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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

2 -----)  
3 WASHINGTON UTILITIES AND )  
4 TRANSPORTATION COMMISSION, ) DOCKET NO. UE-950618  
5 )  
6 Complainant, ) VOLUME 2  
7 )  
8 vs. ) PAGES 19 - 143  
9 )  
10 PUGET SOUND POWER & LIGHT )  
11 COMPANY, )  
12 )  
13 Respondent. )  
14 -----)

9 A hearing in the above matter was held on  
10 August 7, 1995, at 8:40 a.m. at 1300 South Evergreen  
11 Park Drive Southwest before Chairman SHARON NELSON,  
12 Commissioners RICHARD HEMSTAD, WILLIAM GILLIS and  
13 Administrative Law Judge MARJORIE SCHAER.

14 The parties were present as follows:

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

17 WASHINGTON UTILITIES AND TRANSPORTATION  
18 COMMISSION STAFF, by SALLY G. JOHNSTON, Assistant  
Attorney General, 1400 South Evergreen Park Drive  
Southwest, Olympia, Washington 98504.

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

21 WICFUR, by MARK P. TRINCHERO, Attorney at  
22 Law, 1300 SW Fifth Avenue, Suite 2300, Portland,  
Oregon 97201.

23 BONNEVILLE POWER ADMINISTRATION, by GARY  
24 GRANGE, Financial Analyst, 11579 SE Falbrook Drive,  
Clackamas, Oregon 97015  
25 Cheryl Macdonald, Court Reporter

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1 I N D E X

2	WITNESSES:	D	C	RD	RC	EXAM
	LAUCKHART	23	24			91
3	SMITH	102	104			117
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4  
5 PANELISTS: OMOHUNDRO, TRINCHERO, SMITH, TROTTER,  
KELLY, MARTIN, GRANGE

6 PANEL DISCUSSION 55

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

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

3 The hearing will come to order. The Washington  
4 Utilities and Transportation Commission has set for  
5 hearing at this time and place the direct and  
6 cross-examination of company testimony in docket No.  
7 UE-950618, the Washington Utilities and Transportation  
8 Commission vs. Puget Sound Power and Light Company.  
9 The docket is the filing by Puget for an increase in  
10 rates under the periodic rate adjustment mechanism and  
11 is known as PRAM 5.

12 The hearing is taking place on August 7,  
13 1995 at Olympia before the commissioners. I am  
14 Marjorie Schaer, an administrative law judge with the  
15 Commission. I would like to take appearances. Just  
16 give your client's name if you've already given your  
17 address. For the respondent.

18 MR. VAN NOSTRAND: On behalf of Puget Sound  
19 Power and Light Company, James M. Van Nostrand.

20 JUDGE SCHAER: Commission staff.

21 MS. JOHNSTON: Sally G. Johnston, assistant  
22 attorney general.

23 JUDGE SCHAER: For public counsel.

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

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1 JUDGE SCHAER: For intervenors.

2 MR. TRINCHERO: On behalf of the Washington  
3 Industrial Committee for Fair Utility Rates, Mark P.  
4 Trinchero, 1300 Southwest Fifth Avenue, Suite 2300,  
5 Portland, Oregon 97201.

6 JUDGE SCHAER: And are there any  
7 preliminary matters to come before the Commission?

8 MR. GRANGE: My name is Gary Grange. I'm  
9 with the Bonneville Power Administration. It's late  
10 in the docket; nevertheless, I understand that  
11 Bonneville had not to this point requested party  
12 status in the PRAM 5 proceeding and I would like to do  
13 so now.

14 JUDGE SCHAER: Are there any objections to  
15 an intervention by Bonneville Power Administration  
16 from any party?

17 Hearing none that intervention will be  
18 granted, and Mr. Grange, will you please state your  
19 business address for the record.

20 MR. GRANGE: I wish I could. I don't  
21 know the business address for the record, frankly.  
22 Business address is Post Office Box, 3621, Portland  
23 Oregon, 97208.

24 JUDGE SCHAER: Is there anything else in  
25 the way of preliminary matters? I have suggested to

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1 the parties that we proceed with the testimony of Mr.  
2 Lauckhart and that we hold the panel on PRAM until all  
3 three commissioners are present. Does anyone disagree  
4 with proceeding in that matter?

5                   Would you call your first witness, please,  
6 Mr. Van Nostrand.

7                   MR. VAN NOSTRAND: Thank you, Your Honor.  
8 The company calls J. Rich Lauckhart.  
9 Whereupon,

10                   RICHARD LAUCKHART,  
11 having been first duly sworn, was called as a witness  
12 herein and was examined and testified as follows:

13

14                   DIRECT EXAMINATION

15 BY MR. VAN NOSTRAND:

16           Q.     Mr. Lauckhart, do you have before you  
17 what's been marked for identification as Exhibit T-1?

18           A.     Yes.

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

21           A.     Yes.

22           Q.     Do you have any additions or corrections to  
23 make to Exhibit T-1 at this time?

24           A.     No.

25           Q.     If I asked you the questions set forth in

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1 Exhibit T-1 today, would you give the answers as set  
2 forth in that exhibit?

3 A. Yes.

4 Q. You also have before you what's been marked  
5 for identification as Exhibits 2 through 9?

6 A. Yes.

7 Q. And were these exhibits prepared under your  
8 direction and supervision?

9 A. Yes.

10 Q. Do you have any additions or corrections to  
11 make to Exhibits 2 through 9?

12 A. No.

13 Q. Are these exhibits true and correct to the  
14 best of your knowledge?

15 A. Yes.

16 MR. VAN NOSTRAND: Your Honor, move the  
17 admission of Exhibit T-1 and Exhibits 2 through 9.

18 JUDGE SCHAER: Are there any objections?  
19 Those documents will be admitted.

20 MR. VAN NOSTRAND: Mr. Lauckhart is  
21 available for cross-examination.

22 (Admitted Exhibits T-1, 2 - 9.)

23

24 CROSS-EXAMINATION

25 BY MS. JOHNSTON:

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1 Q. Thank you. Good morning, Mr. Lauckhart.

2 A. Good morning.

3 Q. Please turn to page 8 of your testimony.

4 A. Yes.

5 Q. Starting at line 16 you discuss the  
6 proposed revision to schedule 94. According to your  
7 testimony you are proposing to increase the exchange  
8 credit after taking into account changes in BPA's  
9 priority firm exchange rate in the company's average  
10 system cost; is that correct?

11 A. Yes.

12 Q. Also you state on lines 22 through 24  
13 that you took into consideration the current balance  
14 in your residential exchange account and an expected  
15 AFC true-up for the PRAM 2 estimated period; is that  
16 correct?

17 A. Yes.

18 Q. Please turn to page 8 of your residential  
19 exchange work papers. Do you have those with you?

20 A. Yes, I do.

21 Q. That work paper page portrays the estimated  
22 balance in the residential exchange account as of  
23 September 1995 as being \$21.4 million; is that  
24 correct?

25 A. Yes.

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1 Q. To arrive at the rate of 2.15 mills per  
2 kilowatt hour, you divided the \$10 million balance by  
3 the estimated qualified load during the PRAM 5 period  
4 of 10 million megawatt hours which include  
5 distribution losses; is that correct?

6 A. Approximately 10 million, yes.

7 Q. Following issuance of staff data request  
8 37, would you agree that the correct qualified load  
9 for purposes of the calculation in this work paper  
10 should have been net of distribution losses?

11 A. That's another way to do that which we  
12 would find acceptable.

13 Q. The corrected estimated megawatt hours  
14 which exclude distribution losses is 9.4 megawatt  
15 hours as reflected on work paper page 3; is that  
16 correct?

17 A. 9.4 million megawatt hours, did you say?

18 Q. Yes.

19 A. Yes.

20 Q. If the correct megawatt hour is used in the  
21 calculation, would you accept subject to check that  
22 the resulting mills per kilowatt hour would be 2.28  
23 rather than 2.15?

24 A. I will accept that subject to check.

25 Q. And would you accept further that this

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1 correction would increase the proposed schedule 94  
2 credit from 11.57 mills per kilowatt hour to 11.71  
3 mills per kilowatt hour?

4 A. Yes.

5 Q. I would like to direct your attention now  
6 in the schedule to page 2 of your Exhibit 7.

7 A. Okay.

8 Q. Line 12 reflects the Colstrip unit 1 and 2  
9 coal price that was allowed by the Commission in  
10 Puget's last general rate case and the price projected  
11 by the company for this coal for the PRAM 5 period;  
12 is that true?

13 A. Yes.

14 Q. As shown on that line both the allowable  
15 projected prices are at the same level of 4.67 mills  
16 per kilowatt hour; is that true?

17 A. Yes.

18 Q. Is it true that the 4.67 mills per kilowatt  
19 hour was derived from the price of \$5.51 per ton  
20 that the Commission temporarily accepted for Colstrip  
21 1 and 2 coal in Puget's last general rate case pending  
22 an arbitration and that this price was subject to  
23 true-up in PRAM 4?

24 A. It's true it was the number established in  
25 the last rate case. I don't remember if it was

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1 exactly 5.51 but I would accept that subject to check.

2 Q. Please turn to page 5 of your testimony.

3 Beginning at line 7 you discuss the true up of this  
4 coal price; is that true?

5 A. Yes.

6 Q. And you state beginning at line 9 that the  
7 Colstrip 1 and 2 coal price arbitration process was  
8 concluded in March of 1995 and that based on the  
9 results and Puget's interpretation of the arbitration  
10 process the company has trued up to actual the  
11 Colstrip 1 and 2 coal price retroactively to October  
12 1, '93. Do you see that?

13 A. Yes.

14 MS. JOHNSTON: Like to have this marked for  
15 identification, please.

16 (Marked Exhibit 18.)

17 Q. Mr. Lauckhart, I just handed you what's  
18 been marked for identification as Exhibit 18. Do you  
19 recognize this as page 318 of the company's simple  
20 dispatch model updated work papers?

21 A. Yes. It's page 318 of the work papers.

22 MS. JOHNSTON: Your Honor, I move its  
23 admission.

24 JUDGE SCHAER: Any objection?

25 MR. VAN NOSTRAND: No, Your Honor.

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1                   JUDGE SCHAER: This document will be  
2 admitted.

3                   (Admitted Exhibit 18.)

4           Q.       Now, this page shows the calculation of  
5 Colstrip 1 and 2 coal price true-up for the months of  
6 October 1993 through February 1995; is that correct?

7           A.       Yes.

8           Q.       Directing your attention to column 6 of  
9 this page, does this column reflect the Colstrip 1 and  
10 2 coal prices calculated by Puget for the purpose of  
11 this true-up based on the company's interpretation of  
12 the arbitration results?

13          A.       I believe that's correct.

14          Q.       It appears that the trued up Colstrip 1 and  
15 2 coal price for any of the months from October 1993  
16 through February 1995 is lower than the level of 4.67  
17 mills per kilowatt hour allowed in Puget's last  
18 general rate case. Wouldn't you agree?

19          A.       Yes.

20                   MS. JOHNSTON: I would like to have these  
21 marked as the next exhibits in line, please.

22                   JUDGE SCHAER: Any preference as to order?  
23 I will put No. 19 as Exhibit 19 for identification and  
24 No. 25 is Exhibit 20 for identification. I note  
25 that No. 19 says confidential at the bottom.

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1 MS. JOHNSTON: Yes, but you may ignore  
2 that. The confidentiality pertains to what was  
3 provided to staff in response to sub C which is a copy  
4 of the arbitrator's decision and I'm not offering  
5 that.

6 JUDGE SCHAEER: Do you agree with that, Mr.  
7 Van Nostrand?

8 MR. VAN NOSTRAND: That's correct, Your  
9 Honor.

10 JUDGE SCHAEER: I'm going to mark out  
11 confidential on the official copy. Is that  
12 appropriate?

13 MR. VAN NOSTRAND: That's fine. Ms.  
14 Johnston discussed that with me prior to the hearing  
15 starting and that's fine.

16 (Marked Exhibits 19 and 20.)

17 Q. Mr. Lauckhart, you've just been handed  
18 what's been marked for identification as Exhibit 19  
19 and Exhibit 20. Exhibit 19 is your response to staff  
20 data request No. 19 and Exhibit 20 is your response to  
21 staff data request No. 25. Do you recognize these  
22 responses?

23 A. Yes.

24 MS. JOHNSTON: Your Honor, move the  
25 admission of Exhibits 19 and Exhibit 20.

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1 JUDGE SCHAER: Any objections?

2 MR. VAN NOSTRAND: No objection.

3 JUDGE SCHAER: Those documents will be  
4 admitted.

5 (Admitted Exhibits 19 and 20.)

6 Q. Please turn to page 2 of your testimony.  
7 Page 2 of your Exhibit 7.

8 A. Yes.

9 Q. We're going to turn now to the topic of  
10 secondary purchase and sales prices. Based on your  
11 Exhibit 7, page 2, lines 14 and 15, there is a  
12 difference each month between the allowed and  
13 projected purchased power rate; is that correct?

14 A. Secondary purchased power rate, yes.

15 Q. And the same is true for sales rates; is  
16 that correct?

17 A. Yes.

18 Q. In looking at pages 17 and 18 of the  
19 projected work papers supporting these figures, can  
20 you describe the change in methodology to determine  
21 the PRAM 5 projections as compared to the PRAM 4  
22 amounts?

23 A. Yes. We essentially used the same approach  
24 that was used in PRAM 4 although we noticed that the  
25 forecast in PRAM 4 using that old approach missed the

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1 actual secondary purchases and sales rate by a fairly  
2 sizable amount, so we took a look at the underlying  
3 data to find that there was something in there that  
4 was causing these forecasts to be somewhat misleading,  
5 and we identified, we think, approximately four months  
6 in these five years of historical data where we felt  
7 the data was not typical for those months because of  
8 an extreme weather event or something, so in this case  
9 we eliminated those more extreme data from the  
10 averages. Other than that it's the same approach.

11 Q. So you didn't add any additional years to  
12 determine the averages?

13 A. No. We did update the data through '94.  
14 We updated through '94.

15 Q. Do you believe that the use of a five-year  
16 average dating back to '89 for the PRAM 5 projections  
17 best represents the secondary market for the projected  
18 period given both the rapid changes that occurred and  
19 continue to occur in the region's energy environment?

20 A. We did look to see if the averages seemed  
21 to be representative of today's prices in our minds,  
22 and they did not unless this more extreme data was  
23 eliminated. If you eliminated the more extreme data  
24 it did look much closer to the kinds of rates we're  
25 experiencing.

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1 Q. Will you please turn to page 18 of the  
2 projected work papers. Line 8 labeled southwest adder  
3 mills represents the additional sales rate for sales  
4 to the southwest versus what it could be sold for in  
5 the northwest; is that correct?

6 A. Yes.

7 Q. Is the 1.72 mill amount different than what  
8 was used for this purpose in the last general rate  
9 case and PRAM 4 projections?

10 A. Yes.

11 Q. Do you recall what figure you used then?

12 A. Not exactly. It was close to five mills.

13 Q. What is the basis for the 1.72 mill amount  
14 in the PRAM 5 projections?

15 A. This is actual data that we collected since  
16 December of last year.

17 Q. In looking at line 5 of the same work  
18 paper, page 18, would it be correct to say that all  
19 surplus energy is assumed sold to the southwest if  
20 sufficient capacity on the intertie exists?

21 A. Yes.

22 Q. Is it also correct that the assumption is  
23 that these would be all secondary sales and not firm  
24 transactions?

25 A. Yes.

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1 Q. Please turn to your Exhibit 4.

2 A. Turn to which?

3 Q. Exhibit 4.

4 A. This is the April 17 letter.

5 Q. Actually page 3 of 3. This exhibit shows  
6 the truing up of benefits associated with marketing  
7 energy utilized in the third AC intertie; is that  
8 correct?

9 A. Yes.

10 Q. On line 6 of page 3 of this exhibit we see  
11 a figure representing the difference in sales rates  
12 between nonfirm southwest sales and nonfirm northwest  
13 sales; is that correct?

14 A. Yes.

15 Q. And this amount is about two times the  
16 amount used as the southwest adder that we previously  
17 discussed; is that right?

18 A. Yes.

19 Q. Can you explain the differences between  
20 these two amounts?

21 A. This was the actual value for December of  
22 1994, what we used in this letter. What we did for  
23 purposes of the projection is we took these same  
24 actuals for several months after December, all the  
25 months we had up until the filing in this case and

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1 we averaged those. The average turned out to be 1.72.

2 MS. JOHNSTON: Your Honor, as the first  
3 record requisition we would ask that Mr. Lauckhart  
4 provide us with the calculation showing the 1.72, how  
5 he arrived at that.

6 JUDGE SCHAER: Is that request clear to  
7 you, Mr. Lauckhart?

8 THE WITNESS: Yes.

9 JUDGE SCHAER: For my benefit since we do  
10 not have the work papers could you just identify where  
11 that figure of 1.72 comes from?

12 MS. JOHNSTON: Work paper page 18, line 8.

13 THE WITNESS: Actually, if you turn to page  
14 19 in the work papers you will find the derivation of  
15 the 1.72 that you were requesting.

16 MS. JOHNSTON: Thank you.

17 JUDGE SCHAER: I will leave this as record  
18 requisition No. 1 and if that proves to be the  
19 response to record requisition No. 1 that will be  
20 fine. So that we don't need to go back I will leave  
21 that.

22 (Record requisition 1.)

23 Q. Please turn to your Exhibit 7, page 2.

24 A. Yes.

25 Q. In looking at the line labeled hydro, line

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1 18, would it be correct to say that the difference  
2 between the allowed and projected columns is the  
3 result of two factors the first being the effects of  
4 the 40-year rolling average and the second being  
5 impact of the draft biological opinion as developed by  
6 Merrill Schultz and Associates?

7 A. Could you repeat the question.

8 Q. Would you agree that there are differences  
9 between the allowed and projected columns?

10 A. Yes.

11 Q. And would you also agree that those  
12 differences are attributable largely to two factors  
13 the first being the effects of the 40-year rolling  
14 average and the second being the impact of the draft  
15 biological opinion?

16 A. Both of those numbers are based on 40-year  
17 rolling averages; the same 40 years is used in both  
18 those numbers. The difference is in part due to the  
19 biological opinion that was analyzed by Merrill  
20 Schultz and Associates, and the other part would be  
21 just it was a different year, operating year.

22 Q. Like to ask you a couple of questions now  
23 on the Merrill Schultz and Associates report that was  
24 used to determine hydro input into the simplified  
25 dispatch model. Could you turn to your response to

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1 public counsel data request 205.

2 A. Yes.

3 Q. That's the February 9, 1995 report labeled  
4 Impact of Draft Biological Opinion on the Northwest  
5 Electric Power System and Facilities. Now, that  
6 report was used to determine the hydro values  
7 contained in your Exhibit 7; is that correct?

8 A. It was one of the bases upon which my data  
9 was founded, yes.

10 Q. Would you please turn to the middle of page  
11 2 of that report.

12 A. Yes.

13 Q. The last paragraph under executive summary  
14 begins, "The draft BO's impose a web," and continues  
15 on. Could you please read that paragraph into the  
16 record?

17 A. Yes. "The draft BO's" -- which is  
18 biological opinions -- "impose a web of flow and  
19 elevation constraints on Libby, Hungry Horse and Grand  
20 Coulee reservoirs that cannot be simultaneously  
21 achieved. Some summer recreation on these lakes  
22 would, it appears, suffer substantially. Compared  
23 with the system managed as depicted in the 1994  
24 and 1995 NUCC northwest regional forecast, loss of  
25 firm energy load carrying capability would be at least

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1 2,000 average megawatts and, depending on the  
2 interpretation, could be as large as 5,500 average  
3 megawatts."

4 Q. Next turn to page 8 of this report. That  
5 page discusses assumptions, would you agree?

6 A. Yes.

7 Q. And one of the items discussed is the issue  
8 of modeling the Canadian tree storage. Would you  
9 agree that there appears to be some uncertainty  
10 surrounding this particular issue and further that the  
11 uncertainty might affect the way the system is  
12 operating in melding treaty requirements with  
13 biological opinion recommendations?

14 A. Well, there's uncertainty here because  
15 there is some desire by people in the United States to  
16 use Canadian storage to help with the fish flush.  
17 However, the Canadians have no obligation to do that,  
18 and at the time the study was done and continuing  
19 today, there is not an agreement between the U.S. and  
20 the Canadians about that.

21 JUDGE SCHAEER: You have handed me a  
22 one-page document which appears to be response to data  
23 request No. 216 and I will mark it for identification  
24 as Exhibit No. 21.

25 (Marked Exhibit 21.)

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1 Q. Mr. Lauckhart, do you recognize what's been  
2 marked for identification as Exhibit 21 as your  
3 response to public counsel data request 216?

4 A. Yes.

5 MS. JOHNSTON: Like to have that admitted,  
6 Your Honor.

7 JUDGE SCHAER: Any objections?

8 MR. VAN NOSTRAND: None.

9 JUDGE SCHAER: Document is admitted.

10 (Admitted Exhibit 21.)

11 Q. Is it correct that the effect of using the  
12 Merrill Schultz and Associates report including the  
13 biological opinion results in an approximate \$2.9  
14 million increase in revenue requirement for resource  
15 cost as compared to using the 1995 northwest regional  
16 forecast values for hydro output?

17 A. Yes, and that's the approximate effect on  
18 Puget Power from the biological opinion.

19 Q. We're going to move on to the issue of  
20 contracts. Direct your attention to line 27 of your  
21 Exhibit 7. There you refer to the BPA 20-year  
22 purchase exchange contract. Is that true?

23 A. Yes.

24 Q. Is it also true that the power rate under  
25 this contract gets adjusted based on the new

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1 Bonneville priority firm rate?

2 A. Yes.

3 Q. Is it also true that the projected as shown  
4 here in Exhibit 7 have been increased based on the  
5 1995 initial rate proposal dated May 1995?

6 A. Actually it's been adjusted by the 4  
7 percent that has been stipulated to by the parties in  
8 the Bonneville rate case to be effective this year.

9 Q. Going down to the capacity purchase at page  
10 2, line 33 of this same exhibit, the projected work  
11 papers show a need for capacity in the November 1995  
12 to February 1996 time frame; is that correct?

13 A. Yes.

14 Q. And the basis for the \$3 a kilowatt rate is  
15 contained in your response to public counsel's data  
16 request 207; is that correct?

17 A. Yes.

18 JUDGE SCHAER: You have handed me a  
19 multi-page document which appears to be the response  
20 to public counsel data request No. 207. I will mark  
21 it for identification as Exhibit No. 22.

22 (Marked Exhibit 22.)

23 Q. Mr. Lauckhart, do you recognize what's been  
24 marked for identification as Exhibit No. 22 as your  
25 response to public counsel data request 207?

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1 A. Yes, I believe that's it.

2 MS. JOHNSTON: Your Honor, move the  
3 admission of Exhibit 22.

4 JUDGE SCHAER: Any objection?

5 MR. VAN NOSTRAND: None.

6 JUDGE SCHAER: Document is admitted.

7 (Admitted Exhibit 22.)

8 Q. Now, the Destec offer contained in  
9 attachment 207 subsection C is dated March 23, 1995;  
10 is that correct?

11 A. Yes.

12 Q. And the other quote-unquote offer sheet  
13 from Bonneville is dated October 1994; is that  
14 correct?

15 A. Yes.

16 Q. Has the company received any additional  
17 offers for capacity sales subsequent to those two  
18 offers?

19 A. Not that we had documentation for.

20 Q. What does that mean?

21 A. Nothing formal. We haven't received any  
22 formal offers for capacity like this.

23 Q. How many informal offers have you received?

24 A. I don't know. They typically wouldn't call  
25 me.

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1 Q. You address the Montana Power Company  
2 contract at line 36. Now, this contract is the  
3 subject of some legal dispute; is that true?

4 A. Yes.

5 Q. Exhibit 7 indicates that the energy taken  
6 under this contract is projected to decrease from 85.2  
7 average megawatts to 75.6 average megawatts; is that  
8 correct?

9 A. That's correct for that one month of  
10 October. Over the year we've estimated there will be  
11 approximately the same.

12 Q. Is that decrease part of the contract  
13 terms?

14 A. The contract allows us to shape that power  
15 somewhat during the year.

16 Q. It also appears that the amount paid under  
17 this contract increases about one million per month  
18 during the projected period as compared to the allowed  
19 period; is that correct?

20 A. That's what that indicates, yes.

21 Q. In the event the company prevails in the  
22 legal facts pertaining to this contract, is it Puget's  
23 intent to not true up the amounts or would this be a  
24 special case where the amount would be trued up if the  
25 contract were eliminated or materially changed?

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1           A.     Well, that's a complicated question. This  
2 litigation would take years to resolve, and depending  
3 on the situation at the time I guess that would need  
4 to be looked at.

5           Q.     The Encogen, March Point, Sumas and Tenaska  
6 contracts were subject to true-up under the PRAM; is  
7 that correct?

8           A.     Yes.

9           Q.     Can you tell us if the company is presently  
10 undergoing any formal of renegotiation of those  
11 contracts in regard to price or other terms?

12          A.     We are attempting to work on these  
13 contracts.

14          Q.     Was one of the issues price? I'm just  
15 trying to get an idea of what you meant when you said  
16 you were working on them.

17          A.     Yeah. I think it's fairly well known that  
18 these contracts are what we would now call in today's  
19 market priced out of the market. Prices have come  
20 down significantly from what we thought they were  
21 going to be when we executed these agreements. That  
22 leads one to begin to explore avenues to see if some  
23 adjustments can be made. We've been looking at the  
24 contracts and also working with our attorneys on that.

25          Q.     On page 8 of your Exhibit 7 on line 41, we

00044

1 see QF Encogen. Can you explain the reason for the  
2 annual megawatt months figure going from 1,690 under  
3 allowed to the 1,862 under projected?

4 A. Yes. At the time we went through the  
5 general rate case on these a question came up, what  
6 will be the availability factor of these cogeneration  
7 facilities. Like the coal plant that we discussed in  
8 our general rate case, you have to make an estimate of  
9 how much these things will run. We made an estimate  
10 back at that time that they would perform at an 88  
11 percent availability factor. That was before we had  
12 actual experience.

13 We now have actual experience that shows  
14 they're in the mid to upper 90s on their availability,  
15 so -- and this PRAM procedure on these things we're  
16 supposed to be making our best estimate of these  
17 things and then truing them up. In the past we had  
18 been estimating at 88 percent, and the true-up ended  
19 up resulting in large deferrals so we've now estimated  
20 that the availability factors in the future will be  
21 close to what they've been in the past.

22 Q. Can you explain why the total cost of this  
23 contract increases approximately 144 percent from  
24 about 27.8 million to approximately 67.7 million while  
25 the total megawatt months taken under the contract

00045

1 increases only about 10 percent?

2 A. I would have to check, but I suspect that a  
3 lot of the generation in the general rate case number  
4 was probably test energy that was purchased at a  
5 secondary rate as opposed to the contract rate, but I  
6 would have to check.

7 MS. JOHNSTON: As record requisition 2,  
8 Your Honor, I would ask that Mr. Lauckhart reconcile  
9 those figures for us.

10 JUDGE SCHAER: Would you give me the  
11 figures again, please.

12 MS. JOHNSTON: Total cost of the contract  
13 increases approximately 144 percent, that is, from  
14 about 27.8 million to approximately 67.7 million,  
15 while total megawatt months taken into the contract  
16 increases about 10 percent.

17 JUDGE SCHAER: Will you be able to do that,  
18 Mr. Lauckhart?

19 THE WITNESS: Yes.

20 JUDGE SCHAER: That would be record  
21 requisition 2.

22 (Record requisition 2.)

23 Q. Would you turn to your projected work paper  
24 page 142, please.

25 A. Yes.

00046

1 Q. This page shows the calculation of monthly  
2 energy amounts for Encogen, Sumas, March Point 1 and 2  
3 and Tenaska contracts based on the availability factor  
4 of 97 percent; is that correct?

5 A. Yes.

6 Q. And what is the basis for using a 97  
7 percent availability factor for all of these  
8 contracts?

9 A. That's the approximate average that these  
10 plants have been available since they came on line.

11 Q. Is it your expectation that the facilities  
12 behind these contracts can continue to operate in the  
13 97 percent availability factor over an extended  
14 period?

15 A. Yes.

16 Q. How long? Define extended.

17 A. Well, I think we're talking here about the  
18 duration of the contracts, and there will be some  
19 degradation as they get a little bit older but that  
20 will be a slow degradation and the project owners may  
21 decide to put some money into bringing them back up,  
22 but for the next year we believe this is a reasonable  
23 estimate.

24 Q. Do you recall what availability factors  
25 were assumed by the company in evaluating these

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1 particular contracts during their acquisition phase?

2 A. I think it was in the 88 percent range.

3 Q. Would you accept subject to check that  
4 March Point 2 was evaluated using an 89 percent  
5 availability factor?

6 A. I will accept that subject to check.

7 Q. And Sumas a 79 percent availability factor?

8 A. That sounds low, but could you point to me  
9 where you were getting that number.

10 Q. From the prudence documents. And would you  
11 also accept subject to check that Tenaska was  
12 evaluated using an 88 percent availability factor and  
13 Encogen an 81 percent factor?

14 A. Encogen sounds a little low also but I will  
15 accept that subject to check.

16 Q. Would it be correct to state that the use  
17 of an increased availability factor would increase the  
18 costs associated with the contract if all else were  
19 equal and the increased energy was indeed purchased?

20 A. I don't believe that's correct. The price  
21 is the same per kilowatt hour no matter how much they  
22 generate.

23 Q. But if you take more it would pay more.  
24 Does that make sense?

25 A. Yes. You get more power, you pay more.

00048

1           Q.     I just want to ask a couple of hypothetical  
2 questions here.  Assume your resource portfolio  
3 consisted of a unit that was a must run unit or a  
4 contract with must take provisions.  And further  
5 assume that the incremental cost of energy from that  
6 unit or contract is 10 mills.  If the market price for  
7 energy was at 20 mills, would it be correct that  
8 increasing the production from the unit or take from  
9 the contract would, all else being equal, be  
10 beneficial to the company because the increased energy  
11 could be sold for a profit or maybe another more  
12 expensive unit would be displaced?

13           A.     Yes.

14           Q.     Now, let's reverse the relationship between  
15 the incremental resource cost and the market price.  
16 Please assume that the incremental cost -- that the  
17 incremental cost of the resource is 40 mills and the  
18 market price is 20 mills; then, all else being equal,  
19 is there some benefit in increasing the amount of  
20 energy taken from the more expensive resource?

21           A.     No benefit.

22                   JUDGE SCHAER:  You've handed me a one page  
23 document which appears to be company response to  
24 public counsel data request No. 213.  I will mark it  
25 for identification as Exhibit No. 23.

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1 (Marked Exhibit 23.)

2 Q. Mr. Lauckhart, do you recognize what's been  
3 marked for identification as Exhibit 23?

4 A. Yes.

5 Q. What is it?

6 A. This is Puget's response to data request  
7 No. 213.

8 MS. JOHNSTON: Your Honor, move the  
9 admission of Exhibit 23.

10 JUDGE SCHAER: Any objection?

11 MR. VAN NOSTRAND: No objection.

12 JUDGE SCHAER: Document is admitted.

13 (Admitted Exhibit 23.)

14 Q. Now, this response shows the effect on PRAM  
15 5 revenue requirement for resource costs of using the  
16 same level of output that was projected in the last  
17 general rate case and PRAM 4; is that correct?

18 A. Yes.

19 Q. Is it also correct to say that the use of a  
20 97 percent availability factor results in an  
21 approximate \$11.6 million increase in revenue  
22 requirement as compared to using PRAM 4 and previous  
23 general rate case output?

24 A. Yes.

25 Q. Recently Puget filed and it received

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1 approval for the company to enter into a special power  
2 sale agreement with ARCO Products Company. Do you  
3 recall that?

4 A. Yes.

5 Q. Subsequent to the approval of contract an  
6 amendment was also filed and approved; is that  
7 correct?

8 A. I believe so.

9 Q. In both of the Commission's orders on  
10 initial approval and amendment the Commission  
11 expressly stated, "The difference between the rates  
12 charged in the agreement and tariff rates that would  
13 otherwise be applicable to ARCO can only be recovered  
14 if at all after a general rate case." Do you recall  
15 that or would you accept subject to check that that  
16 particular language appears --

17 A. I will accept that subject to check.

18 Q. During the May 31 open meeting when the  
19 filing was presented for decision by the Commission  
20 Mr. Swofford stated that the contract is not taken up  
21 or included in this PRAM 5 case. Can you confirm  
22 that?

23 A. I'm not sure I fully understand the  
24 question, but we did do our forecast of revenues here  
25 under the assumption that ARCO was buying at the

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1 schedule 49 rate.

2 Q. Considering the mechanics of the PRAM,  
3 particularly the true-up and deferral aspects, wherein  
4 the actual sales receipts are compared with actual  
5 allowed revenues, is it true that the current  
6 mechanism would use the actual ARCO sales at the  
7 contract rate when this comparison is made?

8 A. Could you repeat that question.

9 Q. Given the mechanics of the PRAM, is it true  
10 that the PRAM would use the actual ARCO sales at the  
11 contract rate when comparing sales receipts with  
12 actual allowed revenues?

13 A. In our normal deferral calculations are you  
14 talking about?

15 Q. Yes.

16 A. That's the way I understand it would  
17 normally work.

18 Q. Now, to abide by the provision that I just  
19 read to you from the Commission's orders, it would be  
20 necessary to adopt an adjustment procedure that would  
21 reprice the load at an applicable tariff rate in lieu  
22 of a contract rate before making the actual sales and  
23 allowed revenue comparisons. Would you agree?

24 A. I would agree generally. You might have  
25 better luck talking to John Story about some of these

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1 fixes.

2 JUDGE SCHAER: You have handed me a  
3 two-page document and confidential stamped envelope  
4 which appears to be a response to public counsel  
5 request No. 218. I have marked the document Exhibit  
6 C-24 for identification.

7 (Marked Exhibit C-24.)

8 Q. Mr. Lauckhart, do you recognize what's been  
9 marked as Exhibit C-24 for identification as your  
10 response to public counsel data request No. 218?

11 A. Actually, this was Mr. Story's response to  
12 that data request.

13 Q. Puget --

14 A. It was done by Puget by Mr. Story.

15 MS. JOHNSTON: Your Honor, move the  
16 admission of Exhibit C-24, please.

17 JUDGE SCHAER: Any objection?

18 MR. VAN NOSTRAND: No objection.

19 JUDGE SCHAER: Document is entered.

20 (Admitted Exhibit C-24.)

21 Q. Now, is it true that your response to  
22 public counsel's request appearing in sub A indicates  
23 that the ARCO special contract is not reflected in the  
24 revenue receipts forecast for PRAM 5?

25 A. Yes.

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1 Q. Then without going into the details and  
2 mechanics, is it also true that the response to  
3 request sub B reflects the company's understanding  
4 that an adjustment procedure is going to be made and  
5 that your response to sub C is an example of such a  
6 procedure?

7 A. That's generally my understanding.

8 Q. Please turn to your Exhibit 8. Exhibit 8  
9 depicts the calculation of the \$62.8 million increase  
10 for the PRAM 5 period; is that correct?

11 A. Yes.

12 JUDGE SCHAER: You've handed me a  
13 multi-page document which is identified as PRAM 5 rate  
14 design work papers. It will be marked for  
15 identification as Exhibit 25.

16 (Marked Exhibit 25.)

17 Q. Mr. Lauckhart, do you recognize what's been  
18 marked as Exhibit 25 for identification as Puget's  
19 rate design work papers in this docket of pages 1  
20 through 7 of those work papers?

21 A. I believe that's what those are. I'm not  
22 intimately familiar with them.

23 MS. JOHNSTON: Your Honor, move the  
24 admission of Exhibit 25.

25 JUDGE SCHAER: Any objection?

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1 MR. VAN NOSTRAND: No objection.

2 JUDGE SCHAEER: Document is admitted.

3 MS. JOHNSTON: Thank you.

4 (Admitted Exhibit 25.)

5 Q. On page 1, line 1 -- page 1, line 3 you see  
6 the breakdown of the \$62.8 million which was  
7 calculated in Exhibit 8. That lines shows a \$45.1  
8 million figure and a \$17.6 million figure. Is it true  
9 that the \$17.6 million represents the deferral  
10 amortization rate of the \$54.2 million granted in PRAM  
11 4?

12 A. You might better ask these questions to  
13 John Story.

14 MS. JOHNSTON: Thank you. We'll do that.  
15 That's all I have.

16 JUDGE SCHAEER: Let's go off the record for  
17 a morning recess and take 15 minutes. When we come  
18 back let's convene the panel that will be addressing  
19 questions regarding the PRAM termination. We  
20 discussed setting up the panel at the table where  
21 counsel for the company and WICFUR and BPA are now  
22 sitting, so let's break and come back at 9:50, please.

23 (Recess.)

24 JUDGE SCHAEER: We'll be back on the record  
25 after our morning recess. At this point in the

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1 hearing we're going to take a panel presentation of a  
2 joint proposal of a PRAM collaborative to eliminate  
3 the PRAM proceeding. I'm going to ask those persons  
4 who are going to be appearing as part of the panel to  
5 be sworn at this time. Will you raise your right  
6 hand, please.

7 Whereupon,

8 CHRISTY OMOHUNDRO, DEBORAH SMITH, ANDREA KELLY, ROLAND  
9 MARTIN, MARK TRINCHERO, GARY GRANGE,  
10 having been first duly sworn, were called as witnesses  
11 herein and were examined and testified as follows:

12 JUDGE SCHAER: Will you please state your  
13 name and the parties that you're representing.

14 MS. OMOHUNDRO: Christy Omohundro,  
15 representing Puget Sound Power and Light Company.

16 MR. TRINCHERO: Mark Trincherro representing  
17 WICFUR.

18 MS. SMITH: Deborah Smith. I represent the  
19 Northwest Conservation Act Coalition.

20 MR. GRANGE: Gary Grange representing  
21 Bonneville Power Administration.

22 MR. TROTTER: Donald T. Trotter  
23 representing public counsel section.

24 MS. KELLY: Andrea Kelly for Commission  
25 staff.

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1 MR. MARTIN: Roland Martin for Commission  
2 staff.

3 JUDGE SCHAEER: Commissioners, do you have  
4 any questions?

5 CHAIRMAN NELSON: I will defer for now.  
6 Did you want me to go ahead?

7 COMMISSIONER HEMSTAD: Yeah.

8 CHAIRMAN NELSON: Ms. Omohundro, the joint  
9 report indicates that future adjustment mechanisms  
10 will be taken up in the next general rate proceeding.

11 MS. OMOHUNDRO: That's correct.

12 CHAIRMAN NELSON: I guess my first question  
13 is when does Puget expect to file the next general  
14 rate, and the second question will be, is there any  
15 collaborative work going on ahead of that to work with  
16 these parties on any successor mechanism?

17 MS. OMOHUNDRO: To your first question,  
18 under the requirements of the PRAM mechanism the  
19 company would be required to file a general rate case  
20 in November 1, 1995, November of this year, in which  
21 we will plan to do that and would be addressing that  
22 kind of mechanism at that time.

23 In terms of collaborative work going on  
24 prior to that time, our discussions with various  
25 parties have primarily been informal and we're not

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1 pursuing a formal collaborative process at this time.

2                   CHAIRMAN NELSON: Maybe I will ask the  
3 other parties. Well, let me ask you this. Would a  
4 successor mechanism attempt to account for -- are you  
5 planning to try to seek some way to account for hydro  
6 risk in the future?

7                   MS. OMOHUNDRO: The specifics of the  
8 mechanism that we're looking at haven't been defined  
9 completely, but my thought is that the company would  
10 seek to take back a large amount of the risk  
11 associated with the swings in power costs and  
12 primarily the hydro costs, and the company would be at  
13 risk for those in the future.

14                   CHAIRMAN NELSON: NCAC apparently continues  
15 to hold the view that the decoupling portion of the  
16 mechanism goals should be preserved somehow. Does the  
17 company have a view on that?

18                   MS. OMOHUNDRO: We remain committed to the  
19 development of cost-effective conservation and the  
20 efficient use of energy. We're considering our  
21 options with respect to the new rate structure that  
22 would be appropriate going forward, appropriate to  
23 those goals, and also to an increasingly competitive  
24 environment so we are evaluating those options at this  
25 time. I don't know that if decoupling per se and as

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1 it was done in the PRAM mechanism is necessarily the  
2 correct one, and so I would just say we are evaluating  
3 our options.

4 CHAIRMAN NELSON: But as a generalized  
5 corporate philosophy the commitment to conservation  
6 remains part of the Puget Power story?

7 MS. OMOHUNDRO: Yes.

8 CHAIRMAN NELSON: Well, in several -- in  
9 the last rate case we spent a lot of time talking  
10 about where the risk has fallen out as we've moved  
11 through time with this experiment. And the company  
12 brought forth the financial community witnesses to  
13 talk about the risk of the PRAM. Do you have any idea  
14 how the financial markets are reacting to the proposal  
15 to eliminate the PRAM, financial markets or specific  
16 analysts?

17 MS. OMOHUNDRO: Well, I probably couldn't  
18 address that directly. My understanding is it's been  
19 positive.

20 CHAIRMAN NELSON: Been positive, okay. I  
21 don't want to monopolize this.

22 COMMISSIONER HEMSTAD: Well, that's an  
23 interesting response because when there was a question  
24 raised earlier about uncertainty about the PRAM the  
25 financial markets, as a result, seemed to express some

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1 dismay at that. Have they changed their view on PRAM  
2 also?

3 MS. OMOHUNDRO: I'm sorry, that question  
4 was asked in a previous proceeding, was it?

5 COMMISSIONER HEMSTAD: Well, I had the  
6 impression -- and this would be before I came on the  
7 Commission -- that when there is some question raised  
8 about the efficacy of the PRAM that Wall Street  
9 expressed some dismay with regard to that suggestion.  
10 Has Wall Street generally changed its view of the  
11 desirability of the PRAM?

12 MS. OMOHUNDRO: Well, I'm not sure I can  
13 testify on exactly what Wall Street thinks, but I  
14 think the concerns in the past with respect to the  
15 financial community have been the uncertainty of the  
16 regulatory asset that's created by the PRAM and the  
17 uncertainty surrounding that. I think that with a  
18 view towards a competitive future Wall Street would  
19 view getting rid of the PRAM as positive and therefore  
20 that reduced regulatory uncertainty would be viewed as  
21 positive, I believe.

22 CHAIRMAN NELSON: Maybe I can help you  
23 there. I think it was also the fact that the  
24 Commission kept calling it experimental created --  
25 testimony, as I recall, was it created in the

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1 financial analyst's mind more uncertainty rather than  
2 more certainty, so therefore the removal of the  
3 lack of certainty would be a positive. Is that the  
4 logic perhaps?.

5 MS. OMOHUNDRO: I think so. I think you're  
6 going to be trading one type of uncertainty for another  
7 type of uncertainty and the extent to which that --  
8 those swings may be forecast will be determined how  
9 the financial community will view Puget's mechanism  
10 going forward.

11 COMMISSIONER HEMSTAD: Well, on a going  
12 forward basis, how does the collaborative -- or  
13 individual members here in the panel, do you have a  
14 view as to how conservation costs should in the future  
15 be dealt with or recovered or is that a completely  
16 open question?

17 MR. TROTTER: Well, we'll take it on.  
18 First of all, the company's conservation costs -- I  
19 think this is evident from this proceeding -- have  
20 been decreasing over time and they're ramping down  
21 their program.

22 Secondly -- and I was just reviewing in the  
23 last day or two the evaluation report that we  
24 submitted to the Commission. It showed that  
25 particularly the decoupling portion accounted for, by

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1 some estimates, about 8 percent of the PRAM increases,  
2 and conservation costs. I don't have the exact  
3 percentage from the report at my fingertips, but  
4 that's not what has been driving rates through the  
5 PRAM process, and perhaps the staff accountant on the  
6 panel can identify how much conservation is embedded  
7 in rates now compared to what the company is  
8 incurring, and we can see if it's going down in which  
9 case all other things equal rates would go down, so we  
10 don't think that decoupling or conservation is a  
11 problem here. It's been the way PRAM passes through  
12 the impacts of actual weather, actual hydro, as well  
13 as power costs purchases that are much higher than  
14 embedded power costs, so we don't see the problem that  
15 one would appropriately point the finger at  
16 conservation or decoupling as saying that's the  
17 problem that needs solving.

18           So going forward we're going to be very  
19 flexible. We have had no discussions with any party  
20 since these reports have been filed regarding what the  
21 next mechanism, if any, would look like. Other  
22 parties may have but we have not been invited  
23 informally or formally to any so we're going to be  
24 flexible and open-minded on what the next form of  
25 regulation might be, but we don't have any specific

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1 recommendation at this point.

2                   CHAIRMAN NELSON: While Mr. Trotter has the  
3 floor can I follow up on that?

4                   COMMISSIONER HEMSTAD: Sure.

5                   CHAIRMAN NELSON: Are you concerned, Mr.  
6 Trotter, for the future so if the future five years  
7 are extremely wet years, is that going to be some  
8 concern that you will try to put forth should there be  
9 some informal discussions about successor mechanism or  
10 would a return to traditional, really traditional,  
11 ratemaking procedures obviate the need to even think  
12 about a positive return to ratepayers?

13                   MR. TROTTER: We spent a lot of time over  
14 the last couple of years working on evaluating what  
15 PRAM did, and we haven't taken time to look at what  
16 alternatives might be. Part of the quid pro quo of  
17 traditional ratemaking is if the weather is good from  
18 a utility perspective they may make a little more  
19 money. If it's poor they make make a little less  
20 money, and if it's egregious on the bad end they can  
21 come in for emergency relief and that keeps the rates  
22 reasonably stable. There may be a middle ground  
23 between PRAM and that mode if this company can  
24 demonstrate that it needs some protection against some  
25 wide fluctuations.

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1                   They have now got themselves into resource  
2 balance. We quarreled with how they did that, but  
3 there are no new power resources being added in this  
4 PRAM, and so those purchases are now with them and  
5 they have to deal with them and so may be the better  
6 focus than the situation we faced five years ago where  
7 they were embarking on a rather aggressive purchase  
8 program, so we don't have any approach in mind right  
9 now that we've been working on just because of our  
10 current staffing and funding levels, quite frankly,  
11 but we're open to talk to people about this as we get  
12 closer to the general rate case.

13                   CHAIRMAN NELSON: Can I just ask that of  
14 staff, do you have any opinions on that question?.

15                   MR. MARTIN: We have a number of available  
16 mechanisms to deal with conservation costs, and of  
17 course the number one will be looking back or going  
18 back to the traditional type of cost recovery  
19 mechanism for conservation. There might be some  
20 adjustments that need to be done because assuming that  
21 the company wants to stay away from rate changes we  
22 might have to deal with a way of accumulation of the  
23 balance, the continuous accrual of FUCE, because it  
24 will automatically increase the balance of the  
25 conservation investment incurred from year to year.

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1                   One other mechanism that might be  
2 considered will be similar to what is in place in  
3 Washington Water Power now where there is some tariff  
4 rider that deals with conservation expenses. That  
5 might be practical if the level of conservation  
6 expenditures is not as big as the way they are now,  
7 and like Mr. Trotter mentioned, there's been a decline  
8 in the conservation revenue requirement; in the last  
9 general rate case it was about I believe in the  
10 magnitude of \$59 million. That's the level of  
11 conservation being sought now, and budgets for the  
12 oncoming periods is very low, lower.

13                   CHAIRMAN NELSON: How about the hydro risk  
14 mechanism? Any thoughts on that?

15                   MR. MARTIN: We haven't really thought of a  
16 replacement for the hydro mechanism, but there's  
17 always the traditional way of dealing with it where if  
18 it's good the company benefits and if it's bad then  
19 they have the corresponding disadvantage.

20                   MS. KELLY: I would just like to add that  
21 we met with the company once on an informal basis to  
22 discuss what their goals are for an alternative to the  
23 PRAM, so we have had one preliminary meeting and we've  
24 been encouraging the company to discuss this with  
25 other stake holders, and it would be nice if we could

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1 have some type of closure or at least agreement on  
2 some principles going into the rate case.

3           One of the things that I would just like to  
4 add as far as conservation and other expenditures of  
5 an alternative mechanism is that there needs to be  
6 some incentive for cost control and one we're looking  
7 at, the expenditures, there needs to be something  
8 that drives the company to control those costs rather  
9 than the staff having to go and look for the costs, so  
10 that would be my addition to what Roland has said.

11           CHAIRMAN NELSON: Above and beyond the  
12 onset of competition?

13           MS. KELLY: Yes.

14           MS. SMITH: Madam Chair, I don't want to  
15 speak out of turn here and I will be happy to wait but  
16 I would like to address at some point your question  
17 and that of Commissioner Hemstad.

18           CHAIRMAN NELSON: Certainly. Now? Sure.

19           MS. SMITH: And the two questions I saw  
20 them as were related is how would we, NCAC, or how  
21 would any of the parties recommend to the company  
22 to recover its conservation costs and would we feel  
23 differently if the company were in a different weather  
24 position than it's been and hydro position than it's  
25 been in the past year, and I think that we, as you

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1 know, did not sign on to the proposal to terminate  
2 PRAM, and as we have explained it's not because we  
3 object to the mechanics of what the parties have  
4 proposed. We acknowledge that PRAM has created  
5 cumbersome proceedings, contentious proceedings for  
6 the Commission and the parties and the company, and we  
7 don't see any purpose in continuing to recommend that  
8 a mechanism for rate recovery stay in place that no  
9 one likes.

10                   However, what we were concerned about in  
11 the joint proposal to terminate PRAM was the  
12 suggestion that the Commission should all over again  
13 reconsider whether decoupling should be pursued by the  
14 company or not, and there are two -- what decoupling  
15 seeks to eliminate -- and Commissioner Hemstad, this  
16 gets at your question of how the company should  
17 recover its conservation costs -- and I assume that  
18 you meant in that recover its lost revenues due to the  
19 demand side management programs -- what decoupling  
20 does is deal with those questions in a very different  
21 way than a literal lost revenue adjustment mechanism  
22 would. What it says is that, company, we're going  
23 to allow you to recover your fixed costs based on  
24 something other than changes in the level of kilowatt  
25 hour sales that you make.

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1                   And so therefore there should -- decoupling  
2 removes a disincentive to pursuing conservation. It  
3 doesn't encourage the company to do so, but it  
4 discourages or it eliminates a disincentive that the  
5 company has under traditional ratemaking whereby every  
6 kilowatt hour they sell or don't sell due to DSM  
7 reduces their profit margin.

8                   That situation hasn't changed since  
9 decoupling -- since the PRAM was first approved in  
10 1990 -- this was before my time -- '91 or '92, and we  
11 would suggest that the arguments that were made on  
12 behalf of decoupling as opposed to the whole entire  
13 package of PRAM should not be re-examined, and that I  
14 agree with Commission staff that we ought to be able  
15 -- we the parties ought to be able to at least have  
16 some sort of general agreement of principles, even if  
17 we can't all agree that decoupling should be retained,  
18 before the company goes into the next rate case.

19                   And what we believe, NCAC believes, would  
20 be particularly helpful from the Commission in this  
21 docket would be a statement that we're not going to  
22 re-examine the bases for decoupling. We've already  
23 looked at that. Those reasons for doing decoupling  
24 still apply. If we go back to traditional ratemaking  
25 the company is going to have a disincentive to

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1 pursuing DSM. If we do a lost revenue adjustment  
2 mechanism e're still going to have the same problems  
3 in itemizing all the lost revenues, and in addition  
4 also not removing a disincentive to selling; even  
5 though you're allowing the company to recover its lost  
6 revenues you're still reducing profit margin with an  
7 LRAM. We're not going to re-examine that. We think  
8 decoupling still applies.

9           That's very much what we would like to see  
10 out of this order so that going into the rate case  
11 there is Commission approval that decoupling is the  
12 status quo, and whatever mechanism we use we're not  
13 going to have or require the company's profits to be  
14 tied to the amount of kilowatt hours it sells.  
15 Doesn't have to be tied to revenue per customer. The  
16 company has identified problems with that. We would  
17 be happy to work with the company in supporting a  
18 different mechanism.

19           CHAIRMAN NELSON: Ms. Smith, however,  
20 stating the conceptual commitment to, quote,  
21 decoupling, is one thing but finding a practical  
22 mechanism -- do you know any jurisdiction that's found  
23 a practical mechanism to implement that concept, that  
24 30,000 foot concept?

25           MS. SMITH: Madam Chair, I must say that I

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1 don't. However, I know that there's a lot of work  
2 going on on this, and I know that Eric Hurst is  
3 working on statistical recoupling, and I don't know if  
4 that's been implemented. I know that -- I represent  
5 NRDC and Montana Power Company collaboratives.  
6 They're trying to refine their mechanism. There are  
7 logistical problems -- or not logistical but technical  
8 issues that have to be addressed, and I think it's  
9 also important to remember that traditional ratemaking  
10 isn't perfect either.

11           And so, again, I keep coming back to what I  
12 believe should be the central concept here which is  
13 that we want to remove disincentives -- we want to  
14 remove incentives to sell electricity for the company  
15 to reach its profit margin. We want to tie that to  
16 something else.

17           COMMISSIONER GILLIS: Ms. Smith, I think  
18 what I heard staff say, and correct me if I'm wrong,  
19 is that there are some alternative mechanisms to  
20 encourage conservation other than decoupling. Would  
21 you be supportive of another mechanism if you felt  
22 that it were equally effective as decoupling?

23           MS. SMITH: Absolutely if we felt that  
24 they were equally effective. Unless I misunderstood  
25 what staff said, I heard them mention traditional

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1 ratemaking. I heard them mention cost recovery for  
2 programs, I believe, and not lost revenues through  
3 AFUCE, and I heard them also mention the Washington  
4 Water Power approach of bonding or -- I'm not involved  
5 in that but I believe that also deals with recovery of  
6 conservation program expenditures. If it deals with  
7 lost revenues -- and if my understanding of it is  
8 wrong then I would want to examine that, but if NCAC  
9 felt that something worked as good as decoupling to  
10 remove the incentive to sell electricity we would  
11 certainly support it.

12                   COMMISSIONER GILLIS: You're not  
13 necessarily wedded to that particular mechanism,  
14 you're wed to the goal of conservation?

15                   MS. SMITH: We're wed to the goal of  
16 conservation, but we're also wed to the goal of  
17 removing the incentive to sell kilowatt hours. That's  
18 not necessarily the same as supporting conservation  
19 programs. It's broader than that.

20                   COMMISSIONER HEMSTAD: How about the other  
21 parties? Any comments on the issue of decoupling.

22                   MR. TRINCHERO: Thank you, Commissioner.  
23 My name is Mark Trincherro, here on behalf of WICFUR.  
24 One of the reasons that WICFUR decided to join in this  
25 report is the very fact that we have deferred to the

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1 general rate case, which is a point at which we can  
2 look at company's overall revenue requirement and  
3 other rate design proposals that the company may be  
4 proposing, and in that context define whatever  
5 mechanism should replace PRAM, and I think it would be  
6 premature for us to state any direction at this point  
7 regarding decoupling.

8           I would concur with comments of Mr. Trotter  
9 that the decoupling and conservation recovery aspects  
10 of the PRAM were not the main drivers of the  
11 exorbitant rate increases that we experienced in the  
12 last 12 years. However, at the same time, it has been  
13 WICFUR's position since the inception of the program  
14 that the decoupling mechanism itself, the replacement  
15 for a lost revenue adjustment in itself is overbroad  
16 and that while it may or may not remove a disincentive  
17 to sell more kilowatt hours -- and I think there is  
18 still a question as to that incentive -- it also  
19 insulates the company for a number of other shifts  
20 that may occur that have nothing to do with  
21 conservation at all, and I think it's wrong at this  
22 point with competition right on the doorstep to  
23 hamstringing the company in that way. I think the  
24 company needs to be able to come in. We have a lot of  
25 these issues before the Commission in the notice of

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1 inquiry proceeding as well, and I just think that it  
2 is premature for any commitment to a specific type of  
3 mechanism to insure conservation. In that respect,  
4 we'll be anticipating the company's general rate case  
5 filing.

6                   COMMISSIONER HEMSTAD: Well, it would seem  
7 fair to say that there are various issues around which  
8 at least as a new mechanism there's not even  
9 preliminary consensus as to what should be done.

10                   MS. OMOHUNDRO: Let me just add that it is  
11 a very important part of what Puget Power believes it  
12 brings to the market is the energy efficiency and  
13 conservation. Whether or not a particular rate  
14 mechanism may or disincant that I have a question  
15 about, but I am open and we will remain open to -- and  
16 would look forward to talking with NCAC on the type of  
17 mechanism that might be implemented and done in a  
18 practical way that's consistent with our goals for  
19 general rates going forward and competition.

20                   CHAIRMAN NELSON: I would urge you to do  
21 that, Ms. Omohundro, soon because there's not very  
22 many more months before November 1 is really upon us  
23 and one gets closer to filing a case. I'm sure your  
24 resources aren't any more rich than any other  
25 party's in this day and age, so the earlier you can

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1 have those informal discussions the better.

2 COMMISSIONER GILLIS: Question for Ms.  
3 Omohundro. Do you see the elimination of PRAM or  
4 replacement of PRAM with a different mechanism is  
5 helping you to respond to competitive pressures?

6 MS. OMOHUNDRO: Yes. Themes for a new  
7 rate mechanism as we're looking at it right now are  
8 simplicity, predictability and flexibility and we see  
9 -- we're hoping to put in place a mechanism to where  
10 we're not in here every year and we are able to  
11 respond more to the competitive marketplace without  
12 making adjustments and having these necessary  
13 adjustments on an annual basis as well as putting in  
14 some tariffs that will allow us the flexibility to  
15 deal with different markets.

16 JUDGE SCHAEER: Commissioners have any  
17 further questions?

18 COMMISSIONER HEMSTAD: No.

19 JUDGE SCHAEER: I have just a couple of  
20 questions. The joint proposal is silent on cost  
21 recovery for conservation. Does the collaborative  
22 or do its individual members have a view concerning  
23 conservation cost recovery through AFUCE? Do you see  
24 that continuing or what are you doing with AFUCE?

25 MR. MARTIN: As I mentioned earlier, it is

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1 going to be -- probably in the absence of a new  
2 mechanism during the general rate case we might be --  
3 from a staff perspective we might be reverting to the  
4 traditional way of handling the conservation wherein  
5 investments in general rate cases will be accruing  
6 AFUCE until they are included in the next general rate  
7 case.

8                   JUDGE SCHAEER: It's my understanding that  
9 Puget did not have AFUCE until it was included in  
10 PRAM. That's why I was asking this question. Do you  
11 see it being eliminated along with elimination of  
12 PRAM?

13                   MS. OMOHUNDRO: I think that's tied again  
14 to the mechanism that we put in place to deal with  
15 conservation. This particular agreement only deals  
16 with the PRAM -- the mechanism through the end of the  
17 PRAM which would include AFUCE and the treatment of  
18 conservation as it has been treated historically in  
19 the PRAM -- under the PRAM structure.

20                   MR. TROTTER: My thinking would be that  
21 since the PRAM established the AFUCE that that would  
22 terminate at the end of PRAM, which I guess is October  
23 '96, and this would be an issue that will be addressed  
24 in the rate case so that going forward if AFUCE was  
25 continued there would be no interruption. If it was

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1 terminated then it would terminate but the Commission  
2 would make that decision in the context of a rate case  
3 and we have no specific recommendation of what the  
4 Commission ought to do on that issue at this time.  
5 But that was my understanding that everything  
6 established in PRAM would terminate but we're going to  
7 discuss all that in the rate case.

8 JUDGE SCHAER: And is that a common  
9 understanding?

10 MR. TRINCHEIRO: Yes.

11 JUDGE SCHAER: Is there anything further?

12 Thank you members of the panel. Let's take  
13 about five minutes to get back to everyone's normal  
14 seats and we'll continue with Mr. Lauckhart. Thank  
15 you.

16 (Recess.)

17 JUDGE SCHAER: Let's be back on the record.  
18 I believe at this point in the hearing that the staff  
19 counsel has rested and public counsel is now going to  
20 begin cross-examination. Let me indicate that while  
21 we were on break Mr. Trincherro indicated that he had  
22 no questions on behalf of WICFUR and has left the  
23 hearing.

24

25

CROSS-EXAMINATION

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1 BY MR. TROTTER:

2 Q. Would you turn to page 2 of your testimony,  
3 Exhibit T-1.

4 A. Yes.

5 Q. And there on line 8 you indicate that your  
6 case purports to prove an increase of \$86.1 million  
7 and then on line 13 you are proposing an increase of  
8 \$62.8 million?

9 A. Yes.

10 Q. And the difference between those two  
11 figures will be deferred?

12 A. Yes.

13 Q. Could you explain why you are not seeking  
14 to recover the \$86.1 million in this proceeding in  
15 total at one time?

16 A. I think we are.

17 Q. In total at one time?

18 A. At one time. We're picking up on the  
19 theory that we've been using for a few of the PRAMs  
20 now which is rather than to collect the whole deferral  
21 over a single year that we spread a collection of the  
22 deferral over a little bit longer period of time.

23 Q. And the reason for that?

24 A. The reason for that I think originated with  
25 a desire to not bump rates excessively at any point in

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1 time in the hope that this would smooth out if you  
2 delayed the deferrals a little bit.

3 Q. And was there any rationale that you used  
4 to derive what appears to be about a 16.4 million  
5 dollar difference as opposed to having the recovery  
6 in PRAM 5 be \$50 million instead of \$62 million? What  
7 was your thought process there?

8 A. I'm not sure I understood the 16.4 --

9 Q. Let me start over. Your case purports to  
10 prove that you could recover 86 million dollars in  
11 this PRAM 5 period?

12 A. Yes.

13 Q. You're asking for 62.7?

14 A. Yes.

15 Q. Why didn't you ask for 50 or some other  
16 number and defer the balance?

17 A. There are some rules that you might want to  
18 talk to John Story that have to do with you have to  
19 recover these deferrals within a certain amount of  
20 time before the financial community will let you book  
21 them.

22 Q. But that doesn't say anything about the  
23 amount of deferral, just the amount of time you have  
24 to recover, doesn't it?

25 A. That's correct, and there's some tie

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1 here between the amounts we're trying to collect and  
2 the timing under those rules.

3 Q. Do I take it correctly you don't know on  
4 what basis the \$62.7 million was selected?

5 A. Well, I'm just -- John Story would be a  
6 good one to ask about that.

7 Q. Okay. Has the company given consideration  
8 to -- well, let me ask this first. In responses to  
9 some staff questioning on your -- some of your recent  
10 purchased power contracts you said that they are out  
11 of the market. Do you recall that testimony?

12 A. Yes.

13 Q. And by out of the market you meant they  
14 exceed market?

15 A. The price exceeds the market that we could  
16 get today.

17 Q. Has the company given any consideration to  
18 writing down the expense of those contracts or writing  
19 down any deferrals on the basis that it cannot recover  
20 those costs and remain competitive?

21 A. We haven't concluded that yet.

22 Q. Turn to page 6 of your testimony, and the  
23 discussion begins on page 5. You talk about the  
24 effect of hydro and load on deferred balances, and you  
25 indicate that if hydro conditions had been normal

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1 during the PRAM period the deferral amount from May  
2 '94 through April '95 would have been about \$27  
3 million lower; is that right?

4 A. Yes.

5 Q. And under PRAM we ultimately reflect in  
6 rates what you actually experience due to actual hydro  
7 and weather conditions; is that right?

8 A. Yes.

9 Q. Turn to your Exhibit 8, line 4, the  
10 estimated revenue receipts for this estimated period,  
11 and you show approximately \$1.2 billion; is that  
12 right?

13 A. Yes.

14 Q. And I believe in response to questions from  
15 staff, those with respect to the ARCO contract, the  
16 revenues here assume that the ARCO revenues were  
17 received at tariffed rates; is that right?

18 A. Yes.

19 Q. If any other special contracts are signed  
20 between -- let me preface it. Exhibit C-24, page 2, I  
21 take it, indicates the company's proposal for dealing  
22 with the ARCO contract issue during the PRAM 5 period;  
23 is that right?

24 A. I believe that's what the company believes  
25 has been -- well, there are a number of things in that

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1 question. What the company has -- might propose how  
2 ARCO be treated and how ARCO as we understand it might  
3 be treated might be a little bit different, but that  
4 exhibit suggests how we now think ARCO would be  
5 treated.

6 Q. And if there are any other special  
7 contracts that are assigned during the PRAM 5 period,  
8 would they be treated similarly?

9 A. Well, any -- it would take this Commission  
10 to approve another special contract, and in the event  
11 one does become signed I think the discussion will  
12 occur at that time about how to treat it.

13 Q. Does Puget have any particular position at  
14 this point on how such a contract should be treated,  
15 similar to ARCO or dissimilar to ARCO, for purposes of  
16 PRAM 5?

17 A. Well, Puget's position would be that we are  
18 doing these kinds of contracts in the interest of our  
19 customers, that not doing them at all raises a whole  
20 lot of issues, so our suggestion would be -- our  
21 proposal would be to first of all collect some money  
22 from the departing customer so that we don't have to  
23 have a debate about whether the remaining customers or  
24 the shareholders have to pick up some cost.

25 Q. Let me ask it this way. The page 2 of

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1 Exhibit C-24 sets forth a procedure applicable to the  
2 ARCO contract; is that correct?

3 A. Yes.

4 Q. If another special contract is signed  
5 between now and the end of PRAM 5 you propose -- do  
6 you propose the same procedure be implemented or a  
7 different procedure implemented or no procedure  
8 implemented?

9 A. A different procedure.

10 Q. And that would be determined at the time  
11 you signed that contract and bring it to the  
12 Commission?

13 A. Well, as you recall from Wednesday's  
14 meeting, we are proposing that there would be an exit  
15 fee, which would be another element in the discussion  
16 at that time.

17 Q. Turn to your exhibit -- well, let me follow  
18 up. Assume your exit fee tariff is approved. Would  
19 you apply it to ARCO?

20 A. I don't know that we could apply it to  
21 ARCO. That would be a legal determination.

22 Q. Turn to your Exhibit 7, page 2. And on  
23 line 36 you show the MPC or Montana Power firm  
24 contract; is that right?

25 A. Yes.

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1 Q. And you were asked some questions regarding  
2 this contract from staff earlier; is that right?

3 A. Yes.

4 MR. TROTTER: Your Honor, I have a  
5 three-page exhibit containing responses to public  
6 counsel data request. I would like to have that  
7 marked for identification at this time.

8 JUDGE SCHAER: I have marked for  
9 identification as Exhibit No. 26 a three-page  
10 document. First page is response to request No. 208,  
11 second page, request No. 214 and the third page,  
12 request No. 217.

13 (Marked Exhibit 26.)

14 Q. Mr. Lauckhart, do you recognize Exhibit 26  
15 as your responses to our data requests that were just  
16 listed by the administrative law judge?

17 A. Yes.

18 MR. TROTTER: Move the admission of Exhibit  
19 26.

20 MR. VAN NOSTRAND: No objection.

21 JUDGE SCHAER: That document is admitted.

22 (Admitted Exhibit 26.)

23 Q. And the first page asks you to give us the  
24 status of the Montana Power contract, and your  
25 response talks about the notice of termination that

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1 you sent to the company and the current pending status  
2 of that litigation; is that correct?

3 A. Yes.

4 Q. Has there been any change since you issued  
5 this data response?

6 A. No.

7 Q. If this contract were not in effect during  
8 the PRAM 5 period, how would that affect the revenue  
9 increase you propose?

10 A. It would be down.

11 Q. And do you have an estimate of how much?

12 A. Somewhere between 15 and 20 million million  
13 dollars.

14 Q. Is Puget seeking compensation for past  
15 power purchases under that contract since it gave its  
16 notice of termination or is it only seeking  
17 prospective relief after the dispute is resolved?

18 A. We are seeking compensation to the date we  
19 gave notice.

20 Q. So that would be retroactive to February 27  
21 of this year?

22 A. I believe -- actually April 1 probably was  
23 the effective date.

24 Q. And your PRAM portrayal assumes no change  
25 in that contract, correct?

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1 A. That's correct.

2 Q. If that dispute is resolved during PRAM 5  
3 to Puget's favor, Puget would receive all the savings?

4 A. If we followed the PRAM procedure that  
5 would be the case.

6 Q. Do you have any objection if the PRAM --  
7 would you have any objection if this matter is  
8 resolved one way or the other that the benefits be  
9 subject to true-up?

10 A. Well, that raises an interesting question  
11 on how the PRAM is supposed to work, and as you recall  
12 it was designed to give the company some incentives to  
13 do some actions. For sure if the Montana contract  
14 gets settled before the general rate case, that  
15 adjustment will be included in the general rate case.

16 During the PRAM mechanism we believe the  
17 incentive was for the company to work on these kinds  
18 of things and be able to use these items to help us  
19 earn our allowed rate of return. There would be a  
20 question, I suppose, if we looked like we were  
21 significantly overearning our allowed rate of return,  
22 but if we were not it's unclear to me that it would be  
23 appropriate to pass that on.

24 Q. If there are changes in your purchased  
25 power contracts for Tenaska or March Point 1 and 2 to

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1 Puget's favor, those would be trued up, would they  
2 not?

3 A. That's how this mechanism was designed in  
4 that they would be trued up.

5 Q. Would you prefer that the Commission assume  
6 that Puget would prevail in its claim and include the  
7 impact of that scenario in PRAM 5?

8 A. No.

9 Q. Your projected power costs in this case  
10 assume Puget will earn a margin of 1.72 mills per KWH  
11 on secondary sales over the third AC intertie; is that  
12 right?

13 A. Yes.

14 Q. And that you indicated to staff was a lower  
15 margin than assumed in the last general rate case and  
16 PRAM 4; is that right?

17 A. Yes.

18 Q. Would you turn to page 2 of Exhibit 26.  
19 And here we asked you to provide a calculation  
20 assuming the secondary sales rate was the same as in  
21 PRAM 4 and the general rate case respectively; is that  
22 right?

23 A. Yes.

24 Q. And am I correct if we compare this to the  
25 \$796 million revenue requirement for resource costs

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1 that you're proposing in the current case that if we  
2 had used the margin in PRAM 4 your revenue requirement  
3 would be \$788 million or about \$8.4 million lower?

4 A. I came up with about \$7 million lower.

5 Q. Just the math, just subtracting the two  
6 figures?

7 A. Yes.

8 Q. And similarly, if we used the margin that  
9 was used in the last general rate case it would be  
10 approximately \$6.6 million -- excuse me -- \$5.4  
11 million?

12 A. Yes.

13 Q. If Puget believed that the margin it would  
14 receive on the third AC intertie would be 1.72 mills  
15 going out into the future, it would not have purchased  
16 rights on that facility, would it?

17 A. I can't agree to that statement.

18 Q. So you think 1.72 mills per KWH on that  
19 facility is a good deal for Puget long-term?

20 A. Well, the question on deciding to proceed  
21 with the third AC was a complicated and significant  
22 question that took a lot of elements into account.  
23 One of them was this element. We had forecast this  
24 would be greater than 1.72. I believe that there is  
25 still a chance over the life of this it would be

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1 greater than 1.72, but this is the experience to date.  
2 This is a true-up item under the PRAM, so whatever it  
3 is we will have it trued up.

4 Q. You said that one of the elements of  
5 determining to invest in the third AC you said one of  
6 them was this element. By "this element" you meant  
7 margin, not 1.72 mills margin, correct?

8 A. One of them was the margin.

9 Q. And what margin did you assume in that  
10 analysis?

11 A. Well, we looked at a range of margins in  
12 that analysis.

13 Q. And were any as low as 1.72 mills?

14 A. I don't recall.

15 MR. TROTTER: As a response to record  
16 requisition 4 could you provide the range of mills  
17 that were used in the analysis for the third AC  
18 intertie involved.

19 JUDGE SCHAER: I think that would be No. 3,  
20 Counsel.

21 MR. TROTTER: I'm sorry. Thank you.

22 (Record requisition 3.)

23 A. Yes.

24 Q. You were also asked by staff some questions  
25 about your assumption that you will be paying \$3 per

00088

1 kilowatt per month for short-term capacity purchases.

2 Do you recall that?

3 A. Yes. I believe we were talking November  
4 through February.

5 Q. And that is a higher price than was assumed  
6 in PRAM 4; is that right?

7 A. I believe it's the same price.

8 Q. Is it higher than the price actually paid  
9 for capacity last winter?

10 A. Yes.

11 Q. Turn to the last page of Exhibit 26, and  
12 this asked you to assume the same rate -- unit rate  
13 that you paid for capacity during the comparable  
14 period in 1994 and 1995, and you're showing that you  
15 are -- revenue requirement for resource costs would be  
16 lower by the difference of what you're proposing in  
17 this case and the \$795.4 million shown here?

18 A. Yes. That's about a half a million  
19 dollars.

20 Q. Now, some of the cogeneration resources  
21 that were the subject of the prudence decision by the  
22 Commission have price escalators in them; is that  
23 right?

24 A. Yes.

25 Q. And have those escalators worked to

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1 increase projected power costs in this case?

2 A. Yes.

3 Q. Could you give two examples of that?

4 A. Two examples?

5 Q. Yes.

6 A. Well, recalling that one of the elements --  
7 purposes of the PRAM mechanism was to allow us in  
8 these more simple processes to collect increasing  
9 prices that everyone knows is in these contracts on a  
10 sort of --

11 Q. Mr. Lauckhart, I just asked you for an  
12 example of a couple of escalators.

13 A. For example, the Tenaska has examples of  
14 increases in it. They're right in the contract.

15 Q. Could you just tell me what they've been,  
16 what you're proposing to collect in terms of this  
17 case? It went from what rate to what rate?

18 A. Well, we can look -- we've looked at the  
19 pricing under those contracts. I think it's fairly  
20 well -- I don't have it right here in front of me but  
21 we could -- I could get you copies of the pricing  
22 portions of this contract.

23 Q. Could you just get us the contracts and  
24 that will tell us?

25 A. Yes.

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1 Q. In the prudence case those contracts were  
2 evaluated on a levelized basis; is that right?

3 A. I'm not quite sure what you mean by  
4 "evaluated on a levelized basis."

5 Q. I will move on to another topic then. Turn  
6 to Exhibit 3, which is the joint report regarding  
7 termination, and like to focus on page 2 of that  
8 exhibit -- excuse me -- page 3 of the exhibit but it's  
9 the joint report page 2. And under item 2 it says  
10 that the parties agree that no changes to PRAM  
11 methodology or to past interpretation and  
12 implementation thereof will be proposed or implemented  
13 in PRAM 5 with some exceptions. Do you see that?

14 A. Yes.

15 Q. Now, we've talked in this case about some  
16 changes from the last PRAM in terms of the short-term  
17 capacity purchase rate the secondary sales margin, the  
18 availability factor of 97 percent versus prior cases  
19 and so on. In your opinion, are those changes  
20 encompassed by this provision of the agreement?

21 A. No, they're not. They're consistent with  
22 the PRAM methodology that's been established.

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

25 JUDGE SCHAEER: Any redirect of this

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1 witness?

2 MR. VAN NOSTRAND: No, Your Honor.

3 JUDGE SCHAEER: Sorry, I'm new at this.

4 Commissioner, questions?

5 COMMISSIONER GILLIS: I just have a brief  
6 one.

7

8 EXAMINATION

9 BY COMMISSIONER GILLIS:

10 Q. Through the PRAM, as I understand it short-  
11 run hydro conditions are reflected in short-run rates;  
12 is that correct?

13 A. Yes. Are you talking about secondary rates  
14 for power or what do you mean by short-run rates?

15 Q. The rate recovery by the company.

16 A. Yes.

17 Q. Does that calculation vary depending on  
18 whether the company is in total resource surplus or  
19 total resource deficit?

20 A. It does, and the way that works,  
21 Commissioner Gillis, is that there's a simple dispatch  
22 model that's been established for the PRAM, which is  
23 just a version of calculating our power costs  
24 depending on what our resources are, our loads are,  
25 and hydro is one of the varying elements of the

00092

1 resources, so what we do is we substitute -- in the  
2 initial PRAM we put an expected level of hydro and we  
3 calculate our power cost. Then in actuality we  
4 substitute into that model the actual level of hydro  
5 and calculate our power costs. Those power costs will  
6 be somewhat different if you're deficit or surplus,  
7 but theoretically the mechanism correctly captures  
8 the effect.

9 Q. In general, would the impact of a given  
10 hydro deficit in a situation where current market  
11 conditions -- where surplus is sold below average cost  
12 at this point, then the impact of a given hydro  
13 deficit would be less in a surplus -- where the  
14 company is in total resource surplus compared to where  
15 the company is in total resource deficit?

16 A. Well, it doesn't really work that way. If  
17 you lose energy because of a lack of hydro there were  
18 kilowatt hours that normally you would expect to have  
19 that would have some value. Now they have more value  
20 if prices are high than they have if prices are low,  
21 but in all cases they have value, so if you lose hydro  
22 you lose value, and whether you're deficit or surplus,  
23 if the secondary rate is the same your impact is going  
24 to be about the same.

25 Q. I'm having a hard time understanding that.

00093

1 It may be just my lack of understanding but for a  
2 given deficit -- last year you were, what, about 178  
3 average megawatts in deficit from your projection on  
4 hydro or something like that?

5 A. Yes. We were short about that from  
6 average.

7 Q. And if you would have reached projection  
8 last year you would have had an additional 178  
9 megawatts of power to dispose of on the surplus  
10 market, right?

11 A. Well, we might have been able to avoid some  
12 purchases at certain times of the year, but most of  
13 the time in the situation we were under we would have  
14 just been able to sell more secondary if we would have  
15 had the hydro.

16 Q. But you would have sold that power at a  
17 lower marginal rate on the surplus market than you  
18 were receiving from your regulated customers?

19 A. Well, let me try an example here. Let's  
20 say the company is very surplus even under critical  
21 water, so every additional kilowatt hour we get from  
22 hydro we don't need to serve our customers, but of  
23 course we're going to sell that in the wholesale  
24 market, let's say, 20 mills, and all that revenue we  
25 will be able to use to credit back to our customers to

00094

1 reduce their total revenue requirement that they have  
2 to cover. So we get 20 mill value for that for the  
3 customers.

4 Now, let's say in the alternative we were  
5 very deficit, very deficit, and we're buying power to  
6 cover our loads and because of a bad hydro situation  
7 we had to buy an additional 178 megawatts. Well, if  
8 the market was 20 mills, we now have to add 20 mills  
9 times that 178 megawatts to our revenue requirement,  
10 so the dollar amounts actually end up being the same  
11 whether they're deficit or surplus.

12 Q. In a situation you would be able to market  
13 that whole power resource including the deficit to  
14 your regulated customers, you would have received a  
15 higher return, higher revenue on that total resource  
16 bundle than you would have in a situation where you  
17 needed to market that outside of the area on surplus,  
18 correct?

19 A. Yes, and you're bordering into a little bit  
20 of concern I think we heard NCAC expressing. If we  
21 have some extra power, rather than selling it at 20  
22 mills in a wholesale market we would rather sell it to  
23 our customers at our retail tariff. That would be a  
24 way that we could lower our whole overall average  
25 rate.

00095

1           Q.     Well, I will keep thinking about it. I  
2 guess it still hasn't registered with me. One other  
3 question that I need to ask you is the given that ARCO  
4 for one has been -- has approached the company with  
5 the idea of looking at alternative suppliers and there  
6 may indeed be other companies that are doing that,  
7 thinking along those lines as well, I was just  
8 wondering what your thoughts are on how significant is  
9 the current PRAM filing that -- the rate increases  
10 associated with the current PRAM filing for your  
11 future competitive position, in the competitive market  
12 we're in right now?

13          A.     Well, of course the situation we're finding  
14 ourselves in is a situation where there are new power  
15 suppliers out there who can make money by selling  
16 power at 20 mills. We can make money by selling power  
17 at 20 mills to a new customer. We cannot make money  
18 by pricing power to our existing customers at 20  
19 mills. Our schedule 49 industrial rate is close to 34  
20 without the PRAM. So we have a competitive issue that  
21 we have to deal with that. Whether or not our 34  
22 mills is up 5 percent or not is a significant  
23 competitive problem. This 5 percent is not a big  
24 player in that.

25                     In the meantime we have to -- we are

00096

1 looking to make at least reasonable earnings, so we're  
2 addressing two things in the short-term. We're trying  
3 to make sure we have some reasonable earnings but we  
4 recognize that the competition is upon us. Now, the  
5 reality with most of our customers is they cannot find  
6 a new supplier without using our lines, which raises  
7 the question: Can somebody force us to use our lines  
8 to deliver somebody else's power. That's the whole  
9 retail wheeling discussion. Right now --

10 Q. That's kind of a different issue.

11 A. Yeah, that's a different issue. So we have  
12 a significant problem going forward. As we all know,  
13 we have some high cost power supplies, and especially  
14 after we lose the PRAM we don't have a way to recover  
15 those. Now, we've recognized we can't just keep  
16 raising our rate in the new competitive environment so  
17 we're agreeing to give up the PRAM but we have a  
18 significant problem to try to reduce our costs and we  
19 are working our darndest on that.

20 COMMISSIONER GILLIS: Thank you.

21

22 EXAMINATION

23 BY COMMISSIONER HEMSTAD:

24 Q. What is the average cost of the new power  
25 supply contracts that were addressed in the last rate

00097

1 case?

2 A. The cogeneration contracts that we  
3 addressed in the last rate case on a levelized basis  
4 -- and Mr. Trotter was talking about levelized basis a  
5 little bit earlier -- are around five cents a kilowatt  
6 hour. Some of those the prices in fact are levelized.  
7 Some of them the prices are what we call tilted; they  
8 start lower and they increase over time. But in all  
9 cases they sort of levelize out to around five cents a  
10 kilowatt hour for 15 years.

11 Q. On page 2 of your testimony where you have  
12 the -- overall number of \$86 million and then reduce  
13 to \$62 million approximately for a 5.2 percent  
14 increase, and taking into account the reduction on  
15 residential customers, is that 5.2 percent spread  
16 equally across all your customer classes?

17 A. No, it's not spread equally. And I think  
18 -- I believe John Story has that exhibit that shows  
19 that spread.

20 Q. All right. So some customers will pay more  
21 than others?

22 A. Yes.

23 COMMISSIONER HEMSTAD: That's all I have.

24

25

EXAMINATION

00098

1 BY CHAIRMAN NELSON:

2 Q. I have one last one too on page 2. I  
3 understand staff counsel went over this earlier. I'm  
4 sorry I wasn't here to hear the questions and answers  
5 on the biological opinion reference. Can you just  
6 explain to me as a layperson how you know what the  
7 impact is of the biological opinion on your hydro  
8 resources?

9 A. Well, nobody knows for sure what the impact  
10 is, but what we do in a whole bunch of our activities  
11 of course is try to estimate the impact. And we chose  
12 to hire Merrill Schultz and Associates because his  
13 organization is the organization that is now used in  
14 the region to do estimating of all hydro impacts. He  
15 does the work for PNUCC. He had done a lot of work  
16 for PNUCC already on this issue. His work got a lot  
17 of attention by a lot of folks. People tried to  
18 understand what he did, better understand how he might  
19 have done something better, and we believe he has the  
20 best estimate in the region of the impact of the  
21 biological opinion.

22 We then needed to take that and pull out  
23 from that the impact on Puget's system alone, and so  
24 that's what we did and there's a data request in here  
25 that goes into a lot of detail about how he went about

00099

1 doing that.

2 Q. Well, I guess from my lawyer's mind then I  
3 want to ask one follow-up. In your opinion is his  
4 estimate known and measurable to qualify for  
5 traditional or semitraditional ratemaking treatment?

6 A. Yes, it is. All of these cases we've had  
7 for years we have had to estimate our hydro. We use  
8 the exact same method.

9 CHAIRMAN NELSON: Thank you.

10

11 EXAMINATION

12 BY JUDGE SCHAEER:

13 Q. Mr. Lauckhart, at the bottom of page 7 and  
14 the top of page 8 of your testimony, you talk about --  
15 actually I'm off a page here. The bottom of page 8,  
16 top of page 9, you talk about the change in schedule  
17 94 to take into account the increase proposed by the  
18 Bonneville Power Administration to its priority firm  
19 exchange rate to become effective October 1, 1995. Is  
20 that still what BPA proposes to do as of October 1,  
21 1995?

22 A. Yes, it is. There's a little confusion  
23 here. Bonneville and its customers have agreed that  
24 Bonneville will raise a number of its rates by 4  
25 percent effective October 1, 1995. Even before

00100

1 Bonneville has implemented that rate case they have  
2 filed their testimony and proposed rates that will  
3 become effective October 1, 1996. Those are the ones  
4 that are quite controversial in the region, but as  
5 between now or between October 1, 1995 and the end of  
6 September of 1996, there has been a stipulation on  
7 what Bonneville's rates will do.

8 Q. And this testimony is consistent with that  
9 stipulation?

10 A. Yes, it is.

11 Q. And that will cover the entire PRAM 5  
12 period?

13 A. Yes.

14 Q. And I had one other question. Looking at  
15 your Exhibit 3, which is the proposal for elimination  
16 of the PRAM, at page 4 of that document, bottom of the  
17 page states that the amount of deferred balances  
18 should be calculated in accordance with existing PRAM  
19 methodology and the Commission's interpretation and  
20 implementation thereof and upon collection of all  
21 deferred balances schedules 100 and 101 shall  
22 terminate. Could you just clarify for me a little bit  
23 about how that will work? Say your deferrals  
24 eliminate -- say all the deferred balances are  
25 eliminated in middle of August some year. What

00101

1 happens then?

2           A.     Well, we've had these kind of procedures  
3 before when we went out and looked for special  
4 recovery for adverse water conditions before PRAMs and  
5 ECACs, but we will keep track dollar for dollar of how  
6 much deferral had been booked and at some point in  
7 time -- and that's a year from October, year from this  
8 October -- we will quit making any more deferrals so  
9 then it's just a matter of eating off the remaining  
10 deferrals through collections from our customers, and  
11 we will just keep track of when we've recovered that  
12 revenue that completely offsets the deferrals we  
13 have. At that time we stop any collections. And you  
14 do that by making the rate schedule in that part go to  
15 zero at that point.

16           Q.     So is that a Wednesday morning filing, you  
17 will be watching your books and predicting that you're  
18 going to reach zero on August 6 at 3:00 and so you  
19 come in and -- I just don't understand.

20           A.     That's my understanding that's what this  
21 is.

22                   JUDGE SCHAER: Thank you. That's all I  
23 had.

24                   Do you have any redirect?

25                   MR. VAN NOSTRAND: No, Your Honor.

00102

1 JUDGE SCHAER: Anything further for this  
2 witness?

3 MS. JOHNSTON: No.

4 JUDGE SCHAER: Thank you for your  
5 testimony.

6 THE WITNESS: Thank you.

7 MR. VAN NOSTRAND: Company's next witness  
8 is Mary Smith.

9 MS. JOHNSTON: Commissioner Hemstad, the  
10 answer to your question on rate design appears in  
11 Exhibit 25, the 5.2 percent across classes.

12 Whereupon,

13 MARY SMITH,  
14 having been first duly sworn, was called as a witness  
15 herein and was examined and testified as follows:

16

17 DIRECT EXAMINATION

18 BY MR. VAN NOSTRAND:

19 Q. Can you state your name for the record,  
20 please.

21 A. Mary Smith.

22 Q. And Ms. Smith, do you have before you  
23 what's been marked for identification as Exhibit T-10?

24 A. I do.

25 Q. Do you recognize that document as your

00103

1 prefiled direct testimony in this case?

2 A. I do.

3 Q. Do you have any additions or corrections to  
4 make to Exhibit T-10?

5 A. Yes. One small correction on page 3 at  
6 line 22. The number 985,784 should read 985,874.

7 Q. Does that complete your corrections to  
8 Exhibit T-10?

9 A. Yes.

10 Q. As directed if I asked you the questions as  
11 set forth in Exhibit T-10 today, would you give the  
12 answers as set forth in that exhibit?

13 A. Yes.

14 Q. And you also have before you what's been  
15 marked for identification as Exhibit 11 through 13.

16 A. I do.

17 Q. Were these exhibits prepared under your  
18 direction and supervision?

19 A. Yes, they were.

20 Q. Do you have any additions or corrections to  
21 make to these exhibit at this time?

22 A. Yes. On Exhibit No. 12, table 2 --

23 COMMISSIONER HEMSTAD: Excuse me. What is  
24 the --

25 THE WITNESS: Exhibit No. 12, MES-3.

00104

1           A.     Table 2 which is the exhibit, line 5,  
2 residential retail. Under the column, the next to  
3 last numerical column, levelized cost total utility  
4 cost the number should read .040 as opposed to .036,  
5 and this was a number that was corrected in response  
6 to data request No. 4.

7           Q.     Does that complete your correction?

8           A.     Yes, it does.

9           Q.     As corrected are these exhibits true and  
10 correct to the best of your knowledge?

11          A.     They are.

12                 MR. VAN NOSTRAND: Your Honor, move the  
13 admission of Exhibit T-10 and Exhibits 11 through 13.

14                 JUDGE SCHAEER: Any objections? Hearing  
15 none those documents are admitted.

16                 (Admitted Exhibits T-10, 11 - 13.)

17                 MR. VAN NOSTRAND: Ms. Smith is available  
18 for cross-examination.

19                 JUDGE SCHAEER: You've handed me a one-page  
20 document which appears to be a response to data  
21 request No. 28. I will mark this as Exhibit No. 27  
22 for identification.

23                 (Marked Exhibit 27.)

24

25

CROSS-EXAMINATION

00105

1 BY MS. JOHNSTON:

2 Q. Ms. Smith, do you recognize Exhibit 27 for  
3 identification as your response to staff data request  
4 No. 28?

5 A. Yes, I do.

6 MS. JOHNSTON: Your Honor, move the  
7 admission of Exhibit 27.

8 MR. VAN NOSTRAND: No objection.

9 JUDGE SCHAER: Document is admitted.

10 (Admitted Exhibit 27.)

11 Q. Is it true that the company has  
12 acknowledged that least cost expenses should not be  
13 included in conservation rate base?

14 A. That is true, as a result of the PRAM 4  
15 order.

16 Q. As ruled by the Commission in the third  
17 supplemental order in docket UE-940728, which was in  
18 fact the PRAM 4 case, is it true that this adjustment  
19 will appear in the company's rebuttal testimony?

20 A. Yes, I believe so. Mr. Story can answer  
21 how that's handled.

22 JUDGE SCHAER: You've handed me two  
23 documents. The first appears to be a response to data  
24 request No. 32, and will be marked Exhibit 28 for  
25 identification.

00106

1 MS. JOHNSTON: I would like to have 32  
2 marked as 29 if possible, please.

3 JUDGE SCHAER: Okay. Then we will mark as  
4 Exhibit 28 for identification a response to data  
5 request No. 48. That is Exhibit 28 for identification  
6 and the response to data request 32 is Exhibit 29 for  
7 identification.

8 (Marked Exhibits 28 and 29.)

9 Q. Do you recognize what's been marked as  
10 Exhibit 28 for identification as your response to  
11 staff's data request No. 48?

12 A. Yes, I do.

13 MS. JOHNSTON: Your Honor, move the  
14 admission of Exhibit 28.

15 MR. VAN NOSTRAND: No objection.

16 JUDGE SCHAER: Document is admitted.

17 (Admitted Exhibit 28.)

18 Q. Is the form 990, which the utility code  
19 group filed with the IRS in May 1995, true and correct  
20 to the best of your knowledge?

21 A. We received these directly from the utility  
22 code group. This not being Puget's, this is what we  
23 requested from the utility code group and so in their  
24 interest I would assume that's correct.

25 Q. Is it true that B and D2000 has applied

00107

1 for a filing, an extension of its form 990 and intends  
2 to file the return with the IRS on August 15, 1995?

3 A. In response to the data request we did ask  
4 UCG, which is the utility coordinating group for all  
5 utilities throughout the state with respect to the new  
6 state commercial code, to provide response from this.  
7 B and D is a subcontractor to UCG and in that vein UCG  
8 then requested B and D for this tax return and the  
9 response is included on attachment A here which says  
10 that they have applied for an extension. I don't know  
11 of their plans to file that extension, but yes, they  
12 have filed and been granted an extension until August  
13 15, which is the extent of what I know.

14 MS. JOHNSTON: Your Honor, as record  
15 requisition 4 we would ask that that filing be  
16 provided to staff on or before August 15 of this year.

17 JUDGE SCHAEER: Would you be able to provide  
18 that by --

19 THE WITNESS: If it's available from B and  
20 D we certainly would.

21 (Record requisition 4.)

22 Q. Like to direct your attention now to  
23 Exhibit 29 which is your response to staff data  
24 request No. 32, is it not?

25 A. That is correct.

00108

1 MS. JOHNSTON: Move the admission of  
2 Exhibit 29.

3 MR. VAN NOSTRAND: No objection.

4 JUDGE SCHAEER: Document is admitted.

5 (Admitted Exhibit 29.)

6 Q. The company was asked to explain the  
7 difference between an estimated UCG budget of  
8 approximately \$730,000, which was quoted to staff in  
9 August 1994, and the actual budget of more than \$1.8  
10 million which was quoted to staff in WTC's data  
11 request response No. 7. Does the company explain the  
12 difference between the 1.7 million budget quoted to  
13 staff in October of 1994 and the \$1.8 million budget  
14 quoted to staff in WUTC data request response No. 7?  
15 Can you please explain now why the budget estimate  
16 more than doubled from August 1994 to October 1994?

17 A. As we responded in the data request, what  
18 was provided in August of 1994 was prior to the UCG  
19 having developed and finalized their budget. It was  
20 simply the number that was provided which was the  
21 \$210,000 which was Puget's shares of utility group's  
22 expenditures -- was simply an estimate we had been  
23 given by working with UCG at that point in time but  
24 they did not have a final budget, so rather than this  
25 being a doubling of the budget it was just a simple

00109

1 estimate before the utility group had gotten together  
2 to develop their 1995 budget which wasn't until  
3 October.

4 MS. JOHNSTON: Can I have this marked as  
5 Exhibit 30 for identification, please.

6 JUDGE SCHAER: You've handed me a one-page  
7 document which states at the top Schedule of Payments,  
8 Locations and Expected Savings Data Request WUTC-36.  
9 I've marked this document Exhibit 30 for  
10 identification.

11 (Marked Exhibit 30.)

12 Q. I've just handed you what's been marked as  
13 Exhibit 30 for identification. What is it?

14 A. This is our response to data request No. 36  
15 which was asked to provide a schedule of payments to  
16 certain customers on our conservation programs during  
17 the PRAM period and that's what you see before you.

18 MS. JOHNSTON: Thank you. I move admission  
19 of Exhibit 30.

20 JUDGE SCHAER: Ms. Smith, are these  
21 handwritten notations on here notations that were made  
22 by the company before the document was --

23 MS. JOHNSTON: I am sorry, I can answer  
24 that.

25 THE WITNESS: No, they are not.

00110

1 MS. JOHNSTON: I will represent for the  
2 record that the checkmarks underneath the heading  
3 Contracts Provided were made by staff.

4 JUDGE SCHAER: Is there any objection to  
5 entry of this document?

6 MR. VAN NOSTRAND: No, not with that  
7 understanding and the further understanding that this  
8 is one page of approximately 40-page response.

9 JUDGE SCHAER: Document is admitted.

10 (Admitted Exhibit 30.)

11 Q. Is it true that the contracts which were  
12 not provided to staff were withheld because they do  
13 not contain provisions for repayment should the  
14 customer leave Puget's system?

15 A. The data request only asked for contracts  
16 which had a termination clause. They were not -- the  
17 company did not withhold any. We only provided those  
18 that had a termination clause, which was what was  
19 asked in the data request.

20 Q. I guess my point is not the withholding but  
21 the fact that the contracts that staff didn't receive  
22 don't contain the repayment clause.

23 A. That is correct. There is a termination  
24 clause that was initiated in about September -- in the  
25 fall of '93 period and what you see here is a timing

00111

1 issue on some major large projects. We issue a  
2 contract, a grant agreement, with the customer at a  
3 certain point in time and the payment is recorded  
4 after the project is completely finished, built,  
5 verified, inspected and so on, so that the payments  
6 that you see are payments that were made during the  
7 PRAM 4 period.

8           The contracts that would have been entered  
9 into with these customers for these conservation  
10 projects could have been as long as two years prior to  
11 the payment being registered, so some of the  
12 contracts -- in fact the ones that were not provided  
13 were all from the '92 and early '93 period when we did  
14 not have that contract provision in place. The ones  
15 that have been provided are those contracts which were  
16 at a later point in time which did have the clause.

17           MS. JOHNSTON: As the next record  
18 requisition we would ask that Ms. Smith provide us  
19 with the exact date that this benefit repayment clause  
20 was inserted in the contracts.

21           A. I can actually answer that right now.

22           Q. Go ahead.

23           A. Beginning September of '93 we initiated  
24 that clause with some of the large contracts that  
25 started out on this program, and the ARCO one that you

00112

1 see on this list was the first contract in September  
2 of '93 which -- in which we placed this clause. By  
3 December of that year all contracts started having  
4 that clause. Between the September and December  
5 period we had required that termination in the  
6 agreement on grants over \$100,000. After December all  
7 commercial and industrial contracts now have that  
8 clause, the termination agreement.

9 Q. Could you please explain why Puget decided  
10 to include a repayment clause in all commercial and  
11 industrial contracts at that time?

12 A. I think there was some interest in the  
13 large dollars, and as long ago as 1993 the industry  
14 was changing and things were going on such that there  
15 may be an option where the customer was no longer  
16 generating energy savings from these conservation  
17 projects, and these conservation projects typically in  
18 this sector are measures that will generate savings  
19 and the payment is based upon their generating savings  
20 for 15 years, sometimes 20 years on some of these  
21 projects. If we weren't going to be getting the  
22 savings we wanted to initiate -- we wanted to have  
23 some provision whereby the company would be reimbursed  
24 for what resource it had purchased through these  
25 contracts, conservation savings.

00113

1           Q.     Is it true that the PRAM 5 layer contains  
2 grants paid to commercial and industrial customers  
3 through contracts that were signed prior to the  
4 inclusion of the repayment clause?

5           A.     Certainly, yeah.  Many of these projects,  
6 especially some of the big ones that are on this page,  
7 are two and three years in the making before we -- by  
8 the time we sign a conservation agreement the whole  
9 engineering work gets done, the construction process,  
10 and they get paid.  All you see here is the particular  
11 slice in time of when they were paid, but again, many  
12 of these projects had been in the works for a couple  
13 of years.

14          Q.     Did Puget attempt to renegotiate or amend  
15 those contracts before the grant money was paid to  
16 incorporate a repayment clause in the event that the  
17 customer will leave Puget's system?

18          A.     No, we did not, and we have spoken with  
19 many of these customers; as you can see, for example,  
20 on the list Boeing has a number of contracts.  When we  
21 introduced this, this was an issue for some of these  
22 customers.  Puget introduced this but we didn't go  
23 back and change what had been an agreement or had been  
24 a contract already in existence.

25          Q.     Now, prior to the date the clause was added

00114

1 to commercial and industrial contracts, did any DSM  
2 contracts with residential customers contain any type  
3 of repayment clause?

4 A. Yes, they did, beginning in 1990, and I  
5 believe it was May of 1990 we added a clause into the  
6 residential weatherization contracts which required  
7 that if the customer changes their fuel source -- in  
8 fact, I don't remember the exact wording, but again,  
9 it's basically an issue of when customers would  
10 convert to natural gas having had weatherization. The  
11 savings again that we purchased were based on  
12 electrical savings, so there was a provision added to  
13 the residential weatherization contracts at about that  
14 time, based on fuel conversion concerns. I should  
15 also point out that there have been no contracts on  
16 this list here with which we've had an issue in terms  
17 of having to invoke that termination agreement.

18 Q. Can you explain why the repayment clause  
19 was included in residential contracts prior to that  
20 time and not in commercial or industrial contracts?

21 A. The issue in the residential sector was  
22 different. The issue was fuel conversion, and again,  
23 we acknowledge and know that there's lots of  
24 conversion activity going on certainly in that period  
25 of time going on in the residential sector for both --

00115

1 for the residential sector. That was not an issue in  
2 the commercial/industrial sector. Many of these  
3 projects are lighting process modifications kinds of  
4 projects so it's not the issue. We don't see the  
5 conversion going on in the commercial sector.  
6 Different issue.

7 Q. For the future of conservation activities  
8 that the company may pursue, in what areas do you see  
9 possibilities for the company to lower its costs of  
10 conservation and therefore lower the costs of these  
11 programs for ratepayers?

12 A. Where do I start with an answer like that?  
13 The issue here I think is one that was discussed on  
14 the panel earlier this morning, too. Puget has done a  
15 lot in the past couple of years to lower the cost of  
16 its conservation programs. We've lowered -- the  
17 biggest single thing would be lowering the funding on  
18 our grants. We had a provision in schedule 83 which  
19 says we can pay up to 80 percent of the measure cost  
20 where those measures meet all the requirement of  
21 schedule 83, and in the past couple years -- and I  
22 think we initially talked with the collaborative about  
23 this two years ago -- we began reducing those  
24 payments.

25 We're at a point now on the commercial side

00116

1 grants are in the neighborhood of -- there's a sliding  
2 scale depending on how cost-effective those are but  
3 they're in the neighborhood of 40 to 50 percent  
4 funding. It's similar on the residential side, too.  
5 So basically we've reduced and lowered the grants.  
6 One of the reasons we've done that is because the  
7 company is in load resource balance. We're not out  
8 there acquiring lots of resources on the supply side  
9 and so we're moderating the amount we need to acquire  
10 on the demand side.

11           And we have an opportunity at this point in  
12 time to see what happens, what effect goes on with  
13 programs when you do lower these payments. It's no  
14 surprise you get less participation on programs when  
15 you don't pay as much for some of these measures and  
16 that in fact is part of what we see is going on and  
17 happening. So that's one thing we've done to lower  
18 costs.

19           Accordingly, there's been significant  
20 reductions internally across the board in the company.  
21 The company has been very serious about costs control  
22 and that's not -- that's been across the company but  
23 conservation as well. We have had some significant  
24 staff reductions in conservation which are in line  
25 with the fact that we're acquiring less resources. A

00117

1 couple of years ago we were acquiring nearly 30  
2 average megawatts a year. We're down from that and  
3 our staffing is down accordingly. Some of that  
4 through the voluntary separation package, some of that  
5 through attrition, some of that through some  
6 involuntary stuff.

7                   We've pulled back on the amount of  
8 engineering consulting time we used when we were  
9 ramping up and doing very aggressive levels --  
10 especially in the commercial/industrial sector we had  
11 to rely on outside engineering consultants to do a lot  
12 of the analysis on some of these projects. Again,  
13 most of that is being done in house right now. So, I  
14 could go on for quite a while.

15                   MS. JOHNSTON: That's all I have.

16                   JUDGE SCHAER: Mr. Trotter.

17                   MR. TROTTER: I have no questions.

18                   JUDGE SCHAER: Commissioners, questions for  
19 this witness?

20                   CHAIRMAN NELSON: I don't.

21                   COMMISSIONER HEMSTAD: No.

22                   COMMISSIONER GILLIS: I think I had one.

23

24   EXAMINATION

25 BY COMMISSIONER GILLIS:

00118

1 Q. On table 2 in your exhibit MES-3 those  
2 are measures qualified using nonenergy saving  
3 benefits; is that right?

4 A. They have both energy savings benefits and  
5 nonenergy savings benefits, and at the time that we  
6 worked on developing how to deal with measures that  
7 met a total resource cost test -- and when you do a  
8 total resource cost test you have two sides of the  
9 equations, the costs and the benefits, and you have to  
10 match up those equations. It's not just the energy  
11 savings benefits. There is a provision in schedule 83  
12 which says that some of these measures could be  
13 funded. They have energy savings benefits, but they  
14 also have to rely on the fact that there are other  
15 benefits that they would qualify as a total resource  
16 cost test basis.

17 Q. So for the 23,542 megawatt hours of  
18 savings, the conservation assets associated with that  
19 are -- would they have qualified without the nonenergy  
20 benefits or --

21 A. Let me suggest that if we look at the  
22 utility costs compared to the megawatts we're getting  
23 from these measures we're actually from a utility  
24 perspective getting a great deal because the way the  
25 schedule 83 works is that for measures which rely on

00119

1 these -- which need to rely on these nonenergy  
2 benefits the company actually pays less than they do  
3 on measures which have to stand alone just on the  
4 energy benefits.

5           So because we're sort of sharing in the  
6 costs of those both energy plus nonenergy benefits,  
7 the participants are picking up a greater share of the  
8 cost and therefore the company, the way the mechanism  
9 works, pays less on a per kilowatt hour basis than we  
10 do on measures which rely on just the energy benefits  
11 alone. I know this is sort of a complicated subject.

12       Q.     I'm trying to understand the difference  
13 between the assets that are listed in table 1 and the  
14 assets listed in 2. The assets listed in table 1  
15 qualify using energy savings benefits only?

16       A.     When you do a total resource cost test,  
17 again there's costs on one side of the equation and  
18 there's benefits on the other side. On the benefits  
19 side there are energy savings benefits and there are  
20 nonenergy savings benefits. It's much simpler to  
21 analyze these measures if you can rely just on the  
22 energy savings benefits, so the way it works is if  
23 measures qualify just on energy savings benefits we  
24 don't even have to worry about the nonenergy benefits  
25 part. It's pretty complicated to figure out what the

00120

1 value is to participate in the nonenergy. All table 1  
2 is doing is saying we don't even have to worry about  
3 nonenergy benefits because we can rely on just the  
4 energy savings benefits and satisfy the test. On  
5 table 2 the measures don't satisfy just looking at the  
6 energy savings benefits when you do that equation.

7 Q. That's satisfactory. Then to your last  
8 point, point you made a while ago about those measures  
9 being cheaper, the levelized cost TUC on table 2, does  
10 that correspond to levelized cost UC on table 1 or are  
11 they different?

12 A. Yes. Those are the same. They are  
13 basically levelized costs looking at only the utility  
14 cost that is contributing, and I would say I haven't  
15 done that line by line comparison in terms of they're  
16 cheaper. What I meant by they're cheaper is the way  
17 the mechanism works is we have this famous graph in  
18 the collaborative process whereby we pay more up until  
19 they get towards the avoided cost and then they come  
20 down on the back side of the curve, and in theory  
21 these measures the more expensive they get the less we  
22 pay, the less valuable the energy benefits, because  
23 there's more nonenergy benefits associated with them  
24 so these could -- if these are more expensive measures  
25 they would appear cheaper from a utility cost basis

00121

1 because we pay less for them.

2 Q. What struck me comparing those columns is  
3 that some of the levelized costs for the table 2  
4 category are significantly higher than the levelized  
5 costs, utility costs, for the table 1 category. For  
6 example, commercial and industrial energy management  
7 is 47 mills compared to 20 mills.

8 A. Right, and again, for a minute you can  
9 imagine that the cost is sort of like a pyramid shape.  
10 It depends upon which part of the slope you're on, and  
11 in that particular program there's lots of very  
12 cost-effective things so that on table 1 they look  
13 very cost-effective. On table 2 you're high near the  
14 peak of the triangle, so you're looking at stuff  
15 that's just over the cost-effectiveness so we're  
16 paying more for those measures.

17 COMMISSIONER GILLIS: Those are my  
18 questions.

19 JUDGE SCHAER: Any further questions from  
20 the commissioners?

21 COMMISSIONER HEMSTAD: No.

22 JUDGE SCHAER: Any redirect for this  
23 witness?

24 MR. VAN NOSTRAND: No, Your Honor.

25 JUDGE SCHAER: Anything further?

00122

1 MS. JOHNSTON: No, Your Honor.

2 JUDGE SCHAER: Thank you, Ms. Smith.

3 Whereupon,

4 JOHN STORY,

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

6 herein and was examined and testified as follows:

7

8 DIRECT EXAMINATION

9 BY MR. VAN NOSTRAND:

10 Q. Can you state your name for the record,  
11 please.

12 A. John H. Story.

13 Q. Mr. Story, do you have before you what's  
14 been marked for identification as Exhibit T-14?

15 A. Yes, I do.

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

18 A. Yes.

19 Q. Do you have any additions or corrections to  
20 make to Exhibit T-14?

21 A. There would just be a minor to the  
22 conservation revenue requirement due to the agreement  
23 between Ms. Smith and the staff as to a change in some  
24 of the conservation costs. I imagine it's about \$1200  
25 revenue requirement.

00123

1 Q. And as was discussed with Ms. Smith, would  
2 that correction be made when the company files its  
3 rebuttal testimony in this case?

4 A. I would imagine the staff would include  
5 it in their testimony and we would agree to it.

6 Q. And with that qualification, if I asked you  
7 the questions set forth in Exhibit T-14 today, would  
8 you give the answers as set forth in that exhibit?

9 A. Yes.

10 Q. Do you also have before you what's been  
11 marked for identification as Exhibit 15, 16 and 17?

12 A. Yes.

13 Q. Were these exhibits prepared under your  
14 direction and supervision?

15 A. Yes, they were.

16 Q. Do you have any additions or corrections to  
17 make to those exhibit?

18 A. No, I don't.

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

21 A. Yes.

22 MR. VAN NOSTRAND: Your Honor, move the  
23 admission of Exhibit T-14 and Exhibits 15 through 17.

24 JUDGE SCHAEER: Any objections?

25 Those documents are admitted.

00124

1 (Admitted Exhibits T-14, 15 - 17.)

2 MR. VAN NOSTRAND: Mr. Story is available  
3 for cross-examination.

4 MS. JOHNSTON: Thank you.

5

6 CROSS-EXAMINATION

7 BY MS. JOHNSTON:

8 Q. Mr. Story, I want to pick up where I left  
9 off with Mr. Lauckhart. He deferred some questions to  
10 you regarding rate design. Do you have Exhibit 25  
11 with you?

12 A. Exhibit 25 is?

13 Q. The rate design work papers page 1 through  
14 7.

15 A. Yes.

16 Q. Please turn to page 1.

17 A. I have that.

18 Q. Line 3 shows a \$45.1 million figure and a  
19 \$17.6 million figure. Is it true that the \$17.6  
20 million represents the increase in the deferral  
21 amortization rate of \$54.2 million granted in PRAM 4?

22 A. I don't understand the question. What I  
23 think you said is the \$17 million is derived by using  
24 \$54 million to offset against the \$71 million, that's  
25 correct. The \$54 million is using PRAM 4 deferred

00125

1 rates out into the PRAM 5 period.

2 Q. And the \$45.1 million is the future  
3 increase projected for PRAM 5?

4 A. I didn't hear the first part of your  
5 question.

6 Q. The \$45.1 million is the future increase  
7 projected for PRAM 5; is that correct?

8 A. For the base resource, yes.

9 Q. Now, the remainder of this page from lines  
10 4 through 19 details the calculation that breaks out  
11 the \$45.1 million into base and resource cost  
12 increases; is that correct?

13 A. That's correct.

14 Q. As shown on line 17, the increase for base  
15 costs is \$7.3 million while the amount shown as the  
16 increase for resource on line 19 is \$36.9 million; is  
17 that correct?

18 A. That's correct.

19 Q. And pages 4 and 5 of this Exhibit 25 show  
20 the allocation of the base and resource increases to  
21 the different customer classes; is that correct?

22 A. That's correct.

23 Q. Page 6 summarizes the allocated increase in  
24 energy rates applicable to the different schedules.  
25 Is that correct?

00126

1 A. Yes.

2 Q. And finally the last page of this exhibit  
3 shows the present and proposed revenues by class, and  
4 all figures depicted do not contain the impact of  
5 schedule 94 residential exchange credit; is that true?

6 A. That's correct.

7 Q. Please turn to page 4 of your testimony.  
8 Starting at line 5 on that page you discuss the impact  
9 of the recent IRS revenue ruling on the recovery of  
10 tax benefits associated with conservation  
11 expenditures; is that correct?

12 A. Yes.

13 Q. You state starting on line 8 that this  
14 revenue ruling will allow the company to deduct  
15 conservation expenditures currently even if the  
16 expenditures are deferred for rate recovery. Is that  
17 true?

18 A. If it's approved for our recovery, yes,  
19 that is true. We have to apply. We have done that.

20 Q. I'm sorry?

21 A. We have done that. We have applied for  
22 this ruling.

23 Q. When do you expect a response from the IRS?

24 A. We expect something prior to the end of the  
25 year. We would like it sooner. It's impossible to

00127

1 tell. We don't have to file a '95 return until  
2 September of '96 so they could respond any time prior  
3 to then.

4 Q. At page 5 of your testimony beginning at  
5 line 6 you discuss the company's treatment of the tax  
6 benefits associated with January 1995 through  
7 September 1995 conservation expenditures. Is that  
8 true?

9 A. That's a proposed adjustment, yes.

10 JUDGE SCHAER: You've handed me a one-page  
11 document which appears to be the response to staff  
12 data request No. 16 and I will mark it as Exhibit 31  
13 for identification.

14 (Marked Exhibit 31.)

15 Q. Mr. Story, do you recognize Exhibit 31 for  
16 identification as your response to staff data request  
17 16?

18 A. Yes.

19 MS. JOHNSTON: Move the admission of  
20 Exhibit 31, Your Honor.

21 MR. VAN NOSTRAND: No objection.

22 JUDGE SCHAER: Document is admitted.

23 (Admitted Exhibit 31.)

24 Q. Directing your attention to the last  
25 paragraph of this document. There the company

00128

1 explains that its proposed adjustment would defer the  
2 tax benefit realized on conservation expenditures for  
3 the first nine months of 1995 and will return with  
4 benefit to the customer over the 10-year amortization  
5 of these expenditures; is that correct?

6 A. That's correct.

7 JUDGE SCHAER: You've handed me a one-page  
8 document. Appears to be the response to staff data  
9 request No. 17 and I will mark it Exhibit 32 for  
10 identification.

11 (Marked Exhibit 32.)

12 Q. Mr. Story, you've just been handed Exhibit  
13 32 for identification. What is it, please?

14 A. It's our response to staff request No. 17.

15 MS. JOHNSTON: Move the admission of  
16 Exhibit 32.

17 MR. VAN NOSTRAND: No objection.

18 JUDGE SCHAER: Document is admitted.

19 (Admitted Exhibit 32.)

20 Q. Directing your attention to the third  
21 paragraph of this response, there you explain that the  
22 recent IRS ruling allowing current deduction of rate  
23 base conservation costs requires companies that are  
24 currently -- that are currently capitalizing  
25 conservation costs such as Puget to obtain

00129

1 authorization in accordance with the revenue procedure  
2 in 9220 for the change of their tax treatment; is that  
3 correct?

4 A. Right.

5 Q. And there you also explain that while this  
6 revenue procedure provides for prospective application  
7 of tax accounting changes such as this one, the tax  
8 settlement agreement executed between Puget and the  
9 IRS in April of 1992 should allow the company to go  
10 back to 1991 and deduct these costs. Is that correct?

11 A. Yes. That's the company's position, yes.

12 Q. And you further explain that as the  
13 company's position that the settlement agreement is  
14 controlling and that the company should be able to  
15 claim refunds. Is that true?

16 A. Yes.

17 Q. And these refunds can be calculated back to  
18 1991 and the following years; is that correct?

19 A. They can be calculated back to 1991.

20 Q. Right. Did the company file for tax  
21 returns for 1991 through 1993?

22 A. Yes, we have.

23 Q. Has the company filed its federal income  
24 tax return for fiscal year 1994?

25 A. No.

00130

1 Q. Even though the company has not yet filed  
2 its 1994 tax return, it is required to make periodic  
3 payments of its tax liability for the year 1994; is  
4 that true?

5 A. Yes, we made them during 1994.

6 Q. When the company calculated its estimated  
7 tax payments for 1994 and made those payments, did it  
8 assume full tax deductibility of its DSM expenditures?

9 A. There was no way we could have known that,  
10 so no.

11 MS. JOHNSTON: As the next record  
12 requisition, Your Honor, I would ask that Mr. Story  
13 provide a schedule of those tax payments for the 1994  
14 tax return and include the amounts of DSM expenditures  
15 used in the estimation of the estimated tax liability.

16 THE WITNESS: We can do that.

17 JUDGE SCHAER: That would be No. 5.

18 (Record requisition 5.)

19 A. I would add on '94 we're going to time it  
20 in the same manner that we did with '91, '2, '3.  
21 We're going to take full deduction. I mean, that's  
22 our position. The IRS may not agree with that.

23 JUDGE SCHAER: You've handed me a  
24 multi-page document which appears to be the response  
25 to staff data request No. 35, and I will mark it for

00131

1 identification as Exhibit 33.

2 (Marked Exhibit 33.)

3 Q. Mr. Story, do you recognize this?

4 A. Yes, I do.

5 Q. And it is your response to staff data  
6 request No. 35?

7 A. Yes.

8 MS. JOHNSTON: Your Honor, move the  
9 admission of Exhibit 33.

10 MR. VAN NOSTRAND: No objection.

11 JUDGE SCHAER: Document is admitted.

12 (Admitted Exhibit 33.)

13 Q. Please turn to your Exhibit 16.

14 A. Yes.

15 Q. That exhibit shows the company's  
16 calculation of conservation revenue requirement for  
17 the PRAM 5 period; isn't that correct?

18 A. Yes.

19 Q. The \$220 million figure shown on line 2 of  
20 this page, is that the amount of average monthly  
21 averages conservation rate base calculated by the  
22 company for PRAM 5 period?

23 A. Yes.

24 JUDGE SCHAER: You've handed me two  
25 documents. The first has the number 16 in the upper

00132

1 right-hand corner. It is a one-page document and  
2 appears to be an exhibit from another proceeding, page  
3 2 of 2 of JHS-3.

4 The second has a number 21 in the upper  
5 right-hand corner and states at the top Conservation  
6 PRAM 5, also one-page document. I've marked the first  
7 as Exhibit 34 for identification and the second as  
8 Exhibit 35.

9 (Marked Exhibits 34 and 35.)

10 Q. Mr. Story, do you recognize what's been  
11 marked as Exhibit 34 for identification as page 16 of  
12 the company's accounting work papers?

13 A. Yes, it is.

14 MS. JOHNSTON: Your Honor, move admission  
15 of Exhibit 34.

16 MR. VAN NOSTRAND: No objection.

17 JUDGE SCHAER: It's admitted.

18 (Admitted Exhibit 34.)

19 Q. Now, this page shows the calculation of the  
20 amount of average conservation rate base of \$220  
21 million reflected on line 2 of Exhibit 16; is that  
22 correct?

23 A. Yes. It's shown on line 25.

24 Q. Yes. Moving down to line 10 of Exhibit 16,  
25 the negative figure of 130,264 on this line reflect

00133

1 the amount of amortization over 10 years of the tax  
2 benefits associated with conservation expenditures for  
3 the period January through April '95; is that correct?

4 A. Did you say line 10 or line 17?

5 Q. Line 10.

6 A. Would you read the question again.

7 MR. TROTTER: Line 10 of what exhibit?

8 MS. JOHNSTON: Exhibit 16, not the work  
9 paper page.

10 THE WITNESS: Oh, I'm sorry.

11 A. Yes.

12 Q. Do you recognize what's been marked as  
13 Exhibit 35 for identification as page 21 of the  
14 company's accounting work papers?

15 A. Yes.

16 MS. JOHNSTON: Your Honor, move the  
17 admission of Exhibit 35.

18 MR. VAN NOSTRAND: No objection.

19 JUDGE SCHAEER: Document is admitted.

20 (Admitted Exhibit 35.)

21 Q. Now, this page shows the calculation of the  
22 amount of amortization of tax benefits of the 130,264  
23 reflected on line 10 of your Exhibit 16; is that  
24 correct?

25 A. Yes.

00134

1                   JUDGE SCHAER: You've handed me two  
2 documents. The first is a one-page document which  
3 appears to be a response to staff formal data request  
4 No. 18. I have marked it Exhibit 36 for  
5 identification.

6                   The second appears to be a response to  
7 staff data request No. 14, and I have marked it  
8 Exhibit 37 for identification. Exhibit 37 is a  
9 two-page document.

10                   (Marked Exhibits 36 and 37.)

11           Q.     Mr. Story, do you recognize what's been  
12 handed to you and marked for identification as  
13 Exhibits 36 and 37?

14           A.     Yes.

15           Q.     And these are your responses to staff data  
16 requests 18 and 14?

17           A.     Yes.

18           MS. JOHNSTON: Your Honor, move the  
19 admission of Exhibits 36 and 37.

20           MR. VAN NOSTRAND: No objection.

21           JUDGE SCHAER: Those documents are  
22 admitted.

23           (Admitted Exhibits 36 and 37.)

24           MS. JOHNSTON: That's all I have. Thank  
25 you. Hold it. I misspoke. I have a few more.

00135

1 Q. Were you here during earlier  
2 cross-examination of Mr. Lauckhart regarding the ARCO  
3 special contract?

4 A. Yes.

5 Q. And do you have a copy of public counsel's  
6 data request No. 218 and your response to that?

7 A. Yes, I do.

8 MR. VAN NOSTRAND: Exhibit C-24?

9 JUDGE SCHAEER: Is that Exhibit C-24,  
10 Counsel?

11 MS. JOHNSTON: Yes, it is.

12 A. I have it.

13 Q. Your response to subpart B, it states that  
14 "the actual ARCO revenues will be adjusted by the  
15 difference between revenues to be collected pursuant  
16 to the ARCO contract and what would have been  
17 collected as revenue under schedule 49." Do you see  
18 that?

19 A. Yes.

20 Q. In your response under subpart C, which  
21 illustrates the procedure described in subpart B, you  
22 propose to use less than the effective schedule 49  
23 rate because you will deduct the collection of prior  
24 period deferrals from the effective schedule 49 rate;  
25 is that correct?

00136

1 A. That's correct.

2 Q. Can you explain the basis for your proposal  
3 to make such a deduction to the schedule 49 rate?

4 A. Yes. Our understanding of the order is  
5 that we were supposed to absorb any difference in  
6 revenues, and to get the revenues we have deducted the  
7 deferral amount. When I talked to the parties  
8 involved in this -- our contract -- they indicated  
9 that there had never been any discussion as to the  
10 deferral recovery and that it would be addressed in  
11 the general rate case, so we interpret the order as  
12 it's a revenue adjustment. There will be no deferrals  
13 built up due to the ARCO contract but everything  
14 deferred prior to June is something to be discussed in  
15 the general case.

16 Q. Is it true that when a new schedule 49  
17 customer takes service from the company at any time  
18 during the PRAM 5 period, or any other period for that  
19 matter, the company would charge that customer the  
20 full effective rate as stated in the tariff including  
21 whatever schedule 100 rate that is in effect at that  
22 time?

23 A. That's correct. The opposite is also true.  
24 If they leave we don't charge them.

25 MS. JOHNSTON: That's all I have.

00137

1 JUDGE SCHAER: Mr. Trotter.

2 MR. TROTTER: Thank you. Can we be off  
3 record.

4 (Recess.)

5

6 CROSS-EXAMINATION

7 BY MR. TROTTER:

8 Q. Mr. Story, I would like to ask you a few  
9 questions about this IRS situation. Would you turn to  
10 Exhibit 31 which was your response to staff data  
11 request 16.

12 A. I have it.

13 Q. At the last paragraph you are proposing a  
14 proforma adjustment in this docket that would defer  
15 the tax benefit realized for the first nine months of  
16 1995; is that right?

17 A. That's correct.

18 Q. And then two lines down you say "this  
19 provides the same benefit the customer received prior  
20 to the tax ruling." Do you see that?

21 A. Right.

22 Q. Now, let's go to the time period before the  
23 tax ruling. Wasn't it true that the company was  
24 deducting conservation costs currently?

25 A. That's correct. I'm sorry. I thought you

00138

1 were going to say over 10 years. We're deducting them  
2 over 10 years prior to the ruling.

3 Q. So you were not deducting them currently on  
4 your income tax form?

5 A. Not prior to '95. That was the purpose of  
6 the tax settlement, if you recall, back in 1992.

7 Q. Well, wait a minute. I want to go back  
8 before 1992.

9 A. Okay.

10 Q. The tax -- the settlement with the IRS took  
11 place in '92; is that right?

12 A. April of '92.

13 Q. And prior to that time were you deducting  
14 conservation costs currently for income tax purposes?

15 A. Prior to that time we were.

16 Q. And the customer was getting the benefit of  
17 that currently?

18 A. Flow through, right.

19 Q. And your adjustment here to defer the tax  
20 benefit is not the same benefit the customer received  
21 prior to 1992; is that correct?

22 A. No. Like it says it's prior to the  
23 tax ruling. The customer is getting the benefit.

24 Q. I guess the confusion I have, let me just  
25 explain, and you can please respond. The concern I

00139

1 have is you're talking about a deferral whereas in  
2 prior periods it was a flow-through which in my mind  
3 was the antithesis of a deferral. Can you explain  
4 where I got screwed up in that module?

5 A. All I'm saying is that prior to the tax  
6 ruling we were amortizing taxes over the 10-year  
7 deferral period for conservation. We would take the  
8 deduction of one tenth each year. This adjustment  
9 continues that practice. However, we've given the  
10 credit -- the deferred taxes to the customer against  
11 rate base so they're getting an interest carrying cost  
12 on that. One thing I should make clear is that we  
13 have not received anything yet. We have not received  
14 permission from the IRS to switch to this type of --

15 Q. I understand that. Let me ask it another  
16 way. Is the treatment that you're proposing here  
17 different than what you would propose if the company  
18 was deducting conservation costs currently for income  
19 tax purposes?

20 A. Well, going forward we are proposing to  
21 give them flow-through on the income tax. All we're  
22 doing is picking up the nine months that aren't  
23 addressed by PRAM 5. So PRAM 5 we switched to  
24 flow-through currently and we propose to true up  
25 conservation. All we're doing is picking up the nine

00140

1 months that was not involved in PRAM 5.

2 Q. And you are not flowing it through?

3 A. We are giving it back to them over the 10  
4 years and giving them credit through the deferral.

5 Q. Now, at bottom, if this whole dispute turns  
6 out if the IRS treats you consistent with this ruling  
7 that you were right all along, that these costs should  
8 and could have been deducted currently for income tax  
9 purposes?

10 A. That's the way it's turned out.

11 Q. I believe in a prior answer that you are  
12 going after the taxes that you paid subsequent to your  
13 settlement and prior to this ruling, you're seeking  
14 refunds of those?

15 A. Back to 1991. We're precluded from going  
16 prior to '91.

17 Q. How will those be given to ratepayers if at  
18 all?

19 A. We propose on deferral and coming before  
20 the Commission and asking how they want to give them  
21 back, I think under the accounting rule for this tax  
22 settlement that these have been addressed in a rate  
23 proceeding and would have to be determined how they  
24 flow back.

25 I would just like to add, that would be

00141

1 true for the April '92 on, the '91 and '92 if you  
2 recall the company paid the taxes and never received  
3 anything in rates for them. We're getting back those  
4 taxes as the tax benefit turns around so those tax  
5 benefits if we get them back would be applied against  
6 the deferral the company has on the books.

7 Q. I asked Mr. Lauckhart questions as to why  
8 the company is seeking to recover \$62.8 million of the  
9 \$86.1 million that its case purports to demonstrate in  
10 terms of an increased revenue. I think he deferred  
11 that to you. Could you explain --

12 A. Yes.

13 Q. -- the basis for the \$62.8 million and why  
14 it was not a different number?

15 A. \$986 million you're talking about is the  
16 April balance and we're asking for approval of that  
17 balance as we have in the past cases so we can pick it  
18 up in the future. The \$62 million is based off of a  
19 PRAM deferral amount as of December 1994 and the  
20 reason we chose December -- and we have chosen  
21 December in the past cases too -- is that insures that  
22 we will get recovery of that balance before the end of  
23 the second year, which is 1996. If everything was  
24 perfect we would have that balance recovered by  
25 September of '96; if there's any under recovery we

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1 have a little bit more time to recover it.

2           The other thing it does is by picking up  
3 that last three months of '94 it doesn't make for a  
4 strange rate design in a future case of where you may  
5 have to pick up that last three months of '94 in the  
6 last three months of '96.

7       Q.     So the gist of this is that this was the  
8 minimum amount that made you comfortable of recovering  
9 it within the time period allowed by the accounting  
10 rules?

11       A.     That's correct.

12       Q.     Turn to your testimony on page 2. Line 24,  
13 you indicate that the unrecovered PRAM 4 amount is  
14 \$29.8 million. Do you see that?

15       A.     Yes.

16       Q.     And then over in your Exhibit 15, page 4 in  
17 the April '94 column we see a \$30.893 million figure.  
18 Do you see that?

19       A.     That's correct.

20       Q.     And am I correct that the two figures we've  
21 been talking about would otherwise be the same but you  
22 are implementing the Commission's decision in the  
23 prudence case and reducing the \$33.89 million by an  
24 amount related to the disallowance in that order?

25       A.     Right, that went back into this period. It

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1 was actually booked in December of '94.

2 MR. TROTTER: Those are all my questions,  
3 thank you.

4 JUDGE SCHAER: Commissioners, do you have  
5 any questions for Mr. Story?

6 COMMISSIONER HEMSTAD: I don't have any.

7 COMMISSIONER GILLIS: I don't have any.

8 JUDGE SCHAER: Any redirect?

9 MR. VAN NOSTRAND: No, Your Honor.

10 JUDGE SCHAER: Anything further for this  
11 witness?

12 MS. JOHNSTON: No.

13 JUDGE SCHAER: Thank you, Mr. Story. Does  
14 that conclude the case in chief, Mr. Van Nostrand?

15 MR. VAN NOSTRAND: Yes, it does.

16 JUDGE SCHAER: Then we'll be off the record  
17 and hearings in this matter will resume and notice  
18 will be given.

19 (Hearing adjourned at 12:10 p.m.)

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