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BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)Docket UE-050870
Complainant,)Volume II
)Pages 56-111
vs.)
)
PUGET SOUND ENERGY, INC.,)
Respondent.)

A public hearing and settlement hearing in the above-entitled matter was held at 6:36 p.m. on Thursday, October 6, 2005, at 1300 South Evergreen Park Drive, S.W., Olympia, Washington, before Administrative Law Judge KAREN CAILLE, Chairman MARK SIDRAN, Commissioner PAT OSHIE and Commissioner PHILIP JONES.

The parties present were as follows:

PUGET SOUND ENERGY, by Kirstin S. Dodge and Jason Kuzma, Attorneys at Law, Perkins Coie, 10885 N.E. Fourth Street, Suite 700, Bellevue, Washington 98004.

PUBLIC COUNSEL, by Robert Cromwell, Assistant Attorney General, 900 Fourth Avenue, Suite 2000, Seattle, Washington 98164.

INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES, by Brad Van Cleve, Attorney at Law, Davison Van Cleve, 333 S.W. Taylor, Suite 400, Portland, Oregon 97204.

Barbara L. Nelson, CCR
Court Reporter

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1 COMMISSION STAFF, by Robert Cedarbaum,
Assistant Attorney General, 1400 S.W. Evergreen Park
2 Drive, S.W., P.O. Box 40128, Olympia, Washington
98504-0128.

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CHARLES JONES (Public Hearing)

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WITNESS PANEL (Settlement Hearing)

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7

(HENRY McINTOSH, JAMES RUSSELL, JIM LAZAR, DONALD

8

SCHOENBECK, JOHN H. STORY, KIMBERLY HARRIS and

9

ROGER GARRATT)

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ADMITTED:

15

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1 JUDGE CAILLE: We are ready to begin. I'd
2 like to welcome the Commissioners to the bench,
3 Chairman Sidran, Commissioner Oshie and Commissioner
4 Jones. My name is Karen Caille. I'm the
5 Administrative Law Judge assigned to this proceeding.
6 I'd like to welcome our public commenter, and if
7 there are some on the bridge line later, I will check
8 in with them.

9 And Mr. Jones, what we are doing here
10 tonight is a public comment hearing and a hearing on
11 the settlement with the parties. So after you have
12 provided your public comments, you're welcome to stay
13 and view the hearing on the settlement.

14 The purpose of the hearing this evening is
15 to provide the Commissioners with information which
16 they can use to make a decision about whether this
17 settlement is in the public interest and whether it
18 will provide rates that are fair, just, reasonable
19 and sufficient. The comments this evening will be
20 given under oath and recorded. Your comments will
21 become part of the formal record, and that will be
22 the basis for this decision, the Commissioners'
23 decision.

24 At this time, I'd like to call upon Mr.
25 Cedarbaum to outline the case and the terms of the

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1 settlement agreement.

2 MR. CEDARBAUM: Thank you, Your Honor.

3 This is Robert Cedarbaum. I'm an Assistant Attorney
4 General. I'm representing the Commission Staff in
5 this proceeding. The case that's before the
6 Commission is a Power Cost Only Rate Case filed by
7 Puget Sound Energy in June of 2005, in which the
8 Company sought additional revenues to cover increases
9 in the cost of power over approximately the next
10 calendar year.

11 On average, the Company's requested tariffs
12 would increase rates by about 3.65 percent. There
13 was extensive analysis and discovery by the other
14 parties in this case. Those parties are the
15 Commission Staff, which acts independently from the
16 Commission in this type of an adjudication, the
17 Public Counsel Section of the Attorney General's
18 Office, and also the Industrial Customers of
19 Northwest Utilities, which is an association of large
20 industrial customers.

21 Those parties engaged in an extensive
22 analysis and examination of the Company's filing, and
23 after that analysis, there was agreement reached that
24 the Company had justified the proposed rate increase,
25 primarily because of significant increases in the

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1 cost of natural gas since the Company's filing was
2 made in June.

3 Because of that meeting of the minds on the
4 Company's revenue need, the parties did reach a full
5 settlement with respect to the tariff filings that
6 the Company filed. We did agree that the Company's
7 tariffs, as proposed, should be adopted and accepted
8 by the Commission effective November 1st of 2005.

9 We also reached agreement on some other
10 aspects, and these are detailed both in the
11 settlement and in the joint testimony that was filed
12 in support of the settlement. One of those aspects
13 is that we agree to the prudence and reasonableness
14 of a number of power supply acquisitions and
15 decisions made by the company. One of those
16 acquisitions is the Hopkins Ridge Wind Generation
17 Facility. The parties are in agreement that that is
18 a prudent and reasonable acquisition.

19 There are other power supply acquisition
20 decisions that are, again, outlined in the settlement
21 and also supported by the testimony of Mr. McIntosh
22 and Mr. Garratt, which we'll get to later.

23 There are also -- there was also agreement
24 in the settlement with respect to some changes in the
25 mechanics of the PCA mechanism. Primarily, those

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1 recommended revisions would align the PCA reporting
2 period to the calendar year, as opposed to what is
3 currently in effect, which would be the July through
4 June year.

5 There were also -- and I've been asked by
6 Staff and the other parties to call the Commission's
7 attention to another aspect of the settlement which
8 is not specifically called out in the settlement
9 itself, but it is discussed quite extensively in the
10 joint testimony. There are certain accounting
11 mechanisms that need to be specifically approved by
12 the Commission in any order that adopts the
13 settlement. Those are outlined at pages 10 and 11 of
14 the joint testimony. They concern BPA transmission
15 upgrades, production tax credit tracker, accounting
16 details for the Hopkins Ridge acquisition.

17 And I should point out in that regard that,
18 with respect to Hopkins Ridge, part of the agreement
19 includes some protections with respect to rate-making
20 if Hopkins Ridge does not go online on November 1st.
21 We tried to protect against that possibility,
22 although Mr. Garratt's testimony would support the
23 early November online date.

24 Also, the other accounting issues involved
25 updated PCA exhibits, which are also discussed on

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1 page 12 of the joint testimony. So the -- I guess
2 the settlement has three basic components. There's
3 the revenue requirement aspect, which includes
4 prudence of power supply decisions and acquisitions;
5 there are changes to the PCA mechanism; and then
6 there are these accounting issues.

7 I would say that, with respect to the PCA
8 mechanism revisions, we did, as a precaution, send
9 copies of the settlement agreement to all the parties
10 in the general rate case from 2002, since some of
11 those parties were actually signatories to the PCA
12 settlement in that case and other parties may have
13 been interested anyway. We have received no comments
14 back from any of those parties in opposition or
15 taking any position on the settlement in any respect.

16 So in summary, that -- I believe that
17 summarizes the settlement. There are, again,
18 panelists who will be available for your questions,
19 we pre-filed supporting testimony, and the bottom
20 line conclusion is the parties believe that this is a
21 settlement that is in the public interest and it does
22 produce rates that are just, fair, reasonable and
23 sufficient. So we would just be prepared to answer
24 your questions, either the panelists or any legal
25 questions of the attorneys at a later time.

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1 JUDGE CAILLE: Thank you very much, Mr.
2 Cedarbaum. Mr. Jones, if you'd like to come to the
3 podium, I will swear you in.

4 MR. JONES: Okay.

5 Whereupon,

6 CHARLES JONES,
7 having been first duly sworn, was called as a witness
8 herein and testified as follows:

9 MR. JONES: As much as I can, you bet.

10 JUDGE CAILLE: Thank you.

11 MR. JONES: Hi, my name is, as the Judge
12 said, my name is Charles Jones.

13 JUDGE CAILLE: Excuse me.

14 MR. JONES: I see Mr. Jones is up here, so
15 him and I have one thing in common already, but --

16 JUDGE CAILLE: Mr. Jones, excuse me. Just
17 for the record, could you please state your address
18 for us?

19 MR. JONES: Well, of course. My name, as I
20 said, my name is Charles Jones, and I live at 1127
21 Georgetown Drive, N.E., Lacey, Washington, 98516.

22 JUDGE CAILLE: And are you here testifying
23 on your own behalf?

24 MR. JONES: Absolutely. And for the people
25 of this area that didn't make it, I want to speak up

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1 for them, because I'll bet a dollar that if you was
2 to take a vote, 80 percent of the people in your
3 district would be against this.

4 Somewhere -- I realize -- I'm not here to be
5 against the Company. Companies have to make a
6 profit. That's the bottom line. But, however,
7 someone has to stop the madness. Pretty soon,
8 everyone setting out here is going to have to make
9 \$100 an hour to pay their bills. And yet no one --
10 companies want to raise their rates, but they don't
11 want to pay any wages.

12 For example, you take someone like myself on
13 social security, you get \$40 per month increase at
14 the end of the year, and boy, that's big, big
15 dollars. That's \$40. Well, you guys wipe that out
16 like that.

17 What I would like to have you do is have the
18 courage to stand up and say, Hey, enough is enough.
19 No, you're not getting this rate increase. And for
20 Puget Sound Power to stand up to the people that are
21 charging them a ridiculous rate and tell them, No,
22 we're not paying. Maybe it's time that we go back to
23 what we had when I was a kid, and that was the people
24 at that time, the government owned it and the
25 government run it, and everyone said, Oh, private

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1 industry can do it so much cheaper, so much better,
2 Well, that's a bunch of hogwash, because private
3 industry is charging us to the hilt and they just
4 keep it up and keep it up, and I'll bet you a dollar
5 against a dime, again, I like to say that, but I bet
6 you the dollar against the dime that Puget Sound
7 Power, the powers that be there are making huge, huge
8 dollars, but they don't want to pay increases. They
9 fight like mad to have to pay those increases in the
10 hourly wage people.

11 So somewhere we're going to have to set back
12 and say, Hey, who is the majority of the people in
13 Thurston County, in the state of Washington, where we
14 have control. Are these people rich, rich Bill Gates
15 people, or are these people on the borderline of
16 bankruptcy and poor. We have credit debt like you
17 can't believe. And I'll bet you that a lot of people
18 will have to go out and borrow money just to pay
19 these bills.

20 So I know that you guys are a rubber stamp
21 committee. You cannot set up there and say that
22 you're not. You're going to have to go along with
23 this. If I was setting up there, I'd go along with
24 it, because you've got people that work for you hard
25 and say, Hey, these guys are just fine, but somewhere

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1 they're not going to be just fine. Somewhere we've
2 got to stop it, and I'm not just talking about the
3 power, I'm talking about the water. My water bill
4 has increased dramatically. When you go to that gas
5 station, you ought to think about that. They've
6 increased dramatically.

7 But, again, it's the rich getting richer and
8 the poor getting poorer and the middle class becoming
9 poor. Okay. I've said enough, so thank you for
10 listening. I thank you for letting me testify, not
11 that it's doing any good, but a lot of people are
12 upset.

13 JUDGE CAILLE: Thank you, Mr. Jones. Before
14 you leave the podium, let me just check to see if
15 there are any questions.

16 COMMISSIONER JONES: Mr. Jones, since you're
17 my namesake, can I ask a question?

18 MR. JONES: Of course.

19 COMMISSIONER JONES: How long did it take
20 you to get here?

21 MR. JONES: It took me probably 30 minutes.

22 COMMISSIONER JONES: Took me three and a
23 half hours. So we're a little bit off --

24 MR. JONES: Is that right? Where was you
25 from?

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1 COMMISSIONER JONES: Well, I was up in
2 Seattle, so --

3 THE WITNESS: Oh, oh, okay. I was just over
4 in Lacey, but that's a long time, 30 minutes.

5 CHAIRMAN SIDRAN: Mr. Jones, just before you
6 go, I just want to thank you for taking the time to
7 come down and share that perspective.

8 MR. JONES: Sure.

9 CHAIRMAN SIDRAN: And let me just say, at
10 least on my behalf, that I understand the concerns
11 the people have and everyone, and I think I can say
12 even the companies that we regulate, struggle in the
13 current climate with some forces that are beyond
14 control, but we realize that these rate increases
15 have real effects on real people, and we take our
16 responsibility seriously to try to do what we can,
17 and as you acknowledge, within a limited context
18 where we really can influence some of the forces at
19 work here, do what we can to see that the rates are
20 fair and as reasonable as they can be in what, in
21 some respects, are unreasonable circumstances.

22 But I appreciate the fact that you took the
23 time to come down.

24 MR. JONES: I thank you.

25 JUDGE CAILLE: I'll inquire again. Is there

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1 anyone on the bridge line who wishes to comment this
2 evening? All right. Then that concludes the public
3 comment portion of the hearing.

4 We will now transition into the the panel of
5 witnesses. Mr. Jones, if you have any questions,
6 there are two of our consumer affair --

7 MR. JONES: No, I don't have any more
8 questions, but I would like to present this to the
9 Chairman, if I could.

10 JUDGE CAILLE: I'm sure he would.

11 CHAIRMAN SIDRAN: We need all the gas we can
12 get, Mr. Jones. I'll take that.

13 MR. JONES: This is a light bulb made by my
14 grandson.

15 CHAIRMAN SIDRAN: Well, thank you very much.

16 JUDGE CAILLE: All right. I'd ask the
17 panelists to please take your positions. All right.
18 I'm going to have to ask you, the witnesses, to
19 please stand, and I will swear you in.

20 Whereupon,

21 HENRY McINTOSH, JAMES RUSSELL, JIM LAZAR, DONALD

22 SCHOENBECK, JOHN H. STORY, KIMBERLY HARRIS and

23 ROGER GARRATT,

24 having been first duly sworn, were called as

25 witnesses herein and were examined and testified as

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1 follows:

2 JUDGE CAILLE: Just for the purposes -- I'd
3 like to take appearances of the attorneys here, and
4 then we will go to introductions of the witnesses.
5 Or perhaps what we'll do is if you'll enter your
6 appearance and introduce your representative. And go
7 ahead, Mr. Cedarbaum.

8 MR. CEDARBAUM: Robert Cedarbaum, Assistant
9 Attorney General, representing the Commission Staff.
10 The Staff witnesses in support of the settlement are
11 James Russell and Henry McIntosh.

12 JUDGE CAILLE: And Mr. Cromwell.

13 MR. CROMWELL: Thank you, Your Honor.
14 Robert Cromwell, Assistant Attorney General, on
15 behalf of Public Counsel. Our witness appearing in
16 the panel today is Mr. Lazar, who's seated before
17 you. Due to scheduling issues which we had
18 previously discussed, I would ask, if there are
19 questions from the bench, if they could be asked of
20 Mr. Lazar so he can be excused as promptly as
21 possible in order to meet his other commitments this
22 evening. Thank you.

23 MR. VAN CLEVE: Thank you, Your Honor. Brad
24 Van Cleve, on behalf of the Industrial Customers of
25 Northwest Utilities, and Donald Schoenbeck is our

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1 witness in this proceeding.

2 MS. DODGE: Kirstin Dodge, on behalf of
3 Puget Sound Energy. We have Mr. John Story, Ms.
4 Kimberly Harris, and Mr. Roger Garratt on behalf of
5 the Company.

6 MR. KUZMA: Jason Kuzma, with Perkins Coie,
7 also representing Puget Sound Energy.

8 JUDGE CAILLE: Thank you. All right. The
9 witnesses are sworn, and I think they are ready to
10 take questions from the bench.

11 COMMISSIONER OSHIE: I'd like to ask a few
12 questions about the production tax credit that's
13 associated with Hopkins Ridge, and I don't know if
14 this would be appropriate for just one witness to
15 answer, and I don't know if this is a question for
16 you, Mr. Lazar, in trying to honor the commitment
17 that may have been made about your travel schedule
18 and trying to get you in and out of here, but I guess
19 the, you know, the focus of my question on the
20 production tax credit is twofold.

21 One, what is the -- I'd like to get a better
22 understanding of the accounting treatment of the
23 production tax credit, about how -- because, as I
24 understand it, from reading your testimony, Mr.
25 Story, as well as the settlement agreement, is that

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1 there will be a -- to put it in maybe common terms,
2 the Company's going to front the money for the
3 production tax credit as those kilowatt hours are
4 generated, and that's going to accumulate in a
5 tracker mechanism, a fund, and the Company will earn
6 its rate of return on that fund because it will be
7 treated as a regulatory asset.

8 So I'm assuming that it would earn the 10.3
9 percent, and then, at the end of the year, that
10 accumulated money, as well as the rate of return
11 earned, the income of which there will then be an
12 adder for the federal income tax obligation for the
13 monies that had been earned by the Company as a
14 result of the payment to the ratepayers of the
15 production tax credit, then that will be trued up and
16 then that money will then come back -- the ratepayers
17 will have to pay that money then back to the Company
18 in the trueup mechanism. Is that -- is my basic
19 understanding right, wrong, in the middle?

20 MR. STORY: I'd say the beginning part of it
21 was --

22 JUDGE CAILLE: Excuse me, are you Mr. Story?

23 MR. STORY: Yes.

24 JUDGE CAILLE: Would you identify yourself
25 before you speak for the court reporter and for

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1 anyone who's listening on the bridge?

2 MR. STORY: Yeah, I'm John Story, with Puget
3 Sound Energy. It's partially correct. There's three
4 things that we're trying to track with the production
5 tax credit: That's the refund to the customer, which
6 is starting at the same time as the new rates, and
7 what we've done for that is we've estimated the
8 credits available during the next year, so the
9 customer is going to be getting those credits right
10 away. The second thing we're trying to track --

11 COMMISSIONER OSHIE: Excuse me, Mr. Story.
12 Right away, meaning that you will have -- it's the
13 total of the amount the customers -- that will be
14 distributed to the customers over -- it's your
15 projected amount over the course of the year?

16 MR. STORY: It's our projected amount.

17 COMMISSIONER OSHIE: And that will be
18 distributed, what, on a monthly basis or one lump sum
19 to all the ratepayers?

20 MR. STORY: No, it's an average rate. It's
21 about .06 cents. It's \$13 million. And what we've
22 asked for is a tracker mechanism that that rate would
23 be applied against everybody's kilowatt hours.

24 COMMISSIONER OSHIE: Excuse me. It was how
25 many million?

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1 MR. STORY: It's about 13 million.

2 COMMISSIONER OSHIE: Thirteen million.

3 MR. STORY: And the way that's calculated,
4 it's an actual tax credit to the company. So what
5 we're receiving is about \$8 million in tax credit
6 from generation, that's our projection, and you gross
7 that up from the tax effect, because it is a true tax
8 credit, and the customer gets back \$13 million. The
9 second thing we're trying to track --

10 COMMISSIONER OSHIE: So where's the rest of
11 -- so the company, I mean, the way you explained that
12 to me, then, the company will pay out 13 million, but
13 receive back from the federal government eight
14 million?

15 MR. STORY: Right.

16 COMMISSIONER OSHIE: So the Company will
17 essentially lose the five million, or that's where
18 the trueup mechanism comes in, I assume?

19 MR. STORY: That's where the trueup -- the
20 Company hasn't lost five million. In effect, that's
21 money that was built into rates to cover net
22 operating income. So all we're doing is making the
23 customer whole.

24 The eight million will come back to the
25 Company, and we pay -- we get that back from the IRS

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1 through taxable income. So there's a mismatch as to
2 what the customer is getting in their load versus
3 what we're getting back from the IRS, and that's the
4 deferred account we're talking about being set up.
5 What we'll do is we credit -- is it all right to use
6 accounting terms?

7 COMMISSIONER OSHIE: I think so. As far as
8 I'm concerned, it's fine. It's fine.

9 MR. STORY: We'll credit accounts payable --
10 or not accounts payable, but currently payable taxes,
11 and we'll charge a deferred tax account. Now, we get
12 that deferred tax account reduced by applying against
13 the currently payable when we actually pay the taxes.
14 So as that debit sits there, we've paid the money to
15 the customer, we're waiting to get the money back
16 from the IRS, and that's what we're asking for the
17 return on.

18 When we go out to the next year, we'll do
19 the same thing. We'll estimate what the future year
20 is, we'll billed that into the rate for the customer,
21 but based on generation, and we'll also deduct from
22 that the interest that was accrued on the deferred
23 account. Now, the deferred account is actually
24 coming back from the IRS, so no, the customer is not
25 paying that dollars back; they're getting that as a

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1 credit.

2 COMMISSIONER OSHIE: So what's in the
3 deferred account isn't concerned to be income by the
4 IRS, because you would have earned -- it's not
5 treated, then, as a true regulatory asset; that
6 whatever amount is in that account would earn a rate
7 of return and wouldn't -- and if that were the case,
8 wouldn't there then be a federal tax obligation as a
9 result of those earnings?

10 MR. STORY: On the interest, there is a tax
11 obligation, right, because we treat that as interest
12 income.

13 COMMISSIONER OSHIE: Is that every -- just
14 make sure that's the other witnesses' understandings
15 of that -- how the mechanism would work. Mr.
16 Russell, there's no -- want to clarify at all, or Mr.
17 Lazar?

18 MR. RUSSELL: No, I think Mr. Story
19 explained it to my understanding.

20 MR. LAZAR: Jim Lazar, with Public Counsel.
21 Mr. Story's explanation is accurate, as I understand
22 it. If I can put it a different way, if the
23 ratepayers don't pay the Company \$13 million, the
24 Company loses \$8 million after tax. If the federal
25 government gives the Company an \$8 million tax

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1 credit, the Company is then whole, and that's the way
2 I look at the basic transaction. The Company is
3 whole, the ratepayers get the benefit, the entirety
4 of the benefits.

5 MR. STORY: Right.

6 COMMISSIONER OSHIE: You said that it would
7 be about a .6 cent per kilowatt-hour -- it will show
8 up -- a credit to the customer and show up on the
9 bill on a monthly basis?

10 MR. STORY: That's correct.

11 MR. LAZAR: It's .06.

12 COMMISSIONER OSHIE: .06, yeah.

13 MR. STORY: Right. The other reason we're
14 asking for it is a tracker, so that it's outside the
15 bands of the PCA. You know, we have the sharing band
16 set up in the PCA, so this would be treated -- that's
17 one of the things we're asking for is this to be
18 treated as outside those bands.

19 COMMISSIONER OSHIE: Thank you.

20 CHAIRMAN SIDRAN: Maybe I could just ask a
21 follow-up question, which is how is this distributed
22 across the customer classes, the .06 cents? There's
23 a variation by class, I assume?

24 MR. STORY: That's correct. We did a -- we
25 did the spread on the same methodology as the PCORC

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1 increase, which is on a peak credit methodology.

2 CHAIRMAN SIDRAN: So that was 14 percent to
3 peak usage and 86 percent to energy?

4 MR. STORY: That would be the split on
5 demand energy; that's correct.

6 CHAIRMAN SIDRAN: I want to just ask a
7 question about -- and maybe it's in here and I missed
8 it, but out of the total increase here of, what, 55
9 million or so, how much -- what's the percentage of
10 that that's attributable to increased fuel cost or
11 gas cost, ballpark? I don't need a precise number.
12 And I saw something in some of the testimony, I think
13 it was in the narrative on the settlement that ten
14 percent or so was sort of allocated to Hopkins, but I
15 didn't see anything that said the fuel cost alone
16 accounted for some percentage.

17 MR. STORY: If I could maybe point you to an
18 exhibit, it's JRM-9, that's Julie Ryan Number 9.
19 What that exhibit shows is what was allowed in the
20 last general rate case, and it also shows what is in
21 -- we're asking for in the 2005 PCORC, and then it
22 gives you a difference by line item as to the
23 differences. Now, that --

24 JUDGE CAILLE: Mr. Story, could you hold up
25 just a moment while we find that exhibit, because --

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1 MR. STORY: Sure.

2 JUDGE CAILLE: -- we have them numbered.

3 CHAIRMAN SIDRAN: That's Number 36 in this
4 exhibit list.

5 JUDGE CAILLE: Yes, that would be Number 36.
6 Okay. I believe we're there.

7 CHAIRMAN SIDRAN: Thank you.

8 MR. STORY: What this shows down the
9 left-hand side is it identifies each of the major
10 resources and it shows what was allowed, like a total
11 column in the first -- you've got three columns
12 there. You've got Aurora, which is our Aurora model;
13 Other, which are adjustments that are done outside
14 the Aurora Power Cost Model; and then the total after
15 that line item. So you can see Colstrip I and II,
16 out of the 2004 general rate case, was allowed
17 seventeen-million-nine, and the current cost would be
18 about nineteen-million-seven, so the change is a
19 million-eight.

20 One thing I would caution on this exhibit is
21 normally we would give the impact of load change.
22 These are just straight dollars, so it's not -- you
23 can't take the dollars that are over in the far right
24 side on the difference and total them up to the rate
25 increase. It's, you know, it's dollars without

0080

1 adjustment for load.

2 CHAIRMAN SIDRAN: Okay. Well, so maybe you
3 could walk me through and help me understand out of
4 this chart. I see down at the bottom natural gas,
5 fuel. I'm just trying to get my arms around the
6 impact of the fuel charge from the increase in gas
7 costs and what percentage, approximately, of that is
8 in the rate increase.

9 MR. STORY: Okay. Yes, if you look at what
10 is Line 49, the natural gas prices in the general
11 rate case were 98 million, and we're now looking at
12 54.9 million. And what that's telling us is that,
13 with the increase in prices on gas as the heat rates
14 are not -- we're out of the heat rate, really, for a
15 turbine, so we're cutting back on gas, but what we
16 have to do is we go out and, under purchase and
17 interchange, the line right under that, we have to
18 replace that power with purchases. So we had 601
19 million in the 2004 general rate case, and we're now
20 asking for 677 million.

21 So the turbines that are the more expensive
22 power have been ramped back and the less expensive
23 market power is replacing them.

24 MR. LAZAR: If I could add to that. Jim
25 Lazar, for Public Counsel. Puget's gas-fired

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1 resources are relatively inefficient, the ones the
2 Company owns, and in a high-priced gas market you
3 don't want to use them and Puget isn't using them.
4 In the market, there are more efficient gas turbines,
5 and the example is the one in Chehalis that we pass
6 on the freeway, a relatively new plant, and those
7 units have a -- the combined cycle units have a much
8 lower gas utilization per kilowatt-hour. So in this
9 situation, it makes sense to go to the market and buy
10 power from the more efficient gas-fired plants.

11 So the question you're asking is how much of
12 this is the cost of gas. It's difficult to answer
13 from the data, because a lot of that shows up as
14 purchased power and you may not know if it's coming
15 from the Centralia coal plant and demanding a
16 gas-driven price, or coming from the Chehalis
17 gas-fired plant and receiving a gas-driven price that
18 is also a cost-driven price. But the high price of
19 gas pushes Puget's turbines out of the market, but by
20 suppressing demand generally across the West makes
21 those more efficient turbines and they will use it so
22 the purchased power goes up.

23 MR. STORY: That's correct. And there's
24 another impact on us, also, is if our turbines are
25 offline, we have less power to sell into the market.

0082

1 So you see on secondary sales, line 53, we had \$27
2 million before in the general rate case being
3 credited to purchased power -- or to power costs, and
4 now it's down to about seven-million-eight. Now,
5 that's not just the turbines, but it's an impact of
6 of how the whole resource works together, the
7 portfolio.

8 MR. RUSSELL: I think in current rates, fuel
9 per unit, I think, is 439, and in the settlement it's
10 reflected in 655. But, obviously, when you dispatch
11 all that, like Mr. Lazar talked about, there's other
12 things happening. Those are the relative fuel prices
13 between today's rates and the proposed rates of the
14 settlement.

15 CHAIRMAN SIDRAN: And I know we covered this
16 during Puget's least cost plan presentation, but in
17 this context, I think it would be useful to just have
18 the Company briefly summarize what it has done to try
19 to mitigate the impact of the rising price of gas in
20 terms of your costs. Or put differently, whether the
21 strategies that you have pursued and were identified
22 in the last plan have been working?

23 MS. HARRIS: And I'm assuming that --
24 Kimberly Harris, for Puget Sound Energy. I'm
25 assuming that the question is going to our risk

0083

1 management and hedging type of capabilities?

2 CHAIRMAN SIDRAN: Yes.

3 MS. HARRIS: On the electric side, we have a
4 very programmatic hedging program, both on the
5 electric side and the gas side. For the electric
6 side, it has evolved over a series of I would say
7 approximately the last three to four years, and the
8 evolution of the hedging at this point, what we use
9 is a -- if you will, instead of saying we're going to
10 hedge a hundred megawatts or so per month or per a
11 certain time period, what we actually do is, using
12 the modeling and using our hedging program, actually
13 fixate on a dollar amount as far as laying down
14 hedges.

15 We use -- we do not use financial hedges; we
16 actually use physical hedges and it's purchased out
17 over a certain amount of time, whether it be one
18 month time period, two months, and so forth. It's a
19 very programmatic approach, and we look at laying
20 down hedges or physical hedges based off of a certain
21 dollar amount during a certain time period.

22 Our hedging program, as I said, has evolved.
23 It's also been constrained by the credit available
24 both for the electric portfolio and for our natural
25 gas customers. So it's not necessary -- we do -- I

0084

1 guess to step back, we actually use a very
2 programmatic approach and we do hedge a considerable
3 amount.

4 I think, for the time period, we are hedged
5 out, for the rate year or PCORC, we're hedged out,
6 and I'm looking at John, close to 12 percent is an
7 exposure. So we are hedged considerably for the time
8 period or for the rate year covered by the
9 settlement.

10 COMMISSIONER OSHIE: I have a follow-up
11 question, Ms. Harris. Does the Company use Jackson
12 Prairie at all on the electric side as storage for
13 natural gas or just for the residential customers on
14 the gas side of the business?

15 MS. HARRIS: The Jackson Prairie Storage
16 Field is entirely within the gas LDC book, and so all
17 expansions have been paid by the gas customers, and
18 so the use of that storage facility is on the gas
19 side only.

20 COMMISSIONER OSHIE: Okay.

21 CHAIRMAN SIDRAN: Maybe I can -- this is
22 actually not only for the company, but for the
23 parties. You know, we've been going through a
24 process of revising our least cost or integrated
25 resource plans, planning rules, and I'm interested in

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1 whether, in this case, where you had to address the
2 prudence of a number of recent acquisitions,
3 including not just Hopkins Ridge, but others, as
4 well, whether the least cost plan that people were
5 working from was useful in terms of trying to
6 determine prudence.

7 In other words, does the least cost planning
8 process add any value when you're trying to determine
9 prudence in the context of looking at something like
10 this in the PCORC case or not?

11 MR. McINTOSH: Hank McIntosh, UTC Staff.

12 Yes, the least cost planning process, when it's well
13 done, when a company sees its interests in doing a
14 good job in least cost planning allows a very
15 deliberate and rigorous development of rational
16 scheme to make decisions with. And in this case, the
17 Hopkins decision was going to be based in the context
18 of two least cost plans and an RFP process that
19 followed on one of them. I think that that provided
20 -- in fact, the first least cost plan that gave birth
21 to the RFP that eventually produces Hopkins in front
22 of us as a candidate for prudence, it exhibited a
23 great deal of development in its modeling, which is
24 to say it's the rational structure one brings to that
25 complexity to make it manageable, and that allowed

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1 the Company to produce not only planning techniques,
2 but evaluation techniques, which they exploited well
3 in their work and allowed reviewers to get confidence
4 in what they had done and to be able to agree with
5 the result.

6 So in short, yes, there's value in the least
7 cost planning process, at least some of the time.

8 MR. SCHOENBECK: This is Don Schoenbeck, on
9 behalf of the Industrial Customers of Northwest
10 Utilities. I second everything Mr. McIntosh said.

11 Also, one of our issues had to do with the
12 confidentiality of numerous documents associated with
13 Hopkins Ridge, so frankly, the least cost plan
14 provides an invaluable benchmark in which parties
15 that do not have access to all the confidential
16 documents can use as a yardstick to measure the
17 reasonableness of a resource acquisition such as
18 Hopkins Ridge.

19 I think in this day and age, when more and
20 more utilities are requiring more and more
21 confidentiality on their documents, the least cost
22 plan becomes even more important, not less.

23 MR. LAZAR: Jim Lazar, for Public Counsel.
24 I was a witness in the Company's 1983 rate case, when
25 the prudence of the Skagit Nuclear Plant was

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1 examined, and in many cases since then where prudence
2 of a lot of resources was addressed. This is the
3 first time I think I've ever testified and just said
4 yes, a hundred percent prudent.

5 The Company's review process for Hopkins
6 Ridge, in my opinion, is exemplary. And I would
7 contrast that, for example, to the process that
8 Avista Utilities used in pursuing one of their
9 resources, which I was involved in a couple of
10 decades ago, Kettle Falls Plant, where the Commission
11 disallowed a significant portion of the project cost.

12 I've used this process, the least cost plan,
13 the risk management elements of it that were
14 developed in the least cost planning process where
15 Puget said, basically, we have enough gas exposure,
16 we need to diversify. I've used this process as an
17 example to my other clients and within the Regulatory
18 Assistance Project of an example of how to do a
19 project evaluation well. It, to me, is an exemplary
20 process that Puget went through here, and it's
21 certainly the first time I think I've ever said that
22 about this company and its project review.

23 It's -- I went through it -- my first
24 assignment was look at Hopkins Ridge. My response to
25 my client was they did a great job, can I use this as

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1 an example everywhere else. And clearly, the least
2 cost planning process drove the methodology, the risk
3 management tools that were developed in the least
4 cost planning process I have used in presentations
5 around the country as an example of how to consider
6 the various kinds of risk that people are exposed to,
7 that the utilities are exposed to. I just think that
8 this is really the model. It's the best process I've
9 seen in the -- since I started this consulting
10 practice in 1978.

11 CHAIRMAN SIDRAN: Is there anything there
12 the Company would like to take issue with?

13 COMMISSIONER JONES: Mr. Lazar, I understand
14 you need to exit the Commission soon.

15 MR. LAZAR: I'd like to do that, yes, sir.

16 COMMISSIONER JONES: Two questions for you,
17 then, and these are just for you. Following up on
18 that question, could you explain for me, since this
19 is the first time for me to be on the bench during a
20 review of the PCA adjustment mechanism, and I think
21 you were involved when this was set up in the spring
22 of '02, is it your understanding that the PCA
23 mechanism was -- and the PCORC around it, it was for
24 Hopkins Ridge and for renewable energy projects of a
25 size of about this amount that the mechanism was

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1 going to be used for resource acquisitions of this
2 type? I'm not talking about the IRP and all that
3 stuff, but just the PCA.

4 MR. LAZAR: We anticipated that the PCORC
5 mechanism would be used when the Company engaged in
6 significant long-term resource acquisitions.

7 COMMISSIONER JONES: What's the definition
8 of long-term?

9 MR. LAZAR: More than a year, more than a
10 one-year contract.

11 COMMISSIONER JONES: Okay.

12 MR. LAZAR: So this is certainly much longer
13 than that; that it is not limited to renewable
14 resources. If the Company was buying a piece of a
15 coal-fired power plant, the process that would be
16 expected would be exactly the same.

17 COMMISSIONER JONES: So it's technology
18 neutral. It could apply to coal, bio mass, wind,
19 nuclear, whatever?

20 MR. LAZAR: Yes.

21 COMMISSIONER JONES: Okay.

22 MR. LAZAR: And it's also neutral as to
23 whether it's a purchased power agreement or company
24 ownership. It's just a review of power costs only,
25 and then the triggering mechanism is if a PCORC or a

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1 series of PCORCs drive rates up by a certain
2 threshold, that triggers a general rate case, which
3 the company has agreed to file by mid-February of
4 next year.

5 COMMISSIONER JONES: Is that roughly the
6 five percent cumulative mechanism that was called for
7 in the 2002 agreement?

8 MR. LAZAR: Yes.

9 COMMISSIONER JONES: So it's your
10 understanding that once that five percent threshold
11 is triggered, then the Company would be moved into a
12 general rate case type of mechanism instead of a PCA
13 mechanism?

14 MR. LAZAR: The Company would be moved into
15 a general rate case mechanism independent of how the
16 PCA works. The PCA is really a trueup mechanism
17 related to actual costs; the PCORC is a
18 forward-looking mechanism really driven by new
19 resource acquisition, and the general rate case looks
20 at everything.

21 COMMISSIONER JONES: So my question to you
22 is that you're comfortable -- because I know you've
23 been around the block on a lot of these issues going
24 back to the Skagit Nuclear Plant, so if there are
25 legitimate and contentious issues that require the

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1 Commission's careful deliberation on the prudence of
2 a resource, let's say it's larger than this or let's
3 say it's a 500-megawatt base load resource that has a
4 life of 30 years, then it is your understanding and
5 you're comfortable with this PC -- for the trueup
6 process of a PCA mechanism, you're comfortable with
7 that, and if it gets into a forward-looking mechanism
8 of the general rate case, then essentially you have
9 another bite of the apple in the GRC?

10 I'm using vernacular here, but is that an
11 appropriate way to look at it? Because I'm a little
12 confused, frankly, this being the first case, as to,
13 you know, what happens with the next resource
14 acquisition of the Company.

15 MR. LAZAR: It's not a simple process, but
16 it was my expectation, in working on the settlement
17 that created the PCA and the PCORC process, that the
18 PCORC would be the place where prudence would
19 primarily be reviewed.

20 COMMISSIONER JONES: All right.

21 MR. LAZAR: That the Company was going to
22 have to be forthcoming with a lot of data early on in
23 the process in order to make that possible. And in
24 this case, the Company, when it filed its case, filed
25 very substantial evidence of what it did, how it did

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1 it and why it did it. And that's the place to review
2 prudence.

3 It's quite possible that if we had a
4 contested issue of prudence, that it might not be
5 possible to resolve a PCORC in as short a period of
6 time as the parties have agreed to resolve this one.
7 We hope it doesn't come to that. But I wouldn't say
8 -- you know, I mean, if the Company bought something
9 that I thought was a really bad idea and I filed
10 substantial evidence before you to that effect, it
11 might go on more than four months, but the PCORC is a
12 place where prudence of a new resource acquisition is
13 to be reviewed.

14 That doesn't take away the Commission's
15 right or responsibility in every general rate case to
16 look at all of the actions of the Company with
17 respect to whether they're prudent or not. But the
18 basic decision to acquire we hoped would be resolved
19 in the PCORC.

20 COMMISSIONER JONES: In the PCORC, thank
21 you.

22 MR. LAZAR: In the PCORC.

23 COMMISSIONER JONES: Just one more question,
24 and I know you have to go. Do you have any concerns
25 about the rate spread and rate design approved in the

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1 Company's 2000 -- there's an allocation formula, as I
2 understand, it in the '01 general rate case, and I
3 understand that the so-called peak credit method,
4 with 14 percent of the cost allocated according to
5 peak usage and 86 percent according to energy usage.
6 Is that accurate, and do you have any concerns about
7 the rate spread rate design mechanism in this
8 settlement?

9 MR. LAZAR: We believe the peak credit
10 method is the right way to allocate power costs and
11 supported it as it was developed over the period from
12 1980 to 1992. The method being used in this case is
13 consistent with the agreement that we all reached in
14 that general rate case settlement three years ago.

15 I'm not sure it was really anticipated gas
16 prices being as high as they are, and I think if we
17 went back and redid the peak credit mechanism, it
18 might come out as eighty-eight-twelve, but a PCORC is
19 not the place to debate that kind of an issue; a
20 general rate case is the place to debate that kind of
21 issue.

22 So we're a little uncomfortable with the
23 result, but that's sort of the price one pays for
24 reaching an agreement with all the parties to come up
25 with a streamlined method for treating power costs.

0094

1 And if it's a little unfair to one party, we'll catch
2 that in the general rate case in six months.

3 COMMISSIONER OSHIE: Just a follow-up
4 question, Mr. Lazar. Is the production tax credit
5 distribution to the ratepayers following the peak
6 allocation methodology that was adopted in 2001?

7 MR. LAZAR: Yeah, the credit is being
8 allocated exactly the same way as the costs of
9 Hopkins Ridge, and I think that's fair.

10 JUDGE CAILLE: The Commissioners may -- may
11 I excuse Mr. Lazar, or do you have --

12 COMMISSIONER JONES: I have several
13 questions on Hopkins Ridge, but I don't think they're
14 directed to Mr. Lazar.

15 JUDGE CAILLE: Mr. Lazar, you may be
16 excused.

17 MR. LAZAR: Thank you very much.

18 COMMISSIONER JONES: Thank you. I have a
19 couple questions about Hopkins Ridge, about the
20 maximum cost is estimated at 199,767,000 in one piece
21 of the testimony, and then exhibit -- this Attachment
22 A, I may not be reading it correctly, but according
23 to that, I read the total cost to be about
24 185,742,000. So could somebody explain the
25 divergence of this and also what a regulatory asset

0095

1 variable -- there's a \$9 million figure in there for
2 a regulatory asset, and what is that? So two parts
3 to that question.

4 MR. STORY: This is John Story, with Puget
5 Sound Energy. The \$9 million first is a prepayment
6 that we made to BPA for transmission upgrade.

7 COMMISSIONER JONES: So that's the BPA
8 prepayment mechanism? Okay.

9 MR. STORY: Correct. And then the
10 Attachment A to the settlement, it's sort of -- it's
11 a summarized schedule for Hopkins Ridge, and there's
12 actually a more detailed schedule within my original
13 testimony and exhibits that shows you the breakdown
14 as to how those costs are accumulated.

15 COMMISSIONER JONES: What exhibit is that
16 in? And we may have different numbers on the exhibit
17 than you quote to us, so Judge, will you help with
18 that?

19 JUDGE CAILLE: Yes, I will.

20 MR. STORY: It's the third adjustment.

21 JUDGE CAILLE: Mr. Story, could you tell me
22 what the exhibit is designated as in the upper
23 right-hand corner?

24 MR. STORY: Yes, it's JHS-04.

25 JUDGE CAILLE: That should be 16.

0096

1 COMMISSIONER JONES: JHS-4?

2 JUDGE CAILLE: That's the Pro Forma Power
3 Cost Report?

4 MR. STORY: That's correct. It's actually a
5 summarization of all of the different adjustments.
6 And then, behind that, there's 15 pages to that
7 exhibit, and on page five of those 15 pages, there's
8 a detail as to how the dollars are allocated to
9 Hopkins Ridge.

10 COMMISSIONER JONES: I see. So the rate
11 base is 189 -- the one that refers to 189,767?

12 MR. STORY: That's correct. And then, when
13 you add the nine-million-one under --

14 COMMISSIONER JONES: Got you.

15 MR. STORY: -- down below, you come up to
16 199 million. The other offsets are the depreciation
17 and deferred taxes --

18 COMMISSIONER JONES: Sure.

19 MR. STORY: -- that are being taken during
20 the rate year.

21 COMMISSIONER JONES: Can I ask two questions
22 regarding what-ifs? If Hopkins Ridge is not
23 effective, if it's not energized, what you call, I
24 think, WTG, wind turbine -- if the wind turbine
25 generators are not energized and ready to produce

0097

1 power into the grid on November 1st, what happens?

2 MR. STORY: Under the settlement agreement,
3 we've agreed to remove all the costs of Hopkins
4 Ridge, and that's what this exhibit that you first
5 pointed to was --

6 COMMISSIONER JONES: Okay.

7 MR. STORY: -- to show what the costs are on
8 Hopkins Ridge. And what we would do is substitute
9 fuel costs or secondary purchases. In effect, what
10 we've done by doing that adjustment is to put in the
11 actual replacement type of costs that would be --

12 COMMISSIONER JONES: I see.

13 MR. STORY: -- in power costs so we have a
14 match when we do actuals.

15 COMMISSIONER JONES: So there's a match
16 depending on what's going on in the spot market, it's
17 natural gas or whatever --

18 MR. STORY: That's correct.

19 COMMISSIONER JONES: -- market. What is the
20 specific mechanism in the settlement agreement if
21 investment costs, capital costs actually exceed this
22 amount as proposed in this exhibit?

23 MR. STORY: Under the settlement agreement,
24 we've agreed that the Company will have to come in
25 and prove prudence of any costs that exceed that

0098

1 amount. We've also, in the settlement agreement,
2 agreed that whatever costs that are expended, that's
3 all we're going to be putting into the PCA until
4 March of next year.

5 So what happens with a project like this,
6 and Mr. Garratt can speak to this most probably
7 better, but when we close in November, we're not
8 going to have all the costs of the plant. There's
9 still some cleanup costs to be done, there's some
10 holdbacks that we're going to have, I believe \$15 to
11 \$16 million holdback on some of this until we're sure
12 everything is done and completed. As those are paid,
13 that everything is done and completed. As those are
14 paid, they'll be added to the plant costs, so there
15 is a trueup mechanism for that.

16 COMMISSIONER JONES: Mr. Garratt, have there
17 been any additional delays in the project? I read at
18 one point in the pre-filed testimony that there was a
19 delay in the delivery of one of the wind turbines to
20 the site. Have there been any -- and how many
21 strings -- a string is, what, eight or six wind
22 turbines? How many have been energized already?

23 MR. GARRATT: So in terms of the wind
24 turbine delays, other than the one incident that
25 occurred in the Portland area, there have been no

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1 other transportation delays, and that particular
2 turbine will be included as part of the last shipment
3 of turbines that will be arriving at the end of
4 October. The schedule is still looking as though it
5 would be mid-November for the full commercial
6 operation of the facility, so all of the strings.

7 I think you asked about the number of
8 strings. In this case, there's six strings, so I
9 believe there's 14 turbines on five of the six and 13
10 turbines on one of the six.

11 COMMISSIONER JONES: Is string an acronym?
12 In our business, we deal with lots of acronyms, like
13 in telecommunications and energy, or is a string like
14 a linear string of turbines constructed in the field?

15 MR. GARRATT: It's a -- they do tend to be
16 linear, but the way the -- it's really the electrical
17 circuits that the turbines are laid out on, so you
18 essentially have 14 -- in the case of five of the six
19 strings, 14 of the turbines feeding into the project
20 substation on a circuit, so that if you were to have
21 some sort of failure of that circuit, you would lose
22 one string, but not lose the entire wind farm.

23 COMMISSIONER JONES: And how many strings
24 are energized now?

25 MR. GARRATT: At this point, we have one

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1 string energized and I believe we have two additional
2 strings that are ready to be energized. We have --
3 the contractor has -- actually has a large number of
4 the turbines erected, something like 37 turbines are
5 fully erected at this point and are at the beginning
6 of the commissioning process of those turbines, with
7 the expectation they'll be commissioning about 12
8 turbines per week.

9 COMMISSIONER JONES: And there have been no
10 delays with Bonneville's upgrade of the transmission
11 access to the site, as I understand it. It's --
12 that's fully completed?

13 MR. GARRATT: Yeah, Bonneville has completed
14 their interconnection substation, and they had an
15 outage, I believe it was the week of September the
16 19th, to complete that process, and so the
17 interconnecting substation is essentially finished.
18 I believe there may be a few punch list items, but it
19 is complete.

20 COMMISSIONER JONES: Good. Good work.
21 Thank you. Mr. Chairman, that's all I have.

22 COMMISSIONER OSHIE: I have a question on
23 the settlement agreement, which is marked as Exhibit
24 6. And it's page seven of Exhibit 6, paragraph 22.
25 And I think the -- you know, this question's really

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1 directed to all the parties, but primarily to Staff,
2 and it's -- as I understand that paragraph in the
3 settlement agreement, is that Puget will file its
4 tariff sheets to go into effect on July 1, 2006, and
5 I believe they're to file them by May 31st or May
6 1st, I can't recall, but there is a clause in here
7 that I would want to get some clarification.

8 It said that the parties agree to support
9 Commission approval of the power cost baseline rate
10 update and the clauses without suspension.

11 And so perhaps the Staff can explain its
12 intentions in agreeing to that in the settlement
13 agreement and what -- whether it sees any risk in
14 agreeing to this in the settlement agreement, what's
15 the risk that there may be -- that Staff may believe
16 that those power costs may not be justified, and if
17 so, what is Staff's -- what will Staff do about that,
18 or any of the parties here, frankly?

19 MR. RUSSELL: Well, we tried to --

20 JUDGE CAILLE: Mr. Russell, please identify
21 yourself.

22 MR. RUSSELL: Sorry, Jim Russell, with
23 Commission Staff. We tried to make the process as
24 seamless as possible and agree to all the proposed
25 changes -- ultimate changes, for instance, fuel costs

0102

1 in running of the Aurora model. So we think that the
2 risk is very low that there will be need to suspend
3 the filing. You know, there is that risk, though.

4 COMMISSIONER OSHIE: And there's -- I assume
5 that there's some good faith that's involved in this,
6 Mr. Russell, on the part of Staff and the part of
7 ICNU and Public Counsel, that if there is some
8 inconsistency or, you know, that the parties cannot
9 reconcile the filing and the power -- and the gas
10 costs that are included in that with what's going on
11 in the real world at the time the filing was made,
12 that the good faith is that the Company, with some
13 discussion, would come back and refile its tariff
14 pages?

15 MR. RUSSELL: Well, we would certainly hope
16 so. And through this process, I think we all have
17 had a very good working relationship and have adapted
18 as necessary to the things that have popped up, so I
19 think that provides us with some assurance that we
20 could handle those kind of situations.

21 COMMISSIONER OSHIE: And just what if the
22 Company would not agree to do that? What's the
23 Commission's option at that point?

24 MR. RUSSELL: That's a legal question, I
25 think, that -

0103

1 COMMISSIONER OSHIE: I would agree, Mr.
2 Russell.

3 MR. CEDARBAUM: Well, I think Ms. Harris
4 wants to chime in here on how the Company would
5 respond, but I think, as a legal matter, this is
6 always -- when a settlement is adopted by the
7 Commission, it becomes a Commission order, and if for
8 some reason the Commission believed that things
9 weren't working properly, it could amend its order to
10 allow a different process. And so I think you always
11 have that option.

12 But what I'm hearing from the parties and
13 what my understanding is is that we've developed a
14 process and a mechanism by which everybody kind of
15 knows the rules pretty well going in and everybody's
16 had a good working relationship, and so that this
17 filing will end up being -- the expectation and the
18 hope is that it be fairly routine and could be
19 handled in that month and a half time frame.

20 COMMISSIONER OSHIE: I'm assuming by
21 amending our order, Mr. Cedarbaum, that you're
22 referring to an action on our own motion, so to
23 speak? I mean, by the terms of the agreement, the
24 parties are saying we will support it without
25 suspension. But I'm just thinking out loud. How

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1 does it get before us unless we do it ourselves in
2 that event, this unlikely event that that would
3 happen?

4 MR. CEDARBAUM: Well, I guess I would say
5 that, you know, if something occurred that was just
6 beyond the scope of what the parties intended, that,
7 you know, and where that point is, I don't know that
8 we can identify here today, but if we get beyond the
9 parties' original intentions in this document, you
10 know, either by agreement of the parties or by, I
11 suppose, unilateral action by one of the parties,
12 that we could attempt that, but recognizing that
13 that's going to be an unusual situation that was just
14 not anticipated to begin with.

15 CHAIRMAN SIDRAN: I believe the general rule
16 is everyone is bound by the Commission's orders
17 except the Commission.

18 MR. SCHOENBECK: This is Don Schoenbeck.
19 What I'd like to add on behalf of ICNU is there was
20 actually a good deal of time spent with the first two
21 pages of Exhibit A that's attached to the settlement
22 to make it as clear as possible exactly what
23 adjustments would be allowed in the six-month PCORC
24 filing, and that would be our yardstick, again, to
25 measure the Company's filing versus these two pages.

0105

1 And if there was something outside the box, if you
2 will, we would certainly bring it to your attention,
3 but we certainly don't expect that to be the case.

4 COMMISSIONER JONES: Mr. Schoenbeck, on that
5 point, could you stop for a minute? Are you
6 referring to what is termed in the Attachment A
7 Example Baseline Rate for Proposed Interim Power Cost
8 Update Filing?

9 MR. SCHOENBECK: Yes, that's page one of
10 three. And also, if you look at page two of three,
11 again --

12 COMMISSIONER JONES: Okay.

13 MR. SCHOENBECK: -- it's being very specific
14 on particular --

15 COMMISSIONER JONES: On the inputs into the
16 Aurora model?

17 MR. SCHOENBECK: Right. On exactly what can
18 be changed.

19 COMMISSIONER JONES: Right, right.

20 MR. SCHOENBECK: And we went so far within
21 the agreement to say the Company even has to use the
22 exact same version of the Aurora model that was used
23 in the instant filing. Since PSE filed their PCORC
24 filing, the Aurora vendors have actually updated the
25 model, but we are requiring that they use the exact

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1 same version, exact same data set, just with these
2 very specific updates to ensure there is, as Mr.
3 Russell said, as seamless as possible a filing, such
4 that all the parties can give it their due diligence
5 within that very abbreviated time frame.

6 COMMISSIONER JONES: For example, I think
7 one of at least my concerns, speaking for this
8 Commissioner, is what are the forward gas prices
9 going to be next spring? As I understand it, under
10 line number five, it's forward gas prices
11 (three-month average as of April 30th, 2006 per 2004
12 GRC methodology.) Can you explain what that is a
13 little bit? Forward gas prices would mean AECO or
14 Sumas or NYMEX, Henry Hub? What sort of gas prices
15 are we talking about, because obviously, you know,
16 one winter heating month in there, if you look at
17 futures today, it's a pretty high price.

18 MR. SCHOENBECK: Oh, absolutely.

19 COMMISSIONER JONES: And you have March and
20 April, less costly based on the forward market as of
21 today, but still it gives this Commissioner a bit of
22 pause that we're agreeing to such an automatic
23 mechanism to just plug things into a model and, boom,
24 out comes an adjustment.

25 MR. SCHOENBECK: But what we're trying to do

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1 is apply the Commission-approved approach to the rate
2 period that will take effect on July 1, 2006, so we
3 will use 60 days of future prices, the average of 60
4 days of future prices ending on April 30th. So what
5 that fundamentally means is you'll be using the gas
6 future transactions for the period of February, March
7 and April, averaging all them for the six-month
8 period effective July 1, 2006, and that would be the
9 future price you will use. It is a NYMEX basis
10 adjusted to Sumas, Sumas delivery hub.

11 COMMISSIONER JONES: Ms. Harris, do you have
12 any comments on that?

13 MS. HARRIS: Mine was more of a -- I guess
14 on a policy level of what the parties were trying to
15 achieve here, and that is if we were in the middle of
16 a general rate case, how to actually implement the
17 Commission's concern in the 2004 general rate case of
18 the power cost baseline to be as accurate and true
19 when the cap for our PCA is eliminated by its own
20 terms of our 2001 settlement agreement.

21 So I think the parties, as far as our intent
22 and our direction, were very well aligned of trying
23 to get the most accurate cost for that six-month
24 period during this time or this duration of the
25 general rate case.

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1 Now, the methodology as far as setting the
2 gas prices will be before this Commission in the
3 general rate case and any determination of this
4 Commission, of course, could be used after rates go
5 into effect in -- I think it would be January of
6 2007. But for this six-month time period, we thought
7 that the parties were very well aligned and this was
8 our best way of getting that baseline set for that
9 time period.

10 COMMISSIONER JONES: Thank you.

11 JUDGE CAILLE: Anything further from the
12 Commissioners?

13 MR. JONES: None from this Commissioner.

14 JUDGE CAILLE: All right. Then I'd like to
15 thank the parties and the witnesses.

16 COMMISSIONER OSHIE: Actually, just very
17 briefly. Just one more question and -- I just want
18 to ask the parties how they plan to deal with the
19 weather normalization issue and whether this is
20 something that the parties plan to deal with
21 immediately, and will it -- I'm sure it will be
22 addressed in the general rate case that was planned
23 to be filed, but what's the process that the parties
24 are going to use to resolve this issue among the
25 parties and further presentation to the Commission?

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1 MS. HARRIS: This is Kimberly Harris, for
2 Puget Sound Energy. The Company has committed to
3 continue the collaborative efforts with Staff on the
4 weather normalization issue and we have entered into
5 those discussions, we talked a bit in settlement, we
6 understand that there's still unresolved issues on
7 weather normalization, so we'll continue those
8 discussions and hopefully resolve it before filing
9 the February rate case.

10 JUDGE CAILLE: Anything -- oh, Mr.
11 Cedarbaum.

12 MR. CEDARBAUM: Just a housekeeping matter,
13 Your Honor, that I may have missed, but I don't know
14 that the exhibits have been admitted.

15 JUDGE CAILLE: All right. I was going to
16 excuse the panel and also excuse the Commissioners
17 and take care of those housekeeping matters. So the
18 panel is excused, and I do have a couple of
19 housekeeping matters, the exhibit list, and I don't
20 know if there's anything else.

21 MS. DODGE: We just have one correction to
22 the testimony that's going to be stipulated in.

23 JUDGE CAILLE: Okay. All right. The
24 parties have stipulated to the admission of the
25 exhibits as set forth in the exhibit list that I have

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1 given to the court reporter. I will update that if
2 there are any corrections to -- any further
3 corrections to that exhibit list and forward it to
4 the court reporter.

5 Those exhibits are now admitted into the
6 record, including the Public Comment Exhibit Number
7 7, consisting of around 51 public comments. And Ms.
8 Dodge, did you have something?

9 MS. DODGE: Yes, Mr. Story has remained
10 behind for a moment.

11 JUDGE CAILLE: All right.

12 MS. DODGE: Mr. Story, did you have a
13 correction to Exhibit 13, your pre-filed direct
14 testimony?

15 MR. STORY: Yes, I did.

16 MS. DODGE: Would you like to describe that
17 for the record?

18 MR. STORY: Yes. On page 21, line 14 of
19 that exhibit, the word "third" should be "fourth,"
20 and then, actually, there's two more corrections on
21 other exhibits.

22 JUDGE CAILLE: Sorry, I didn't follow that.
23 What line are we on?

24 MR. STORY: On page 21, line 14.

25 JUDGE CAILLE: And it should be what?

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1 MR. STORY: "Third" should be changed to
2 "fourth."

3 JUDGE CAILLE: Thank you.

4 MS. DODGE: Please continue.

5 MR. STORY: Then, on JHS-6, and I'm sorry, I
6 don't have the exhibit number.

7 MS. DODGE: Exhibit 18.

8 JUDGE CAILLE: Thank you.

9 MR. STORY: Line 17.

10 JUDGE CAILLE: Yes.

11 MR. STORY: The words "rate year" should be
12 "test year."

13 JUDGE CAILLE: So that would be PCORC test
14 year?

15 MR. STORY: Yes.

16 MS. DODGE: One other.

17 MR. STORY: JHS-8, which I guess --

18 MS. DODGE: Exhibit 20.

19 JUDGE CAILLE: Thank you.

20 MR. STORY: Line 22, it's the same change.

21 "Rate year" should be "test year."

22 JUDGE CAILLE: Thank you. Anything further?

23 All right. Thank you, everyone. The Commission will
24 take the matter under advisement.

25 MR. CROMWELL: Thank you, Your Honor.

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(Proceedings adjourned at 7:47 p.m.)

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