

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION

2

PETITION OF PUGET SOUND)
3 POWER & LIGHT COMPANY FOR AN)
ORDER REGARDING THE ACCOUNTING) DOCKET NO. UE-920433
4 TREATMENT OF RESIDENTIAL)
EXCHANGE BENEFITS)

5 -----)

)

6 WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,) DOCKET NO. UE-920499
7 Complainant,)

8 vs.)

9 PUGET SOUND POWER & LIGHT)

COMPANY,)

Respondent.)

10 -----)

)

11 WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,) DOCKET NO. UE-921262
12 Complainant,) VOLUME 32

13 vs.) PAGES 5284 - 5421

14 PUGET SOUND POWER & LIGHT)

COMPANY,)

Respondent.)

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16 A hearing in the above matter was held on
17 June 10, 1994 at 1:30 p.m., at 1300 South Evergreen
18 Park Drive Southwest, Olympia, Washington, before
19 Chairman SHARON NELSON, Commissioner RICHARD HEMSTAD
20 and Administrative Law Judge ALICE HAENLE.

21

22

23

Cheryl Macdonald, CSR

24 Court Reporter

25

The parties were present as follows:

1 WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION STAFF, by ROBERT CEDARBAUM and SALLY
3 JOHNSTON, Assistant Attorneys General, 1400 South
 Evergreen Park Drive Southwest, Olympia, Washington
 98504.

4
5 THE PUBLIC, by ROBERT MANIFOLD, Assistant
6 Attorney General, 900 Fourth Avenue, Suite 2000,
 Seattle, Washington 98164.

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

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(COLLOQUY)

I N D E X

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4	B. STAMBER	5296	5304		
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6	W. BROOKS	5317			
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(COLLOQUY)

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PROCEEDINGS

JUDGE HAENLE: The hearing will come to order. This is a public hearing in the Puget filing, the prudence review portion. The hearing is taking place on June 10, 1994 at Olympia, Washington. The hearing is being held before the commissioners, Chairman Sharon Nelson and Commissioner Richard Hemstad. My name is Alice Haenle, and I am the administrative law judge assigned to this matter.

Before we started I introduced you to those representatives of the parties who are here. Mr. Van Nostrand on behalf of the company, Mr. Manifold, who is public counsel, and Mr. Cedarbaum and Ms. Brown who represent the Commission and present the staff's case.

We've got a large crowd today. Unfortunately, it's not possible to anticipate ahead of time how many people we're going to have, so we've asked you to keep your statements to five minutes, please, so that others will have a chance to speak. When Mr. Manifold calls your name, please come up to the witness stand over on the side there and remember to speak directly into the microphone so everyone can hear. Mr. Manifold will ask you some preliminary questions and then ask for your statement. Mr. Manifold has also prepared a brief summary of what the

(COLLOQUY)

1 issues are in this case. If you want to go ahead, Mr.
2 Manifold.

3 MR. MANIFOLD: Yes. I have the unenviable
4 task of trying to summarize a fairly extensive order,
5 but I will try to do that in a brief and succinct way.
6 There are also handouts at the back of the room as I
7 indicated to the people who were here earlier. And
8 what I've attempted to do is to summarize the
9 perspectives of all of the parties in these comments.

10 This case really has its roots several years
11 ago. Pursuant to federal and state law and policy,
12 Puget began an aggressive program of acquiring power
13 from other suppliers.

14 Can you hear me in the back of the room?

15 To give these independent power producers
16 an idea of what Puget would pay, Puget, like other
17 electric utilities, filed detailed data on what it
18 would cost Puget to build new power, i.e., its avoided
19 costs. Federal and state law required Puget to buy
20 power at its appropriately calculated avoided costs,
21 but it did not set exactly what those avoided costs
22 are. This case is fundamentally about what is the
23 appropriate way to calculate and apply those avoided
24 costs to particular resources.

25 Between 1986 and 1991, Puget signed nine

(COLLOQUY)

1 contracts for power supply which, together with the
2 recent Bonneville Power Administration contract, are
3 the subject of this case. Why are the contracts being
4 reviewed now? When signed the contracts were filed at
5 the Commission here. Typically, the Commission does a
6 quick preliminary review of a contract. Later, when
7 the plant is actually built and operating producing
8 electricity, Puget would obtain temporary rate relief
9 for that power supply. That's through a mechanism
10 that's called the periodic rate adjustment mechanism
11 known around here as PRAM, P R A M.

12 Since 1988, the UTC has repeatedly said
13 that detailed review of the contracts would be in a
14 full-blown case like this one. More recently, for
15 instance in docket UE-920630 in September of 1992,
16 the Commission told Puget to prove the reasonableness
17 of these contracts as part of its general rate case
18 which Puget filed in November of 1992. At the end of
19 that case in September of 1993, the UTC concluded that
20 Puget had not met its burden to show prudence of the
21 contracts but gave it another chance, hence this
22 current case. In that general rate case, Puget
23 received a rate increase but the Commission
24 conditioned approximately \$86 million of that increase
25 as being subject to refund depending upon the outcome

(COLLOQUY)

1 of this prudence review case.

2 What are the positions of the principal
3 parties in this case? Puget says that it followed
4 federal and state law, that it did an extended and
5 public planning process, that it estimated its
6 alternative costs as required and submitted the costs
7 data and resulting contracts to the UTC for review.
8 Further, the company says these are good resources,
9 bought at or below Puget's alternative or avoided
10 costs. Recently on May 27, Puget said that the UTC
11 was precluded by law from now reviewing some five of
12 the contracts since Puget had obeyed federal law and
13 since the UTC had given its approvals.

14 The staff of the Utilities Commission,
15 represented by the attorneys on my left here, acts as
16 an advocate before the Commission in these
17 proceedings. The staff says that Puget has not proven
18 the prudence of the contracts but recommends accepting
19 three of them, the earliest ones, and makes no
20 adjustment to three of the middle ones. As to the
21 latest three it says Puget paid too much for them,
22 that it failed in particular to quantify the value of
23 being able to turn plants on and off, known as
24 economic dispatch, failed to evaluate costs consistent
25 with the company's rate case cost of capital

(COLLOQUY)

1 presentation and other criticisms. The staff
2 recommended a refund of \$3.7 million and a decrease in
3 general rates of approximately \$9.9 million in the
4 first year and escalating over the life of the
5 contracts.

6 Public, the office that I am with, part of
7 the attorney general's office, appears in these cases
8 as a representative of the people of the state of
9 Washington. In the previous case, the general rate
10 case, my office said that some of these contracts were
11 too expensive. In this case, we have filed testimony
12 that says that the company failed to properly consider
13 its alternative costs relative to the value of these
14 specific contracts and recommends an adjustment for
15 rate making purposes of seven of the nine contracts.
16 The total adjustment is approximately \$40 million in
17 the first year and increases over time as the costs of
18 the contracts increase. Our witness concluded that
19 unless some compelling public interest can be shown
20 Puget's customers should not be required to pay these
21 excessive costs.

22 Some other information. The standard for
23 everyone in this case is what was reasonable or
24 prudent at the time the decisions were made, not what
25 was best or perfect nor what we know now in hindsight.

(COLLOQUY)

1 In fact, if people were basing their cases on
2 hindsight the adjustments would probably be much
3 larger than have been testified to. No one has
4 suggested changing the contracts themselves. One of
5 the fundamental issues is what must the consumers, the
6 ratepayers of Puget, pay for. After today, the public
7 hearing today, there will be another hearing to
8 receive comments from members of the public next
9 Friday the 17th in Bellevue. The exact time and place
10 of those are on some of the materials at the back.

11 Puget has the opportunity to file its
12 formal rebuttal case on July 1st. Hearings for the
13 cross-examination of that case, as well as
14 cross-examination of staff and public counsel, will be
15 in early August. Those hearings are open to members
16 of the public who wish to attend them. Quite frankly,
17 people tend to fall asleep during them because they
18 tend to drag on but they are definitely open. Final
19 briefs are due in late August. A decision is expected
20 by the Commission in September.

21 There is a separate matter that is going on
22 that is not a part of this case. Each year on June
23 1st Puget is allowed to file for this periodic rate
24 adjustment mechanism. On June 1st they made that
25 filing this year and the accounting procedures in that

(COLLOQUY)

1 that Puget has filed for is something in the
2 neighborhood of a \$66 million increase. That is not
3 part of this proceeding.

4 As the administrative law judge indicated
5 today, the purpose of this hearing is to receive
6 comments from members of the public. You are not
7 expected to be experts of course. There's been a
8 sign-up list. I will call your names. If you would
9 come forward to the chair over there and I will ask
10 you some tough hardball questions like name, address,
11 whether you're a ratepayer, whether you're a
12 stockholder, whether you're an employee or family of
13 an employee, whether you're speaking on behalf of a
14 group and then invite you to make your comments. As
15 you can see, there are a lot of people here, and the
16 Commission and all of us want to hear from all of you.
17 I hope and trust that you also will be courteous of
18 those who will be coming after you and allow them
19 enough time by not taking too much time yourself.

20 If there is a previous speaker whose
21 comments you agree with, it is quite kosher and
22 acceptable to simply say I agree with that person and
23 you don't need to repeat their comments. After you've
24 made your comments, please don't bolt from the stand,
25 that's the tendency most of us have, let's get out of

(COLLOQUY)

1 that seat as fast as possible. Please stay there for a
2 couple of moments in case anyone has any questions for
3 you.

4 Finally, the woman sitting here in the
5 yellow dress is the court reporter. Her job is to
6 take down everything that is said here. She has two
7 hands and two ears and cannot listen to two people
8 talking at once. So if you would please be conscious
9 of what she needs to do and enunciate. If somebody
10 interrupts you with a question, please try and make it
11 so that only one person is talking at a time. That
12 will produce a much better record of what is being
13 said here at this hearing.

14 JUDGE HAENLE: Thank you, Mr. Manifold. I
15 might add also that the public hearing in Bellevue is
16 going to be just like this one, that is, to take
17 testimony from members of the public. Someone asked
18 me if there was an advantage to attending both of them
19 and there is not. It will be just like this except
20 different people, I assume. Go ahead, Mr. Manifold.

21 MR. MANIFOLD: Barrett Stambler.

22 Whereupon,

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

(STAMBLER - DIRECT BY MANIFOLD)

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2

DIRECT EXAMINATION

3 BY MR. MANIFOLD:

4 Q. Mr. Stambler, would you please state your
5 full name and spell your name, both names.

6 A. Barrett Stambler. First name B A R R E T
7 T. Last name Stambler, S T A M B L E R.

8 Q. And your company and address?

9 A. Kenetech Windpower. The address is 210
10 Southwest Morrison, Suite 300, Portland, Oregon, 97204
11 zip code.

12 JUDGE HAENLE: Spell the name of your
13 company, please.

14 THE WITNESS: K E N E T E C H Windpower.

15 Q. Your position with Kenetech?

16 A. I'm a vice-president of business
17 development.

18 Q. Please go ahead and make your comments.

19 A. Thank you very much for the opportunity to
20 testify. Kenetech is a publicly traded company that
21 provides products and services to the independent
22 power and electric utility industries. Kenetech
23 focuses on environmentally preferred technologies and
24 has developed biomass gas-fired cogeneration demand-
25 side management and wind generation projects.

(STAMBLER - DIRECT BY MANIFOLD)

1 Specifically, I'm here representing Kenetech
2 Windpower. Kenetech Windpower is the world's largest
3 manufacturer, developer and operator of wind plants
4 worldwide. We operate over 500 megawatts of wind
5 generation consisting of approximately 4200 wind
6 turbines. Kenetech Windpower has committed millions
7 of dollars of privately raised capital to develop a
8 state-of-the-art wind turbine that would be cost
9 competitive with conventional electric generating
10 technologies. In the past electric utilities had to
11 choose between the environment and price. We believe
12 that our technology has made that difficult trade-off
13 no longer necessary. More relevant, we've signed two
14 major contracts in the Pacific Northwest and are
15 short-listed for a third. Relevant to this
16 proceeding, Kenetech Windpower signed a contract on
17 February 14th, 1994 with Puget Sound Power and Light,
18 Pacific Corp and Portland General Electric for a 50
19 megawatt wind plant value of approximately 45 to 50
20 million dollars to be located in Goldendale,
21 Washington.

22 It might be helpful to briefly summarize
23 how this project came about. Kenetech Windpower built
24 this project into Puget Sound Power and Light's
25 1991/92 competitive bidding process. To Puget Power's

(STAMBLER - DIRECT BY MANIFOLD)

1 credit, the bidding guidelines were transparent and
2 the bidding parameters established a balanced
3 commitment to competitive pricing, resource diversity
4 and the environment. On one hand, Puget Power made it
5 clear that no project would be selected if it was not
6 below their published avoided costs. At the same time
7 the bid provided a 10 percent credit for renewable
8 resources in order to capture the combined benefits of
9 environmental considerations and a hedge against fuel
10 price escalation.

11 Puget power structured a competitive
12 bidding process that leveled the playing field for all
13 resources. Kenetech Windpower submitted a bid that
14 was well below Puget's avoided costs and captured
15 additional benefits outlined in the bidding process.
16 Our project was shortlisted in May of 1992 and
17 Puget Power worked closely with us over the next 18
18 months to structure a contract that balanced risks.
19 In order to capture the economics of a larger project
20 yet balancing risks of dealing with a resource with
21 which the utility was not experienced, Puget
22 maintained the project size at 50 megawatts but
23 enlisted additional partners. In the end Pacific Corp
24 and Portland General Electric joined Puget Power in
25 the project.

(STAMBLER - DIRECT BY MANIFOLD)

1 Briefly I must emphasize three points
2 concerning this process. One, it took significant
3 additional work on the part of Puget Power to
4 structure a process that accepted the differences of a
5 wind generation project from conventional generating
6 technologies while emphasizing the importance of a
7 diverse generation portfolio and taking into account
8 environmental impacts. It would have been much easier
9 to select only thermal resources that are more
10 familiar to most utilities. Second, throughout the
11 bidding process and contract negotiations, Puget Power
12 maintained a strong emphasis on the least cost project
13 while balancing risk to its ratepayers. Our company
14 and our utility partners decided utility financing of
15 this project created the lowest cost. We recognized
16 utility ownership creates risks which are different
17 from power contract risks --

18 JUDGE HAENLE: You have just a minute left,
19 sir, if you want to perhaps summarize the rest of your
20 statement.

21 THE WITNESS: Okay.

22 A. -- but in order to capture the price
23 benefits of ownership, Kenetech Windpower agreed to
24 take significant development risks. Most importantly,
25 Puget Power demonstrated flexibility by analyzing

(STAMBLER - DIRECT BY MANIFOLD)

1 ownership versus power purchase contracts. Through
2 their bidding process and contract negotiations they
3 analyzed numerous factors and pursued the least
4 cost/least risk option.

5 It is important to note most of Kenetech's
6 projects with utilities are long-term power contracts
7 which are considered standard industry practice.
8 However, renewable resource technologies have high
9 upfront capital costs and long-term operation and
10 maintenance costs. The cost of financing is key and
11 Puget's desire to use their low cost capital was a key
12 to making Windpower more competitive.

13 In conclusion, Kenetech can only speak
14 about its specific experience with Puget Power and
15 admittedly is not familiar with the specifics of other
16 contracts and contract negotiations. However, we
17 believe the bidding process instituted by Puget Power,
18 but more importantly the approach and attitude of
19 Puget Power toward acquiring resources, is
20 exceptional. Our experiences with Puget Power is that
21 they are committed to least cost resources that
22 balance direct costs, environmental benefits and a
23 diverse resource portfolio. Puget Power --

24 JUDGE HAENLE: It's been five minutes. Are
25 you in favor of this filing or opposed to it?

(STAMBLER - DIRECT BY MANIFOLD)

1 THE WITNESS: I would say I am concerned
2 about the ramifications of this filing with regards to
3 our future projects that have been signed. I think
4 some of the uncertainties that it provides for
5 developers of projects like the one we are proceeding
6 forward on concerns me about the ability to work
7 through -- especially resources like ours that are not
8 as common or conventional. Any more uncertainty
9 in the process as to recovery could create some
10 significant concerns for our company being able to go
11 forward in pursuing wind power projects in the
12 northwest.

13 JUDGE HAENLE: Thank you. Mr. Manifold,
14 questions.

15 MR. MANIFOLD: Yes.

16 Can you leave me a copy of the written
17 statement, because I will put that in the written
18 record and I will also make it available to the court
19 reporter so she can check her record on that.

20 JUDGE HAENLE: Questions?

21 MR. CEDARBAUM: Prior to questions I guess
22 I have a motion and I understand the Commission's --

23 FROM THE AUDIENCE: Can't hear.

24 MR. CEDARBAUM: I understand this is a
25 public hearing and so there's more leeway given to

(STAMBLER - DIRECT BY MANIFOLD)

1 public witnesses. I also understand the Commission is
2 interested in hearing what public witnesses have to
3 say, but I still think that there are evidentiary
4 frameworks in which this case still has to operate
5 and so my motion is to have the testimony of Mr.
6 Stambler stricken as for two reasons. First of all,
7 he seems to me to be testifying as an expert witness
8 not as a public witness.

9 FROM THE AUDIENCE: I would like to hear
10 that statement over again that you would like
11 something restricted. We can't hear you.

12 MR. CEDARBAUM: The motion is to have Mr.
13 Stambler's testimony stricken from the record for two
14 reasons. One is that the testimony, as I heard it,
15 was in the nature of expert testimony that was not
16 prefiled with the Commission and so puts other parties
17 at a very large disadvantage, and secondly and I
18 think most importantly, is the relevance of it to this
19 proceeding. He admitted that this contract is not one
20 of the contracts at issue and that the process he went
21 through with Puget even if accurately described has
22 nothing to do with this case. So I would object for
23 those two reasons.

24 FROM THE AUDIENCE: Who are you?

25 JUDGE HAENLE: Gentlemen, I will need your

(STAMBLER - DIRECT BY MANIFOLD)

1 cooperation. In order to have everyone be able to
2 give their statements I need to take a motion, I need
3 to hear argument on it and I will rule on it. I need
4 you folks to be quiet, please, so that we can get on
5 to taking your statements which is what we're here
6 for. Mr. Manifold, do you have a brief response?

7 MR. MANIFOLD: Yes. It appears to me that
8 Mr. Stambler's testimony is the type of expert
9 testimony that would normally be subjected to some
10 sort of review and cross-examination. I don't think
11 this hearing is the right time and place to do that
12 sort of examination and it will -- if we were to do
13 that it would hold up the availability of other
14 consumer public witnesses to testify and I guess I
15 would ask if Mr. Stambler would be available at some
16 other time to come back if that somehow can fit into
17 the --

18 JUDGE HAENLE: Anyone else have a comment?

19 MR. CEDARBAUM: I would just say that that
20 doesn't solve my relevance objection.

21 JUDGE HAENLE: Well, I am going to overrule
22 the objection. We've had this kind of testimony
23 before from time to time and the Commission has
24 allowed people to put their statements in for
25 illustrative purposes. They don't have the same

(STAMBLER - DIRECT BY MANIFOLD)

1 weight that would be given to testimony that was
2 prefiled and cross-examined and the Commission will
3 keep that in mind.

4 FROM THE AUDIENCE: Thank you.

5 JUDGE HAENLE: I need no comments from the
6 audience, please. It is important.

7 MR. CEDARBAUM: I just have a couple of
8 questions then.

9

10 CROSS-EXAMINATION

11 BY MR. CEDARBAUM:

12 Q. Mr. Stambler, I just wanted to find out
13 from you if prior to making your testimony today if
14 you read or reviewed either staff or public counsel
15 cases.

16 A. I read briefly some of the piles of exhibit
17 but not in great detail. My intention was not to be
18 an expert on the specifics of the contracts which I am
19 not familiar with.

20 Q. Is the basis of your understanding of this
21 proceeding your partial review of the documents or was
22 there some other information source that you had?

23 A. Just what documents and what I read in the
24 public record in terms of articles, et cetera.

25 Q. Newspaper articles?

(STAMBLER - CROSS BY CEDARBAUM)

1 A. Newspaper articles and of course with my
2 contract personal experience.

3 MR. CEDARBAUM: Thank you.

4 JUDGE HAENLE: Anything else?

5 Commissioners, questions?

6 JUDGE HAENLE: Are you, sir, a ratepayer
7 commercial or residential?

8 THE WITNESS: In the state of Washington?

9 JUDGE HAENLE: Yes, sir.

10 THE WITNESS: No.

11 JUDGE HAENLE: You may step down.

12 MR. MANIFOLD: Fred Zelonka.

13 Whereupon,

14 FRED ZELONKA,

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

17

18 DIRECT EXAMINATION

19 BY MR. MANIFOLD:

20 Q. Mr. Zelonka, would you please state and
21 spell your last name.

22 A. My name is it Fred Zelonka. Zelonka is Z
23 E L O N K A.

24 Q. And your address, sir?

25 A. 4236 - 88th Avenue Southeast, Mercer Island,

(ZELONKA - DIRECT BY MANIFOLD)

1 Washington 98040.

2 Q. Are you a Puget Power ratepayer?

3 A. Yes.

4 Q. Are you a Puget Power stockholder?

5 A. Yes.

6 Q. Are you a Puget Power employee?

7 A. No.

8 Q. Or member of the family?

9 A. No.

10 Q. Are you speaking on behalf of a group here
11 today?

12 A. I'm speaking on behalf of a group of two,
13 myself and my wife, and I prepared my talk following
14 the guidelines that were forwarded to me by the
15 attorney general and your letter allowing me five to
16 ten minutes, and I had ten minutes and now someone --
17 I beg your indulgence, Your Honor, I would like to
18 have the ten minutes. My wife will yield her
19 comments.

20 Q. We will have to examine that.

21 JUDGE HAENLE: We would appreciate your
22 being as brief as possible for the other folks that
23 are going to give testimony as well and remember that
24 if you have a written statement we'll put that in the
25 record as well, sir. Go ahead.

(ZELONKA - DIRECT BY MANIFOLD)

1 THE WITNESS: Yes, ma'am.

2 A. As I said, my name is Fred Zelonka. I'm
3 retired. I'm also a Puget Power stockholder and
4 shareholder or a customer and shareholder, and today I
5 am joined by a number of other shareholders whom I
6 invite to raise their hands just to identify
7 themselves in this room, and most of them will be
8 speaking on their own behalf at this meeting. At this
9 meeting, as I said, I'm only speaking for my wife and
10 myself.

11 Now, Puget Power has something like 800,000
12 customers enjoying some of the lowest cost power in
13 the country. Now, these customers range from large
14 industrial users to ordinary residential households.
15 Now, although you will find some poor and deprived
16 people among them, you will also find some
17 billionaires, like Bill Gates and Paul Allen.
18 Generally, the complexion of the customers is that they
19 reflect the prosperity of their communities, Bellevue,
20 Bellingham, Olympia, Bremerton.

21 Now, on the other hand, believe it or not,
22 the shareholders are not as prosperous. Now, three
23 quarters of them own less than 500 shares, and you can
24 translate that into a net worth of perhaps 10,000
25 dollars or less. Now, these people invested in Puget

(ZELONKA - DIRECT BY MANIFOLD)

1 Power not to become rich but rather they looked upon
2 it as a dependable source of income in their golden
3 years. Now, I realize that it's not the
4 commissioner's function to make social policy, but I
5 would expect the Commission to be careful, understand
6 when staff members make a press release such as
7 happened in May 4, 1994 causing the price of the stock
8 to drop like a rock, then discovering that its
9 arithmetic was wrong, that the effect on some
10 shareholders can be devastating, and before this is all
11 over, I would somehow expect at least an apology for
12 the Commission to the Puget shareholders and
13 admonishment to those involved.

14 Now, after all that's happened to the
15 shareholders, they are not pleading for special
16 handling, only for fair treatment to your rate setting
17 process for Puget Power. Not unlike Microsoft and
18 Boeing, Puget is an investor-owned corporation. As
19 entities, corporations have been remarkably efficient
20 in contributing to the well-being of America. They
21 don't stand alone but rather interrelate with people,
22 each other and the world at large. For example, New
23 York City, with a population twice as large as that of
24 our state, stores no more than a two-day supply of
25 food, yet there are always ample supplies for

(ZELONKA - DIRECT BY MANIFOLD)

1 everyone. Compare this to the shortage-plagued
2 histories of government-directed economies. Now,
3 although corporations aren't intrinsically fragile
4 they can be stifled and damaged. When I see the
5 Commission staff inventing a new business doctrine,
6 that of prudence review which penalizes the good faith
7 decision of Puget's management concerning cogeneration
8 contracts, I take this as an inappropriate intrusion
9 into the management process. It really doesn't make
10 sense. If you've ever gone to business school or if
11 you've ever been in business you just don't do this.
12 There's a part of this that's departing from the text.
13 There's a part of this that's called risk management
14 and hedging and all businesses do it. In fact, we in
15 the state have to do it. We are mandated by the
16 state. You must have auto insurance or else you're
17 hauled into court. That's something that's required
18 and that's risk management and I've been paying auto
19 insurance for years and never had to use it, and thank
20 God that my wife hasn't come to me and said that, hey,
21 you haven't been prudent, why have you been buying
22 auto insurance.

23 And you can apply this, suppose that the
24 IRS went to one of these grocers in New York and found
25 that he had come up with some day-old bread and he

(ZELONKA - DIRECT BY MANIFOLD)

1 sold it at a discount and then is he then going to go
2 to the owner and calculate, say, sir, you really
3 should be paying tax on the income that's the
4 difference between the regular price and the
5 discounted price because you weren't prudent when you
6 bought this. It just doesn't work that way and you
7 ask -- but then you find out, what would the
8 Commission staff have done in this situation? They
9 would have applied that same thinking and it makes
10 about as much sense to me with what is happening to
11 Puget Power as is happening to that grocer. The logic
12 is the same.

13 And one of the things that's happened now
14 is that it hurts the state. We have the reputation of
15 being one of the worst states in the nation for
16 investor-owned utilities to do business. For example,
17 Merrill Lynch utility industry quarterly regulatory
18 report of January 25, 1994 with all due respect writes
19 of the Washington Utilities and Transportation
20 Commission, and I will quote, "regulators seem ready
21 to change the rules when necessary to meet their
22 objectives and most recent decisions have made
23 unpleasant reading." Now, this is happening at the
24 same time as when the governor declares that the
25 policy of the state -- and I am quoting our governor

(ZELONKA - DIRECT BY MANIFOLD)

1 -- "we want to be known as a good place in which to do
2 business." Now, I would hope that the Commission is
3 going to get in step with the governor on this matter.

4 Now, please don't take personal offense.
5 Their review, some of the words and actions that the
6 utility agency Commission has taken over the years
7 with respect to Puget Power --

8 JUDGE HAENLE: Sir, you've only got just a
9 minute left of your ten even.

10 THE WITNESS: I will try to wrap it up very
11 rapidly.

12 A. It has a rate setting policy that has
13 choked Puget's profitability. There has only been an
14 eight cent increase in its dividend within the past 14
15 years, or five cents, and it has taken a proactive
16 stance in reducing Puget's rate of return. Puget's
17 rate of return is the lowest in the nation among
18 investor-owned utilities but it has taken -- why
19 didn't it set the rate sort of in the middle? It had
20 to slam it right down to the bottom.

21 And then the other one which I mentioned
22 was allowing the staff to go off half cocked, and I
23 have some horror stories of what people did after the
24 numbers came out. The numbers weren't with all due
25 respect the way that the counsel said. The May 4

(ZELONKA - DIRECT BY MANIFOLD)

1 press release had 17.3 million to be refunded and 3.7
2 and 22.6 million per year and then eventually reduced
3 to 3.7 and 9.9.

4 And I just have three steps to what I ask
5 the Commission now is to declare and publish its
6 policy for Washington state utilities, to improve the
7 professionalism and accountability of its own staff.
8 Whenever it runs into matters of significance such as
9 contracts, review them when you have to review them.
10 Don't come back afterwards. And then restore Puget's
11 allowed rate of return to 12.8 percent.

12 Now, in closing I together with other Puget
13 shareholders shall continue to follow the Commission's
14 actions and look forward to an ongoing policy of
15 fair treatment for all the players related to the
16 production, delivery and use of electric power in the
17 state. Thank you.

18 JUDGE HAENLE: Is there questions, Mr.
19 Manifold?

20 MR. MANIFOLD: Yes. A couple.

21 Q. Your last points there, I take it your
22 fundamental position is that the Commission should
23 review what the company does but it should do it in a
24 timely manner. I'm wishing to summarize what you're
25 saying.

(ZELONKA - DIRECT BY MANIFOLD)

1 A. Mr. Manifold, I am not a lawyer but one of
2 the legal terms I've seen all the time that lawyers
3 use is called time is of the essence so that contracts
4 and when business things happen they should really
5 take place at that time and what I see we're talking
6 about is the concept of hedging, risk management,
7 risk containment, and everyone does it that's in the
8 business world. McDonald's makes sure it has enough
9 potatoes from year to year and it doesn't go to the
10 store and just buy them on sale. The farmers are able
11 to sell the potatoes to McDonald's. Now, McDonald's
12 in general over the years probably pays more for
13 potatoes but it has an assured number of potatoes to
14 supply its needs, and it also gets them at a pretty
15 decent average price, but I bet every year it pays
16 more than you can buy them at your neighborhood
17 Albertson's store.

18 Q. I notice that you sent out a letter on May
19 12 to fellow shareholders of Puget, and I wondered
20 how many people you wound up sending this to?

21 A. We sent that to the shareholders in the
22 state of Washington. There were about 20,000.

23 Q. About 20,000?

24 A. Yes.

25 Q. That's a lot of stamp licking. I think you

(ZELONKA - DIRECT BY MANIFOLD)

1 did a great job. How were you able to accomplish a
2 mailing of that size?

3 A. The same way the state mails things out to
4 the people at the consumers groups, letters that I've
5 got. They're just commercial mailing outfits that do
6 this. They have automatic licking machines.

7 JUDGE HAENLE: Other questions?

8 MR. CEDARBAUM: I don't have any questions
9 of the witness. I would like to offer, though, that
10 Mr. Zelonka referred to the revisions that staff made
11 last Friday after prefiled in May, and he wanted an
12 explanation. If the Commission wishes that to happen,
13 Mr. Ken Elgin is here and he's the assistant director
14 of energy. He can go on the record formally or after
15 the hearing and let people know what the source of
16 those rescissions were. I think the impression is
17 that there was an error in the staff case and if that
18 is the impression I would like to straighten it out.

19 JUDGE HAENLE: Let me check with the
20 commissioners if they want to do something like that.

21 Well, perhaps you can ask them informally
22 after the hearing if you want to add that.

23 MR. CEDARBAUM: Mr. Elgin will be
24 available.

25 JUDGE HAENLE: Mr. Elgin is the gentleman

(ZELONKA - DIRECT BY MANIFOLD)

1 in the blue coat.

2 THE WITNESS: Your Honor, because this
3 point was raised I think it needs some correction.
4 The initial press release on May 4 said that the
5 refund would be \$17.3 million, an ongoing reduction of
6 22.6, and apparently there was an error in that in
7 that there was a difference between the testimony,
8 which was I believe 12.8 or something.

9 JUDGE HAENLE: Mr. Zelonka, I think the
10 issue was the source of the figures, not the figures
11 themselves.

12 THE WITNESS: Well, my point, Your Honor,
13 is that that press release was never corrected and
14 there were people that were harmed by it because one
15 lady wrote to me and she had liquidated her stock at
16 17 and 5/8 and she said, What do I do now?

17 JUDGE HAENLE: Thank you. Any other
18 questions?

19 Commissioners.

20 CHAIRMAN NELSON: Mr. Zelonka, do you
21 happen to know how many of Puget's shareholders are
22 retirees?

23 THE WITNESS: I don't know how many. I
24 don't know if the company keeps a book on that, but in
25 the things that have come back, we have gotten all

(ZELONKA - DIRECT BY MANIFOLD)

1 sorts of people that have said I am a retiree. I am
2 82 years old. I count on my Puget dividend to stretch
3 my Social Security, and I think that a large part of
4 them are retirees, but I couldn't give you the number,
5 and but I think a good sampling just to look at the
6 people present here.

7 JUDGE HAENLE: Commissioner?

8 COMMISSIONER HEMSTAD: I have no questions.

9 JUDGE HAENLE: Thank you, sir. You you may
10 step down.

11 MR. MANIFOLD: Mrs. Zelonka, I take it, is
12 waiving.

13 William Brooks.

14 JUDGE HAENLE: You will be the repository
15 for those statements.

16 MR. MANIFOLD: I will.

17 JUDGE HAENLE: If you have brought with you
18 a statement and you're done giving your testimony,
19 then if you would drop off a copy of that statement
20 with Mr. Manifold, please.

21 Whereupon,

22 WILLIAM BROOKS,
23 having been first duly sworn, was called as a witness
24 herein and was examined and testified as follows:

25

(BROOKS - DIRECT BY MANIFOLD)

1 DIRECT EXAMINATION

2 BY MR. MANIFOLD:

3 Q. Mr. Brooks, would you please state your
4 name and give your address.

5 A. My name is William Brooks. My address is
6 3215 South 47th Street, Apartment 7 in Tacoma.

7 Q. And are you a Puget Power ratepayer?

8 A. I am not. Our power comes from the city of
9 Tacoma. I don't know where they get it from. I
10 really don't.

11 Q. Are you a Puget Power stockholder?

12 A. I am.

13 Q. Are you speaking for a group here today or
14 for yourself?

15 A. I am not. Just for myself and I will be
16 very brief.

17 Q. Please go ahead.

18 A. I really address my statements to the
19 Commission, and I would like to know whether the staff
20 that has made these recommendations with respect to
21 Puget Power presently before the Commission is the
22 same staff that dealt with the so-called WPPSS issue.
23 The next thing is I wonder how much present staff is
24 influenced by their counterparts in California. I own
25 stock in several different regions of this country and

(BROOKS - DIRECT BY MANIFOLD)

1 I notice that the virus starts in California and
2 circulates around the country.

3 Finally, I want to question whether the
4 state of Washington, whether this Commission, whether
5 this Commission wants to buy into this concept called
6 wheeling where it is not fully implemented, it hasn't
7 been fully tried and it seems to be more of a
8 marketing gimmick than anything else, and it has a
9 distinct possibility of disrupting service and all of
10 that leads to this. From what we had in the the past
11 to what we see presently is it possible that someone
12 can look into the future and say that it would be in
13 the best interests of the public to deny the rate
14 increases and to deny a fair return for Puget Power.
15 That concludes what I have to say.

16 JUDGE HAENLE: Questions, Mr. Manifold.

17 MR. MANIFOLD: No.

18 JUDGE HAENLE: Questions, Counsel.

19 MR. CEDARBAUM: No.

20 JUDGE HAENLE: Commissioners?

21 Thank you, sir.

22 MR. MANIFOLD: William Jobe.

23 Whereupon,

24 WILLIAM JOBE,

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

(BROOKS - DIRECT BY MANIFOLD)

1 herein and was examined and testified as follows:

2

3 DIRECT EXAMINATION

4 BY MR. MANIFOLD:

5 Q. Please state your name and spell your last
6 name.

7 A. William L. Jobe, J O B E.

8 Q. And your address?

9 A. 9187 Harrow, H A R R O W, Place Northwest,
10 Bremerton, Washington 98310.

11 Q. I assume you're a Puget Power ratepayer?

12 A. Yes, I am.

13 Q. Are you also a stockholder?

14 A. Yes, I am.

15 Q. Are you speaking on behalf of any group
16 here today?

17 A. Not on any group. My wife and myself.

18 Q. Please go ahead and make your comments.

19 A. Okay. It will be brief, and I think it
20 will be within five minutes. I appreciate the
21 opportunity to express my opinions. Puget Power stock
22 is the only company that my wife and I have -- that we
23 have stock in. We've watched the price of this stock
24 decline from approximately 29 and three quarters per
25 share to less than \$17 and much of this has been

(JOBE - DIRECT BY MANIFOLD)

1 because of public statements made or brought up by
2 your Commission staff. This has created much damage
3 that has already been done which cannot be undone,
4 but it could be worsened, I believe. I would like to
5 make this statement. The recommendations by the
6 Commission staff appear unreasonable for the following
7 reasons. If adopted these recommendations will
8 severely damage the financial viability of the largest
9 public utility in Washington state. Inadequate
10 funding could result in curtailment of services in
11 the future, and I believe it might increase the rates
12 necessary in the future to undo what could be
13 prevented now. If adopted it would adversely affect
14 the credit ratings of all other regulated utilities in
15 this state. One analysis concluded -- I believe it
16 was Howard and Duff -- "the staff recommendation is
17 unexpected, incomprehensible, and if adopted a most
18 serious negative for Puget Power as well as any
19 company subject to regulation in Washington state."

20 If adopted this extreme action would not
21 only be patently unfair to the company and its
22 shareholders but would be punitive in nature and
23 clearly unwarranted. If adopted the value of Puget
24 Sound stock already affected by this harmful publicity
25 would further decline and the company cannot maintain

(JOBE - DIRECT BY MANIFOLD)

1 or justify even its current dividend payout, and I
2 believe we already know that the rate increase over
3 the past 14 years has been a magnificent sum of eight
4 cents cents a share in 14 years time. This is an
5 awfully conservative payout rate.

6 Therefore, about 83 percent of the
7 shareholders are individuals and like us, I'm a
8 retiree, I'm 70 years old and we invested in this
9 company to augment our income. We do depend on this
10 dividend income. Therefore, it is respectfully
11 requested that the recommendations made by the
12 Washington Utilities and Transportation Commission
13 staff be rejected and that a fair and reasonable rate
14 adjustment be granted to Puget Power.

15 In conclusion, in your guide book on
16 hearings, your Commission says that they must approve
17 rates that are fair and reasonable to the company and
18 its customers. I can only hope that you will be fair
19 in this regard.

20 JUDGE HAENLE: Questions, Mr. Manifold?

21 MR. MANIFOLD: Yes.

22 Q. Were you able to go to the company's annual
23 meeting recently?

24 A. Yes, sir, I did.

25 Q. And you spoke about the relationship

(JOBE - DIRECT BY MANIFOLD)

1 between this case and the company's stock price. I
2 wonder if you could verify whether or not Mr. Weaver,
3 the executive vice-president for finance, stated at
4 that meeting that the primary effect on the company's
5 stock price are interest rates in the country.

6 A. Well, I didn't fully understand the
7 discussion about how it would affect the rates,
8 although I do believe that it would have an adverse
9 effect. I'm pretty sure about that.

10 Q. You also mentioned a payout rate of the
11 company and the increase in eight cents. Did you also
12 hear him say that the company had a 90 percent payout
13 ratio and that was one of the largest of electric
14 utilities in the country?

15 A. It has not always been thus, and I also
16 believe that other utilities have been at least that
17 much and some I've seen over 100 percent during
18 certain years.

19 MR. MANIFOLD: Thank you.

20 JUDGE HAENLE: Other counsel.

21 Commissioners?

22 COMMISSIONER HEMSTAD: No questions.

23 JUDGE HAENLE: Thank you, sir. You may
24 step down.

25 MR. MANIFOLD: There are some people who on

(JOBE - DIRECT BY MANIFOLD)

1 the column that said Wish to Comment, Yes or No, put
2 a checkmark, so I will call your names and let me know
3 if check means yes or no. Yvonne Kelly.

4 MS. KELLY: Yes. I will waive my appearance
5 here because somebody covered most of what I had in
6 mind.

7 MR. MANIFOLD: Harold Sherrill.

8 MR. SHERRILL: I waive mine also. Mr. Jobe
9 and Mr. Zelonka covered my points.

10 MR. MANIFOLD: Joseph Murphy.

11 MR. MURPHY: No comment.

12 MR. MANIFOLD: Robert Drewes.

13 MR. DREWES: Speaking.

14 MR. MANIFOLD: I will be sure to get to all
15 the other Roberts.

16 Whereupon,

17 ROBERT DREWES,

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

20

21 DIRECT EXAMINATION

22 BY MR. MANIFOLD:

23 Q. Please state your name and spell your last
24 name.

25 A. Robert Drewes, D R E W E S.

(DREWES - DIRECT BY MANIFOLD)

1 Q. And your address, sir?

2 A. 415 South 122nd Street, Tacoma, Washington,
3 98444.

4 Q. I assume you're an electric customer of
5 Tacoma City Light?

6 A. You are wrong. We have a small co-op, the
7 oldest co-op in the United States serves us.

8 Q. So you're not a Puget Power customer?

9 A. No, sir.

10 Q. Are you a Puget Power stockholder?

11 A. Yes, sir.

12 Q. Are you speaking on behalf of a group here
13 today?

14 A. Only my wife and myself who signed up to
15 testify but you can cross her name off.

16 Q. Well, I may want to consult her about that.
17 I recently got married and I know how to do that.
18 Please go ahead and make your comments.

19 A. I appreciate the work of the Commission.
20 It is a guardian, I think, of the sentry. With that
21 in mind, I think I would encourage you to consider the
22 effect on rates if Puget Power is burdened with higher
23 interest rates and less confidence in the financial
24 community. Now, I didn't see any of the contracts. I
25 assume that both sides are speaking the truth to me

(DREWES - DIRECT BY MANIFOLD)

1 here and in the other publicity also, but it seems to
2 me that if Puget Power is continuously burdened by
3 things that will hurt its efficiency, either it has to
4 go interrupt, and this is impossible, or there has to
5 be something else done.

6 Now, this leads me to the prudence of the
7 company. I have been involved with it through my
8 money since 1982 noting annual reports and the types
9 of modest communications that it sends out to
10 stockholders, and certainly it seems that it has never
11 demonstrated any lack of prudence in its conduct.
12 Learning what I have learned now in these last few
13 months it seems to me that the long-term view of the
14 company only shows more prudence because of trying to
15 protect the ratepayers. I would encourage the
16 Commission to consider the future, that is, the long
17 term production of electricity for citizens of the
18 area, and know that the prudence will bring forth the
19 proper service to the people in the service area.
20 This is about as much as I want to say.

21 JUDGE HAENLE: Mr. Manifold?

22 MR. MANIFOLD: No.

23 JUDGE HAENLE: Counsel?

24 MR. CEDARBAUM: No.

25 JUDGE HAENLE: Commissioners?

(DREWES - DIRECT BY MANIFOLD)

1 COMMISSIONER HEMSTAD: No.

2 JUDGE HAENLE: Thank you, sir. You may
3 step down.

4 MR. MANIFOLD: Mrs. Drewes, are you
5 waiving?

6 Mr. and Mrs. Sterling, did you wish to
7 speak.

8 MR. STERLING: No.

9 MR. MANIFOLD: Mr. File, did you wish to
10 speak?

11 Whereupon,

12 JOHN FILE,

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

15 JUDGE HAENLE: There are some seats in the
16 middle for those of you who don't have a seat. Would
17 you raise your hand if you have a seat next to you
18 empty, please.

19

20 DIRECT EXAMINATION

21 BY MR. MANIFOLD:

22 Q. Mr. File, would you please state your name
23 and spell your last name.

24 A. John File, F I L E.

25 Q. And your address?

(FILE - DIRECT BY MANIFOLD)

1 A. 15711 Larch Way, Lynnwood, Washington
2 98037.

3 Q. Are you a Puget Power customer?

4 A. No.

5 Q. Are you a Puget Power stockholder?

6 A. Yes.

7 Q. Are you speaking on behalf of a group here
8 today?

9 A. I'm speaking for my wife and myself.

10 Q. Please go ahead.

11 A. I, we, have money invested in Puget Power
12 with intent to realize a gain in order to have
13 additional income. Therefore, I request a deny return
14 on our investment because this is part of our
15 retirement program. That's all I have to say.

16 JUDGE HAENLE: So are you favoring the
17 proposal and the prudence review?

18 THE WITNESS: Well, whether it comes to
19 legal terminology I have a hard time trying to figure
20 out whether I'm pro or con. I know I have a problem
21 with it and what I want to do is just what I said here
22 is have a deny return, on my return for my investment.

23 JUDGE HAENLE: Thank you. Mr. Manifold,
24 questions.

25 MR. MANIFOLD: No.

(FILE - DIRECT BY MANIFOLD)

1 JUDGE HAENLE: Counsel?

2 MR. CEDARBAUM: No.

3 JUDGE HAENLE: Commissioners?

4 COMMISSIONER HEMSTAD: No.

5 JUDGE HAENLE: Thank you, sir, you may step
6 down.

7 MR. MANIFOLD: Mr. Hawthorne, Merl
8 Hawthorne.

9 Whereupon,

10 MERL HAWTHORNE,

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

13

14 DIRECT EXAMINATION

15 BY MR. MANIFOLD:

16 Q. Would you please state your name and spell
17 your last name.

18 A. Merl Hawthorne, H A W T H O R N E.

19 Q. And your address?

20 A. 426 Lilly Road, Apartment 22, Olympia,
21 Washington, 98506.

22 Q. You must be a Puget Power customer?

23 A. I am a Puget Power customer.

24 Q. Are you also a stockholder in the company?

25 A. Yes, I am.

(HAWTHORNE - DIRECT BY MANIFOLD)

1 Q. Are you speaking on behalf of anyone
2 besides your immediate family?

3 A. My immediate family.

4 Q. Please go ahead and make your comments.

5 A. Madam chairman, committee member, thank you
6 for the opportunity. By way of introduction, my name
7 is Merl Hawthorne. I'm a U.S. civil service retiree
8 with 33 years of service, primarily in fiscal and
9 logistics management at headquarters U.S. Army
10 Pacific, Fort Shafter, Hawaii. Prior to returning to
11 Olympia, my birthplace, in February of 1993, I
12 established a living trust to meet emergency financial
13 needs of my five nieces and nephews and needed funds
14 for the education of my 14 grandnieces and nephews at
15 preschools through college levels.

16 Assets in the trust include 3400 shares of
17 Puget Power I acquired over a period of years based on
18 the relative stability of all facets of the company's
19 operations, including costs, dividends, revenues and
20 ability to adjust to changing conditions and our
21 situations.

22 Currently, the market value of Puget
23 Power's shares is down in excess of 40 percent from
24 last September. This is of major concern. An
25 attributing factor to the decline was released to the

(HAWTHORNE - DIRECT BY MANIFOLD)

1 public of recommendations by the staff and public
2 counsel in the prudence review. Until the prudence
3 case is resolved this fall, no improvement can be
4 expected in the financial market. The recommendations
5 of the staff and public counsel if approved by the
6 Commission will result in irretrievable financial
7 losses for Puget Power. The company provides service
8 to 796,000 customers in nine counties in the state.
9 Although small, there is some economic growth in the
10 service area. A major factor to growth is the
11 ready availability and reliability of electric power
12 at reasonable cost as is currently being provided by
13 Puget Power. It is recommended that prior to
14 implementation by the committee any contemplated
15 action should be reviewed to determine the short and
16 long-term impact on the overall economy in the service
17 area, consumers, viability of PSP&L and the financial
18 market to include stockholders.

19 In conclusion, it is essential to the
20 state's economy that Puget Sound Power and Light's
21 high stake of viability be maintained. This concludes
22 my remarks.

23 JUDGE HAENLE: Questions, Mr. Manifold?

24 Q. Mr. Hawthorne, you indicated that you
25 obtained or purchased these shares over a period of

(HAWTHORNE - DIRECT BY MANIFOLD)

1 time. I wondered if you would care to indicate the
2 range of prices that you paid when you were purchasing
3 those.

4 A. The lowest price that I paid was 22 point
5 something. It ranged from 22 point -- the last
6 purchase was 23 and an eighth. It rather points out
7 over the 14 years or so of the very slight change in
8 statistics from the company.

9 Q. In the share price?

10 A. Right, in the share price and in the
11 operations. They're all interrelated.

12 JUDGE HAENLE: Counsel, questions?

13 MR. CEDARBAUM: No.

14 JUDGE HAENLE: Commissioners?

15 Thank you, sir. You may step down.

16 MR. MANIFOLD: John Jorgensen. Mr.
17 Jorgensen?

18 Donald Jorgensen.

19 Terry or Marion Dawson.

20 Whereupon,

21 TERRY DAWSON,

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

24

25 DIRECT EXAMINATION

(DAWSON - DIRECT BY MANIFOLD)

1 BY MR. MANIFOLD:

2 Q. Would you please state your name, spelling
3 your last name.

4 A. Terry B. Dawson, T E R R Y, D A W S O N.

5 Q. And your address?

6 A. 7009 - 134th Avenue Northeast, Redmond,
7 Washington, 98052.

8 Q. And you're a Puget Power customer?

9 A. Yes, I am.

10 Q. Stockholder?

11 A. Yes, I am.

12 Q. And are you speaking for any groups here
13 today?

14 A. Just for myself.

15 Q. Please go ahead and make your comment.

16 Before you do, could I ask you, did you know about the
17 hearing coming up in Bellevue?

18 A. Yes. I intend to go to that, too. I like
19 to see the people's faces. I like to see the reaction
20 of the Commission and the staff and the counsel. I
21 like to see how they react to the comments.

22 Q. Please go ahead and make your comments.

23 A. First of all, I would like to comment on
24 Puget Power as a company. I've followed Puget Power
25 for years. I only recently started investing over the

(DAWSON - DIRECT BY MANIFOLD)

1 past five years, but if you live on the east side, and
2 I'm sure other parts of the state you will see the
3 same thing. I consider Puget Power one of the better
4 companies in this state. They are community-involved.
5 You can see their presence in parks and help
6 everywhere within the community. I think they're
7 quite a well thought of company. I think that that's
8 true. As I read in the paper, everything I read about
9 Puget Power is good. I take both papers, the Journal
10 American and the Seattle Times and I really don't hear
11 bad things, scandals, as I do in many other companies.
12 They're very above board. Everything they do is
13 public. In fact, I understand these contracts were
14 all done on a public basis. All these contracts were
15 negotiated and put forth so that people could see them
16 and understand them. So that's the first point I
17 would like to make.

18 The other point I would like to make is
19 like Mr. Zelonka I'm one of the those people who have
20 less than 500 shares. I have approximately 400
21 shares. I've been accumulating stock over the last
22 five years. You earlier asked what prices I paid. I
23 started in the mid 19's and I ended up in the high
24 20's. The point is that at this point on any given
25 day, of course it fluctuates with 400 shares, but as

(DAWSON - DIRECT BY MANIFOLD)

1 of yesterday I think for the five years I have \$300 to
2 show for my investment for five years. I think that's
3 sick. If I had known five years ago what I know today
4 I don't think, unfortunately, that I would have
5 invested in this company. Not for \$300.

6 Earlier also I heard a reference to the
7 fact that, well, all utilities are dropping, and
8 that's absolutely true, the interest rate hit came in
9 February and of course there's been complaining in the
10 whole utility section, but if you look back at the
11 stock price, you will find that prior to this
12 statement that came out from the counsel and from the
13 staff, the price dropped to around 24 and then when
14 those statements started hitting the paper it dropped
15 into the 17 and a half I think is the lowest that I
16 recorded so far. So I think, and I say this with due
17 respect to the Commission here, I think that there's
18 been some irresponsible statements made by some
19 people. And I guess I've run out of everything I have
20 to say.

21 JUDGE HAENLE: Questions?

22 MR. MANIFOLD: No.

23 JUDGE HAENLE: Counsel?

24 Commissioners?

25 COMMISSIONER HEMSTAD: No.

(DAWSON - DIRECT BY MANIFOLD)

1 JUDGE HAENLE: Thank you, sir. You may
2 step down. You probably don't need to leave your
3 notes.

4 MR. MANIFOLD: Mr. and Mrs. Boskovich.

5 JUDGE HAENLE: I understand that there are
6 some seats available downstairs in room 140 that has
7 the speaker phone if anyone is interested in going
8 down there and listening.

9 Whereupon,

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

13

14 DIRECT EXAMINATION

15 BY MR. MANIFOLD:

16 Q. Please state your name and spell your last
17 name.

18 A. Andrew Boskovich. That is B O S K O V I C
19 H.

20 Q. And your address, sir.

21 A. 5711 - 91st Street Court East in Puyallup.

22 Q. 98371?

23 A. 98371.

24 Q. And are you a Puget Power customer?

25 A. Until very recently when we moved. We are

(BOSKOVICH - DIRECT BY MANIFOLD)

1 about one block away from the service area right now,
2 but we were with Puget Power for ten years.

3 Q. And who is your electric utility now?

4 A. Tacoma.

5 Q. Tacoma City Light?

6 A. Right.

7 Q. And are you a Puget stockholder?

8 A. We are the average family. We own 456
9 shares.

10 Q. Please go ahead and make your comment.

11 A. Well, as a ratepayer with several other
12 utilities in the area, as a resident and a property
13 owner, we've noticed that over the years the usual
14 trend has gone up. I find it not unusual to see the
15 rates rise occasionally. And we do live in a free
16 market economy. Every time we go to the store we can
17 see Safeway has bananas for 59 cents a pound and QFC
18 might advertise them for 39. Now does that mean we're
19 going to go after Safeway every time they expect more
20 money for their product than maybe a competitor? Or
21 do we have as taxpayers the opportunity to question
22 our government every time that they spend our money in
23 a matter in which we may individually not consider
24 prudent. Prudence is a judgment call. Are we dealing
25 with judgment calls or hard facts in this case? We

(BOSKOVICH - DIRECT BY MANIFOLD)

1 really feel that Puget Power has always operated in
2 good faith and in a professional sound manner, has
3 provided good service to a growing area and that its
4 stockholders are entitled to a reasonable return on
5 their investment and I thank you.

6 Q. Thank you, sir.

7 JUDGE HAENLE: Questions anyone?

8 Commissioners?

9 Thank you, sir, you may step down.

10 MR. MANIFOLD: Jim Whitbeck. Jim Whitbeck.

11 Whereupon,

12 JAMES WHITBECK,

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

15

16 DIRECT EXAMINATION

17 BY MR. MANIFOLD:

18 Q. Please state your name and spell your last
19 name.

20 A. James A. Whitbeck, W H I T B E C K.

21 Q. And your address?

22 A. PO Box 58268, Seattle, Washington, 98138.

23 Q. Are you a customer of Puget Power?

24 A. I'm a customer of Puget Power, sir.

25 Q. And are you a stockholder?

(WHITBECK - DIRECT BY MANIFOLD)

1 A. No, sir.

2 Q. Please go ahead and make your comments.

3 A. Sir, first if I may be allowed to preface
4 my comments. Last June I appeared at a hearing and
5 Commissioner Hemstad kind of questioned me in a way
6 like, Who is that guy? So I would like to clarify
7 that before I make my comments. I'm a semiretired
8 person who worked for a large corporation for about 35
9 years involved in a lot of contracting, plans,
10 management plans, technical plans, that sort of thing.

11 FROM THE AUDIENCE: Speak up.

12 A. I was not a subcontract manager, by the
13 way. I usually acted as a proposal manager for which
14 I had staff, subcontract managers, finance persons,
15 contracts persons, et cetera, to get my job done.

16 Now, with that comment I had to deal with
17 such things as the Cost Accounting Standards Act as it
18 affects proposal managers, which will put you in the
19 federal pen very quickly if you're not careful, and I
20 kind of let you know that so that I hope I'm talking
21 from a fairly credible position in this hearing.

22 Now, I also have served as a consumer panel member
23 with Puget Power. I did so for three years. My first
24 year in 1991 was on the least cost panel, in 1992 was
25 on the reliability panel and in 1993 on the integrated

(WHITBECK - DIRECT BY MANIFOLD)

1 resource plan panel. Now, in dealing with Puget Power
2 through this time, and my comments are kind of as a
3 character witness, you get a feel with the kind of
4 background I've had as to whether a corporation that's
5 well managed, well planned, well organized, and if it
6 really is doing its work at reasonable costs and is it
7 kind of a heads-up organization. Most important, does
8 it have management integrity. Most important, do they
9 do things ethically, et cetera. My perception after
10 being allowed to interface with a lot of Puget Power
11 people all the way from folks who are down in the
12 grunts and the trenches to middle management to
13 executive management has been that they're one of the
14 best run, best managed corporations that I've
15 encountered throughout my career with anywhere I worked
16 for.

17 Now, getting down to facts. The panels
18 that I served on, one of the primary interests was
19 that Puget Power had adequate supply for not only peak
20 conditions but for long-term conditions. All of our
21 recommendations kind of centered around those kind of
22 things. This past January, for example, we had a
23 debriefing, my panel did, along with the other panels
24 with the Puget Power executive council. Mr.
25 Sonstelie wasn't there and that was improper because

(WHITBECK - DIRECT BY MANIFOLD)

1 it gave his vice-presidents and directors a chance
2 to really open up and we did. We had very candid
3 conversations, and Mr. McReynolds will probably
4 testify, we really scrubbed him down but good.

5 Now, in the subcontracting world there's no
6 doubt in my mind that we did interview one of their
7 subcontract managers on our panel and we gave them the
8 kind of a pop quiz that determines are they really
9 doing business in a business-like way against
10 reasonable accounting standards -- and I am no expert
11 in any of that -- and I am absolutely satisfied that
12 these subcontracts that Puget Power has negotiated is
13 not only in the best interests of insuring supply,
14 number one, on a long-term basis, but number two, that
15 they were probably done with as good a subcontract
16 management set of policies and ground rules as could
17 be done.

18 Now, I understand from your comments, Mr.
19 Manifold, that you questioned the last three
20 contracts, and I also went through a little agony with
21 the different things that were being published in the
22 paper about the numbers, and if I may use the term,
23 quote, miscalculation, unquote, and I am not sure of
24 the background of that but I don't need to be sure
25 other than there was a correction. I don't think it's

(WHITBECK - DIRECT BY MANIFOLD)

1 right that after the fact that we should try to go
2 back and second guess these folks on this. I am sure
3 that in the long run that these subcontracts are going
4 to prove to have been very viable subcontracts, all of
5 them, and I certainly hope Puget Power is going to do
6 some more, and I certainly hope that the Commission
7 will allow a reasonable rate of return for them and
8 most important allow them to build up some capital
9 reserves, which point I made last June here, and I
10 think it's very important that they do this because
11 there is a regional shortage of power and it's going
12 to get a lot worse when some of the existing
13 facilities reach their design life limits and begin to
14 go off line.

15 JUDGE HAENLE: Sir, you've reached
16 five minutes. Could you summarize?

17 THE WITNESS: Yes, ma'am.

18 A. I will summarize by saying that I hope the
19 Commission will and I request respectfully that they
20 will withdraw this disallowance that's being proposed.
21 Thank you very much.

22 JUDGE HAENLE: Mr. Manifold?

23 MR. MANIFOLD: No questions.

24 JUDGE HAENLE: Counsel?

25 Commissioners?

(WHITBECK - DIRECT BY MANIFOLD)

1 Thank you. You may step down.

2 MR. MANIFOLD: Chris Stearns.

3 Whereupon,

4 CHRISTOPHER STEARNS,

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

6 herein and was examined and testified as follows:

7 THE WITNESS: My name is Chris Stearns and
8 my last name is spelled S T E A R N S. I'm a resident
9 of Olympia, Washington at 4045 - 36th Avenue
10 Northwest.

11 JUDGE HAENLE: Spell your first name.

12 THE WITNESS: Christopher, C H R I S T O P
13 H E R.

14 I am not a shareholder in Puget Power. As
15 far as to my knowledge none of my immediate family is,
16 nor, even though I live in their service area, do I
17 use the utility. I use natural gas.

18 I am here today as a member of the
19 democratic party. I'm an elected state official,
20 judicial review board member for the state democratic
21 party but I am not representing them nor am I talking
22 for them. I am talking solely for myself. What I
23 want to discuss is what I've seen today and I guess
24 I'm contrary to what has already been mostly testified
25 since I'm not a shareholder and interested in

(STEARNS - DIRECT BY MANIFOLD)

1 shareholders as some are, is that it seems to me that
2 the Commission is not necessarily bound by the
3 interests of the shareholders per se but more by the
4 public in terms of how they are adjusting what Puget
5 Power does as a monopoly serving the public, and I
6 want that addressed more clearly I think than what's
7 been going on with the testimony today. Personally if
8 I was a shareholder in Puget Power I would try to make
9 the company more attributable to what they are doing,
10 and they were certainly informed, I think, that this
11 might be the result of their activities long in
12 advance of this date, and that is the responsibility
13 of shareholders. You have some democracy in your own
14 company, not just country but company, to determine
15 what management does. If you don't hold management
16 responsible for its actions, there's a difficulty that
17 results that ends up in the public sphere, not in your
18 own.

19 So what I guess I'm trying to state here is
20 that regarding these contracts and what has happened
21 here, I think we have to examine maybe some of the
22 other causes for what we're seeing besides the methods
23 that have happened with the interest rates dropping
24 and affecting company performance here. Perhaps we
25 could -- I'm just playing devil's advocate, I'm not

(STEARNS - DIRECT BY MANIFOLD)

1 stating that actual intent happened here, but maybe
2 some of the management could foresee this and also
3 foresee a drop in stock prices and perceive an
4 excellent time to buy, which certainly would
5 disadvantage most of our senior citizens who are
6 affected adversely by that. That's certainly
7 something that's happened in other companies elsewhere
8 in this company and they are at the root of making
9 those decisions.

10 Also, regarding cogeneration projects, if
11 there are large nonpublic entity companies involved in
12 these projects who wouldn't go ahead with them had
13 Puget Power not decided to join in in building them,
14 there may be some special interests involved in
15 ownership of those companies by management or
16 affiliated entities, and I am concerned about that
17 because I don't think that's in the best interests of
18 all ratepayers whether they be Democrats, Republicans
19 or independents or anybody out here, and I think that
20 should be considered if in some cases some of these
21 contracts are with public utilities but some may not
22 be with public entities.

23 Finally I would like to summarize by saying
24 people that this Commission is in front of to
25 represent are also ratepayers to nonprivate utilities,

(STEARNS - DIRECT BY MANIFOLD)

1 and I don't think that the private utilities should be
2 treated any differently just because they have a
3 larger service area than the public utilities
4 regarding adjustment of rates or what they choose to
5 do with the way they manage it. Perhaps even so, they
6 might be better accountable to the public. Thank you
7 very much.

8 JUDGE HAENLE: Questions, Mr. Manifold?

9 MR. MANIFOLD: No.

10 JUDGE HAENLE: Did you really say you are
11 not a ratepayer of Puget?

12 THE WITNESS: That's correct at this time.
13 I might add --

14 CHAIRMAN NELSON: You don't have
15 electricity in your house?

16 THE WITNESS: No. I use natural gas.

17 MR. MANIFOLD: What about lights?

18 THE WITNESS: Again, I use other fuel.

19 JUDGE HAENLE: Thank you, sir. You may
20 step down.

21 MR. MANIFOLD: Stacey Waterman.

22 JUDGE HAENLE: I'm going to need to have
23 you be quiet so we can hear Mr. Manifold calling the
24 names and so we can hear the testimony.

25 MR. MANIFOLD: Stacey Waterman.

(STEARNS - DIRECT BY MANIFOLD)

1 Whereupon,

2 STACEY WATERMAN,

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

4 herein and was examined and testified as follows:

5

6 DIRECT EXAMINATION

7 BY MR. MANIFOLD:

8 Q. Would you please give your name, spelling
9 both names.

10 A. My name is Stacey Waterman, S T A C E Y,
11 Waterman, W A T E R M A N. I reside at 604 Wilson
12 Street Southeast, Olympia. I'm a Puget Power
13 ratepayer.

14 Q. Are you also a stockholder?

15 A. No.

16 Q. Are you speaking on behalf of any groups?

17 A. No.

18 Q. Please go ahead.

19 A. We are considering whether hundreds of
20 millions of dollars be purchased -- you are
21 considering whether hundreds of millions of dollars of
22 purchased power costs are being prudently spent. You
23 should consider it. I have to pay this bill. If
24 Puget struck a good bargain for the power, ratepayers
25 should pick up the tab. The reason we pay Puget

(WATERMAN - DIRECT BY MANIFOLD)

1 management high salaries through our rates is to do a
2 good job controlling power costs. If management did
3 not do its job and if Puget paid too much for power,
4 shareholders should pick up this tab. That's why we
5 pay them high dividends to take the risk associated
6 with management decisions.

7 I am very concerned that Puget is cutting
8 back on its conservation efforts. I have heard that
9 they are no longer funding residential weatherization.
10 I was a volunteer in Olympia with a group that did
11 low-cost weatherization for low income families.
12 Puget withdrew its support for that program. If Puget
13 is cutting back on conservation because they bought
14 too much power for high priced gas-fired power plants
15 then Puget screwed up. I urge you to get Puget back
16 on the conservation track.

17 JUDGE HAENLE: Counsel, questions?

18 MR. MANIFOLD: No questions.

19 JUDGE HAENLE: Commissioners?

20 Thank you for your testimony. You may step
21 down.

22 MR. MANIFOLD: Allan Osborne.

23 MR. OSBORNE: Except for the last two
24 people, everyone else said everything I was going to
25 say in my four pages so I yield.

(WATERMAN - DIRECT BY MANIFOLD)

1 MR. MANIFOLD: Thank you.

2 D. L. Tilton.

3 JUDGE HAENLE: I'm going to suggest we take
4 this witness and then take a brief recess maybe just
5 ten minutes and if you want to during that time, if
6 you don't want to give testimony and you've signed the
7 sheet, if you would let Mr. Manifold know, he can
8 indicate how many people decided they didn't want to
9 give testimony, or if you want to let him know you
10 agree with previous witnesses that might be easier.
11 Whereupon,

12 D. L. TILTON,
13 having been first duly sworn, was called as a witness
14 herein and was examined and testified as follows:

15

16 DIRECT EXAMINATION

17 BY MR. MANIFOLD:

18 Q. Would you please state your name, spelling
19 it.

20 A. It's D. L. Tilton, T I L T O N.

21 JUDGE HAENLE: First name is spelled how,
22 sir.

23 THE WITNESS: D. L.

24 Q. And your address?

25 A. 10533 Bethel, B E T H E L, Burley, B U R L E

(TILTON - DIRECT BY MANIFOLD)

1 Y, Road Southeast, Port Orchard, Washington 98366.

2 Q. Are you a Puget power customer?

3 A. Yes, I am.

4 Q. And are you a Puget Power stockholder?

5 A. Yes, I am.

6 Q. Are you speaking for any groups here today?

7 A. No, sir, I am not.

8 Q. Please go ahead and make your comment.

9 A. I'm here today to represent myself, kind of
10 wearing two hats both as a ratepayer and as a
11 shareholder. This is the second time I've testified
12 before the Commission in a state. The first time was
13 a few years back when we also had a prudence review,
14 and I see many of the same people in groups opposing
15 this as opposed Puget Power's involvement with nuclear
16 power. I find it highly upsetting that the attorney
17 general's office at that time thought that Puget
18 Power's involvement in nuclear power was not prudent,
19 that they should not be able to recover their costs,
20 but if you look back in the time frame when they got
21 into the program the same as this one here, you could
22 not go fossil fuel or you were not going to be able to
23 build any dams on the rivers. We see now where the
24 federal government and the states are going to tear
25 dams down that are generating power.

(TILTON - DIRECT BY MANIFOLD)

1 I find that the staff by releasing the
2 statement that was erroneous has caused great damage
3 to those shareholders. Stock has reduced between 35
4 and 40 percent depending on where you come, and their
5 retort is that all stocks have dropped. The basis of
6 the utility stocks due to interest are dropping only 8
7 to 10 percent. I find that the statement that they
8 made was completely irresponsible and just done damage
9 that is not going to be able to return in a soon time.

10 What I would like to do is see the
11 Commission return Puget Power's rate of return to the
12 12.8 percent which, to me, is not reasonable. I
13 noticed again when interest rates were 18 percent to
14 20 percent the Commission did not raise Puget Power's
15 rate of return to follow it, but it seems when
16 interest rates dropped then the Commission wanted to
17 push them back down. If you're not going to let them
18 make it during the good time, don't punish them during
19 the bad time, and I would also recommend that you
20 accept the rate in these contracts.

21 I find, again as an outsider, I was
22 informed that all of these contracts were reviewed and
23 approved subjected to some future thing. Being in the
24 construction business we have a policy. Measure it
25 twice, cut it once. Why do you go back and review

(TILTON - DIRECT BY MANIFOLD)

1 and let somebody do something and then go back and
2 change the rules to the game? It's just very
3 difficult for someone to operate, especially a
4 monopoly and a utility company. They can't go out
5 tomorrow and buy power because you people are now
6 saying that's not a prudent investment. So what they
7 must do is look ahead eight to ten years to building a
8 generating plant be it hydroelectric, fossil fuel,
9 coal, whatever it is. So I would urge that you return
10 Puget Power to keep it a sound financial corporation
11 to provide utilities to those customers and also to
12 give a fair return to those shareholders that are
13 involved. Thank you.

14 JUDGE HAENLE: Questions, Mr. Manifold?

15 MR. MANIFOLD: No.

16 JUDGE HAENLE: Questions?

17 Thank you, sir. You may step down. Let's
18 take a 10-minute recess at this time. Be back at 10
19 minutes after 3:00 and let Mr. Manifold know if you've
20 changed your mind.

21 (Recess.)

22 JUDGE HAENLE: Let's be back on the record
23 after a brief recess. I indicated earlier that anyone
24 who was -- we had a conference bridge set up in 140 to
25 handle some overflow. If you are down in room 140

(TILTON - DIRECT BY MANIFOLD)

1 there are seats in the main hearing room if you want
2 to come back up. Mr. Manifold.

3 MR. MANIFOLD: Robert Hettinger.

4 Whereupon,

5 ROBERT HETTINGER,

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

8 THE WITNESS: Thank you for permitting me to
9 testify today.

10

11 DIRECT EXAMINATION

12 BY MR. MANIFOLD:

13 Q. Would you please state your name and spell
14 your last name.

15 A. Okay. Robert Hettinger. That's H E T T I
16 N G E R.

17 Q. Would you pull the microphone a little
18 closer to you. We Roberts need these microphones.
19 And your address?

20 A. I live on 18653 Northeast 146th Way,
21 Woodinville, Washington 98072.

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

23 A. Yes, I am.

24 Q. Are you also a Puget Power stockholder?

25 A. Yes, sir.

(HETTINGER - DIRECT BY MANIFOLD)

1 Q. Are you speaking on behalf of a group?

2 A. I'm speaking on behalf of myself and my
3 wife.

4 Q. Please go ahead.

5 A. First I would like to say that Fred
6 Zelonka and quite a few of the other folks that
7 testified here today sort of stole my thunder, so in
8 the interest of reducing redundancy, I am just going
9 to make a few comments. As I said, I am a retired
10 shareholder and I rely on my Social Security and
11 investments that I made for my income. I purchased a
12 Puget stock because I thought that it was a good
13 investment and more important I thought that it had
14 very stable dividends. This is important to me
15 because I'm using those dividends as my income. I
16 feel that the Commission staff's recommendations
17 regarding the rate case hurt Puget Power, and I think
18 that this is evidenced by a drop in the stock prices
19 in that it went from \$29 down to roughly \$18, but more
20 important, I think that it may jeopardize the
21 dividend, and this concerns me.

22 I would like to say that I feel that Puget
23 Power is well managed company, and I wouldn't invest
24 in Puget Power if I didn't think that. I think it
25 provides reliable electricity, and I think that's very

(HETTINGER - DIRECT BY MANIFOLD)

1 important, and at a reasonable cost. I lived on the
2 East Coast for a while, and so I know what some of the
3 rates for electricity can be. I also know how
4 reliable they are. They had many outages. Since I've
5 been here in this area, I haven't experienced hardly
6 any outages and I think that's a credit to Puget Power
7 from a reliability standpoint. I hope that the
8 Commission gives Puget a fair shake in this rate case.

9 In summary, as a shareholder I'm concerned
10 about the value of my stock and the dividends and want
11 to do everything I can to maintain their value. Thank
12 you.

13 JUDGE HAENLE: Questions?

14 Q. I notice, you're one of the people who was
15 the signator of the letter that was sent to the
16 various --

17 A. Yes, that's correct.

18 Q. Just a second in case somebody else has
19 questions.

20 JUDGE HAENLE: Questions?

21 Commissioners?

22 COMMISSIONER HEMSTAD: No.

23 JUDGE HAENLE: Thank you, sir. You may
24 step down.

25 MR. MANIFOLD: Robert Hayek.

(HETTINGER - DIRECT BY MANIFOLD)

1 Whereupon,

2 ROBERT HAYEK,

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

4 herein and was examined and testified as follows:

5

6 DIRECT EXAMINATION

7 BY MR. MANIFOLD:

8 Q. Would you please state your name and spell
9 your last name.

10 A. My name is Robert Hayek spelled H A Y E K.
11 My address is 18425 Northeast 95th, No. 144, Redmond,
12 Washington, 98052.

13 Q. You're a Puget ratepayer and stockholder, I
14 presume?

15 A. Yes. I own stock. My wife owns stock, my
16 daughter who is a King County judge owns stock and my
17 two -- my four grandchildren own stock. We own so
18 much stock that we are hurt badly.

19 Q. Please go ahead and make your comments.

20 A. My wife and I live in Redmond, Washington
21 and we are both customers and shareholders of Puget
22 Power. Our average monthly bill is \$42 for 100
23 percent electric home of 1400 square feet. We
24 appreciate this low cost because we pay 13.93 cents
25 per kilowatt hour in Hammitt, California when we spend

(HAYEK - DIRECT BY MANIFOLD)

1 the winter there. Prior to 1960, we lived in Oregon
2 where we invested in Pacific Power and Light stock
3 and Northwestern Natural Gas stock in preparation for
4 our retirement years. Since moving to Mercer Island
5 in 1960, when our property taxes were only \$30 per
6 month, we began to buy Puget Power stock and
7 Washington Natural Gas stock in preparation for our
8 retirement years.

9 We lived through a period of ten years when
10 Puget Power was not able or they were restrained from
11 raising their dividend. The other three companies did
12 make increases periodically. When our Mercer Island
13 home taxes reached close to \$200 per month, we rented
14 the home and moved to a mobile home park in Redmond,
15 Washington. Our two Washington state investments have
16 declined so drastically in value since September 1993
17 that I sought advice from Merrill Lynch and an
18 investment advisor who told me he sold his Puget
19 Power stock and advised me to do the same and buy
20 Pacific Corp stock. I asked Merrill Lynch what
21 they thought of that. They said they rate all utility
22 regulations in all states on a scale of one to five
23 with five being the best rating. They rated Washington
24 state a two, below average, and Oregon a four, above
25 average. If the action the Commission takes towards

(HAYEK - DIRECT BY MANIFOLD)

1 Puget Power has the same effect as the action taken
2 against Washington Natural Gas then I as an 82
3 year-old investor may not live to see my investments
4 recover to their former value. It would be better for
5 me to sell both investments and add to my Oregon state
6 investments. Please consider what you are doing to me
7 and 20,000 others in Washington who have invested in
8 Puget Power.

9 JUDGE HAENLE: Did you have questions?

10 MR. MANIFOLD: No.

11 JUDGE HAENLE: Anyone? Commissioners?

12 Thank you for your testimony, sir.

13 MR. MANIFOLD: Robert Lyon. We Roberts are
14 well represented today, I will say.

15 Whereupon,

16 ROBERT LYON,

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

19

20 DIRECT EXAMINATION

21 BY MR. MANIFOLD:

22 Q. Would you state your name, and spell your
23 last name.

24 A. Robert J. Lyon, L Y O N.

25 Q. And your address?

(LYON - DIRECT BY MANIFOLD)

1 A. 7734 Nottingham Court Southeast, Olympia,
2 Washington 98503.

3 Q. Are you a Puget Power customer?

4 A. Yes.

5 Q. Stockholder?

6 A. My wife is.

7 Q. Please go ahead.

8 A. I am here this afternoon to put a face on
9 some figures. My wife Sara and I are retired and
10 live in an all electric mobile home in Thurston County
11 outside of Lacey which makes us Puget Power
12 ratepayers. My wife owns 1,257 shares of Puget Power
13 stock. Earlier I heard the phrase compelling public
14 interest. I want to speak to that. I believe that a
15 financially healthy Puget Power company is to the
16 advantage of the citizens of the state, the ratepayers
17 and of course the shareholders in the company. Sara
18 and I represent all three groups. First of all, the
19 citizens of the state need a company that can plan for
20 the needs of a growing population with power sources
21 that offer the lowest long-term -- I emphasize
22 long-term -- costs in terms of money, and the lowest
23 long-term impact on the environment.

24 But I really want to focus on the ratepayer
25 versus shareholder part of the matter. As a

(LYON - DIRECT BY MANIFOLD)

1 ratepayer, I want two things. First I want the
2 cheapest electric rates I can get, but I want service,
3 and service means different things to different
4 people. A company needs different service than I do.
5 We live in an all-electric mobile home. In the winter
6 time when the power goes off we are cold. Any time of
7 the year when the power goes off we are in the dark.
8 So when that happens I want Puget Power to have
9 equipment and trained personnel ready 24 hours a day
10 to dash right out there and repair those lines. I
11 don't want to sit in the cold and the dark one hour
12 longer than necessary, and when there is a major
13 outage, I want them to have the financial resources to
14 go and hire crews from all over the area to put that
15 power back on again. Low rates are great but
16 providing service and providing for our power needs
17 five years from now is also important to ratepayers.

18 If I understand the hassles before us, they
19 partly center in the feeling that shareholders are
20 benefitting at the expense of ratepayers. In this
21 argument I want to put a face on shareholders, the
22 kind of face you've been seeing this afternoon. It's
23 easy to think of a shareholder as those big insurance
24 companies back east. An article in the newspaper
25 indicated that 36 percent of the shareholders live in

(LYON - DIRECT BY MANIFOLD)

1 Washington state. One of those shareholders is my
2 wife in the second row back there, little lady with
3 white hair. Now, she's not quite the average
4 shareholder but almost. An official of the company
5 said that 83 percent of the stock is held by
6 individuals. She certainly is an individual. The
7 average age he said of a Puget Power shareholder is
8 60. She's a little more than 60 but I won't tell you
9 how much more, and also she is not typical in that the
10 average is about 500 shares of stock and she owns
11 1,257 shares share that have taken three generations
12 in her family to accumulate starting with her
13 grandmother and we hope to pass them on to our son.
14 The average -- the dividend rate for 11 years from
15 1981 to 1992 remained the same and she earned \$2,212 a
16 year for 12 years. I worked for salary in those
17 years. If my salary had been frozen at its 1981 level
18 for 11 years we would have been in big trouble, but
19 then the dividend went up 4 cents a share meaning she
20 got \$50 more a year, about 4 dollars more a month.
21 And then the next year it went up 4 more cents a year,
22 another \$50 a year or \$4 a month to the present
23 amount of \$2,313 a year which company officials tell
24 us may be in jeopardy depending on the regulatory
25 decisions of your Commission.

(LYON - DIRECT BY MANIFOLD)

1 In conclusion, I believe that a financially
2 strong and healthy Puget Power Company is to
3 everyone's advantage, the citizens of this state, the
4 ratepayers, and the shareholders. Thank you.

5 JUDGE HAENLE: Questions, Mr. Manifold?

6 MR. MANIFOLD: No.

7 JUDGE HAENLE: Counsel?

8 MR. CEDARBAUM: No.

9 JUDGE HAENLE: Commissioners?

10 Apparently a number of people agree. Thank
11 you, sir.

12 MR. MANIFOLD: Mr. or Mrs. Romane.

13 THE WITNESS: Thank you for the opportunity
14 to speak at this hearing.

15 Whereupon,

16 RICHARD ROMANE,
17 having been first duly sworn, was called as a witness
18 herein and was examined and testified as follows:

19

20 DIRECT EXAMINATION

21 BY MR. MANIFOLD:

22 Q. Please state your name and spell your last
23 name.

24 A. Richard Romane, R O M A N E.

25 Q. Your address?

(ROMANE - DIRECT BY MANIFOLD)

1 A. 7500 Northwest Wildcat Lake Road,
2 Bremerton, 98312.

3 Q. That's 7500?

4 A. Northwest Wildcat Lake.

5 Q. And you're a Puget customer?

6 A. I am a Puget customer and a Puget Power
7 shareholder.

8 Q. Please go ahead and make your comments.

9 A. First of all, I am employed with the
10 Department of Defense for over 30 years, and one of
11 the most serious problems we had in procurement was
12 how dependable the companies or the assets were that
13 we had to contract for. It doesn't do any good to go
14 out and buy five cent nails when the guy is going to
15 be out of business in a few years. You've got to buy
16 expertise and dependability, and I feel that Puget
17 Power has done a commendable job. I made the mistake
18 of buying one WPPSS bond because the state of
19 Washington said that there was going to be a huge
20 increase in electrical power needs. That didn't
21 materialize and there was a four and a half billion
22 dollar loss to the stockholders of the WPPSS projects.
23 I don't think the situation that Puget Power is faced
24 with today is much different. In Kitsap County where I
25 live the Growth Management Act right now envisages a

(ROMANE - DIRECT BY MANIFOLD)

1 91,000 increase in population, and Puget Power has to
2 guess what that is going to require, and one of the
3 requirements that our county commissioner is talking
4 about is a tremendous industrial advance because we're
5 military dependent and 30 years from now these atomic
6 submarines are still going to be providing the jobs and
7 so forth when they have to be rebuilt at billions of
8 dollars each, so it's important to Puget Power to try
9 and envisage what the requirements are going to be in
10 their total service area.

11 My wife and I are very representative. We
12 have a total of 357 shares of Puget Power. We have
13 been retired in this Puget Power area now for 18 years
14 and, as has been brought out previously, rates have
15 not escalated, and earnings certainly haven't. Again,
16 as has been mentioned repeatedly, the value of our
17 stock has reduced over 40 percent in the last few
18 months. This not only threatens us as individual
19 investors but it threatens all of the users of Puget
20 Power. If the company is continued to be hit like it
21 is now Moody's has just put Puget Power bonds on the
22 watch list. The big brokerage houses are recommending
23 -- I got a full page ad from one today recommending
24 that if you've got Puget Power stock, sell it. That's
25 at \$17.50. If Puget Power is hit like this, the

(ROMANE - DIRECT BY MANIFOLD)

1 equity value of their company goes down, their
2 reliability as a borrower of money goes down, and
3 their risk becomes higher for the investor, so Puget
4 Power is going to have to pay higher interest rates.
5 This translates through the Commission into higher
6 electric rates, so everybody that's serviced by Puget
7 Power is going to be hurt by this proposed prudence
8 review. It is my recommendation that the prudence
9 review be stopped right where it is and that as many
10 amends as possible be made to restore the solvency
11 of Puget Power, which has been brought out repeatedly
12 here by various people, very important to the state.

13 JUDGE HAENLE: Could you summarize the
14 remainder, sir.

15 THE WITNESS: Yes.

16 A. First of all, for the record, I agree with
17 Mr. James Whitbeck's comments and Mr. D. L. Tilton's
18 comments and I disagree with the speculations of Mr.
19 Christopher Stearns. He said a lot of what-ifs but
20 had no real basis in fact for 99 percent of them or
21 thereabouts. Thank you.

22 JUDGE HAENLE: Questions, Counsel?

23 MR. MANIFOLD: No.

24 Anyone?

25 Commissioners?

(ROMANE - DIRECT BY MANIFOLD)

1 Thank you, sir. You may step down.

2 MR. MANIFOLD: Bill Liedle. The next
3 person will be Dean Salt after that and then Alden
4 Moberg.

5 Whereupon,

6 BILL LIEDLE,
7 having been first duly sworn, was called as a witness
8 herein and was examined and testified as follows:

9

10 DIRECT EXAMINATION

11 BY MR. MANIFOLD:

12 Q. Mr. Liedle, would you please state your
13 name spelling the last name.

14 A. Okay. First name is Bill and last name
15 Liedle L I E D L E.

16 Q. Your address?

17 A. 2809 East 27th Street, Vancouver,
18 Washington, zip 98661.

19 Q. Are you a Puget Power stockholder?

20 A. Yes.

21 Q. Please go ahead.

22 JUDGE HAENLE: Are you a customer?

23 THE WITNESS: No. We're not in their
24 territory down there.

25 JUDGE HAENLE: Well, some people have

(LIEDLE - DIRECT BY MANIFOLD)

1 second homes and I would like that to be asked of
2 everybody if you could.

3 Q. Are you a customer?

4 A. I am not wealthy.

5 JUDGE HAENLE: Go ahead, sir.

6 A. Pretty much I agree with what has been said
7 earlier. What I would like to do is maybe just
8 summarize and jump back and start with why I bought
9 Puget Sound Power and Light. I would categorize
10 myself as not a typical shareholder in age and also
11 number of shares held. I have owned Puget Sound Power
12 and Light stock for a number of years. My basis for
13 purchasing it was I thought it was a good company. I
14 thought the growth potentials were tremendous and
15 which the statistics has proven right, Puget Sound
16 territory has grown very rapidly. I think the thing
17 that puzzles me, typically when an area grows there's
18 also prosperity to the shareholders. This has not
19 happened to the Puget Sound shareholders. The thing
20 that really puzzles me -- and I have also done a
21 little bit of investigation as to companies that rate
22 the reputation of the Commission as to granting rate
23 increases, and I find that it falls well below
24 average. I checked. Actually, the brokerage house
25 that I used, they said that you were way below average

(LIEDLE - DIRECT BY MANIFOLD)

1 on your rating. And this is something that really
2 puzzles me, and I will give you an example, too. We
3 keep talking about Puget Sound Power and Light but you
4 look at another electric utility, Washington Water
5 Power, and they haven't had a dividend increase and
6 their price really has been very static, and the thing
7 that, as I say, that puzzles me, is why the rating
8 agency isn't closer to -- if not average rated why are
9 you people rated below average when it comes time to
10 grant rates when they come before you.

11 Another thing that puzzles me, too, is
12 Puget Sound Power and Light was disallowed a rate of
13 return down from the original one, which I think was
14 12.8, to 10.5 and it's my understanding not all the
15 utilities that operate in Washington state are under
16 that same percentage rate of return. So, as I said,
17 this kind of puzzles me. It's kind of like it's an
18 uneven playing field, but the thing that really
19 puzzles me is why you people are always out -- when
20 the ratings come out why you're below average on your
21 opinion granting, and what I keep hearing you guys are
22 terribly, terribly harsh, and there should be kind of
23 give and take and more evens. That's it.

24 JUDGE HAENLE: Questions?

25 MR. MANIFOLD: No questions.

(LIEDLE - DIRECT BY MANIFOLD)

1 JUDGE HAENLE: Questions, commissioners?

2 Thank you, sir. You may step down.

3 MR. MANIFOLD: Dean Salt.

4 Whereupon,

5 DEAN SALT,

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

7 herein and was examined and testified as follows:

8

9 DIRECT EXAMINATION

10 BY MR. MANIFOLD:

11 Q. Please state your name.

12 A. Dean Salt, S A L T.

13 Q. And your address?

14 A. 1602 Naval Avenue, N A V A L, Bremerton,
15 Washington 98312.

16 Q. Are you a Puget Power ratepayer?

17 A. Yes, I am.

18 Q. Are you a stockholder?

19 A. Yes.

20 Q. Are you an employee or former employee?

21 A. Former employee.

22 Q. Please go ahead.

23 A. As I understand we're here today to discuss
24 prudent decisions with nuclear plants at Hanford,
25 Satsop that may never produce a kilowatt hour of

(SALT - DIRECT BY MANIFOLD)

1 electricity, mothballed at costs in excess of \$115
2 million, additional yearly costs of 10.5 million
3 dollars being financed by BPA, with 54 percent of the
4 Bonneville Power Administration's 1993 revenue spent
5 on debt service and their federal borrowing authority
6 reaching its limit in 1999, with the worst water
7 shortage on record, with growth, farmers, hydroelectric
8 dams and the salmon all vying for river water, and with
9 the salmon issue threatening to dwarf the spotted owl
10 controversy, what are our alternatives for energy
11 resources?

12 Puget Power should not be penalized for
13 their insight into providing future energy needs for
14 this region. Thank you.

15 JUDGE HAENLE: Questions? Let me ask you
16 to hold your applause, please. You can indicate when
17 you testify if you do agree with the speakers.

18 Commissioners, questions?

19 MR. MANIFOLD: I have one quick question.

20 Q. Mr. Salt, I wanted to know when you left
21 Puget as an employee.

22 A. In March of this year.

23 JUDGE HAENLE: Thank you, sir.

24 MR. MANIFOLD: Alden Moberg. Next person
25 after that will be Robert Burley and then Al Boucher.

(SALT - DIRECT BY MANIFOLD)

1 Whereupon,

2 ALDEN MOBERG,

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

4 herein and was examined and testified as follows:

5

6 DIRECT EXAMINATION

7 BY MR. MANIFOLD:

8 Q. Would you please state your name spelling
9 your first and last names.

10 A. Alden Moberg, 6495 South Sheridan, Tacoma,
11 Washington 98408.

12 Q. Would you please spell your first and last
13 name.

14 A. A L D E N, M O B E R G.

15 Q. Are you a Puget Power customer?

16 A. No. I have four sons that are.

17 Q. Are you a Puget Power ratepayer --
18 stockholder?

19 A. Yes, I am.

20 Q. Are you speaking on behalf of any organized
21 group here today?

22 A. I'm speaking on behalf of myself.

23 Q. Please go ahead.

24 A. I am of the generation that built this
25 country from dirt streets and board sidewalks to the

(MOBERG - DIRECT BY MANIFOLD)

1 beautiful organization you've got today. I worked
2 hard, saved my money, furnished the money for young
3 people to get student loans and get their education,
4 and those same students that defaulted on their loans
5 are now running our governments today. I don't think
6 that the decision to lower the rate of return to 10.5
7 percent was fair. I think that should be changed. I
8 depend on my dividend for a living. I'm getting a
9 little too old to knock horns with the young bucks. I
10 don't agree with this prudence review. I think Puget
11 Sound Power and Light has been a good company and has
12 dealt fairly. I don't think it's good for the company
13 or the stockholders to have some staff member shoot
14 off his mouth and say that he thinks that the dividend
15 of Puget Sound stock should be reduced. I don't think
16 that's his job. If I had my way he would be given a
17 new job sweeping parking lots.

18 JUDGE HAENLE: Does that complete your
19 statement, sir?

20 THE WITNESS: Yes.

21 JUDGE HAENLE: Questions, Mr. Manifold?

22 MR. MANIFOLD: None.

23 JUDGE HAENLE: Questions, Counsel?

24 Commissioners?

25 Thank you for your testimony, sir. You may

(MOBERG - DIRECT BY MANIFOLD)

1 step down.

2 MR. MANIFOLD: Robert Burley.

3 THE WITNESS: I got this timed for three
4 minutes.

5

6 DIRECT EXAMINATION

7 BY MR. MANIFOLD:

8 Q. Would you please state your name and you
9 don't have to spell Robert but the last name would
10 help.

11 A. Last name is Burley, B U R L E Y.

12 Q. And your address, sir?

13 A. 7830 Monte Bella, two words, M O N T E
14 capital B E L L A, Place, Port Orchard, 98366.

15 Q. Are you a Puget Power customer?

16 A. Yes, I am.

17 Q. Stockholder?

18 A. Yes, I am.

19 Q. Former employee?

20 A. No.

21 Q. Please go ahead.

22 JUDGE HAENLE: And the court reporter makes
23 me say that you can take an extra minute so that you
24 speak loudly and slowly.

25 A. I'm a retired person who invested heavily

(BURLEY - DIRECT BY MANIFOLD)

1 in Puget Sound Power and Light during the past twelve
2 years. I researched the utility -- other utility
3 companies looking for a good, solid company, good
4 earnings, fair and stable dividend, and in an area
5 where they could grow. I decided that Puget Power was
6 that company and my pension savings were used to
7 purchase their stock. These dividends are now what I
8 live on in addition to a small pension and Social
9 Security. I watched and read in papers lately where
10 Puget Power is under attack by the Washington
11 Utilities and Transportation Commission and the stock
12 has dropped about 40 percent, and now I hear a
13 possible dividend cut is in the future if Puget
14 Power's rate of return is lowered dramatically as
15 suggested.

16 A major reason I hope Puget Power will be
17 allowed a fair rate of return and not a reduction in
18 revenue is the reliability of the dividend. We have
19 given our two grandchildren 100 shares of Puget Sound
20 stock when they were six months old. We've had them
21 reinvest all the dividends for their college
22 education. They are now 8 and 11. Any reduction in
23 the dividend rate will restrict resources for their
24 education. I certainly hope this will not be the
25 case. I would be very interested in why the Utility

(BURLEY - DIRECT BY MANIFOLD)

1 Commission is now saying that Puget Power should not
2 have signed contracts with cogenerator companies.
3 Hasn't the Commission been involved since the early
4 80s on these plans and decisions? Is this something
5 new that they didn't know about? Any reduction in
6 Puget Power's rate of return will lower the attitude
7 for future investments in the company by both private
8 people like myself and large lending institutions.
9 This is the first time I've ever spoken in front of
10 such a group as this -- maybe you can tell, but I feel
11 something must be said. All we've heard or read
12 lately is lower your rates and you're charging too
13 much for this group, for that group. How about
14 thinking of the investors like myself for a change, my
15 grandchildren's future education. Incidentally, I
16 have 100 percent all electric home and I make my check
17 out to Puget Power. Thank you for letting me talk.

18 JUDGE HAENLE: Thank you. You did fine,
19 sir. Questions anyone? Questions?

20 Thank you, sir.

21 MR. MANIFOLD: Al Boucher and after that is
22 Glen Robertson.

23 Whereupon,

24 AL BOUCHER,

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

(BURLEY - DIRECT BY MANIFOLD)

1 herein and was examined and testified as follows:

2

3 DIRECT EXAMINATION

4 BY MR. MANIFOLD:

5 Q. Please state your name spelling your last
6 name.

7 A. Al Boucher, spelled B O U C H E R.

8 Q. And your address?

9 A. 70 North Maple, Port Hadlock, Washington,
10 98339.

11 Q. Are you a Puget Power customer?

12 A. Yes.

13 Q. Stockholder?

14 A. No, sir.

15 Q. Are you retired or former employee?

16 A. No, sir.

17 Q. Could you please go ahead and make your
18 comment.

19 A. My comments are largely impressionistic
20 from reading press clippings, but not entirely so.
21 Early in 1991 as chair of the Jefferson County/Kitsap
22 consumer panel, I was privileged to engage in spirited
23 discussion with the Puget Power and Commission staff as
24 well as with public counsel, pertaining to regulatory
25 reform. The objective was to redefine least cost

(BOUCHER - DIRECT BY MANIFOLD)

1 planning in such a manner as to remove disincentives to
2 energy conservation and cogeneration. In all of this I
3 was impressed by Commission willingness to venture into
4 uncharted waters. I felt as though I was present at
5 the creation. I recall the Commission order of April
6 1991 giving approval to a decoupling of revenues from
7 sales in order to promote conservation and
8 cogeneration. This whole effort was seen as -- was
9 tested and subject to change.

10 According to recent press clippings,
11 however, this prudence review is now challenging the
12 validity of Puget Power performance in its purchased
13 power contracts. It appears that Puget Power in its
14 contract negotiations chose to protect itself against
15 the vagaries of future gas prices. This involved
16 weighing an uncertain future in terms of time
17 preference. Commission staff and public counsel in
18 turn would substitute their own value system for that
19 of Puget Power. Moreover, this action would be
20 applied retroactively and I find this to be
21 capricious. This finding is made independent of
22 miscalculations pertaining to the magnitude of alleged
23 overpayments by Puget Power. Cogeneration as a tool
24 has been endorsed at the federal, state and regional
25 level. Accordingly, to put cogeneration in peril at

(BOUCHER - DIRECT BY MANIFOLD)

1 this time is a matter that cannot likely be dismissed.

2 For myself, I am not persuaded that

3 Commission staff or public counsel have provided

4 justification for substituting their judgment for that

5 of Puget Power. Perhaps the Commission should revisit

6 Puget Power methodology but decision making after the

7 fact should be ruled as unacceptable. I would remind

8 the Commission that its order of April 1991 endorsed

9 the experimental nature of its regulatory

10 restructuring. As noted above, the central thrust of

11 Commission action was to bring least cost planning

12 into convergence with reality. This remains a worthy

13 channel. I submit, however, that simple fairness

14 precludes rewriting the rules of the game at this

15 time. That completes my statement.

16 JUDGE HAENLE: Questions, Counsel?

17 Commissioners, questions?

18 Did you want to leave a copy of your

19 statement, sir?

20 MR. MANIFOLD: If you would, I would

21 appreciate it.

22 JUDGE HAENLE: And you may step down.

23 MR. MANIFOLD: Glen Robertson and after

24 that H. Rogers.

25 JUDGE HAENLE: Did we get someone in

(BOUCHER - DIRECT BY MANIFOLD)

1 response to that name?

2 MR. MANIFOLD: Glen Robertson.

3 H. Rogers.

4 Whereupon,

5 HENRY ROGERS,

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

7 herein and was examined and testified as follows:

8

9 DIRECT EXAMINATION

10 BY MR. MANIFOLD:

11 Q. Would you please state your name spelling
12 your last name.

13 A. Henry C. Rogers, R O G E R S.

14 Q. Your address?

15 A. 150 Old Ferry Road, Port Hadlock 98339.

16 Q. Are you a Puget Power customer?

17 A. Yes, I am.

18 Q. Stockholder?

19 A. Former.

20 Q. And are you a former employee?

21 A. No.

22 Q. Please go ahead.

23 A. I have served on the Puget Power consumer
24 panels, however, for several years. Not recently. I
25 am going to not say too much because a lot of what I

(ROGERS - DIRECT BY MANIFOLD)

1 was going to say has already been said and probably a
2 lot better than what I could say it. However, I don't
3 want you to be frightened by this packet of material.
4 I am not going to use it all. Your task as a
5 Commission is a very difficult one. I don't envy you.
6 You have to have the wisdom of Solomon because you're
7 required to see that the interests of the consumer is
8 treated fairly and that the company is able to provide
9 the services that you charge it to serve and also you
10 have to protect the interests of the shareholders
11 because they provide the necessary capital for the
12 company to do what it has to do. You are the balance
13 in the marketplace and that has always been the
14 history of this kind of arrangement in dealing with
15 power throughout the history of our country. I don't
16 have to tell you that. You know that better than I
17 do.

18 And it kind of disturbed me when I find
19 that the judgment of the company is being somewhat
20 deluded and/or usurped by the action of the staff.
21 You have to deal in an arm's length basis in order to
22 provide the fairness and the equitability in all three
23 areas that I just previously described. And when you
24 -- when the staff begins to exercise its judgment in
25 place of what the company is doing, then the company

(ROGERS - DIRECT BY MANIFOLD)

1 no longer can be held accountable for what it does.
2 And as I said before this Commission several years
3 ago in Bremerton that when this company appears before
4 the Commission it should do so with a certain degree
5 of trepidation and fear to make certain that it is
6 being dealt with fairly. All elements are essential
7 for our growing population to have the necessary power
8 to meet that growth in the future. And when you don't
9 have that kind of fairness, the marketplace begins to
10 tell you that and it has simply told you that very
11 strongly very recently as witness the value of the
12 stock dropping and also the debt rating that the
13 company now has.

14 So, therefore, I would like to paraphrase
15 what Mr. Boucher said before me, and that is that you
16 certainly can change the rules of the game but not in
17 the middle of the game.

18 JUDGE HAENLE: Questions, Counsel?

19 MR. MANIFOLD: Yes.

20 Q. I wonder if in your work on the consumer
21 panel if you came to any conclusions about whether the
22 Commission should review the decisions that the
23 company does make in spending money in terms of
24 producing electricity.

25 A. Oh, yes. There's a procedure for that, as

(ROGERS - DIRECT BY MANIFOLD)

1 you well know, and that procedure is an ongoing one at
2 all times, but it has to be at an arm's length basis.

3 Q. And in doing that do you think it's
4 appropriate for the staff of the Commission to have a
5 role in presenting information in those cases?

6 A. Absolutely, but it should be before the
7 fact and not after the fact or during the game, as I
8 called it.

9 Q. So are you suggesting that when the company
10 plans to acquire a project or build a plant that it
11 should get, seek and obtain approval before it makes
12 that final decision from the Commission -- obtain
13 approval from the Commission before it commits itself?

14 A. Yes. It's on a co-determining basis. It
15 always has been that way. That's called good planning
16 to make certain the direction they're going in. The
17 Commission -- and when I use the term Commission I
18 include the staff. The original design of dealing
19 with monopolies when electricity was developed -- and
20 I don't want to go into the history of that.

21 JUDGE HAENLE: I think we may be getting
22 just a little bit broad here.

23 A. That is, it is essential that all elements
24 be treated fairly because when one gets out of balance
25 with the other you begin to lose. No one can be

(ROGERS - DIRECT BY MANIFOLD)

1 treated unfairly and that's the most important thing
2 that you have to do, and when you begin to be involved
3 in the eternal operation in meeting the charge that
4 the company has been charged with when given an order
5 to produce and serve its clientele, you are usurping
6 their responsibility thereby relieving them of any
7 accountability. You have to let them do the job. If
8 they don't do the job well they will get penalized.
9 You can't do that in the middle of the game.

10 JUDGE HAENLE: Questions?

11 CHAIRMAN NELSON: I have one. Mr. Rogers,
12 you and Mr. Boucher have been witnesses oftentimes
13 while I've been on this Commission and I've
14 appreciated your thoughtful comments. I would like to
15 seek to enlist your help because the rules of the game
16 really are changing at the federal level and they're
17 really undermining the central notion of electric
18 monopolies. The Commission has just started a whole
19 separate proceeding to take a look at the Energy Power
20 Act and the forces it set in motion that are bringing
21 competitors into the electric power generation market,
22 and I suspect, although I don't know, that Puget
23 might have a consumer panel asking these various
24 questions, but I would just ask for your
25 participation. In the future we will be doing

(ROGERS - DIRECT BY MANIFOLD)

1 notices of inquiry on how we should accommodate forces
2 of competition competing with what we have thought up
3 until now would be monopolies, which I think is why
4 stockholders think of these as being relatively safe
5 for investments than other investments, but there are
6 a number of forces blowing through the industry that
7 are going to change I think that fundamental
8 assumption. So I would ask for your participation in
9 our process here.

10 THE WITNESS: I would be very happy to. I
11 can't speak for Mr. Boucher but I certainly would be
12 happy to. I have to say I was a shareholder up until
13 last September when I read some of the things that you
14 were doing and I said it's time to get out. That
15 arm's length is getting shorter. I didn't like it and
16 I was right.

17 JUDGE HAENLE: Any other questions of the
18 witness?

19 You may step down.

20 MR. MANIFOLD: Chester Crowell.

21 Whereupon,

22 CHESTER CROWELL,
23 having been first duly sworn, was called as a witness
24 herein and was examined and testified as follows:

25

(CROWELL - DIRECT BY MANIFOLD)

1 DIRECT EXAMINATION

2 BY MR. MANIFOLD:

3 Q. Will you please state your name, spelling
4 your last name.

5 A. Chester Crowell, C R O W E L L.

6 Q. And your address?

7 A. 218 North First Street in Shelton,
8 Washington 98584.

9 Q. Are you a Puget Power customer?

10 A. No, sir.

11 Q. Stockholder?

12 A. Joint tenants in common with my mother.
13 I'm here on her behalf.

14 Q. Please go ahead and make your comment.

15 A. Thank you very much, Mr. Manifold, and
16 certainly appreciate the opportunity to be here before
17 our commissioners. I want to address primarily here
18 in the statements the issue of prudence and integrity.
19 My mother has been a shareholder about 30 or 40 years.
20 My father and she owned stock. They bought 750 shares
21 of Puget Sound Power stock and there was a stock split
22 in which there was a two for one that made that turn
23 into 1500 shares. And my parents have been depending
24 upon the dividends from Puget Power for approximately
25 30 years or more to supplement Social Security. My

(CROWELL - DIRECT BY MANIFOLD)

1 father is now dead and my mother needs the stable
2 dividends for her survival and to pay for medical
3 costs. A good friend of mine, Larry Lang in the
4 Auburn-Tacoma area, died about December 1993. He
5 worked for Puget Power and he supported three children
6 and he had nothing but praise for Puget Power and for
7 their willingness to show concern and help. They took
8 him off the street with almost no education and helped
9 him to become a draftsman with a good income so that
10 he could support his wife and three children, and he
11 said that during the time that he had cancer and he
12 was dying that no company could possibly treat him any
13 better than Puget Power has.

14 Everyone I've talked to about Puget Power,
15 and that includes one of the professional land
16 surveyors here in the Olympia area, had nothing but
17 praise for the management and for the government in
18 Puget Power.

19 I have confidence that Puget Power has the
20 financial integrity and the business integrity to make
21 wise decisions on behalf of ratepayers, on behalf of
22 shareholders and on behalf of concern for its
23 communities as evidenced by its conservation and
24 public involvement. I believe that the
25 recommendations by the WUTC do not and should not take

(CROWELL - DIRECT BY MANIFOLD)

1 precedence over decisions by management. A reasonable
2 and fair rate increase is spread over many, many
3 thousands of people. A cut in dividends is spread
4 over a few retired people who genuinely would be hurt.
5 Perhaps some of them would even be forced out of their
6 homes because they depend upon Social Security and on
7 dividends from Puget Power stock. So the decisions
8 that are made here by the commissioners and by our
9 honorable counsel carry the weight of human lives. We
10 are not talking about just dollars and cents. We're
11 talking about people who live and survive depending
12 upon how a company treats them. So I appeal for
13 consideration for our senior citizens and for the
14 future of our northwest and the reputation of our
15 whole area here. I appeal for support of the
16 management of Puget Power.

17 JUDGE HAENLE: Just a second, sir.

18 Questions, Mr. Manifold?

19 MR. MANIFOLD: No.

20 JUDGE HAENLE: Counsel?

21 MR. CEDARBAUM: No.

22 JUDGE HAENLE: Commissioners?

23 CHAIRMAN NELSON: No.

24 JUDGE HAENLE: Thank you, sir. If you want
25 to leave that statement with Mr. Manifold.

(CROWELL - DIRECT BY MANIFOLD)

1 THE WITNESS: Just notes.

2 MR. MANIFOLD: Darwin Norby and after that
3 is Mr. and Mrs. Manning.

4 Whereupon,

5 DARWIN NORBY,

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

8

9 DIRECT EXAMINATION

10 BY MR. MANIFOLD:

11 Q. Please state your name, spelling both
12 names.

13 A. Darwin Norby, D A R W I N N O R B Y.

14 Q. And your address?

15 A. 45527 - 244th Avenue Southeast, Enumclaw
16 98022.

17 Q. Are you a Puget Power customer?

18 A. Yes.

19 Q. Stockholder?

20 A. Could I qualify that with a little brief
21 explanation?

22 Q. Sure.

23 A. I am here basically because I served on the
24 consumer panel. I was not a stockholder at that time,
25 but my financial advisor said if I had some spare

(NORBY - DIRECT BY MANIFOLD)

1 cash that it would be a good investment, which I
2 agreed. I was very impressed by the company as a
3 consumer panelist. I was on the consumer panel at the
4 time that the cogeneration issue was being negotiated
5 by Puget Power. I was not privy to those negotiations
6 but we were discussing the cogeneration at that time.
7 I do own some shares of Puget Power now, minor
8 interest.

9 Q. Which panel was it that you were on?

10 A. I was on the panel at Auburn, Washington
11 consumer panel.

12 Q. Please go ahead and make your statement.

13 A. What am I saying? I was on at Puyallup,
14 Washington. I'm sorry.

15 Q. That's fine. Just remember to breathe.
16 That's the most important.

17 A. Thank you. I think that comes automatic,
18 but in terms of cogeneration, which I think is the
19 more important issue here, it seems to me that what's
20 being contemplated is a real threat to making
21 agreements with cogeneration. Now, on the panel there
22 was very wide agreement on the benefit of establishing
23 cogeneration with these places that were using energy
24 ending up with waste heat or needing the end product
25 of inter-generation for heat. And there was

(NORBY - DIRECT BY MANIFOLD)

1 widespread enthusiasm on the panel I think for
2 cogeneration. I feel that has not been well presented
3 here today, but I think that's the very important part
4 that what needs to be done is to find alternate
5 sources of electrical power to serve the needs of the
6 region and anything that can be done to encourage that
7 really should be done.

8 I got on the panel because of the war over
9 nuclear power. I'm a cytogeneticist, very interested
10 in the damage caused by nuclear radiation. I feel
11 that the nuclear industry was very, very crass from
12 protecting the workers and public from those dangers,
13 and until there's a realization of the need to protect
14 people from radiation, nuclear power will never be a
15 practical source of power. It could be if the people
16 working with it would take these precautions that
17 are necessary, which I won't detail here, but this
18 motivated me to get on the panel because Puget Power
19 had been involved in an overture with nuclear power.
20 Unfortunately, for them WPPSS popped up soon enough to
21 get them out of it before they got too deeply into it.
22 We do need the electricity, there's no doubt about it.
23 We can't get it from water power in any greater form
24 than we're getting it now and we may be even have
25 cutbacks on that. There are coal plants that have

(NORBY - DIRECT BY MANIFOLD)

1 real pollution problems. Even the oil plants do
2 increase the level of carbon dioxide and monoxides in
3 the atmosphere. So I think it's very important that
4 we look at cogeneration, at the idea that they're
5 burning fossil fuels now for one purpose, let's use
6 them for two purposes, and the cogeneration has the
7 advantage that it doesn't take a lot of new area. You
8 don't have to build a brand-new plant over 30 or 50
9 acres or anything of that sort so it utilizes what's
10 presently right there, so I think the panel should pay
11 more attention to protecting the idea of cogeneration.

12 Now, I might say as a stockholder I don't
13 own enough stock to be worried about what it's going
14 to do and isn't going to do. I used to own Public
15 Service of New Hampshire stock because my wife was a
16 girl from New Hampshire and we know what can happen to
17 utility stocks, and when we invest we know that we're
18 investing at a gamble and that anything can happen
19 from New Hampshire Public Service to Puget Power to
20 anything else, so I think stockholders should always
21 realize this when they do make an investment in stock.
22 I don't think they should be penalized for making a
23 mistake if they can avoid it, but I frankly think that
24 it is such a gamble, it should be recognized as such
25 with a gambling tax, but my whole point is

(NORBY - DIRECT BY MANIFOLD)

1 cogeneration should be protected. What you're doing
2 is discouraging Puget Power from investing in
3 cogeneration and you're discouraging cogenerators, as
4 the first fellow that testified here, that -- from
5 Windpower in Portland certainly testified that they're
6 definitely very worried about putting an investment in
7 any kind of cogeneration or alternate generation, and
8 I think his testimony certainly should be considered
9 and should be entered here. I thank you.

10 JUDGE HAENLE: Thank you. Now is your
11 chance to spell cytogeneticist.

12 THE WITNESS: C Y T O G E N E T I C I S T.

13 JUDGE HAENLE: Thank you. That's probably
14 the word of the day. Mr. Manifold, do you have
15 questions?

16 MR. MANIFOLD: No.

17 JUDGE HAENLE: Counsel? Commissioners?

18 COMMISSIONER HEMSTAD: No.

19 JUDGE HAENLE: Thank you, sir.

20 MR. MANIFOLD: Manford or Regina Manning.

21 Mr. and Mrs. Manning.

22 Darrell Jones.

23 Whereupon,

24 DARRELL JONES,

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

(NORBY - DIRECT BY MANIFOLD)

1 herein and was examined and testified as follows:

2

3

DIRECT EXAMINATION

4 BY MR. MANIFOLD:

5 Q. Please state your name spelling your first
6 name.

7 A. My name is Darrell Jones, D A R R E L L
8 Jones.

9 Q. Your address?

10 A. 17239 Northeast 126th Place, Redmond 98052.

11 Q. And your corporate affiliation?

12 A. National Energy Systems Company, NESCO.

13 Q. Are you a Puget ratepayer?

14 A. I am.

15 Q. Are you a Puget stockholder?

16 A. I am not.

17 Q. Are you a Puget contract holder?

18 A. Yes. My company was the developer of one
19 of the projects that's under the prudence review.

20 Q. That's the Sumas project?

21 A. That's correct.

22 Q. Please go ahead.

23 A. I've been before the Commission several
24 times, sometimes in connection with the Sumas contract
25 and earlier in the mid 80s in connection with the

(JONES - DIRECT BY MANIFOLD)

1 Commission's interest in establishing some type of
2 cogeneration or independent power industry here in the
3 state of Washington. And the reason why I was before
4 the Commission, I believe, was because we had at that
5 time demonstrated a track record of successfully
6 developing electrical power plant, independent power
7 plant, around the country. We have developed projects
8 in Wyoming, in Michigan, in North Carolina, in New
9 Mexico, in California, Alaska, and here in Washington.
10 And I have conducted most of the negotiations for
11 those power contracts in those states. And I mention
12 that because this prudence review really goes to
13 whether or not Puget in its management were
14 reasonable, were cautious, were careful -- I'm not
15 sure what the right term is -- in negotiating the
16 contracts in question. And it is my testimony having
17 gone through this exercise with a number of utilities
18 around the country that Puget was inordinately
19 cautious, very difficult in some respects, very much
20 protective of what I think was the ratepayers'
21 interest in negotiating these contracts. There were
22 no "gimmes." These were hard fought negotiations. At
23 times a lot of feelings were vented. At times we
24 broke off negotiations and we went to separate rooms
25 and caucuses and there was a lot of give and take and

(JONES - DIRECT BY MANIFOLD)

1 over that process finally got a contract and then an
2 amendment to a contract was entered into.

3 I don't have a problem with the idea that a
4 utility, a public utility, is subject to a standard of
5 prudence review. I think that's important. They do
6 have a monopoly and I think it's in the public
7 interest, in the ratepayer's interest, to subject them
8 to a prudence review. What I do have a problem with
9 is the challenges that were made by staff and the
10 attorney general's office who were not privy to those
11 protracted painstaking negotiations on Saturday
12 mornings, on Sunday mornings, on Tuesday nights that
13 went on for a long time, and my brief perusal of the
14 attorney general's comments I find them wanting for
15 the facts. I don't think that the opinions that were
16 issued by the attorney general, their experts, and the
17 staff were based on the facts as I know them and as I
18 was there.

19 Two more quick comments. I think the
20 record is quite replete throughout the country that
21 independent power plants are good for the ratepayers,
22 are good for the public. The reason why is because
23 they divorce the utility from the risk of doing it
24 themselves, and these are projects that take a great
25 deal of time to develop over a number of years and the

(JONES - DIRECT BY MANIFOLD)

1 risks of getting them permitted, financed, constructed
2 within a budget is all for the independent power
3 developer, and the utility, or the ratepayer, never
4 pays until the first kilowatt hour is produced.

5 That's the only time at which the utility has a risk,
6 and I think that's pretty well understood and in
7 the other states around the country where independent
8 power has been in place.

9 Finally, I think that the outcome -- not
10 necessarily this prudence review, but the outcome of
11 this prudence review will have a significant impact on
12 whether or not there is an appetite for developing
13 additional independent power projects here in the
14 state of Washington. Financers are watching this
15 very, very closely. Folks are involved in building
16 them, and engineering them, watching them. They've
17 got to have a reasonable level of assurance that the
18 contracts that are let are not going to be
19 second-guessed at some future point or lenders aren't
20 going to invest the time and the energy to follow this
21 project. In the final analysis they're not going to
22 finance it.

23 One small point in connection with that. I
24 think that the compromise, although I really don't
25 understand details of it, but the compromise that's

(JONES - DIRECT BY MANIFOLD)

1 been proposed by staff is probably not adequate to
2 overcome that concern. My guess is that -- and again
3 this is just opinion on my part, but my guess is that
4 the only thing that will give the independent power
5 industry the assurance they need that they can go
6 ahead with projects in this state is no economic
7 consequences to Puget Power. That's my testimony.

8 JUDGE HAENLE: Questions, Mr. Manifold?

9 MR. MANIFOLD: Yes, a few.

10 Q. Do you understand that neither public
11 counsel nor staff is proposing that the contract rates
12 obtained by these independent power producers be
13 adjusted?

14 A. I understand that. I am not here on behalf
15 of that project. I am more here on behalf of future
16 projects and the industry in general.

17 Q. The next one down the road?

18 A. Yes.

19 Q. You may not follow these things that
20 closely, but are you aware that in Puget's last
21 general rate case it argued for and obtained an
22 increased equity portion of its cost of capital, in
23 other words, increasing its rate of return allowed
24 because it said it was more risky because of the
25 contracts that it was entering into with independent

(JONES - DIRECT BY MANIFOLD)

1 power producers?

2 A. I am not aware of that and I am not sure if
3 I even follow the gist of it.

4 Q. Fine. Did you -- I can't remember if we
5 sent you -- did you review the testimony that public
6 counsel and staff filed or were you relying on some
7 summaries of it?

8 A. No. I perused -- I believe you folks sent
9 us a copy of the testimony as did the attorney
10 general's office and I perused those.

11 Q. When you were proposing your project to the
12 company -- just for a factual basis, this is the
13 project that was -- there was an original contract
14 that was entered into with the company and then it
15 was, if you will allow me, significantly amended to
16 change the size and the nature of the fuel and then a
17 new contract was entered into of the company?

18 A. That's correct.

19 Q. There were, I presume, some avoided cost
20 estimates by the company on file or having been
21 published with the Commission at the time you were
22 doing the amended contract. Did the parties apply
23 those rates to the contract or was there some
24 negotiation over how to apply those to the
25 particularities of this -- the project you were

(JONES - DIRECT BY MANIFOLD)

1 working on?

2 A. Puget gave no break to us. I don't think
3 they gave a break to anyone. The avoided costs were I
4 think what they were, but that was not the point that
5 Puget, in my opinion, wants to be. They came out
6 swinging. They came out talking about very, very
7 major concessions in the avoided costs, not only the
8 existing avoided costs but what they thought the
9 avoided costs was going to be in the future. And we
10 argued with them. Our contention was that the prices
11 may go up, the price of gas may go up, the price of
12 coal may go up but to no avail. They were very
13 aggressive.

14 Q. Why didn't you simply insist that they pay
15 the rate that was filed with the Commission as an
16 avoided cost number?

17 A. It's been my experience having done this a
18 number of times around the country that you can't --
19 notwithstanding the law you cannot compel the utility
20 to just give you that rate. You might be able to
21 through some type of complaint process and a hearing
22 process and some type of a decision by this
23 Commission, but by the time you go through that
24 exercise you end up with a piece of paper that has so
25 much built-in antagonism that no one will finance it.

(JONES - DIRECT BY MANIFOLD)

1 I guess the bottom line there, if I may just --

2 Q. Sure, please.

3 A. -- is that you negotiated, you take your
4 best answer, you reason with them, you provide the
5 best evidence and then you either take what you get or
6 you go away.

7 Q. In a recent unrelated case to this -- I
8 think it was a section 712 case -- my recollection is
9 that Puget's vice-president testified that it did not
10 want the Commission to preapprove contracts. They
11 thought it would be administratively unworkable and
12 insert too much additional time into the process of
13 negotiating and moving toward on a contract. I
14 wondered if you had any comment on whether the process
15 as you see it once a contract has been signed or
16 tentatively signed by a developer and a utility, what
17 you see from the developer's perspective an allowable
18 period of time if needed for Commission review. I
19 mean, is this something that a several month delay is
20 going to be a difficulty to the power producer? Is
21 that just fine or -- do you get the question?

22 A. I'm not sure I understand the question but
23 we have never attempted to get inside of the
24 decision-making process that Puget had or any other
25 utility, PG and E or Consumer's Power or Idaho Power.

(JONES - DIRECT BY MANIFOLD)

1 We've never tried to get into the decision-making
2 process that they have for and their strategy for
3 getting the power contract approved by their
4 Commission or sanctioned by their Commission. I'm
5 sure they had a strategy. We never questioned it. We
6 never challenged it.

7 Q. What I'm asking is, would it be a problem
8 for -- some of the witnesses today have said approve
9 it once, do it when the contract is first negotiated,
10 and my understanding is that some people may see that
11 there would be a problem in potential time delays, a
12 problem particularly from the power producer's
13 perspective if you've negotiated a contract, you've
14 signed it, Puget signed it, it's submitted to the
15 Commission, if there were a several-month period to
16 examine it, is that going to be a difficulty for you
17 as a power producer at that point, the delay I'm
18 talking about or the time it takes to do that?

19 A. My sense is that that's pretty much how it
20 played out in our case, and to answer your question
21 more directly, I don't think that that would -- I
22 don't think that that would be a difficult delay to
23 deal with from a developer's standpoint. It's a two
24 to three-year process from the time the contract is
25 entered into to the time the plan really comes on

(JONES - DIRECT BY MANIFOLD)

1 line, at least two or three years and sometimes four,
2 and as long as the developers understand there is a
3 reasonable promise that he will get the contract
4 approved I think he will expend his monies, take his
5 time, go through the permit process. He's going to be
6 careful about not spending millions of dollars but
7 maybe hundreds of thousands of dollars might be
8 appropriate.

9 JUDGE HAENLE: Can we keep in mind we've
10 still got several people to go and have been waiting.

11 MR. MANIFOLD: Well, this is one of the
12 difficulties of having an expert at this hearing.

13 Q. My last question is could you indicate who
14 NESCO is. Is it a joint partnership or is it owned by
15 others?

16 A. It's not publicly held. It's a privately
17 held company.

18 JUDGE HAENLE: Counsel?

19 MR. CEDARBAUM: Just a couple of questions.

20

21 CROSS-EXAMINATION

22 BY MR. CEDARBAUM:

23 Q. Mr. Jones, you indicated to Mr. Manifold
24 that you had been provided copies of testimony I
25 believe from him. Was that just the public counsel

(JONES - CROSS BY CEDARBAUM)

1 testimony or also Commission staff testimony or do you
2 recall?

3 A. I'm not sure. Someone in my office was
4 actually responsible for procuring it. I just read
5 it.

6 Q. So you're not sure at this time whose
7 testimony you were reading or the extent of the
8 testimony that you read?

9 A. That's correct.

10 Q. You also discussed the negotiations you had
11 with Puget and you indicated, I think -- maybe to
12 paraphrase you, you said that staff wasn't there, how
13 could they know, or something like that. Do you want
14 Commission staff members to sit in on your
15 negotiations?

16 A. No. I guess from a developer -- I answered
17 that too quickly, I guess. From a developers'
18 standpoint I don't know, I haven't thought about what
19 the consequences might be of having staff there. All
20 I know is they're very long, protracted and sometimes
21 nasty negotiations, and my experience has been the
22 fewer number of people and at least the fewer number
23 of representatives from different companies is better
24 than more representatives of different companies or
25 more interest.

(JONES - CROSS BY CEDARBAUM)

1 Q. So you don't have any problem with the
2 proceeding like this one in theory where a company has
3 to produce evidence to demonstrate to the Commission's
4 satisfaction that what they did was prudent?

5 A. No. I don't have a problem with that. I
6 think from -- I'm not a utility management person but
7 I am a ratepayer and I don't want all their decisions
8 to go totally unchecked or unreviewed. I think it's
9 prudent from the ratepayer standpoint to have their
10 decisions reviewed from time to time.

11 MR. CEDARBAUM: Thank you.

12 JUDGE HAENLE: Someone else?
13 Questions, Commissioners?

14 CHAIRMAN NELSON: No.

15 COMMISSIONER HEMSTAD: No.

16 JUDGE HAENLE: Thank you for your
17 testimony. You may step down.

18 MR. MANIFOLD: Next person is Max Bader and
19 after that is Terry Mitchell.

20 Whereupon,

21 MAX BADER,

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

24 THE WITNESS: My name is Max Bader, B A D E

25 R. I live at 6536 29th Avenue Northeast, Seattle,

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1 98115.

2

3

DIRECT EXAMINATION

4 BY MR. MANIFOLD:

5 Q. Are you a Puget Power customer?

6 A. No.

7 Q. And are you an investor in Puget Power?

8 A. Yes.

9 Q. You've previously given me a copy of your
10 typed comments so if you would please -- we will put
11 these in the record and you can please summarize those
12 to the commissioners.

13 A. I will go through it as best I can here. I
14 am here representing myself as a stockholder, my wife
15 as a stockholder and my three kids as stockholders.
16 My three kids are dependent upon the income of Puget
17 Power shares for their tuitions at college. A
18 recommendation by the WUTC staff and public counsel
19 after a prudence review of Puget Sound Power and Light
20 company has suggested the denial of 23 to \$43 million
21 annually because of certain long-term contracts for
22 power that were entered into during the last five
23 years. The staff and public counsel felt that
24 reliance upon the spot market and short-term contracts
25 would have been more prudent and saved the ratepayers

(BADER - DIRECT BY MANIFOLD)

1 money. This is Monday morning quarterbacking by a
2 state agency which is neither expert in managing a
3 private electric utility that purchases 69 percent of
4 its power nor does the agency have responsibility for
5 doing so.

6 Moreover, government agencies have little
7 expertise in predicting the future and are notorious
8 for being wrong when they attempt to do so. The
9 record is not stellar when it comes to the census, the
10 economy, the school enrollments, highway usage,
11 employment needs or energy reserves, prices and
12 requirements. A prudence review should determine
13 whether the people making the decisions were competent
14 and honest and whether the process used was
15 reasonable. The fact that a contract may ultimately
16 prove more costly than an alternative does not mean
17 imprudence. Conditions change and options change. No
18 one can predict prices and markets and those who are
19 right on average two thirds of the time are
20 extraordinary. The vast majority of commodities
21 speculators lose money and it is certainly true that
22 power will become a commodity here in the near future.

23 Puget Power has a reputation for being a
24 well-run private electric utility. The April 25,
25 1994 issue of Forbes Magazine contains a section on

(BADER - DIRECT BY MANIFOLD)

1 productivity and lists Puget Power on page 250. Puget
2 Power has a greater investment per employee, a measure
3 of efficiency, than 48 of the 60 utilities listed, and
4 eight of the 11 in the west. It has sales per employee
5 greater than than 49 of the 60. Puget headquarters has
6 an honest, competent board of directors which includes
7 Douglas Beighle, senior vice-president of the Boeing
8 Company, Charles Bingham, executive vice-president of
9 Weyerhaeuser, Phyllis Campbell, president and CEO of
10 U.S. Bank of Washington, Nancy Jacob, former dean of
11 the University of Washington school of business, and
12 among others, Daniel J. Evans, former three-term
13 governor and one-term senator from the state of
14 Washington. These are competent people who would not
15 tolerate incompetent or dishonest management of Puget
16 Power. If the WUTC rules Puget Power contracts to be
17 imprudent it indirectly accuses these board members of
18 dereliction of duty.

19 The spot market in oil, gasoline and
20 natural gas has moved widely in recent years. The
21 same will be true for electric power. The federal
22 government has paid higher prices for its strategic
23 petroleum reserve than it would have if it would have
24 waited. Yet the decision to have a reserve was
25 prudent. We can't accurately predict droughts, El

(BADER - DIRECT BY MANIFOLD)

1 Ninos or the ramifications of the Endangered Species
2 Act. Thus how can the WUTC staff and public counsel be
3 so impudent and arrogant as to charge Puget Power with
4 imprudence. The actions proposed by the WUTC staff and
5 public counsel assume without saying so directly that
6 shareholders in Puget Power are getting a wind- fall at
7 the expense of the consumers of power. This is not the
8 case. Only 20 percent of Puget Power stock is held by
9 institutions. The rest is held by individuals. It is
10 a widows and orphans stock held by many retired people
11 on fixed incomes and young families who are trying to
12 set aside funds for the children's educations. A
13 dividend cut resulting from implementation of a WUTC
14 staff proposal would be a major blow to many people who
15 have faith in Puget Power and in the fairness of
16 regulators. Puget Power has only been a moderately
17 remunerative investment over the years. The stock
18 today sells for the same price that it did in 1965 even
19 though the cost of living is three and a half times
20 what it was then.

21 JUDGE HAENLE: Sir, you've done your five
22 minutes. Could you summarize the remainder and we'll
23 put the statement in the record.

24 THE WITNESS: Okay. I think the point is
25 that a person who invested in Puget Power over the

(BADER - DIRECT BY MANIFOLD)

1 last 30 years would have done better if he had
2 invested in 10-year United States Treasury Bonds
3 than in Puget Power and I have here some things on
4 what definition of prudence is. I think it is
5 important that you recognize that what has happened
6 for Puget Power was not imprudent. I think that's
7 good enough.

8 JUDGE HAENLE: All right. Thank you.

9 Questions, Mr. Manifold? Counsel?

10 Commissioners, questions?

11 Thank you, sir. Did you leave a copy of
12 that statement?

13 MR. MANIFOLD: Terry Mitchell.

14 Whereupon,

15 TERRY MITCHELL,

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

18

19 DIRECT EXAMINATION

20 BY MR. MANIFOLD:

21 Q. Good afternoon. Please state your name.

22 A. My name is Terry Mitchell. I live at 500
23 Aloha Street, Unit 308, Seattle, Washington 98109.

24 Q. Are you a Puget Power customer?

25 A. I am neither a Puget power customer or a

(MITCHELL - DIRECT BY MANIFOLD)

1 shareholder. I am just a citizen of the state of
2 Washington who is concerned about quality of life and
3 the impact proceedings such as this have on that.

4 Q. Please go ahead.

5 A. I read all the testimony involved after I
6 came across a newspaper clippings on what was going
7 on, and I must admit I'm quite shocked at the apparent
8 lack of business acumen that's embedded in the
9 recommendations by both staff and counsel. The
10 definition of prudence appears to be having the luxury
11 of 20/20 hindsight to second-guess some business
12 decisions made in a very complex environment. The
13 business world just doesn't work that way. To punish
14 Puget's shareholders for a program that was a good
15 program but not in hindsight a perfect program is not
16 sound regulatory procedure, I would say. As it has
17 been pointed out earlier, the shareholders provide
18 capital for the company and if your main mission as a
19 Commission is to protect the ratepayer, you cannot
20 ignore the shareholders.

21 I was really surprised particularly reading
22 the testimony of the chief witness for counsel, Mr.
23 Blackmon who professes by his college degrees to have
24 championed the cause of an incentive regulation
25 meaning replacing the old style of regulation whereby

(MITCHELL - DIRECT BY MANIFOLD)

1 you had a regulated utility or regulated entity that
2 you got to do what you wanted it to do by beating
3 it with a stick, instead you were to lead it with a
4 carrot. I was surprised by that testimony that he had
5 for counsel that he seems to be championing
6 disincentive regulation with this very procedure of
7 this 20/20 hindsight punishment. Instead of beating
8 with a stick he just appears to be beating with a
9 carrot instead. I really do challenge the staff if
10 they think they're in a better position to predict
11 power rates for the next 20 years and the cost of
12 power than Puget Power whose bread and butter it is to
13 do that job that they put that forecast on the table.
14 If indeed Puget pays more than what that cost says,
15 fine, go ahead and pass it on to shareholders. On the
16 other hand, would you be willing if the cost is higher
17 than that to refund to the shareholders that cost. I
18 don't think so. Again I think what's being
19 recommended is a form of disincentive regulation and
20 particularly, as has been pointed out earlier, the
21 private power industry does provide benefits to the
22 ratepayers by insulating them from the risks of
23 developing and operating these projects. The private
24 developer takes on that risk from the ratepayers, and
25 I think the message can be sent by the Commission with

(MITCHELL - DIRECT BY MANIFOLD)

1 the wrong ruling here, wrong ruling being following
2 staff and counsel recommendation. It's going to be a
3 disincentive to that industry to operate in this
4 state. It will cause a shift of that burden to be
5 shifted back to the ratepayers. And so you really do
6 have to question what is in the best interests of the
7 ratepayers in this case as following the staff
8 recommendation for disincentive regulation or is it at
9 least acknowledging that Puget did a good job.

10 JUDGE HAENLE: You're going to need to slow
11 down. You're reading from something and you're
12 reading very quickly.

13 THE WITNESS: Actually I'm not.

14 JUDGE HAENLE: You're talking very quickly
15 and if she doesn't get it down it won't appear in the
16 record and it won't have done you very much good to
17 say it.

18 THE WITNESS: Again, I just urge the
19 Commission to be fair and reasonable in its ruling and
20 not to practice disincentive regulation, which is sort
21 of contrary to what is popular amongst regulatory
22 agencies elsewhere in the country right now and that
23 is to disallow this credit that counsel and staff are
24 recommending be passed on to the shareholders. That's
25 all.

(MITCHELL - DIRECT BY MANIFOLD)

1 JUDGE HAENLE: Counsel?

2 Commissioners, questions?

3 COMMISSIONER HEMSTAD: What is your
4 occupation?

5 THE WITNESS: I'm a geologist.

6 COMMISSIONER HEMSTAD: Well, I'm impressed.
7 I don't think many general public witnesses would take
8 the time to sit down and read the testimony.

9 THE WITNESS: No. I do work with
10 independent power developers in providing fuel supply
11 so I am involved with that industry but I am involved
12 more with the general energy industry and particularly
13 how it applies to the state of Washington.

14 JUDGE HAENLE: Other questions?

15 Thank you, sir. You may step down.

16 MR. MANIFOLD: George Zonoff.

17 Whereupon,

18 GEORGE ZONOFF,
19 having been first duly sworn, was called as a witness
20 herein and was examined and testified as follows:

21

22 DIRECT EXAMINATION

23 BY MR. MANIFOLD:

24 Q. Would you please state your name spelling
25 your last name.

(ZONOFF - DIRECT BY MANIFOLD)

1 A. George Zonoff, Z O N O F F.

2 Q. Your address?

3 A. 9788 Northeast Murden Cove Drive,
4 Bainbridge Island, Washington 98110.

5 Q. Are you a Puget Power customer?

6 A. Yes, I am.

7 Q. Are you a Puget Power stockholder?

8 A. Yes, I am.

9 Q. Are you speaking on behalf of any groups?

10 A. I am speaking on behalf of myself as a
11 shareholder.

12 Q. Please go ahead.

13 A. I really had a lot of other things to say,
14 but I am going to dispense with them simply because
15 these views have already been thrown out, but I wish
16 to take the opportunity to endorse the view, at least
17 in my personal view as a layman, that the company did
18 act prudently. I did spend a little time
19 investigating the contracts that they purchased from
20 the nine sources and what I find is that the
21 Commission is, as many people have pointed out, second
22 guessing the actions of Puget Power management. There
23 are nine contracts, nine disparate sources ranging
24 from hydro power to thermal to cogeneration. In fact
25 one of them is rather environmental friendly as to the

(ZONOFF - DIRECT BY MANIFOLD)

1 one in Seattle. They have also acted prudently by
2 selecting nine sources rather than one or two and also
3 they have established reliability of their costs for
4 the next 20 years. These things from my layman's
5 point of view indicate that they had acted responsibly
6 and certainly prudently in my opinion. And I feel
7 that the action the committee is taking is simply
8 saying that Puget Power management was unable to
9 predict the future for the next 20 years with any kind
10 of precision. I feel this they have done the right
11 thing.

12 And one of the things that I did check into
13 -- new word to me -- is dispatchability. And I think
14 the comments which were extracted from the testimony
15 before the Commission indicated a lack of
16 dispatchability on these sources. I think
17 dispatchability in this particular instance is simply
18 a red herring since it has nothing to do with the cost
19 of that power since Puget Power already has ample,
20 ample sources of dispatchability within its extant
21 organization.

22 So those are the only comments that I wish
23 to make and I wish to endorse the comments made by
24 many other shareholders and users of Puget Power here,
25 and I would urge the Commission to return to the

(ZONOFF - DIRECT BY MANIFOLD)

1 previous rate of return and establish it at that
2 level, and also to rescind the contemplated refund.
3 Thank you.

4 JUDGE HAENLE: Mr. Manifold.
5 Counsel?
6 Commissioners, questions?
7 Thank you, sir.

8 MR. MANIFOLD: Wally Kohl. You may have
9 the honor of being the last witness today.

10 JUDGE HAENLE: Is there anyone who has not
11 signed up who wants to testify, would you raise your
12 hand, please. You're right. He may be the last
13 witness.

14 Whereupon,

15 WALLY KOHL,
16 having been first duly sworn, was called as a witness
17 herein and was examined and testified as follows:

18

19 DIRECT EXAMINATION

20 BY MR. MANIFOLD:

21 Q. Please state your name spelling your last
22 name.

23 A. Wally Kohl, K O H L.

24 Q. Your address?

25 A. 23442 - 126th Southeast Kent, 98031.

(KOHL - DIRECT BY MANIFOLD)

1 Q. Are you a Puget Power customer?

2 A. Since 1960, yes.

3 Q. Are you a Puget Power stockholder?

4 A. Since 1978, yes.

5 Q. Are you speaking on behalf of any groups
6 here today?

7 A. No, just myself.

8 Q. Are you a Puget Power employee or retired
9 employee?

10 A. No.

11 Q. Please go ahead.

12 A. I questioned what we're trying to
13 accomplish, what the Commission is trying to
14 accomplish with the prudence. Without trying to
15 lower the vulgarities of law, if the intent was to
16 get a precipitous drop in the stock price so we could
17 all accumulate additional shares, that's been
18 accomplished, but I haven't heard anyone here say that
19 we're now accumulating. We seem to get to the point
20 where we're living it out and I too am retired and use
21 it as an income source. I spent 22 years in
22 subcontract analysis, subcontract management and
23 negotiations. And I'll read just one statement here,
24 "Public counsel's independent consultant" --

25 JUDGE HAENLE: You will need to read

(KOHL - DIRECT BY MANIFOLD)

1 slowly.

2 A. -- "has testified that Puget Power paid too
3 much for several of the contracts." I have negotiated
4 a lot of huge contracts and I see no meat in that type
5 of a statement. It's too easy to question anyone's
6 negotiation after the fact. I don't think the
7 Commission provides a service to either the
8 stockholders or to the ratepayers by this after-the-
9 fact review. I am reiterating what Mr. Burley and Mr.
10 Bader earlier had said. If you want to assist the
11 management of Puget Power in supporting its
12 stockholders, the people who finance the company, and
13 the ratepayers who are using the service, then you
14 need to be proactive, help them with future contracts
15 not after the fact of someone doing the negotiation.

16 And Robert, I would like to address one
17 point that you made to Mr. Burley. You said should
18 they get approval. I would like to comment that I
19 think the people negotiating a contract need to seek
20 intelligent opinion, and it appears to me that WUTC is
21 that opinion that needs to be sought. But in my
22 opinion there's only one person that negotiates a
23 contract. If I don't have a true negotiator, then I
24 don't have a purpose for being there. I think Puget
25 Power does that. I think if we looked at the legal

(KOHL - DIRECT BY MANIFOLD)

1 problems that Puget Power has had compared with other
2 utilities that I've invested in, we'll find that they
3 are a very well managed firm, but they of course need
4 help and that's what the WUTC is for, to help, but not
5 come back after the fact and regress something.

6 JUDGE HAENLE: Questions, Mr. Manifold?

7 MR. MANIFOLD: No.

8 JUDGE HAENLE: Counsel?

9 MR. CEDARBAUM: No.

10 JUDGE HAENLE: Commissioners?

11 COMMISSIONER HEMSTAD: No.

12 JUDGE HAENLE: Thank you, sir. You may
13 step down.

14 Now, is there anyone else present in the
15 hearing room who wanted to give testimony and hasn't
16 had the opportunity?

17 We have one lady. If you would like to
18 come up, ma'am. Need to have you sign the sign-in
19 sheet afterward.

20 Whereupon,

21 DOLORES HOYT,

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

24 THE WITNESS: My name is Dolores D O L O R
25 E S Hoyt, H O Y T, and I live at 25919 Southeast 20th

(HOYT - DIRECT BY MANIFOLD)

1 street, Camas, Washington. And what I am speaking is
2 just perhaps in response to a lot of the testimony.
3 You need to ask me?

4

5 DIRECT EXAMINATION

6 BY MR. MANIFOLD:

7 Q. Are you -- I'm not nearly as fast the court
8 reporter. Do you have a zip code?

9 A. No. I'm a stockholder but we do not have
10 and I wish that we did have, I wished that I could say
11 that I had Puget Sound rates.

12 Q. What is your zip code?

13 A. 98607.

14 Q. And so you are not a customer but you are a
15 stockholder?

16 A. That's right, a very small one.

17 Q. Go ahead.

18 A. Since my husband and I, who is sitting
19 back there -- we're both retired -- have had Puget
20 Sound we regard it as the most solid of our
21 investments, and we don't have a great deal but we
22 certainly appreciate the regularity of our dividends
23 and on the return that we get, and I hadn't realized
24 that it had taken this plunge because we don't have
25 access, good access. If any of you who live in our

(HOYT - DIRECT BY MANIFOLD)

1 area -- we get the Portland coverage but not the
2 Washington coverage and so I am speaking perhaps in
3 ignorance about some things but I am speaking -- the
4 one thing that I can speak about is that we have PUD
5 power and I know PUD commissioners and I know how they
6 struggle and have struggled to keep the rates down
7 with fighting with BPA, and I only wished that there
8 were a regulatory agent on BPA such as you have, but
9 no, they don't have to be responsible. They are
10 federal and they can get by with murder, and I would
11 like to see them held to some of the accountability
12 that you people are asking of a private utility.

13 JUDGE HAENLE: Are you supporting the
14 filing, ma'am, or are you opposing the filing?

15 THE WITNESS: I am opposing it.

16 JUDGE HAENLE: Questions, Mr. Manifold?

17 MR. MANIFOLD: No.

18 Counsel?

19 Commissioners?

20 Anyone else present in the hearing room
21 that wanted to give testimony that hasn't had the
22 opportunity, would you signify?

23 I don't see anyone wig-wagging. I
24 appreciate all of you sitting through the number of
25 people that we had. I think you did very well at

(HOYT - DIRECT BY MANIFOLD)

1 keeping it going. Let's make the documents that came
2 in at this hearing together with the sign-in sheets
3 and I would like to put with that a copy of Mr.
4 Manifold's letter to the customers just to illustrate
5 what they are responding to. I would like to make
6 that 2127. Is that all right if we enter that Mr. Van
7 Nostrand?

8 MR. VAN NOSTRAND: Yes, Your Honor.

9 JUDGE HAENLE: Mr. Manifold?

10 MR. MANIFOLD: Yes.

11 JUDGE HAENLE: And I assume Mr. Cedarbaum?

12 All right we'll enter that. Is there
13 anything else we will need to discuss?

14 We will be in recess until the Bellevue
15 hearing next Friday. Thank you all for coming.

16 (Marked and Admitted Exhibit 2127.)

17 (Hearing adjourned at 4:50 p.m.)

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