10 Company seeking approval to transfer revenues from  
11 PRAM rates to general rates, and docket No. UE-960195,  
12 which is the applicant of Puget Sound Power & Light  
13 Company and Washington Natural Gas Company for an  
14 order authorizing the merger of Washington Energy  
15 Company and Washington Natural Gas Company with and  
16 into Puget Sound Power and Light Company.

17                               The hearing is being held before Chairman  
18 Nelson, Commissioner Richard Hemstad and Commissioner  
19 William Gillis. My name is Marjorie R. Schaer. John  
20 Prusia and I are the administrative law judges  
21 assigned to these proceedings. This hearing was set  
22 by a notice of hearing dated December 12, 1996.  
23 Today's date is December 18, 1996 and we are in the  
24 Commission's hearing room in Olympia, Washington.

25                               Let's begin by taking appearances beginning

1 with the joint applicants, please.

2 MR. HARRIS: Matthew Harris for Washington  
3 Natural Gas.

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

6 JUDGE SCHAEER: Commission staff?

7 MR. CEDARBAUM: Robert Cedarbaum.

8 JUDGE SCHAEER: Then public counsel.

9 MR. MANIFOLD: For public counsel, Robert  
10 Manifold.

11 JUDGE SCHAEER: Next with the intervenors,  
12 please.

13 MR. PATTON: William Patton for the city of  
14 Seattle.

15 MR. FREEDMAN: Eric Freedman for Public  
16 Utilities District No. 1 of Snohomish County.

17 MR. MERKEL: Joe Merkel, Washington PUD  
18 Association.

19 MR. MACIVER: Clyde MacIver for ICNU.

20 MR. FINKLEA: Ed Finklea for the Northwest  
21 Industrial Gas Users.

22 MR. FREDERICKSON: Frederick O.  
23 Frederickson for Seattle Steam.

24 MS. MALANCA: Glenna Malanca, City of  
25 Tacoma Department of Public Utilities.

1                   MR. ELGIN: Lynn Ellsworth for IBEW Local  
2 77.

3                   MR. WRIGHT: Jon Wright for Bonneville  
4 Power Administration.

5                   MS. SMITH: Deborah Smith for Natural  
6 Resources Defense Council and Northwest Conservation  
7 Act Coalition.

8                   JUDGE SCHAEER: Before we went on the record  
9 copies of the stipulation were distributed to the  
10 bench, and are there any parties that do not have a  
11 copy of the stipulation with them? I believe that you  
12 wanted this marked as an exhibit; is that correct?

13                   MR. CEDARBAUM: Yes, Your Honor.

14                   JUDGE SCHAEER: I'm going to mark this for  
15 identification as Exhibit 289. Perhaps, Mr.  
16 Cedarbaum, you would tell us how you plan to proceed  
17 this morning.

18                   (Marked Exhibit 289.)

19                   MR. CEDARBAUM: Yes, Your Honor. With your  
20 permission, given the late start I think we would  
21 propose to just go right into the panel, have them  
22 identified and sworn in since neither of them have  
23 been witnesses in this proceeding yet. Then I was  
24 going to ask some preliminary questions of the  
25 witnesses, a couple of clarification questions on the

1 stipulation, and also I would ask to cover the  
2 questions that the Commission asks in its December 13  
3 letter of last week, and then we would propose to open  
4 up the hearing to questions from the intervenors and  
5 from the bench.

6 JUDGE SCHAER: All right. Would whoever is  
7 appropriate please call these witnesses at this time.

8 MR. CEDARBAUM: I think the settling  
9 parties have agreed that I will act as spokesperson  
10 for that purpose. The parties to the stipulation  
11 would call Mr. Kenneth Elgin and Mr. Ronald Davis.  
12 Whereupon,

13 KENNETH ELGIN and RONALD DAVIS,  
14 having been first duly sworn, twere was called as  
15 witness herein and were examined and testified as  
16 follows:

17 JUDGE SCHAER: Go ahead, Mr. Cedarbaum.

18 MR. CEDARBAUM: Starting with you, Mr.  
19 Elgin, could you please state your full name spelling  
20 your last name and also identify your appointment.

21 MR. ELGIN: My name is Kenneth L. Elgin,  
22 E L G I N. I'm employed by the Washington Utilities  
23 and Transportation Commission in the energy section.  
24 My address is 1300 South Evergreen Park Drive  
25 Southwest, Olympia, Washington 98504.



1                   JUDGE SCHAER: Mr. Davis, can you please do  
2 the same.

3                   MR. DAVIS: My name is Ronald A. Davis,  
4 D A V I S. I'm employed by the Washington Natural Gas  
5 Company as vice-president for planning and regulation.

6                   MR. CEDARBAUM: Your Honor, I would also  
7 indicate for the record that Mr. Harris, Mr. Van  
8 Nostrand, Mr. Manifold and myself are available for  
9 questions as well. We've also agreed amongst  
10 ourselves, again with your permission, that Mr. Elgin  
11 will act as sort of our lead witness on the panel so  
12 questions can be directed toward him primarily. To  
13 the extent that he needs to defer to Mr. Davis or  
14 someone else or we need to provide another witness to  
15 answer the details of a question we will do that.

16                   JUDGE SCHAER: All right.

17                   MR. MANIFOLD: Your Honor, hopefully  
18 everyone got the letter I sent last week indicating  
19 that we had intended and we had all expected that  
20 public counsel would have a witness on this panel as  
21 well who would have been Mr. Lazar. Unfortunately,  
22 the date of this hearing coincided with a minor  
23 surgery that he had this morning, so while he's fine  
24 he is not able to speak, which, while that is what  
25 some people might like to have him on the stand that

1 way, it would not seem to be very effective and so his  
2 absence should be attributed solely to that purpose  
3 and no other inferences regarding our participation in  
4 this, and I will be available to answer any questions  
5 of public counsel.

6 JUDGE SCHAEER: Thank you, Mr. Manifold.

7 MR. CEDARBAUM: Your Honor, if I could just  
8 begin with covering the questions from the  
9 Commission's letter and two clarifying questions on  
10 the stipulation itself.

11 JUDGE SCHAEER: Do you want to offer the  
12 stipulation?

13 MR. CEDARBAUM: Yes, I will.

14 JUDGE SCHAEER: Okay. Go ahead.

15 MR. CEDARBAUM: I would offer Exhibit 289.

16 JUDGE SCHAEER: Is there any objection?  
17 Exhibit 289 is admitted.

18 (Admitted Exhibit 289.)

19 MR. CEDARBAUM: Thank you. Mr. Elgin, just  
20 to cover the clarification questions to begin with,  
21 can you turn to pages 5 and 6 of the stipulation.

22 MR. ELGIN: Yes.

23 MR. CEDARBAUM: And on those pages it sets  
24 forth the electric rate changes that are included in  
25 the stipulation; is that right?

1 MR. ELGIN: That's correct.

2 MR. CEDARBAUM: At lines 2 and 13 and 14  
3 there is reference to all other customer classes  
4 receiving increases of one and one half percent. Do  
5 you see that?

6 JUDGE SCHAEER: Is that on page 6, Mr.  
7 Cedarbaum?

8 MR. CEDARBAUM: Yes, it is. And then  
9 attachment -- excuse me, Exhibit A of the stipulation  
10 lists some of the rate schedules that will receive  
11 rate changes according to stipulation; is that right?

12 MR. ELGIN: That's correct.

13 MR. CEDARBAUM: Does Exhibit A represent  
14 all of the customer classes that will receive the one  
15 and a half percent increase or any increase in the  
16 stipulation that is referenced on page 6 of the  
17 stipulation?

18 MR. ELGIN: It represents some of the rate  
19 schedules. As the stipulation on page 6 and the lines  
20 you have identified correctly point out is that the  
21 one and a half percent general rate increase applies  
22 to all other customer classes, so if a schedule does  
23 not appear on Exhibit A of the stipulation, a one and  
24 a half percent increase would be applied to that rate  
25 schedule.

1           MR. CEDARBAUM:  So there are other customer  
2 schedules other than the ones listed on Exhibit A that  
3 might also receive -- that will also receive those  
4 increases.

5           MR. ELGIN:  That's correct.

6           MR. CEDARBAUM:  On line 20 of page 6 of the  
7 stipulation there's reference to schedule 48, a  
8 nonenergy portion of schedule 48.  Do you see that?

9           MR. ELGIN:  Yes.

10          MR. CEDARBAUM:  Is that the only portion of  
11 schedule 48 that will receive an increase under the  
12 stipulation?

13          MR. ELGIN:  That's correct.

14          MR. CEDARBAUM:  So the energy portions of  
15 schedule 48 will not receive the changes?

16          MR. ELGIN:  Yes.

17          MR. CEDARBAUM:  Let's turn to the  
18 Commission's December 13 letter, December 13, 1996.  
19 Do you have that?

20          MR. ELGIN:  Yes.

21          MR. CEDARBAUM:  And that's the letter that  
22 the Commission asked of the settling parties three  
23 questions concerning the stipulation; is that right?

24          MR. ELGIN:  That's right.

25          MR. CEDARBAUM:  Can you just start off with

1 question No. 1 and proceed through the letter and  
2 answer those questions, please.

3           MR. ELGIN: Yes, I will. In response to  
4 question 1, the origination of the 1.3 percent  
5 increase is nothing more than the weighted average  
6 increase over the rate plan period as applied to all  
7 of the rate schedules for the entire rate plan period,  
8 and as the document or the stipulation contemplates,  
9 this is an increase in the level of revenue  
10 requirement for Puget Sound electric operations.

11           The specific relationship to schedule D was  
12 in fact an effort by the parties to anticipate the  
13 needs of the Bonneville Power Administration for  
14 determining average system costs in its own processes  
15 under the 1984 record of decision for determining  
16 average system cost. What we attempted to do there  
17 was provide the types of cost categories that  
18 Bonneville needs in order to calculate Puget Sound  
19 Energy's average system cost once the initial filing  
20 in February 1, 1997 would have been filed so then  
21 Bonneville could take this information and proceed and  
22 make the necessary calculations under its processes  
23 for that determination. So that is the relationship  
24 of the 1.3 percent increase and the information on  
25 schedule D and the reference to Exhibit 240 in the

1 stipulation.

2                   The second question references the  
3 difference between the relative increases between some  
4 rate schedules that receive a one percent increase and  
5 the other rate schedules that receive the one and a  
6 half percent increases, because I've already  
7 identified the 1.38 percent is really a weighted  
8 average increase for Puget's entire revenue  
9 requirement over the rate plan period. Essentially  
10 what the parties did is relied on the Commission's  
11 rate spread principles from the UE-921262 general rate  
12 case and the underlying costs of service principles  
13 from that proceeding, and recognize that some rate  
14 schedules were actually above system class rate of  
15 return parity levels and other classes were below, so  
16 the parties felt in an effort to continue that rate  
17 spread methodology and also in an effort to apply rate  
18 increases that would not exacerbate those parity  
19 levels that these differing increases would be  
20 appropriate in the context of this stipulation.

21                   So, therefore, the conclusion is that this  
22 provides a continued gradual movement towards parity.  
23 It recognizes that in the context of increasing costs  
24 that the company is expecting over the rate plan  
25 period, particularly related to power supply expense

1 that this would be an equitable result and a way to  
2 balance the interests of all parties with respect to  
3 costs of service principles that have been previously  
4 established.

5           Finally, with respect to the last question  
6 regarding regulatory assets, the question was to  
7 clarify what is meant by known. My understanding now  
8 is that for any environmental remediation expenses  
9 both companies basically accrue costs based on  
10 estimates, and once these accruals stop and the  
11 company books known costs and then once the company  
12 has insurance proceeds so that the net amount of the  
13 liability is known that is at the point when the  
14 amortization would begin.

15           So, it's really a two step process. The  
16 accruals would have to stop, the known amounts of the  
17 environmental costs would be recognized and at the  
18 same time the company would have insurance proceeds.  
19 So it's a two prong test as to when the net amount  
20 would be known and the amortization would begin. So  
21 with that I have nothing more to add to in response to  
22 those specific questions from the Commission.

23           MR. CEDARBAUM: Thank you. Those are all  
24 the preliminary questions I had for Mr. Elgin. I  
25 don't know -- and our proposal now would be to open up

1 the question and answers from the intervenors and the  
2 bench unless you would like to follow up questions  
3 specifically on Mr. Elgin's comments just now and  
4 place it all in the same context.

5 JUDGE SCHAEER: I think we can go ahead and  
6 get questions from the intervenors now and then from  
7 the bench. We'll start with you, Mr. Patton.

8 MR. PATTON: Thank you, Your Honor, and I  
9 apologize for my voice. You may not want to hear it  
10 either but I have the flu. I want to ask just a few  
11 questions under four headings under simplicity, under  
12 credibility, reciprocity and antitrustity (sic). The  
13 last one was to rhyme with the three previous. Under  
14 simplicity you single one of the advantages of the  
15 initial proposal by the two companies was the simple  
16 rate stability period; that is, with the zero  
17 increases for gas price and a one percent per year for  
18 electric prize that everyone essentially understands,  
19 and that this stipulation seems to me to be a  
20 complicated restructuring of some rates going up, some  
21 going down and it's hard to tell what the overall  
22 effect of that is. Could you explain what you think  
23 the overall effect of it is.

24 MR. ELGIN: Yes. I would disagree with  
25 your characterization that it's not simple. I think



1 the stipulation embodies the spirit of the company's  
2 original proposal in terms of trying to be simple and  
3 understandable to customers. With that, to explain  
4 the increases that are contemplated by the stipulation  
5 I would refer you to Exhibit A. Do you have that?

6 MR. PATTON: This is the schedule over the  
7 five years for Puget; is that correct?

8 MR. ELGIN: For Puget Sound Energy electric  
9 operations, that's correct. What you have is a 1997,  
10 a combination filing, the stipulation contemplates,  
11 where the effects of the PRAM accruals on rates, and  
12 that's a decrease, go into effect immediately as of  
13 February 1 filing, and then a corresponding increase.

14 One of the things that the parties had  
15 agreed to was to as a relative level of revenues to  
16 the company was targeting, if you will, the company's  
17 ability to earn a fair rate of return over the rate  
18 stability period, and so what we have is a fairly  
19 simple straightforward, is a reduction in the first  
20 year, and the reduction, as I said, the combination of  
21 two effects, the offsetting increases from the  
22 stipulation as the company goes forward as the merged  
23 utility and then the offset as the accrual of the PRAM  
24 expiring. And then in subsequent years residential  
25 rate schedules and primary voltage and high voltage

1 customers receive one and a half percent increases,  
2 and, as I already mentioned, those customers class  
3 costs of service are below parity and for those  
4 customers that have class cost of service above parity  
5 they have subsequent annual one percent increases for  
6 the remaining part of the rate stability period.

7           MR. PATTON: For ease of serving this  
8 proposed schedule in contrast to what was originally  
9 proposed by the two companies, is it possible to draw  
10 a line graph showing where the original proposal would  
11 have resulted in rates under the five-year period  
12 going to a certain point for each of these customers  
13 classes and then this one in contrast to it?

14           MR. ELGIN: Well, actually the proposal  
15 would look awfully similar to the one in the record  
16 already contained in Mr. Sonstelie's exhibit so you  
17 would see something that would look very much similar  
18 to like what he presented in his direct testimony.  
19 The other advantage that this has over what Mr.  
20 Sonstelie has is that the impacts to residential  
21 customers and small farm customers as a result of  
22 changes to their rates from expiring exchange benefits  
23 is not contemplated in Mr. Sonstelie's exhibit, so the  
24 net rate -- this is the net rates, and so with respect  
25 to that exhibit there is some certainty and there

1 would be increases that we can't anticipate yet and so  
2 we have, if you will, the gyrations that would come as  
3 a result of that. We have smoothed them and that's  
4 one of the benefits of this proposal.

5 MR. PATTON: And you have a similar chart  
6 for the gas part of the utility?

7 MR. ELGIN: Well, the gas part of the  
8 utility would basically look just like what was  
9 proposed except for when the rate decrease is  
10 contemplated there would be a reduction in rates.  
11 Again, the rates for gas, though, are highly related  
12 to the costs of gas, and the original proposal and the  
13 stipulation continues to presume that the Commission's  
14 PGA procedures would follow, so any changes in gas  
15 costs would be tracked through to the rate schedules.

16 MR. PATTON: On the second general heading  
17 of credibility, your view isn't that these rates are  
18 somewhat lower than originally proposed by the --

19 MR. ELGIN: They are somewhat lower in the  
20 sense if you consider the impacts of the residential  
21 exchange.

22 MR. PATTON: Otherwise?

23 MR. ELGIN: Otherwise they are somewhat  
24 higher.

25 MR. PATTON: What was the presumed benefit

1 of that trade-off?

2 MR. ELGIN: We're putting the company at  
3 risk, if you will, for changes to what might happen to  
4 residential rates as the exchange benefits become  
5 diminished over the rate plan period and then in  
6 2001 could quite -- high probability that they would  
7 expire altogether.

8 MR. PATTON: And the prices for the gas  
9 company rates under your new proposal go down in one  
10 year and then remain the same?

11 MR. ELGIN: That's correct.

12 MR. PATTON: So that's lower than  
13 originally proposed?

14 MR. ELGIN: Yes.

15 MR. PATTON: In the five-year proposal, as  
16 I read it, and perhaps I'm wrong in reading this in  
17 this manner, the company, the new merged company, has  
18 the ability to come back and ask for rate relief but  
19 the Commission has no ability to reopen this  
20 proceeding during the five-year period; is that right?

21 MR. ELGIN: The Commission would  
22 contemplate only a rate filing if the company meets  
23 the standards for interim rate relief and it would be  
24 limited to file tariffs that would only produce that  
25 level of relief that it deems necessary to get it out

1 of those dire financial consequences. Whether or not  
2 the Commission -- the Commission in this stipulation  
3 is not doing anything with respect to its ability to  
4 look at the company with respect to any other issues  
5 that may come before it.

6 MR. PATTON: But with regard to rates, is  
7 it not true that during the five-year period the  
8 Commission would agree not to reopen these pricing  
9 agreements even if the rate for a bulk power or bulk  
10 gas plunged.

11 MR. ELGIN: I don't understand your  
12 question.

13 MR. PATTON: As you put together this  
14 stipulation, did you contemplate that the Commission  
15 would be barred from reopening this proceeding during  
16 the five-year period itself under its own initiative?

17 MR. DAVIS: I understand your question, I  
18 think. Let me take a crack at it. You just said if  
19 bulk power or gas costs plunged. If bulk gas costs  
20 plunged it's contemplated that will be passed through  
21 in the normal manner, through the PGA mechanism. That  
22 is not affected by the stipulation, so the answer is  
23 no to your question on gas, clearly. On electric a  
24 five-year period is contemplated for the company to be  
25 able to manage its costs and revenues. Some years may

1 look not very good and some may look good, but we had  
2 a five-year period contemplated in the plan. The  
3 Commission, however, did not, as I understand it, in  
4 any way affect its ability to execute show cause  
5 proceedings or otherwise ask the applicant to come in  
6 as it deemed appropriate.

7           MR. PATTON: And the last question I have  
8 related to antitrust, and the question is really for  
9 the attorneys for the public and the Commission, did  
10 you consult with the AG's office on antitrust issues  
11 involving what was required in the stipulation?

12           MR. CEDARBAUM: Your Honor, there have been  
13 discussions throughout this proceeding with respect to  
14 the competitive impacts, but this Commission doesn't  
15 enforce the antitrust laws and so questions  
16 specifically on antitrust laws were not discussed.

17           MR. PATTON: Is it your opinion that the  
18 stipulation gives the new company any exemption from  
19 the antitrust laws?

20           MR. MANIFOLD: During the early phases of  
21 this case I consulted with the antitrust section of  
22 our office. I did not consult with them during the  
23 settlement portion of this, but they are certainly  
24 aware of this merger, proposed merger. The consumer  
25 protection laws of our state under which the antitrust

1 laws of this state are enforced provides a specific  
2 exemption for companies that are regulated by the  
3 utilities Commission in RCW 19.84.170, if memory  
4 serves.

5 I would further add that the stipulation  
6 expressly says that if the Commission decides to  
7 approve the merger these are the terms under which we  
8 believe it is in the public interest to approve the  
9 merger.

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

12 JUDGE SCHAEER: Mr. Freedman, do you have  
13 questions.

14 MR. FREEDMAN: I have just a few questions,  
15 Your Honor. At the bottom of page 14 and the top of  
16 page 15 under the heading reporting requirements the  
17 stipulation provides that during calendar year 1997  
18 the joint applicants will work together with the staff  
19 to develop certain reports, certain reporting  
20 requirements including reports regarding annual market  
21 concentration studies and reporting on joint utility  
22 services such as unity design and trenching. Do you  
23 have a concept at this point of how the process by  
24 which these reports would be developed?

25 MR. ELGIN: No.

1           MR. FREEDMAN:  Would it be a process that  
2 would involve any of the participants, other  
3 participants, in this case or members of the public?

4           MR. ELGIN:  Yes.  I contemplate that it  
5 would, particularly Commission staff, the Commission  
6 staff and the company, and then once these reports  
7 were filed if there were any other processes that  
8 might be necessary to bring issues before the  
9 Commission there would be proceedings or ways to have  
10 input from other interested parties to comment on  
11 those, but as of now basically how that would all work  
12 out I don't have any ideas yet.

13           MR. FREEDMAN:  Before the reporting format  
14 was adopted, would there be a public hearing?

15           MR. ELGIN:  I don't believe so.

16           MR. FREEDMAN:  Would the proposed reporting  
17 format be presented to the Commission for its  
18 approval?

19           MR. ELGIN:  Again, I don't believe so.  The  
20 purpose, if I can explain what the purpose of this  
21 part of the stipulation was, was to, if you will, to  
22 address the issues raised by staff and the information  
23 that staff felt necessary to monitor issues related to  
24 market concentration, marketing efforts, the company's  
25 efforts with respect to joint utility services and



1 reports on allocation of merger savings and those kind  
2 of things that we -- that the staff recommended in its  
3 direct case that would be necessary kind of reports,  
4 but as to what we had in mind as to the exact process  
5 of how that information would be filed with the  
6 Commission and then actually reported to the  
7 Commission we haven't got that far yet.

8 MR. FREEDMAN: The stipulation provides  
9 that the report format would be developed during  
10 calendar 1997. I take it that that means that the  
11 first report would be filed or the first reports would  
12 be filed for 1997.

13 MR. ELGIN: That's correct.

14 MR. FREEDMAN: Over what period would the  
15 reports be required thereof?

16 MR. ELGIN: For each subsequent calendar  
17 year that the merged utilities would be in operation.

18 MR. FREEDMAN: So the reporting period  
19 would be indefinite and it wouldn't just be the rate  
20 plan period.

21 MR. ELGIN: Yes.

22 MR. FREEDMAN: I have no further questions,  
23 Your Honor.

24 JUDGE SCHAEER: Mr. Merkel, did you have  
25 questions?

1           MR. MERKEL: Yeah, just a few, just a  
2 couple. Page -- starting on page 3, while on page 3  
3 and I guess going over to page 4, you state in the  
4 stipulation that its terms are consistent with the  
5 public interest and meet the requirement of applicable  
6 Washington statutes. I'm interested in understanding  
7 the test that you're applying there to determine  
8 consistency. Does this apply a no harm standard or  
9 are you trying to say that there are affirmative  
10 benefits from this merger and that that makes it in  
11 the public interest?

12           MR. ELGIN: If I would answer, the latter,  
13 but in my mind it's not a black and white issue, that  
14 we feel that there's substantial benefits with both  
15 shareholders and ratepayers as a result of this and so  
16 it's in that vein would be my answer.

17           MR. MERKEL: But then it is not correct  
18 that we should imply a no harm standard from what you  
19 have instead in the stipulation. It is not correct  
20 that we should imply that the staff and the public  
21 counsel is adopting a no harm standard?

22           MR. ELGIN: Well, I guess I answered that  
23 question by saying that we feel that there's  
24 substantial benefits to shareholders and ratepayers  
25 as a result of this stipulation and therefore we find

1 that it's consistent with the public interest is what  
2 we're saying. That's the standard we're applying.

3 MR. MERKEL: Are the conditions stated in  
4 section 3 a comprehensive statement of staff and  
5 public counsel recommendations and conditions or do  
6 you reserve the right to advocate in your briefs  
7 additional conditions be adopted?

8 MR. ELGIN: What we're saying is for  
9 purposes of a rate plan and service quality that this  
10 stipulation is what we're recommending to the  
11 Commission to accept. We have not developed -- take  
12 that back. We have positions on other parties'  
13 proposals, but those are reserved for the briefing  
14 process which is what the stipulation contemplates.

15 MR. MERKEL: Maybe my question was  
16 confusing. I don't think the stipulation covers  
17 everything that was offered in the testimony of staff  
18 and public counsel, and as to issues on which there's  
19 testimony and recommendations but are not covered by  
20 the stipulation, have you dropped those? Are you  
21 reserving the right to continue to advocate things not  
22 covered by the stipulation that you advocated in the  
23 case?

24 MR. ELGIN: The way I view this as for with  
25 respect to the staff and public counsel and joint

1 applicants we have resolved all the outstanding issues  
2 that we have with respect to the merger.

3 MR. MERKEL: So I take it the answer is it  
4 is comprehensive?

5 MR. ELGIN: Yes.

6 MR. MERKEL: And you do not reserve the  
7 right to advocate any additional --

8 MR. ELGIN: No. We do not plan -- in our  
9 briefs, as I already said, we plan to respond in our  
10 briefs to other issues raised by parties but we don't  
11 plan to raise any other issues.

12 MR. MERKEL: I notice that one of the  
13 regulatory initiatives that the company -- there is  
14 enumerated among the regulatory initiatives that the  
15 company will be pursuing is to file a retail wheeling  
16 pilot pursuant to the schedule 48 order. If I might  
17 direct this question at public counsel. Is it correct  
18 that public counsel now takes no position on the size  
19 of that pilot, and what is the status of the  
20 recommendation by your witness Mr. Sturzinger who  
21 advocated the 250 megawatt pilot?

22 MR. MANIFOLD: For the purposes of this  
23 settlement we do not plan on providing any additional  
24 briefing or argument or recommendations on the pilot  
25 program in the context of this proceeding.

1                   MR. MERKEL: Does that mean that you are  
2 dropping Mr. Sturzinger's recommendation? You're not  
3 advocating that any more?

4                   MR. MANIFOLD: For the purposes of this  
5 proceeding, yes.

6                   MR. MERKEL: Can you tell me what this  
7 proposal does to advance the transition to retail  
8 competition? Anybody?

9                   MR. ELGIN: Well, I think in my mind it  
10 does two things. It establishes some certainty with  
11 respect to at least what the rates will be during a  
12 transition period for Puget Sound's electric  
13 customers, and then in my mind leaves the exact nature  
14 of that and what the company has identified as one of  
15 the benefits of this merger and that's the ability to  
16 provide energy service to its customers the  
17 opportunity now to participate in that collaborative  
18 knowing what it would look like and the rates that it  
19 would offer those kinds of services in transition  
20 period to its customers before retail open access  
21 fully was consummated. So it establishes a joint  
22 utility that will provide distribution services to its  
23 customers and it will now begin with the process of  
24 further unbundling the electric operations, so in my  
25 mind that's one of the benefits.

1                   MR. MERKEL:  Would it be a correct  
2  characterization of what you have just said that it  
3  improves the company's competitive position?

4                   MR. ELGIN:  No, I didn't say that.

5                   MR. MERKEL:  Well, what does it do to  
6  advance -- you've identified a couple of things that  
7  it does to help put the company in a position to then  
8  go forward with the process of unbundling.  Does it  
9  provide, for example, any benefits to consumers  
10 comparable to what industrial customers get under  
11 schedule 48?

12                  MR. ELGIN:  This proposal?

13                  MR. MERKEL:  Yes.

14                  MR. ELGIN:  No, it does not.

15                  MR. MERKEL:  Well, other than put the  
16 company in a better position to compete and to go  
17 ahead with this process, is there anything else?  Any  
18 other benefits in the nature of advancing retail  
19 competition?

20                  MR. ELGIN:  Well, I think it establishes  
21 rate and revenues for the company where it knows for  
22 certainty what it will have during the rate stability  
23 period and it will be in a position to manage its  
24 costs and transition itself during, in my mind, during  
25 the rate plan period.

1 MR. MERKEL: I have no further questions.

2 JUDGE SCHAEER: Thank you. Mr. MacIver, did  
3 you have questions for this witness?

4 MR. MACIVER: No questions, Your Honor.

5 JUDGE SCHAEER: Mr. Finklea.

6 MR. FINKLEA: Yes, Your Honor, just a  
7 couple of questions. On page 5 of the stipulation the  
8 natural gas rate decrease is discussed.

9 MR. ELGIN: I have that.

10 MR. FINKLEA: This is just a matter of  
11 clarification, the stipulation provides for one  
12 percent decrease in gas margins. Is that intended to  
13 be for all schedules, in all blocks of all schedules?

14 MR. ELGIN: Yes.

15 MR. FINKLEA: On page 9 there's a  
16 discussion of the amortization of the known  
17 environmental costs. Am I correct that that's an  
18 amortization for accounting purposes but this is not a  
19 proposed surcharge?

20 MR. ELGIN: No, no. Basically this is how  
21 the company would record those expenses on its books  
22 and account for them.

23 MR. FINKLEA: So it would only become -- at  
24 least during the rate plan period it would only become  
25 relevant if the company was seeking an interim rate

1 increase?

2 MR. ELGIN: Yes.

3 MR. FINKLEA: Is that also the case on page  
4 14 with regard to the amortization of the transaction  
5 and transition costs?

6 MR. ELGIN: Yes.

7 MR. FINKLEA: Those are all my questions.

8 JUDGE SCHAEER: Thank you. Mr. Frederickson.

9 MR. FREDERICKSON: No questions, Your  
10 Honor.

11 JUDGE SCHAEER: Ms. Malanca.

12 MS. MALANCA: This would be to Mr. Elgin.  
13 On page 5 there's a reference to a gas margin increase  
14 of one percent, which I'm sorry, is a decrease for  
15 gas?

16 MR. ELGIN: Yes.

17 MS. MALANCA: Now, does that mean that gas  
18 costs could go -- the rates could go below one  
19 percent?

20 MR. ELGIN: Yes. Gas costs are split --  
21 the other half of the coin, if you will, in the  
22 distribution business. Gas costs could either go up  
23 or down. The Commission's PGA procedures, this  
24 stipulation contemplates that those would remain in  
25 effect as they currently are, and so whatever they are



1 they are and the company makes annual filings to  
2 reflect what it expects its costs of gas will be for  
3 the perspective period and then reconciles what they  
4 thought they would be with what they actually were.

5 MR. MANIFOLD: If I could add to that, that  
6 in terms of the PGA I think what we anticipate is that  
7 the PGA would continue as it is now or as the  
8 Commission chooses to change it in any other  
9 proceedings, and we did not intend by this stipulation  
10 to lock in the existing PGA for this company but  
11 rather to incorporate whatever the PGA is now or may  
12 hereafter be pursuant to Commission direction.

13 MS. MALANCA: So at least I misunderstood  
14 the initial position, gas may change more than the one  
15 percent.

16 MR. ELGIN: Right. That's correct.

17 MS. MALANCA: And it's sensitive to costs.

18 MR. ELGIN: It's highly sensitive to gas  
19 costs.

20 MS. MALANCA: Electric is not sensitive to  
21 costs. The electric increases; is that correct?

22 MR. ELGIN: It's --

23 MS. MALANCA: The electric rate increases  
24 are not sensitive to costs?

25 MR. ELGIN: Yes, they are.

1 MS. MALANCA: Could you explain that to me?

2 MR. ELGIN: Yes. If you would turn to page

3 --

4 MR. MANIFOLD: Maybe I can leap in for a  
5 moment. The electric increases are based upon  
6 increases in costs that are ascertained and set at  
7 this time but they're not subject to changes in costs  
8 in the future.

9 MS. MALANCA: Regardless of the costs  
10 lessening or increases it's set at the percentage that  
11 we've seen in the charts.

12 MR. MANIFOLD: Whether the actual costs  
13 increase more than this or decrease it is set at this  
14 amount.

15 MS. MALANCA: And then that leads me to the  
16 cost allocation that I believe it's toward the end of  
17 this. There is a method of cost allocation between  
18 the electric and gas operations on page 14. There's a  
19 four factor allocation. I don't seem to have that  
20 exhibit attached to this stipulation T-21, and  
21 primarily my question is for the record and whether or  
22 not you want to answer it or not today is of course up  
23 to you. Is that four factor allocation focused upon  
24 and adequate to address antitrust issues? The  
25 cross-subsidization is what I'm interested in in

1 particular.

2 MR. ELGIN: I can't answer it with respect  
3 to antitrust issues.

4 MR. MANIFOLD: To the extent -- that may be  
5 a little broad for any of us to answer, but the intent  
6 of the four factor allocation was to assure within the  
7 bounds that one can be assured in any cost study that  
8 the costs of gas utility are paid by gas customers and  
9 the cost of electric utility are paid by electric  
10 customers so that there would be no  
11 cross-subsidization, that being an antitrust  
12 principle.

13 MS. MALANCA: And we're of course  
14 interested in that and could you give me just a brief  
15 run down of what those four factors are.

16 MR. MANIFOLD: Yes. Mr. Davis would be  
17 happy to do that.

18 MR. DAVIS: Thank you, Your Honor.  
19 Actually I cannot do that without that exhibit in  
20 front of me, Exhibit 21. We went through that in this  
21 proceeding and had considerable review by staff and  
22 the company over this topic. That I can assure you.

23 JUDGE SCHAEER: Let the record reflect that  
24 the witness has been handed a copy of the document.

25 MR. MANIFOLD: Perhaps a portion of the

1 answer, while Mr. Davis looks up the factors, is that  
2 the factors are intended to be utilized for those  
3 costs which are common or joint between the two in  
4 provision of utility service. To the extent that  
5 costs are directly incurred for providing gas service  
6 those would flow directly to gas. To the extent that  
7 they're directly incurred for providing electric  
8 service those would flow directly to electric. My  
9 understanding is that the purpose of the allocation is  
10 to capture what do you do with Mr. Davis's salary or  
11 the president's desk? How much of that goes to one or  
12 the other, and that's what the allocations are for.

13 MS. MALANCA: And this last comment won't  
14 require response, but the concern could be the impact  
15 of that when you have a set rate increasing electric,  
16 your cost sensitive to gas and you have an allocation  
17 that doesn't adjust with that five-year period of rate  
18 adjustment.

19 MR. DAVIS: Could I respond to that? Yes,  
20 those costs that are subject to allocation are not  
21 sensitive as to price. That is, that both for  
22 electric and gas those costs will not go up. In other  
23 words, the general rates for gas are going down. The  
24 general rates for electric are set and are predictable  
25 and it is those costs we're allocating. Resource

1 costs are not subject to that formula. They are  
2 specific to gas or specific to electric.

3 MS. MALANCA: My point is that that could  
4 create some problems because you've got one set of  
5 rates going up and the allocation not reflective of  
6 that as far as the advantage there could be to the  
7 gas.

8 MR. DAVIS: It's by design not affected,  
9 the question you're raising. If you look at the  
10 allocation factors you will see that they are not  
11 impacted by the issue you raise. It is simply not  
12 affected.

13 MS. MALANCA: I think we can just review  
14 that. Our view is different on that.

15 MR. MANIFOLD: In terms of process what we  
16 anticipated was that that's why people would be able  
17 to submit a brief after we had been able to explain  
18 what we could explain today.

19 MR. DAVIS: I guess I would add for  
20 clarification, we have a process in here that provides  
21 that just like another combination company in the  
22 state has a self-correcting process, if for some  
23 reason these allocators are found to produce results  
24 different than what would have been expected stand  
25 alone the allocators will be adjusted and that is a

1 constant oversight process of this Commission and its  
2 staff.

3 MS. MALANCA: I have no further questions.

4 JUDGE SCHAEER: Mr. Ellsworth, did you have  
5 questions?

6 MR. ELLSWORTH: Yes, I do. Thank you. Mr.  
7 Elgin, could you turn to page 15, paragraph 7, the  
8 vegetation management section. Is it correct that  
9 under this part of the stipulation that public counsel  
10 and staff intend to monitor the company's vegetation  
11 program in some way?

12 MR. ELGIN: Yes.

13 JUDGE SCHAEER: Mr. Ellsworth, I'm getting a  
14 signal that you can't be heard in the back room.

15 MR. ELLSWORTH: Is that better?

16 JUDGE SCHAEER: Thank you.

17 MR. ELLSWORTH: Have staff and public  
18 counsel intended to monitor the vegetation program in  
19 some way?

20 MR. ELGIN: Monitor, yes, in a broad sense.

21 MR. ELLSWORTH: Does the company under the  
22 stipulation have any obligation to have any written  
23 guidelines or any kind of documentation as to how the  
24 management of vegetation will take place?

25 MR. ELGIN: Not that I am aware of.

1           MR. ELLSWORTH: Well, how do you intend to  
2 monitor the company's obligations under this section  
3 of the stipulation?

4           MR. ELGIN: Well, the primary tool we have  
5 now is look at levels of expenditure, and I would  
6 anticipate that if there would be a changed level of  
7 expenditure and what we would look at is if it was a  
8 material decrease what would the program be and what  
9 was the company contemplating with respect to that new  
10 program, and, as you well know, that one of the  
11 benefits of the merger is best practices and they may  
12 find some way, better way, to manage its tree trimming  
13 in a more cost-effective way, and to the extent that  
14 they would identify that I would anticipate that they  
15 would report that to staff and public counsel and this  
16 is what this paragraph on page 15 contemplates.

17           MR. ELLSWORTH: Is there any obligation to  
18 report any changes in the way the program is being  
19 conducted to either staff or public counsel?

20           MR. ELGIN: I'm not sure I know what you  
21 mean by conducted.

22           MR. ELLSWORTH: Simply if -- let me  
23 rephrase that a little bit perhaps. Are you making an  
24 assumption that a level of expenditure necessarily  
25 equates with an effective and safe program?

1 MR. ELGIN: No.

2 MR. ELLSWORTH: How do you monitor the  
3 effectiveness and whether the program is being  
4 operated in a safe way?

5 MR. ELGIN: This one is beyond my  
6 expertise.

7 MR. DAVIS: This clause was not a  
8 monitoring clause. This was a clause to insure that  
9 an adequate vegetation management program continues.  
10 There is a difference between what you're asking and  
11 the inference of monitoring, and what this clause was  
12 intended to provide.

13 MR. ELLSWORTH: The stipulation uses the  
14 word "substantively reduce." That implies to me that  
15 there is some level that's capable of being measured  
16 to know if there's a reduction. That's what I was  
17 curious as to how you were going to establish that  
18 there's been a substantive reduction in the program in  
19 some way.

20 MR. DAVIS: It is to provide for both  
21 flexibility on the part of the company that it is not  
22 required to continue the program as you know it or may  
23 know it. It may completely restructure that program  
24 so that it doesn't look like it does today. The issue  
25 is to insure that there is an effective vegetation



1 management program, not to continue or maintain the  
2 program that's in place.

3 MR. ELLSWORTH: Could you explain what the  
4 phrase "substantively reduce the level of reliability  
5 achieved" means in the context of the stipulation?

6 MR. DAVIS: That we won't materially reduce  
7 reliability as a result of changing vegetation  
8 management practices.

9 MR. ELLSWORTH: How do you measure that  
10 reliability whether it's being reduced?

11 MR. DAVIS: We have another proceeding  
12 we're going to go on with SAIDI and SAIFI in another  
13 part of this and that proceeding about reliability and  
14 measurement of reliability is one we intend to have  
15 and continue to have.

16 MR. ELLSWORTH: So you anticipate that  
17 SAIDI and SAIFI have some connection to the vegetation  
18 management program?

19 MR. DAVIS: They have some connection to  
20 it.

21 MR. ELLSWORTH: And does the company have  
22 any intention of developing any sort of written  
23 guidelines as to how they will implement a management  
24 or a vegetation management program?

25 MR. DAVIS: I believe, as you are aware,

1 the company has its current vegetation management  
2 program in the record. I think we've also made it  
3 clear that we intend to change that program. We  
4 intend to find more cost-effective ways to run our  
5 company so we do intend to change it, so we just can't  
6 tell you what the answer is going to be but the goal  
7 will be to get more for less.

8 MR. ELLSWORTH: So cost will be the impetus  
9 for any change?

10 MR. DAVIS: I think I just said the goal  
11 will be to get more for less.

12 MR. ELLSWORTH: If you could turn to  
13 Exhibit C, Mr. Elgin. Excuse me. Before we go there  
14 I had a question on page 13, line 10. There's a  
15 reference there to litigation petition relating to  
16 unusual or exceptional circumstances. Are there any  
17 examples as to what those might be in our discussions?

18 MR. ELGIN: Yes. They are quite prevalent  
19 in the Commission's transportation dockets where  
20 companies are assessed a penalty and then the person  
21 providing service has an opportunity to mitigate the  
22 penalty, so basically what the stipulation  
23 contemplates is a, if you will, a fairly mathematical  
24 application of the service quality index and then  
25 there would be a penalty assessed and then the company

1 has a certain amount of time to file with the  
2 Commission a petition asking and providing whatever  
3 evidence it feels necessary to ask the Commission for  
4 mitigation of that penalty.

5 MR. ELLSWORTH: So it's basically for  
6 things that occurred that were beyond its control that  
7 it couldn't reasonably foresee that that would act as  
8 a reduction on the penalty.

9 MR. ELGIN: It's not only that but it's my  
10 understanding that it's broader than that. It's  
11 things that not necessarily that were just beyond its  
12 control but things that could very well be inherent in  
13 the data that you're measuring or anything that may  
14 cause an aberration in the data, or it could be  
15 something that was beyond its control, but it's  
16 designed to provide a broad opportunity for the  
17 company to explain what happened and seek mitigation.

18 MR. MANIFOLD: If I could add to that  
19 slightly. The language was chosen intentionally to  
20 not just focus on events that were beyond the  
21 company's control but the ability to respond to  
22 events. Raining today is beyond the company's  
23 control. Raining in December is not an unexpected  
24 event, for instance.

25 MR. ELLSWORTH: On the service quality

1 index on Exhibit C Barbara Alexander in her direct  
2 testimony proposed as one of the criteria an employee  
3 accident lost time criteria which staff adopted in  
4 their direct case. Would you tell me why that's been  
5 deleted at this point?

6 MR. ELGIN: Our rationale was that we  
7 wanted to have ten indices, and our goal was to have  
8 reliable customer service. And that was one -- in the  
9 process of negotiation that we got ten that were  
10 workable and doable that was one that we chose to  
11 remove as part of the process. We felt that still the  
12 overall objectives of having service indexes that  
13 would fairly and accurately measure reliable service  
14 are still there and that's the objective and we feel  
15 that the objective is still achieved even though lost  
16 time accidents is not part of the measure.

17 MR. ELLSWORTH: You don't believe lost time  
18 accidents have some relation to system reliability?

19 MR. ELGIN: I don't have an opinion on  
20 that. I can't answer that question.

21 MR. ELLSWORTH: I want to make sure that I  
22 understand all the reasons why it was dropped, and so  
23 you wanted to have ten and was there some reason why  
24 it was dropped?

25 MR. ELGIN: I believe I already answered

1 that. We had to have -- we felt ten was a workable  
2 number to measure, and the overall objective was to  
3 have reliable service and these are the ten we chose,  
4 and loss time accidents doesn't make the list, but we  
5 still feel the objectives of having a good index to  
6 measure reliable service is there. That objective is  
7 intact.

8 MR. ELLSWORTH: Mr. Davis, were there any  
9 other reasons that it was dropped that you might care  
10 to add?

11 MR. DAVIS: No, I do not.

12 MR. ELLSWORTH: I have nothing further.

13 JUDGE SCHAEER: Thank you. Mr. Wright.

14 MR. WRIGHT: Mr. Elgin, Mr. Davis,  
15 Jon Wright with Bonneville Power Administration. I  
16 will ask questions about implications for the  
17 residential exchange related to your proposed  
18 stipulation, and a few moments ago when you were  
19 responding to one of the Commission's written  
20 questions you began to talk about how ASC filings, how  
21 it was anticipated that ASC filings would be treated  
22 under the proposal, and I wondered if you could just  
23 go through that again to kind of get me oriented.

24 MR. ELGIN: I would be glad to. Once the  
25 company would make its February 1 filing that would be

1 the change in rates that would then provide the  
2 trigger, if you will, for Bonneville's independent  
3 process to determine ASC, and what we attempted to do  
4 was provide in Exhibit D the specific cost elements  
5 necessary for Bonneville to do its job under its  
6 review process for determining average system cost  
7 along with the cost information contained in Exhibit  
8 240, and so the real difference that you have before  
9 you now is you have a rate plan that contemplates  
10 annual increases in rates.

11           And we've calculated, if you will, the 1.38  
12 percent is the average percentage -- weighted average  
13 increase over the rate plan period for all customers,  
14 and the underlying support for that are these cost  
15 components that you see here in Exhibit D. These are  
16 fuel purchase and interexchange secondary sales,  
17 whatever. These are the deltas in power costs,  
18 changes to power costs over the rate plan period so  
19 that once the February filing came in that would, if  
20 you will, trigger Bonneville's process and Bonneville  
21 would use this data for determining Puget's ASC, so  
22 that's what's contemplated.

23           MR. WRIGHT: This data is based on  
24 forecasting rather than historical test periods or  
25 what --

1 MR. ELGIN: Yes.

2 MR. DAVIS: Well --

3 MR. WRIGHT: I guess I meant, what  
4 underlies these numbers? Do I go to Exhibit 240 for  
5 that?

6 MR. DAVIS: Yes, you do. There's two  
7 pieces to this. One, this is in part an increase due  
8 to a rate plan so it does have some, if you will,  
9 forecasting but "some" is the right word. It starts  
10 off a traditional cost of service study, much as  
11 Bonneville is used to using in Puget for every  
12 proceeding. That is Exhibit 240. It then also  
13 includes, which is why Exhibit D was provided, some  
14 information that relates to known and measurable costs  
15 from power contract changes that are going to occur  
16 during the period, have been reviewed in this  
17 proceeding and the PRAM proceeding, and those work  
18 papers supporting that it was contemplated would be  
19 made available to Bonneville so it could do its  
20 process, and so it is largely in part a traditional  
21 cost of service filing and it does, however, include  
22 some elements of a forecast, but with supported work  
23 papers that can be provided to Bonneville.

24 MR. WRIGHT: Did I understand you correctly  
25 to say that this would be in accordance with the

1 record of decision of the 1984 methodology?

2 MR. DAVIS: That's our understanding.

3 MR. ELGIN: That's staff's understanding as  
4 well.

5 MR. WRIGHT: And so that would be -- also  
6 predicate to that would be that this would involve an  
7 application of the 1984 methodology.

8 MR. ELGIN: Yes, in the sense that we've  
9 taken Bonneville for its word that it's not going to  
10 stand in the way of new approaches to ratemaking  
11 because of ASC concerns, and so the parties  
12 specifically tried to anticipate BPA's needs in the  
13 context of providing, as Mr. Davis pointed out, the  
14 cost of service study that would be the foundation for  
15 the rate changes in February 1 and then the, if you  
16 will, the limited forecasted information which is  
17 primarily driven by known changes in power contracts  
18 that provide the basis for the subsequent increases  
19 that would be filed on an annual basis.

20 So, it's, if you will, it's traditional in  
21 the sense that once we start in February 1 filing it's  
22 everything that you've always seen. The stretch for  
23 Bonneville now is in the subsequent years when you're  
24 dealing with the changes in power costs and the  
25 subsequent increases that the rate plan contemplates,



1 and in my mind it's no different than the stretch  
2 Bonneville made when it contemplated the processes  
3 that are used, currently in place under the PRAM in  
4 the sense that they're not in the traditional sense of  
5 what's explicitly -- the 1984 record of decision sets  
6 out.

7 MR. WRIGHT: This situation is the same as  
8 the PRAM.

9 MR. ELGIN: No, it's different. It's the  
10 same in the sense that it's a stretch for Bonneville  
11 in applying a new methodology for how the '84 record  
12 of decision would be used to calculate ASC, but it's  
13 still relying on traditional cost information as the  
14 starting point for the 1997 rate filing.

15 MR. WRIGHT: The traditional cost  
16 information will be available for the initial rate  
17 change; is that correct?

18 MR. DAVIS: When we make the initial rate  
19 change we will provide the cost information for all  
20 the rate changes. There will only be one average  
21 system cost methodology determination needed because  
22 the material we would provide for the five-year period  
23 will all be provided on the first filing with this  
24 Commission. When we do the compliance filing that's  
25 contemplated herein on February 1 all the material to

1 support the rate plan will be provided at that time.

2           The difference here, if I could help you  
3 for just one more moment, is that we are supporting a  
4 rate change in a plan. It is predetermined. It's  
5 much like if you did a single rate change in year one  
6 and then just decided, no, we're going to spread it  
7 over five years instead of doing it all in one year,  
8 so the other four changes are, in our understanding,  
9 compliance filings. That is, we would file the  
10 tariffs and if there were any administrative  
11 procedures to be held like penalties due to the  
12 service quality index we would do those, but otherwise  
13 they are just compliance filings with a prior order,  
14 which is what would come out of this proceeding, so  
15 for Bonneville's purposes what we had in mind was on  
16 that first trigger, February 1 of '96, we would  
17 provide Bonneville with the information it needed in  
18 terms of cost data for the whole rate plan.

19           MR. WRIGHT: And BPA would determine the  
20 ASC benefits for the entire rate plan in that first  
21 filing? Is that what you're saying?

22           MR. DAVIS: You do not need to do that in  
23 order to understand what I said. I said we would  
24 provide you with the support for that in the first  
25 time. Whether you did that or did not do that would

1 be a procedural issue for Bonneville. We would  
2 provide you that support, though, in the first filing.  
3 That's a decision totally up to Bonneville to decide  
4 whether to do that once or each time, but you will  
5 have all the information when we make the February 1  
6 filing.

7 MR. WRIGHT: We will have all the  
8 information necessary to comply with the 1984  
9 methodology. Is that what you're saying?

10 MR. DAVIS: To support these rates and in  
11 our mind to meet the full intent of the '84  
12 methodology, absolutely.

13 MR. WRIGHT: If we go back to the so-called  
14 jurisdictional approach for a moment, which is the  
15 connection between what Bonneville -- what data  
16 Bonneville typically uses for an ASC filing and what  
17 normally comes out of a traditional cost of service  
18 rate hearing, you mentioned the '84 methodology as  
19 embracing that approach. Isn't it true that the '84  
20 methodology actually retained that approach from the  
21 '81 methodology?

22 MR. ELGIN: I don't know. If you say it  
23 does I will accept that.

24 MR. WRIGHT: If it did, if it does  
25 retain the approach from the earlier methodology,

1 wouldn't it be true that the underlying rationale for  
2 the approach would be the same in the '84 methodology  
3 as it was in the '81 methodology?

4           MR. ELGIN: Yes. The underlying approach  
5 is that Bonneville takes jurisdictional cost data,  
6 which we're committed to providing and we contemplated  
7 giving you that data. Like I said, this section of  
8 the stipulation is specifically crafted to meet what  
9 we thought would meet your needs in the context of a  
10 rate plan, and so, yes --

11           MR. WRIGHT: That's what we're trying to  
12 determine.

13           MR. ELGIN: Well, if I could finish my  
14 answer, sir. What we're trying to say is that the '84  
15 methodology contemplates a calculation of average  
16 system costs based on test period, and what we have is  
17 provided for you in Exhibit 240 the underlying cost  
18 data that gives everything Bonneville needs for its  
19 initial ASC determination. What Mr. Davis suggested  
20 is that the other data that we're providing would give  
21 you the information you would need should Bonneville  
22 choose to do so to calculate a new ASC every time  
23 Puget Sound Energy made an electric tariff filing to  
24 change its jurisdictional rates, and the basis for  
25 that change is the information that we provide on

1 Exhibit D.

2                   And so the foundation that you have is the  
3 Exhibit 240 which is the test period jurisdictional  
4 cost of service. That's your starting point, which is  
5 consistent with the '84 record of decision and then  
6 here are the changes. Here are the deltas that  
7 provide the basis for the subsequent rate increases in  
8 the rate plan period. And should you so choose to  
9 calculate a new ASC when the rate filing came in you  
10 can do that because you will have the data. You will  
11 have the foundation for which ASC can be determined.

12                   MR. WRIGHT: Well, I think that is the  
13 question. Leaving aside the initial rate change, I  
14 think one of the fundamental questions that we're  
15 struggling with, and you should know that we have been  
16 giving this proposal careful consideration and have  
17 attempted to contact people with the public counsel  
18 and with the joint applicants with sufficient  
19 expertise in the technical aspects of the exchange  
20 program who might be able to talk with our technical  
21 people and help us determine whether that data is  
22 sufficient in those subsequent years when the rate  
23 increases are not based on a traditional rate hearing  
24 before the Commission.

25                   MR. ELGIN: That's precisely what

1 Bonneville and Puget did when the PRAM was instituted.  
2 It's something that Bonneville's exchange branch and  
3 the part of Puget's rate department they engage in  
4 those kinds of discussions to make sure that  
5 Bonneville had the appropriate kind of data. Again, I  
6 want to emphasize that we understand the issues for  
7 BPA as a part of the exchanges and we try to  
8 anticipate that and provide or at least be up front  
9 with you and tell you or tell BPA that we will give  
10 you what it is you need to do ASC calculations and we  
11 think we have -- we have attempted to do that in this  
12 but if there's further discussion between Bonneville's  
13 exchanges branch and Puget's rate department to do  
14 that my understanding is Puget's committed to work  
15 that out, and in my mind it's no different than the  
16 agreements and the work that was done to implement the  
17 PRAM and still make it consistent with the '84 record  
18 of decision for ASC purposes.

19           MR. WRIGHT: Well, if I had the technical  
20 expertise to tell you one way or another whether  
21 you're correct I probably wouldn't have gone to law  
22 school but would have entered a more lucrative field.  
23 I think the point that I am trying to make is that  
24 it's our technical people that need to sit down and  
25 discuss this with someone who has sufficient technical

1 expertise in the exchange, and I think it would be  
2 inappropriate to bog this proceeding down in those  
3 kinds of discussions, but Bonneville has made numerous  
4 attempts during the past week to set up meaningful  
5 dialogues and we have as yet been unsuccessful in  
6 locating someone who is willing to admit that they  
7 have sufficient technical expertise in the exchange.  
8 I don't blame people for being reluctant to admit to  
9 such an arcane knowledge, but this is where I think  
10 the conversations need to take place at that level.

11 JUDGE SCHAEER: Mr. Davis or Mr. Van  
12 Nostrand, can you promise Mr. Wright that you will  
13 find such a person and make him available to --

14 MR. VAN NOSTRAND: We've had quite a few  
15 conference calls already the last few days. I think  
16 those exchanges are occurring.

17 MR. WRIGHT: I would only add that I was a  
18 participant in one of the main conference calls that  
19 took place and the answer that we received to our  
20 questions was consistently "I don't know. You need to  
21 talk to Jamie."

22 JUDGE SCHAEER: Well, I would expect that  
23 Mr. Van Nostrand went to law school for reasons  
24 similar to yours or mine but -- and it sounds to me  
25 like something that probably needs to be worked out

1 outside of the hearing room. Is there something that  
2 you need here today, Mr. Wright?

3 MR. WRIGHT: I had a couple more general  
4 questions, I guess, but I don't want to hold things up  
5 with a lot of technical considerations. I did want to  
6 ask Mr. Davis if there are any other agreements or  
7 stipulations with other parties regarding the exchange  
8 and how it will be treated during the rate period with  
9 any other parties or intervenors.

10 MR. DAVIS: Regarding how the exchange will  
11 be treated?

12 MR. WRIGHT: Or how the ASC will be  
13 calculated or having any relevance to the exchange.

14 MR. DAVIS: I don't believe so, but I think  
15 counsel has one administrative one to enter into the  
16 record later today so with that exception I would say,  
17 no, not to my knowledge.

18 MR. WRIGHT: No stipulations or agreements  
19 with any of the other intervenors?

20 MR. DAVIS: I didn't say that. I said none  
21 that would effect average system methodology which was  
22 your question not every --

23 MR. WRIGHT: In what way do you mean affect  
24 -- well, how about just any relevance at all to the  
25 exchange program.



1                   MR. DAVIS: I think Mr. Van Nostrand should  
2 go ahead and answer that question.

3                   MR. VAN NOSTRAND: Yes, Your Honor. One of  
4 the things we wanted to do as a housekeeping item,  
5 Shelly Richardson of Public Power Council had asked  
6 that we enter in as an exhibit a document which we  
7 entered into, the joint applicants, with Public Power  
8 Council to address some of their concerns about how we  
9 would be treating some of these average system cost  
10 issues, and those concerns were addressed and Public  
11 Power Council saw no need to be involved further in  
12 this proceeding and Ms. Richardson called me yesterday  
13 and asked that we put that document in as an exhibit.  
14 It really doesn't affect the Commission's action on  
15 the stipulation but it does indicate what joint  
16 applicants represented to Public Power Council to  
17 address their concerns along these lines in this  
18 proceeding, so I would propose to offer that as an  
19 exhibit today.

20                   JUDGE SCHAER: How about right now?

21                   MR. VAN NOSTRAND: Fine.

22                   JUDGE SCHAER: You've handed me a three  
23 page document titled at the top "Agreement" indicating  
24 this is an agreement between the joint applicants and  
25 the Public Power Council, and I have marked this for

1 identification as Exhibit 290.

2 (Marked Exhibit 290.)

3 JUDGE SCHAEER: I think, Mr. Wright, we  
4 should let Mr. Van Nostrand go out of record and  
5 present this.

6 MR. WRIGHT: That's fine.

7 JUDGE SCHAEER: So you can ask any questions  
8 about it on short notice you would be able to do so.

9 MR. VAN NOSTRAND: Do you want this as an  
10 --

11 JUDGE SCHAEER: I have identified this as  
12 Exhibit 290.

13 MR. VAN NOSTRAND: Mr. Davis, do you have  
14 before you what's been marked for identification as  
15 Exhibit 290?

16 MR. DAVIS: I do.

17 MR. VAN NOSTRAND: Do you recognize this as  
18 an agreement entered into between the joint applicants  
19 and Public Power Council regarding the concerns which  
20 Public Power Council had voiced in this proceeding?

21 MR. DAVIS: I do.

22 MR. VAN NOSTRAND: Your Honor, move the  
23 admission of Exhibit 290.

24 JUDGE SCHAEER: Is there any objection?  
25 Hearing none that document is admitted.

1 (Admitted Exhibit 290.)

2 JUDGE SCHAEER: Mr. Wright, did you want to

3 --

4 MR. WRIGHT: Yeah. I guess I would like to  
5 ask a couple of questions about -- I haven't had a  
6 chance to look through it but I would like to ask a  
7 couple of questions about it in general. Do you see  
8 this exhibit as being consistent with the proposal  
9 that's before us today?

10 MR. DAVIS: To the best of my knowledge I  
11 certainly do.

12 MR. WRIGHT: And you're one of the  
13 signatories to the agreement?

14 MR. DAVIS: I am.

15 MR. WRIGHT: Is it then your -- I'm a  
16 little confused because this is being presented as an  
17 exhibit and I am wondering about what's the effect of  
18 that. Do the joint applicants intend to be bound by  
19 this document insofar as the --

20 MR. ELGIN: Well, my understanding is this  
21 exhibit was introduced at the request of the counsel  
22 for Public Power Council and as to explain, at least  
23 to some impact, what her interests were and because  
24 she had this agreement that she saw no further need to  
25 participate in this proceeding, so it was I guess --

1 it was my understanding that's the purpose of it was  
2 to -- is to do precisely that.

3 MR. WRIGHT: I'm assuming that since Ms.  
4 Richardson agreed to withdraw from active  
5 participation in this proceeding as of the date this  
6 was signed, which was the 11th day of September 1996,  
7 that perhaps she had some assumption that that had an  
8 immediate binding effect or she wouldn't have  
9 withdrawn from the proceeding.

10 MR. DAVIS: I don't know where you're going  
11 with your questions, but I think they're procedural in  
12 nature and probably ought to be responded to by  
13 counsel. I don't understand your point. Do you have  
14 a question?

15 MR. WRIGHT: The point is that this has a  
16 lot to do with the residential exchange program and  
17 the calculation of ASC, and it's another matter that I  
18 think that our people at Bonneville will need to  
19 consider in determining whether the data will be  
20 sufficient and how ASC filings will occur under this  
21 stipulation if adopted, and I guess the question I  
22 have, will this agreement apply to ASC filings under  
23 this separate proposal or not?

24 MR. VAN NOSTRAND: If I could respond, Your  
25 Honor. As I indicated to Ms. Richardson, the joint

1 applicants will be bound by this agreement whether it  
2 becomes an exhibit or not and that explains why it has  
3 not been filed before. It's an agreement that gives  
4 Public Power Council assurances as to things that we  
5 will not try to recover through the exchange, and that  
6 includes merger transition and transaction costs and  
7 the costs that are currently excluded from average  
8 system cost. It's very much consistent with the  
9 testimony today regarding this merger application in  
10 and of itself not being a rate filing for purposes of  
11 average system cost and that that won't happen until  
12 we do a subsequent filing in February to where rates  
13 actually change. There really isn't anything  
14 inconsistent between this agreement and the  
15 stipulation. I agree with Mr. Wright there are things  
16 that probably need to be investigated and probably do  
17 not need to be further debated in this hearing room  
18 today.

19                   MR. WRIGHT: If I could ask a couple of  
20 more questions about the language in the stipulation  
21 under consideration here regarding the residential and  
22 small farm energy exchange benefits. Appears on page  
23 7, lines 10 through 20. A distinction is made between  
24 -- one question that we've been trying to nail down,  
25 the stipulation reference to the current levels of

1 exchange benefits and because of the way the company  
2 passes through benefits through the various schedules  
3 and the way we calculate ASC we're not clear on what  
4 time frame that is, what is exactly meant by current  
5 levels, whether that's looking at 1995 levels, 1996  
6 levels. I wondered if anybody could sort of pin that  
7 down for me.

8 MR. ELGIN: It's the current level in  
9 today's schedule 94 tariff.

10 MR. WRIGHT: Have those -- when was the  
11 last time those were revised?

12 MR. ELGIN: At the conclusion of PRAM 5.

13 MR. WRIGHT: Could you give me a date on  
14 that?

15 MR. ELGIN: October 1, 1995. The filing  
16 was made in the end of September.

17 MR. WRIGHT: That's consistent with what we  
18 assumed but we wanted to make sure. And that's sort  
19 of contrasted with the actual level of benefits, and  
20 am I correct in understanding then that the purpose of  
21 this provision, at least one of them, is to make sure  
22 that benefits are held constant throughout -- at a  
23 minimum held constant at 1995 levels throughout the  
24 rate period?

25 MR. ELGIN: No. The benefits aren't held

1 constant. Bonneville's benefits changed to Puget over  
2 the rate plan period, but the effect of the tariff  
3 would be as if the benefits stayed constant. I think  
4 that's where you're making the disconnect. So, for  
5 example, currently embedded in rates is approximately  
6 \$100 million of benefits from Bonneville from the PRAM  
7 5. Once the compliance filing is made with this  
8 tariff, with this stipulation, we expect there will be  
9 a change in benefits and we anticipate that those  
10 would go down, but this stipulation says for purposes  
11 of rates the effect of schedule 94 is as if there's  
12 still \$100 million of benefits, but we know through  
13 the rate plan period that those benefits will decline  
14 over time.

15           We're not saying that Bonneville is on the  
16 hook for \$100 million of exchange benefits. What  
17 we're saying is that Bonneville will provide the  
18 benefits that are provided under the federal statutes,  
19 under the Northwest Power Planning Act, but the rates  
20 that customers realize will be as if those benefits  
21 were at \$100 million today, and Bonneville will make  
22 its independent assessment of what those ASC benefits  
23 are and provide those to Puget.

24           MR. WRIGHT: And so the risk of any  
25 difference between the October 1995 rates and the

1 benefits provided by BPA would be on the joint  
2 applicants?

3 MR. ELGIN: That's correct.

4 MR. WRIGHT: This provision mentions, says  
5 Commission staff, public counsel will support PSE's  
6 efforts to obtain the residential exchange benefits to  
7 which PSE's customers are entitled under the regional  
8 act. The language "entitled under the regional act,"  
9 then, I take it from your previous comment is  
10 referring to Bonneville's application of the '84  
11 methodology in accordance with the regional act. Or  
12 what does that mean?

13 MR. ELGIN: I can tell you what it means  
14 from my perspective. In past occasions, particularly  
15 with the implementation of the PRAM, we met numerous  
16 times with BPA staff to make sure that they had the  
17 data they needed so that they could calculate ASC, and  
18 so we would stand ready to provide whatever assistance  
19 that Bonneville would need. We had numerous meetings  
20 in our offices to make sure that Bonneville was on  
21 board and could do its work, the exchange branch was  
22 able to work through that and get its job done, and we  
23 are saying the same is going to happen here. You are  
24 going to get your cost data and BPA will be able to  
25 calculate an ASC and calculate a level of exchange



1 benefits consistent with the '84 record of decision.  
2 That's what -- when I agreed to this that's what I  
3 meant by this.

4 MR. WRIGHT: Well, I was a little concerned  
5 because when Mr. Lazar testified he made reference to  
6 the apparent intent of the law which he then went on  
7 to explain was quite different from the way Bonneville  
8 had administered the program and interpreted the law,  
9 and my concern is that is this intended as some sort  
10 of thinly veiled legal challenge to BPA's  
11 interpretation of the act?

12 MR. ELGIN: No, it's not. What it is, as I  
13 said before, it's an attempt to be upfront in the  
14 stipulation with your interests in this proceeding and  
15 that is obtaining accurate information to calculate  
16 ASC.

17 JUDGE SCHAEER: Mr. Wright, can you tell me  
18 about how much more you have?

19 MR. WRIGHT: This is it.

20 MR. ELGIN: And so it's not as you have  
21 characterized it, a thinly veiled attempt to undermine  
22 what Bonneville thinks its obligation under the --

23 MR. WRIGHT: I appreciate that. It's just  
24 the prior testimony was what concerned me and I thank  
25 you for your help.

1 JUDGE SCHAER: Ms. Smith, did you have  
2 questions?

3 MS. SMITH: Yes, thank you, Your Honor.  
4 New topic. I guess, Mr. Elgin, since you've been  
5 designated as the lead witness, unless I ask otherwise  
6 you can go ahead and respond.

7 MR. ELGIN: I would be glad to.

8 MS. SMITH: First under the stipulation, do  
9 the parties propose that the company's fixed costs  
10 would be recovered by sales of commodities?

11 MR. ELGIN: Yes.

12 MS. SMITH: Under the stipulation do the  
13 parties envision that any sort of adjustment  
14 proceedings might be held before this Commission  
15 during the term of the rate plan?

16 MR. ELGIN: I'm not sure what you mean by  
17 an adjustment proceeding.

18 MS. SMITH: Well, I wasn't --

19 MR. ELGIN: If you can clarify that for me.

20 MS. SMITH: Certainly. I wasn't trying to  
21 use any term of art. My question is concerning  
22 whether under the rate plan the parties, the  
23 stipulating parties, envision that PSE might come  
24 before this Commission to ask for any sort of  
25 adjustments to its rates.

1           MR. ELGIN: Only in the context of meeting  
2 the standard for interim rate relief.

3           MS. SMITH: Let me direct your attention to  
4 page 10 of the stipulation, paragraph No. 5.

5           MR. ELGIN: I was speaking only in the  
6 limited context of general increases.

7           MS. SMITH: Okay. Let me ask about other  
8 sorts of adjustments other than rate increases, and my  
9 question specifically would be what sorts of  
10 adjustment to rates does this item No. 5 encompass in  
11 the parties' opinion -- stipulating parties' opinion?

12           MR. ELGIN: The piece about modification to  
13 -- the proposed costs, are you referring to line 8 on  
14 page 10?

15           MS. SMITH: I am not referring to any of  
16 the particular items. They're all fairly -- could  
17 encompass any number of things, I think, upon reading  
18 and I just wonder what was in your opinion when you  
19 came up with this list of items starting with issues  
20 related to the determination of PRAM, you continue on  
21 to discuss a demand side management recovery  
22 mechanism. You talk about the retail wheeling pilot.  
23 I was wondering if you within that list of things had  
24 any idea about what sort of specific proceedings might  
25 be occurring before this Commission.

1           MR. ELGIN: Well, obviously there will be a  
2 proceeding related to the item on, appears on line 3,  
3 issues related to the determination of Puget's PRAM.  
4 There will be a proceeding.

5           MS. SMITH: A proceeding?

6           MR. ELGIN: Yes, because you have to  
7 finally unwind that mechanism and so there's issue  
8 related to accrual -- I mean, deferrals, the amount of  
9 benefits related to the conservation tax refund. So  
10 there's a whole host of issues and the treatment of  
11 that.

12           MR. MANIFOLD: May I interrupt? Excuse me.  
13 Perhaps a short answer, if I may attempt to help, is  
14 that this was intended to be consistent with Mr.  
15 Amen's testimony on behalf of joint applicants in  
16 which my understanding is that because given the  
17 nature of the company's proposal and of this  
18 settlement some might conclude that the companies were  
19 never going to be in Olympia before the Commission  
20 again during the next five years there was an attempt  
21 to make explicit that there were a number of other  
22 initiatives that were going on that would -- the  
23 company was basically holding out that they would  
24 continue working on.

25           MS. SMITH: That's helpful. Thank you, Mr.

1 Manifold.

2                   And to either of you or to Mr. Davis, have  
3 you thought about how often those proceedings might  
4 occur?

5                   MR. MANIFOLD: No.

6                   MR. DAVIS: No, we have not. I guess I  
7 just might add that that restructuring of the electric  
8 industry probably contemplates that the recovery of  
9 fixed costs when the industry is done restructuring  
10 would only be accidentally like it is today. If you  
11 restructured the industry like you've done in natural  
12 gas and nothing changed I would be quite surprised, so  
13 at some point during this process I would guess that a  
14 change in the way electric rates are designed will  
15 occur.

16                   MS. SMITH: But you haven't thought about  
17 whether you might be -- the companies might be back  
18 here once a year or twice a year or once in five  
19 years?

20                   MR. DAVIS: No. I only know that we  
21 promised to do our best. That when we file the pilot  
22 application in July 1 of '97 that we will do our best  
23 to support that with a cost-based delivery filing, so  
24 that would be the first time we will put in front of  
25 this Commission the question of cost-based delivery

1 services as opposed to fully bundled sales rates for  
2 electricity, so I can't tell you how many more times  
3 the Commission or the company might address that issue  
4 but that will be the first time.

5 MS. SMITH: Let me direct your attention  
6 now to page 8 of the stipulation. Starting on lines  
7 10 -- excuse me, starting on line 10 continuing  
8 through line 20. In this part of the stipulation the  
9 parties discuss the company's commitment to  
10 conservation and other -- I suppose other public  
11 purposes funding under the comprehensive regional  
12 review. Would that be one of the proceedings you  
13 think might happen during this rate plan? That is to  
14 say, a proceeding to implement the company's  
15 commitment under the regional review.

16 MR. ELGIN: Yes, yes.

17 MS. SMITH: Looking at this same language,  
18 but in particular the sentence that starts on line 16  
19 and ends on line 19, PSE will commit to the funding  
20 levels, et cetera, et cetera. I guess, Mr. Davis, you  
21 might be the most appropriate witness to answer this  
22 question. I would like to know whether these two  
23 caveats in this language pertain only to conservation  
24 funding or to all public purposes funding that the  
25 regional review contemplates.

1           MR. DAVIS: My understanding of it, it is  
2 the broader definition thereof, but we are committed  
3 to the two issues we mentioned as Mr. Sonstelie  
4 testified.

5           MS. SMITH: What two issues?

6           MR. DAVIS: Competitively neutral and  
7 cost-effective. But it is the broader definition of  
8 what does it include. Is it just conservation or is  
9 it other public purposes. The answer is it's the  
10 broader definition.

11           MS. SMITH: So by other public purposes in  
12 my understanding, let me make sure that's yours, too,  
13 that would include low income service in addition to  
14 weatherization and also renewable energy funding; is  
15 that correct? Is that your understanding?

16           MR. DAVIS: It is my understanding, but I  
17 cannot say that without those two qualifiers of  
18 competitively neutral and cost-effective.

19           MS. SMITH: I understand, but I was just  
20 trying to make sure we're talking about the same  
21 public purposes.

22           MR. DAVIS: We are.

23           MS. SMITH: Okay. So underneath this rate  
24 stability proposal, Mr. Davis, is it PSE's position  
25 that it will be in a financial commitment -- excuse me

1 -- in a financial position to commit to a three  
2 percent funding level for all public purposes -- well,  
3 let me end it there. Underneath this proposal the  
4 company with your two caveats will commit to a three  
5 percent funding level.

6 MR. DAVIS: If that were the outcome, yes.

7 MS. SMITH: Even though with regard to  
8 conservation at least the company is going to be  
9 losing fixed costs margin every time you save a  
10 kilowatt hour of energy.

11 MR. DAVIS: You did say with those two  
12 caveats so we talked about competitively neutral and  
13 as long as it is competitively neutral, yes.

14 MS. SMITH: But it's my understanding under  
15 your prior testimony that recovery of your fixed costs  
16 is tied to commodity sales. Was that your testimony?

17 MR. DAVIS: It is.

18 MS. SMITH: Well, let me ask this. By  
19 competitively neutral, what do you mean by  
20 competitively neutral?

21 MR. DAVIS: We mean that the issues among  
22 the region's investor-owned and governmentally-owned  
23 utilities need to be resolved so everyone is in a  
24 level playing field as to support of those regional  
25 commitments.



1 MS. SMITH: So by that term you don't mean  
2 the mechanism under which the company recovers its  
3 fixed costs.

4 MR. DAVIS: We do not. We do mean they  
5 need to be recovered but we do not mean the mechanism,  
6 no, we do not.

7 MS. SMITH: How under this stipulation  
8 would you recover fixed costs for lost margins due to  
9 energy savings?

10 MR. DAVIS: That alternate recovery  
11 mechanism is a filing to be had and not one we  
12 contemplated here.

13 MS. SMITH: So underneath the regulatory  
14 initiatives mentioned on page 10 of the stipulation  
15 the company would envision filing some sort of  
16 proposal for fixed cost recovery.

17 MR. DAVIS: Well, we did envision  
18 proposing alternative DSM recovery mechanism. We  
19 didn't look at the elements of that and I think you're  
20 trying to ask me did you envision one of those  
21 elements lost margins. We didn't discuss it, envision  
22 it or even consider it. Not that it doesn't warrant  
23 it, we just did not do that.

24 MS. SMITH: But you noted it?

25 MR. DAVIS: We noted it.

1           MS. SMITH: Is it the stipulating parties'  
2 collective position that low income programs that the  
3 company would implement must be subject to a  
4 cost-effectiveness test?

5           MR. ELGIN: I don't think we discussed it  
6 in that kind of detail.

7           MS. SMITH: I am curious about the caveat  
8 that's included that I was questioning Mr. Davis about  
9 in line 16 through 19, and I guess my question would  
10 be directed to staff and public counsel. Is it staff  
11 and public counsel's position that funding for public  
12 purposes -- explicitly here I'm talking about low  
13 income programs -- has to be subject to a  
14 cost-effectiveness test? Do they agree --

15           MR. ELGIN: I can speak for staff. From  
16 staff perspective there is an issue of  
17 cost-effectiveness and whether or not the Commission  
18 has even the statutory authority to do anything other  
19 than that so we haven't addressed that issue yet.  
20 It's in my mind still there. So it would have to meet  
21 that test.

22           MS. SMITH: So staff doesn't support, for  
23 example, the energy assistance recommendations from  
24 the regional review low income energy assistance, bill  
25 assistance?

1           MR. ELGIN: I have not talked to staff  
2 about that specific element of the regional review's  
3 recommendation. I don't have a position on that. You  
4 asked -- I understand your question to be what did we  
5 consider in the context of crafting the stipulation  
6 and I am telling you what we considered.

7           MS. SMITH: Well, there's language in here  
8 about what PSE is willing to comment and three parties  
9 have -- four parties have signed off on this language,  
10 and I am wondering if there's a common understanding  
11 of this language or not. So far I know what PSE's  
12 position is and I am hearing that staff may or may not  
13 agree with that. Is that correct?

14          MR. ELGIN: You're hearing that staff say  
15 that for now it needs to be cost-effective. We're  
16 aligned with the company on this issue.

17          MS. SMITH: So bill assistance for low  
18 income people is out the door?

19          MR. DAVIS: No.

20          MS. SMITH: Right, we've got a million  
21 dollars. I apologize.

22          MR. DAVIS: No.

23          MS. SMITH: What do we have?

24          MR. DAVIS: You have the million dollars.  
25 You also have commitments that I think you're aware of

1 that we're working with in collaborative efforts on  
2 whether or not we need changes to legislative actions  
3 or other actions to make that a practical solution and  
4 efforts are going on and we are committed to  
5 participate, and I believe you are aware we are  
6 participating in those collaborative efforts.

7 MS. SMITH: Mr. Manifold, I would have the  
8 same question for public counsel. Does public counsel  
9 believe that low income programs should be subject --  
10 including bill assistance should be subject to a  
11 cost-effectiveness test?

12 MR. MANIFOLD: This provision of the  
13 settlement was not intended to be a statement of  
14 position by public counsel but rather a statement of  
15 the company's commitment.

16 MS. SMITH: Is it an agreement?

17 MR. MANIFOLD: So I am dodging your  
18 question because I don't have any other answer to it.

19 MS. SMITH: Let me ask, can you answer a  
20 question about whether public counsel agrees with the  
21 company's interpretation of the regional review that  
22 all public purpose funding has to be competitively  
23 neutral, for example?

24 MR. MANIFOLD: No, I don't have a comment  
25 on that, and it's not necessarily a matter of

1 agreement or disagreement. This provision was a  
2 statement of the company's commitment and it wasn't  
3 really something for us to agree or disagree with, I  
4 think.

5 MS. SMITH: Do the stipulating parties  
6 contemplate a date by which conservation issues would  
7 be presented to the Commission for resolution as  
8 envisioned in paragraph No. 5 of the stipulation?

9 MR. ELGIN: A specific date?

10 MS. SMITH: Yes.

11 MR. ELGIN: No.

12 MS. SMITH: Did you talk about that at all?

13 MR. ELGIN: No, we did not.

14 MS. SMITH: Does the company have a date by  
15 which it would propose to file with the Commission a  
16 proposal concerning conservation programs?

17 MR. DAVIS: We know one is needed right  
18 away, but we have several other filings going on and  
19 quite a bit of collaborative work both related to the  
20 regional review and otherwise that we thought we would  
21 do the conservation true-up that is related to PRAM,  
22 get that done. That we would then work on alternative  
23 recovery mechanisms, but we need those to be designed  
24 with the regional review and the collaborative,  
25 and we did not have a date in mind when that's all

1 going to be done, just that we don't. We obviously  
2 have to file something but we don't have a date. I'm  
3 sorry.

4 MS. SMITH: No outside date by which you  
5 might file this no later than?

6 MR. DAVIS: It needs to be done this next  
7 calendar year certainly but when, like April or June,  
8 I really don't know.

9 MS. SMITH: Okay. And the collaborative  
10 you're referring to, is that a conservation  
11 collaborative?

12 MR. DAVIS: Yes, it is.

13 MS. SMITH: And who are the members of that  
14 collaborative?

15 MR. DAVIS: Another I don't know. I wish I  
16 could answer that.

17 MS. SMITH: Mr. Elgin, do you know?

18 MR. ELGIN: I don't know.

19 MS. SMITH: Let me represent to you that  
20 stipulating parties are members of that collaborative.  
21 Would you accept that?

22 MR. DAVIS: Yes, that is true.

23 MR. MANIFOLD: Yes.

24 MR. DAVIS: There are a lot of us that are  
25 members of it.

1                   MR. MANIFOLD:  If this is the DSM  
2 collaborative that met on Monday there are quite a  
3 few of us who are members of that.

4                   JUDGE SCHAER:  Ms. Smith, you are now  
5 somewhat over your estimate.  Can you tell me how much  
6 more you have?

7                   MS. SMITH:  Maybe five minutes at the most.

8                   JUDGE SCHAER:  I think that we're going to  
9 break for lunch at this time.  We need to be back at  
10 1:30 for the public hearing in this matter and at the  
11 conclusion of the public hearing we will continue with  
12 your questions and then have questions from the bench.  
13 I would ask the parties to be available during the  
14 public hearing because I don't know how long it's  
15 going to be and we would like to begin this as  
16 expeditiously as possible with the Commission for that  
17 portion of these hearings.

18                   (Recess.)

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1                                   AFTERNOON SESSION

2                                   1:30 p.m.

3                   JUDGE SCHAEER: Let's be on the record. The  
4 hearing will come to order. This hearing was set by a  
5 notice of hearing dated December 11, 1996. Today's  
6 date is December 18, 1996. Before we went on the  
7 record I made an announcement about an error in  
8 Commission fax sheet that was mailed earlier to  
9 interested persons in this case, and announced that  
10 there is a corrected fax sheet on the table at the  
11 back of the room and I would encourage everyone who  
12 does not have a copy of that to obtain one if you  
13 would like to do so.

14                   This is a hearing before the Utilities and  
15 Transportation Commission for the purpose of taking  
16 public testimony on a stipulation between the joint  
17 applicants who are Puget Power and Washington Natural  
18 Gas, the Commission staff and public counsel in docket  
19 No. UE-951270 and docket No. UE-960195 which is the  
20 application by Puget Power and Washington Natural Gas  
21 for authorization to merge. My name is Marjorie R.  
22 Schaer. I'm the administrative law judge assigned to  
23 these proceedings. To my right are the members of the  
24 Commission, Chairman Sharon Nelson.

25                   CHAIRMAN NELSON: Good afternoon.



1 JUDGE SCHAER: Commissioner Dick Hemstad.

2 COMMISSIONER HEMSTAD: Hello.

3 JUDGE SCHAER: And Commissioner Bill

4 Gillis.

5 COMMISSIONER GILLIS: Good afternoon.

6 JUDGE SCHAER: We're in the Commission's  
7 hearing room in Olympia, and first thing I am going to  
8 do is take appearances briefly from the lawyers who  
9 are here so that the member of the public will know  
10 who all the participants are, and I could begin with  
11 the companies.

12 MR. HARRIS: Matthew Harris for Washington  
13 Natural Gas.

14 MR. VAN NOSTRAND: James Van Nostrand for  
15 Puget Sound Power & Light Company.

16 JUDGE SCHAER: For the Commission staff.

17 MR. CEDARBAUM: My name is Robert Cedarbaum  
18 representing the Commission staff.

19 JUDGE SCHAER: And then for public counsel,  
20 Mr. Manifold.

21 MR. MANIFOLD: My name is Rob Manifold.  
22 I'm appearing as public counsel in this matter.

23 JUDGE SCHAER: Did any of the intervenors  
24 wish to make appearances now? Just for the record  
25 there were a number of intervenors involved in this

1 proceeding and they have been involved in an earlier  
2 stage of this hearing today and will be participating  
3 in other stages. Mr. Manifold, do you want to begin  
4 with a summary describing the stipulation?

5 MR. MANIFOLD: Yes. I will just take a  
6 couple of moments to do that. First of all, there are  
7 a number of attorneys representing the other parties  
8 in the room. Since none of them will be asking  
9 questions, I understand, of people who are testifying  
10 I've asked them just to sit in the audience rather  
11 than up at the counsel table.

12 What the stipulation is is an agreement  
13 between three parties, the joint applicants, that is,  
14 Washington Natural Gas and Puget Power, and the staff  
15 of the Utility Commission represented by Mr. Cedarbaum  
16 and myself representing public counsel. The other  
17 parties to the case are not signatories to the  
18 settlement and the settlement does not bind the  
19 Utilities Commission. It is a recommendation by the  
20 three parties who signed it as to how the case could  
21 and should be resolved subject to hearing from members  
22 of the public and subject to hearing from the other  
23 parties in the case.

24 It is anticipated that in addition to  
25 today's hearing the other parties to the case will be

1 able to submit briefs which are due January 3 and the  
2 Commission will then be making its final decision in  
3 mid January. A couple of things about what is in the  
4 stipulation, three principal things. There is a rate  
5 plan. There's a service quality mechanism and then  
6 there are what I would call some other commitments.  
7 The rate plan as to residential customers I would like  
8 to contrast what we wound up with what was originally  
9 proposed so you have a range of what was involved.  
10 The companies originally proposed a one percent per  
11 year increase in residential rates for four years.  
12 They exempted from that calculation any change in the  
13 Bonneville Power Administration residential exchange  
14 credit. The total amount of possible increase  
15 including both of those items was something like 20  
16 percent increase over the five years. The result of  
17 the stipulation is that residential rates will go down  
18 somewhat in February and then will go up at stated  
19 intervals over the next four years by one and a half  
20 percent each of those times for a total over the five  
21 years of an increase of about 2.7 percent.

22           The service quality index is set out in  
23 some detail in the stipulation which is on the table  
24 in the back, and the intent of what that was was that  
25 since there is a set period of five years during which

1 rates will be set as in this agreement, if it is  
2 approved, it is important to make sure that the  
3 company doesn't attempt to meet its expenses by  
4 cutting back on any service quality, and so it has  
5 agreed to a fairly detailed standard of how a service  
6 quality will be measured and what penalties could be  
7 assessed for failure to meet those standards.

8           JUDGE SCHAER: Thank you. Witnesses who  
9 have signed in will be called by Mr. Manifold from the  
10 sign-in sheet. You should know that you will be sworn  
11 in. I will be putting you under oath as you begin and  
12 then you may stand at the podium and make whatever  
13 statement you wish to make to the Commissioners. In  
14 order for us to get every's comment today I would ask  
15 you to limit your remarks to five minutes. So go  
16 ahead and present the public witnesses if you would,  
17 please, Mr. Manifold.

18           MR. MANIFOLD: Yes. Scotty Charnley.  
19 Whereupon,

20                           SCOTTY CHARNLEY,  
21 having been first duly sworn, was called as a witness  
22 herein and was examined and testified as follows:

23

24

25

1 DIRECT EXAMINATION

2 BY MR. MANIFOLD:

3 Q. I will start off with the withering  
4 cross-examination, if you could state your name  
5 spelling your first first and last.

6 A. Everybody calls me Scotty and the last name  
7 is Charnley, C H A R N L E Y.

8 Q. Your address?

9 A. 901 North 7th in Tumwater.

10 Q. 98512?

11 A. Yes.

12 Q. This is so the court reporter can take it  
13 down and it will be in the official record. And  
14 you're residential customer of Puget Power?

15 A. Both.

16 Q. Both companies?

17 A. Couldn't do without either one of them.

18 Q. Please go ahead and make your comment.

19 A. Well, I want to go back into history just a  
20 little bit, if I may. My father when I was growing up  
21 was one of the two employees that the gas company had.  
22 Imagine two employees doing all the selling and the  
23 meter reading service, everything, from halfway to  
24 Tacoma to most of the way to Centralia. I'm very,  
25 very proud of my father. Not many people can say the

1 gas man was their father.

2                   At that time it was the Washington Gas and  
3 Electric Company, even though they had no electric  
4 service affiliated with them. One of our best friends  
5 and one of our neighbors worked for Puget Sound Power  
6 & Light and it was very interesting to grow up with  
7 the daughter of one of their employees. Lived here  
8 for quite a while. Many years ago moved to California  
9 and was served by Pacific Gas and Electric and it was  
10 PG and E, it was automatic. It was so simple when you  
11 wanted to move or build a house you went to one office  
12 to get both services taken care of, and I feel that  
13 this is the way it really ought to be. And the only  
14 suggestion, the only improvement I would like to see  
15 is that it be Washington Gas and Electric in memory of  
16 my father. Thank you.

17                   JUDGE SCHAER: Thank you.

18                   MR. MANIFOLD: Just a moment. Excuse me.

19                   JUDGE SCHAER: Ms. Charnley, we usually ask  
20 if there are any questions of the witnesses and since  
21 you're the first one you weren't aware of that drill,  
22 but let me see if anyone has questions of you before  
23 you sit down if you would, please. Any questions?  
24 Thank you.

25                   MR. MANIFOLD: Next person is Brian

1 Fluetsch.

2 Whereupon,

3 BRIAN FLUETSCH,

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. Please state your name spelling your last  
10 name.

11 A. Brian Fluetsch, F L U E T S C H.

12 Q. Your address?

13 A. Is 440 North Fifth in Tumwater 98512.

14 Q. And you're a residential customer of both  
15 utilities?

16 A. Yes, I am.

17 Q. Please go ahead and make your comments.

18 A. Thank you. I wanted to thank you for the  
19 opportunity to come up and speak in regards to this  
20 merger. I've been a lifelong resident of Tumwater,  
21 Olympia and Tumwater area, and I've been a residential  
22 customer with Puget Power for the last 15 years and  
23 with Washington Natural Gas for about the last seven  
24 or eight, and I wanted to speak to the fact that I am  
25 definitely in favor of this merger. I think it would

1 be good for the residents of our area and I think it  
2 will help keep our costs down as far as our utilities  
3 go. So thank you very much for the opportunity to  
4 speak on that.

5 Q. How did you learn about the hearing today?

6 A. I read about that in the paper.

7 Q. In the Daily O?

8 A. I believe it was in the Daily O.

9 JUDGE SCHAER: Any other questions? Thank  
10 you for your testimony.

11 MR. MANIFOLD: Next person is Chuck Eberdt.

12 JUDGE SCHAER: Have you testified  
13 previously?

14 MR. EBERDT: Not in this proceeding. Was  
15 the hearing in Bellingham?

16 JUDGE SCHAER: I think you have and so I  
17 will remind you, you are still under oath.

18 MR. EBERDT: I lose track of these things I  
19 thought I might as well come up and do it right.

20 Whereupon,

21 CHUCK EBERDT,  
22 having been previously duly sworn, was called as a  
23 witness herein and was examined and testified  
24 further as follows:

25



1 DIRECT EXAMINATION

2 BY MR. MANIFOLD:

3 Q. Would you please state your name spelling  
4 your last name.

5 A. My name is Chuck Eberdt. Last name is  
6 spelled E B E R D T.

7 Q. You're testifying on behalf of whom?

8 A. The Washington State Association of  
9 Community Action Agencies.

10 Q. And the address?

11 A. I operate out of the opportunity council at  
12 314 East Holly Street in Bellingham, Washington 98225.

13 Q. Please go ahead.

14 A. And incidentally, I am a Puget Power  
15 customer. I couldn't help but think as our first  
16 person testified that the way corporate downsizing is  
17 going, who knows, maybe this company will be down to  
18 two employees again soon. You know, I guess I can't  
19 help but think of the obligatory reference to sausage  
20 making when I think about stipulations like this, and  
21 having as a young man worked in a cheese factory I do  
22 not envy any of you that position because once you've  
23 been in there you do not want to do it again.

24 I want to acknowledge all the hard work I  
25 think the four parties have done, this staff and the

1 company. I think that the service quality index is  
2 very important, and I am really pleased that they paid  
3 attention to that. I really appreciate Puget's  
4 continued pledge to support the comprehensive review  
5 levels. That's very important for conservation in the  
6 northwest and particularly the Puget Power client size  
7 serving the low income client, and of course I really  
8 appreciate the firming up of the pledge for one  
9 million dollars per year for low income. But I would  
10 like to take that last pledge as an example of what I  
11 think is a shortfall in the settlement, and that is if  
12 we look at that one million, which is a concrete  
13 dollar figure that is in the settlement and compare  
14 that to the comprehensive review levels it falls far  
15 short, and as near as I can see from the settlement  
16 any commitment to real numbers in conservation also  
17 are not right there.

18 I think it's really important for Puget as  
19 I guess perhaps the largest IOU in the northwest to be  
20 the standard bearer for conservation, as they have  
21 been in the past, to stand up and say they're going to  
22 support these levels without the caveat that not until  
23 everybody else does, especially since as I understand  
24 it Seattle City Light and Tacoma City Light already  
25 have, and I would strongly request of the Commission

1 to send Puget a signal that real conservation in the  
2 future not just winding up the commitments they've  
3 made to date is important to the Commission. I am  
4 afraid that otherwise the way the stipulation is set  
5 up we have too much of an opportunity to fall back to  
6 the bottom line principle, which is the more you sell  
7 the more you make and a big disincentive for  
8 conservation, and a tendency to dress up public  
9 relations, marketing and customer service as  
10 conservation.

11 I think there's also an important timing  
12 issue here. Even if we were lucky enough to get  
13 legislation through that created a competitively  
14 neutral mechanism in this session there's no guarantee  
15 that it would apply immediately. It might not apply  
16 until 1999. There's a big gap between the end of  
17 schedule 83 at the end of January and whenever this  
18 could come up, at least that's the way I understand  
19 it, and I think it's important, the Commission has  
20 shown a concern for the company's ability to compete  
21 and the large customers of the company and perhaps  
22 even the survival of the company in some ways, I think  
23 it's important to show a concern for the survival of  
24 conservation and the infrastructure that we've built  
25 in the last 15 years to create a very effective

1 service for company people.

2 I'm sorry for the company customers. In  
3 terms of the cost-effectiveness issue, I think that  
4 the comprehensive review actually moves us in a new  
5 direction in terms of cost-effectiveness, and  
6 particularly with low income people we're talking  
7 about equity as a chief concern here, and as I think  
8 somewhere around 50 percent of Puget's revenues are  
9 generated by residential customers, I think we should  
10 see benefits for them in that way.

11 In terms of cost-effectiveness of programs  
12 I would strongly recommend, as is suggested in a  
13 comprehensive review, that Puget's low income program  
14 can be run similar to the recent BPA funding through  
15 the state and the DOE program rather than creating a  
16 whole another program for everybody to try and work  
17 in.

18 The final comment I have is in regard to  
19 part of the agreement on carbon monoxide monitors or  
20 monitoring or however. I really appreciate the  
21 company's willingness to get out there and educate  
22 people about this silent killer you might say. It is  
23 a significant problem. It's a significant problem in  
24 low income homes in particular, but I would like to  
25 note that selling carbon monoxide monitors even at a

1 significantly reduced rate to homeowners or occupants  
2 isn't going to work. They're going to choose to buy  
3 dinner instead. And so I think it's much more  
4 appropriate and forward looking for the company to  
5 supply those monitors and not worry about trying to  
6 sell them. Thank you.

7 JUDGE SCHAER: Are there any questions for  
8 Mr. Eberdt?

9 THE WITNESS: Thank you.

10 JUDGE SCHAER: Thank you for your  
11 testimony.

12 MR. MANIFOLD: Next person is  
13 John O'Callahan.

14 Whereupon,

15 JOHN O'CALLAHAN,  
16 having been first duly sworn, was called as a witness  
17 herein and was examined and testified as follows:

18

19 DIRECT EXAMINATION

20 BY MR. MANIFOLD:

21 Q. Would you please state your name spelling  
22 your last name.

23 A. John Joseph O'Callahan, O ' C A L L A H A N.  
24 It's a find outstanding Irish name.

25 Q. I was going to say you would like my kid

1 Riley. Your address?

2 A. P.O. Box 507, Tenino, Washington.

3 Q. And you're appearing as?

4 A. Pretty much just myself but you asked for a  
5 thing and I am councilman in Tenino.

6 Q. Are you a customer of either?

7 A. Yes, I am a customer of Puget Power.

8 Q. Not the gas company?

9 A. No, not the gas company. We don't have gas  
10 out there yet.

11 Q. Please go ahead.

12 A. Since I've heard of this merger I think  
13 it's a very good idea. I've been to 11 countries, 32  
14 states. Everywhere I've been wherever there's been an  
15 outage overall Puget Power has been able to get people  
16 back on line a lot quicker than anywhere else I have  
17 ever been. There's a simple -- there's a saying among  
18 salesmen. It's called "keep it simple." This merger  
19 I believe will keep things a lot simpler than it is at  
20 the moment. Thank you very much.

21 JUDGE SCHAEER: Are there any questions for  
22 this gentleman?

23 MR. CEDARBAUM: I had one clarifying  
24 question, Mr. O'Callahan. You indicated that you are  
25 a council member in Tenino. Is that the capacity that

1 you were testifying in today or just as a residential  
2 customer?

3 THE WITNESS: No, just as a residential  
4 customer.

5 JUDGE SCHAEER: Thank you for your  
6 testimony.

7 MR. MANIFOLD: Next person is Randy Norris.  
8 Whereupon,

9 RANDY NORRIS,  
10 having been first duly sworn, was called as a witness  
11 herein and was examined and testified as follows:

12

13 DIRECT EXAMINATION

14 BY MR. MANIFOLD:

15 Q. Please state your name.

16 A. My name is Randy Norris. Last name is  
17 spelled N O R R I S.

18 Q. And your address?

19 A. My physical address is 6721 Puget Beach  
20 Road Northeast, Olympia. I also have a P.O. Box  
21 mailing address of 3984, Lacey, 98509.

22 Q. And you're a customer of Puget?

23 A. I am a residential customer of Puget Power.

24 Q. And of the gas company?

25 A. I have been in the past, that's going back

1 20 years ago that I was also a customer of Washington  
2 Natural Gas.

3 Q. But you are not now?

4 A. I am currently only a Puget Power customer.

5 Q. Please go ahead.

6 A. I just wanted to state that I am definitely  
7 in favor of the merger and primarily from a  
8 ratepayer's standpoint that I think this merger would  
9 probably help to keep our rates under control. As the  
10 previous person stated, keeping it to one company,  
11 keeping it simple I think definitely has a lot of  
12 merit in that regard, and I just wanted to have the  
13 opportunity to state that.

14 JUDGE SCHAEER: Are there any questions?  
15 Thank you for your testimony.

16 MR. MANIFOLD: Next person is Charles  
17 Shelan.

18 Whereupon,

19 CHARLES SHELAN,  
20 having been first duly sworn, was called as a witness  
21 herein and was examined and testified as follows:

22

23 DIRECT EXAMINATION

24 BY MR. MANIFOLD:

25 Q. Please state your name and spell your last



1 name.

2 A. Charles J. Shelan or it could be Shelan.

3 Depends on where I am.

4 Q. Thank you for your flexibility.

5 A. Raised as a Shelan and then went to Shelan  
6 but at any rate I live at 2849 Lindell Road Northeast  
7 in Olympia, 98506.

8 Q. And you're a residential customer?

9 A. I'm a residential customer of Puget Power.  
10 We don't have gas out in our area.

11 Q. Please go ahead.

12 A. I'm just here today to throw my support  
13 behind the merger also. I've been very happy with the  
14 service from Puget Power. I've been a customer of  
15 theirs for about 20 years. I have seen over the  
16 period of time they have given outstanding customer  
17 service both when I've gone into their office but also  
18 whenever there was an outage. And we see major and  
19 minor outages and the minor and the moderate ones are  
20 taken care of very quickly. And the massive one such  
21 as the Inaugural Day storm four years ago are taken  
22 care of very efficiently also. Of course those take a  
23 little longer and they have the cooperation from other  
24 companies throughout the northwest that come in to  
25 help them out.

1 I think the practice is provided well too.  
2 I'm also a customer in another area of a PUD and I  
3 notice their rates are even a little higher than Puget  
4 Power's. I think the merger will make for a stronger  
5 company. I like the idea of one stop shopping for  
6 energy sources. I think without the merger that we're  
7 likely to see both financial positions of the two  
8 respective companies weakened, and I think with this  
9 merger we'll see a stronger financial position for  
10 them and the benefit in the long run is to consumers,  
11 better rates for us.

12 So, again, I would see this as a win-win  
13 and encourage the Commission to support that merger.

14 JUDGE SCHAEER: Go ahead, Chairman Nelson.

15 CHAIRMAN NELSON: Your mention of your  
16 ability to comparison shop by just having, I take it,  
17 another home in another territory prompts this  
18 question. Would you be at all interested in having a  
19 choice in who your electric supplier was?

20 THE WITNESS: Well, of course that is --

21 CHAIRMAN NELSON: Say in your home in  
22 Olympia?

23 THE WITNESS: To have a choice, I think we  
24 all like choices. There's no doubt about that, and we  
25 have a lot of choices, for instance, on the phones

1 right now which are driving us all nuts, but -- are  
2 you behind that too? You can sit at home at any one  
3 night and get a \$25 coupon to switch to another  
4 company. The choice certainly is an issue that could  
5 be on the table. I think that a lot of consideration  
6 needs to be given to the fact that energy -- supplying  
7 energy is a heavy investment infrastructure, and I  
8 think it makes it very difficult for another company  
9 to come on line to compete with someone who has that  
10 infrastructure already developed.

11 I know that on the phone lines -- I call  
12 them parasites -- a lot of these companies buy from  
13 AT&T en masse at a group rate and then sell it off at  
14 a discounted rate to customers. That's nothing more  
15 than a parasite, and I would hate to see anything like  
16 that happen with our electrical company.

17 CHAIRMAN NELSON: Thank you.

18 JUDGE SCHAEER: I have one question. Do you  
19 have any opinion about the stipulation that the two  
20 companies, staff and public counsel have presented to  
21 the Commission?

22 THE WITNESS: Well, the stipulations were,  
23 refresh my memory, but, well, see. It is the  
24 stipulations regarding the contribution to low income  
25 and the customer service?

1                   JUDGE SCHAER: It sets out the customer  
2 service guarantee. It sets out a rate plan for five  
3 years.

4                   THE WITNESS: I think those are all fair.  
5 I haven't gone through the whole thing. I've just  
6 looked at it superficially but it looked fair to me.  
7 I thought the rate decrease was welcome, 3.24 decrease  
8 this year and then only an increase of 1.5 in  
9 subsequent years. I thought that was very fair. I  
10 liked the customer service. Actually I was kind of  
11 shocked when I saw that and I think that a lot of  
12 businesses might be well to follow that lead.

13                   I like also the idea about if a promise is  
14 broken on a customer service the \$50 credit be given.  
15 I think that increases the interest in the company's  
16 part to maintain good quality customer service.

17                   JUDGE SCHAER: Is there anything further?  
18 Thank you for your testimony.

19                   THE WITNESS: You're welcome.

20                   MR. MANIFOLD: Rhys Roth?

21                   MR. ROTH: Rhys Roth.

22 Whereupon,

23   RHYS ROTH,  
24 having been first duly sworn, was called as a witness  
25 herein and was examined and testified as follows:

1 DIRECT EXAMINATION

2

3 BY MR. MANIFOLD:

4 Q. Please state your name spelling all of  
5 them.

6 A. It's Rhys Roth, R H Y S, Roth, R O T H.

7 Q. Address?

8 A. Address is 2103 Harrison Avenue Northwest  
9 Suite 2615, Olympia, 98502. My street address is 1700  
10 Linkerage Avenue Northwest, Olympia.

11 Q. And you're a customer of Puget Power?

12 A. I'm a customer of both.

13 Q. As a residential customer?

14 A. Yeah.

15 Q. Are you speaking on behalf of yourself or  
16 an organization?

17 A. I'm speaking on behalf of the Atmosphere  
18 Alliance. I'm director of the Atmosphere Alliance,  
19 and I hate to bring in a disturbing element to this  
20 otherwise placid cordial hearing but I am going to  
21 talk about global warming because that's what our  
22 focus and major expertise is on. At the end of 1995  
23 the intergovernmental panel on climate change, which  
24 is a body of over 2,000 scientists worldwide,  
25 concluded its second scientific assessment report on

1 global warming, the most comprehensive analysis of the  
2 problem ever conducted, and they concluded for the  
3 first time that human beings are in fact, have in  
4 fact, altered the climate of our planet, and that's a  
5 very serious conclusion. Not the least reason is that  
6 the oceans are so enormous that they absorb a  
7 tremendous amount of heat and so any heating and  
8 climate changes that we're observing now is only the  
9 tip of the iceberg.

10           There's a tremendous amount of heat  
11 entering into the system and so the gases that we've  
12 released already have caused even more or make it  
13 inevitable that there will be even more climate  
14 change than what we've seen already. They've already  
15 found the fingerprint of humans in the climate record.  
16 The United States has joined over 150 nations in  
17 signing a treaty that will mandate targets and  
18 timetables for reducing greenhouse gas emissions  
19 worldwide, so the world is beginning to move in the  
20 direction of a future of clean super efficient  
21 renewable energy that doesn't release carbon dioxide  
22 emissions.

23           The implications for the northwest, by the  
24 way, are quite serious. One of the more likely  
25 impacts is a temperature increase in the region

1 resulting in a reduction of mountain snow pack, and  
2 you're probably aware of how dependent we are on the  
3 mountain snow pack here for our hydro system releasing  
4 the water slowly through our dry summers and supplying  
5 our hydro system with water and irrigation, and so  
6 that reduction of snow pack has very serious  
7 implications for our energy picture and for our  
8 economy.

9                 Robert Fliegel, a scientist from the  
10 University of Washington, talks about how an April  
11 storm, snow storm will typically dump millions of  
12 dollars worth of snow in the mountains and we could  
13 lose that as the climate warms. So carbon dioxide,  
14 by-product of fossil fuel combustion, there's two  
15 important ways that we can reduce carbon dioxide  
16 emissions, energy efficiency and the transition to the  
17 use of clean renewable energy resources, and an energy  
18 efficiency programs has the other benefit of saving  
19 residents money, creating jobs.

20                 Additionally, if we can sustain our energy  
21 efficiency capabilities and infrastructure and our  
22 renewable energy industry we have the opportunity in  
23 the coming decades to take advantage of this global  
24 transition to have clean, efficient renewable  
25 energies. The developing word in Africa, India,

1 they're going to need access to the technologies of  
2 the future that will not produce carbon dioxide  
3 emissions, that will not poison their people and  
4 there's a global market out there that we can prosper  
5 at the same time that we all save the world. It's  
6 critical that we sustain that energy and our budding  
7 renewal of energies.

8           My concern with this proceeding here is  
9 that recently the comprehensive review final plan was  
10 released, and one of the recommendations is that a  
11 three percent -- is that three percent of the retail  
12 revenues be spent on energy conservation renewable  
13 resources and low income weatherization. We recommend  
14 that the merged company must be required to implement  
15 this recommendation.

16           Secondly, it's my understanding that the  
17 merged company settlement includes a rate cap, and so  
18 my concern is that with the rates fixed the only way  
19 for the company to increase profits is to increase  
20 sales which would obviously result in a disincentive  
21 to continue energy efficiency programs and the  
22 Northwest Conservation Act Coalition and the Natural  
23 Resources Defense Council have recommended a mechanism  
24 to remove that disincentive for conservation, and so I  
25 just want to recommend that some mechanism be



1 established to make sure that there's not a  
2 disincentive to conservation, that there's a strongest  
3 possible incentive for this new company to sustain  
4 energy efficiency and renewable energy and to make the  
5 investments. So thank you for the opportunity to  
6 testify about this.

7 JUDGE SCHAEER: Thank you. Are there any  
8 questions for this witness?

9 CHAIRMAN NELSON: I will just invite you,  
10 Mr. Roth, to participate in whatever the follow-on  
11 proceeding is to design those mechanisms. Thank you.

12 JUDGE SCHAEER: Thank you for your  
13 testimony.

14 MR. MANIFOLD: Your Honor, that concludes  
15 the sign-up sheets that I have. Let me ask at this  
16 point if there's anyone else in the room who is a  
17 member of the public who wishes to address any comment  
18 at this time.

19 That appears to be all of the public  
20 witnesses, Your Honor.

21 JUDGE SCHAEER: Thank you, Mr. Manifold. I  
22 believe that there was also at least one letter  
23 submitted from a member of the public if you want to  
24 have that marked as an exhibit at this time.

25 MR. MANIFOLD: Yes. The Commission

1 received one letter regarding the stipulation which I  
2 would have a few copies of I would propose to have  
3 marked as an exhibit.

4 JUDGE SCHAER: I have marked this as  
5 Exhibit 291 for identification.

6 (Marked Exhibit 291.)

7 MR. MANIFOLD: I would move its admission.

8 JUDGE SCHAER: Is there any objection?  
9 Exhibit 291 is admitted into the record.

10 (Admitted Exhibit 291.)

11 JUDGE SCHAER: Is there anything more that  
12 needs to come before this public hearing session?  
13 Thank you all for attending and we are going to go off  
14 the record briefly and then reconvene in about two  
15 minutes to conclude the cross-examination of experts  
16 in this proceeding. So thank you for attending and  
17 we're off the record.

18 (Public hearing adjourned at 2:05 p.m.)

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

2 (Technical hearing cont'd.)

3 JUDGE SCHAEER: Let's be back on the record.  
4 If anyone has really hard questions for the company I  
5 believe this is the time to ask them. This is a  
6 continuation of the hearing in dockets No. UE-951270  
7 and UE-960195. This is still December 18, 1996 and we  
8 are still in Commission's hearing room in Olympia and  
9 while we were at recess Mr. Lazar has joined us on  
10 behalf of the public counsel and is now a member of  
11 the witness panel and I will remind you, Mr. Lazar,  
12 that you are previously sworn in this proceeding. And  
13 I believe that we are in Ms. Smith's questions, and  
14 would you please continue.

15 MS. SMITH: Thank you, Your Honor. It will  
16 be just a few more minutes. Before we broke,  
17 gentlemen, I was starting to ask you a series of  
18 questions about Puget's DSM collaborative, and rather  
19 than belabor the record about who was in that  
20 collaborative I will just get -- well, now that Mr.  
21 Lazar is here, I know that he participates in that  
22 collaborative, and I would be interested in his views  
23 on these questions.

24 First, let me ask whether this stipulation  
25 has been discussed with or presented to the members of

1 that collaborative.

2 MR. LAZAR: Yes. It was faxed out -- the  
3 DSM portion was faxed out last week and was discussed  
4 at a meeting of the collaborative.

5 MS. SMITH: Actually, Mr. Lazar, I know you  
6 have problems speaking so I would definitely accept an  
7 answer from another party but don't hesitate to speak  
8 up. I'm sure you won't.

9 MR. LAZAR: People have been looking  
10 forward to this for a long time. Short answers from  
11 me.

12 MS. SMITH: Do the stipulating parties know  
13 whether the stakeholders in that collaborative support  
14 or oppose the stipulation? Stakeholders other than  
15 the stipulating parties?

16 MR. LAZAR: There was no formal action  
17 requested or taken. Mr. Eberdt is a member of that  
18 collaborative and he appeared at the public hearing.

19 MS. SMITH: But in terms of, for example,  
20 my client NRDC or NCAC, have they indicated any  
21 support of this stipulation in that collaborative?

22 MR. LAZAR: I think that they indicated  
23 support for the commitment to fully fund the comp  
24 review level and support for the creation of a  
25 competitively neutral cost recovery mechanism, but on

1 the balance of the content of the stipulation I don't  
2 think they expressed any comment at all. And I asked  
3 this question of the company but neglected to do so of  
4 public counsel and staff. Do those parties -- did  
5 those parties contemplate any date by which DSM --  
6 excuse me -- DSM issues would be presented to the  
7 Commission for resolution either by the collaborative  
8 as a consensus or by the company?

9           MR. LAZAR: The company's current  
10 conservation program expires at the end of January, so  
11 things need to happen on a pretty quick schedule if  
12 there's going to be any sort of continuity, so January  
13 is my understanding of the month of the year that  
14 we're all working for is January '97.

15           MR. ELGIN: If that's the date that the  
16 tariff expires. I have not looked at the recent  
17 tariff, but it's my understanding if that's the case I  
18 would agree with Mr. Lazar's assessment that in order  
19 to have some kind of continuity in Puget's  
20 conservation tariffs and their programs that they  
21 deliver into them that something would have to be done  
22 fairly shortly.

23           MS. SMITH: In terms of the programs to be  
24 offered and program design?

25           MR. ELGIN: Yes.

1 MS. SMITH: As well as cost recovery.

2 MR. ELGIN: Not necessarily cost recovery  
3 but something at least in the programs. Cost recovery  
4 could be part of that, but it's not a necessary  
5 condition, but I would suspect that the company would  
6 propose something along those lines.

7 MS. SMITH: Along the cost recovery lines.

8 MR. ELGIN: Yes.

9 MS. SMITH: I have no further questions.

10 Thank you.

11 JUDGE SCHAEER: Thank you. Commissioners,  
12 did you have questions?

13 CHAIRMAN NELSON: Yes. Just so I am  
14 perfectly clear, I guess anyone can answer this. At  
15 page 4, line 14, the sentence reads, "The rate plan  
16 recognizes that PSE electric customers are at risk,"  
17 and continues, "for additional rate pressures." At  
18 page 7, the residential/small farm energy exchange  
19 benefits are described. From an end user point of  
20 view, is the rate pressure going to be disguised?

21 MR. ELGIN: No.

22 CHAIRMAN NELSON: So how do I -- you said  
23 in a previous answer that it would smooth out  
24 gyrations, I think, so can we still count on  
25 residential and small farm customers seeing

1 substantial rate increases derived from the reduction  
2 in BPA's calculation of the exchange?

3 MR. ELGIN: No.

4 CHAIRMAN NELSON: Can you harmonize page 4  
5 and page 7 for me?

6 MR. ELGIN: Yes. The company's original  
7 proposal and in fact the rate plan that was proposed  
8 by staff in its litigated case contemplated a pass  
9 through of residential exchange benefits that would be  
10 available to them under schedule 94, and so on page 4  
11 what we're saying there is that what this stipulation  
12 does is recognize that the electric side of the  
13 business has exposure to what would happen to their  
14 rates as a result of exchange benefits diminishing,  
15 and at the end of the rate plan period all together  
16 expiring because the underlying contract with  
17 Bonneville expires in 2001.

18 So if you were to go, then, what page 7 is  
19 saying is if you go to -- Exhibit A is the attachment  
20 to the stipulation. You will see schedule 7 the first  
21 column, and what we have done there is said this is  
22 the rate to customers to the rate plan period  
23 irrespective of what happens to Bonneville's --  
24 Puget's benefits from Bonneville under the exchange.  
25 If you recall the record there was some discussion in

1 the record and people trying to quantify the magnitude  
2 of those lost benefits.

3           The current exchange rate is approximately  
4 11 mills or 1.1 cent a kilowatt hour. Between now and  
5 2001 that is expected to decline and go away. As that  
6 happens, these are the rate increases that residential  
7 customers will experience even though those benefits  
8 are expected to diminish and expire.

9           CHAIRMAN NELSON: So to be very simple, as  
10 a billpayer in Puget Power's I've got an expectation  
11 of an absolute cap on how much my rates are going to  
12 go up.

13           MR. ELGIN: That's correct, and you are  
14 protected by this rate plan from, if you will, the  
15 loss of the benefits from the exchange.

16           CHAIRMAN NELSON: Thank you. So the at  
17 risk language is not quite accurate.

18           MR. LAZAR: Let me just draw your  
19 attention. Page 4 identifies the two problems or  
20 objectives that the stipulation sought to address, and  
21 that risk is one of those problems. Page 7 addresses  
22 that problem.

23           CHAIRMAN NELSON: How, okay. Thank you.  
24 Now, at page 6 starting at line 21, the phrase is,  
25 "except as otherwise provided herein the company won't



1 request a change in general rates." And then the  
2 parentheses says "recognize the pilot open access  
3 program might result in rate changes of some sort."  
4 Does the phrase "except as otherwise provided herein"  
5 refer to the paragraph numbered 5 at page 10 or does  
6 it include more than that?

7 MR. DAVIS: I believe 5 and 6, interim rate  
8 relief.

9 CHAIRMAN NELSON: The Pacific Northwest  
10 Bell standard. That's a financial standard, that's  
11 the company in extremis. In other rate plans that  
12 this Commission has approved we contemplated -- the  
13 telephone company called them exogenous factors and  
14 looking at the future for this industry I think we can  
15 all predict some exogenous caused changes, legislation  
16 whether federal or state, tax changes. Does the  
17 company have any problem with not having some sort of  
18 reopener provision to take care of or window to  
19 examine exogenous changes that might be out of the  
20 company's control?

21 MR. DAVIS: Yes, we did and we perhaps  
22 captured the language poorly but we intended to pick  
23 that up under paragraph 5, line 8 and line 13.

24 CHAIRMAN NELSON: All right. Do you think  
25 then in future proceedings we're going to be looking

1 at this settlement agreement and trying to decide  
2 whether it -- whatever has caused the current proposal  
3 has been attributed to one of these very specific  
4 things?

5 MR. LAZAR: If there's a proposal I'm sure  
6 we'll be doing exactly that. I guess I would want to  
7 add one thing to what Mr. Davis said. There is also a  
8 provision for an alternative recovery mechanism for  
9 DSM costs as yet undefined. It could be an  
10 outside-of-the-tariffs mechanism such as the tax  
11 mechanism that I have discussed with the parties or an  
12 inside-a-tariff mechanism such as the tariff rider  
13 that the gas company currently has, just to give two  
14 examples, but that's a theory that bill payers could  
15 see a change.

16 CHAIRMAN NELSON: Thank you, Mr. Lazar.  
17 Page 7 I guess just goes to this, too. The first four  
18 lines, the plan seems to assume continued vertical  
19 integration of the whole stream of power production,  
20 is that correct, for this company?

21 MR. ELGIN: Yes, yes, it does, but we do  
22 recognize that the pilot program and what may or may  
23 not happen in terms of open access unbundling may  
24 change in the future, so, but for purposes of this  
25 rate plan it is a five-year window where we are

1 continuing that organization of this electric utility.

2 CHAIRMAN NELSON: But if, let's say, a  
3 federal law order made it so that there was incentive  
4 for the company to disintegrate part of its  
5 operations, that would be captured under this  
6 paragraph 5. Is that your intent?

7 MR. ELGIN: Yes.

8 CHAIRMAN NELSON: At page 13 a description  
9 of the penalties for failure to provide quality  
10 customer service. Just so I am clear, the guarantee  
11 provides the specific remedy for a specific customer,  
12 and what's contemplated here would be Commission  
13 determination of a violation, a penalty assessed and  
14 the penalty then would be flowed back to the general  
15 body of ratepayers in their bills as a credit or  
16 something; is that right?

17 MR. ELGIN: It would be an offset to the  
18 annual increases that are contemplated under the rate  
19 plan, so, for example, under the hypothetical let's  
20 say the company failed on all ten measures and the  
21 full 7 and a half million dollars will be a penalty,  
22 then the general increase that they would be entitled  
23 to under the rate plan would be reduced by that 7 and  
24 a half million dollars for that year.

25 MR. LAZAR: And --

1                   CHAIRMAN NELSON:  Is this going to look  
2 like a PRAM proceeding where these increases, quality  
3 assessments and offsets will all be determined in, one  
4 hopes, a short proceeding?

5                   MR. ELGIN:  The increases won't.  The  
6 increases are --

7                   CHAIRMAN NELSON:  They are laid out.

8                   MR. ELGIN:  The mitigation and what the  
9 ultimate penalty would be, and assuming that the  
10 company would not, because this stipulation also has  
11 language, if you look on page 13, line 12 and  
12 continuing on to 13, "PSE will not file a mitigation  
13 petition unless it believes in good faith that it has  
14 met this standard."  In other words, the petition  
15 that will be in front of you is a good faith request  
16 of something that truly deserves mitigation and truly  
17 deserves the Commission's attention with respect to  
18 what caused the problem and why the penalty is being  
19 imposed.  So, what we attempted to do here is make  
20 sure that it wasn't just a frivolous application for a  
21 petition.  It was something that was warranted by the  
22 circumstances.

23                   CHAIRMAN NELSON:  Anybody else want to  
24 answer that?

25                   MR. DAVIS:  I think he answered it pretty

1 well. I don't have anything to add.

2           CHAIRMAN NELSON: Thank you. At page 15 on  
3 the low income carbon monoxide detectors, we just  
4 heard Mr. Eberdt asking that these be given away. I  
5 would like a response to that and I would also like to  
6 ask staff, we just actually went through a fairly  
7 lengthy proceeding to separate the company's sale of  
8 equipment from its provision of gas service. I guess  
9 first question is, what about free, and the second  
10 question is, is this consistent with that previous  
11 concern about the affiliation of equipment sales.

12           MR. ELGIN: If I can answer the latter one  
13 first because it's the easier one for me while I think  
14 about the first one. No, I don't have the concern  
15 about this being something that would -- I don't view  
16 this as the kind of equipment that would be consistent  
17 with the issues surrounding what they call in the  
18 industry white goods, stoves and furnaces and hot  
19 water heaters. This is something truly related to  
20 safety which is consistent with the kind of activities  
21 in the business today that we have in terms of its  
22 regulated operations.

23           As far as the giving away, I have no idea  
24 as to the magnitude or the expense of what these  
25 things cost. The intent here was to get this company

1 to move in some direction, meaningful direction, on  
2 this issue, and I would defer the response to that  
3 question, if I could, to Mr. Davis.

4           MR. DAVIS: Well, the primary intent was to  
5 make sure there was an information program and  
6 available broadly and a specific recommendation as to  
7 types of detectors. The types of detectors we would  
8 recommend are not inexpensive. They don't, for  
9 instance, accumulate and go off spuriously which all  
10 the cheap ones you might see at Payless do. They're a  
11 problem for us rather than part of the cure. They're  
12 much like a filter that accumulates snuff dust on it  
13 and is clogged whereas a self-purging device is a  
14 little more sophisticated and costs more money, but it  
15 is also accurate and therefore valuable. So there is  
16 an issue of cost and how many of these would you  
17 want to give away, but I think we could work something  
18 out to give away some of these as part of our  
19 commitment on low income. I don't see why we couldn't  
20 work to that. It's an issue -- just blanketly saying  
21 we will give away detectors to every low income person  
22 is a different issue.

23           CHAIRMAN NELSON: Then at the bottom of  
24 that page 15 on vegetation management staff and public  
25 counsel say they reserve their right to seek

1 appropriate regulatory action, and I guess my reaction  
2 is what is that appropriate regulatory action?

3 MR. LAZAR: Our concern was that we not see  
4 a dramatic reduction in tree trimming as a profit  
5 maximization tool. We have no objection to a dramatic  
6 reduction in the cost of tree trimming as long as the  
7 trees get trimmed. If, based on the reporting that we  
8 get from the company, we think that they're doing that  
9 you will hear from us and it may well be in the form  
10 of a complaint. Just the provision of the mechanism  
11 may be all we need to give us a strong enough hand and  
12 consultation role that's provided in the stipulation  
13 that that won't be necessary.

14 JUDGE SCHAEER: Mr. Lazar, you just  
15 mentioned the post 1996 conservation investment  
16 replacement mechanism, and I think I heard you say  
17 that it could be a mechanism where these investments  
18 are recovered through rates or also a tax mechanism.  
19 Could you elaborate just a little bit more on that?

20 MR. LAZAR: Yes. I distributed to the  
21 members of the conservation collaborative a proposal  
22 to solve two problems at once. One is the inequitable  
23 taxation of retailed wheel power versus utility sold  
24 power, and the other is capturing the revenues to  
25 fully fund the comprehensive review. The proposal

1 that I have put on the table would be to repeal the  
2 public utility excise tax of 3.8 percent and extend  
3 the sales and use tax to electricity service which is  
4 six and a half percent, the difference is about three  
5 percent, and then allow utilities -- whether they're  
6 public or private they would all be collecting and  
7 remitting these taxes -- allow those utilities to take  
8 a tax credit against their remissions of up to three  
9 percent for public purposes expenditures. That way  
10 the tax would apply regardless of whether you bought  
11 your electricity from Puget or Enron and the vendor  
12 would have the option of just letting the state take  
13 the money or expending that money for the public  
14 purposes enumerated at the comprehensive review and  
15 taking it to X credit for that amount. It provides a  
16 mandatory mechanism to -- at least gets some hands on  
17 the money.

18 I met with the director of revenue last  
19 night and discussed it with him. I guess we would  
20 strongly prefer to see the only revenue recovery  
21 mechanism for DSM be the revenue neutral cost recovery  
22 mechanism that is necessary to trigger compliance with  
23 the terms of this, to fully fund the comp review  
24 level. We don't want to see an interim cost recovery  
25 mechanism and a permanent one. The company has the



1 right to request an interim and a permanent one under  
2 the terms of the stipulation, but from our perspective  
3 we would like to see one long-term revenue --  
4 competitively neutral mechanism to recover all of the  
5 DSM investment after January 1, 1997, and the tax  
6 mechanism that I've described is an example of  
7 something that could work that way.

8           CHAIRMAN NELSON: But that would require  
9 legislative actions, would it not?

10           MR. LAZAR: Yes, it would.

11           CHAIRMAN NELSON: So there might be a gap  
12 given that legislatures don't act on 1-1-97.

13           MR. LAZAR: We would anticipate that the  
14 company will be before you approximately at year end  
15 with some sort of an accounting petition to defer  
16 their post January 1 expenditures to a subsequent  
17 determination, and we hope that at the time that comes  
18 before you that what they're pushing for and what the  
19 company is pushing for in the legislature is a  
20 competitively neutral mechanism that would apply  
21 regardless of who the electricity vendor is.

22           CHAIRMAN NELSON: Well, that's an  
23 innovative and interesting proposal. I look forward  
24 to hearing more about that. That's all I have.

25           COMMISSIONER HEMSTAD: The discussion about

1 the sort of conflicting goals here on page 4, again,  
2 Chairman Nelson was assuming the goal of having some  
3 certainty for all customers for a five-year period.  
4 With that in mind, the caveats of paragraph 5 on page  
5 10, particularly the one with regard to redesign of  
6 electric rates and restructuring in an electric  
7 industry and in paragraph 6 on interim rate relief,  
8 isn't the sense of certainty ephemeral?

9           MR. DAVIS: I think certainty is a question  
10 of degree. We are trying to provide gas certainty,  
11 too, but yet on the other hand we're telling folks  
12 that the PGA is in place until at least this  
13 Commission decides otherwise. On electric we had the  
14 uncertainty of the exchanges that was almost -- the  
15 Bonneville exchange that was becoming a certainty  
16 rather than an uncertainty, unfortunately, and we were  
17 trying to eliminate that from the list as a fairly  
18 substantial uncertainty that ratepayers would face,  
19 but the choice issue was one we didn't think customers  
20 wanted us to take off the list.

21           COMMISSIONER HEMSTAD: For example,  
22 pursuing the residential exchange issue and the  
23 assumption that it's -- well, the shift of the risk of  
24 that to the company from where I understand the  
25 company's original proposal is certainly one of the

1 major pieces of this settlement, I think, but assume  
2 despite the company's best efforts to have either the  
3 residential exchange or something equivalent to it  
4 continued, that fails, that would be a significant hit  
5 on the company. What is the likelihood that that  
6 would trigger the company's response of seeking  
7 interim rate relief?

8           MR. DAVIS: I'm not sure if I have the  
9 question clearly in mind, but if the question is what  
10 if the company gets nothing in the Bonneville exchange  
11 immediately?

12           COMMISSIONER HEMSTAD: That's right, and  
13 this settlement certainly strongly incents the company  
14 through the political process to see that something  
15 equivalent of the exchange continues over time, but if  
16 that's unsuccessful isn't it almost -- isn't there a  
17 significant likelihood that the company would then  
18 seek interim rate relief if it had to absorb the  
19 entire amount?

20           MR. DAVIS: Well, two things on that. One,  
21 the design that was done to reach this objective  
22 contemplated a certain amount of residential exchange  
23 benefits based on proposals offered by Bonneville, so  
24 it wasn't like we didn't have some idea in mind of  
25 what the order of this risk was. We weren't just

1 planning blindly. In fact we contemplated that by the  
2 end of this period -- and I am missing the cite off  
3 the top of my head but at the end of this period the  
4 exchange wouldn't just go back to what it was, that if  
5 the company needed to do anything with that it would  
6 have to come back before this Commission in a general  
7 rate proceeding. So we are contemplating over this  
8 period the reliance on the exchange ends whether or  
9 not rights do and the exchange ends is a different  
10 issue with Bonneville, but the contemplation was that  
11 the company was going to get its costs down and its  
12 rates resolved and it ends.

13 MR. LAZAR: Let me just referring back to  
14 the record in the proceeding, public counsel's case  
15 sought to show that if the company achieved best  
16 practices and power stretch goals and absorbed any  
17 loss of the residential exchange their earnings would  
18 be in a reasonable range above what would trigger the  
19 interim rate relief terms under the Pacific Northwest  
20 Bell case. The company's analysis showed that if it  
21 did not achieve the power stretch and best practices  
22 goals but was not held responsible for any loss of --  
23 did not have to absorb any loss of residential  
24 exchange their testimony was that their earnings would  
25 be inadequate, and you have within that record, I

1 believe on a confidential basis, what they meant by  
2 inadequate.

3           We believe that it would take something  
4 unexpected above and beyond the loss of the exchange  
5 to trigger interim rate relief. Certainly if they did  
6 not someday achieve power stretch goals, did not  
7 achieve best practices goals, lost all of the  
8 exchanges benefit, had a vandal destroy the  
9 transmission line from Colstrip and the price of gas  
10 went through the ceiling, it's entirely possible that  
11 things would be triggered -- trying to put together an  
12 adverse scenario -- enough bad things that we would  
13 expect it to trigger. We think it very unlikely that  
14 absent a surprise the interim rate relief standard  
15 would be triggered. It's a pretty strict standard.  
16 It's not just earning less than their rate of return.  
17 It's the company needs to finance and it can't finance  
18 kind of standard.

19           COMMISSIONER HEMSTAD: The other side of  
20 that or the provision about restructuring, assume that  
21 sometime in the reasonably near future during this  
22 five-year period Congress will have passed legislation  
23 requiring structural disaggregation and open  
24 competitive markets and with it unbundling. In that  
25 kind of a context what would be the likely response of

1 the company to come before this Commission in effect  
2 saying the deal is off?

3 MR. ELGIN: Well, I think in that scenario  
4 the company would come before you and it's just a  
5 matter of how quickly all that happens, and if that  
6 were the case I think the company would be in front of  
7 you and we would have a full evaluation of cost of  
8 service, and I would hope as well that at that point  
9 in time the company would have been able to realign  
10 its costs, and when we went to a functional  
11 disaggregation this electric operation would look a  
12 lot like the gas business that you regulate right now,  
13 and you would see different rates and different kinds  
14 of services and new ways of doing cost studies.

15 And so I think that given the uncertainty  
16 there we think that this five-year plan is the way to  
17 go in terms of how quickly some of that can be done.  
18 It may be done faster, but if it is I think the  
19 company will be in front of you again and most of the  
20 other parties as well talking about their interests in  
21 a restructured environment.

22 MR. LAZAR: There's certainly a lot of  
23 uncertainty. The last outline of the bill I saw from  
24 Congressman Schaefer's office would not apply to  
25 utilities exclusively engaged in a single state until

1 after the year 2001 which would fit well with this  
2 five-year rate plan, because these are two intrastate  
3 utilities. It will go after the multi-state utilities  
4 first. Obviously that was an outline. It may have  
5 been superseded by now and may have nothing in common  
6 with what ultimately bests.

7           COMMISSIONER HEMSTAD: Thank you. With  
8 regard to paragraph 2, natural gas rates on page 5.  
9 Perhaps this was discussed and I may have missed it.  
10 What is the rationale for the natural gas margin  
11 change occurring on January 1, 1999? In other words,  
12 it remains stable currently, then it notches down and  
13 then it is stable again at that point.

14           MR. ELGIN: It was to recognize that at  
15 some point it takes time to implement these synergies  
16 and other elements that are cost savings either  
17 directly or indirectly related to the merger, and so  
18 we felt confident by that time that the company should  
19 be able to implement those and this would be a fair  
20 sharing of the gas benefits.

21           COMMISSIONER HEMSTAD: One final matter.  
22 There has been reference here to date to the issue of  
23 reliability and the context of the paragraph 7 on  
24 vegetation management. It's my understanding that the  
25 Western Systems Coordinating Council either has

1 adopted or is proposing to adopt requirements for  
2 mandatory membership and mandatory duties to meet  
3 their reliability standards. Are Puget Sound's  
4 current reliability standards equivalent to those of  
5 the WSCC?

6 MR. DAVIS: I'm not an operating engineer  
7 in Puget but my understanding is they are.

8 COMMISSIONER HEMSTAD: My follow-on  
9 question was going to be or is -- is it likely that  
10 those reliability standards, requirements, will be  
11 ratcheting up not down in the reasonably foreseeable  
12 future?

13 MR. ELGIN: I am not an engineer either,  
14 but it's my understanding is that what the Western  
15 Systems Coordinating Council is talking about is  
16 regional bulk transmission standards, and what we're  
17 talking about here are different kinds of facilities  
18 than the standards.

19 COMMISSIONER HEMSTAD: I think you're  
20 correct. So, anyway, there isn't sort of an external  
21 standard setting mechanism at the distribution level  
22 comparable to the transmission.

23 MR. ELGIN: Not that I know of.

24 COMMISSIONER HEMSTAD: That's all I have.

25 MR. LAZAR: Let me just add a little bit to



1 that. One of the elements of the service quality  
2 index is the interruption frequency and interruption  
3 duration. Those are the baselines that we haven't  
4 finished developing yet. But those are the measures  
5 that are, I will say, semistandardized in the industry  
6 for distribution system reliability.

7           COMMISSIONER GILLIS: I think most of my  
8 questions have been asked. I had a couple of  
9 clarifications. Is it the opinion of the stipulating  
10 parties that the rate increases are cost justified and  
11 represent a fair sharing of the expected merger  
12 benefits between ratepayers and shareholders?

13           MR. ELGIN: Yes.

14           MR. LAZAR: Certainly not everything we  
15 wanted but yes.

16           MR. DAVIS: It's certainly not everything  
17 we wanted but yes.

18           COMMISSIONER GILLIS: On that, on the topic  
19 that the chairman referred to as exogenous events,  
20 just so I'm clear, in your paragraph -- is it 5 on  
21 page 10 you noted just that as the area of the  
22 stipulation that exogenous events would be addressed.  
23 I'm wondering what are the implications of the rate  
24 cap or the price cap within the rate plan for  
25 proposals that you might make in the future as far as

1 rate redesign or does it place any limitation on the  
2 proposals?

3 MR. ELGIN: None whatsoever. That is still  
4 unchartered territory with respect to services and  
5 what might be offered in an unbundled retail  
6 environment.

7 COMMISSIONER GILLIS: So in an unbundled  
8 retail environment then it's possible within the terms  
9 of the stipulation that a particular class of customer  
10 could see an increase of prices within the period of  
11 time we're talking about. Within I guess the  
12 rebundling of those unbundled pieces it would be  
13 higher than is agreed to in the stipulation.

14 MR. ELGIN: That could be but, again, the  
15 Commission will determine what those are, and I can  
16 assure you that when those filings come before you and  
17 you look at those cost studies as contentious, as  
18 allocated cost studies were in a bundled environment I  
19 can assure you that the issues will be even more  
20 complex and more contentious as to what bodes for the  
21 future kind of things that will be before this  
22 Commission and what we'll be arguing about.

23 COMMISSIONER GILLIS: One last question.  
24 On the reporting requirement, will there be an  
25 assessment of the parties involved of the costs and

1 benefits of this reporting requirement as you  
2 developed the details and put them forward?

3 MR. ELGIN: We haven't given that any  
4 consideration, Commissioner. Obviously I would hope  
5 that the company would tell us that if something that  
6 we're asking for is expensive to produce and at the  
7 same time the staff finds little value in it I would  
8 expect that we can reasonably accommodate that and if  
9 it turns out that any one of these reports is  
10 unnecessary we'll more than gladly stop it, and how we  
11 go about that will be something we may have to bring  
12 before the Commission in terms of advising, in terms  
13 of a letter, but if the report is expensive and it's  
14 not of much use we'll be open to that.

15 COMMISSIONER GILLIS: One other detail. I  
16 guess back on that paragraph 5 on page 10 it referred  
17 to line extension policies for the electric company.  
18 Should that also include gas as well?

19 MR. ELGIN: Well, yes, it should. I think,  
20 though, I think the gas line extension policies, and  
21 we've been through a lot of work with the gas company  
22 on that. I think we're pretty set there. There might  
23 be minor changes to that. I think what we've  
24 contemplated is more if you look on lines 19 and 20,  
25 Mr. Lazar just pointed out to me that the stipulation

1 contemplates routine updating of elements of gas line  
2 extension policies, so I think the policy is pretty  
3 much in place. What we're talking about is tweaks,  
4 fine tuning, but we're contemplating here is the  
5 electric line extension policy is not in line with  
6 what we think probably should be in the future, and  
7 we're looking to changes to that.

8 I know we've had discussion with the  
9 company about their line extension policies on the  
10 electric side and they do need to be looked at during  
11 this rate stability period. Mr. Lazar.

12 MR. LAZAR: A couple of years ago the gas  
13 line extension policy was amended and shifted more  
14 responsibility on to the builder/homeowner. That sort  
15 of review of the line extension policy was discussed I  
16 think in the company's 1989 rate case or '92 rate case  
17 but no changes were adopted. It's pretty vintage  
18 policy.

19 COMMISSIONER GILLIS: But the reason that  
20 you only just mentioned electric was because that's  
21 where you see the biggest change.

22 MR. LAZAR: We see a redesign of that line  
23 extension policy as a possibility, but along the lines  
24 of the cost-effectiveness criteria that's already  
25 embodied in the gas line extension policy.

1                   JUDGE SCHAEER: I have a few questions also.  
2 Looking first at the part of this stipulation which  
3 would move the ending of recovery of PRAM deferrals to  
4 February 1 and would then use a tax refund that's  
5 expected to be collected to balance any amount  
6 remaining in that deferral account. Does the  
7 agreement in the merger stipulation with respect to  
8 the PRAM deferral amount modify the stipulation that  
9 the Commission staff and Puget entered into last month  
10 in UE-950618 with respect to staff audit of PRAM  
11 deferrals or any of the other provisions of that  
12 stipulation?

13                   MR. ELGIN: No.

14                   JUDGE SCHAEER: So other than the change in  
15 timing there's still going to be a full audit of the  
16 deferral account by the staff at some point and then  
17 some determination of what the final levels should be  
18 and then something brought before the Commission,  
19 either a hearing if there's a dispute or an agreement  
20 if there isn't so that a final order on the PRAM may  
21 issue. Is that your plan?

22                   MR. ELGIN: That's our plan.

23                   JUDGE SCHAEER: In terms of the conservation  
24 tax refund, which is also discussed in the testimony  
25 in the PRAM proceeding, where will the interest from

1 the federal government that is included as part of  
2 that tax refund go to. Is that going to be going to  
3 ratepayers or shareholders?

4 MR. ELGIN: We have contemplated in the  
5 stipulation -- let me find the exact citation, Your  
6 Honor. I've looked at this so many times --

7 MR. CEDARBAUM: Page 6.

8 MR. ELGIN: -- it all looks the same.

9 MR. CEDARBAUM: Page 6, line 4.

10 MR. ELGIN: Thank you, Counsel. Page 6,  
11 line 4. That upon receipt of the tax refund Puget  
12 itself shall submit a subsequent rate filing to refund  
13 over collection of PRAM deferrals, and that would  
14 include the company's proposed resolution of the issue  
15 regarding any allocation of these interests paid by  
16 the IRS on that refund.

17 JUDGE SCHAEER: So there is a possibility  
18 that the company is going to claim some of that  
19 interest shouldn't go to ratepayers. Is that what  
20 this means?

21 MR. ELGIN: Yes.

22 JUDGE SCHAEER: Now, we are going to get  
23 this filing and are we going to still keep schedule  
24 100 open for that filing or what are we going to do to  
25 give that money back? Is that going to be placed in

1 an account with interest until the next year's rate  
2 increase or how do you contemplate actually  
3 mechanically doing this stuff?

4 MR. ELGIN: Well, what we contemplate is  
5 the first thing that has to happen is the company has  
6 to file an accounting petition because to change rates  
7 on February 1, it's going to expect a certain level of  
8 tax refund from the IRS, and so what it essentially  
9 has to do is get the Commission's permission to accrue  
10 any changes to what it anticipates it's going to get  
11 to what it actually gets, and so any time you unwind  
12 these kind of things it takes some time to reconcile  
13 everything and every last dollar. We had, I think, a  
14 couple subsequent filings in the ECAC to finally  
15 unwind all the deferrals that were associated with  
16 that, so we'll get a filing in February and an  
17 accounting petition and then we'll reduce the rates to  
18 zero, and then I would suspect at least one more  
19 filing to finally true everything up.

20 JUDGE SCHAEER: And my question, I guess,  
21 is, do you expect that filing to then trigger another  
22 rate change sometime midyear or how have you --

23 MR. ELGIN: I would expect that to mitigate  
24 -- minimize the amount of changes. I would anticipate  
25 that what the company would do would try to reconcile

1 all that with the rate change that would happen in  
2 1999 -- excuse me, 1998, January 1, '98.

3 JUDGE SCHAER: I can hear you but I don't  
4 think anyone else does.

5 MR. DAVIS: We're sorry. We were trying to  
6 take the lead. Apologize for that. We would agree  
7 with that and it would roll forward to '98. It would  
8 be administratively the simplest way to deal with that  
9 leftover money one way or the other.

10 JUDGE SCHAER: So that gives staff lots of  
11 time to get your audit done and get everything. We've  
12 talked about the joint applicants' commitment to the  
13 regional review and to the three percent goal, and  
14 just again to help me understand that, how much money  
15 do you think participation in the regional review will  
16 cost ratepayers? Do you have any estimate of that at  
17 this point?

18 MR. DAVIS: At three percent of roughly a  
19 billion dollars it looks like something like 30  
20 million annually.

21 JUDGE SCHAER: So that would be -- and  
22 that's something that you had in mind when you were  
23 putting together this rate plan or is that something  
24 that you're going to look at perhaps cost recovery  
25 through a tax or through some future proceeding?



1                   MR. DAVIS:  It's outside the rate plan.  
2  That's what the future recovery mechanism we had  
3  contemplated was.

4                   JUDGE SCHAEER:  Looking at storm damage.  
5  The sentence at page 8, line 21 and 22 is the kind  
6  that my English teachers would have beaten me for when  
7  I was a child.  Are you talking about losses from  
8  storms during the rate plan period?  Are you talking  
9  about amortization during the rate plan period?  
10 Amounts from storms before the rate plan period?  What  
11 are we talking about here, please.

12                  MR. ELGIN:  Well, what we're talking about  
13 is the level of amortization that will be on the  
14 company's books for any amounts that are currently on  
15 the books, and then continued Commission prescribed  
16 accounting treatment for any new storms, so what we're  
17 doing is increasing the level of amortization to  
18 three and a half million dollars a year from the level  
19 that's embedded in rates from the '92 rate case, and  
20 then that Commission -- the company will book three  
21 and a half million a year and then any new storms will  
22 have the accounting treatment that's consistent with  
23 the '92 rate case for accrual if it meets the test of  
24 an extraordinary storm, and so then -- so  
25 theoretically what would happen is at the end of the

1 rate plan period the company will have booked three  
2 and a half million times five and then let's assume  
3 that we have a rate case in the future. We'll look at  
4 whatever extraordinary storms that happen, where those  
5 accounts are and then establish a new level of  
6 amortization. That's what we're trying to do.

7 JUDGE SCHAER: But the 3.5 million is  
8 designed to get the extraordinary amounts that are on  
9 the books as of now amortized during the rate plan  
10 period. Is that a correct understanding?

11 MR. ELGIN: A portion of them. It's  
12 designed to -- since we don't have a rate case in  
13 front of us we can't establish new levels of  
14 amortization so what we're trying to do here is  
15 increase the level of amortization that the company  
16 will be booking during the rate plan period to take --  
17 get its levels of regulatory assets down.

18 JUDGE SCHAER: I'm looking at the next  
19 page, environmental remediation. If insurance  
20 proceeds have been quantified but not yet received  
21 would they be considered known?

22 MR. DAVIS: Yes.

23 JUDGE SCHAER: And also on that page  
24 looking at lines 23 and 24, he talked about what's  
25 going to happen for regulatory assets that are not

1 specifically discussed but you don't mention  
2 regulatory liability. Is it your intention that they  
3 should continue to be treated as they are today for  
4 accounting purposes?

5 MR. DAVIS: Yes, it is.

6 JUDGE SCHAEER: Then turning to page 10,  
7 paragraph 5, which has had quite a bit of discussion.  
8 Would you show me specifically which part of paragraph  
9 5 would address or apply to changes in federal tax  
10 law.

11 MR. DAVIS: I can see where we dealt with  
12 municipal taxes but we did not deal with federal  
13 taxes. Mr. Elgin advises me it's the one we missed.

14 JUDGE SCHAEER: How about state taxes,  
15 especially if Mr. Lazar is successful in his endeavor.  
16 Should we perhaps include those state and federal as  
17 well? I'm just trying to understand what the parties  
18 intended.

19 MR. LAZAR: The state tax pretty much is a  
20 pass through type of tax, and I think that what I  
21 described would fall generally within what we've  
22 talked about here, but clearly federal tax changes are  
23 not as simple as a pass through, and over a five-year  
24 period it certainly might make sense to make provision  
25 for fundamental changes in both state and federal

1 taxes.

2 MR. ELGIN: Your Honor, I would agree with  
3 that.

4 JUDGE SCHAEER: Mr. Davis, do you agree with  
5 that?

6 MR. DAVIS: Yes, I do.

7 JUDGE SCHAEER: Turning back to page 9.  
8 Looking at gains from transfers of real property,  
9 parties have agreed there will be separate filing with  
10 regard to the general office parking lot and the OBC  
11 land; is that correct?

12 MR. ELGIN: That's correct.

13 JUDGE SCHAEER: Do all parties agree that  
14 those two sales are not merger related?

15 MR. ELGIN: Actually the issue even with  
16 respect to the parties is whether or not it's  
17 jurisdictional under the transfer of property statute,  
18 so that would be in this filing that the stipulation  
19 contemplates would be a threshold question for the  
20 Commission to determine is whether or not it's  
21 jurisdictional under that statute and then if it is  
22 then what will be the appropriate accounting treatment  
23 for that property.

24 JUDGE SCHAEER: I guess what I'm trying to  
25 figure out now is if you know or not, I understand

1 that that would be the issue of the filing, but does  
2 anyone contend that these are merger-related sales or  
3 would everyone agree that they are not merger-related  
4 and we would have one issue off the table in that  
5 filing?

6 MR. DAVIS: Everyone would agree they're  
7 not merger-related.

8 JUDGE SCHAEER: Thank you. Looking at page  
9 10 at the bottom on interim rate relief. Would the  
10 parties anticipate, particularly your parties, Mr.  
11 Davis, demonstrating progress on achieving power  
12 stretch or other cost control goals would be a  
13 necessary part of any request for interim rate relief?

14 MR. DAVIS: We did not.

15 JUDGE SCHAEER: And then turning to other  
16 matters, the proposal includes an agreement to develop  
17 an interim reporting mechanism to insure that the  
18 rates of gas conversions and lines extensions are not  
19 adversely affected by the merger. Would the parties  
20 agree to broaden this provision to monitor the cost  
21 basis for line extension policies to insure that Puget  
22 Sound Energy does not compete unfairly with  
23 overlapping utilities by subsidizing extensions?

24 MR. DAVIS: I am not certain the question  
25 is really clear in my mind so could we go through it

1 slowly?

2 JUDGE SCHAER: Sure. If you look at other  
3 matters on page 14, one of the things that you  
4 committed to do is develop and implement a reporting  
5 mechanism to insure that rates of gas conversions and  
6 line extensions are not adversely affected by the  
7 merger. Do you find that language?

8 MR. DAVIS: Yes.

9 JUDGE SCHAER: And thinking about that  
10 language, would the parties agree to broaden this  
11 provision to monitor the cost basis for line extension  
12 policies in order to insure that Puget Sound Energy  
13 does not compete unfairly with overlapping utilities  
14 by subsidizing line extensions?

15 MR. DAVIS: We would.

16 JUDGE SCHAER: Thank you. That's all I  
17 had. Is there any redirect for any of the witnesses?

18 MR. CEDARBAUM: I don't have any questions.

19 MR. MERKEL: Your Honor?

20 JUDGE SCHAER: Mr. Merkel.

21 MR. MERKEL: I just had about three or four  
22 questions. Earlier I think it was Exhibit 290, was  
23 that the agreement with the Public Power Council?  
24 Would the joint applicants -- it's my understanding  
25 that that agreement is binding between the joint

1 applicants and the Public Power Council but it's not  
2 binding on anybody else. Would the joint applicants  
3 have any objection to the agreement with the PPC being  
4 made binding on the company as a condition of the  
5 merger?

6 MR. DAVIS: Sorry for looking at my lawyer  
7 first but, no, we wouldn't.

8 MR. MERKEL: There have been several  
9 comments about consistency between the merger and the  
10 regional -- various aspects of the regional review.  
11 Does the regional review, at least the last draft I  
12 saw, calls for utilities in the northwest to provide  
13 direct access by July 1, 1999. Does the stipulation  
14 contemplate compliance with that target?

15 MR. ELGIN: No.

16 MR. MERKEL: Can you explain why not?

17 MR. ELGIN: I would think for my own  
18 personal thinking as I don't think the region by 1999  
19 at that date would even be ready. I think that's very  
20 ambitious.

21 MR. MERKEL: There was --

22 MR. ELGIN: Mr. Davis has some comment.

23 MR. MERKEL: Excuse me, go ahead.

24 MR. DAVIS: In the schedule 48 proceeding  
25 that effort we think got specified or clarified to be

1 the open access pilot that's contemplated July 1, and  
2 a follow-up filing by I believe, I want to say,  
3 September of '98 but I'm doing that from memory, a  
4 year later after the effective date of that open  
5 access pilot to address open access for everyone, for  
6 all class of customers, and that is where that policy  
7 stands at this point, memory not failing.

8 MR. MERKEL: So the September 1 '98 filing  
9 would address the issue of when open access for  
10 everyone would come into place.

11 MR. DAVIS: When, how, if, what makes  
12 sense, everything we've learned in between.

13 MR. LAZAR: Exhibit A, the rate plan in the  
14 stipulation, is based upon the power costs of an  
15 integrated utility. The provision on page 10, lines 8  
16 and 9 is where any changes to accommodate open access  
17 during the rate plan period would have to be  
18 accommodated.

19 MR. MERKEL: There was a fair amount of  
20 testimony, I think Mr. Maglietti and others during the  
21 case, about the effect of the loss of competition  
22 between gas and electricity in the overlapping  
23 territories. Does the stipulation do anything to  
24 mitigate that loss of competition between gas and  
25 electric in the overlapping territories?



1           MR. ELGIN:  If you turn to the page on  
2 other matters, under page 14, lines 22, 24, basically  
3 what the stipulation does is address the concerns  
4 raised by staff with respect to those issues and  
5 contemplates those reports, so staff is satisfied that  
6 those issues are addressed.

7           MR. MERKEL:  Including the price effects of  
8 competition between gas and electric for the customers  
9 in those territories?  I understood staff's concern,  
10 one of staff's concerns in Mr. Maglietti's testimony  
11 to be the loss of price competition between gas and  
12 electricity in those areas.

13           MR. ELGIN:  Yes.

14           MR. MERKEL:  Does this reporting  
15 requirement address that?

16           MR. ELGIN:  No.  This reporting requirement  
17 addresses what Mr. Maglietti believed to be sufficient  
18 information to make sure that there isn't an adverse  
19 effect on competition so this stipulation embraces his  
20 recommendation for that report.

21           MR. MERKEL:  But it doesn't address his  
22 concern about price competition.

23           MR. DAVIS:  We believe it does.  Tell you  
24 how we believe it does in that this report  
25 contemplates the conversion rates of utilities that

1 are not combination companies and supports that the  
2 company is pledging to maintain those conversion rates  
3 as if it were a segregated utility. That is meant to  
4 directly address the issue of loss of competition. We  
5 will continue those conversion rates.

6 MR. MERKEL: Could you explain that a  
7 little further, why that achieves that purpose?

8 MR. DAVIS: Well, if the concern is loss of  
9 competition, that is, for instance, the gas company  
10 not being there to convert electric customers to  
11 natural gas service, by asking the company to continue  
12 to report on its progress of converting customers from  
13 electricity to gas specifically in overlapping service  
14 areas you directly deal with the issue of gas  
15 availability.

16 MR. MERKEL: Would that include some report  
17 showing the relationship between conversions in the  
18 overlapping territories and the nonoverlapping?

19 MR. DAVIS: Yes, it would.

20 MR. MERKEL: Final question. There was  
21 also testimony in the case about the advantages of  
22 being a dual fuel utility would afford PUC and,  
23 conversely, the disadvantage that a single fuel  
24 utility would face by not having that option, and  
25 actually that was interesting to hear the comments of

1 some of the public today in which one stop shopping  
2 was pointed to as one of the key things that consumers  
3 want. Does the stipulation do anything to mitigate  
4 the effects of any competitive advantages PSE will  
5 obtain vis-a-vis single fuel competitors as a result  
6 of the merger?

7 MR. ELGIN: No, it does not.

8 MR. MERKEL: Thank you. No further  
9 questions.

10 JUDGE SCHAEER: Is there anything else to  
11 come before us today? Then we have briefs due on  
12 January 3rd and with that we will be off the record.

13 (Hearing adjourned at 3:18 p.m.)

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