BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of THE WASHINGTON WATER POWER COMPANY a Washington corporation; SIERRA PACIFIC POWER COMPANY, SIERRA PACIFIC RESOURCES, and RESOURCES WEST ENERGY CORPORATION, Nevada corporations, to Merge into RESOURCES WEST ENERGY CORPORATION; and Authorizing Issuance of Securities, Assumption of Obligations, and Adoption of Tariffs.	Docket No. UE-941053 Docket No. UE-941054 VOLUME 3 PAGES 263 - 389

A hearing was held in the above matter on February 8, 1995, at 1:30 p.m. at 1300 South Evergreen Park Drive Southwest before Chairman SHARON L. NELSON, Commissioners RICHARD HEMSTAD and WILLIAM R. GILLIS and Administrative Law Judge ELMER CANFIELD.

The parties were present as follows:

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

WASHINGTON WATER POWER COMPANY, by DAVID MEYER, Attorney at Law, 1200 Washington Trust Building, Spokane, Washington 99203.

Cheryl Macdonald, CSR
Court Reporter

APPEARANCES (Cont.)

SIERRA PACIFIC RESOURCES, SIERRA PACIFIC POWER COMPANY, by DAVID M. NORRIS, Attorney at Law, 6100 Neil Road, PO Box 10100, Reno, Nevada, 89520.

FOR THE PUBLIC, DONALD T. TROTTER, Assistant Attorney General, 900 Fourth Avenue, Suite 2000, Seattle, Washington 98164.

I N D E X

P R O C E E D I N G S

JUDGE CANFIELD: This hearing will please come to order. This is a continuation of the hearing in the Water Power merger application, docket Nos. UE-941053 and UE-941054. Today's date is February 8, 1995. We're continuing where we left off yesterday in the matter. We certainly don't need to take full appearances but there are some parties not here at this session that were here yesterday, so maybe just take brief appearances for the record, please. Beginning with the applicant.

MR. MEYER: On behalf of applicant, David Meyer and David Norris.

JUDGE CANFIELD: Thank you.

MR. TROTTER: Donald T. Trotter for public counsel section.

MS. JOHNSTON: Sally G. Johnston, assistant attorney general representing Commission staff.

JUDGE CANFIELD: Thank you. Several indicated they would not be back for the remainder of the session, and some will be here for tomorrow's session, so that will be made known in due course. Before we get back to where we left off yesterday, are there any preliminary matters to address at the outset?

Hearing none, let's resume and Ms. Johnston was directing questions on cross to Mr. Eliassen and Mr. Eliassen is still under oath.

MS. JOHNSTON: Thank you.

CROSS-EXAMINATION

BY MS. JOHNSTON:

Q. Good afternoon, Mr. Eliassen.

A. Good afternoon.

Q. Yesterday when we left off we were discussing the company's response to deposition request No. 11. Do you recall that?

A. Yes.

Q. That has now since been marked as Exhibit 61 for the record. There was a bit of confusion over reduction in capital expenditures in the years 1997 and 1998 since the tariff rider was only approved as a two-year experiment. Were you able to reconcile the question?

A. Yes. I think I need to explain the numbers in 1995 through 1998. As we spoke about yesterday, the reductions in capital expenditures between my original Exhibit 19 and deposition request 11 are that we remove the Washington electric and gas assumptions from our original budget, the amounts that we had assumed in the demand side management budget as of last year. Those amounts were $5 million in 1995, $2 million in 1996, and $2 million in each of 1997 and 1998. Total of that was an $11 million change in the capital budget. The assumption that we made here is that while the tariff rider for demand side management is just two years, we assumed that it would be continued throughout the four or five-year period. That was the assumption we made when we made the adjustments to these capital numbers. But I think what's important here, too, that the tariff rider will raise approximately $3 and a half million in the first year or some $14 million over the four year period if it's in effect for those four years, so in actuality while the numbers may not match year to year, we would expect the tariff rider would generate something in excess of $14 million to be expended on demand side management in Washington only for Washington electric and gas through this four-year period, which is actually a $3 million increase over what we had budgeted last summer.

Q. So is it a correct interpretation then that the company was budgeting $5 million for its Washington DSM programs for 1995?

A. Yes.

Q. So if the DSM tariff rider is approved in Idaho, then the capital expenditures of Water Power on a stand-alone basis will be further reduced; is that correct?

A. I believe that the impact of Idaho would be something less than a million dollars but it might round to a million in each of the years.

Q. So that's yes?

A. Yes.

Q. And if the rider were extended past the two year experimental time frame, as apparently you assumed it would be, then capital expenditures would be decreased in future years as well. Isn't that also true?

A. That's inherent, though, in the response to deposition request 11. We did reduce those capital expenditures for Washington in the 1997-1998 period.

Q. At the bottom of Exhibit 61, it notes, "internal generation did not change from the original exhibit because rider revenue increases are offset by DSM expenses. Only the capital expenditures change." Is that a correct reading?

A. That's correct. There may be timing differences between years but it's our expectation to spend on demand side management all the monies that we collect in each year from the tariff rider.

Q. And in this statement, which I just read to you, reflects the company's intention to spend the revenues that it collects from the DSM rider on DSM programs, that is, trying to match the tariff provisions with DSM expenditures as closely as possible over the two-year period; is that correct?

A. Yes, that's correct.

Q. As part of the agreement to go forward with the tariff rider experiment, the company agreed to increase amortization of its DSM asset from 20 years to 14 years. Are you aware of that agreement?

A. Yes, I am.

Q. Wouldn't an increase in amortization of the DSM asset affect the company's internal generation of cash?

A. Well, I'm not sure -- I'm not sure -- the amortization is a book amortization that you're speaking of. I'm not sure that would directly impact cash. I don't know the tax treatment. I don't know that that changed.

Q. Could you please provide that information as record requisition No. 11.

A. Basically that is if there is any change in internal cash generation from the more rapid

amortization of demand side management expenditures?
Q. Yes.
A. Yes.
JUDGE CANFIELD: That is the next record requisition No. in order, No. 11.
(Record Requisition 11.)
MS. JOHNSTON: Your Honor, like to have this marked as Exhibit 62 for identification, please.
JUDGE CANFIELD: For the record, Ms. Johnston just distributed a multi-page document which will be marked as Exhibit 62 for identification.
(Marked Exhibit 62.)
Q. Mr. Eliassen, do you recognize what's been marked as Exhibit 62 for identification as your response to public counsel data request No. 333?
A. Yes, I do.
MS. JOHNSTON: Move the admission of Exhibit 62.
JUDGE CANFIELD: Any objections?
MR. MEYER: No objection.
JUDGE CANFIELD: Exhibit 62 is so entered into the record.
(Admitted Exhibit 62.)
Q. Please turn to the final page of this response. At the very last line of the 1995 capital

budget it indicates that $7.1 million had been budgeted for 1995. Do you see that?

A. Yes, I do.

Q. Would it be correct to assume that the $2.1 million balance is for DSM activities in Idaho?

A. Idaho and/or Oregon. It's jurisdictions other than Washington and the -- and the difference would be jurisdictions other than Washington.

Q. Please turn now to the first page of the response. There you indicate that the list of projects for 1996 through 1998 are not yet finalized but will be provided as as soon as they are available. Is that accurate?

A. Yes. That's what the response states.

Q. Do you have any idea when they will be available?

A. I don't in this detail. We can -- well, we can still provide the data but I don't know the timing of being able to provide it. You might want to ask, if you want to follow up with this, that particular question with Mr. Pierce when he's on the stand later, he might be able to give you a definitive time.

Q. Thank you. As record requisition No. 12, could you please provide the preliminary lists of projects which were used to develop these estimates?

A. Wait a minute. When you say "these estimates" --

Q. As contained in Exhibit --

MR. MEYER: All of the projects contained in here or were there certain ones you were more interested in?

MS. JOHNSTON: Exhibit 19. The preliminary list of projects for the years 1996 through 1998.

MR. MEYER: That are reflected in Exhibit 19? I'm sorry, what? That are reflected in Exhibit 19?

MS. JOHNSTON: Yes.

A. It's possible that -- I don't know that you're going to get the same level of detail for the years '96 -- well '97 and '98 certainly. So I'm not sure what level of detail we should expect on this.

Q. That's fine. The response indicates the list of the projects for those years are not yet finalized so we're interested in the preliminary drafts as well as the final drafts, whether in fact they are finalized.?

A. Okay. Understand.

Q. Thank you.

JUDGE CANFIELD: That's record requisition No. 12.

(Record Requisition 12.)

Q. Please turn back to your response to deposition request 11.

JUDGE CANFIELD: That's Exhibit 61?

MR. JOHNSTON: No. The initial one rather than the revised.

MR. MEYER: I'm sorry, I'm lost. The reference, Sally, is to Exhibit 61, deposition No. 11, request No. 11?

MS. JOHNSTON: No. This one indicates that it was revised and I'm interested in the original version.

MR. MEYER: That is not yet marked as an exhibit in this case.

MS. JOHNSTON: Correct.

MR. MEYER: Okay. Do you have that?

THE WITNESS: I don't know.

MR. MEYER: If we could have just a minute to give that to the witness.

Q. Do you have that before you now?

A. No. I've seen it. I don't have a copy of it.

Q. Well, could you accept subject to check that in this response you note that the revision does not include other changes which have occurred since

July of 1994. Do you recall that?

A. That's in the footnote?

MS. JOHNSTON: May I approach the witness?

JUDGE CANFIELD: Well, it wouldn't help the witness since he doesn't have a copy and apparently does not recall, so go ahead.

MR. MEYER: For the record, I think the reference to the original is actually the reference back to Exhibit 19.

MR. TROTTER: Do you want my copy?

MS. JOHNSTON: It's right here (indicating).

THE WITNESS: There was an interim response. It has errors in it. That's why we revised it on February 1.

MS. JOHNSTON: That's why I'm asking you questions about it, sir.

JUDGE CANFIELD: For the record, Mr. Eliassen now has a copy in front of him.

Q. Now, in this response you note that the revision does not include other changes which have occurred since July of 1994. Do you see that?

A. Yes.

Q. To what other changes are you referring?

A. Well, for one thing it doesn't include any update on actual expenditures for 1994. Our actual capital expenditures for 1994 were just short of 128 plus another $33 million for the Sandpoint properties in north Idaho, so we really spent $160 million that's not updated on this.

Q. Are there any other changes not accounted for?

A. Well, yes. Every line item in the budget would have changed. All the blankets for electric hookups, gas hookups. We have final numbers now for year ending '94. None of those adjustments were made to this. This is, as far as I can tell, the original estimate or the budget at a point in time in midsummer, so to the extent that 1994 changed none of that has been updated here.

MS. JOHNSTON: As the next record requisition in line, 13, would you please provide an updated Exhibit 19 including all of the changes which have occurred since July '94 along with all supporting work papers used to derive the projections much in the same way you prepared a response to public counsel data request 333.

(Record Requisition 13.)

A. We can. I'm wondering if we're going to be duplicating some work here if we redo the projections here. We had also spoken with you before about the fact that we would be providing a five-year forecast somewhere toward the end of the first quarter of this year. That five-year forecast would have the same updated capital expenditure numbers for 1995 through 1998. Do we want to do it twice? I don't have a problem with it. It's just that we need to make sure that we're going to be doing this two different ways.

Q. Well, we would like to have it in the format, the format used in the preparation of your response for Exhibit 62, and please add a category, which is the combined company's capital expenditures and internal generation assuming improvements which are expected from the merger along with supporting documentation.

A. I would almost have to ask you to or at least have to ask Mr. Pierce if that's going to be readily available. I don't know personally what kind of work that's going to take to generate that. I would like to have some assurance that we can do that reasonably.

MR. MEYER: May we be off the record?

JUDGE CANFIELD: That can be pursued obviously off the record as well. The request has been made and obviously there's going to be an attempt and if there has to be some adjustment, so be it.

That can be accomplished off the record.

Q. In general when internal cash generation exceeds capital expenditures as it does for Water Power in 1997 and 1998 in Exhibit 19, the excess flows through to retained earnings of the company. Is that true?

A. Well, during the same period of time, and if we look at your revised Exhibit -- well, your Exhibit 61, during this same period of time we have $148 million of securities that need to be refunded. That's over and above the financing requirement for capital, so $8 million of that was in 1994; $140 million is 1995, '96, '97 and '98. So to the extent that looks like we generate something in the order of $18 million of free cash after capital expenditures through this forecast period, we still have $140 million of securities that have to be refunded. Part of that is sinking funds on preferred stock, part of it is maturing debt. So we either will use the cash to pay off some of that or we'll -- and we'll still have to be in the capital markets -- or we'll use the cash for some other corporate purpose. So there really isn't any free cash here if you take into account the refundings that are required during part of this period as well.

Q. But under the merged company any excess is flowing through to fund Sierra's capital expenditures. Is that true?
A. Well, under the merged company we're going I guess to that extent financing RWE would be a comingled process. We're going to be issuing bonds or common equity in the name of RWE or preferred stock in the name of RWE so we will be financing the entire entity at that point. But --
Q. So is the answer to my question no?
A. But -- well, no. I'm saying yes, but we still have to refund -- both companies have some maturities during this period of time. Water Power has more maturing securities that have to be refunded during this period of time than Sierra Pacific Power.
Q. Please turn to page 6 of your testimony. Beginning on line 36, page 6 and continuing on to page 7, you state that the merger will result in "an improvement in the ratio of cash coverage of capital expenditures. The post merger utility operations are expected to generate internal funds to cover about 75 to 90 percent of ongoing construction requirements." Is that correct?
A. Yes.
Q. Why do you believe that 75 to 90 percent

internal generation is an improvement over the 100 percent that Water Power will achieve on a stand-alone basis?

A. In an absolute sense that's not an improvement, but what we're looking at here are the total of two companies together as RWE and it is an improvement over what just adding the companies together at this point in time would be. We still -- we only generated about 35 to 40 percent of the necessary cash internally in 1994 that were required for the capital expenditure program that was just incurred and we funded the rest of that in external sources. So I think going 75 to -- going to the combined company's RWE, 75 to 90 percent internal cash generation is a substantial improvement.

Q. Please turn to Exhibit 20. The second column is entitled S and P benchmarks for A rating. Do you see that?

A. Yes.

MS. JOHNSTON: Your Honor, like to have this marked as Exhibit 63.

JUDGE CANFIELD: Exhibit 63 is next in order and that will be marked Exhibit 63.

(Marked Exhibit 63.)

Q. Mr. Eliassen, this document dated July 4, 1994 was included in your work papers and details a new system developed by S and P to evaluate the business positions of electric utilities. Would you agree?

A. Yes.

Q. And under this new system the benchmark financial ratios are related to S and P's assessment of a company's business position. Is that true?

A. It relates to both business and financial risk, I believe, yes.

Q. And all else being equal an A rated company with an above average business position could have weaker financial ratios than an A rated company with an average business position. Isn't that correct?

A. There are some -- there is a difference between the two, yes.

Q. Please refer to box 2 on the third page of this document. This sets out different financial benchmarks than what are listed in your Exhibit 20. Isn't that correct?

A. Yes, it does.

Q. For these benchmarks Water Power would be considered an above average business position, correct?

A. That's correct, and I think in this

document they show Water Power as an above average utility, with a number of about ten other utilities.

Q. And Sierra Pacific Resources would be considered an average business position; isn't that correct?

A. That's correct.

Q. The benchmark for an A rated company with average business position for pre-tax interest coverage is 3.5 times, correct?

MR. MEYER: Did you say above average position?

MS. JOHNSTON: Average.

A. Yes, that's correct.

Q. So S and P would look for pre-tax interest coverages of 3.5 times or more; isn't that correct?

A. Right.

Q. Please refer now back to your Exhibit 20. Under pre-tax interest coverage, Sierra Pacific would not meet the 3.5 times benchmark in any year from 1992 all the way through 1998; isn't that correct?

A. That's correct.

Q. Now, referring again to this S and P document, the benchmark for total debt to total capital ratio for an average business position is 47 percent. Do you see that?

A. Yes.
Q. Now refer again to your Exhibit 20. Sierra's ratios meet that benchmark in only 1993 and 1994; isn't that correct?
A. Well, maybe I've missed something here. You were on total debt? Total debt to total capital?
Q. Yes.
A. You're looking for the 47 percent?
Q. Yes.
A. And Sierra's numbers meet that in 1993 at 47 percent. They exceed it at 46 percent in 1994?
Q. Yes, that's my question. Sierra's ratio meets the benchmark in only those two years?
A. Yes.
Q. Turn back now to the S and P document. The benchmark for funds from interest coverage for an average business position company is four times; is that correct?
A. Yes.
Q. And according to your Exhibit 20, Sierra only meets this benchmark in 1994; isn't that correct?
A. Well, again, if you're dealing with the absolute number, but Sierra also comes in at 3.8, 3.9, 3.7. That's not appreciably different from this midpoint 4.0. I'm not sure that there's magic about

the 4.0 being exactly the right number at that point. These are benchmarks, you know. It's meant to be a gauge, not an absolute.

Q.   So the answer to my question is yes, Sierra meets that benchmark?

A.   Yes, with that caveat.

Q.   Turn again to the Standard and Poor's document. The funds from operations to debt ratio benchmark for an A rated average business position company is 25 percent. Do you see that?

A.   Yes.

Q.   Exhibit 20 identifies that Sierra would not meet this benchmark in any year from 1992 through 1998; isn't that correct?

A.   Yes, based on these estimates, yes.

Q.   Turning to the S and P document. Net cash flow to capital expenditures for an A rated average business position company is 85 percent. Do you see that?

A.   Yes.

Q.   And according to your Exhibit 20 Sierra would only meet this benchmark in 1997 and 1998; is that right?

A.   Yes. After they've completed relatively heavy capital expenditure program that runs out through 1997.

MS. JOHNSTON: Your Honor, move the admission of Exhibit 63.

JUDGE CANFIELD: Any objections?

MR. MEYER: None.

JUDGE CANFIELD: Exhibit 63 is so entered.

(Admitted Exhibit 63.)

Q. Please turn now to page 10 of your testimony. Beginning at line 33 you state, "In the long term the benefits of combined cash flow and the reduction of duplicate operating expenses would allow a reduction in the amount of additional debt to be issued." Do you see that?

A. Yes.

Q. Would you please quantify for us what you mean by the term long term?

A. I think -- well, we see improvement, I think, in most of the financial ratios in the forecasts that we provided in public counsel request 340 from the stand-alone company, and I would think that beyond 1998 we could continue to see improvement in those ratios as well, but RWE does show improved financial ratios, the same ones that you just went through with me on Sierra, in virtually every category. By 1998 RWE is a stronger company than

Water Power stand-alone and that's what I was referring to.

Q. When you state that there will be a "reduction in the amount of debt to be issued," are you comparing that to Washington Water Power on a stand-alone basis, that is, Resources West will issue less debt than Water Power on a stand-alone basis?

A. Obviously not. RWE is going to be a company that's twice as large so the numbers are going to be bigger. Combined, though, the two companies will issue less debt and will be stronger than if you just proformed or just added the two companies together at some point in time in the future. What we're talking about here is the strength of this combination, putting Sierra and Water Power together to form a new company, eliminate, in the case of Water Power, $40 million of rate increases through this 1996 through 1998 period, and still come up with financial ratios that are stronger than Water Power stand-alone, assuming $40 million in increased gas and electric rates. I think that we show a much stronger position as RWE than we do stand-alone.

Q. Are you finished?

A. Yes.

Q. Please turn to page 14 of your testimony.

Lines 23 through 25. There you state that, "Furthermore, the overhead costs of financing activities will be spread over a larger number of customers, thus reducing the costs to each." Do you see that?

A. Yes.

Q. Exhibit 19 indicates that all of the external financing needs in 1996 through 1998 are generated by the Sierra Pacific division yet you are proposing that the costs of financing activities be spread over all the customers of Resources West. Could you please explain your rationale for Washington customers sharing the cost of financing Sierra's construction program?

A. Well, I think you misconstrue what Exhibit 19 shows, to start with. Exhibit 19 shows the amount of internal cash for construction. It doesn't show the 148 million dollars of additional financing that Water Power stand-alone needs to do to refund maturing mortgage bonds, medium-term notes and preferred stock through this same period of time, so Water Power does have substantial need for external cash. Even normal operations require us to continue to have access to either commercial paper or short-term debt market each year. Even though we may be ultimately generating everything for construction by the end of the year, there are differences in terms of cash flow month by month as you go through the year. So Water Power continues to have capital access requirements through this entire period, so I don't think it's correct to characterize it that all of the financing that's going to be done is just because of Sierra's capital or construction program.

Q. Well, will Washington customers share in the financing costs attributable to Sierra's construction program?

A. If the financing costs are less on a per customer basis or on a total company basis than they otherwise would be, I think the Water Power's Washington gas and electric customers will share in those benefits. If you spread the cost of a line of credit over 850 or 900,000 customers in effect rather than 450,000, obviously there's going to be some benefit that comes through to Washington. I can't quantify that for you, but it's there.

Q. Please turn to page 18 of your testimony, lines 6 through 8. There you state, and I quote, "Resources West may also enjoy improved access to the commercial paper market as a result of the increased size and diversity of the business and financial

risk." Is that an accurate reading?
     A.   Yes, it is.
     Q.   Over the past five years has Water Power's access to the commercial paper market been limited?
     A.   We've always had access to the commercial paper market up until the end of 1994 when we eliminated our commercial paper program. The reason we haven't used commercial paper for the last 18 months to two years is that it was not cost effective. Our commercial paper rating was an A2 P2 driven in part by the size of the company and driven in part by the size of the company's cash requirements, so we found that it was more cost effective at least through that period of time, and I believe through this coming year, to just utilize bank lines of credit. It's lower cost. I think larger companies, though, sometimes tend to -- either they have more need for commercial paper, which makes the name more saleable, they're in the market more often, and there's also a possibility depending on the credit strength of RWE that we might actually get a higher commercial paper credit rating sometime in the future which would then again reduce the costs of commercial paper to the company.
     Q.   Mr. Eliassen, in the past you have

testified before this Commission regarding cost of capital and the DCF model. Is that true?

A. Yes. I've testified on cost of capital many years ago.

Q. And in choosing your group of comparable utilities at that time, would you include any utility which has cut its dividend in the preceding five years?

A. Well, we probably didn't in developing the comparables at that time. It's getting harder to find a utility that hasn't cut its dividend, though, since about 40 percent of the industry has cut dividends sometime in the last 10 or 12 years. I don't even recall right now offhand what the comparables were that we used.

Q. But you do recall, at least in 1988 when you testified before the Commission when you set forth in your direct testimony eight criteria used to develop the group of comparables, that you specifically excluded companies that had a dividend reduction?

A. That's correct.

Q. One of the other criteria used to develop your group of comparables was that they are reported by the Value Line Investment Survey. Do you recall that?

A. Yes.

MR. MEYER: I'm sorry, Counselor. What was the date of that testimony? It's been years since I've seen that. Just the approximate date. What year was that?

JUDGE CANFIELD: She used the year 1988.

MS. JOHNSTON: Docket number was U-88-280-T. It was in March 6, 1988.

MR. MEYER: Thank you.

Q. In your analysis of comparables, why is it that you relied on the Value Line Investment Survey as a criterion?

A. I think Value Line was used because it was probably the easiest way to get hopefully comparable level of information on each of the companies we were using at that point in time.

Q. Do you still refer to Value Line?

A. I don't personally, no. We talked to their analyst -- let's make sure we're talking about the same thing here. When we met with analysts, Paul Debbas and the analyst that preceded him at Value Line are always an important part of our communication link because they do report information to Value Line that is used by a lot of investors, so we try to make sure that they are as accurate as they can be and we try to keep them current on the company.

Q. And these of course contain an awful lot of information about the companies. Would you agree?

A. Yes, they do. A lot of historic data.

MS. JOHNSTON: Your Honor, like to have this marked as Exhibit 64.

JUDGE CANFIELD: Okay, let's mark as Exhibit 64 for identification a document just passed around by Ms. Johnston.

(Marked Exhibit 64.)

MS. JOHNSTON: I'm going to move the admission of Exhibit 64. I believe that Mr. Eliassen laid the foundation for its admission.

JUDGE CANFIELD: Any objections to that exhibit?

MR. MEYER: No objection.

JUDGE CANFIELD: Exhibit 64 so entered.

(Admitted Exhibit 64.)

Q. On page 42 of your deposition transcript you discussed the company's desire for more accurate and efficient pricing. Do you recall that?

A. Yes, but let me find the page. What line?

Q. 3.

A. Yes. I see it.

Q. Then again on page 70?
A. Yes. At line?
Q. Beginning on line 10. On page 42 of the transcript you testified, "so I think there has to be a recognition that the tariff is only the ceiling, that it's not necessarily going to be the market price in the future." Do you recall that?
A. Yes, I do.
Q. And at page 70 of the deposition transcript, which we just looked at, you stated, "we're not competitive in the commercial market today." Do you remember making that statement?
A. Yes.
Q. And when you state that the tariff should be only the ceiling, are you referring to the banded rates that are authorized under RCW 80.28.075?
A. I think my comments here were much more generic. I wasn't referring to anything in RCW at all. Basically I think this whole industry is coming to a point where we're shifting away from cost-based pricing where you just add up your expenses and derive a tariff and send out a bill to probably price-based costing where price, particularly from large industrial customers, large commercial customers, is going to be set by the market and our costs have to be

under that so that we can still achieve a margin and earned profit on that business. So when I talk about the tariff being a ceiling, I'm thinking of it more in those terms where we have to continue to find ways to drive down costs or costs per unit so we can still be profitable and still be competitive.

Q. Do you envision that any prices set below the tariff rate would be offset with price increases in other classes or would the company propose price decreases with no offsetting rate increases?

A. I think we would have to look at that on a case-by-case basis. I think that cost of service is a whole different area that you can address with Mr. Buergel. I do think that in the past we have negotiated some special specific contracts with large industrial customers, either gas or electric, to really meet the market and meet the needs of those customers.

Q. You testified a moment ago about commercial paper. Is it true today that bank lines of credit are more cost effective than commercial paper?

A. Well, it is for us. I wouldn't want to say that's generic for all companies. And I don't know that it would be for all companies. It is for us because we have so little utilization of the commercial paper program and we found that trustee fees and the commercial paper rating costs were running about $40,000 or $45,000 a year, so to save the $45,000 we eliminated the program as of around December 20 or December 15, something like that.

MS. JOHNSTON: Your Honor, would you mark this for identification, please.

JUDGE CANFIELD: The next exhibit is No. 65 and this will so be marked for identification.

(Marked Exhibit 65.)

Q. Mr. Eliassen, can you identify what's been marked as Exhibit No. 65?

A. Yes. This is a response to the request to describe the process by which we determine when to refinance debt.

Q. The response was prepared by you or at your direction, under your supervision?

A. It was prepared at my direction.

MS. JOHNSTON: Your Honor, move the admission of Exhibit 65.

JUDGE CANFIELD: Any objections?

MR. MEYER: None.

JUDGE CANFIELD: Exhibit 65 is so entered.

(Admitted Exhibit 65.)

MS. JOHNSTON: That's all I have, Mr.

Eliassen.
JUDGE CANFIELD: Thank you. Mr. Trotter, questions for Mr. Eliassen?
MR. TROTTER: Just a few.

CROSS-EXAMINATION

BY MR. TROTTER:
Q. Mr. Eliassen, assume the merger is approved, and the rate case is filed in a few years. In your opinion, will the cost of capital that is applied to rate base in this jurisdiction be based on the merged entity's cost of capital?
A. It should be, yes.
Q. So there will be no separate cost of capital determination for the Water Power division?
A. Our case would be filed based on the cost of capital for RWE. Obviously in the past there have been differences between state jurisdictions in terms of granted rate of return or return on equity.
Q. But I'm just talking about when you're evaluating the cost rate of equity for the equity component of the capital structure that derives the rate of return to be applied to rate base for this jurisdiction, we're going to be looking for the cost rate of equity of RWE?

A. That's correct.

Q. Let's assume that the merged company is more risky financially than Water Power would have been on a stand-alone basis. You may disagree with that assumption but let's just assume it for purposes of my next question. Do you have the assumption in mind?

A. I would like to tell you I do disagree but go ahead.

Q. Thank you. How would that be detected?

A. Well, the financial risk is probably going to be best detected by some of the quantitative factors that we discussed earlier, some of the benchmarks of Standard and Poor's, for example. If you found that we were using more leverage in the new company, more debt than we might otherwise be doing, that could be increasing the financial risk of the company.

Q. What about equity cost?

A. Well, we have to remember that equity cost is driven in large part by a proper balance of debt and equity, and what you really want to do is create the lowest overall required return on assets, given your cost of debt, embedded cost of debt, of the preferred and the cost of common.

Q. That's your answer?
A. (Nodding head).
Q. Let me ask, assume in the next rate case, Water Power proposes a cost rate of equity of 13 percent, and we issue a data request to you saying, what would the cost rate of equity for Washington Water Power company be on a stand-alone basis. How would you begin to respond to that?
A. Well, I would say all other things being equal but I don't think that would be fair. If we looked at -- if we assume that the same capital structure was going to be used by Water Power stand-alone and RWE, you might not find that there would be a huge difference or an appreciable difference in the cost of equity in the next two or three years. I'm not sure that I could prove that one way or the other.
Q. Now, you were asked a number of questions about Exhibit 61 which shows the projected capital expenditures for the two companies; is that correct?
A. Yes.
Q. And you made the point a couple of times that this does not include any refunding of debt or preferred?
A. That's correct.

Q. Let's assume that just for hypothetical, so I can get the question out, and then I will ask it in the context of the refunding issue but let's just assume that these are the total external financings of the two companies.

A. Okay.

Q. Realizing that it isn't but just for the purpose of the question I want to ask. That would imply, if that assumption was correct, that would imply that in 1996 through 1998 Water Power would have no need to go to the capital markets?

A. That exhibit stand-alone would imply that, yes.

Q. And also shows that Sierra would need to?

A. Yes. There is a minor need. I'm not sure --

Q. To the extent that Sierra went to the market, the Sierra division went to the market and issued, let's assume its debt securities that cost more than the embedded cost of debt, that would have the impact of raising the overall company -- the merged company cost of debt?

A. If any debt is issued in the future at above the combined embedded cost that would have a tendency to raise the cost, yes.

Q. Now, let's add in the point about refunding. Let's assume that Water Power's refunding is less than the needs of Sierra for refunding. Under that assumption, if one company is financing less than the other, would the weight of -- would the weighted cost of debt be higher for the merged company than the company issuing less debt standing alone?
A. Well, again, given your hypothetical, I guess I would have to agree, but I do have to disagree with that assumption. Water Power has a fairly large refunding requirement during this five year period, 1994-1998. Sierra power does not.
Q. Then let's look at it that way, and I guess maybe just go right to the heart of my question. If the companies are financing debt at different levels, won't the weighted cost of debt be higher and be unfair to apply that cost rate of debt to the jurisdiction that had the lower financing requirement?
A. I don't think I can agree with that. One of the things we're going to find here is Sierra has actually a lower cost embedded cost of debt than we do, than Water Power does at this time. They also have a significantly longer maturity, average maturity at the outstanding debt. We've actually shortened maturity of our portfolio to something like 13 or 14

years at this point in time, and actually the embedded cost of debt is slightly higher I believe as of the end of the year, so there's really a benefit to Water Power in terms of reducing the overall debt cost requirement through this merger. That's for starters, just by putting the two companies together we reduce our embedded debt cost.

Q. Would there be any -- so you're saying that Water Power on a merged basis will have under any scenario a lower cost of debt than it would standing alone?

A. Well, I couldn't -- the only way we could assume right now that the cost of debt is going to be higher is that if we assume we're going to do a significant amount of financing at something in excess of 8 percent coupon rate going forward, and we're talking about a company, combined company, here with $1.1 billion in debt, $1.2 billion. So it would take quite a few million at a fairly significant rate to start to swing that very much.

Q. You were asked some questions about the fact that based on your forecasts the company was going to earn less than its authorized return, do you remember, at the very beginning of your cross yesterday?

A. Yes.
Q. What is your currently authorized return?
A. On equity is 12.75 to 12.9.
Q. When was that cost rate established?
A. Probably at three different points in time, and I don't recall. It's been reviewed in 1988, probably reviewed again as part of a gas case in 1990. And I don't recall the date of the Idaho order.
Q. I'm talking about this Commission --
A. Right.
Q. -- issuing an order on cost of capital. Do you know when the last order --
A. No, I don't know the date.
Q. But was that an issue in the gas case you referenced to?
A. There was filed testimony in the gas case, yes.
Q. Did the Commission resolve that on its merits in the order?
A. There was a stipulated rate of return and return on equity inherent in that.
Q. Now, is it -- and is that equal to the current cost of equity for Water Power?
A. Well, I don't want to get into cost of equity testimony here, but given the current financial

markets, I would think that -- I would testify to a return on equity requirement certainly in the 12 to 13 percent range.

Q. Is it your testimony that the benchmark for determining whether the company is earning at or below a fair return is the last authorized return or the return that would be applicable in the year that you had the earnings?

A. Well, I think my response yesterday was more in terms of the utility stand-alone is -- this year, for example, our return on equity was 9.9 percent, 1994 Water Power. And when you look out in the future you see projections, given the assumption that we made in the merger projections for RWE, of earning a return on equity from the utility of right at 11 percent or slightly below in 1998, and I think that's below the cost of equity at this point in time, and I think it's below the cost of equity at that point in time.

Q. Are you suggesting that your projections -- well, are your projections based on normal weather?

A. Our projections are, yes.

Q. Was the 9 percent return that you just referred to based on normal weather?

A. That's based on the actual operating

results of 1994, yes.
Q. Was that based on normal weather?
A. No.
Q. Are you suggesting that this Commission should measure merger benefits on the basis of the actual weather that the company experiences?
A. No, I wasn't trying to bring weather into it. Just saying that I think right now the cost of equity, the investor's required cost of equity, the earned cost of equity by the industry, is averaging somewhere around 12, 12 and a quarter percent. I think if you're substantially below that for any period of time you're going to be disadvantaged in terms of access to capital.
Q. Let's tie it down to this case. The company in an exhibit, I understand will be offered for admission later, data request 340, contains the company's budgets and contains what it expects the earned return on equity to be over the next five years?
A. That's correct.
Q. Those numbers will speak for themselves, but is it your testimony that we should evaluate whether the company is overearning or underearning based on those numbers should the benchmark you're

asking be authorized, existing cost rates or the cost rates that will be applicable over the time period shown in that exhibit?

A. I think you have to use -- and we've used some judgment in looking at the numbers going forward. When we agreed to, when we filed this case, to reduce or eliminate what we saw was the need for rate increases in the 1996 and 1998 time periods, we agreed, I guess implicitly in that, that we were going to be living with 11 percent projected return on equity by the end of 1998 from the utility.

Q. We don't know what the capital markets are going to be in 1998, do we?

A. No, we don't, but it's just -- I'm not saying that that's going to be the market required return on equity at that point in time, but we felt that it was an earnings level given the capital structure of the company and given our ability to continue to finance through this merger period.

Q. And your cost of equity capital is going to be going down, is it not, due to the merger?

A. Well, it's a question of down from where. You and I can probably agree right now it will go down from 12.9. I don't agree, though, that this industry has a cost of equity capital less than 12 at this time. I think the risks in this business, particularly for smaller companies, are going to continue to grow, and either the equity ratio has to continue to increase or the cost of equity is going to increase or both. I think that's going to happen in the industry not just to this company.

Q. And so point of this merger is not to reduce those risks?

A. I think the point of this merger is going to reduce those risks. What we're doing with this merger is benefitting the customers in both company's jurisdictions long-term through lower rates, lower than they otherwise would have been, and still providing the basis for a company that can continue to grow and be stronger going forward in terms of providing customer service and adequate returns to its investors.

Q. And that includes lower capital costs, does it not?

A. I don't know that I would agree that it's going to be lower capital costs. The company RWE, as compared to Washington Water Power stand-alone three years from now, might have lower capital costs just because of the size of the company. Water Power stand-alone will face more business risk, more volatility in its earnings than the combined company will, and therefore it might be viewed as more risky. It might have a higher cost of capital, a higher cost of equity in 1998 because of that. Changes in this industry are going to drive very quickly some real changes in cost of capital.

Q. According to your deposition testimony that was cited to you yesterday, didn't you say that the cost of capital was going to be going down compared to Water Power stand-alone basis as early as 1997 immediately after the merger?

A. I think RWE will be stronger and I think its cost of capital can be less because of the business risk. I think it will be a less risky business going forward and depending on how we lever the company, the financial leverage that we use I think that you can overall lower the cost of capital for the company.

Q. Did your analysis when you budgeted your earned returns, did you take into account what Water Power would be authorized on equity?

A. We made no assumptions. We've continually tried to find ways to continue to leave our prices as they are and not make any assumption on having to increase price of the commodity to the customer, and

so we made no assumptions on changing costs.
Q. Now, Mr. Redmond yesterday made -- said one of the problems facing your company was the lack of some sort of fuel clause. Fuel clauses don't leave prices as they are, do they?
A. No. You have to be careful when we're talking about fuel clauses. The stability of pricing to particularly larger customers, industrial and commercial customers, that have choices probably will be a real issue in the future.
Q. A real issue?
A. A real issue in the future, and I think it already is an issue with some customers. They want some kind of assurance that there's going to be a relative stability in the price or they at least want some assurance that they know what the price will be over time. So clauses that adjust for everything, that adjust for any kind of cost, probably aren't construed as being in the best interests of the customer. Rating agencies like the protection and analysts like the protection, but it may not be in the best interests of the customer. What we do have, though, with the power cost adjustment mechanism that we currently have in Idaho is the ability to make adjustments that are relatively small, but adjust only

for those things that management can change like hydro conditions, and I think the important thing for -- and that's why I don't like the term "fuel adjustment." I don't think it's really fuel. The things that you want the adjustment clauses to deal with are those things that you can't manage around very well. They help you hedge, if you will, for the bad water years. Those are okay as long as they don't cause huge volatility in pricing and they are a benefit to the company. They are a benefit to the company's customers in the long term and to the company's investors.

Q. Is there anything about this merger that implies Commission approval of any such mechanism?

A. No, no, no. I just answered your question.

Q. You just answered that one. Thank you.

MS. JOHNSTON: That's all I have.

JUDGE CANFIELD: Questions, Commissioners, for Mr. Eliassen?

COMMISSIONER HEMSTAD: I don't have any.

COMMISSIONER GILLIS: I don't have any either.

JUDGE CANFIELD: Any questions on redirect, Mr. Meyer?

MR. MEYER: I think just one or two.

REDIRECT EXAMINATION

BY MR. MEYER:

Q. Refer back, if you will, to Exhibit 20. You were asked a series of questions by staff counsel with regard to Sierra Pacific Resources and you were asked essentially to go down the list of indices there. You show in that exhibit, don't you, a column entitled S and P benchmarks for A rating?

A. Yes, I do.

Q. What's the significance of that column?

A. That was just to give the guidelines that S and P uses for their A rating category. Basically it's a range of numbers, pre-tax interest coverage, for example, that they would expect to see an A rated company have.

Q. Viewing that as a range, do you have any comments with respect to how Sierra fits within that range on those identified indices?

A. Well, Sierra is viewed by Standard and Poor as being an average A rated company of average business risk, which isn't really all bad. In fact it's good. And they fit very well within these categories, in all of these categories. The only weakness that Sierra has had that might show up in some of these in the near term is just the level of funds to cover capital construction.

Q. Would you expect that particular item to fluctuate over time rather dramatically?

A. Very much so. With smaller companies like Sierra or Water Power, if you have the relatively large capital construction program most of the time you cannot generate enough cash in a given year to cover that so you do have need for significant external financing in those situations, and therefore the ratio would be quite low.

MR. MEYER: Very well. That's all I have. Thank you.

JUDGE CANFIELD: Any follow-ups?

MS. JOHNSTON: Just one question.

RECROSS-EXAMINATION

BY MS. JOHNSTON:

Q. Mr. Eliassen, correct me if I'm wrong, but did I hear you say in response to a question asked by Mr. Trotter that Washington Water Power had significantly more to refund or finance in five years than Sierra?

A. I would have to verify it. I know Water Power has to refund $140 million in the next 1996 through 1998. Bear with me while I look for a number.

Q. Well, I'm going to ask you to take a look at Exhibit 64 which is the Value Line Investment Survey.

A. I told you I don't use Value Line. I've lost it.

Q. Take a look at the second page, would you, under capital structure as of 6-30-94. Do you see that box?

A. Yes. The line says due in five years $134 million?

MR. TROTTER: By second page, did you mean second page of the exhibit or the Sierra?

MS. JOHNSTON: Second page of the exhibit.

MR. TROTTER: Which is the Water Power?

MS. JOHNSTON: Water Power.

Q. I will ask you about the $134.1 million which is due in five years for Sierra in a minute. So for Water Power what does Value Line show as due in five years?

A. Shows 110.

Q. So would you agree that Sierra does have a significant amount to refund?

A. Well, I would agree that if you use those numbers that's what those suggest.

Q. Is it your opinion, then, that those numbers are incorrect?
A. Well, again --
MR. MEYER: Just so the record is clear -- I may have missed a beat here -- Counsel, was the question going to the amounts to be refunded by the two companies or combination of refunding and additional financing?
MS. JOHNSTON: Refunds.
MR. MEYER: Just focusing on refunding. Okay.
A. The data that I have, and I guess I would have to check it, would not show that Sierra has that level of refunding through 1998. Now, I don't know the five-year period that Value Line refers to here but all of my answers have been couched in terms of the 1994-1998 period, and the numbers that I would show would not suggest that level -- but I can check that -- they suggest less.
Q. Well, we would like you to do that if you would as the next record requisition in line. I believe it would be No. 14.
JUDGE CANFIELD: Yes. That is the next number in order.
(Record Requisition 14.)

A. So that there's some continuity here, too, I would like to tie my response to this requisition back to public counsel 340 and that data.

Q. That's fine, as long as we get your numbers and you're able to explain any discrepancies between your numbers and Value Line's numbers. Thank you. That's all I have.

JUDGE CANFIELD: Any follow-ups, Mr. Trotter?

MR. TROTTER: No.

JUDGE CANFIELD: Commissioners?

And Mr. Meyer.

MR. MEYER: May he be excused?

JUDGE CANFIELD: If there's no more questions, let's do that. You're excused and let's take our afternoon break and come back at 3:00.

(Recess.)

JUDGE CANFIELD: We're back on the record after our afternoon break. Mr. Eliassen had just concluded his testimony, so I will ask Mr. Meyer if he's ready with his next witness.

MR. MEYER: I am. I call to the stand Mr. Bryan, and while he's setting himself up, and he already has, take a minute just to describe a couple of housekeeping issues here.

JUDGE CANFIELD: Before I forget to do that, I need to do an oath.

Whereupon,

LESTER BRYAN,

having been first duly sworn, was called as a witness herein and was examined and testified as follows:

JUDGE CANFIELD: Go ahead.

MR. MEYER: Two housekeeping items, the first of which was during the noon hour I passed around a color map, 8-and-a-half-by-11 color map, and what we ought to do is mark that for identification. The purpose for which this will be used is to perhaps be as responsive as we can be to issues raised by or questions raised by Chairman Nelson and perhaps others with respect to how the transmission grid works. So as a first order of business, if we might have this marked as Exhibit -- the last one would be what?

JUDGE CANFIELD: Next in order would be Exhibit 66.

(Marked Exhibit 66.)

MR. MEYER: In due course Les Bryan can refer to this. One other thing. We're having this Exhibit 66 blown up, expanded, to poster size for ease of reference and that should arrive any time, and perhaps at the end of cross-examination but before the

Commissioners ask questions, we might make that available to assist the Commissioners in their review of this. It's a little hard for everyone to make reference to the smaller maps. We thought that might prove helpful.

Second item of housekeeping, we passed out revised Exhibit 31, and that's denoted revised 12-22-94 in the lower right-hand corner. You should substitute these pages in their entirety for what had been prefiled as Exhibit 31, and the originally filed Exhibit 31 had four pages. The new version as of 12-22-94 has these three pages, so scrap the old in its entirety and insert the new, please.

JUDGE CANFIELD: Okay. The exhibit number as such does not appear on that, but the revision of 12-22-94 does.

MR. MEYER: So right behind the exhibit cover page you would insert these three pages. And in just a moment I will ask Mr. Bryan to make corresponding changes to the text of his testimony so that the testimony agrees with this revised exhibit. We'll try and get through that as speedily as possible. So those are the housekeeping matters.

DIRECT EXAMINATION

BY MR. MEYER:

Q. And with that, Mr. Bryan, please state your name and employer and your position.

A. Yes. My name is first initial W., Lester Bryan. I'm employed by the Washington Water Power Company and my title is senior vice-president rates and resources.

Q. And have you prefiled Exhibit T-27 consisting of your prepared direct testimony?

A. Yes, I have.

Q. And do you have changes to make to that prepared testimony primarily to correspond with your revised Exhibit 31?

A. Yes, I do, and a couple of other minor changes.

Q. Would you proceed.

A. Yes. The first change is on page 5, line 33. I'm talking about the nine-mile hydroelectric project. Change the number 30 megawatts to 29 megawatts. That then corresponds with the same number that's been reflected in my exhibit. Moving on to page 10, line 18.

Q. Excuse me. You had one on page 6 as well.

A. Oh, excuse me.

MR. MEYER: Everybody set on page 5? Got that change?

A. On page 6, line 4, this change reflects the fact that the Rathdrum project is indeed now operational so strike the words "is expected to become operational by" and replace those words with "became operational on." So now that last sentence would read, "This plant became operational on January 1, 1995."

Now, moving on to page 10, on line 18, I refer to Exhibit 29, section 1. Scratch "section 1."

Moving on to page 21, on line 21, scratch the word "three." Replace it with the word "two." Insert a new sentence after the sentence that ends with "categories." The new sentence that I'm inserting reads as follows: "In addition we have acquired the Sandpoint properties and corresponding load."

Q. Just wait a minute. Let's let everybody have time to make that.

JUDGE CANFIELD: Maybe you can repeat that now that we've gotten halfway through it.

THE WITNESS: The sentence that I've inserted reads, "In addition, we have acquired the Sandpoint properties and corresponding load."

A. Now, the following changes will tie my testimony in with the revised exhibit. On page 22, line 14, scratch the words "Idaho sale."

Q. Go ahead.

A. On line 25, where we say the "Sandpoint load adds about," scratch 64 and replace that with 54. Scratch 32 and replace that with 28, and insert at the end of that sentence after the word "energy," "in 1995." So that last sentence would read, "the Sandpoint loads adds about 54 megawatts of peak and 28 average megawatts of energy in 1995."

And on page 24, line 5, scratch 2007 and replace that with 2009. In the line just below that, scratch the year 2000.

Q. 2008?

A. Excuse me 2008, and replace that with 2010. The energy deficit will be three average megawatts instead of 10. And scratch 119 and replace that with 60. So now that sentence beginning in line 4 would read as follows: "These numbers would indicate that Water Power is either in energy balance or surplus on an annual basis through 2009." Next sentence, "starting in 2010, the energy deficit is three average megawatts and increases to 60 average megawatts deficit by 2014, the end of the 20-year period."

Q. One last change, please.

A. Yes. On line 12, scratch the year 1995 and replace that with 2006.

Q. Do those complete the changes to your prefiled direct testimony?

A. Yes, they do.

Q. If I were to ask you the questions that appear in that testimony with those changes having been made, would your answers be the same?

A. Yes.

Q. Are you sponsoring what has been marked for identification as Exhibits 28 through 31?

A. Yes, I am.

Q. With the revisions having been made to Exhibit 31, is your exhibit material, true and correct to the best of your knowledge?

A. Yes, they are.

MR. MEYER: With that I tender the witness for cross-examination noting, however, for Chairman Nelson's sake, just as a preliminary matter before you returned to the room we had passed around a transmission map. We knew you were interested as well as others. We were going to have that blown up, bigger version.

CHAIRMAN NELSON: Here it comes.

MR. MEYER: It is here. I thought as a preliminary matter, and I've discussed this with counsel, that we would have this witness make reference to this map. I will just have a couple of preliminary questions. Now that is an expanded or a blown-up version of what has been marked as Exhibit 66, and I should also move the admission of Exhibit 66 before I neglect to do that.

JUDGE CANFIELD: All of them have been identified and you would move admission of all of them?

MR. MEYER: Yes.

JUDGE CANFIELD: Any objections? Let the record reflect there are none. Exhibits T-27 and Exhibits 28 through 31, with 31 being the substitute revised Exhibit 31, revised 12-22-94, and Exhibit 66 are all so entered into the record.

(Admitted Exhibits T-27, 28 - 31 and 66.)

MR. MEYER: Thank you.

Q. With that having been done, Mr. Bryan, turning your attention to Exhibit 66, the map, just a couple of preliminary questions. Would you identify where the Water Power transmission facilities are and approach the bigger map, please.

A. The Water Power transmission facilities are up in this area (indicating).
Q. And they're color coded red?
A. They are color coded orange, which is awfully close to the same color as red. Orange is the Water Power colors and red is the color for the Idaho Power Company's network.
Q. And would you identify on that exhibit the Sierra network of transmission facilities?
A. Their transmission facilities are located within the state of Nevada around the Reno area and then showing their transmission interconnections east and north as well as west and south.
Q. That is colored black, right?
A. Yes.
Q. And BPA network, please?
A. BPA network is shown in yellow and it basically is all over the northwest.
Q. With respect to this merger and the integration, if you will, of transmission facility, would you just give a short explanation of how the combined companies intend to make use of the 200, roughly 200, megawatt path as well as the proposed Alturas transmission project.
A. Yes. The Water Power main transmission

shown on this map goes from the box indicated 1, which is basically in the northeast corner of Oregon, and it goes north through the Spokane area and ties in with the boxes that are labeled 6 and 7, and box 5. These are interconnections with the BPA, and the box indicated 1 is our interconnection with the Idaho Power Company at a point we call Lolo or Divide. Those names represent the point of interconnection. Then, as you see, the red transmission system from the one box up here to the one box down below in southern Idaho, that represents the Idaho Power transmission system, and at this point, they interconnect with the Sierra Pacific system, and that interconnection goes to the Valmy power station. Of course where we are interconnected with Bonneville up here in the 6 and 7 blocks, that yellow transmission system carries us all the way down to box 6, and this is where the northern terminal of the Alturas interconnection is, so we will be using the transmission path through Bonneville; where we will deliver up in the Spokane area, it will come down to the northern terminal of Alturas. In addition we'll also be delivering through the Idaho Power Company system or the Valmy line.

CHAIRMAN NELSON: Thank you. This really is very helpful. Just two points of clarification.

PAC is PacifiCorp, PAC network, the white line?
THE WITNESS: Yes.
CHAIRMAN NELSON: And my eyes tell me that the Sierra Pacific lines are blue, and then the black ones are in California and off to Arizona; is that right? That's the way it looks to me.
MR. MEYER: Well, I may have missed both colors actually. I think you're right.
CHAIRMAN NELSON: I think they are blacker than the blue lines in Nevada.
COMMISSIONER HEMSTAD: The chairman is very subtle.
MR. MEYER: I will schedule an appointment when I return to Spokane.
CHAIRMAN NELSON: It's very helpful to me. Thank you for producing this.
JUDGE CANFIELD: Is that it, Mr. Meyer.
MR. MEYER: I think that's finally it. Now on to cross.
JUDGE CANFIELD: Okay with that, Mr. Bryan is available for cross. Ms. Johnston.
MS. JOHNSTON: At the outset, Your Honor, I move the admission of Mr. Bryan's deposition transcript. Like to have that marked as Exhibit 67.
JUDGE CANFIELD: That's the next number in

order. I will mark that as Exhibit No. 67. Any objections to that exhibit?

MR. MEYER: None.

JUDGE CANFIELD: Exhibit 67 is so entered into the record.

(Marked and Admitted Exhibit 67.)

MS. JOHNSTON: Thank you.

CROSS-EXAMINATION

BY MS. JOHNSTON:

Q. Mr. Bryan, please turn to page 9 of your testimony.

A. Yes, I'm there.

Q. At the bottom of page 9 and continuing on to the top of page 10, you describe Water Power's wholesale power market activities. Would you characterize Water Power's wholesale power activities as successful given the high percentage of megawatt hour sales to other utilities?

A. Yes, I would.

Q. The Rathdrum combustion turbine is presently operating. How many hours per year is Rathdrum allowed to operate based on emissions permits?

A. I believe it's approximately 4,000 hours a year for both units.

Q. On page 10 of your testimony at lines 14 and 15, you state that "Water Power has a large number of firm wholesale transactions that are currently effective." Is that correct?

A. Yes.

Q. Based on Water Power's present load resource balance, the operation of Rathdrum combustion turbine and the large number of firm wholesale transactions that are currently effective, do you believe there are significant opportunities for additional transactions to be entered into without building additional resources?

A. Without the Washington Water Power Company building additional resources?

Q. Yes.

A. Yes, I do.

Q. Please turn to page 18 of your testimony. At lines 7 and 8 you describe WP's use of a 50- year, a 50-average megawatt planning criteria for long-range energy planning?

A. Yes.

Q. Is it correct to characterize this criteria as one of relying upon shorter term nonfirm and short-term purchasing to meet energy requirements until the need for longer term resources is confirmed and evaluated?

A. With the number of interconnections that Water Power has and the current situation within the WSCC, the Western Systems Coordinating Council utilities, we think it is prudent to rely on 50 megawatts of either firm or nonfirm. It would depend on how long we would have a deficiency as part of our basic for resource portfolio. So I wouldn't want to indicate that we would end up necessarily replacing that. We see that right now under current conditions as an ongoing resource strategy to keep our resource costs low.

Q. Is there a standard or methodology used by Water Power to evaluate whether a requirement, as you describe it, actually exists or is simply an aberration or an anomaly?

A. A requirement for? For what?

Q. Energy.

A. Well, our requirement that I refer to on line 12 of this page 18 talks about the firm energy requirements of our customers, both firm wholesale customers, as well as our retail customers. So those requirements are very real. What we do know is that because of energy surpluses that thermal generating systems naturally have, we can, to the extent we have enough transmission paths available to us, rely on bringing that energy in on a short-term basis to cover some of our firm requirement.

Q. Turning to the area of integrated resource planning discussed in your testimony at page 18. Are you at all familiar with the Nevada revised statutes regarding resource plans to be filed in the state of Nevada?

A. No, I'm not.

Q. Well, would you accept subject to check that section 704.746 has a heading reading "public hearing on adequacy of plan. Determination by Commission." The statute goes on to read in 4 sub A, of that portion of the rule which states that "the Commission may give preference to the measures and sources of supply that provide the greatest economic and environmental benefits to the state." In your opinion, does the term economic benefit include the consideration of such factors as construction, employment, employee payroll and tax base consideration."

MR. MEYER: Excuse me. It's a fair question but perhaps the better witness is Mr. Canning who deals intimately with resource planning Nevada.

He could give you a better interpretation of what's meant by the statute I think.
Q. Can you answer the question, Mr. Bryan?
A. It would just be speculation on my part. I believe that in discussions that I have had with employees of Sierra, they thought in terms of the -- that the geothermal effort in Nevada was driven by employment in Nevada and improving economic conditions because of geothermal development, but you would need to verify that with Mr. Canning.
Q. To your knowledge, does the Washington state rules on IRP process include the specific consideration of economic benefits to the state?
A. Not to my knowledge.
Q. Has Water Power considered how it would incorporate potential conflicting goals and measurement criteria when developing a single resource plan for the merged company?
A. Well, we're obviously going to have to adopt the resource strategies for the Water Power division as well as the Sierra division in a way that meets the needs of the -- of the jurisdiction that will be looking at that resource plan strategy. I think the fact that we have limited transmission between the Sierra and Nevada division -- or the Water

Power and the Sierra division that we'll find that the resource portfolio for the Water Power division will probably be somewhat different than the resource portfolio for the Sierra division, but basic philosophy and what we're trying to achieve relative to customers' rates, I think the trying to reach agreement between the jurisdictions on a similar risk profile, I think we'll try to carry that through in both the Water Power division and the Sierra division. We have not had an awful lot of discussion relative to how the actual document would come out or what the resource portfolio would look like. These are just kind of thoughts that I've had as we've been talking internally about filing a joint integrated resource plan.

MS. JOHNSTON: Your Honor, can we go off the record? I have several data request responses that I would like to offer into the record and I only have a few questions pertaining to one of them for Mr. Bryan. I don't want to take time that I shouldn't.

JUDGE CANFIELD: I will take a short break off the record for the distribution of those documents.

(Recess.)

JUDGE CANFIELD: We're back on the record after a break during which time several documents were distributed, and we did go ahead and preassign exhibit numbers off the record and those will be briefly identified by Ms. Johnston.

(Marked Exhibits 68 - 77.)

MS. JOHNSTON: Thank you.

Q. Mr. Bryan, you've just been handed what have been marked as Exhibits 68, 69, 70, 71, 72, 73, 74, 75, 76 and 77 for identification. Do you have those before you now?

A. Yes, I do.

Q. Have you had a chance to look at them?

A. Just briefly, yes.

Q. And what are they?

A. They are responses to data requests made by the WUTC staff and last exhibit, I believe, was in response to a data request by public counsel, and they were prepared, either directly from my testimony, or from testimony that myself and others were a party to.

MS. JOHNSTON: Your Honor, I move the admission of Exhibits 68 through 77.

JUDGE CANFIELD: Just so the numbering is clear in that, request No. 4 was Exhibit 68; request No. 51 was Exhibit 69; request No. 70 was marked as Exhibit 70; request 71 as Exhibit 71; request 75 as

Exhibit 72; request No. 91 as Exhibit 73; request No. 93 as Exhibit 74; and request 96 as Exhibit 75; and request 97 as Exhibit 76; and request No. 367 as Exhibit 77. Any objection to those exhibits?

MR. MEYER: No objection.

JUDGE CANFIELD: Exhibits 68 through 77 are so entered into the record.

(Admitted Exhibit 68 - 77.)

Q. Mr. Bryan, would you please look at Exhibit 76.

A. Yes, I have Exhibit 76 in front of me.

Q. Now, in this response you describe in general terms how Water Power has made changes to its way of doing business as a result of competition. Is that true?

A. Yes.

Q. And as an officer of the company, you are also aware of the effort by Water Power to reduce costs through downsizing and reorganization over the past several years; is that correct?

A. Yes, I am.

Q. My question is, after working with Sierra Pacific over the last several months since the proposed merger was announced, is it your opinion that Sierra has as a stand-alone company made similar tough

decisions to adjust to competition through some business realignment, downsizing or reorganization?
A. I can't speak to what Sierra has done prior to the last year, but at the time that Walt Higgins took over, as he testified to yesterday, they have begun several efforts from intensifying their wholesale marketing efforts to improving the ways in which they do business as well as consolidating their operations and increasing their span of control. I am aware of that just by discussions. I have not been inside the Sierra Pacific Company and seen that, but it's from discussions that I've had with employees of Sierra as well as employees of the Washington Water Power Company that have worked on the transition teams.
Q. You think Sierra is as far along in its reorganization as Water Power is?
A. No.
Q. Mr. Canning's direct testimony addresses electric production-related benefits of the merger for both Sierra Pacific and Water Power. Is that true?
A. Yes.
Q. Do you believe the production-related benefits of the merger are significant?
A. Well, I think when we get into benefits of

50 plus million dollars, I mean, that's a number that kind of gets my attention so I would say that is significant. Relative to the total merger benefits I believe it's about 11 percent, so it's a fairly mall portion of the total merger benefits.

Q. Would you accept subject to check that it's closer to 16 percent of the merger benefits?

A. 16 percent? Yes, I would accept that subject to check.

Q. Did you participate in the development of the production-related benefit estimates as presented in the direct testimony of Mr. Canning?

A. No. I was not directly involved. I had staff in my area that worked on that.

Q. Well, will Washington ratepayers benefit from the production-related benefits of the merger?

A. Yes, they will.

MS. JOHNSTON: I would like to have this marked as the next exhibit in line, please.

JUDGE CANFIELD: For the record Ms. Johnston just passed around two additional document. The first one, the request No. 65, response marked as Exhibit 69, the second one, the request No. 67, and response marked as Exhibit 70.

MR. TROTTER: I'm sorry?

JUDGE CANFIELD: We've got some -- excuse me on those numbers. I had a document out of place here covering up my other numbering. Those would be 78 and 79, 78 being the request No. 65 and 79 being request No. 67. Thank you.

(Marked Exhibits 78 and 79.)

Q. Mr. Bryan, do you recognize what's been marked for identification as Exhibits 78 and 79?

A. Yes, I do.

Q. Are they responses to staff data requests prepared by you or at your direction or under your supervision?

A. Yes, they are.

MS. JOHNSTON: Your Honor, move the admission of Exhibit 78 and 79.

JUDGE CANFIELD: And any objections?

MR. MEYER: No objection.

JUDGE CANFIELD: The request No. 65 is so entered as Exhibit 78 and request No. 67 and response so entered as Exhibit 79.

(Admitted Exhibits 78 and 79.)

MS. JOHNSTON: Thank you.

Q. In your response to staff data request 67 as well as in your deposition testimony at page 22, lines 5 through 7, you state that the merger will

result in increased wholesale sales and wheeling revenues for Washington Water Power, assuming Sierra Pacific completes construction of the Alturas transmission project into northern California in 1997. is That correct?
A. Yes, that's correct.
Q. In the joint response by you and Mr. Higgins to staff data request No. 49 --
MR. MEYER: That's Exhibit 68?
MS. JOHNSTON: Thank you.
Q. And in your response to staff data request 65, which is Exhibit 78, as well as in your deposition testimony at pages 5 and 6, you discuss wholesale marketing activities in the broader context of access, that is, access to markets. Would you agree?
A. Yes. I would agree.
Q. You mentioned that "location in the marketplace" needs to be there for Water Power to achieve competitive advantages. Do access to markets and location in the marketplace translate into increased wholesale and wheeling revenues?
A. They certainly can, yes.
Q. Does a merger with Sierra Pacific provide Water Power with the access and location in the marketplace benefits you were referring to?

A. Pardon, I didn't catch the last part of your question.

Q. Well, does the merger with Sierra Pacific, in your opinion, provide Water Power with the access and location in the marketplace benefits you just referred to?

A. Let me try to answer your question. If I'm not responsive, please stop me. What the merger with Sierra will do will allow us to get access to markets that currently can be restricted because of transmission policies of other utilities. So for example, if we talk about the city of Modesto, we can serve the city of Modesto through the BPA system, but we have their intertie access policy which can be restrictive and limit the kind of arrangements we can do.

With the merger we can serve the Modesto market through the Sierra system through their interconnection with PG and E, and depending on what type of conditions PGE put on us, that could be a much -- it could be a much more profitable market for the company to serve going that way.

Q. Is this the only way for Water Power to obtain these access and location in the marketplace benefits to which you refer?

A. Well, there again, with the BPA, we can pretty much move our resources through the WSCC system, but having the Sierra merger we're able to get there at times quicker, more responsive. I think one thing that's important in the wholesale market is the responsiveness of the supplier to the purchaser's needs and once you deal with the BPA they can be an obstacle to responsiveness.

Q. So is the answer to my question, yes, that this is the only way -- the merger is the only way for Water Power to obtain these access and location to marketplace benefits?

A. I would say it's not yes. We can get to the markets through other utilities systems. What I'm trying to point out in my answer is that we may get there too late and the market may be gone and going through Sierra will allow us to possibly hopefully be more timely.

Q. Did Water Power study participating or the possibility of participating in the third AC intertie or the proposed southwest intertie projects?

A. We looked at the third AC, yes. And we decided not to participate in the third AC.

Q. And why is that?

A. It was not cost effective for the company to do that.

Q. Did you run some studies before arriving at that conclusion?

A. I don't know whether we -- I assume we did run some studies. I did not see those studies.

Q. On pages 11 and 12 of your testimony, you describe numerous nonfirm and short-term firm sales to other utilities. Besides the northwest utilities that you have listed, Water Power made several sales to utilities in southern California and Arizona; is that correct?

A. Yes.

Q. And on page 12 you list some purchases that were made from southern California, Arizona and even New Mexico; is that correct?

A. Yes.

Q. Through what interconnection were these transactions generally made?

A. Now, are you referring to the ones in New Mexico and Arizona or all of those in California? Generally the California purchases are made using the Pacific southwest intertie. Some of the purchases that we made with the public service in New Mexico in Salt River would have been delivered up through the Pacific Utah system, or through transmission rights that the Arizona Public Service has on the Utah Pacific system. Also -- and I don't know for sure where all of these purchases went but we did make purchases in the southwest to sell to other southwest utilities using the transmission system of parties in the southwest, what we would call a brokering transaction. In other words, they were not delivered to the Washington Water Power Company's service territory.

Q. In your opinion, was timeliness essential to the success of these particular sales?

A. Yes.

Q. On pages 14 and 15 of your testimony, you describe in general terms Water Power's access to other markets across the western interconnection. These markets include the northwest, California, Nevada, Arizona, New Mexico and the Rocky Mountain area. Is that correct?

A. That's correct.

Q. At the bottom of page 15 and continuing to the top of page 16, you state, "buyers and sellers of wholesale electricity enjoy access to a robust market for the purchased sale and exchange of firm and economy energy." Do you see that?

A. Yes, I do.

Q. Is Water Power, in your opinion, one of these buyers and sellers that this statement refers to?

A. Yes, we are.

Q. Please turn to page 18 of your testimony. Strike that. Please turn to page 14 of your testimony. There you address transmission access for Water Power. You discuss how the company currently obtains access to the regional grid to allow wholesale transactions both within the northwest and throughout the region, including California and the southwest. You indicate at line 36 that "ease of access has continued to improve." What do you mean when you say that?

A. Utilities are beginning to open up their systems.

Q. In your deposition testimony on pages 13 and 14 you address Sierra's Alturas transmission project. Would Water Power benefit from Sierra's construction of the Alturas line aside from the merger, i.e., if it were not proposing a merger with Sierra Pacific?

A. We might be able to benefit some, but with the merger we would basically have full priority to do exchanges in the sales and purchases at the Alturas interconnection. We would not have to compete with other utilities.

Q.   What is your understanding of Sierra Pacific's involvement in the proposed southwest intertie project?

A.   I am not familiar with their involvement, other than the fact that I knew they were in a communication loop on that, but you ought to direct that question to Mr. Canning.

Q.   Just a moment ago you indicated that Water Power will experience additional wholesale and wheeling revenues from the merger. Is it your understanding that revenues associated with wholesaling for each division under the merged company and related costs will be directly assigned?

A.   That's my understanding. I think an example of where we might see additional wheeling revenues on the Water Power system would be if indeed we become an alternate path to Bonneville to deliver energy to Pacific Gas and Electric through the interconnection between PG and E and Sierra. Northwest parties might use this route rather than BPA and we would be able to siphon some of those BPA revenues off to both Water Power and Sierra.

Q.   For Water Power one component of the production-related benefits attributed to the merger is avoided wheeling expense which would contribute to increased margins on nonfirm wholesale sales; is that correct?

A. Yes, that's correct.

Q. According to Mr. Canning's direct testimony on pages 31 and 32 these savings were estimated to amount to about $1.8 million per year or about $16.2 million over a 10-year period for Water Power. Would you accept those figures subject to check?

A. Yes, I would.

Q. In Mr. Canning's testimony the avoided wheeling expense is based on 600 GHW per year of nonfirm sales by Water Power. Are these sales into California or the southwest or sales to the Sierra Pacific division or do you know?

A. I think I know. They were based on FERC data, and I don't know whether that's form 1 or form 2, over the period 1988 through 1993, and the heading on the column of data that I'm looking at I believe was on Mr. Canning's work paper was called class O S California, so I assume that those were deliveries that we made over the Pacific southwest intertie to California utilities, and the 600 gigawatt hours was the average of the deliveries we made over that

six-year period.
Q. Is the assumed point of delivery the northern end of the Alturas project?
A. Yes.
Q. Would wheeling services be required -- at that point would any wheeling services be required to ultimately move the energy to California or southwest utilities?
A. Yes. We would be required to pay BPA a southwest intertie rate. I believe in their rate schedules that's referred to as an IS rate.
Q. Staff data request 148 requested an update on the status of negotiations for acquiring requirements for an interconnecting transmission link between Water Power and Sierra power operating divisions. Do you recall that?
A. Yes, I do.
Q. In your response to data request 148C designated confidential we were told that letter agreements for the transmission service between Water Power and Sierra Pacific were expected to be finalized in February 1995. Do you recall that?
A. Yes, sir, I do.
Q. And they were provided to staff today. Are you aware of that?

A.   Yes, I am.

MS. JOHNSTON: Your Honor, like to have all three of these marked as the same exhibit, please.

MR. MEYER: This will help I think understand what she just passed out.

JUDGE CANFIELD: For the record Ms. Johnston just passed around three separate documents, and you're requesting they be marked as a single exhibit? Is that correct, Ms. Johnston?

MS. JOHNSTON: That's correct.

JUDGE CANFIELD: And one of them, the requests No. 148 C, it indicates some confidential information. What's the status on that, Mr. Meyer?

MR. MEYER: Oh, I see. Here's that part of it. I missed that part. Take a look at it. It may not be a problem.

That is fine. It's no longer confidential.

JUDGE CANFIELD: With that understanding so indicated on record, that will be marked as a single exhibit, Exhibit No. 80.

MR. MEYER: If I might have marked what I just handed out. It's a companion exhibit which helps describe or it helps summarize what's in Exhibit 80. If I can have my submission marked for identification as 81.

JUDGE CANFIELD: That's the one containing the map?

MR. MEYER: Right.

JUDGE CANFIELD: I will mark that as the next one in order as well and that is Exhibit No. 81.

(Marked Exhibits 80 and 81.)

Q. Mr. Bryan, you've just been handed what's been marked for identification as Exhibit 80. Would you please describe them.

A. Excuse me, I was looking at the map here. Is Exhibit 80 the contracts?

Q. Do you recognize what comprises Exhibit 80 as being, number one, your response to staff data request No. 148, your response to staff data request designated as 148C, and behind those two data requests responses we see three letter agreements which were provided to staff this morning. Do you recognize these documents?

A. Yes, I do.

Q. They were prepared by you or at your direction or under your supervision or control?

A. Yes, they were.

Q. The first two, the contracts of course were directed by the management of Sierra Resources as well as the Washington Water Power Company because

they do include joint contracts between Bonneville and Sierra and the Washington Water Power company?
A. Yes.
MS. JOHNSTON: Move the admission of Exhibit 80.
JUDGE CANFIELD: Any objection?
MR. MEYER: No objection.
JUDGE CANFIELD: So entered.
(Admitted Exhibits 80.)
MR. MEYER: If I might also at this point ask if he is familiar with Exhibit 81 so marked?
THE WITNESS: Yes, I am.
MR. MEYER: Was that prepared by you or at your direction?
THE WITNESS: No, not prepared by me or at my direction. Perhaps done by Mr. Canning.
MR. MEYER: You're familiar with the contents?
THE WITNESS: Yes, I am.
MR. MEYER: And you know the contents to be true and correct?
THE WITNESS: Yes, I do.
MR. MEYER: Also move the admission of Exhibit 81.
JUDGE CANFIELD: Any objections to 81?

MS. JOHNSTON: I have no objection, Your Honor, with the understanding that staff of course has not had an opportunity to analyze or even read the letter agreements, given that they were provided to staff only this morning but beyond that I have no objection to what's contained in Exhibit 81.

MR. MEYER: Very well. I should note just on the timing issue, these letter agreements, there's certainly no intent to hide these from staff. They were virtually executed in the last couple of days and so we brought them with us. I think one was just executed yesterday so these are very timely and very recent, so no attempt to prevent staff from their view.

JUDGE CANFIELD: The dates of the letter agreements for the record are January 12, 1995, February 3, 1995 and February 6, 1995. 81 so entered into the record as well.

(Admitted Exhibit 81.)

Q. Mr. Bryan, according to your response to 148C which is a part of 80, the price of a transmission link is not expected to have a significant impact on estimated merger benefits; is that true?

A. That's correct.

Q. Mr. Canning's testimony addresses the issue of pricing for this link. In determining expected merger benefits the price for the link was subtracted from total capacity-related savings; is that correct?
A. Yes.
Q. Do you know or have an opinion on how the cost for the interconnecting transmission link will be allocated between the Water Power and Sierra Pacific divisions or is that a question I should ask of Mr. Buergel?
A. You should ask that of Mr. Buergel.
Q. In your response to staff data request 97, which is Exhibit 76, you state that Water Power has always viewed its transmission system as a way to increase revenues. Do you have an opinion on whether Sierra Pacific has or shares a similar philosophy?
A. I think you ought to ask Mr. Canning that question. My understanding of the Sierra system is that they just haven't had an awful lot of opportunity to use their transmission system because of internal limitations. Although they do use their interconnection through Valmy almost on a fully loaded daily basis to import economy purchases from the northwest.
Q. In your opinion, would the merger impact

the Water Power's philosophy which we just discussed, that is, Water Power's use of the transmission system to increase revenue?

A. No, it would not.

Q. Does the merger with Sierra Pacific and the commitment of transmission facilities in capacity to support the merger have any negative reliability implications on Water Power's transmission system in support of either wholesale or retail service, including distribution, in your opinion?

A. No. We have more than enough adequate transmission to be able to do the necessary transactions to implement the savings on the production side.

Q. During your deposition, you testified that Water Power's transmission pricing is driven by the market. Do you recall that testimony?

A. Yes, I do.

Q. At page 47 of your testimony, prefiled direct testimony -- excuse me, deposition -- you address market pricing for transactions between Water Power and Sierra Pacific. Under the merged company, will transmission services between divisions be priced based on the market for those services?

A. Let me give you an example and see if the example I give you in the form of a question is what you're asking. If Sierra division had some surplus energy and they wanted to sell that to, let's say, Montana Power and Light, Montana Power Company, and in order to get to Montana they had to use the Water Power division transmission system, would we price the Water Power transmission system or provide a transfer price on our transmission system to the Sierra division? Would that be the question.

Q. That's a good example, yes?

A. Yes. We would put a value and a price on our transmission system and that would be a credit to the Water Power division.

Q. When will a proposal for how to track market pricing between Water Power and Sierra Pacific divisions be available?

A. I cannot answer that question. I do not know. I think it would be something that we would work with the staff to be able to develop that as soon as we could.

Q. Does any other witness in the case know the answer to that question, to your knowledge?

A. You might talk with John Buergel about that. He may have had some discussions internally on that particular issue.

Q. As of today, does Washington Water Power expect to become a member of any regional transmission groups?

A. Yes. We are interested in both the Northwest Regional Transmission Group as well as the West Wide Transmission Group.

Q. Do you believe there are benefits to Water Power and its ratepayers through participation in RTGs?

A. The Washington Water Power Company does believe that. We're looking at it very carefully. We are supporting both of those efforts. Being a major player in the wholesale market, my view of the future is that regional transmission groups are organizations that we want to be a part of and that we want to shape.

Q. In your opinion, would there be similar benefits to Resources West in participation in the RTGs?

A. Without knowing in detail the issues internal to the Sierra division operations, I guess I would need to withhold that and of course based on Walt Higgins's testimony yesterday, with what little I do know it would be my recommendation to Resources West Energy that we do participate in a regional transmission group.

JUDGE CANFIELD: For the record, Ms. Johnston has just distributed two documents and requested they be marked as the same exhibit, and this will be marked as the next exhibit number in order, that being Exhibit No. 82 for identification, and those are requests No. 143 and request No. 143 supplemental C and E.

(Marked Exhibit 82.)

Q. Mr. Bryan, you've just been handed what's been marked as Exhibit 82 for identification. Do you recognize Exhibit 82 as company's response to staff data request No. 43?

MR. MEYER: 143.

Q. Excuse me. 143 and 143 supplemental?

A. Yes, I do.

MS. JOHNSTON: Your Honor, I move the admission of Exhibit 82.

JUDGE CANFIELD: Any objections?

MR. MEYER: No objection.

JUDGE CANFIELD: Exhibit 82 is so entered into the record.

(Admitted Exhibit 82.)

Q. Like to direct your attention first to the company's response to staff request 143. Is it true

that a detailed plan for consolidated DSM activities has not been completed yet?
A. Yes, that's correct.
Q. And is it expected that the consolidation plan will be completed sometime in mid March?
A. Yes, that's correct.
Q. And is that also a part of the famous March 13 transition team report that we've heard so much about?
A. Yes, it is.
Q. So it's true, then, that the company's estimate of a 21 employee reduction was made absent any consolidation plan?
A. Yes. I believe it was made from Deloitte Touche's analysis along with Water Power staff at the time that we were estimating the merger benefits.
Q. In response to staff data request 143 supplemental, you state that "since the analysis was performed the wrap-down in Washington Water Power DSM acquisition has been approved and reductions in staffing have been implemented." Is the analysis to which you refer there the analysis determining the 21 employee reduction estimate?
A. I believe that's correct, but you probably ought to just check with John Buergel to make sure.

MR. MEYER: I might suggest Mr. Flaherty as well.

Q.   Referring to that same response, what reductions in staffing have already been implemented?

A.   I cannot answer that. We can provide you that information, but I don't know the numbers.

Q.   Well, I would like to have that information, please, as the next record requisition in line.

JUDGE CANFIELD: No. 15.

(Record Requisition 15.)

MS. JOHNSTON: Thank you.

Q.   Like to direct your attention now to part C of your response to staff data request No. 143. You state that the 21 employee reduction estimate amounts to savings of $14.2 million over a 10-year period and that "these savings result primarily from elimination of "redundant and duplicative activities." Can you identify what is meant by the words redundant and duplicative activities?

A.   That's similar type of work that we're doing that they're doing that can be done with less people and achieve the same work product.

Q.   Can you identify them for us?

A.   No, I cannot.

Q. Are you capable of identifying them for us?
A. No, I am not.
MR. MEYER: I might --
Q. Whom shall I ask?
MR. MEYER: I might note that in response to request that's not of record, request No. 144, we tried to break out by witness which of our witnesses would handle which type of DSM questions. And just sort of as a road map, Les would respond more on the resource side the need for DSM on behalf of Water Power as well as Resources West. Mr. Canning would do the same with respect to general resource issues and how DSM fits into that on behalf of Sierra as well as Resources West, and DSM or rate accounting issues would be for Mr. Buergel, and also I should note that Mr. Flaherty, as the originator of certain estimates on DSM employees and savings attendant thereto, could respond to those type of questions. So that's the general breakout of how we've assigned DSM responsibility in this case.
MS. JOHNSTON: Doesn't address my question, though. None of the witnesses that you identified in your response to our request No. 144 is apparently capable of answering this question.
MR. MEYER: And I mean to be helpful.

Could you restate your question again.

MS. JOHNSTON: Certainly.

Q. In response to part C of our data request, No. 143, it's indicated that the 21 employee reduction estimate amounts to savings of $14.2 million over a 10-year period.

MR. MEYER: That would be Mr. Flaherty, and he is also identified as one of the witnesses responsible, and certainly on sub item C he would be the right witness.

MS. JOHNSTON: I will ask him tomorrow morning then. Thank you.

Q. In that same subsection, Mr. Bryan, you state that the savings also result from "the overall reduction in DSM effort anticipated and required in the future for the combined companies." Can you describe what is meant by anticipated and required reduction in DSM effort or shall I ask Mr. Flaherty that question as well?

A. Can you direct me to where you're at, Ms. Johnston.

Q. Subsection C. Third sentence. And the third sentence begins with the words, "these savings result primarily."

Q. Yes.

A. I would be speculating on that, but my speculation is that it reflects the wrap-down of the very intensive DSM efforts we've had over the last two, two and a half years, to what we are currently expecting in 1995 and 1996 by the time that the merger takes effect.

Q. By who was the reduction required?

A. Pardon?

Q. Who is requiring the reduction in DSM effort?

A. The reduction in DSM efforts is required because we now have no resource need. We were very successful in our DSM efforts over the last two and a half years and we received an order from this Commission to down scale that program at the company's request, and that new program will require less people.

Q. In that same subsection you go on to state that "additional savings are expected to occur in the nonlabor portion of DSM activities but have not currently been quantified." Do you see that?

A. Yes.

Q. Can you identify what those nonlabor savings will include?

A. No, I cannot. Those should be referred to

Mr. Flaherty.

MS. JOHNSTON: That's all I have, Mr. Bryan. Thank you.

JUDGE CANFIELD: Mr. Trotter, questions for Mr. Bryan?

MR. TROTTER: Yes.

CROSS-EXAMINATION

BY MR. TROTTER:

Q. First of all, your wrap-down in DSM was not required by this Commission, was it?

A. No. It was not required. It was recommended by the company and the Commission adopted our recommendation.

Q. And that's in the order approving your tariff filing?

A. Yes, that's correct.

Q. So whatever words the Commission said in that order that's what you're relying on for your testimony?

A. Yes.

Q. With respect to -- you were asked some questions about the transfer price. If Sierra -- the Sierra division -- is provided power from Water Power system it would be at market rates; is that right?

A. That's correct.
Q. And the transfer price issue is the rate at which that transaction will be priced?
A. That's correct.
Q. And you don't have a policy on how you're going to compute that at the current time; is that right?
A. No. We have a lot of data available to be able to help us set that price, but we have not finalized the methodology.
Q. Just in the next -- do you know when -- and you said you don't know when it's going to be finalized?
A. No, I do not.
Q. As response to record requisition 16 if you could provide a copy of that transfer price policy when it is established between the companies.
JUDGE CANFIELD: That's record requisition No. 16.
(Record Requisition 16.)
A. We will attempt to respond to that, Mr. Trotter. I would need to talk internally with those that are working on that, and we will provide you some type of response. Whether we will indeed have the policy developed soon, I cannot -- I do not know.

Q. Now, with respect to integrated resource planning, you expect to do that on a total company -- total merged company basis recognizing the requirements of each state's jurisdictions may require different types of reporting but it will be done on a consolidated basis?

A. Yes. That's our initial intent.

Q. What will be the impact of the merger on avoided cost compared to Water Power's current avoided cost?

A. I haven't really given that much thought. We may end up having separate divisions of avoided costs. We would have to think about that.

Q. That hasn't been addressed at this point?

A. No.

Q. And with respect to resource planning, you indicated in the prior response that the transmission connections between the two companies are not -- I forget what word you used but they're not significant at this time so it would be unlikely, I take it, that a power plant or a resource would be sited in Washington for benefit of the Nevada jurisdiction?

A. I think that would be highly unlikely, yes.

Q. But if that did occur, the costs of that facility would be allocated to Nevada?

A. I can't answer that for sure. What I can assure the Washington Water Power division is that we will not be allocating costs to serve growth in the Nevada division to Washington ratepayers.

Q. Now, if you're doing your planning on an integrated basis, a total company basis, I take it nonetheless you will be looking at the need for resources, the Water Power division versus the Sierra division; is that right?

A. Yes.

Q. But the siting of that facility and the type of facility that might be needed will depend on many factors and -- would that be correct?

A. And I think transmission will be probably one of the major driving forces in determining the type of resource.

MR. TROTTER: Your Honor, I have a multi-page exhibit I would like to have marked for identification. It's company's response to public counsel request 305. I would note the original was color coded. I was going to have the original provided as the original document, but I don't have it right on me so perhaps I can substitute it later.

JUDGE CANFIELD: Okay. That will be marked for identification as Exhibit No. 83.

(Marked Exhibit 83.)

Q. Do you recognize Exhibit 83 for identification as your response to our data request 305?

A. Yes, I do.

Q. And that asked you to provide any document that addresses one or both company's individual position vis-a-vis actual or potential competition from other retail wholesale providers of electric or natural gas utility service.

A. Yes.

Q. And turning to the second page of the exhibit, you provide Water Power's view on retail wheeling; is that right?

A. That's correct.

Q. And the next page is Sierra's view -- Sierra Pacific's view of that subject?

A. Yes.

Q. And then the next page, Project Sand Strategic Issues, outline of regional competition. It does contain a privileged and confidential designation, but that should be disregarded, is that right, in terms of being provided pursuant to the confidentiality agreement; is that right?

A. I will have to address that to Mr. Meyer.

MR. MEYER: I'm sorry, I missed the last.

Q. The fourth page of the exhibit does contain a privileged and confidential designation. It's my understanding that that is not being asserted pursuant to the protective order in this case.

MR. MEYER: That's correct.

Q. So that the remainder of this document is apparently a study that the company did on regional competition?

A. Yes, I believe it is. I think it was presented to our board of directors.

Q. Apologize for not numbering the pages but turning to the page after that cover sheet on the outline of regional competition. You show 10 utilities that, I take it, in Water Power's opinion are competitors in the region?

A. Yes.

Q. Now, Mr. Redmond, Tuesday, I believe, indicated that Sierra Pacific is in a different region or different market really than Water Power competing mainly in the southwest and California. Are there any southwest or California utilities listed on this sheet?

A. Yes, there are.

Q. And which would those be? Southern Cal

Edison?

A. Southern Cal Edison, Pacific Gas and Electric Company, Nevada Power.

Q. What is the southwest, in your opinion? What states comprise the southwest?

A. Southwest would be Arizona, New Mexico.

Q. And which of these utilities have rates in those states?

A. None of those do.

Q. Now I would like you to turn toward the very end, if we can go to the back page of the exhibit and count forward. Well, actually does have numbered pages toward the back. We could go to pages 11 and 12 as they are numbered, and page 11 is an analysis of industrial contribution at risk in a competitive environment and it shows Water Power being in the low risk and Sierra Pacific being in the significant risk category, correct?

A. Yes, that's correct.

Q. Now, upon merger, do you anticipate Water Power -- let me ask a threshold question. These are premerger relationships; is that correct?

A. Yes. I think these are based on their current rates.

Q. And do you anticipate Water Power on a post merger basis, the Water Power division, to move lower into the lower risk category or higher into a different category or the same category?

A. I expect us to remain in the low risk category, hopefully moving to the left.

Q. And what about Sierra?

A. I would expect that under the merger that the Sierra triangle would move toward the moderate risk area.

Q. Now, this is obviously a subjective assessment; is that right?

A. Yes.

Q. And so there's no way we can replicate this post merger other than to apply the same type of subjectivity; is that correct?

A. No. I think the way you could look at it post -- you mean as far as an analytical assessment right now? There's no way that you can replicate that other than taking the merger benefits and trying to allocate them by customer class which --

Q. Let me try it again. Assume the merger is approved and three years from now we want to do this chart, we just have to apply the same type of subjectivity that went into this chart or not?

A. Well, this was prepared by a consultant, is my understanding, as I recall, and he categorized the various companies in these four quadrants, and I would think that using the same analysis, which really was just an analysis of retail rates to the industrial group, and three years from now you could see where these companies have gone, and I would hope that as a result of the merger in three years that the Sierra division triangle would be moving toward the moderate risk quadrant.

Q. And that implies that its industrial rates would be going down relative to other companies?

A. Relative to the others.

Q. Now, both Water Power and Sierra were in the regional competitor categories on an earlier page, right?

A. Yes, that's correct.

Q. Do you consider Water Power a competitor to Sierra Pacific?

A. Yes.

Q. And you compete with them for wholesale sales?

A. We do compete with them for some wholesale sales, yes.

Q. Do you consider them a major competitor?

A. No.

Q. Turn to the next page, page 12, and here is the company's position to aggressively pursue industrial customers. Water Power is a moderate opportunity and Sierra is a little opportunity. Is that right?

A. Yes, that's correct.

Q. Do you agree with the analysis that is portrayed in this report?

A. I haven't really sat down and analyzed it, Mr. Trotter.

Q. Do you know what the company's position is with respect to this report as do they agree with it or disagree with it?

A. I do not know.

MR. MEYER: If this proves helpful, Mr. Flaherty, who will be here tomorrow, was actively involved in preparing this with Deloitte and Touche. I know he's not the designated witness here.

MR. TROTTER: He's also not a company -- I'm sorry, okay.

A. I mean, my views of serving industrial loads, I think we've had a lot of discussions in the industry about it. It's been, in my view, somewhat academic at this point. The marginal cost of new resources to serve new load is pretty much the same for all of us.

MR. TROTTER: Your Honor, I don't know if there was a question pending.

JUDGE CANFIELD: Okay. Your next question then, Mr. Trotter.

MR. TROTTER: Did I move the admission of Exhibit 83?

JUDGE CANFIELD: No, you have not.

MR. TROTTER: Move the admission.

JUDGE CANFIELD: Any objection?

MR. MEYER: No.

MR. TROTTER: That completes my questions.

JUDGE CANFIELD: Exhibit 83 is so entered into the record.

(Admitted Exhibit 83.)

JUDGE CANFIELD: Commissioners, questions for Mr. Bryan?

CHAIRMAN NELSON: Couple.

EXAMINATION

BY CHAIRMAN NELSON:

Q. Mr. Bryan, at page 9 of your testimony, the paragraph beginning at line 4, something really leaped out at me, and it may be that I just don't understand the wholesale market very well. First of all, with respect to your existing transmission agreements, are they at some point in time approved by the FERC?

A. Yes, they are.

Q. So the rates in them are scrutinized and approved?

A. That's correct.

Q. Why does FERC approve Water Power rates that are below cost of transmission?

A. Generally FERC is willing to approve rates that are below fully allocated cost. Their test is at the ceiling. They do not want to see us charge more than what our fully allocated costs are and because on our transmission business we're operating in a very competitive environment, our rates for transmission are set at the market which is below our fully embedded cost.

Q. And that's I guess now a result of history?

A. Yes.

Q. In a competitive market -- and I guess I'm trying to imagine the future where there's competition in the generation markets and maybe in the future in transmission markets between some rather large actors. And I guess you would say as long as, or FERC would say, as long as your transmission rates are above somebody's incremental cost that it's not an anticompetitive rate. Is that what I should understand?

A. Why don't you ask me that one more time and I will see if I got it.

Q. Well, in a competitive market -- again I'm not an antitrust lawyer or economist, maybe I should let Commissioner Gillis ask these questions, but it seems to me you can't have below cost pricing for very long without having the Department of Justice or the Federal Trade Commission or the FERC getting concerned about below cost pricing. However, given history and embedded cost being higher than new incremental cost, perhaps there is an antitrust standard lurking in this state method. I don't quite understand.

A. Well, you know, traditionally utilities built their transmission systems to serve their retail loads and to move their energy and capacity from their resources to their retail customers. And then when we found out there were a lot of times on that transmission system we had capacity that we could make available for a wholesale transaction, so then what we have done is we have -- Water Power has made an attempt to market that unused capacity when it's available from time to time and then credit those revenues back to our customers, so the marginal cost on our transmission system to serve a wholesale customer is awfully close to zero. Now, if we wanted to restrict or inhibit the movement of power around our system what we would want to do is price our transmission costs as high as we could so nobody would use them and we would basically have wholesale markets captive to our resources, and a lot of utilities have done that in the past, and that's been one of the complaints that I have had is the pancaking of transmission charges which really inhibits the movement of resources around the WSCC grid. Water Power took a position that we were going to view our transmission system as a profit center and when it wasn't being used we were going to go out and see if we could find somebody to use it, and in order to bring customers on to our transmission system we had to provide that use at the market, and our biggest competitor of course is the Bonneville Power Administration.

Now, I'm talking a lot about nonfirm or short-term firm transactions. When we get into long-term transactions then we're talking a different kind of a story and we're very uncomfortable with making long-term firm transmission services available unless we can recover full embedded costs or even perhaps future costs of adding incremental transmission. I don't know if that helps.

Q. It's helping. It's helping. I guess it's just getting ready for competition and trying to go from the old paradigm to the new paradigm that some of these new transmission issues are going to be important and it's just been sort of an intuition of mine that the transmission owners are going to be in a very enviable position in future more competitive markets. And again, trying to define what the market is, whether it's generation markets, transmission market or distribution markets, somehow competitive, each of those market segments of course is going to be something that's going to go into our market analysis. So I think now I understand the nature of the question, I mean, the nature of the answer to that question at that page.

At page 16 the question and answer starting at page 4 again sort of reflects the past. It seems to me that the transmission grid has been planned using a one utility philosophy. And my question here is how long is that philosophy sustainable? In a more competitive era are owners of these different segments of the grid going to want to coordinate and cooperate or are they going to look for ways to leverage their asset?

A. My view is that the regulators will require us to continue to expand our transmission system on a one-utility philosophy. We may have to become more creative in pooling our transmission facilities and developing transmission companies which individual utilities have ownership in. Those are some concepts that are being looked at right now. But to build a redundant transmission with right-of-way being so critical to acquire these days, I just don't think it's going to happen. But I do think what I mentioned just a minute ago, that pooling approach to transmission and developing transmission companies where Water Power would have a certain stock ownership in that company is something that might develop in the future and that can be spun out of the RTG concept. I see the regional transmission groups as kind of the next step for the utility industry as we move into this competitive environment and probably a step beyond that.

CHAIRMAN NELSON: Thank you. I don't know what else to ask.

EXAMINATION

BY COMMISSIONER HEMSTAD:

Q. Well, this really is a follow-on to the questions that the chairman asked. In Exhibit 76, which is your response to request No. 97, in the last paragraph response says, "to keep itself on a competitive edge WWP has filed an open access transmission tariff with FERC in order to provide service to those who have a need. WWP will continue to do what is necessary to meet the future challenge in a cost effective way." An open access transmission tariff now along with FERC's requirements for comparability, how does that square with your testimony on page 9 and then your response to chairman's question with regard to pricing below your fully embedded cost? Don't you have to price, in this new environment, price your transmission equivalently for others as how you would price for yourself or am I getting it all mixed up here?

A. No. The comparability issue I think is something we're all trying to understand and we're not sure that the FERC understands it. My understanding of it is that I can't charge a wholesale customer more than I am charging my retail customers. I'm not sure it deals with the issue of whether I can charge a wholesale customer less if the competitive market requires that. My view is that you not only have a competitive market on the resource side but you also have a competitive market for transmission services. And I want to be able to compete in both of these areas.

And I am trying to understand if the FERC thinks the competition is really only on the production side -- I think it's on both, transmission as well as production. So what I wouldn't want to do is to be stuck with having to charge fully embedded cost to my people -- to people who wanted to use my transmission and then have my transmission sit idle while the BPA's is fully loaded. I don't think that's the right thing for my retail customers. Now, whether comparability works in resource, that I don't know. Do the state commissions view competitive pricing for wholesale transmission as something that's being okay. We think you do think it's okay because if we don't we're out of the market.

Q. I was going to ask you a question. I suspect I know how you will answer it, but the question -- I will ask it -- was with open access and the comparability and the development of the RTGs, whichcome I assumed had the objective of eliminating bottlenecks and getting the pricing equivalency for transmission, isn't there then a reduced need to look to mergers and acquisitions as a way to get a leg up in the transmission market?

A. I think where the complexity will come in is how you structure the contracts. We've -- I've used an example of the mid Columbia hourly coordination agreement. When we put that together, seems like hundreds of years ago, the big issue was how we allocate the benefits between the various projects that participated in the hourly coordination agreement and we ended up letting the benefits fall where they may. I think the biggest stumbling block as RTGs get heavily into the commercial aspects of moving the power around the grid will be the allocation of benefits issue. I don't think that's going to come very easy so I'm tending to think more along the lines of some type of pooling arrangement. Will pooling arrangements reduce the need for mergers? It probably, if it's structured right, could take away some of the benefits that mergers currently are allowed to capture, but I don't think it will eliminate all of the reasons that companies need to get together.

Q. There can be other reasons for mergers, I understand, but I was focusing on the transmission side of it.

A. Yes. I think there are commercial arrangements that potentially could be structured in a way so that you wouldn't need to have a merger to capture those transmission benefits, but then you get lawyers helping you craft contracts and I've had difficult experiences with that trying to get something that everybody can agree to. Nothing against lawyers, though.

MR. MEYER: Or any in this room.

Q. I was surprised at your response to the question -- your response on the issue of RTGs that Water Power you would see joining but Sierra Pacific not. Will you have that choice? After all, you're a single company. How are you going to be separate entities for RTG purposes?

A. I think the response of Mr. Higgins yesterday was that he didn't know whether Resources West would join, and my response today was from my experience and with the need to be an active player in the wholesale market, I believe, is the line of business for Resources West Energy. Without knowing the concerns that Sierra has in detail, I would probably recommend to Mr. Higgins that Resources West Energy participate in regional transmission groups.

Q. I see. So the company itself?

A. Yes.
Q. Unified company?
A. Yes.
Q. And not the separate divisions?
A. Yes.
Q. With regard to your wholesale activities, actually I asked this question yesterday, you appear to have done an excellent job of squeezing the last mill or two out of the wholesale transactions to the benefit of Water Power. You will be selling that wholesale Water Power resources to Sierra Pacific. What is the incentive to you to continue to try to get that last mill?
A. We made a decision in our company about four or five years ago where our wholesale business would be one that would remain within the utility in order to keep our retail rates down, because serving the retail customers is where our business is, and in the discussions I've had with Paul Redmond and Walt Higgins I see no difference in their views on that into the future, and so we will continue to focus on a growing wholesale marketing business to provide benefits from that business back into the Sierra division and the Water Power division to maintain rate stability and reduce our rates relative to the

competition.

Q. But in this environment it will be the left hand dealing with the right hand not with an independent third party transaction. Won't that change your incentives?

A. I don't think so. I think the incentive will still be the same.

Q. That's all I have.

EXAMINATION

BY COMMISSIONER GILLIS:

Q. In response to I think Ms. Johnston's questioning you made a statement that transmission between WWP territory and Sierra service territory is a limitation. I think that's what I heard you say?

A. Yes.

Q. Could you comment upon that more? What is the limitation?

A. Well, what we have done in the merger is contracted for 200 megawatts of transmission which allows us to achieve the production benefits that we have outlined in our merger testimony. As we move to the future and the Sierra division grows, we will have transmission limitations as far as what parts of the WSCC system we can reach out and grab resources that might make sense to meet that load growth, and that's been the issue that Sierra has been dealing with prior to the Alturas line. They're really limited right now to develop resources that can be built within the state of Nevada. They don't have much ability to reach outside the state and buy from other companies because of import limitations. The Alturas line will allow them to increase that import capability, so for their resource portfolio to expand and look like the Washington Water Power's resource portfolio will look like in the future, we're going to need to take a look at whether any future transmission expansion makes sense for the Sierra division.

Q. All three of us were intrigued with that same sentence in there in your testimony concerning being able to sell capacity on your transmission system below the embedded average cost, and I think the way you answered that was that you have some excess capacity on the system and you can sell it and make a few bucks off that?

A. It's very similar to what we do on the production side. We have a resource like Colstrip that the fully allocated costs is about three and a half cents a kilowatt hour and when it's available and not being used to serve our customers' needs, we will sell it somewhere between 10 mills or one cent and three and a half cents, depending on what the market is. So we sell a lot of our production on the nonfirm market below our fully allocated cost.

Q. Do you think that would be the same policy for the merged company as well? The same transmission pricing policy that you've been using at WWP, do you think in the merged company you will follow the same policy?

A. Well, if I was in charge of marketing Sierra's transmission services in the new company, I would be looking at maximizing the revenues on that transmission system by getting more people to use it and looking at what the marginal cost is and making sure that we were earning in excess of that.

Q. So I suppose that works as long as you have excess capacity anyway?

A. That's correct.

Q. At some point with the merged company one of the reasons that you want to do a merger is more fully utilize your transmission system which means you're going to have more use of it with your own company; is that correct?

A. That's correct. What we certainly don't want to do is to sell off transmission below the marginal cost and find out we have to build and then have a revenue hit, so that's -- long-term transmission sales have to be looked at very carefully.

Q. Do you have some now, long-term?

A. We have some that we do with Bonneville right now, yes.

Q. What's the typical ending date on the one you have at the moment?

A. Our transmission contracts with Bonneville run 20 years.

Q. Bonneville?

A. Yes.

Q. So that's something you would need to deal with and plan in your system, then?

A. That's correct.

Q. I'm also interested in your wholesale capacity contracts. Some of them are fairly long-term, too, I understand. I was looking for your list -- between 15 and 20 years, a couple of your contracts?

A. That's correct.

Q. I really don't know how those work. Do you lock up transmission to correspond to those long-term transmission, to correspond to those? You have a contract to reach Portland General. I don't know if you own the whole transmission system getting there or not, but do you lock up the transmission contracts you need to meet your commitments for capacity?

A. Yes, we do. In some cases we need contracts in order to get to those marketplaces and in other cases we have our own transmission. Our contracts with Pacific Power and Light for capacity sales and to Portland General Electric, we have transmission to those utilities. We connect with them at the mid Columbia where Priest Rapids, Wanapum are located.

Q. So you're not in a problem if -- in the cases where you don't own the whole route?

A. That's correct.

Q. You're not in a problem if suddenly for some unforseen reason the prices would go double on the transmission network getting there?

A. No. We're not in trouble in the case of those two contracts. To the extent that Portland General/Pacific have contracted with BPA or others to move that capacity contract from our point of interconnection with them to their system, that is their issue.

Q. So your contract is only the energy or the capacity, you don't price in the transmission in your contract?

A. No.

COMMISSIONER GILLIS: That's all. Thanks.

CHAIRMAN NELSON: One more.

EXAMINATION

BY CHAIRMAN NELSON:

Q. Your discussion with Mr. Trotter on avoided cost determination, I think you said that the policy hadn't yet been determined; is that right?

A. That's correct.

Q. Nevada does have this pretty prescriptive regime on monotizing externalities. Do you have any idea if you would try to work around that? Just in general IRP process are we going to see the export of monotized values north and west or -- this is sort of a variation on a question I asked Mr. Higgins yesterday. Do you think the Nevada regime will spread north or will our more rough-handed attempt to deal with externality values be adopted?

A. Well, of course I can't give you an answer on that other than we've been pleased with the way that resource decisions have been made in the state of Washington and Idaho with the IRP process and just the interaction between the company and the Commission and the staff. And we do not have a preapproval process and they do in Nevada. This would certainly be a new experience for me if I'm going to be involved in helping the Sierra division select new resources. I hope that we can have a process in the two states that will be driven with an end result providing a competitive product to their customer. And I know the issues are on externalities. I do not know enough detail about what Nevada actually does, but I'm getting some comfort that there is becoming a building awareness in the state of Nevada that they need to do something about their energy costs to the retail customers and I think they view some of the things that we do up here in the northwest pretty obviously.

Q. I definitely hope we don't replicate their experience with those externality values.

JUDGE CANFIELD: Mr. Meyer.

MR. MEYER: I will try and be very brief and to the point.

REDIRECT EXAMINATION

BY MR. MEYER:

Q. First of all, do you believe that the change of power between the Sierra and Water Power divisions as part of this new Resources West Energy, even though it's at market clearing prices, will somehow diminish the commitment of Resources West to marketing efforts beyond its own service territory?

A. No. I would be looking forward to leading a bigger and better and more aggressive than what we have today and successful wholesale marketing effort under Resources West Energy.

Q. Now, let's just -- for clarification purposes, you were handed Exhibit 80, and that consists of those letter agreements entered into with Bonneville and Idaho Power. Do you recall that?

A. Yes, that's correct.

Q. And to put some perspective on those, is it your recollection that -- well, let me ask it this way. In Mr. Canning's testimony, he indicated that the production-related savings consisting of reduced capacity requirements and lowered reserve margins depended in part upon the availability of what he characterized as a 200-megawatt transmission path. Do you recall that?

A. Yes, that's correct.

Q. Now, did he also indicate in his prefiled testimony that the companies were exploring a number of options in that regard?

A. That's correct.

Q. Now, Exhibit 80 which we now have before us, what is the significance of that with regard to the transmission path issue?

A. Well, we have basically secured our transmission paths through the Bonneville Power Administration and the Idaho Power Company system. And these memorandum of understanding secure that transmission path. I will note, though, that in the case of the BPA system we were only able to acquire 90 megawatts. We have 190 megawatts of a 200 going one direction and as much as 250 coming from the Sierra system toward Water Power. This is more than enough to achieve the benefits that we've identified in the merger.

Q. And all of that's reflected at the bottom of Exhibit No. 81?

A. Yes, that's correct.

MR. MEYER: That's all I have.

JUDGE CANFIELD: Any follow-ups?

MS. JOHNSTON: No.

JUDGE CANFIELD: Okay. Thank you. You're excused and let me take a short break to discuss scheduling.

(Recess.)

JUDGE CANFIELD: Back on the record after a brief break. We are going to adjourn for the day and reconvene at 9:00 in the morning. This session is adjourned.

(Hearing adjourned at 5:18 p.m.)