BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of	)	
	)	
THE WASHINGTON WATER POWER COMPANY	)	Docket No. UE-941053
	)	
a Washington corporation; SIERRA	)	Docket No. UE-941054
PACIFIC POWER COMPANY, SIERRA	)	
PACIFIC RESOURCES, and RESOURCES	)	VOLUME 4
WEST ENERGY CORPORATION, Nevada	)	
corporations, to Merge into	)	PAGES 390 - 634
RESOURCES WEST ENERGY CORPORATION;	)	
and Authorizing Issuance of	)	
Securities, Assumption of	)	
Obligations, and Adoption of	)	
Tariffs.	)	

A hearing was held in the above matter on February 9, 1995, at 9:00 a.m. at 1300 South Evergreen Park Drive Southwest before Chairman SHARON L. NELSON, Commissioners RICHARD HEMSTAD and WILLIAM R. GILLIS and Administrative Law Judge ELMER CANFIELD.

The parties were present as follows:

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

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

Cheryl Macdonald, CSR
Court Reporter

APPEARANCES (Cont.)

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

NCAC, SNAP, by LINDA WILLIAMS, Attorney at Law, 10266 Southwest Lancaster Road, Portland, Oregon 94219.

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

NORTHWEST ALLOYS, INC., by PAULA PYRON, Attorney at Law, 101 Southwest Main, Suite 1100, Portland, Oregon 97204.

WICFUR, by MICHAEL J. UDA, Attorney at Law, 2300 First Interstate Tower, 1300 Southwest Fifth Avenue, Portland, Oregon 97201.

I N D E X

P R O C E E D I N G S

(Marked Exhibits 84 - 96.)

JUDGE CANFIELD: This hearing will please come to order. This is a continuation of the hearing in the Washington Water Power merger application docket Nos. UE 941053 and UE 941054. This matter is being heard by the Utilities and Transportation Commission consisting of Chairman Nelson, Commissioners Hemstad and Gillis. And some appearances are different than in earlier sessions, so maybe we can go around and give brief appearances for those that appeared before and maybe a more complete appearance for those that haven't appeared before in these sessions. Today's date for the record is February 9, 1995, and start with the applicant, please.

MR. MEYER: Thank you. David Meyer and David Norris for joint applicants.

MR. UDA: Mike Uda for WICFUR.

JUDGE CANFIELD: Do we have your address in the record? Maybe we can just get that briefly.

MR. UDA: I believe I gave it to the reporter.

JUDGE CANFIELD: Okay. We've got that then. Next.

MS. PYRON: Paula Pyron for Northwest Alloys, Inc. with Ball Janick and Novack, 101 Southwest Main, Suite 1100, Portland, Oregon, 97204.

JUDGE CANFIELD: Thank you.

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

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

JUDGE CANFIELD: Thank you. Couple of other individuals that were here earlier indicated they may not be back, so I guess that's come to pass. Any preliminary matters before we get started this morning?

MR. MEYER: We have none.

JUDGE CANFIELD: Hearing none, Mr. Meyer, are you ready to proceed?

MR. MEYER: Thank you. Call to the stand Mr. Gerald Canning.

Whereupon,

GERALD CANNING,

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

JUDGE CANFIELD: We did establish some exhibit numbering earlier on at the pre-hearing conference for Mr. Canning, prefiled testimony at

Exhibit T-32, accompanying exhibits 33 through 37, and off the record we did make some pre-numbering of other exhibits which I will get to momentarily. Mr. Meyer.

MR. MEYER: Thank you.

Whereupon,

GERALD CANNING,

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

DIRECT EXAMINATION

BY MR. MEYER:

Q. For the record, please state your name.

A. My name is Gerald Canning.

Q. By whom are you employed and what is your title?

A. I'm employed by the Sierra Pacific Power Company as a vice-president of the wholesale electric business.

Q. As such, have you prefiled direct testimony in this proceeding marked as T-32?

A. I have.

Q. I understand you have two pages on which you have corrections?

A. Yes. I have two updates for events that have occurred since the testimony was filed. The first is on page 7, line 9, where it says the Alturas tie will be rated at 190 megawatts. That has since been increased to 235 megawatts. My other change is on page 28, line 19.

Q. Why don't you read that quickly once and then very slowly the second time through as you add that insertion.

A. We're going to strike the last sentence and add the sentence that reads, "Since preparation of this testimony, we have executed the letter agreements which are Exhibit No. 80 and which are summarized on Exhibit No. 81, and we have thus acquired the path from the Idaho Power Company and Bonneville Power Administration.

Q. Do it very slowly.

A. "Since preparation of this testimony, we have executed the letter agreements which are Exhibit No. 80 and which are summarized.

MS. JOHNSTON: Slow down just a bit, please.

THE WITNESS: Certainly.

MS. JOHNSTON: "We have executed the letter agreements which are Exhibit 80".

A. "And which are summarized on Exhibit No.

81, and we have thus acquired the needed path from Idaho Power Company and BPA."

JUDGE CANFIELD: Could you read that one more time just to make sure we got it right.

THE WITNESS: Yes. "Since preparation of this testimony we have executed the letter agreements which are Exhibit No. 80 and which are summarized on Exhibit No. 81 and we have thus acquired the needed path from Idaho Power Company and BPA."

Q. All right. With those changes having been made to your prefiled direct testimony, if I asked you the questions that appear therein, would your answers be the same?

A. They would.

Q. Are you also sponsoring what have been marked for identification as Exhibits 33 through 37?

A. I am.

Q. Are those true and correct?

A. Yes, they are.

Q. Those were prepared by you or under your direction and supervision?

A. They were.

MR. MEYER: With that, Your Honor, I move the admission of T-32 as well as 33 through 37.

JUDGE CANFIELD: Any objections?

Let the record reflect there are none. Exhibit T-32 and Exhibits 33 through 37 are so entered into the record.

(Admitted Exhibits T-32 and 33 - 37.)

MR. MEYER: With that he's available for cross.

JUDGE CANFIELD: Thank you. And Ms. Johnston.

MS. JOHNSTON: At the outset, Your Honor, I would move the admission of Mr. Canning's deposition transcript which has been marked as Exhibit 84.

JUDGE CANFIELD: We did go ahead and pre-assign some numbers prior to going on the record. That was Exhibit 84. Any objections to Exhibit 84?

MR. MEYER: No.

JUDGE CANFIELD: Exhibit 84 is so entered.

(Admitted Exhibit 84.)

CROSS-EXAMINTAION

BY MS. JOHNSTON:

Q. Mr. Canning, I've just handed you prior to going on the record this morning several data request responses?

A. Yes.

Q. And they've been marked for identification as Exhibits 85 through 96. Have you had a chance to take a look at those?

A. I have.

Q. Do you recognize these as your responses to staff data requests 3, 7, 57, 102, 111, 112, 114, 115, 118, 119, 120 and 121?

A. I do.

Q. Were these responses either prepared by you or at your direction or under your supervision?

A. They were prepared for my sponsorship. They were not actually prepared by me.

MS. JOHNSTON: Your Honor, move the admission of Exhibits 85 through 96.

JUDGE CANFIELD: Any objections?

MR. MEYER: No.

JUDGE CANFIELD: I think that was clear enough. The request numbers were read in order and the exhibit numbers are correspondingly assigned to those to end up at Exhibit 96, so I won't go through them again. Exhibits 85 through 96 are so entered into the record.

(Admitted Exhibits 85 - 96.)

Q. Please turn to page 6 of your testimony.

A. I'm there.

Q. There you describe in general terms the

Pinon power project; is that correct?
A. Yes.
Q. That is a jointly funded integrated whole gasification combined cycle power project; is that correct?
A. That's correct.
Q. And according to your testimony at line 21 on that same page, the Department of Energy will provide funding for approximately half of the construction costs and half of the operating and fuel expenses for the first four years of operation. Is that also correct?
A. Yes.
Q. How does the levelized cost of power from Pinon Pine compare to other alternatives available to Sierra Pacific?
A. The levelized cost of Pinon Pine is cheaper than all the other alternatives available to Sierra Pacific.
Q. Can you give us some numbers or be more specific?
A. I don't have the specific number, what that was after -- by the time you subtracted out the DOE contribution. I don't know what that is.
Q. As you sit here today you don't know how

much cheaper Pinon Pine is?
A. No, I don't.
MS. JOHNSTON: Your Honor, as record requisition No. 17, we would ask that Mr. Canning give us some specific numbers as to how much cheaper Pinon Pine is compared to other alternatives available to Sierra Pacific.
THE WITNESS: We can do that.
JUDGE CANFIELD: Let me double-check the number. Yes, I believe that is the next record requisition number in order, No. 17.
(Record Requisition 17.)
Q. And Mr. Canning, as part of that record requisition response, would you please include the subsidy from DOE?
A. Include it in -- what sense do you want the calculation, of what Pinon would cost ignoring the subsidy?
Q. Yes.
A. Do you want it both ways or just ignoring the subsidy?
Q. Both ways, please. Is it correct that under the merger the costs attributable to the Pinon Pine project will be solely assigned to the Sierra Pacific operating division?

A. I believe that's correct, but you may want to ask Mr. Buergel.
Q. Would that be true for the entire life of the project or should I ask Mr. Buergel that as well?
A. I think Mr. Buergel could probably answer that better, yes.
Q. Has either Sierra Pacific or the transition teams analyzed the future effect on rates of the elimination of the 50 percent subsidy on operations and fuel costs?
A. I would have to believe that considering that the resource planning process took 100 hearing days that that question got analyzed at some point in the resource planning or -- I don't think the transition team is working on it but I think it may have been evaluated during a resource planning hearing.
Q. Please turn to page 9 of your testimony. Beginning on line 7, you describe a number of contracts with take or pay obligations; is that correct?
A. Yes.
Q. You state that "these resources must be taken at minimum load factors each month without regard to dispatch economics on the Sierra Pacific

system." Is that correct?

A. That's correct.

Q. When were these contracts entered into?

A. The PacifiCorp contracts, there are two of them. One was acquired, I think initial delivery started in 1980, as I recall. Let me correct that. The initial deliveries were 1975 with the first PacifiCorp contract, and I believe '87 or '88 for the second PacifiCorp contract. The Idaho power contract, there's actually two there, one for 75 and one for 15. One for 75 would also be about 1988 and the one for 15 was I think just signed last year. It was a renewal of an existing contract. And the tri-state one for 25 megawatts I believe was signed about 1988.

Q. Do these contracts contain provisions which will allow Sierra to adjust the take or pay levels as new resources are added to your system such as the combustion turbines added in 1994 and the expected start-up of the Pinon Pine project in 1997?

A. No. They do not. We can -- there's some limited rights to get out of those contracts but not to adjust them.

Q. Has Sierra carried out any analyses which would quantify the loss in dispatch benefits under these take or pay obligations?

A. No.

Q. You also state at page 9, lines 19 through 20 of your testimony, that some of the newer QT contracts have provisions that allow for some degree of dispatchability during periods of low cost surplus hydro availability; is that correct?

A. Yes.

Q. Has Sierra made any effort to negotiate dispatchability provisions into the older QF contract?

A. No, we haven't.

Q. Regarding the contracts that have dispatchability provisions already, why is the dispatchability limited to only low cost surplus hydro conditions?

A. Well, they actually aren't but the most economic advantage to Sierra Pacific is to dispatch them during those periods, to use the few hours a year that we're allowed to, to dispatch them during the periods of the lowest cost alternatives available to us, so we intentionally dispatch them during periods when inexpensive hydro is available.

Q. So the contracts themselves don't contain any provisions or terms that specifically limit that to those hydro conditions then?

A. That's correct.

Q. Is that correct?
A. Yes.
Q. Also on page 9 of your testimony you discuss the need for prescheduling of economy energy and natural gas fuel. Is that correct?
A. Yes.
Q. And you state that this need to pre-schedule one or more days in advance make it more difficult to dispatch on a purely economic basis; is that correct?
A. Yes.
Q. Is it true that most utilities in the west are generally able to schedule economy energy on a much shorter time frame than one or more days?
A. For the kinds of transactions we're talking about here, this is typical in the west. When a transaction is made for the next day, for example in the intercompany pool, which the northwest utilities, including Sierra, have dispatchers, that sit in a common room, they make -- those dispatchers make arrangements with each other for the next day's transaction. All utilities have some ability to buy hourly spot purchases, but most of the commitments are made a day in advance. In the case of natural gas you must schedule it a day in advance simply because it

physically has to flow, and in order that the gas can be put in a pipe it has to be scheduled in advance and that's typical of all utilities. It's not Sierra only.

Q. Can you tell me why the economy energy that you do schedule so far in advance is then subject to interruption at any time, as you say at the bottom of page 9 of your testimony?

A. The nature of economy energy is just exactly that, that it's energy that's surplused to the needs of the supplying utility, but it's not provided on a firm basis. It's cheaper for that reason because it doesn't carry the value of firmness. When you acquire economy energy, any utility who acquires economy energy always has to provide the backup for that energy and can in fact terminate the transaction should they lose or should the supplying party lose some generation. It doesn't happen a lot but it does happen.

Q. You state that the need to replace this prescheduled economy energy in the event of an interruption at any time results in your running high cost peaking units; is that correct?

A. Yes. It depends on what we are backing up the economy energy with, but if we're backing the economy energy up with our combustion turbines, for example, it would require starting them up and they're a little less efficient.

Q. At the bottom of page 10 of your testimony you state that "economic dispatch of the system frequently is restricted as a result of generating unit or transmission line outages." How frequent is frequently?

A. In terms of unscheduled outages, probably, oh, I don't know, maybe 25 hours a year. In terms of scheduled outages, every generating unit is taken out of service every year at least once for a period of at least a week for an annual inspection and maintenance.

Q. Has Sierra made any attempt to quantify the effect of these restrictions on costs?

A. Not that I am aware of.

Q. Please turn to page 12 of your testimony. There you describe the use of higher cost petroleum fuels when your interruptible gas supplies are curtailed; is that correct?

A. That's correct.

Q. For thermal units incremental energy costs are roughly determined by multiplying the fuel costs by the appropriate heat rate curve. Is that true?

A. That's correct.

Q. Do you have a rough estimate on the additional incremental cost per kilowatt hour associated with burning oil versus gas during these curtailments?

A. It can add as much as -- it can double the price. It can add about 20 mills.

Q. Are you aware that Water Power maintains oil inventories for its Rathdrum project and that as a result of that it's recently faced significant opposition?

MR. MEYER: I object to the form of the question. No foundation has been laid for the question and in fact it just isn't accurate. We don't have oil backup and the project has been approved with a gas fuel alternative only.

MS. JOHNSTON: Thank you. I will withdraw the question.

Q. Please turn to page 14 of your testimony. Beginning on line 29 you describe a PacifiCorp 74 megawatt sale of firm capacity to Sierra. Is this a capacity-only purchase on the part of Sierra or is there energy associated with it?

A. No. There is energy associated with it.

Q. Is the energy to be returned?

A. No. It's a supply contract. It's actually relatively high load factor purchase.

Q. Under what terms does Sierra return the energy associated -- strike that.

How about the 75-megawatt capacity contract with PacifiCorp discussed at the top of page 15 of your testimony?

A. That is also a capacity and energy purchase contract.

Q. What are the terms associated with that contract?

A. It's a 10-year term and I believe it's an annual -- we're talking about the Idaho Power contract? I changed pages and I realized Idaho Power --

Q. 75-megawatt PacifiCorp contract.

A. The second 75-megawatt PacifiCorp contract is a 70 percent capacity factor contract. It's also a firm purchase of energy and capacity.

Q. On page 15 of your testimony, line 20, you describe how Sierra utilizes short-term capacity purchases during some summer and winter-peak load periods. Could you describe these purchases and what they are used for in some additional detail.

A. Yes. If our load resource balance is such that it indicates that, including our reserves, that we will be deficient meeting the summer or winter peak load, we will go out prior to the start of that season and contract for some amount of capacity, and sometimes capacity and energy, to make sure we have adequate capacity acquired to serve our peak load with the appropriate reserve levels. We didn't do any of those purchases this summer after the addition of our two combustion turbines, but prior to that for the previous eight years we have bought anywhere from 25 megawatts for a two-month period to as much as 150 megawatts for a two-month period to cover deficiency in our existing capacity.

Q.   On page 16 of your testimony, beginning at line 11, you describe capacity purchases from nonutility generators. Are these capacity-only purchases or capacity and associated energy purchases?

A.   They are capacity and associated energy.

Q.   When you say purchased at long-term rates, is that at established long-term avoided cost rates?

A.   They're based on a long-term rates. With only an exception of the first couple were on line were they ever published tariff, but the Commission approves them based on the fact that they are at or below long-term avoided cost.

Q.   Were any of the 16 QF purchases at

long-term rates obtained through a bidding process?
A. Yes, a number of them were.
Q. On page 19 of your testimony, beginning at line 7 you discuss the IRP process in Nevada?
A. Yes.
Q. One of the changes made in 1991 was that economic benefits associated with the construction of new facilities must be considered at the company's resource planning decision. Are you familiar with that?
A. Yes.
Q. Could you describe just what economic benefits would be included in such an analysis?
A. In our last resource planning case there was a specific example, the Alturas interconnection, which is described in my testimony, is predominantly routed through California, and there were numerous parties to the case that said that there were economic benefits to building that project: inside tax benefits, job benefits, other benefits. The Nevada Commission has the legal authority to consider those benefits in making a decision, and in this particular case, and the way they have tended to use this kind of an economic benefit criteria, is as a tie breaker. If a project can be built inside of the state or outside

of the state at the same cost to ratepayers then they would probably have a bias towards approving a project inside the state.
Q. Are you aware of whether or not Washington state has such a requirement in its IRP rules?
A. I'm not aware of that.
Q. Please turn to Exhibit 89 which is your response to staff data request 111.
A. Yes, I have that.
Q. In subpart D you state that "it is planned to address the load diversity topic in greater detail in the next two or three months as part of an effort to gain greater familiarity with the load characteristics of both companies including combined characteristics." Do you see that?
A. Yes, I do.
Q. This response was completed December 8, 1994. It's now February 9, 1995. Could you update us on the progress of this study and when we can expect to receive it.
A. My understanding is really not much of anything has been done since the time this response was put together, and I think our expectation is whatever work would be done would be done for the first combined IRP, combined system IRP.

Q. And when would that be?
A. My anticipation is that it will be relatively soon after the two companies are merged, maybe within the first six or nine months.
Q. On page 20 through 32 of your testimony you describe electric production-related benefits attributed to the merger for Sierra Pacific Power and Washington Water Power; is that correct?
A. Yes.
Q. At pages 20 to 21 you summarize production-related merger benefits which would include reduced capacity requirements through load diversity and lower reserve requirements, avoided wheeling charges for both power purchases and economy sales and certain nonquantifiable cost savings; is that correct?
A. Yes.
Q. At several places in your direct testimony, as well as during your deposition, you indicated that both a third party transmission link and completion of the Alturas transmission project by Sierra are required for the merged company to achieve all of the expected production-related benefits of the merger; is that correct?
A. Yes.
Q. Do you consider the net production-related

merger benefits outlined in your testimony to be significant?

A. Yes.

Q. Is it correct that you have estimated that net production related benefits of the merger total about $77 million over the 10-year period or 16 percent of merger benefits or will you accept that subject to check?

A. Yes. I was looking at Exhibit 40 to Mr. Flaherty's testimony and that appears to be the sum total of the three values that are under the category production-related benefits.

Q. They are savings directly attributable to the merger which would flow to ratepayers from both Washington Water Power and Sierra Pacific. Is that true?

A. I didn't hear the question.

Q. They are savings directly attributable to the merger which would flow to ratepayers for both Washington Water Power and Sierra?

A. That's my understanding, yes.

MS. JOHNSTON: Your Honor, I would like to have this marked as Exhibit 97 I believe for identification.

JUDGE CANFIELD: Okay. This is a one-page document just distributed and it's so marked as Exhibit 97.

MS. JOHNSTON: Thank you.

(Marked Exhibit 97.)

Q. Mr. Canning, are you familiar with it? Recognize it as your response to staff data request 60?

A. I do.

MS. JOHNSTON: Your Honor, move the admission of Exhibit 97.

JUDGE CANFIELD: Any objections?

MR. MEYER: No objection.

JUDGE CANFIELD: Exhibit 97 is so entered into the record.

(Admitted Exhibit 97.)

Q. At pages 28 and 9 of your testimony at lines 33, page 28, and 20 on page 29 you indicate the estimated costs for the third party transmission link were subtracted from gross capacity savings in determining net capacity savings of $53 million over 10 years. Is that true?

A. That's correct.

Q. And in your response to staff data request 60 which is now Exhibit 97, you indicated that the cost for the transmission link, that is $18 per kilowatt year, was based on "judgment call for what we might reasonably expect from negotiations." Do you recall that?

A. Yes, I do.

Q. Does this cost estimate impact merger benefits?

A. Yes, it does.

Q. During your deposition you testified that the current price of negotiations for the transmission link was in the 22-per-kilowatt-year range. Do you recall that?

A. Yes, I do.

Q. Exhibit 80 entered into the record yesterday includes three letter agreements outlying the rates, terms and conditions for the interconnecting transmission service between the Water Power and Sierra Pacific divisions. Exhibit 81 summarizes the services to be provided by Bonneville and Idaho Power including incremental energy costs. Would you agree?

A. Yes.

Q. How does the net price for the recently negotiated interconnecting transmission service compare with the price estimate used in your direct testimony?

A. Instead of an estimated annual cost of 3.6 million dollars a year we are estimating the cost now at about $4 million per year.
Q. In your opinion, does this price change significantly change any component of the production-related merger benefits?
A. It's about $400,000 a year for nine years so that's what? It reduces the production benefits by about $3.6 million out of 70 something.
Q. Will these changes you just described be summarized in the or reflected in the March 13 transition team report?
A. I don't know, to tell you the truth. The group that was negotiating the contracts aren't part of the transition team but their work may well be incorporated in that. I don't know that that was a specific thing they addressed but they may well.
Q. Do you know who would know?
MR. MEYER: Mr. Pierce might know.
Q. Can you describe how the net capacity rights, 250 megawatts south to north and 190 megawatts north to south, impact estimated merger benefits?
A. Those rights actually are adequate to capture the merger benefits that we had postulated when we were doing our estimates. In fact, we may

actually gain more benefits because we have gained through Bonneville access to the interconnection point commonly referred to as COB or the California/Oregon border so that we have the rights in our agreements with Bonneville to do business with California utilities or to buy from California utilities. That will have some benefit to the company that was not included in the original merger benefits.

Q. Do you know whether or not that would be discussed or explained in the March 13 transition team report?

A. I'm not sure that it can be quantified. I guess I'm personally not fairly comfortable that we'll be able to deliver the production benefits in aggregate that were postulated when we were doing the merger savings report, but they may not be composed of exactly the same elements that we looked at, but I'm comfortable we'll be able to return those savings.

Q. Would I be correct to assume that a key reason you have been negotiating with several parties for the transmission service between Sierra and Water Power is to obtain the lowest transmission rate for connecting the two systems?

A. Yes. As well as there are some other benefits of doing transactions with several companies, not the least of which is you have some alternate paths. By doing part of the deal with Bonneville we get access to California/Oregon border which we would not have if we were going through Idaho's system. And we also eliminate the problem of making a single 200 megawatt path the largest single risk on the system, so there were a number of benefits.

Q. Do any other benefits come to mind?

A. There's some relationship benefits that I think have developed out of our negotiations that are going to be valuable to us in the future. The ability to move the 110 megawatts of power from Sierra's system into the Water Power division at no cost is something that came out of the negotiations, something that came out of the relationships that were built in the process of negotiating a path. And I think that those will serve us in good stead down the road.

Q. Under the contracts can the parties perform third party wheeling?

A. We would be able to do nonfirm wheeling, yes. Any power that was delivered to our system we could move down those paths, up or down the paths.

Q. According to page 4 of your testimony, at lines 28 and 9, Sierra Pacific is connected to five neighboring utilities along four separate electric transmission corridors. Is that accurate? Page 4, lines 28 and 9?

A. Yes. Did you say connected to five neighboring utilities?

Q. Yes.

A. Yes, that's correct.

Q. In the joint merger application to FERC Dr. Robert Spann testified at page 16 lines 11 through 14 of his direct testimony that "Sierra Pacific's peak demand exceeds its generating capacity and faces significant transmission constraints on its ability to import and export power." Do you agree with that statement?

A. Yes. Unless the Alturas transmission line is completed we are transmission limited.

Q. Dr. Spann further testifies at page 20, line 16 through 18 of his testimony before FERC, that Sierra Pacific "is not now a significant seller of power and is not likely to become a significant seller of power in the near future." Do you agree with that statement?

A. Until such time as the Alturas interconnection is done that is a true statement.

Q. Do you know whether Dr. Spann's testimony refers to the Sierra Pacific division under the merged company or on a stand-alone basis?

A. I have not read his testimony so I don't know that.

Q. At page 6 of your testimony, lines 4 through 9, and again on page 7 of your testimony at lines 19 through 25, continuing on to pages 8 and 9, at lines 29 through 6, you discuss Sierra Pacific's system limitations including the fact that Sierra is currently limited to 360 megawatts net imports and zero megawatts of net power exports; is that correct?

A. That's correct.

Q. During your deposition you testified that Sierra currently does not compete with others in the region for wheeling service. Do you recall that testimony?

A. Yes, I do.

Q. Does Sierra Pacific currently wheel any significant amounts of power from other utilities into the adjacent California market?

A. Our wheeling has been strictly incidental. Nothing significant up to this point.

Q. How would you characterize Sierra Pacific's historical ability to compete in the regional bulk power and transmission services market relative to Washington Water Power?

A. We have been predominantly a purchaser not a seller. Water Power has a very impressive track record in selling.

Q. So you would agree, then, that Sierra's ability to compete for the sales has been limited?

A. It's been limited primarily by the transmission. We have a fair amount of underutilized production capacity that we just physically can't move out of our system. And with the combination of the Tuscarora pipeline and the Alturas transmission line, it's going to give us an ability to utilize those production assets and move them out of the system but until that happens we physically just can't get it out of the system.

Q. On page 7 of your testimony at lines 19 through 31 and again on page 18 of your testimony at lines 5 through 10 you indicate that once Sierra Pacific completes the 160-mile Alturas transmission line in northern California you just referred to that its net power import and export limitations will be significantly mitigated and the company will be able to respond to requests for transmission service. Is that true?

A. That's true.

Q. You would agree, would you not, that the

completion of the Alturas project also directly
contributes to merger benefits?
A. Yes, it does.
Q. Will the Water Power division of the proposed merged system benefit from the Alturas project?
A. I believe they will.
Q. When is the Alturas project scheduled to become operational?
A. December of '96.
Q. And Sierra is not running into any particular difficulty with the project; is that correct?
A. At this point the project is on schedule. I talked to the project manager this morning and he assures me that it's still on schedule.
Q. Is it also true that the draft environmental impact statement is scheduled to be released in February, this month, 1995, and this is one of the first opportunities for public response to the project?
A. According to the critical milestones that the project manager gave me the draft environmental impact statement is scheduled to be released on March 3 and then there will be the public comment period

with a final environmental impact statement scheduled for August 28.

Q. Has any contingency planning been performed just in case the Alturas is delayed or halted?

A. Not specifically, but since my deposition another alternative has been offered to us that could replace the Alturas project should it not go forward and that is an alternative proposed by Idaho Power to build a portion of, a part of the SWIP project, the Southwest Intertie Project, and tie it into our system at the Valmy power plant. They have proposed that to us as an alternative to the Alturas project and we are evaluating that as an alternative.

Q. Is the Alturas project preferable to the Idaho Power's proposal?

A. In my opinion as the operator of the system I think the Alturas project brings more system benefits so it's preferable to me.

Q. If the Alturas project failed somehow, do you believe that Sierra will participate or accept Idaho Power's proposal?

A. I think we would look very seriously at it, yes.

Q. At page 30 of your direct testimony, you address avoided wheeling charges for Sierra Pacific

and Water Power. Do you recall that?
A. Yes.
Q. At lines 29 through 33 you state "our analysis indicated approximately 600 gigawatt hours per year of Water Power's wholesale sales and 600 gigawatt hours per year of Sierra Pacific's purchases could be transmitted over the new path; is that right?
A. Yes, it is.
Q. Does the wording "transmitted over the new path" refer to the interconnecting transmission link between Sierra and Water Power?
A. Yes, it does.
MS. JOHNSTON: Like to have this marked as Exhibit 98 for identification, please.
JUDGE CANFIELD: The document just distributed by Ms. Johnston will so be marked for identification as Exhibit 98.
(Marked Exhibit 98.)
Q. Mr. Canning, can you identify what has been marked as Exhibit 98 for identification?
A. Yes. It's a response to WUTC data request 55.
Q. Sponsored by you?
A. Yes, it is.
MS. JOHNSTON: I move its admission, Your

Honor.

JUDGE CANFIELD: Any objection?

MR. MEYER: None.

JUDGE CANFIELD: Exhibit 98 is so entered.

(Admitted Exhibit 98.)

Q. In this response, you indicated that the nonfirm sales by the Water Power division are estimated to be through Sierra's system to the California market; is that correct?

A. Yes.

Q. Do the estimated nonfirm sales also refer to sales to the Sierra Pacific division?

A. They were referred on Mr. Flaherty's Exhibit 42. The sales of Water Power moved through Sierra's system were referred to as wheeling which would be this line under the production category. The sales to Sierra Pacific were referred to as wholesale.

Q. Is it correct that the Alturas or an equivalent project must be successfully completed by Sierra Pacific for these sales to occur?

A. Yes, to be able to move them through Sierra's system, that's correct.

Q. On page R3 of your supporting work papers you show the estimate for the 600-gigawatt-hour-per-year of Water Power's nonfirm sales into the

California market based on an average of six years of FERC data and, quote-unquote, judgment. Is that correct?

A. That sounds correct.

MR. MEYER: If we can have a moment to put that in front of the witness.

A. What was it you would like me to look at?

Q. R3?

A. I have that.

Q. There you show that the estimate for the 600-gigawatt-hour-year Water Power's nonfirm sales into the California market based on an average of six years of FERC data and your judgment. Is that accurate?

A. Yes, that's correct.

Q. In staff data request No. 55, which is now Exhibit 98 subpart D, staff requested an expansion of the analysis of FERC data from six to 10 years; is that correct?

A. Yes.

Q. Your response to that subpart question reads, "The original analysis was done verbally and the thinking process was not documented." Is that correct?

A. Yes.

Q. But your work papers demonstrate that FERC data was used to develop a six-year average to determine the 600-gigawatt-hour-year sales estimate; is that correct?

A. I think what really happened is we estimated a number and then went back to see if it was reasonable. As I recall for both that number and for the Sierra number, we did those in brainstorming sessions and then we went back and tried to determine whether or not there was any reasonableness to those numbers just looking at what had happened historically.

Q. Was any analysis performed or was that analysis also done verbally or was it based on an average of FERC data?

A. It was actually based on the experience and knowledge of the small team of people that were working on the merger.

Q. To the best of your knowledge, is FERC data showing Water Power's nonfirm wholesale sales available prior to 1988?

A. I don't know.

Q. Please turn to page 31 of your testimony. At lines 26 through 31 you describe for the Water Power division the economic value of the nonfirm sales based on avoided third party wheeling charges of three mills per kilowatt hour. Do you see that?

A. Yes, I do.

Q. In your response to staff data request 55 subpart C you indicate that the three mill figure was developed in, quote-unquote, brainstorming sessions and is not supported by any document study or analyses; is that correct?

A. That's correct.

MR. MEYER: I'm sorry, I have to object because -- I object that that's not a fair characterization. That's not a complete reading of subpart C.

MS. JOHNSTON: Well, let's just read subpart C response into the record. It reads, "The estimated three mills per kilowatt hour was the result of the same brainstorming sessions as discussed in subpart B above. This value was thought to be conservative at the time and was based on estimates of the charges for wheeling services by others for nonfirm sales into California markets at the time, charges the merged company would avoid. There are no document, studies or analyses related to the three mill figure."

MR. MEYER: Thank you.

Q. Since that mill estimate was thought to be conservative at the time, do you have a revised estimate for the avoided wheeling expense for Water Power?
A. The way the negotiations came out on the contract path, if the power is moved through Idaho's system, the three mill value is probably still pretty good. If it's moved across the Bonneville system, there is a variable charge associated with moving energy of about 1.6 mills which means the savings would only be 1.4 mills instead of three mills.
Q. Will that be in the March 13 report?
A. I don't know. I would be surprised to think so because this is brand-new information.
Q. Do you think we should ask Mr. Pierce?
A. Yes.
Q. Correct me if I'm wrong, but it seems that you imply in your testimony and in your deposition that the three mill avoided wheeling cost for Water Power's nonfirm sales results from the interconnecting transmission link justified for the capacity-related savings we addressed earlier. Is that correct?
A. Yes. What we basically said is that we have to pay for a line or pay for a path so that we can do exchanges for diversity and reserve sharing;

those paths will be there and it won't cost us anything to use those paths for other transactions. It turns out that's true on the Idaho Power path. We pay a demand charge and no variable cost. On the Bonneville path we pay a lower demand charge but there is a variable cost, and that's why the numbers have come out different.

Q. According to your response to staff data request 55 subpart B, which is Exhibit 98, for these nonfirm sales by Water Power, you state, "the assumed point of delivery from the Sierra Pacific system was the northern end of the Alturas project." Is that correct?

A. Yes.

Q. Is the cost for wheeling through Sierra's system to the northern end of the Alturas project embedded in the three-mill avoided wheeling charge for Water Power?

A. No.

Q. Is Water Power expected to pay wheeling charges for nonfirm sales through Sierra's system to the northern point of the Alturas project then?

A. I think there's an allocation issue of how the benefits would be allocated if the southern system was used to help make a northern system sale.

Q. So the answer to my question is yes, Water Power will be expected to pay?
A. I think you need to ask Mr. Buergel that question.
Q. Do both the 600-gigawatt-hour-year estimate of Water Power's nonfirm sales to California and the three mill avoided wheeling charge estimate impact merger benefits in your opinion?
A. Yes. They were a slight credit to merger benefits.
Q. Do you still have your work papers available to you?
A. Yes, I do.
Q. Please turn to work paper page R1.
A. I have that.
Q. On that page you outline the savings impact of the interconnecting transmission link on wholesale marketing for the Sierra Pacific and Water Power divisions. Is that true?
A. Yes.
Q. And at the bottom of that page you have included, quote-unquote, low case. Do you see that?
A. Yes.
Q. What does low case refer to on that page?
A. That's what we felt was probably the lowest

number we would see on average for transactions.
Q. Does this mean that there were other cases explored in your analysis such as medium and high case?
A. No. I believe this is just an indication that the numbers we put down we thought were conservative. As Mr. Bryan said yesterday, one of the goals is to utilize to the fullest extent whatever resources we have, so we hope to do better than that.
Q. In arriving at this lowest number you believe you would see on average, did you conduct any studies or perform any analysis?
A. The analysis again was brainstorming and based on people who had done transactions on the system. We knew, for example, in terms of the savings on the transactions to the southern division that we had been doing 12 to 1400 megawatt hours or gigawatt hours a year and so it was likely that at least 600 of those could come down this path. As a matter of fact, Water Power had been the historical source of a great deal of those transactions in the past, and then the Water Power people felt that 600 gigawatt hours into California was something that they were comfortable with, and when they went back and looked at the historical numbers it also turned out to be fairly

close to the average for the last six years, so that just kind of confirmed their opinion of what potentially was doable, but it wasn't much more sophisticated than that.

Q. Thank you.

MS. JOHNSTON: That's all I have.

A. Thank you.

JUDGE CANFIELD: I think Mr. Trotter had requested to ask questions after the intervenors. I don't know if the intervenors have any questions. Maybe I can cover that.

MS. WILLIAMS: I have no questions.

MR. UDA: No questions.

MS. PYRON: No questions.

JUDGE CANFIELD: Mr. Trotter.

MR. TROTTER: Thank you.

JUDGE CANFIELD: That one voice was Linda Williams who had not entered her appearance when we took appearances so for the record that clarification is so noted.

CROSS-EXAMINATION

BY MR. TROTTER:

Q. I had some questions for Mr. Bryan yesterday. Were you in the hearing room then?

A. Yes, I was.

Q. One of the questions I asked him was the impact of the merger on either company, either division's avoided cost, and he said he hadn't thought about that or at least he didn't have an affirmative response on that subject. Do you have anything to offer on that subject?

A. Only to the extent that I think Mr. Bryan later in his testimony commented on the fact that in the west the alternatives for almost all utilities are exactly the same cost. They're a combustion, a simple cycle combustion turbine, and therefore the costs are fairly similar, so I would expect that for a new resource the costs for both companies would be fairly similar.

Q. But have you done any analysis of that?

A. No, not specifically.

Q. With respect to the IRP process, is it your understanding that planning will be done on a total company merged basis?

A. Yes.

Q. I also asked him about the transfer price issue for power sales transactions between the two divisions, and I believe the response was that that policy had not been worked out in details yet. Is

that your understanding?
A. That's my understanding.
Q. Do you have anything to add to his testimony?
A. No. It's an issue that has to be addressed and I think it's something that can be addressed, but I think he's correct. It's being evaluated.
MR. TROTTER: Nothing further. Thank you.
JUDGE CANFIELD: Thank you, Mr. Trotter. Commissioners, questions for Mr. Canning.
CHAIRMAN NELSON: I will pass.
COMMISSIONER HEMSTAD: I have none.

EXAMINATION

BY COMMISSIONER GILLIS:
Q. You made a comment to a question that I'm trying to find it here. I can't find it exactly but it was something to the effect that when you responded to Ms. Johnston's question you talked about one of the benefits being relationship benefits?
A. Yes.
Q. And I thought I heard you say something about one of those benefits was that you were able to get some transmission services at no cost. Did I misunderstand what you said?

A. Yes, that's correct.
Q. What does that mean?
A. We can, for all practical purposes, move on 10 minutes notice 100 megawatts of power from the Sierra system to the Water Power system at no cost, and the way we do that is that we serve a number of customers of Bonneville within our service territory, Bonneville supplies us power, we deliver it to their customers and that ranges around 100 to 110 megawatts. They have agreed that if we want to move that power or we need to move power into the Water Power system that effectively Sierra can serve the loads inside of our service territory and they will deliver the replacement power to their interconnections with Water Power. So effectively that moves 100 megawatts of resources from one division to the other, and since it doesn't flow over any physical transmission links there's no costs for losses and there's no transmission charge, so it's one of the more creative things that's been interesting, has come out of the various companies negotiating to provide this transmission path. It's going to be a very useful service for us.
COMMISSIONER GILLIS: That explains that. Thank you.

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

MR. MEYER: Just briefly.

REDIRECT EXAMINATION

BY MR. MEYER:

Q. First of all, a couple of quick ones related to Alturas. You were asked about the draft EIS and you were also asked whether or not there had been public input or public comment yet. Do you recall that line of cross?

A. Yes, I did.

Q. Are you expecting much opposition to the Alturas siting and construction?

A. No, not really.

Q. And why is that?

A. There have been some public meetings, but I think probably the biggest reason is that the line goes through a couple of the poorest towns in California. It offers an alternative power supply to particularly the area around Susanville, the Lassen Municipality Utility District which has an option for a tap on the water, so they see that as beneficial. The tax benefits that the line provides to two the poorest counties in California are viewed as very positive and I think that generally speaking the line is viewed favorably.

Q. In another Alturas related question but unrelated to the previous one, would the use of Alturas by the Water Power operating division in the future add any incremental costs to Resources West for the transmitting of power?

A. No.

Q. And finally there was some discussion with regard to your estimated cost of the transmission path. I believe staff counsel asked whether as a result of the letter agreements that are set forth in Exhibit 80 whether your anticipated cost of $18 per KW had increased somewhat. Do you recall that?

A. Yes, I do.

Q. And was it your response that your estimated yearly cost of $3.6 million based on that $18 per KW figure had gone up slightly?

A. Yes. It had gone up to $4 million a year, which over the nine-year period covered by the merger would have added a little over three and a half million dollars to what we had estimated for the cost of the line out of about an $80 million benefit.

Q. With reference to Exhibit 42, the expanded version which is behind you, is there some indication on there just what the offsetting costs for a third party transmission cost would be?

A. The offsetting value, the three and a half million dollars would have to be subtracted from this value, $52,654.

MR. MEYER: Thank you. That's all I had.

JUDGE CANFIELD: Any follow-ups?

MS. JOHNSTON: One more.

RECROSS-EXAMINATION

BY MS. JOHNSTON:

Q. You mentioned that the line would run through some of the poorest counties. Do you know whether or not the line will run through any sensitive environmental areas?

A. My understanding is that it doesn't. I'm not aware of any sensitive areas that have shown up.

MS. JOHNSTON: Thank you.

JUDGE CANFIELD: Any others?

Hearing none, thank you, Mr. Canning. You're excused. Let's take a break and come back at 10:30.

(Recess.)

JUDGE CANFIELD: We're back on the record now after a morning break, and we're between witnesses, so I will ask Mr. Meyer if he's ready to call his next witness.

MR. MEYER: I am. Mr. Thomas Flaherty, please.

JUDGE CANFIELD: I will just note the premarking of exhibits that we did at the pre-hearing conference. The prefiled testimony of Mr. Flaherty was marked as T-38 and accompanying exhibits 39 through 43, and we'll get to the deposition testimony transcript in a moment. That will be marked as Exhibit 99, so go ahead, Mr. Meyer.

(Marked Exhibit 99.)

Whereupon,

THOMAS J. FLAHERTY,

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

DIRECT EXAMINATION

BY MR. MEYER:

Q. For the record, Mr. Flaherty, will you please state your name?

A. My name is Thomas J. Flaherty.

Q. And by whom are you employed?

A. I'm employed by Deloitte and Touche.

Q. Have you prepared and prefiled direct testimony in this case marked as Exhibit T-38?
A. Yes, I have.
Q. Do you have changes to make to that testimony?
A. No, I do not.
Q. Are you also sponsoring what have been marked for identification as Exhibits 39 through 43?
A. Yes, I am.
Q. Those were prepared by you or under your supervision?
A. Yes, they were.
Q. Any changes?
A. No, sir.
Q. And if I were to ask you the questions that appear in your prefiled direct, would your answers be the same?
A. Yes, they would.
MR. MEYER: With that, Your Honor, I move the admission of T-38 as well as 39 through 43.
JUDGE CANFIELD: Any objections?
Let the record reflect there are none. Exhibit T-38 and Exhibits 39 through 43 are so entered into the record.
MR. MEYER: With that the witness is

available for cross.

(Admitted Exhibits T-38 and 39 - 43.)

JUDGE CANFIELD: Ms. Johnston.

MS. JOHNSTON: Thank you. At the outset I would like to move for the admission of Exhibit 99 which is Mr. Flaherty's deposition transcript.

JUDGE CANFIELD: That's been marked as Exhibit 99. Any objections to its admission?

MR. MEYER: None.

JUDGE CANFIELD: It's so entered into the record as Exhibit 99.

(Admitted Exhibit 99.)

CROSS-EXAMINATION

BY MS. JOHNSTON:

Q. Please turn to page 6 of your testimony.

A. Yes, I have it.

Q. There you describe the joint development of cost savings. You state that "this joint development of merger-related cost savings provides a sound basis for identification and quantification and results in well documented, thoughtfully considered, savings components." Is that correct?

A. Yes, it is.

Q. Your statement appears to leave out a reasoned and thorough analysis as being the basis for developing cost savings. Do you have an opinion about the amount of quantification necessary to be carried out in order that the applicants meet their burden of proof in showing that this merger is in the public interest?

A. I think I need to divide my response into two parts. First part of your question was we left out reasoned analysis. The words may be missing but I don't think the intent is to leave out the notion that the analysis needs to be well thought out. I think that by being well thought out and documented that addresses that point. Second part with respect to the level of quantification, was that --

Q. Yes.

A. That's required to be able to meet the burden of proof?

Q. Yes.

A. Well, in the conduct of these kinds of assignments with the quantification of these kind of savings estimates, depending on the -- on several factors there can be a greater number of areas quantified or a lesser number of areas quantified, and depending on the time there may be a greater detail with respect to the quantification available and in other cases there may be less.

With respect to how much quantification is actually required, that depends on several things, one being the statutory requirement for what's necessary for approval of transaction; that is, is there a positive showing of public interest or is there a no harm to the public interest test? In the latter case, then, as long as the benefits can be determined to be greater than the cost, therefore there would be no net harm to the public interest, then the level of quantitative can in fact be lower. Where there is a positive public interest showing, then that would seem to suggest that the quantification would need to be more explicit and the analysis would need to consider the relevant line items that the companies would believe would be created through a combination. What that translates into in terms of the number of line items is difficult to say in response to your question, but I think that the analysis should include quantification that's sufficient to allow the parties to understand the nature of savings and the basis for their development.

Q. But you don't know of any benchmark levels or threshold standards for amount of savings, for example.

A. When you say amount, you mean as in a number, a level of savings?

Q. Yes.

A. Well, the level of savings, of course looking at the savings themselves, does not always give you the entire picture. There are many nonquantifiable benefits associated with a potential combination. There is no benchmark with respect to the level of savings other than you would want to be sure that there was no financial harm to the shareholders that resulted from a combination; that is, that there were sufficient benefits to avoid dilution to the shareholders in the near term and over the longer term.

As I say, with respect to individual line items I can't think of a benchmark that is a dollar level that would be consistent with providing for the demonstration that there were benefits to all parties involved, that is, shareholders were not harmed and customers were not harmed.

Q. Beginning on page 7 of your testimony you address the issue of whether savings could be achieved through other means than a merger. You state that savings absent the merger would be "very difficult if not impossible to achieve on a sustainable basis from a practical perspective." Do you recall that testimony?

A. Yes, I do.

Q. Is it a correct characterization of your testimony to say that you believe potential savings are limited due to the competitive evolution of the industry?

A. Your question was do I believe savings are limited due to the competitive evolution? I assume you're referring to savings outside the context of a merger?

Q. Correct.

A. All companies or most companies certainly have gone through some kind of downsizing, right sizing, re-engineering kind of process over the last half a dozen years. It is very difficult to shrink yourself to success, however. So there are some limits in terms of how much cost you can actually reduce or practically reduce simply by reducing the level of head count or substituting technology for certain kinds of manual activities or avoiding activities altogether. So there is certainly a limit in terms of what you can accomplish on a stand-alone basis, and the point of this is, this particular passage in the testimony, is to just point out that there are some practical limitations with respect to trying to do things that are accomplishable through a merger outside of that merger via contract. There are very real limitations with respect to being able to accomplish that.

Q.   Are you aware of various pooling agreement between utilities in the northwest?

A.   Yes, and other places.

Q.   What?

A.   And other places.

Q.   Are you aware of the activities presently taking place within the various western region RTGs?

A.   I'm not familiar with the specific activities. I'm familiar with the creation of the entities but not the specific activities.

Q.   Are you aware of existing integrated operating agreements such as that between So Cal Edison and municipal systems within Edison's control area?

A.   No, I'm not.

Q.   Are you aware of a recent agreement between PacifiCorp and Clark County PUD here in Washington in which a number of services will be provided by PacifiCorp/Clark County?

A.   No, I'm not, but that would sound like a different kind of arrangement than what we're talking about anyway.

Q. Is it your testimony that in all of these kinds of agreements and arrangements and others like them are not sustainable because of competition?

A. Well, between -- let me just refer to investor-owned utilities to begin with.

Q. Could you just answer yes or no before you elaborate.

A. Well, the question was broader than that but the answer is no, I don't believe you can sustain those in a period of competition.

Q. Thank you.

JUDGE CANFIELD: Was there a further part of your answer that you wanted to make?

MR. MEYER: Counsel didn't mean to cut you off. She just wanted the yes or no to begin with.

A. Well, I think that there's some distinctions to be made between the kinds of agreements that people may be putting in place with respect to limited portion of operational activities today versus the kinds of benefits that result from a combination or a merger that otherwise aren't achievable through those contracts. From an investor-owned utility perspective with the marketplace becoming increasingly more competitive, the ability to extract significant joint savings in the future is not going to be very possible because the companies will be direct competitors with one another and most companies in that kind of environment are not willing to transfer benefits from one party to the other they would directly compete with.

Second practical consideration is that in order to maximize the kinds of benefits that you do extract, you really have to operate very closely, and if you're trying to do that without being combined or merged then sooner or later you will run into an inability to share confidential or proprietary information, and so those are two very practical constraints. What you might be able to do in terms of providing services on behalf of a municipal, if you were investor-owned utility, is a little bit different because then the municipal is choosing to effectively outsource certain kinds of functions to another party.

Q.   Are you finished?

A.   Yes.

Q.   Your Exhibits 40 through 43 present in various ways your estimates of overall cost savings and costs to achieve estimates; is that correct?

A.   Yes, they do.

Q. These estimates were developed by the initial working groups. Is that also correct?
A. Yes, they were.
Q. On page 12, lines 32 through 35, you state that "the savings that have been quantified to date will be further documented by each company as a result of the integration planning process." Do you see that?
A. Yes, I do.
Q. We have heard from several other witnesses who have already testified that an update or validation report is expected to be available March 13, 1995. Is this the report that is alluded to here in your statement regarding further documentation?
A. That wasn't. At the time of preparation of this testimony, that schedule or requirement with the Nevada Commission had not been established yet. What we were talking about was that the transition teams or the integration teams would, through the natural course of their analysis, create additional documentation that would be used to explain and support, substantiate the level of savings they believe to be obtainable.
Q. Is it your belief that this additional documentation will enable staff to better understand

and analyze the applicant's claimed merger savings?

A. Well, the information that's made available both March 13 and that which would be subsequently forthcoming would certainly allow the staff to better understand the nature of the savings as well as the assumptions inherent in that. And by virtue of that I suppose it would have enhanced the level of analysis that could be performed, yes.

Q. On page 14 of your testimony, you begin a section entitled Benefits Created From Utility Mergers. Is it true that your testimony beginning on page 14 and continuing through to the end of page 24 describes in general terms your views on the potential benefits of a combination of two utilities and that similar testimony of yours can be found in dockets before several other regulatory bodies in regards to potential mergers?

A. With respect to the first part of your question, the 11 pages I guess that are contained here are referring to generic savings opportunities as opposed to any particular transaction. There may be elements of the discussion that could be found in other documents but I don't believe that the section as a whole is contained in any other document.

Q. Please turn to page 19 of your testimony.

A. I have it.
Q. Beginning on line 20 running through line 33, there you list an extensive list of potential distribution operation-related savings; is that correct?
A. Yes.
Q. And some of these are such things as one call location, meter reading, line inspection, equipment maintenance, estimating, as well as numerous other functions; is that correct?
A. Yes.
Q. You state that these types of savings are to a large certainty dependent upon the geographic proximity or contiguity of the combining companies. Is that true?
A. Yes, that's true.
Q. Is it also true that as far as Water Power and Sierra are concerned these types of savings would only be available in the South Lake Tahoe area?
A. As presently configured that's correct, yes.
Q. Do you have your response to staff data request No. 123 available to you?
A. Not with me here but I believe I can be provided it.

MR. MEYER: 123.

MS. JOHNSTON: 123.

A. Yes, I have it.

Q. On page 26 of this document, which is entitled Written Comments of Thomas J. Flaherty. I believe they were filed before the Commonwealth of Massachusetts Department of Public Utilities?

A. That's correct.

Q. In 1993?

A. 1994.

Q. On page 26 you begin a topic entitled the Impact of Merger Savings on Regulatory Policy.

A. Yes, I have it.

Q. Just past the middle of the page you make the statement that "as an added incentive to encourage acquisition the Department of Public Utilities should also consider additional compensation for higher levels of risk assumed or superior benefits levels achieved. This compensation could be provided for through a higher return level or shared savings above targeted levels." Is that true?

A. That's correct.

Q. Do you see that there?

A. Yes, I do.

Q. Is it true that one of the major reasons, if you will, for the proposed Water Power and Sierra Pacific merger is that the combined company would be better positioned to meet the upcoming competitive environment?

A. That's one of the reasons, yes.

Q. And does that not imply less risk?

A. All other things being equal, being better competitively positioned would generally mean less risk, yes.

Q. Have you ever had discussions with Water Power or Sierra Pacific regarding regulatory incentives in this particular merger?

A. We had some general discussions with respect to what the nature of potential regulatory plan alternatives could be.

Q. Will you tell us what they are.

A. There are five or six individual approaches to regulatory plan. By regulatory plan I mean the mechanism by which savings sharing or savings distribution would be accomplished. One of those elements is a savings tracker where individual savings items are identified and reported to the relevant regulatory entity for review. Such was used, for example, in the Pacific Power and Light and Utah Power and Light combination.

Another mechanism could be the use of an O and M index or a baseline index which would operate in a fashion such that baseline expenditures would be capped at a particular level. The baseline itself would be determined by what would be controllable by management and based upon and agreed upon escalator, so items that would be beyond control such as the effects of taxation, legislative change, significant regulatory change, those kinds of things would be excluded from the baseline index. The index would function as a cap on O and M expenditures, and therefore to the extent the company could beat the allowed cap of O and M expense, that would provide a basis then for determining what the level of savings sharing would be. Another mechanism would be actually capitalization of future savings streams and used in the rate base for subsequent amortization so you would take the future stream of savings, discount them back, capitalize those and amortize those back as a mechanism by which savings sharing can be accomplished.

Another mechanism would be to use what's been referred to as an O and M adder, which is to say that if expenses were reduced through cost reduction related to the merger that a mechanism by which those savings would be reflected for purposes of sharing would be as an add-back -- at least some portion of the savings would be as an add-back into the cost of service so as costs were reduced revenues did not automatically drop by the same amount.

Final area would be some kind of incentive or performance-based framework which could either be established based on targets or goals for levels of savings to be attained or it could be established based on a variety of factors around performance of the utility one of which could be savings attainment, the others of which could be customer service, service quality, safety and other factors like that. So those five or so methods or approaches have been either proposed or utilized in other jurisdictions with respect to these kinds of combinations.

Q. Of those five mechanisms, five or so mechanisms that you've just identified, do you have an opinion as to whether or not one mechanism is better than another or more preferable?

A. It depends on what the aims of the regulatory jurisdiction may be. It depends on the circumstances of the particular transaction. And what I mean by both of those comments, the merger itself provides a catalyst. It's an event which usually doesn't occur, and that may open the door for broader consideration of a variety of other issues.

For example, one of the methods I didn't specifically or explicitly describe would have been something that deals with stranded investment or at-risk customers in which case savings could be dedicated or assigned to at-risk customers or to stranded investment to provide a mechanism by which that kind of stranded investment potential could be reduced. Now, if that were an aim of the regulatory body then the merger and savings created by the combination would allow the regulators to utilize an alternative source of cash flow to reduce the kinds of impacts that otherwise would have to be borne by customers or subsequently borne to some degree by shareholders.

The flip side of that is to what position does the company find itself in principally financially and competitively, and the considerations which would be given some attention under those circumstances would be what kind of future financial profile would the company bear under a competitive environment and what kind of risk would be inherent in the ability of the company to satisfy the needs of shareholders in the future while keeping rates low for customers.

So within those kinds of philosophical ranges performance-based frameworks often provide some mechanism that allows regulatory bodies to accomplish more than a single -- it allows the regulatory bodies to accomplish several things simultaneously rather than simply deal with the merger as an individual or discrete event.

With respect to all of those half a dozen items that I referred to, if you are a high cost company I think the method that would be preferable would be one where you could deal with targeting savings against at-risk customers or using savings as a mechanism by which stranded investment could be offset or accelerated. If you were not a high risk company or high cost company, then I think given where regulation seems to be heading in the future in response to competitive markets, then perhaps a performance-based framework would also be attractive, but if there are neither of those situations that are present or there are some other kinds of statutory limitations, then probably the easiest thing to do is your own very simple risk sharing and savings sharing based on whatever proportion the parties believe to be most appropriate.

Q. In Exhibit T-16, on page 17 at lines 34 through 36, that's Mr. Eliassen's testimony, he discusses a savings of commitment fees due to reduction in short-term debt. How much savings and commitment fees are included in the $450 million claimed savings from the merger?

A. Not having Mr. Eliassen's testimony in front of me, within the categories of savings that are shown in Exhibit 42 there are no components for financing impacts of one kind or another.

MS. JOHNSTON: Like to have this marked as Exhibit 100 for identification.

JUDGE CANFIELD: That would be the next number in order. I will mark this three-page document as Exhibit 100 for identification.

(Marked Exhibit 100.)

Q. Mr. Flaherty, I just handed you what's been marked Exhibit 100 for identification. Is this your response to staff data request 124 in part?

A. Well, many of the items that are referenced on this particular response relate to information that was developed by Deloitte and Touche but not all of the items. I think the respondent is Mr. Pierce.

Q. You're the sponsoring witness here, at least according to the response; is that correct?

A. Looks that way.

MR. MEYER: I think what the witness was meaning to suggest is that several items were -- quite possibly not the one that you've excerpted for -- he was responsible for developing. I might note that witness Pierce might be a better witness with respect to the one attachment because it's my recollection that this witness wasn't involved in that.

MS. JOHNSTON: Well, let's ask the witness if he was involved in this.

Q. Mr. Flaherty, did you prepare or were you involved in the preparation of attachment F to staff request No. 124?

A. No, I was not.

Q. Do you have any idea why it is you're listed as a sponsoring witness for this particular response?

A. I don't. Perhaps under attachment F there were additional work papers for more than just the single one provided here. I don't know other than that.

Q. Do you have Exhibit 83 available to you?

MR. MEYER: We can make it.

A. Yes, I do now. Thank you.

Q. Please turn to page 9 of that attachment C.

A. Would that be the chart that's entitled Regional Competition at the top?

Q. Yes.

A. I have it.

Q. Based on the graphs showing relative price position of industrial, commercial and residential concerns, would it be accurate to say that Sierra Pacific Resources' rates exceed those of Water Power's across the board?

A. Yes.

Q. Please turn to page 10 of this exhibit. Does this graph represent the projected rate path for Sierra Pacific Resources and Water Power as stand-alone companies or as operating divisions within the merged company?

A. Effectively these are stand-alone, individual entities.

Q. And would it be correct to state that Sierra's rate path shows a continuous increasing trend to all classes while Water Power shows a flat trend for all classes?

A. That's essentially true, yes.

Q. Please turn to the next page, page 11. Is it true that Sierra Pacific marked as SPR is shown in the upper right quadrant indicating, quote-unquote, significant risk in this measurement of industrial contribution as risk in a competitive environment?

A. Yes, that's where it is, recognizing that this is a single measure.

Q. Is it also true that Water Power shown as WWP is the only utility indicated in the low risk quadrant?

A. Yes, that's true.

Q. Please turn to the next page, page 12. This scatter plot shows the relative position for company's position to aggressively pursue industrial customers; is that correct?

A. That's correct.

Q. And this plot shows Sierra Pacific in the lower right quadrant indicating least amount of opportunity. Is that true?

A. Relative to its characteristics compared to those that are in this particular chart, that's correct.

Q. And is it also correct that Water Power is in the quadrant indicating moderate opportunity?

A. Yes, that's correct.

Q. Please turn to the next page, page 13. Now, this shows a graph and table showing the effect on earnings per share if industrial rates were set to a market clearing rate to obtain customers; is that correct?

A. That's correct.

Q. Is it true that the table indicates that Sierra Pacific would have a 47 percent impact on earnings per share and Water Power would have no impact?

A. Based on the assumptions underlying this chart, that's correct.

Q. Were you present when the issue of merger of equals was discussed with Mr. Redmond on Tuesday?

A. I believe so.

Q. Based on the comparisons we've just gone over, is it your belief that this is a merger of equals at least as far as the ability to meet competition is concerned?

A. Well, I think you focused on several charts which portray one element associated with meeting competition. One other consideration, though, with respect to that is at the time these charts were prepared we didn't have specific information regarding Sierra's existing contracts with its large customers. And the prices for those and the term of those contracts which would affect this analysis were to be redone today. But to the broader question of does it look like a merger of equals based on these charts, I think there's but one fact to consider because you have to consider competition in terms of what it allows you to do in accessing all markets, not only a single customer class.

Q. So are you saying then that these graphs that we just went over, pages 9 through 12, are inaccurate based on the new contracts?

A. They're not inaccurate, but you could draw inaccurate conclusions from them without considering all other relevant factors.

Q. Well, what other relevant factors should we consider besides the new contracts? This is what we have. This was presented to us for analysis so now if everything on here is inaccurate or we're going to be drawing inaccurate conclusions, that's certainly not a positive thing. So what other relevant factors should we be considering?

A. Well, let me ask you, which question are you trying to answer with respect to using these charts?

Q. Well, what I want from you is an itemized list of what new factors we should be considering in our analysis based on my entire line of questioning over the past 15 minutes. You have stated that the conclusions that we may draw from what's presented here may be inaccurate.

MR. MEYER: I'm sorry. I've lost the train of the questioning. Is it that you're asking this witness what conclusions if any he should draw from these particular charts about whether this is truly a quote-unquote merger of equals? I think that's where you started.

MS. JOHNSTON: No. Well, let me start over. Just ask a new question.

Q. How have these pages of your response to staff data request No. 124 set forth in attachment C changed today as you sit here?

A. The pages themselves don't change. What they're capturing is the impact across all of the individual companies, industrial customers, recognizing that that consists of many customers of different size and different load factors. It does not distinguish between individual customers and in the case of Sierra Pacific for its largest mining customers, for example, it has contracts where the rate that is available to those large customers is below the average rate for the industrial class, so if you were to consider that particular point, those largest customers, who would typically be the ones who would be most susceptible to leaving the system or to entertaining an offer from an alternative supplier, would be better positioned already which would then tend to reduce the amount of contribution at risk. This works off the customer class as a whole. So those higher load factor customers are already receiving a benefit.

Those lower load factor customers might still have a higher priced position relative to a market clear pricing but they have fewer options than those larger customers with higher load factor. Those lower load factors customers would not be the kinds of targets that independent power producers would pursue so that's why you have to consider what the individual customers would look like, and in this particular case at the time we were not aware of the individual contracts for the largest customers, specifically the mining customers. And that would tend to say that the potential impact to earnings per share would be less because the larger load factor customers would have less reason, less opportunity to leave the system to get a lower rate because they're already receiving one. Those that would be left within the system have fewer options to receive a lower rate because of their lower load factor.

Q. But what's contained in these exhibits would not change. For example, the relative position for a company's position to aggressively pursue industrial customers wouldn't change. Is that true?

A. Well, as we've shown this, which is using an average for the customer class, nothing effectively changes, but if you were to want to show it more accurately in terms of segmenting the customer class into higher and lower load factor customers considering what their existing contract price position is, then it would change the results but you would have to do that for all customers, and the reason for doing this chart was to take a brief snapshot across the region as a whole with respect to the average customer as opposed to any individual customer.

Q. In response to staff data request No. 143 supplemental, which is now Exhibit 82 --

A. Yes, I have it.

Q. -- it states that "since the analysis was performed the wrap-down in Washington Water Power DSM acquisition has been approved and reductions in staffing have been implemented." Do you see that?

A. Which are you on now, the supplemental?

Q. 82, 143 supplemental C and E.

A. Yes, I have it.
Q. Do you see that?
A. At the top of the page, yes.
Q. Mr. Bryan, Mr. Meyer indicated that you were the witness who would be able to tell us to which analysis you refer there. Is the analysis referred to there the analysis determining the 21-employee reduction estimate?
A. Yes, I believe that's correct.
Q. Has an analysis been provided?
A. The analysis again is referring to the 21 and that was provided -- that was contained in the work papers that were provided in support of Exhibit 42.
Q. As part of your analysis, did you review the types of DSM programs which each company currently has in place?
A. At the time we did the analysis which dates going back to the spring of '94, we were familiar with the general nature of some of the programs that were in place, that's correct.
Q. So you did review the types of DSM programs?
A. We are familiar with the general types of programs, not each and every program.

Q. Which DSM programs overlap between the two companies?
A. Well, without remembering the individual programs in terms of the nature of what the programs are trying to get at, which would be load conservation in general, weatherization, efficiency with appliances and use of trade allies and things like that, there were some common programs. By program name I couldn't identify them for you.
Q. In response to part C of staff data request No. 143 you state that the 21-employee reduction estimate amounts to savings of $14.2 million over a 10-year period and that "these savings result primarily from the elimination of redundant and duplicative activities." Please specifically identify what redundant and duplicative activities you identified to arrive at the 21-position reduction estimate.
A. Begins with program management, program research, program administration and ends some of the individual processing. That relates to both companies as opposed to only one of the companies.
Q. Could you be more specific about the individual processing?
A. Essentially referring to the handling of

rebates and things of that nature.

Q. Handling rebates, is that what you said?

A. Yes. Rebates associated with equipment sales or use through trade allies and directly with customers, for that matter.

Q. How many positions would that be, the handling of rebates, program management/research?

A. I don't recall the number of positions for that. There were approximately 70 personnel between both companies. I think 32 with respect to Washington Water Power and 38 with respect to Sierra Pacific Power, and the 21 reduction principally rolls down from the program or project management down through program administration, research-related categories.

MR. MEYER: May I approach the witness with a copy of his work papers with respect to those DSM reductions?

THE WITNESS: I have that.

MR. MEYER: Very well.

MS. JOHNSTON: Your Honor, I have two record requisitions. As No. 18, we would like the number of positions identified in as much detail as Mr. Flaherty is capable of with regard to the program management research and individual processing positions and as record requisition --

MR. MEYER: Hold on a second. We're still getting that one down.

JUDGE CANFIELD: That's No. 18.

Q. So you're clear on that, then, specific detail of the redundant and duplicative activities.

A. Activities and positions?

Q. Yes. And then as 19 we would like you to identify the specific DSM programs that overlap between Water Power and Sierra.

A. Fine.

(Record Requisitions 18 and 19.)

JUDGE CANFIELD: For the record, Ms. Johnston has just distributed a number of documents and would you request that these be marked as the next exhibit numbers in order?

MS. JOHNSTON: Yes, please.

JUDGE CANFIELD: I'll just mark them in request number sequences. Request No. 14 will be marked as Exhibit 101. Deposition request No. 15 will be marked as Exhibit 102. Deposition request No. 16 as Exhibit 103, and deposition No. 17 request, that's Exhibit 104, and I believe that was all of them.

(Marked Exhibits 101 - 104.)

Q. Mr. Flaherty, you've just been handed what's been marked for identification as Exhibits 101 through 104. Do you recognize these as responses to deposition requests made by staff?

A. Yes, I do.

MS. JOHNSTON: I move the admission of Exhibits 101 through 104, Your Honor.

JUDGE CANFIELD: And we still have Exhibit 100 pending and you're going to hold off on that, Ms. Johnston?

MS. JOHNSTON: Yes, I will offer that through Mr. Pierce.

JUDGE CANFIELD: Any objections to the offered Exhibits 101 through 104?

MR. MEYER: No objection, but I should note that with respect to 101 the responder to this is an employee of Sierra and we didn't have an identifiable witness to speak to it although I have no objection to you posing questions to this witness to the extent he's aware of what Sierra may have done. So no objection.

JUDGE CANFIELD: Exhibits 101 through 104 are so entered into the record.

(Admitted Exhibits 101 - 104.)

MS. JOHNSTON: For the record I would like to point out that during the deposition it was Mr. Flaherty that responded to staff's questions regarding the outsourcing of information systems. That's fine. Thank you, Mr. Flaherty. That's all the questions I have.

JUDGE CANFIELD: And as before, I will ask if the intervenors have any questions before I get back to Mr. Trotter.

MS. WILLIAMS: Yes, I do, Your Honor. Unless there are other of the intervenors?

CROSS-EXAMINATION

BY MS. WILLIAMS:

Q. Good morning, Mr. Flaherty, I'm Linda Williams. I represent two intervenors, Northwest Conservation Act Coalition and Spokane Neighborhood Action Program.

A. Morning.

Q. You recall that earlier in your testimony you responded to a series of questions by Ms. Johnston as to certain standards that other jurisdictions might impose in quantifying a public interest standard for a merger. Do you recall that?

A. We had a general discussion, yes.

Q. Do you recall responding that in some jurisdictions the quantification might be less if it were a no net harm standard?

A. Yes, I do.
Q. And do you also recall stating that the quantification required to meet the standard might be higher if the Commission imposed or sought to require a showing of a positive public interest standard?
A. Yes.
Q. Have you appeared in proceedings before any state regulatory commissions that have rejected the no harm standard?
A. I can't think that I've appeared in any situations where the no harm standard was proposed and subsequently rejected. In all the situations I've been involved in the standard was fairly clear at the outset, if that's what you meant by your question.
Q. Well, directing your attention to line -- to page 3 and 4 of your testimony, page 3, lines 35 and 36, continues over to the beginning of page 4. You indicate that you participated in the Kansas Power and Light, Kansas Gas and Electric merger case; is that correct?
A. That's correct.
Q. And if I recall, correct me if I'm wrong, in looking at that case on Nexus database your name appears or a name similar to yours appears as a witness in that case and you did participate in that?

A. That's correct.
Q. Are you familiar with the order that resulted in that case?
A. Well, in both jurisdictions, both Kansas and Missouri, yes.
Q. I'm sorry. Pointing only to Kansas, are you familiar with that order?
A. Yes.
Q. Is it fair to say that the company offered a no detriment standard before the Kansas commission?
A. I really don't recall that we did. My recollection is more that we assumed that there was a positive showing standard. I really can't recall that we argued a no harm test.
Q. Would it refresh your recollection if I read to you a sentence from the order that is published at 127 PUR Fourth at page 218 that states in the analysis of the Commission "the Commission believes that to simply adopt a `no detriment' test as suggested by the applicants or a `net benefits' standard as suggested by CURB, which was an intervenor, is too simplistic." Does that sound familiar?
A. I will accept it. I just don't recall it.
Q. From your looking again at page 4 of your

testimony it appears you have also appeared before the Iowa commission in a merger case?

A. Yes.

Q. Do you recall whether the Iowa commission has adopted a no net detriment standard?

A. I don't remember what the statute is. I just know that, in terms of our testimony, in terms of benefits we were trying to show that there was a positive benefit.

Q. Just to clarify, in Kansas was there a statute that required a showing of a positive benefit or was that a decision of the Commission? Do you recall?

A. I don't recall.

Q. Are you familiar with the standard of public interest showing that's required before the Federal Energy Regulatory Commission?

A. Well, the FERC has during 1994 changed, I think, the criteria that it looks at under the positive showing.

Q. Would it be fair to say that the FERC requires a substantial positive showing?

MR. MEYER: If you know.

Q. Yes.

A. I don't know that I could say that it was a, quote, substantial, unquote, positive showing.

Q. Have you appeared in cases before the California PUC?

A. No.

Q. So aid me in understanding your Exhibit No. 42, am I correct in assuming that those are nominal dollars, all of the numbers that appear?

A. Yes, they are.

Q. Do you have an opinion as to what an appropriate factor would be to apply to come up with some present value dollars utilizing the numbers in Exhibit 42?

A. When you say a factor, you mean what the appropriate discount rate would be?

Q. Yes, for the 10-year period.

A. I don't have an offhand number to give you, no.

Q. So if I were to tell you I have $100 promised to me by Water Power and it's going to be paid in the year 2005 you wouldn't be prepared to tell me how much you would offer me for that promise?

A. Not offhand, no.

Q. Do you have a discount factor that you would be prepared to offer in your opinion for a five-year period?

A. No.
Q. Earlier -- are you aware of discount values that are proposed within the profession for a five-year period or a 10-year period before utility commissions?
A. When you're saying factor, that leads me to believe you're talking about a number, and I generally would be familiar with some ranges of what the numbers might be.
Q. A range would be very helpful.
A. Well, the nature of what would create the range, a surrogate for or a commonly utilized measure would be the weighted average cost of capital. People often use that as a surrogate for what the appropriate discount rate might be.
Q. Would that be true for a 10-year period for example?
A. The same basis would be true. It would just apply over a longer time period.
Q. Would that be more difficult to apply that commonly understood discount rate in the situation of a merger?
A. It would not be difficult to apply a discount rate to the nominal dollars that are presented, but I don't know that I would agree with

you that it is commonly understood that you would use present value dollars for evaluation of merger savings.

Q. Would you agree that some jurisdictions make a distinction between short-term and long-term merger benefits in applying an analysis of merger benefits?

A. Certainly California did.

Q. And was that also the case in Kansas, to your recollection?

A. There was a lot of discussion about that and there was a present value approach that was used incorrectly by the Commission, but the dollars were originally presented by both parties on a nominal dollar basis and then subsequently discounted back.

Q. Do you recall what the discount rate was that was applied? And this is I believe in 1992, was it not?

A. No. It would have been in 1991, I think. It would have been based on something close to the weighted average cost of capital but I don't recall what the specific rate would have been.

Q. Was it in excess of 7 percent? Do you have any recollection?

A. Probably.

Q. Was it in excess of 10 percent?
A. Probably not.
Q. I believe an answer to an earlier inquiry I understood you to say you have not appeared before the California Commission. However, it appears you have some knowledge of the factors that the California Commission employs in public benefit analysis. Could you state if you know what the period of time is for the calculation of short and long-term benefits in California?
A. I don't recall the distinction. My recollection is that perhaps they went out to 15 years, but at the same time they considered long-term benefits to be too speculative so I thought that the order was contradictory to itself.
Q. Is the order that you're referring to the So Cal gas?
A. Southern Cal Edison and San Diego Gas and Electric order. I should say in addition to the order the judge's or the hearing examiner's opinion.
Q. Do you recall what the period of time was for the less speculative short-term benefits?
A. No, I can't specify that for you.
Q. You appeared to refer to the Utah Power and Light and Utah Pacific merger in one of your earlier

responses to Ms. Johnston?
A. Yes, that's correct.
Q. Are you familiar with the filings that are presented to this Commission regarding requests for approval, various approvals, of that merger to this Commission?
A. I've seen them but I couldn't say that I was familiar with them at this point.
Q. Do you recall seeing the testimony that was proffered by Mr. Reed concerning the five-year merger benefits that were anticipated as a result of the merger?
A. I've seen his testimony before, yes.
Q. Do you recall how much Mr. Reed estimated the amount of short-term five-year merger benefits would be?
A. Not offhand, no.
Q. Would a figure in excess of 500 million dollars seem about right?
MR. MEYER: Don't speculate if you don't know.
A. I couldn't affirm that for you with any accuracy.
Q. Thank you. And so in the present case, using the numbers that you have, it appears we have

about 185 million dollars of five-year benefits offset by about 25 million dollars of the transaction costs, is that correct, looking at Exhibit 42?

A. That appears to be about right although the exhibit also shows that there is an offset for transition costs or costs to achieve as opposed to only transaction costs.

Q. Yes, that's right. And looking at something that I can actually read it appears that the third line from the bottom there's a line item that's costs to achieve and second line from the bottom is transaction costs. From your familiarity with, for example, the Kansas Gas and Electric and the Kansas Power and Light, do you have any idea what the transaction costs line would have been for that particular merger?

A. My recollection is that the gross savings were approximately $151 million over the five-year period and the net savings were maybe 139 or 140. So like, say, 11 or 12 million dollars.

Q. In transaction costs?

A. No, those would have been --

Q. I was trying to net them out.

A. I'm sorry. Those would have been costs to achieve. In terms of transaction costs they were in excess of $10 million.

Q. Well, didn't the Kansas case also involve an acquisition premium? You're not counting that as a cost to achieve?

A. No. That's part of the evaluation or the part of the price, not part of the cost to achieve.

Q. For example, if Ipalco Enterprises and PSI -- let me see if I've got your numbers right. To your recollection there was 151 million dollars of five-year savings, was it?

A. That was gross.

Q. For five years?

A. Yes.

Q. And of that 12 million was approximately, some was transaction and some was --

A. Well, now the number that sticks in my mind was the net savings was approximately 139 or 140 which would say that the costs to achieve, the transition costs are, or those costs similar to the 21.5 on Exhibit 42, those would be the transition costs.

Q. Do you have a recollection then for something that would have equaled or been equivalent to what your line item of what transaction costs -- which I assume is lawyers and underwriters and all the other folks -- do you have a recollection as to what those costs were that came off the $139 million in the five-year period?

A. Well, they weren't portrayed quite the same way. Again, that was a purchase transaction as opposed to a pooling transaction which this has. Those transaction costs were well above 10 million dollars but I can't quote you the exact amount. They included bank borrowings and bank fees, for example, commitment fees.

Q. I guess I'm a little confused. Why would a transaction that involved a purchase have substantially lower transaction costs, less than half the transaction costs? I believe there's 25 million dollars of transaction costs here, and I think you just testified that your recollection was that there was $10 million and I'm confused.?

A. I think I said that there were well in excess of $10 million but I couldn't quote you an accurate number. I can't give you a number equivalent to $25 million for the Kansas transaction as I sit here. They were in excess of $10 million but I can't tell you whether they were any other number.

Q. Would not a friendly merger among equals suggest lower transaction costs, generally?

A. That could generally be true, at least from a perspective that they're probably not cash involved, therefore there's no commitment fees involved.

Q. Looking again at page 4 of your testimony you mention another transaction you were involved in, the Ipalco Enterprises and PSI Resources, et al., I guess. Do you happen to recall what the transaction costs involved in that merger -- was that a merger, acquisition or consolidation?

A. Well, it was a proposed acquisition. It was subsequently -- the tender was subsequently withdrawn. The nature of the transaction costs for Ipalco are substantially different than those we are talking about here today. It included all the costs of solicitation which was not required here. Those numbers were about 34 million dollars, but those aren't apple and orange dollars.

Q. Do you happen to recall what the merger benefits were reported to be?

A. A billion and a half over a 10-year period.

Q. So there was $34 million as transaction costs to achieve a number that was in excess of a billion and a half. It's a -- going out 10 years that's a billion dollars higher than the number --

A. It's approximately three times the gross savings number represented on Exhibit 42, that's

correct, but again, you can't compare those savings dollars directly. The sizes of the companies were different, the capacity positions of the companies were different, the geographic proximity was obviously very different in that case, so the nature of the savings, while some of the categories were similar, the particular areas and the extent to which savings would be available were very different.
     Q.   Perhaps you've already responded in discovery, then. I'm just curious how these $25 million in transaction costs break out. Has that been provided in response to an earlier deposition request perhaps?
     A.   It hasn't been provided by me but I think the appropriate person to direct the question to would be Mr. Pierce.
     Q.   Mr. Pierce, thank you. So you don't -- from your involvement in other mergers where the transaction costs appear to have been far lower or proportionately far less you see nothing about this figure from what you know about the transaction costs that cause you to think that they might be high for some reason?
     A.   Well, there's nothing that occurs to me that says they could be high relative to the value of

the deal. There are barometers that people use -- investment bankers use in terms of establishing what their fees will be based on the size of the transaction, but those are not linear; that is, as the size of the deal goes up they don't always go up in step fashion with that. They would go up at a declining rate of growth. I don't know the particulars of the $25 million and I don't want to leave you with the impression that in the Kansas transaction they were substantially less, because all I know is that they were in excess of $10 million but I don't know if they were -- I don't recall whether they were in excess of $20 million, for example.

MS. WILLIAMS: I have nothing else. Thank you, Mr. Flaherty.

JUDGE CANFIELD: Any other questions from intervenors before we get to Mr. Trotter?

MR. UDA: No, Your Honor.

MS. PYRON: No, Your Honor.

JUDGE CANFIELD: Mr. Trotter.

CROSS-EXAMINATION

BY MR. TROTTER:

Q. Would you turn to Exhibit 83. This is a request that asks that the companies provide any document addressing one or both company's position vis-a-vis actual or potential competition from other retail or wholesale providers of electric or natural gas utility service; is that right?

A. That's correct.

Q. The study which started on about fourth page of the exhibit, what was your involvement with that study?

A. I was directly involved.

Q. You were asked to produce this?

A. Yes. This was prepared for Water Power in conjunction with its due diligence.

Q. Did it come as a surprise to you that the only documents that were provided in response to this request were a study that you did in response to this merger and then a one-page policy statement on retail wheeling?

A. Well, I hadn't reviewed this particular request before, so I don't know whether I would be surprised or not. I don't know if there were other documents --

Q. Let's assume this is it.

A. Well, the two pages that were provided in terms of the one-page responses from each company may succinctly state their positions. Perhaps there is additional information that they had available but maybe I misunderstood the point of the question. I thought that the two pages clearly communicated what their position was on retail wheeling.

Q. So there's nothing in the request that talks about limitation to retail wheeling, is there?

A. Not directly, no.

Q. Now, with respect to the competitive analysis that you did, could you explain why no New Mexico or Arizona utilities are mentioned?

A. I don't know that I can recreate our thought process at this point in time but I think we view them probably as a combination of one or two things, either too geographically dispersed and not being viewed as a real competitor in the region.

Q. Did either company take any exception to your study except perhaps with this contract issue involving the coal contracts for Sierra?

A. Well, this study was conducted in conjunction with the work being done for Water Power at the time. I don't know whether the information was subsequently shared or reviewed with Sierra so I can't directly or fully answer your question on that.

Q. Just with respect to Water Power. Anyone from Water Power criticize your analysis?

A. I don't remember any critique directly being made of the analysis. As we explained the analysis I think we communicated points about how you would view this particular analysis because it is just a piece part of something larger, and it is to be taken as illustrative as opposed to dispositive because it is using things on an average basis because of the limited amount of information available.

Q. Is that disclaimer made anywhere in this study?

A. Not on the face of it, no.

Q. Now, you gave in response to questions from staff counsel five mechanisms that are generally used with respect to -- or that are used with respect to merger savings: savings tracker, an O and M index, capitalization of savings, an O and M adder and performance-based regulation. Do you recall that?

A. Yes, and then I subsequently added one which you might call targeted investment reduction.

Q. That had to do with the stranded plan?

A. And/or the at-risk customers, that's correct.

Q. Are any of those mechanisms being proposed here by either company?

A. No.

Q. Not to my knowledge.

Q. And you also mention -- I think it was in your performance-based regulation discussion you mentioned service quality standards. Are you aware of any proposal regarding service quality standards by either company in this docket?

A. No, I'm not.

Q. With respect to your analysis, which is summarized on the chart, Exhibit 42, you were not asked to evaluate and quantify the efficiencies each company would achieve going forward in the absence of this merger, were you?

A. That's correct. I was not.

Q. I asked you in deposition what the risk was that the $450 million in net benefits -- what the risk was that those benefits would not be realized over the 10-year period and your response was very low. Do you recall that?

A. Yes.

Q. And I also asked you what the risk was that $450 million in net benefits would not be realized over that period and your response was very minute if any. Do you recall that?

A. Yes.

Q. Do you still maintain those views?

A. Yes, I do.

MR. TROTTER: Those are all my questions. Thank you.

JUDGE CANFIELD: Commissioners, questions for Mr. Flaherty.

CHAIRMAN NELSON: Pass.

EXAMINATION

BY COMMISSIONER HEMSTAD:

Q. Mr. Flaherty, in an ideal world or in a world that would be most attractive to a merging company, to effect maximum savings, would the company operate under the form of two separate divisions?

A. I don't think that the divisions really affect the level of savings. Even if you were geographically closer, as long as you can consolidate or centralize the headquarters or support functions, you would be maximizing the relevant savings that would relate to those administrative or corporate types of function and departments that exist, so the divisional structure doesn't really impact that and geography doesn't really impact that category of savings other. So the divisional structure is fairly common as long as you organize yourself in a way that does not -- that emphasizes centralization or consolidation of functions. You don't really do anything to dilute the level of benefits you otherwise obtain.

Q. Your Exhibit 42 projects the savings through 2005?

A. That's correct.

Q. Would it be your expectation that the divisional arrangements in terms of being able to achieve maximal efficiencies would be able to continue indefinitely after that?

A. That's a good question. To begin with, it's unclear how the industry will unfold and whether the vertically integrated business will become disaggregated. That's one issue that exists. When you think of the divisions, the way we've thought of division and the way the companies are thinking of the divisions is really the distribution and customer service organization as opposed to the headquarters and field or production support organizations.

I think almost as equally important will be what the company chooses in terms of its marketing strategy about branding or brand identity over the long term. So the divisional structure to me will be driven more by what strategy the company seeks to employ about how it wants to identify itself with customers rather than simply the organizational dimension of does it leave divisions behind or not and are those divisions known as Sierra Pacific Power or Washington Water Power. But you could, if the nature of competition and regulation don't unfold as people predict and disaggregation doesn't occur, you could probably continue with a divisional structure over an indefinite period. I suspect that's not going to happen, though.

Q.   Is it your expectation that disaggregation will occur?

A.   I think as a general concept that there will be some separation structurally, generation from the rest of the vertically integrated business. The difficult feature to deal with is that the first mortgage bonds of the company -- companies -- underlie all of the assets not just a particular type of asset, so if you were to structurally separate you can probably do the structural separation within the business as it's defined without triggering the indentured provisions, but if you were to separate and spin out or spin off then you would call in -- you would have to call in the first mortgage bonds unless you had sufficient bondable property or like property to exchange for those generation assets.

But I think that the generation is, given the way the competitive markets look to me, and the ground swell there seems to be for some kind of treatment like that, I think that that will eventually come, yes, sir.

Q. Well, what does a commitment from the applicants here, or the merged company, that to honor the standard that no harm would occur to the ratepayers in Washington mean if over, say, the next decade major structural changes in the industry occur such as disaggregation? How is that commitment to be met?

A. I don't frankly know that the commitment really changes. My suspicion or I guess my belief is that at least at the distribution end of the business, if not the transmission and distribution end of the business in some places, will still continue to be regulated in which case there will still be an opportunity for the Commission to be very active in terms of the monitoring and oversight of individual companies. So the fact that generation could be structurally separated and spun out I don't think undermines the ability of the Commission to play an active role. One of the tools that the commissions have available to them always is to look at what the jurisdictional costs of service are to determine whether a customer has been harmed or not through any actions of the company.

And with respect to service delivery itself or service quality and reliability, I don't know that that has changed to any degree by virtue of what happens with the disaggregation of the business as a whole, particularly if there were to remain at least some form of contract between the distribution portion of the business and the generation portion of the business for some period of time. So I think that the commitment of the company to protect the interests of the customer and to avoid any harm to the customer is still maintained because they have principally to live and work here. If they're going to succeed competitively then they have to fulfill their promises to their customers or they won't be the provider of choice.

Q. Changing the subject. You referenced I believe it was five or six methodologies that can be applied to measure and allocate benefits?

A. Yes, sir.

Q. In then did I understand you to say that none of them are being applied here?

A. Well, none of the particular measures that

I was referring to is being directly applied, but when you think about --

Q. Let me first ask you, how would you characterize then the methodology that is being applied here?

A. Probably I should add a seventh category to be explicit about it, but it's more the rate freeze and moratorium that's being applied, and I would consider that to be somewhat performance-related because the company is taking the risk of actually achieving the savings to the degree that it can fulfill the commitment to maintain rates at their present level or avoid future expected rate increases, so there is a performance dimension to that. To be explicit or perfectly clear about it we would call it a moratorium one being a seventh approach, but I think with the company's proposed plan of the moratorium there's a performance dimension to it because the company really bears the risk.

Q. In your experience in dealing with mergers in other parts of the country, has that approach been used?

A. Yes, it has and it's difficult to generalize about those half a dozen approaches I have mentioned to you because in many cases there are hybrid or derivatives of those approaches that are actually used. For example, in Kansas there was an O and M index, but it also involved a moratorium. In many of the natural gas transactions which have occurred, the approach that is principally taken has been a moratorium. But the moratorium can be an attractive approach for several reasons, one being that it does put the company at risk in terms of achieving savings to maintain its financial integrity, once it's made the commitment not to pursue potential increases to the Commission. And then secondly, it's a popular way of dealing with avoiding future rate cases which no one really likes to deal with particularly in a competitive marketplace.

Q. Do you have an opinion as to whether these companies and their resource bases are in a declining cost environment?

A. I think that's generally true. Certainly at the generation side of the business technology has improved to the point where the costs of combustion turbines, combined cycle plants and coal units themselves are all dropping in terms of a cost per KW compared to what people thought they would be before. And with advances in technology within the distribution side of the business such as distribution automation, they are contributing to a declining cost atmosphere to some extent but I don't know to what extent it's going to wholly offset inflation itself.

Q. Well, if something like that is the case then a freeze moratorium approach isn't a particularly significant commitment.

Q. Well, it depends again what area we're talking about. There's a generation side, the costs of new technology is coming down but it is still higher than the costs of some of the embedded generation and the cost of new technology within the distribution side of the business and the cost of replacing existing facilities is still greater than the cost of embedded facilities simply because of inflation. So there are pieces to the business which are declining costs for sure.

The other part of your question about whether a moratorium really provides very much, I think it's important to note that what we're talking about here is really there's only 40 percent of the business that's actually affected by the merger. All of the distribution operation and the majority of the production operations are not really affected. They still maintain stand-alone. What happens in Medford, Oregon is going to go on the same as it did with or without the combination. So we're talking about a level of savings that's being produced on a portion of the business that is going to be required to be sufficient to support the entire business not having to come forward with a rate increase. So we're talking inflation is going to be at 3 and a half percent or something like that over the forseeable future. And applying to the full hundred dollars of O and M, as an example, we're only dealing with $40 of that O and M through the merger. The other 60 percent still will have 3 and a half percent inflation. So it still is putting a large portion of the company's operations at risk.

COMMISSIONER HEMSTAD: That's all I have.

EXAMINATION

BY COMMISSIONER GILLIS:

Q. Also on Exhibit 42, you mention -- this is in nominal term numbers, and I guess I take that to mean that if we were to take the present value of that stream of savings benefits the number would be substantially less than the $450 million that's in the bottom corner?

A. Yes, it would.

Q. I think --

A. One thing I should note to you, though, if you were going to consider a present value approach you also have to consider the terminal value, which is to say these savings don't end in year 10, they generally continue. So you have to take some mechanism or methodology to either take the last year of savings and use it as a surrogate for the future savings, and discount that terminal value as well.

Q. Is that why you recommend that we shouldn't use present value?

A. Well, the reason I don't think you want to use present value, and there are a couple. The first is it doesn't fit with all the other numbers in the case. Customers don't pay present value, you don't set rates on present value. So it adds a complication which doesn't really need to exist because you don't deal with present value numbers through the rest of what you might have as cost of service components.

The other reason is that as you were to use these in consideration of the financial implications of the merger, and you would look at the future financial performance of the companies, then you would take these savings and put them into a forecast on a nominal dollar basis so that you could make the evaluations of financial performance on a normal basis, return on equity, pre-tax interest coverage, internal cash generation and factors like that. But using them on a nominal dollar basis facilitates that kind of analysis and the present value basis is really just used if you want to get a net number to compare to something else. In this case the cost of the transaction, whether you use the 10-year discount number or the 10-year-plus terminal value kind of number would still be substantially greater than the cost.

Q. Yeah, but my problem is that we want to compare the costs of the merger with the benefits of the merger, and the costs and benefits occur on different time streams across this 10-year period. How am I going to compare that if I only take the present value, the number at the bottom of the corner on your graph down there on the Exhibit 42 -- the nominalized benefits are around $496 million, right?

A. Yes.

Q. And the nominal costs are -- you have two listed there, $21 million and $25 million, costs, two different categories of costs, but the cost categories occur early during that time frame and not later in the time frame. The benefits, you have them spread across the whole 10 years and if we were to take a present value of those the costs/benefit ratio would change substantially because your costs are occurring front end and your benefits are throughout the whole time period so why don't I want to do that?

A. Well, I think for the reasons I suggested, it doesn't fit with the other numbers, and there's another complicating factor, as everyone reaching a conclusion on what the appropriate discount rate is, which is known and significant each in and of itself, but I don't know that the conclusion you would reach would really ever change, because if you did it correctly the savings that are shown in this chart are still going to be so substantially greater than the cost, the number would give you a different number but it wouldn't give you a different result.

Q. Not sure we agree on that. On the benefit stream again, up at the top in the corporate administrative labor at the top level, it appears that just a head calculation that those are increasing at the rate of about 10 percent average rate per year over 10 years. It's 100 percent total over 10 years, that is divided by 10, but increases from the first line there $13 million in 1996 and $28 million in year 2005 for that line.

A. Did you say it was increasing at 10

percent?

Q. I think so. It increases from 1996 -- in 1996 corporate administrative labor benefits savings is $13 million; 1997 it's 15.;9, 1998 it's 17.3; is that right? I don't know if it's 10 percent but it's increasing.

A. There is an increase based on inflation for normal salaries and benefits increases but it's not a 10 percent. The one thing you should -- I should explain to you about the early part of these numbers on the top line is that some of the savings dollars are ramped in in terms of the position reductions; for example, MIS occurs over a two-year period. So the base is a little bit lower than has been reflected occurring all at one time, but the escalation rate I think was probably 5 percent overall given a weighting of, let's say, 4 percent in salary and something like average 6 percent of benefits loading.

Q. So primarily the wage inflation?

A. Yes. It's not changed to the number of personnel. Once the people leave the payroll they, in effect, leave forever and there is only a small 10 percent of the employees which are occurring over the second year as opposed to in the first year.

Q. You're saying those increases as you recall are about 5, 6 percent a year?

A. I think the composite rate is probably about 5 percent. The wage and salary number was around 4, as I recall, and the labor rate -- excuse me. The benefits escalation rate was higher at the front end of the period and ramp down by a percentage of the year recognizing that the medical costs had been running at double-digit inflation, so I think it probably equated to a levelized 6 to 7 percent number over the entire 12-year period from where we stand today, where we stand in 1994. We did the estimate through 1995.

Q. If I used that factor in '96 about 6 percent or so I should get up to $28 million in year --

A. I think so.

Q. On the cost stream at the bottom, costs to achieve and then the transaction costs, do those allocate to the years that those costs are actually incurred?

A. No, they're not. Mr. Buergel may want to explain more about this but they're effectively amortized over a period of five or seven-year period of time. Actually five-year period of time from the point at which they are incurred.

Q. So the costs are actually basically incurred at the beginning?

A. Yes. Transaction costs would likely occur in 1995. As a transaction is closed more of the monies will become payable. Some in fact have already been paid but this will capture all of those costs and will show them as the total costs being amortized as an offset to the savings being produced by the merger.

Q. That line then assumes that the Commission would approve the accounting order change that's being requested by the company?

A. I guess.

Q. Or allow the costs to be amortized?

A. I guess there would be a presumption that this would be a proposed way of looking at it and whether the Commission would approve the accounting order change would be an issue.

Q. Based on your experience working with other states, I don't know a whole lot about how this works, but just following these examples in Wall Street Journal and places like that it seems like when most private companies undertake activities like this they don't amortize those costs, it's just a one shot deal, the costs are written off at the time they're

incurred, and why is it different for utility company?
Why do they --
A. That's a good question. You're correct in that those industrial sector companies would basically take all the charges in the year in which they're incurred. The amortization reflects sometimes the treatment the commissions would like to impose on the companies to reflect cost over a period of time rather than all at once. So, for example, if all costs were incurred in 1996 and used to offset savings it creates a different picture than what really is true because the costs are really more of a one time event whereas the savings are perpetual, so the approach or the methodology used here was really just utilized to reflect the fact that in order to put the costs and benefits on a more equivalent basis and not show that the costs really exceed the savings, we've amortized costs. The costs -- the savings are -- savings from the transaction could not be derived without the costs associated with some of the elements being incurred so we're trying to match those up a little better.
Q. Well, not to be too pesky but help me reconcile this, then, that you're saying that the reason that we're trying -- that we might approve

amortizing those costs over time is because the benefits occur over time?

A. I think it provides a little better reflection of and matching of benefits and costs recognizing that costs can occur at a single point in time whereas benefits will accrue forever.

Q. Well, help me reconcile that with wherever we started our conversation, not using present value to compare the costs and benefits. That would be the exact reason why you might want to use present value is because we're comparing the flow of benefits with the costs in real time period and so if we really want to compare the benefits of this merger with the costs of the merger we pretty much need to do that in real time, just two concepts of what you're talking about?

A. If you want to take the traditional financial approach, then using net present value is certainly fine. It's just you have to use net present value in the right way and I don't think the result changes. The number would change in terms of the absolute benefit, but once you add on something that will consider the terminal value it's going to have a significant benefit that's shown irrespective of whether you use net present value or nominal dollars.

COMMISSIONER GILLIS: Thanks.

EXAMINATION

BY CHAIRMAN NELSON:

Q. Mr. Flaherty, in answer to Commissioner Hemstad on whether the future is a declining cost environment for these utilities, you answered you thought so. I think that is what you said, you thought so in generation and the distribution sectors?

A. Certain elements of distribution.

Q. What about the transmission sector? Is that declining cost?

A. I wouldn't think so but nobody building a lot of transmission could really tell. The costs associated with obtaining the land, doing the environmental impact statements, permitting and all of that which has traditionally extended the construction period, combined with the actual physical cost of construction compared to an embedded cost probably means it's still not a declining cost portion of the business. I wouldn't think it would be.

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

MR. MEYER: No. I think the Commissioners have covered some of the areas I was going to cover so thanks. Nothing.

MS. WILLIAMS: Could I just have two

follow-up questions, please.

JUDGE CANFIELD: Follow-ups on what?

MS. WILLIAMS: Well, one was in response to a question or a response to Commissioner Hemstad. I believe it had to do with the result of the Kansas case that we had discussed earlier as being a rate freeze and I think there is another component to that I would like to elicit from the witness. May I proceed?

JUDGE CANFIELD: How extensive are your follow-ups?

MS. WILLIAMS: I would guess it would be about 30 seconds for one which would be --

CROSS-EXAMINATION

BY MS. WILLIAMS:

Q. Mr. Flaherty, in response to your answer -- in response to a question from Commissioner Hemstad you pointed out there had been a rate freeze which was sort of a hybrid component in the Kansas case which was the Kansas Power and Light and -- Kansas City Power and Light and Kansas Gas and Electric. Was there not also in addition to the rate freeze cash refunds to the electric ratepayers?

A. Yes, there were.

Q. And were they approximately 32 million dollars?
A. Yes, they were.
Q. Also just for my own clarification because you are the expert and I'm not, if in fact the company takes approximately 46 million dollars in transaction and merger costs in one year, would it not for tax purposes be shown as in one year for tax purposes for the company thereby resulting in a savings of approximately 50 percent of whatever the number is in that year?
A. If you were going to take all the charges you would reflect them that way in whatever year they occurred.
Q. So in real time for your tax books, if you have 46 million dollars in charges they are going to show up a lot sooner than they're going to show up as they were amortized. They would result in a lower tax bill for the company. Is that not correct?
A. If you took all the charges in one year, that's correct.
Q. And is that flowed back in in any way to reflect those tax savings in your summary?
A. These numbers are all on a pre-tax basis.
MS. WILLIAMS: Thank you. That's all.

JUDGE CANFIELD: Okay. With that then, thank you, Mr. Flaherty. You're excused and we'll take our lunch break and come back at 1:30.

(Lunch recess.)

AFTERNOON SESSION

1:30 p.m.

JUDGE CANFIELD: We're back on the record after our lunch break. We had just concluded the testimony of Mr. Flaherty and I guess Mr. Meyer is ready to call his next witness.

MR. MEYER: Yes. Mr. Pierce.

Whereupon,

LAWRENCE PIERCE,

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

JUDGE CANFIELD: The prefiled direct testimony was marked as Exhibit T-44, the one accompanying exhibit as Exhibit 45, and while off the record I did go ahead and premark the deposition transcripts both of which were marked confidential, but it has been clarified that one is not, and that's the one with 15 numbered pages. You can strike out the confidential stamp on that and that will be marked as Exhibit 105. The other deposition transcript consists of 20 pages, and that is to be considered confidential and that will so be marked as confidential Exhibit C-106. So, with that, Mr. Meyer.

(Marked Exhibits 105 and C-106.)

DIRECT EXAMINATION

BY MR. MEYER:

Q. For the record, please state your name.

A. Lawrence J. Pierce.

Q. By whom are you employed?

A. Washington Water Power Company.

Q. In what capacity?

A. Vice-president business analysis.

Q. Have you prefiled Exhibit T-44?

A. Yes, I have.

Q. And that's your direct testimony?

A. Yes, it is.

Q. Any changes?

A. No.

Q. Are you also sponsoring what has been marked for identification as Exhibit 45?

A. Yes, I am.

Q. Any changes to that?

A. No.

Q. Is the information in that exhibit true and correct to the best of your knowledge?

A. Yes, it is.

Q. If I were to ask you the questions that appear in your Exhibit T-44, your prefiled direct, would your answers be the same?

A. Yes, they would.

MR. MEYER: With that, Your Honor, I move the admission of Exhibits T-44 and 45.

JUDGE CANFIELD: Any objections?

Let the record reflect there are none. Exhibits T-44 and Exhibit 45 are so entered into the record.

(Admitted Exhibits T-44 and 45.)

MR. MEYER: Thank you, and with that he's available for cross.

JUDGE CANFIELD: Ms. Johnston.

MS. JOHNSTON: Have you admitted the Exhibits 105 and C-106 into the record yet?

JUDGE CANFIELD: We have not.

MS. JOHNSTON: I move their admission, please.

JUDGE CANFIELD: Any objection?

MR. MEYER: None.

JUDGE CANFIELD: As indicated, Exhibit 105 is nonconfidential so you can draw through that stamp and that's so entered as a nonconfidential exhibit. And Exhibit C-106 is marked confidential and it's to be so treated so that's so entered as a confidential exhibit, C-106.

(Admitted Exhibits 105 and C-106.)

CROSS-EXAMINATION

BY MS. JOHNSTON:

Q. Mr. Pierce, I'm going to begin by asking some follow-up questions to some questions that I asked earlier of witnesses who deferred the answers to you. Do you have what's been marked for identification as Exhibit 100 available to you?

A. Not with me. Yes, I do now.

Q. Would you please turn to page 84 of this three-page document. 84 is handwritten at the bottom of the page.

A. Oh, okay.

Q. The heading is Corporate Organization. Do you see that?

A. Yes, I do.

Q. Now, this is a proposal for the corporate structure of the merged company; is that correct?

A. It's a draft of a possible organization, yes.

Q. And based on this chart, it appears that under this proposal the vice-president of regulatory affairs, senior vice-president of electric energy and senior vice-president of the Sierra division natural gas and water operations are to be located in Reno; is that correct?

A. First of all, I guess that is correct. That's the way it's portrayed on the chart. I think I need to maybe -- we need to gain some understanding of the purpose of this chart. This organization chart was prepared last summer prior to announcement of the merger, and I prepared the chart in -- it was an exercise of sorts on my part of trying to determine if in fact we are going to share responsibilities including geographical locations of certain officer positions and functions in the new organization what would be a possible organization and what might it look like, and so I prepared this -- it has really no official use at all. It was just a hypothetical possibility.

I think what this chart was used for is that in a presentation to the transition teams early on in August it was shown to them as something as a possibility of what a work product that they might put out; that there were no preconceived notions that the positions, as they are shown on this chart including the functions reporting to them, would necessarily be in the locations that they are in this chart. I guess what I'm saying is it has really no official status.

Q. So we shouldn't draw any conclusions from this report about future locations?

A. Absolutely not.

Q. Do you have any knowledge of negotiations between Water Power or Sierra Pacific and the Public Service Commission of Nevada regarding employment levels in the Reno area and a stated goal of no net employment loss in the event that this merger is consummated?

A. No, I do not.

Q. In my cross-examination of Mr. Canning this morning, he described some recent events including the finalizing of agreements for interconnecting transmission service which will impact production-related benefits of the merger. Are you aware of those changes?

A. Yes, I am.

Q. Do those changes effectively reduce the production-related benefits of the merger?

A. Yes, they would. Potentially.

Q. Will the changes be reflected in the March 13 revision?

A. Yes, they will. They will be included in the validation process.

MS. JOHNSTON: Like to have these marked as the same exhibit if possible, please.

JUDGE CANFIELD: For the record, there is two documents being distributed. One is deposition request No. 23. The other is deposition request No. 23C marked confidential. What's the status on the confidential denoted one?

MR. MEYER: To be ignored.

JUDGE CANFIELD: The confidential notation is to be ignored, okay. It's nonconfidential exhibit. They have been requested to be marked together as a single exhibit, so so marked as nonconfidential Exhibit No. 107.

(Marked Exhibit 107.)

Q. Mr. Pierce, do you recognize what's been handed to you as Exhibit 107 for identification?

A. Yes, I do.

Q. And is it your response to deposition request No. 23?

A. Yes, it is.

Q. And was the response prepared by you?

A. Yes, it was.

MS. JOHNSTON: Your Honor, move the admission of Exhibit 107.

JUDGE CANFIELD: Any objections?

MR. MEYER: I have no objection.

JUDGE CANFIELD: So entered as Exhibit 107.

(Admitted Exhibit 107.)

Q. As deposition request No. 23, you were asked to provide copies of studies or other information or data relied upon by Water Power to determine that heavy amounts of mining or gaming load would not pose significant risk to the combined company; is that correct?

A. Yes, it is.

Q. In response to this particular deposition request the company provided all written documentation used to reach the company's overall assessment that the mining and gaming concentration shouldn't pose a problem; is that correct?

A. That's correct.

Q. You state in your response that the company also relied upon "conversations with Sierra financial and operating personnel." Do you see that?

A. Yes, I do.

Q. Is there any documentation of what transpired at these meetings? For example, do you have any notes of conversations or summaries?

A. Not that I am aware of, and I do not have any, no.

Q. Do you know if notes were taken?

A. No, I do not.

Q. In response to deposition request No. 7 now marked as Exhibit 86, Sierra indicates that for the 1995 through 1998 time period 52 percent of Sierra's increase in total sales is attributable to the mining sector. Do you recall that?

A. I do now.

Q. And the 12 pages -- back up a minute here. Please turn to pages 5 and 6 of attachment C.

MR. MEYER: Of 107?

MS. JOHNSTON: 107.

A. Pages what again?

Q. Attachment C, Major Accounts Business Outlook. Are you there?

A. I'm slow.

MR. MEYER: I'm not sure --

JUDGE CANFIELD: What's the exhibit number again?

MR. MEYER: 107, right?

JUDGE CANFIELD: Well, there are numbered pages so that would be easy to reference so I'm not sure.

MS. JOHNSTON: Page 1 of --

THE WITNESS: What are the page numbers again?

MS. JOHNSTON: Pages 5 and 6 of attachment C which is called Major Accounts Business Outlook.

MR. MEYER: That's the first section.

MS. JOHNSTON: Attached to deposition request response No. 23.

A. Top side says Mining Sales Growth?

Q. Yes.

A. Okay.

Q. These pages provide summary level information of Sierra's revenues and sales attributable to mining industry as of July 31, 1993. Is that true?

A. That's what it says, yes.

Q. Please turn to attachment D, which is two pages beyond where we are. The title of the attachment is Sierra Pacific Welcomes Carlin Trend Customers. Do you see that?

A. Yes, I do.

Q. Now, these twelve pages which comprise attachment D discuss the Carlin Trend customers, which are gold mines; is that correct?

A. I believe so, yes.

Q. Turn to page 3 of the attachment, please.

A. Okay.

Q. Now, this page indicates that these pages were prepared in December of 1993. Has the company requested or received more current information?

A. Not that I am aware of.

Q. Did the company perform any analysis of the information provided by Sierra here?

A. I'm not sure what you mean by analysis.

Q. Well, what's your definition of analysis?

A. Well, my definition of analysis would be if I was given financial information I would analyze that financial information. I'm not sure what you mean by analyzing the slides that are included in the attachment.

Q. Did you request supported work papers for these documents?

A. No, we did not.

Q. Yesterday we discussed the lists of capital projects which Mr. Eliassen relied upon in his Exhibit 19. Were you present during Mr. Eliassen's testimony?

A. Yes, I was.

Q. What has now been marked as Exhibit 62, which is the company's response to data request --

A. Could you move your microphone. Having trouble hearing you.

Q. Exhibit 62, which has the company's response to data request 333 indicated that "the list of projects for 1996 through 1998 are not yet finalized but will be provided as soon as they are available." Mr. Eliassen indicated that he did not know when these lists would be finalized and deferred the question to you. Do you remember that?

A.   Yes, I do.

Q.   Do you know when the capital project list for 1996 to 1998 will be finalized?

A.   Yes. At a break I called back to Spokane and they are available now and they are in the process of shipping them over.

Q.   How long have they been available?

A.   We are currently in the process of finalizing our five-year forecast. The capital budget is one of the first pieces and it just became final recently. It hasn't been that long. I might add that we just did -- at our board meeting last week they were finally approved so that's the step we were waiting for.

Q.   As record requisition 13 we ask Mr. Eliassen to provide an updated Exhibit 19 including all changes which have occurred since July of 1994 and adding an RWE category which would show capital expenditures and internal generation assuming improvements which are expected from the merger. He asked that we check with you to insure that this request could be answered. Is it your understanding that the information is in fact available to respond to this record requisition?

A. I don't believe that all of the information is available at this time. In order to do that, we would have to, including both Sierra and Water Power, have finalized and completed our five-year forecast. This has not yet been done. The capital piece would be available but internal cash generation would not be available until a five-year forecast is complete. I indicated in my deposition that I would provide that information when it was available and expected it to be done sometime in the first quarter.

MS. JOHNSTON: This is the response to public counsel data request 340 and designated confidential by the company.

JUDGE CANFIELD: And you're requesting that it be marked as the next exhibit in order?

MS. JOHNSTON: Yes.

JUDGE CANFIELD: I will mark it as confidential Exhibit C-108.

(Marked Exhibit C-108.)

Q. Have you opened your brown envelope, Mr. Pierce? Do you recognize this multi-page document as the company's response to public counsel data request 340?

A. Yes, I do.

MS. JOHNSTON: Your Honor, I move the admission of Exhibit C-108.

JUDGE CANFIELD: Any objection?

MR. MEYER: No, I don't believe so. Let me just ask one question of the witness here. Mr. Pierce, this has the revised page 18 attached to it, does it not?

THE WITNESS: Yes, it does.

MR. MEYER: Then are you satisfied that this is -- this fully incorporates the changes that you had made to this?

THE WITNESS: Yes.

MR. MEYER: With that I have no problem.

JUDGE CANFIELD: That's so entered as confidential Exhibit C-108.

(Admitted Exhibit C-108.)

MS. JOHNSTON: Thank you.

Q. Now, this document contains the company's forecast for, A, Sierra Pacific Resources' stand-alone financial results from 1994 through 1998; B, Washington Water Power stand-alone financial results for that same period; C, their respective stand-alones with merger synergies; and D, Resources West Energy's financial forecasts with merger synergies. Is that an accurate description of what's contained in this exhibit?

A. Yes.

Q. The forecasts cover a five-year period ending 1998 while Flaherty's exhibit on merger savings, Exhibit 42 behind you, and Mr. Buergel's Exhibit 48 both cover an extended period of 10 years beginning 1996 and ending in the year 2005. Could you please explain for us why the company chose to limit the forecast to a five-year period?

A. The company only prepares its financial forecast for a five-year period.

Q. Can you tell me why that's so?

A. It's just been the way we've done it for years and years. Not a real good answer to say it's always been done that way. We've never projected beyond a five-year period. We do project loads for periods beyond five years and we do project capital, although albeit roughly, for beyond five years, but financial forecasts has always been limited to five years.

Q. Do the companies have a forecast similar to Exhibit C-108 for the periods 1999 through 2005 or beyond?

A. No, we do not.

Q. Would you please prepare that for us as the next record requisition in line. That would make it record requisition 20.

MR. MEYER: Before the witness responds, I may have an objection to that request, but may I just have a voir dire, short series of questions, with this witness.

JUDGE CANFIELD: Go ahead.

VOIR DIRE EXAMINATION

BY MR. MEYER:

Q. Mr. Pierce, is that even doable or what problems would you have in trying to do such a --

A. We would have to go forward and estimate our resource costs for beyond the period that we normally do. We would have to forecast revenues beyond the period we normally do. Expense levels would be speculative. I think once you get beyond a five-year period in a financial forecast it's extremely speculative and it's something we've never done before and it would be something we would have to create, and I think it would take a great deal of work to do it.

MR. MEYER: So with that response of record, we would object to the record requisition.

Several things. It's wholly speculative and it's burdensome. It's a document that would have to be created, and would object on that basis.

MS. JOHNSTON: Well, it seems to me that the company is capable of projecting merger savings out for a 10-year period as illustrated on the blow-up Exhibit 42 behind Mr. Pierce. I don't see why they should have extreme difficulty in responding to staff's record requisition.

MR. MEYER: Well, Counsel is free to ask that very question of the witness and explore why this is doable but a 10-year forecast in the nature of a set of forecasted earnings with multiple assumptions is not. I don't have a problem with that line of cross if it leads anywhere, but I do have a problem with a requirement that we respond and create something by means of a record requisition that, as I mentioned, is burdensome to do, maybe with little reliability given the speculative nature, and I think that's a burden that shouldn't be placed on the company given the likely fruits of what that study would produce.

JUDGE CANFIELD: Maybe the company and staff counsel can try to refine the request somewhat off the record. I certainly agree. I don't want to lay undue burden on the company, but if there's some further refinement that might reduce some of that burden and they can still meet the request and needs of staff counsel, I would certainly look at that favorably as well, so I will assign record requisition No. 20 to that, and I would ask that the parties try to work out details on that such that it's not going to create an undue burden on the company.

(Record Requisition 20.)

MR. MEYER: May the witness add a further comment?

THE WITNESS: I would like to add one thing based on the exhibit behind. The changes that are anticipated as far as the merger benefits and the specific changes occur within the five-year period covered by the forecast. Anything beyond that is merely escalated at inflation rate. There are no major changes beyond the five-year period which is included in the forecast, so I think comparing a five-year forecast to this particular chart is inappropriate. We would be willing to work with staff and see if we can reach a middle ground.

Q. Well, thank you for your unsolicited opinion.

A. You're welcome.

Q. I don't think that we're asking you to do the impossible here and this is, frankly, quite reminiscent of the deposition we conducted.

MR. MEYER: I move to strike that. I think that we've agreed that we will cooperate and do what we can to give you meaningful information. We're not trying to resist but if we could proceed, Your Honor.

JUDGE CANFIELD: Grant the motion to strike that last comment. The company has agreed to work with staff on that and I think that will suffice.

CROSS-EXAMINATION

BY MS. JOHNSTON:

Q. During the deposition in December I requested that the company supplement Exhibit C-108, which is data request 340, with statements of rate base and rate of return and with a breakdown by jurisdiction. Until now the request is outstanding. Can you update us on its availability and explain why the response has been delayed?

A. That response to that deposition is being prepared at Mr. Buergel's direction, and I think he would be the most appropriate one to update you on that status.

Q. Mr. Pierce, the company is in the process of revising 340 and updating its five-year forecast; is that correct?

A. Yes, it is.

Q. Did you say that the updated forecast will be available and provided to all parties by mid March?

A. We're hoping to get it done, as I stated in my deposition, by the end of March. We'll get it sooner if we can.

Q. But the end of March at the outside first quarter?

A. Yes. That's what we're hoping for. We'll get it sooner if we can.

Q. Are you aware that at the time that you provide that update to us that we'll be approximately one month before staff is scheduled to prefile its written direct testimony in this case?

A. Yes, I am.

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

JUDGE CANFIELD: We did not enter 100. That was still pending.

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

JUDGE CANFIELD: Any objections to Exhibit 100?

MR. MEYER: No objection.

JUDGE CANFIELD: Exhibit 100 is so entered into the record.

(Admitted Exhibit 100.)

JUDGE CANFIELD: With that any questions from the intervenors before I get to Mr. Trotter?

MR. UDA: No, Your Honor.

MS. PYRON: I just have a small one.

JUDGE CANFIELD: Ms. Pyron.

CROSS-EXAMINATION

BY MS. PYRON:

Q. Good afternoon, Mr. Pierce.

A. Afternoon.

Q. Mr. Pierce, I understand, and correct me, you were responsible for the due diligence efforts on behalf of the company with regard to the proposed merger; is that correct?

A. I coordinated the due diligence efforts. We had many, many people in the company that worked on it. "Many, many." I guess there weren't that many.

Q. I just have one area of questions. If you could direct me to it, any evaluation that you recall with regard to any environmental problems for either of the two companies?

A. Yes. First of all, we reviewed all of the SAC filed documents by Sierra to determine if there were any large contingent liabilities which we should be concerned of. There were none that were recorded or at least in those documents. We went a step further and actually sat down and talked to their environmental personnel as well as reviewing their files, and we were very comfortable that there was nothing that we were aware of or at least that had not been disclosed to us. In addition to that they represented in the merger agreement that everything that was material had been disclosed to us, so we were comfortable in that area. And I might add, they provided the same favor to us. They reviewed our documents with our people.

Q. Just in terms of do you know, does either company have any history of manufactured gas plants historically?

A. Not that I am aware of. I didn't actually perform the environmental review, but I reviewed it and I don't recall seeing anything.

Q. With regard to the due diligence, did you do a phase 1 environmental audit with regard to Sierra Pacific?

A. I'm not familiar what a phase 1

environmental audit is.

Q. Maybe it would make the most sense to just make that a record requisition as to whether that was done and whether that could be provided.

MR. MEYER: You're asking for whether the company performed a phase 1 audit?

MS. PYRON: As part of their due diligence efforts.

JUDGE CANFIELD: That's record requisition No. 21.

(Record Requisition 21.)

MS. PYRON: I have no other questions at this time. Thank you, Mr. Pierce.

JUDGE CANFIELD: Thank you, Ms. Pyron. Mr. Trotter, questions for Mr. Pierce?

MR. TROTTER: Yes, just a few.

CROSS-EXAMINATION

BY MR. TROTTER:

Q. On Exhibit C-108. First of all, Mr. Pierce, we asked in various data requests to provide any document analyzing the impact of the merger on earnings of the Water Power division and the Sierra division as well as any document analyzing the impact on the merger on the rate of return of those

divisions, and your reference was consistently to this exhibit. Is that right?
A. Yes, it was.
Q. And am I correct that -- well, let's just take a look at page 7 in the lower right-hand corner. And recognizing the numbers are confidential, so not referring you to any specific number, but this is a cash flow statement for Water Power on a stand-alone basis; is that right?
A. Yes.
Q. And would all of the data here reflect normal operations?
A. 1994 is a partial year number. It actually includes three months of actual operating results, and also as we go through a year on an actual basis, as we know things will change such as stream flows or the power supply picture or anything in that general area, we will modify that year. 1994 in this particular exhibit includes three months of actual and any of those modifications that may have been made at that point in time. '95 through '98 would be assuming normal stream flows, normal temperature.
Q. So the 1994 column is not weather-normalized?
A. No, it is not.

Q. Now, there is a line under cash flow for equity earnings in Tuscarora. There are no amounts shown there but do you know what that line is intended to portray?

A. Yes, I do. The template that was set up here was set up to accommodate both companies on a stand-alone basis. Tuscarora is a subsidiary of Sierra Pacific and if you look at the stand-alone company for Sierra there would be an amount included in that line.

Q. Well, look at page 3 of the exhibit. I did not see that on a stand-alone basis for Sierra so it must be included on another line somewhere.

MR. MEYER: Perhaps I can help.

MR. TROTTER: Let me just withdraw the question. Clearly it doesn't belong for Water Power but wherever else it belongs it's in there somewhere?

A. That's right. Let me try to explain. The reason it's not included on that particular one is there is no cash that flows back and forth between Tuscarora and Sierra. If you look on page 2 of the Sierra stand-alone financial statement, about two thirds of the way down you will see a line under Other Income and Deductions that includes the earnings amounts for Tuscarora but apparently there's no cash so it didn't show up on a cash flow statement.

Q. Now, with respect to this five-year versus 10-year issue, isn't it true that the last five years of your 10-year Exhibit 42 portrayal show higher net benefits than the first five years?

A. Yes, it does. That is because they're being escalated for an inflation factor as Mr. Flaherty talked about this morning.

Q. Turn to the last page of the exhibit, page 18. And here you show return on average equity for the years 1996, '97 and '98 among other things?

A. Yes.

Q. And to the extent that this number for each year is higher than the merged company's cost of equity, the company would be overearning, would that be correct? And to the extent it was less, it would be underearning, is that right?

A. With one exception, and the numbers that are included on page 18 also include equity returns on subsidiary operations, nonregulated pieces of the business, and, as you recall, in a deposition request I was asked to restate these numbers without the subsidiaries, and so to the extent that those particular numbers exceeded an allowed return level at that point in time or were below that, you could come to the conclusion that you were either under or overearning, but these particular numbers do include the subsidiaries, and our subsidiaries earn in excess or earn a larger, a greater amount of return on equity than does the utility operation.

Q. If the company was to overearn in years after 1998, that data is not shown one way or the other on this exhibit, is it?

A. That's correct.

Q. And when does your rate freeze proposal terminate, sir?

A. Rate freeze goes through the year 1999 and the updated five-year forecast that was asked about earlier that I said would be available by the end of March will include 1999 in that. We do a five-year projection and this year it will go through the year 1999.

MR. TROTTER: Thank you. Nothing further.

JUDGE CANFIELD: Commissioners, questions for Mr. Pierce?

CHAIRMAN NELSON: No.

COMMISSIONER GILLIS: No questions.

JUDGE CANFIELD: Mr. Meyer, any redirect?

MR. MEYER: I would like to pass out, in aid of redirect, another exhibit that should be marked confidential which essentially serves to restate the last three pages of that exhibit to strip out subsidiary earnings so if we might have this marked as C-109.

JUDGE CANFIELD: That would be the next number, yes.

MR. MEYER: This is confidential exhibit then.

JUDGE CANFIELD: As requested that's marked as confidential Exhibit C-109.

(Marked Exhibit C-109.)

MR. MEYER: Thank you.

REDIRECT EXAMINATION

BY MR. MEYER:

Q. Mr. Pierce, turning now to Exhibit C-109. Do you have that before you?

A. Yes, I do.

Q. Would you turn to what's noted as page 18, the last of three pages there.

A. Yes.

Q. Now, what do you understand the purpose of this three-page version to be vis-a-vis as compared with C-108?

A. The three pages that are marked as C-109 were in response to a deposition request that asked us to restate these three pages excluding nonregulated subsidiary operations.

Q. And having done that and turning your attention, if you will, to page 18, the last of the three?

A. Yes.

Q. Would you focus on the return on average equity line. Do you have that before you?

A. Yes, I do.

Q. And does that line show return on average equity without subsidiaries at lower percentage rates as shown than with subsidiary as shown in Exhibit C-108?

A. Yes. It's lower in all three years.

MR. MEYER: I move the admission, Your Honor, of Exhibit C-109.

JUDGE CANFIELD: Any objections?

Let the record reflect there are none. Exhibit C-109 is so entered as a confidential exhibit.

(Admitted Exhibit C-109.)

MR. MEYER: With that I have no further questions.

JUDGE CANFIELD: Any follow-ups?

Okay. With that, thank you, Mr. Pierce,

you're excused.

MR. MEYER: Next witness will be Mr. Buergel, please.

JUDGE CANFIELD: While he's setting up I will go ahead and assign an exhibit number to the deposition transcript testimony of Mr. Buergel as Exhibit 110.

(Marked Exhibit 110.)

Whereupon,

JOHN BUERGEL,

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

JUDGE CANFIELD: Also note that the prefiled direct testimony of Mr. Buergel was identified as Exhibit T-46 and there were two accompanying exhibits marked as 47 and 48 the second of which was revised on September 29, 1994 and again on --

MR. MEYER: 1-24-95. That's the one we want to have of record.

JUDGE CANFIELD: To be substituted for the earlier versions.

MR. MEYER: Yes.

JUDGE CANFIELD: Is that intended to include the work papers that were provided as well?

MR. MEYER: No. No, it would not.

JUDGE CANFIELD: I want to make that clarification then. So revised Exhibit 48 would be the five numbered pages.

MR. MEYER: That is correct, Your Honor.

JUDGE CANFIELD: Maybe that can be clarified and so noted on record as well. With that the revised Exhibit 48 revised 1-24-95 is marked as Exhibit 48.

MR. MEYER: Thank you.

DIRECT EXAMINATION

BY MR. MEYER:

Q. Mr. Buergel, for the record, please state your name.

A. My name is John W. Buergel.

Q. By whom are you employed and what is your title?

A. I'm employed by the Washington Water Power Company and my job is controller with the Water Power.

Q. Have you prefiled testimony marked as T-46?

A. Yes, I have.

Q. And I understand you have a few changes to that?

A. Yes, I do. If we go to page 17, the

revised Exhibit 48 caused some number changes at the top of page 17. Line 3, the $5.7 million would change to $5.4 million in 1996. The $12.4 million would change to $11.7 million in 1997. The $13.2 million in 1998 would change to $12.5 million, and the $13.9 million in 1999 would change to $13.2 million.

Q. Any other changes?

A. No, there are not.

Q. So if I were to ask you the questions that appear in your prefiled direct, would your answers be the same?

A. Yes, they would.

Q. And you're sponsoring Exhibit 47 and 48?

A. Yes, I am.

Q. Information in those exhibits is true and correct to the best of your knowledge?

A. To the best of my knowledge.

Q. I understand there is one other housekeeping correction. Turn to page 1 of 5 of Exhibit 48. Right toward the bottom you have a series of allocators defined in the footnotes, and the lead-in to that says "with Sandpoint." Do you wish to strike that reference?

A. Yes, I do.

JUDGE CANFIELD: What was the page of that again?

MR. MEYER: 1 of 5.

Q. And right below the table right below the table, but above the allocators there's two words, "with Sandpoint." Strike those "with Sandpoint" words. Are you there?

A. Yes, thank you.

Q. With that, information in 47 and 48 is true and correct?

A. Yes.

MR. MEYER: And I therefore move the admission of T-46, 47 and 48.

JUDGE CANFIELD: Any objections?

Let the record reflect there are none. Exhibit T-46 is so entered and Exhibit 47 is entered and revised Exhibit 48, revised 1-24-95, is so entered and is to be substituted for the earlier revisions.

(Admitted Exhibits T-46, 47 and 48.)

JUDGE CANFIELD: With that Mr. Buergel is available for cross, Mr. Meyer?

MR. MEYER: Yes.

JUDGE CANFIELD: We've gone ahead and pre-assigned Exhibit No. 110 to the transcript of the deposition testimony. Ms. Johnston?

MS. JOHNSTON: I would ask that Exhibit 110 be admitted into the record, please.

JUDGE CANFIELD: Any objections?

MR. MEYER: No.

JUDGE CANFIELD: Exhibit 110 is so entered.

(Admitted Exhibit 110.)

CROSS-EXAMINATION

BY MS. JOHNSTON:

Q. During the December depositions I requested that the company supplement Exhibit C-108, which is your response to public counsel data request 340, with statements of rate base and rate of return including a breakdown by jurisdiction. The request is still outstanding. Can you update us on its availability and explain why it's so late in coming?

A. Well, we are in the process of finalizing that deposition request right now, and it should be available maybe as early as mid part of next week. There were a couple of reasons that we were so late in responding. Number one, first of all, we do not break down our forecasts between jurisdictions. We have it broken by service, electric and gas, but it is not prepared with the detail by jurisdiction, so that information was not available. We had to recreate it.

The second problem that I run into,

unfortunately, is that because of a lot of employees working on not only furnishing data requests but some of us, including myself, being pulled off on transition work, we did not have enough in-house personnel available to do the work, and we have asked Deloitte, the consultants that have helped us in this merger process, to help us in developing this request, and that has created, although they're doing fine work for us, that has slowed down the process of developing it.

MS. JOHNSTON: Your Honor, would it be possible to give that supplement to C-108 an exhibit number today and then have it admitted at the May 9 hearing? Is that workable?

JUDGE CANFIELD: There would be an advantage doing it that way or waiting until then?

MS. JOHNSTON: The problem is that staff is going to be required to prefile its written direct case sometime before the next cross and it would be helpful to refer to an exhibit number for some of these important responses.

JUDGE CANFIELD: Any comments on that request?

MR. MEYER: No. That will be fine.

JUDGE CANFIELD: Let's assign the next

exhibit number in order which is Exhibit 111, and no objection to that being entered as a late received exhibit then?

MR. MEYER: Well, it hasn't been created. There probably won't be but I don't have a problem with premarking it but I want to see what it looks like before I agree that it ought to be entered of record. No problem with marking it, though, for purposes of marking it.

MR. TROTTER: We don't oppose marking it for identification but we would like the opportunity to contest it if and when it's offered.

JUDGE CANFIELD: We'll assign Exhibit No. 111 to it and take that up at the next hearing session.

(Marked Exhibit 111.)

MS. JOHNSTON: That's fine.

Q. Regarding your requests for an accounting order which would authorize deferral amortization of merger-related costs, is it true that your basis for requesting such amortization is to achieve a reasonable matching of merger-related benefits and costs?

A. We are -- at least for that five-year rate freeze period we're trying to match the costs to achieve with the merger benefits that will be realized, yes.

Q. In your proposal, is it correct that the amortization period requested is a five-year period from 1995 through 1999?

A. That's correct.

Q. Isn't it also true that the merger benefits of approximately $496 million that the company measured are expected to occur during a time span of 10 years?

A. That's correct also.

Q. And by the end of the 10-year measurement period, merger benefits will not cease to accrue, in fact will continue to be realized indefinitely as long as Water Power and Sierra remain merged. Would you agree with that?

A. That should be correct also.

Q. The cost to achieve and transaction costs incurred during the conception and initiation of the merger would equally relate to the benefits during the first five years, next five years, as well as years beyond the 10-year horizon. Would you agree?

A. Yes, I would.

Q. So theoretically speaking, at least, is it true that a better matching of merger costs and benefits is achieved if the costs are amortized over a period of time longer than, say, one, two, three, four or five years?

A. I'm not sure I would agree with that statement. For accounting purposes, as was mentioned earlier today, I believe when Mr. Flaherty was on the stand, in other than a regulated environment you would write those off in the first year or as they're incurred, and in fact for book purposes could be a possibility in this case. I think a five-year period is a reasonable period in which to amortize those for regulatory purposes.

Q. Would your answer be the same if I were to ask you to focus on the match of costs and benefits, accounting aside?

A. Well, I think it's going to be very difficult to match perfectly always costs and benefits. It's hard for me to understand how we could get a perfect matching of the costs to achieve and the savings that we realize through this merger and to extend that amortization over a longer period than five years seems unreasonable to me.

Q. There are no expected merger savings during 1995; is that correct?

A. There will be few if any merger savings in

1995.

Q. And under your proposal you would amortize a fifth of the merger costs in 1995?

A. That's correct.

Q. Would you accept subject to check that out of the $496.7 million 10-year merger savings approximately $161 million or 32 percent is expected to be realized during your proposed five-year merger cost amortization period?

A. Yes. I would accept that subject to check.

Q. In effect under your proposal you were going to offset the $46.5 million in cost against the $161 million in benefits. Is that true?

A. Again, that's correct. I think I would also point out that what our proposal is intended to do is to spread the costs to achieve over the rate freeze period so that it's completely amortized by the time the rate freeze has expired.

MS. JOHNSTON: Like to have this marked as Exhibit 112 for identification, please.

JUDGE CANFIELD: The document just passed around by Ms. Johnston will so be marked as Exhibit 112.

(Marked Exhibit 112.)

Q. Mr. Buergel, do you recognize Exhibit 112 for identification as your response to deposition request No. 29?

A. Yes, I do.

MS. JOHNSTON: Your Honor, I move the admission of 112.

JUDGE CANFIELD: Objections?

MR. MEYER: None.

JUDGE CANFIELD: Exhibit 112 is so entered.

(Admitted Exhibit 112.)

Q. Now, this exhibit contains the requested response and the details of the company's requests for an accounting order related to amortizing the costs to achieve and transaction costs over a five-year period; is that correct?

A. That's correct.

Q. Like to direct your attention to the last sentence of the second paragraph of the response. There you state, "the companies may decide to amortize the costs more rapidly than over the proposed five-year period or may decide to expense costs as they are incurred." Do you see that?

A. Yes, I do.

Q. What would be the specific circumstances wherein the company would decide to do either of those two things?

A. Well, a final decision has not been made. There has been some discussion and we have had some discussions with the financial advisers that advised us on the merger that it may be to our advantage to expense those at the time the merger comes together, that there would be some expectation that that would occur, and that the hit that would occur to earnings during that period of time would be expected so that although a final decision has not been made, there is a possibility that the companies may write them off at the time the merger occurs.

Q. Do you know when the final decision will be made?

A. I suspect that the final decision will be made as we receive regulatory approval and see what the earnings levels of the two companies are.

Q. Would you agree that the effect of either of the two decisions, i.e., more rapid amortization or immediate write-off, would be to increase the expense level in the particular period that the rapid amortization or write-off is occurring?

A. That's correct.

Q. And with an increased expense the earnings level of that period would be worse off than it would have been absent the immediate write-off or rapid amortization. Would you agree that that would be the effect?

A. Yes, that is correct. And that's a consideration that the company will have to take into account when it makes that decision.

Q. Referring you now to the second sentence of the third paragraph of Exhibit 112.

A. Yes.

Q. You state, "If the book amortization is less than the five-year period, then the company's proposed using the five-year amortization period, 1995-1999, for regulatory purposes." Do you see that?

A. Yes, I do.

Q. Could you please explain the basis or rationale for your proposal to create a potential difference between financial and regulatory accounting?

A. Well, during that five-year rate freeze period, we would be filing semi-annual reports with this Commission and with other commissions, and it would be during that period of time we would begin to realize the savings or the benefits from the merger, and as we file those reports, we felt it was appropriate to show as an offset to those savings the costs that we incurred in achieving the merger.

Again, it's an attempt to in effect do some matching of the costs to achieve with the benefits that we will be receiving.

Q. Assuming that the company's decided to write off the entire merger cost in one year, say, 1996. For financial or book purposes is it true that under your proposal you will reverse the write-off and then amortize the amount over the remainder of the five-year amortization period for regulatory reporting purposes only?

A. I don't know whether reverse the write-off is necessarily the way I would have worded it but in fact, yes. For regulatory purposes we would show a five-year amortization.

Q. Under that scenario, how would you keep track of the unamortized balance which remains only for regulatory purposes but not for book or financial purposes?

A. Well, we could -- we could keep separate records where it would be easily audited by the staffs of any of the commissions.

Q. Is that something you thought about doing then?

A. Yes. We would certainly do that.

Q. There's no description in Exhibit 112 about

treatment of the unamortized balance. Does this imply that you don't intend to treat the unamortized balance of merger costs as a rate base item for regulatory reporting purposes?
A. Well, truthfully, I had not given that any thought. We would not be, of course, during the rate freeze period filing any rate cases before this Commission or any of the other commissions that the Water Power presently is regulated by, so I had not really thought about rate base treatment for the unamortized balance.
Q. Do you have any plans to think about that?
A. I'm thinking about it right now.
Q. Have you arrived at any conclusions?
A. We certainly can show it in our semi-annual reporting. We can show it as a rate base item, yes.
Q. You just stated that you could show it as a rate base item but is that your intention or are you --
A. I will show it as a rate base item.
Q. The merger transaction costs and costs to achieve are being tracked in a procedure that you've devised; is that correct?
A. Yes. We have set up separate work orders to track all of the incremental costs associated with

either transaction or transition activities.

MS. JOHNSTON: Like to have this marked as Exhibit 113 for identification, please.

JUDGE CANFIELD: Ms. Johnston just distributed a multi-page document which will be marked as Exhibit 113.

(Marked Exhibit 113.)

Q. Mr. Buergel, do you recognize what's been marked as Exhibit 113 for identification?

A. Yes, I do.

Q. Is it your response to staff data -- deposition request No. 34?

A. Yes, it is.

Q. This document contains a description of procedures for tracking merger-related costs and benefits?

A. Yes, it does, as well as a memorandum that I had written back in October where I set up the accounting procedures for Water Power.

MS. JOHNSTON: I move admission of Exhibit 113.

JUDGE CANFIELD: My recollection is that Exhibit 112 is still pending as well.

MS. JOHNSTON: I'm sorry. Move its admission as well.

JUDGE CANFIELD: Any objection to those exhibits?
MR. MEYER: No.
JUDGE CANFIELD: Exhibits 112 and 113 are so entered.
(Admitted Exhibit 113.)
Q. Mr. Buergel, would you turn to the third page of the exhibit which is a memo you were just describing.
A. Yes.
Q. Now, this memo was sent to the transition team leaders by you on October 14, 1994?
A. Yes, as well as if you turn to the last page there are some additional people that were also copied on it.
Q. Under the section headed Incremental/Nonincremental Costs, the second sentence reads, "Nonincremental costs are those that are unchanged by the merger. We would have these costs whether we merged or not and they are already in rates." Do you see that?
A. Yes.
Q. And then you go on to state that "the best example of nonincremental costs is company labor." Is that correct?

A. Correct.
Q. Now, just as a point of clarification, is it true that the nonincremental costs related to the merger are excluded from the estimated $46.5 million merger costs?
A. That's correct.
Q. Would you agree that if one is interested in assessing the full costs of the merger regardless of whether such costs were previously provided in rates or not she or he must add the nonincremental costs to the $46.5 million incremental costs?
A. If you want to acquire all of the costs, including company labor, that has been spent on merger activities, that's correct.
Q. From this Exhibit 113, it is apparent that you are not tracking all of the costs related to the merger incremental or not. Would you agree with that?
A. Can you direct me to some language on the memo?
Q. If you could turn to the second page of your memo.
A. Yes.
Q. Up at the top under Transition Costs you see the work order numbers and the description RWE Merger Transactions?

A. Yes, I do.
Q. And then the column headed Incremental and Nonincremental?
A. Yes, I do.
Q. Now, these are the costs that are being tracked; is that correct?
A. Yes. As a good example, my labor, which is nonincremental, is charged to 7920 and then I use the respective work orders, depending upon what part of the merger I am working on during that particular month. The time that I am spending here in Olympia testifying would go to 3302 as an example.
Q. I believe I misspoke. There was some confusion here. Based on what you just told me, it should be clear to me that you are in fact tracking all of the costs related to the merger; is that correct?
A. Yes. We are attempting to.
Q. I think we're in agreement. Thank you very much.
Now, how much are the total actual incurred merger costs to date including incremental and nonincremental? Do you know?
A. I don't have those numbers with me, no.
Q. I would like those numbers as part of the

next record requisition, please.

JUDGE CANFIELD: Next number is No. 22.

Q. And as that request I would like a monthly schedule of actual merger-related costs to date or up to the latest record prepared in the same categories or format as outlined in the last page of Exhibit 113.

(Record Requisition 22.)

Q. In addition to that I would like the latest estimate by year of future costs to be incurred in addition to the actuals to date.

A. Could you repeat the last part of that again.

Q. Sure. The latest estimate by year of future costs to be incurred in addition to the actuals to date.

A. Now, are you asking for both incremental and nonincremental?

Q. Yes.

A. The one concern that I might have is that there may not be an estimate of nonincremental labor or nonincremental costs. I believe there were estimates put together of incremental costs. I do not believe that we estimated incremental costs. Did I say that backwards? We did not estimate nonincremental costs.

Q. Can you make a rough estimate of those costs?

MR. MEYER: Why don't we see what we can do when we make a stab at responding.

Q. Please --

JUDGE CANFIELD: Let me know when an appropriate time for a break would fall, Ms. Johnston.

MS. JOHNSTON: Just two more questions in this area.

Q. On this same page under the main categories labeled Transaction Costs and Transition Costs, you classify outside services for consultants and attorneys, et cetera, as incremental. Do you see that?

A. I'm looking.

Q. It's the first entry under --

A. Yes, yes.

Q. Based on your definition as stated on the prior page of this response, nonincremental costs are already included in rates. Is it your position that no outside services costs are already included in rates?

A. I'm sure there is a level that is included in rates. However, the consultant and the attorneys that are working on this merger case I do not believe are included in rates.

Q. Have you performed an analysis to find out whether the level of outside services costs embedded in the company's current rates are already covering part or a portion of the outside service related to the merger and as such might very well be classified as nonincremental?

A. No, I have not.

Q. Can you perform such an analysis?

A. Sitting here on the stand today, I don't know that I could answer that.

Q. Could we have that as the next record requisition in line, at least have it identified as the next record requisition.

JUDGE CANFIELD: That's record requisition No. 23.

(Record Requisition 23.)

MS. JOHNSTON: This is a good time for a break, Your Honor.

JUDGE CANFIELD: Okay. Let's take our break and come back at 3:15.

(Recess.)

JUDGE CANFIELD: We're back on the record right now after an afternoon break, and we can get started where we left off. Ms. Johnston was directing questions to Mr. Buergel.

Q. Is it true that one of the reasons why Water Power/Sierra are merging is that the "merger would balance the relatively low load growth projected from Water Power's retail electric service territory with the significantly higher load growth projected for Sierra's retail service territory"?

A. I believe that is one of many reasons that the merger has occurred.

Q. Is it true that load growth is determined by factors such as growth in customers and growth in energy demand and consumption?

A. Yes. There are probably a number of different ways to look at growth.

Q. Referring to your testimony at page 12, beginning at line 17, you state that "Until the final details of these and other changes are worked out it is not possible to determine the precise post-merger allocators." Is that correct?

A. You're going to have to give me that page reference again.

Q. Page 12, line 17.

A. Correct.

Q. Is it true that because allocators at this point are imprecise the amount of benefits calculated as the share of merger benefits for individual jurisdictions is also imprecise?

A. Well, if you're looking for an exact number I think that's true, but in order of magnitude certainly my exhibit I think is a fair representation of how those benefits will fall out by jurisdiction.

Q. Your testimony states that an allocation study to allocate the estimated benefits of the merger was done and that you believe that the result of that study is representative of the post-merger allocations which will actually occur. Is that a correct paraphrase of your testimony and what you just stated?

A. Yes.

Q. You went on to state that "This particular study was based on existing allocators used by both Water Power and Sierra Pacific." Is that correct?

A. That's correct.

Q. And is it true that the inputs to the existing allocators you referred to are from historical data as of December 1993?

A. That's correct also.

Q. And is it also true that you used the same allocators which were derived based on 1993 historical data to allocate the savings for each year from 1996 through 2005?

A. That's correct, also.

Q. And by doing so, there was an inherent presumption that for each of the years that savings are expected to be realized the ratios and relative relationships shown by the 1993 allocators will remain constant throughout the entire 10-year period; is that correct?

A. I guess that would be inherent in the -- that would be inherent in the allocations that we made, yes.

Q. Would you agree that a more representative result of the savings split among divisions and jurisdictions will result if future savings are allocated based on future ratios and relationships expected during each year in the future?

A. I'm sorry, could you repeat the question again.

Q. Certainly. Would you agree that a more representative result of the savings split among divisions and jurisdictions will result if future savings are allocated based on future ratios and relationships expected during each year in the future?

A. Yes. I would certainly agree with that and if that information were available to me when I did this study certainly would have used it.

Q. We talked earlier about the relative load growth difference between Water Power/Sierra as a reason for merging. Do you recognize -- agree that using the historical allocators in your study does not captured the projected faster Sierra growth nor the projected lower Water Power load growth?

A. Well, again, I indicated -- I would agree that it does not capture the differences that will occur as you go through time. I think, as I indicated earlier, that growth can be measured in several difference ways. One can be in terms of actual load growth. Another can be in terms of actual customer growth, and I think on our system we have had quite a bit of customer growth, especially on the gas side.

Q. Is projected customer growth captured in the allocators?

A. Projected customer growth?

Q. Yes.

A. The allocators that I use, no, it would not be.

Q. Have you performed a similar merger savings allocation study as to the one we just referred to using projected allocators?

A. No, I have not.

Q. In your deposition I asked you to define your concept of equitable sharing of benefits between Sierra and Water Power. And your response was in the 50/50 range. Do you recall that testimony?

A. Yes, I do.

Q. Please turn to the first page of your Exhibit 48. Could you briefly describe the changes or corrections that were made that led to your revising of Exhibit 48?

A. The basic reason that we revised 48, in allocating the gas purchase cost savings, we did not pick up the allocation to the Oregon and California gas properties. In the year 1996, the gas that's purchased for both Oregon and California is still being purchased under a contract with IGI, and there were no savings projected for 1996 for Oregon and California, and what I did, mistakenly, was assume that that would be true for the remaining years, and so we went back and corrected that and allocated some purchased gas cost savings to Oregon and California.

Q. Is it true that this first page of your exhibit portrays a summary of your merger summary allocation study between Sierra and Water Power?

A. Yes.

Q. At the lower left-hand corner you show the historical allocators that you use in your study to distribute the yearly merger benefits. Do you see that?

A. Yes, I do.

Q. From the results as shown on this particular page, is it true that the final result shows Water Power receiving approximately $246 million or roughly 55 percent of the $450 million total 10-year net merger benefits?

A. That's correct.

Q. And does this 55/45 split comport with your definition of equitable sharing?

A. Well, yes. I think it does. It's in that 50/50 range, an equal, roughly an equal sharing.

Q. Can you define the upper and lower limit of your 50/50 range? What about 60/40?

A. Well, I think even if it were 60/40 there would still be benefits that the Water Power operating division would receive from the merger. I don't know that I've given it any exact numbers.

Q. Like to direct your attention to line G, administrative and general expense. The amount of savings during the 10-year period is $183 million, which is the largest among the areas of savings; isn't that correct?

A. That's correct.

Q. If we look at the last column, this category of savings has been allocated using method 6. Is that true?
A. That's correct.
Q. And method 6 as labeled in the table at the lower left is a four factor allocator; is that correct?
A. That's correct also.
Q. The four factors which are given equal 25 percent weight in this allocator are number of customers, gross plant, operation and maintenance expenses excluding payroll, and total operating payroll; is that correct?
A. Yes.
Q. Is it also correct to say that the future growth in these variables is not uniform between Water Power and Sierra?
A. Well, I think that would be speculation on my part. I'm not sure how the growth in any one of these four categories might be to the future.
Q. Let me give you an example here. Is it true that Sierra is expected to experience significantly more capital additions relative to Water Power during your proposed rate freeze period?
A. I'm trying to think back on any numbers

that I have seen on plant additions or capital expenditures.
Q. Will you accept that subject to check?
A. Yes, certainly.
Q. And also that Sierra is expected to have rate increases during Water Power's rate freeze period because of Alturas and Pinon Pine plant additions?
A. There is one rate case planned for or proposed in our rate plan in Nevada and I believe that's in 1997.
Q. As the next record requisition No. 24 I would ask that you recast your Exhibit 48 using forecast and allocation ratios.
MR. MEYER: May I voir dire the witness?
JUDGE CANFIELD: Go ahead.
MR. MEYER: Mr. Buergel, is that -- same question I asked to Mr. Pierce. Is that doable?
THE WITNESS: I'm not sure how I would even approach it. I don't know what the customer growth is for each of those -- you would have to calculate a different percentage for each year. There would have to be assumptions about customers. There would have to be assumptions about plant. To the best of my knowledge that information isn't available in the details that it would need to be in order to calculate

those percentages.

MR. MEYER: Your Honor, the problem is -- and this really was highlighted in earlier questioning about use of historical allocators -- historical data to derive the allocators, as is reflected in 48, as opposed to projected allocators. I think we've heard the witness indicate that to recast 48 with entire series of projected allocators just isn't doable. It's not possible. It requires so many assumptions to be really of little use and very burdensome in the process.

JUDGE CANFIELD: Ms. Johnston?

MS. JOHNSTON: Well, if this is not doable and possible, then I wonder why we're even here. We're not going to be able to verify whether or not the supposed equitable sharing of benefits is accurate or inaccurate without these sort of projections. It also seems to me that these companies as an inherent part of their strategy and planning do a lot of projecting and forecasting. I know that they have 20-year projections for load growth and I know that they also project customer growth. We only need to look to the company's response to public counsel data request 340, which is C-108, to see that the companies are quite capable of forecasting.

MR. MEYER: Well, Your Honor, I don't have to do the work and Mr. Buergel or someone who works for him would, and I'm sensing from his response that he doesn't know how to do a meaningful job of that.

JUDGE CANFIELD: Would staff counsel have any assistance on the assumptions? I mean, he indicates that's one major hurdle there. I don't know if you've got any suggestions in that regard.

MS. JOHNSTON: Well, I don't have a suggestion in that regard other than an observation that the burden of proof is not ours.

JUDGE CANFIELD: Well, he's trying to figure out how to do it and I'm sensitive to that and if there's some question on how he can do it and if there's any assistance you can lend to how you would like it done, I would certainly be willing to work that into it as well. We'll have record requisition No. 24 made of record and maybe the company can, as before, work with staff. If there is an undoable portion of it maybe that can be hammered out, ironed out in that regard, and you can make good faith effort to do it, but I don't want to unduly burden the company with tasks that are not doable, as the term has been used, as well as if there is so many assumptions the effectiveness of it or usability of it comes into play, so I would request that the company attempt to work out something with staff on that and give a good faith effort.

MR. MEYER: We'll sure try and do that but if we get to the point where we have to so twist and contort ourselves to arrive at something that just doesn't seem to have any meaning then at some point we will have to object to further work on it, but we'll give it a good faith attempt.

JUDGE CANFIELD: Okay.

MS. JOHNSTON: I just want to clarify that that's record requisition --

JUDGE CANFIELD: That's record requisition No. 24.

(Record Requisition 24.)

MS. JOHNSTON: Includes work papers also, Your Honor.

JUDGE CANFIELD: So noted.

Q. Please turn to page 6 of your direct testimony. Last paragraph there where you discuss merger benefits enabling the company to begin amortization of all of its major regulatory deferred assets during the rate freeze period. Like to focus first on Creston. Is it true that the board of directors of Water Power formally cancelled this project in November 1992?

A. Yes. I believe that's correct.

MS. JOHNSTON: Your Honor, like to have this marked as Exhibit 115 for identification, please -- 114.

JUDGE CANFIELD: I will so mark this one-page document as Exhibit 114 for identification.

(Marked Exhibit 114.)

Q. Do you recognize this one-page document as the company's response to public counsel data request 357?

A. Yes, I do.

Q. Was it prepared by you?

A. It was not prepared by me, but it was prepared by somebody who works for me.

Q. You're familiar with it?

A. Yes, I am.

MS. JOHNSTON: Move the admission of 114.

JUDGE CANFIELD: Any objections?

MR. MEYER: None.

JUDGE CANFIELD: Exhibit 114 is so entered.

(Admitted Exhibit 114.)

Q. Item 1 of the response contains certain specific information about the Creston project; is that correct?

A. That's correct.
Q. The request asks the company to identify the UTC order permitting the deferral; is that correct?
A. Yes, it does.
Q. Is it true that in the response pertaining to Creston there is no citation to a specific Commission order permitting the deferral of the Creston expenditure balance?
A. We did not have a specific WUTC order allowing any deferral.
Q. The response states that the costs of the project have been "accounted for as preliminary survey and investigation charges, account 183 as prescribed by the Federal Energy Regulatory Commission." Is that true?
A. Yes, that's correct.
Q. Do you accept that the FERC uniform system of accounts provides for account 183 preliminary survey investigation charges, that "if construction results this account shall be credited in the appropriate utility plant account charge. If the work is abandoned the charge shall be made to account 426.5, other deductions or to the appropriate operating expense account"?

A. Are you reading?
Q. Will you accept subject to check that what I represented to you is accurate?
A. Yes, I would.
Q. Will the cost of the Creston project proposed to be amortized during the rate freeze period offset a portion of the expected merger benefits?
A. Yes, it will.
Q. Let's go back to item 2 on Exhibit 114. Now, that relates to post retirement benefits other than pensions under SFAS 106 which are deferred by the company under this Commission's policy statement A-92-1197; is that correct?
A. That's correct.
Q. Now, the policy statement provides that certain determinations such as prudence, reasonableness and conservativeness of assumptions, et cetera, must be made before the SFAS 106 incremental expense is amortized and recovered through rates over a period not to exceed 10 years from the effective date of SFAS 106. Would you accept that?
A. It's been a while since I've read that policy statement but I would accept that subject to check.
Q. The Commission envisioned that it will

review the company's next general rate case on this and all other appropriate issues. Would you accept that that was expressed in the policy statement?

A. Yes, I would accept that.

Q. Would you also accept that the policy statement provides that in order to be allowed to defer SFAS 106 costs for future recovery the company must be before the Commission in a general rate case for which the effective date of rates, if applicable, will occur within five years from the effective date of SFAS 106?

A. Accept it subject to check.

Q. Is it correct that SFAS 106 became effective for fiscal years beginning after December 15, 1992?

A. That's correct.

Q. Under your rate freeze proposal, a Water Power general rate case and SFAS 106 prudence determination contemplated under the policy statement are not expected to occur within the five-year time frame. Is that correct?

A. We would not have a general rate case during that five-year period, that's correct. But what we are suggesting is that we would begin recognizing that as an expense starting with the date that the merger comes together.

Q. Is it true that the SFAS amortization costs during the rate freeze period will offset a portion of the anticipated merger benefits?

A. It would offset a portion of them, that's correct.

Q. Let's look at item 3. This section deals with details of DSM expenditures. Is it true that the reference to accounting treatment has been superseded by the accounting treatment adopted in the company's recent DSM filing?

A. That's correct.

Q. Is it true that the Water Power -- that Washington Water Power ceased accruing AFUCE and started amortization of its DSM investment in July 1994?

A. Yes, that's correct.

Q. Is it also true that Water Power was no longer accruing AFUCE in lost margins and the amortization of its investments as of December 1994 has been accelerated from composite 20 years to 14 years per the approved accounting treatment?

A. Yes, that's correct.

Q. As record requisition 25, will you please identify the individual impacts of items 1, 2, and 3 of Exhibit 114 on the company stand-alone and merged financial forecasts contained in response to public counsel request 340 which is now Exhibit C-108 and staff deposition request 38. To the extent that those responses are later revised please supplement your response to this record requisition with the revised response consistent with those revisions. Is that doable?

A. Yes, I think so. We still have not completed deposition 38, but, yes.

JUDGE CANFIELD: That's record requisition No. 25.

(Record Requisition 25.)

Q. Please refer to your testimony at page 9. Beginning at line 8 and continuing through line 25, you discuss the company's proposal that during the rate freeze period it be allowed to file tariff amendments and rate design changes which are a net revenue neutral; is that correct?

A. That's correct.

Q. You state that at the time your testimony was filed the company had no plans to file major tariff amendments or rate design changes other than revisions to the company's DSM programs and the periodic natural gas trackers; is that correct?

A. That's also correct.
Q. Does the company currently have any plans to file any tariff amendments or rate design changes prior to the consummation of the merger?
A. Not to my knowledge.
Q. At lines 24 through 25 of that same page, and also on page 4 of your testimony at lines 24 through 32 you state that tariff changes will be proposed if "existing tariffs are not accomplishing their intended objectives." Do you recall that testimony?
A. Yes, I do.
MS. JOHNSTON: Like to have this marked as 115 please.
JUDGE CANFIELD: One-page document just distributed will be marked as Exhibit 115.
(Marked Exhibit 115.)
Q. Do you recognize this as your response to public counsel data request 353?
A. Yes, I do.
MS. JOHNSTON: Move the admission of Exhibit 115.
JUDGE CANFIELD: Any objection?
MR. MEYER: No.
JUDGE CANFIELD: Exhibit 115 is so entered.

(Admitted Exhibit 115.)

Q. Now, in response -- in public counsel data request 353 you were asked to define what is meant by intended purpose, and you indicate that, one, tariffs are designed to recover their respective portions of the overall revenue requirement; and two, that rate design within an individual tariff may be for an intended purpose such as discouraging high energy usage. Are those the only purposes of tariffs that you can think of?

A. No. I'm sure we can think of a lot of other examples of whether it is, oh, demand charges or whether it's power factor adjustment clauses. There are a number of different charges and a number of different tariffs that are intended to recover certain portions of costs, and it was our thought as we were putting together the rate freeze proposal that with the changes that are occurring in the industry, especially the electric industry, that we may need that flexibility to go in and make some adjustments to some of those charges over that five-year rate freeze period. Right now I do not anticipate us making any changes, but we felt it was important that we have that flexibility.

Q. Would you agree that in general the

company's tariffs should encourage the efficient use of energy?

A. Oh, certainly.

Q. Is it your understanding that all of the existing tariffs are currently accomplishing their intended objectives?

A. Well, I think you asked me a similar question during deposition and I think for the most part that is true. I guess I have believed for some time that certain tariffs may be out of line with what, at least I would believe, their true cost of service is, and I am thinking in particular our commercial tariffs. But we certainly have no intent during this, at least right now, no intent during this rate freeze period to try to make any adjustment to those tariffs.

Q. Are you referring to schedules 21 and 25?

A. No. I'm referring to schedule 11, the small commercial. 11 and I believe 12.

Q. Why is it that the company doesn't currently have a plan to modify its tariff?

A. Why we have no plans to modify the tariff during this period of time?

Q. Yes.

A. I guess at least it would be my belief that they're not out of line enough that we would want that to come in with some kind of a rate design case before the Commission. We are proposing a rate freeze on all those tariffs and at least unless there are some major problems we would not anticipate changing any of them.

JUDGE CANFIELD: Ms. Johnston just distributed a one-page document which I will mark as the next exhibit number in order that being Exhibit 116.

(Marked Exhibit 116.)

Q. Mr. Buergel, can you identify Exhibit 116 for identification?

A. Yes, I can.

Q. Is this your response to public counsel's data request 362?

A. That's correct.

Q. And you're the sponsoring witness of this response?

A. Yes, I am.

MS. JOHNSTON: Move the admission of Exhibit 116.

JUDGE CANFIELD: Any objections?

MR. MEYER: None.

JUDGE CANFIELD: Exhibit 116 is so entered.

(Admitted Exhibit 116.)

Q. In response to public counsel data request, the company indicated that under the proposed rate freeze, rate design changes and tariff amendments, "could include, for example, a reduction in industrial or commercial rates and an offsetting increase in residential rates or vice versa." Is that an accurate reading?

A. Yes, it is.

Q. Does the company envision that these changes would be accomplished by filing an updated cost of service study?

A. Yes. I assume that if we were to propose some kind of change along these lines that we would accompany that with updated cost of service information. I think that's the only way we could carry the burden of proof that we thought it would be necessary to adjust those tariffs.

Q. Will you accept subject to check that it has been 10 years since the company filed an updated electric cost of service study in docket U 85-36?

A. Yes, I would.

Q. When was the most recent gas cost of service study filed, do you know?

A. I believe we had a specific bifurcated gas case that addressed cost of service in 19 -- I'm guessing 1991. It was a part of our 1990 gas case, and I believe the order came out probably in March or April of '91.

JUDGE CANFIELD: This next one-page document distributed by Ms. Johnston will be marked as Exhibit 117 for identification.

(Marked Exhibit 117.)

Q. Mr. Buergel, do you recognize this as your response to staff data request 86?

A. Yes, I do.

MS. JOHNSTON: Move the admission of Exhibit 117.

JUDGE CANFIELD: Any objections?

MR. MEYER: No objection.

JUDGE CANFIELD: Exhibit 117 is so entered.

(Admitted Exhibit 117.)

Q. In response to this data request 86 you were asked to provide a breakdown of electric revenues by customer class and by SIC code for the years 1992, 1993 and projected for the years 1994, 1995 and 1996 for Sierra and Water Power individually and as a combined company; is that correct?

A. Yes.

Q. And your response provided the information by customer class for Water Power and noted, one, that SIC code information is not available; and two, that Sierra will provide this information separately as an additional response. Is that correct?

A. That's correct.

Q. Would you accept subject to check that to date Sierra has not provided this information to staff?

A. I believe that the information has been provided. At least I have a copy in my backup book.

MR. MEYER: We're checking our boxes here.

I'm showing a response to your request 86 from Sierra. Oh, yeah, it was prepared 12-13-94.

THE WITNESS: It's a confidential document. At least it's listed confidential.

MS. JOHNSTON: Well, we don't have it, so maybe at the break or at the end of the day we can take a copy of that.

MR. MEYER: Sure.

Q. Will you accept subject to check that on page E-15 of the company's year ended 12-31-1993 Uniform Statistical Report that you have reported industrial energy sales and revenues by SIC code classification?

A. We accept that subject to check, yes.

Q. In light of this information as record requisition --

JUDGE CANFIELD: 26 is the next number.

Q. Please provide the information requested in data request 86 for both Sierra Pacific and Washington Water Power.

(Record Requisition 26.)

A. Could you repeat the question one more time.

Q. Basically the request is that you answer data request 86 providing the requested information for both Sierra and Water Power.

MR. MEYER: If we satisfy you that you may already have it in some other form, would that suffice? I think you've got the Water Power piece and I think you may have -- accepting the fact that you don't have it if we gave it to you at the end of today, is that good enough?

MS. JOHNSTON: Well, that would be fine. We're interested in receiving the information, but I don't think that what you're referring to has the SIC code information which was stated as not available.

MR. MEYER: I'm advised that we don't project by SIC code.

MS. JOHNSTON: Well, perhaps we can talk

about this at the end of the day. I don't want to lose time now.

MR. MEYER: We'll give you what we've got obviously.

JUDGE CANFIELD: So noted.

Q. Mr. Canning's direct testimony and cross-examination earlier today addressed the cost for the interconnecting transmission links needed to achieve all the electric production-related benefits attributed to the merger. Do you recall that testimony?

A. Yes, I do.

Q. The costs from the link is subtracted from expected capacity-related savings attributed to the merger in determining net capacity savings of roughly $52 million over 10 years?

A. That's correct.

Q. How will the cost for this be allocated between Water Power and Sierra Pacific operating division?

A. I would anticipate that it would be allocated in the same way that the benefits are allocated and that is in fact how I've done it in my study.

Q. In your revised Exhibit 48 at page 105, your divisional allocation indicates that production-related benefits attributed to increased margins on nonfirm wholesale sales for the Water Power division are directly assigned; is that correct?

A. That's correct.

Q. Is it your understanding that under the merged company were Water Power to sell power to California or southwest utilities through Sierra Pacific that some compensation to Sierra for use of its facilities, for example the Alturas line, would be required?

A. Yes, that's correct. That's the same way it would work today. There would have to be some wheeling charge or, in the case of merged company, some transfer price to compensate those customers for that use of facilities, but I don't know that that would in any way affect the merger benefits that we would see from those sales that would go into California.

Q. So this would be a source of revenue to Sierra Pacific and a cost to Water Power that's not reflected in your Exhibit 48; is that correct?

A. That's correct, but I don't know that there is a need to reflect it in 48.

Q. Your Exhibit 48 indicates that avoided

wheeling expense through the interconnecting links on sales to Sierra Pacific are directly assigned to the Sierra division; is that correct?
A. That's correct.
Q. Were Water Power to utilize its own transmission facilities in support of sales to or wheeling for Sierra, would it be compensated for the use of its facility?
A. Again there would have to be some form of transfer price that would compensate Water Power's customers for the use of those facilities, that's correct.
Q. Is it your understanding that for both Water Power and Sierra, revenues and cost for wholesale activities will be directly assigned to each operating division?
A. I think in general that is probably true, yes.
Q. How will cost or revenues be allocated when both Water Power and Sierra provide a third party with wheeling services?
A. That probably falls into category where we have -- we're working on coming up with a way of allocating those benefits or those revenues, but as of to date we have not come up with an exact method for

allocating those benefits. We're currently working on developing transfer pricing methodology between the two operating divisions.

Q. Under the merged company is it conceivable that Water Power and Sierra could meld resources for a wholesale sale to another utility?

A. I think it's conceivable that you could, as an example, use some of the Sierra's capacity, maybe to firm up some nonfirm energy at Water Power and make a sale to a third party. I think that's very conceivable.

Q. How would the revenues for such a sale be allocated between the divisions?

A. Again, at this point we have not developed a methodology, but I guess I would emphasize that that's a benefit that would not be available to either company except for the merger and so whatever method is developed to allocate those benefits, it will create some additional benefits both for Water Power and Sierra customers.

Q. I just want to pick up some questions that were deferred to you by Mr. Ely when he testified Tuesday. Please turn to Mr. Ely's Exhibit 15.

A. Okay. Let me see if I've got it in my book here.

A. Okay.

Q. Top section of that exhibit shows the forecasted gas volumes purchased for each of the divisions and the savings from increased purchasing power of $23.3 million was estimated based on these volumes?

A. That's correct.

Q. And based on Exhibit 15 for the 10-year period shown Water Power will account for 42 percent of firm sales while Sierra accounts for 58 percent of those sales?

A. That's correct.

Q. Do you also recall that Mr. Ely testified that because Water Power files gas cost tracker filings or PGAs annually that the savings due to increased purchasing power will flow to Washington ratepayers pretty much as the volumes are shown on Exhibit 15?

A. And that's correct also.

Q. Please turn now to your Exhibit 48, page 1 of 5. Exhibit 48 shows the allocation of merger savings to Water Power/Sierra for the years 1996-2005. Do you see line L labeled Gas Supply Purchasing Power?

A. Yes, I do.

Q. Now, this $23,438,000 minus the adjustment

shown of $108,000 equals the $23.330 million from Mr. Ely's Exhibit 15; is that correct?
A. That's correct.
Q. Exhibit 48 shows that savings from increased purchasing power were allocated by allocation methodology 10. Looking at the allocation factor of the table, it appears that your Exhibit 48 allocated 53.6 percent of these costs to Water Power. It also appears that that's not consistent with Mr. Ely's Exhibit 15 which shows that Water Power would receive 42 percent of the savings rather than the 53.6 that you show in your exhibit. Is that correct?
A. It is. It's not consistent, no.
Q. Well, why is it inconsistent?
A. It is inconsistent because in my exhibit I used a year-end 1993 gas sales for both Sierra and Water Power as a methodology to allocate those costs, and I should have picked up the gas sales that Mr. Ely showed in his exhibit.
Q. So Mr. Ely's numbers are the correct numbers?
A. That's correct.
Q. Again, on your Exhibit 48, the lines just below line L is how a gas supply - Sand to gas supply - Wood?

A. Yes.

Q. The $10.2 million -- this shows a $10.2 million and a $29.3 million for each of those respectively, right?

A. That's correct. And directly assigned.

Q. They were directly assigned, yes. The $10.2 million is the summation of savings from establishing the winter exchange contract, the summer balancing contract and the fixing of a variable priced contract for Sierra?

A. That's correct.

Q. Line beneath that pertaining to gas supply - Woods equals the summation of savings due to winter supply purchased at annual prices and savings due to improving load factors on existing contracts?

A. That's correct.

Q. Do you recall that Mr. Ely testified that the $70.6 million in gas cost savings would be realized only by managing gas supplies for Resources West as one supply portfolio rather than two individual portfolios?

A. That's correct.

Q. As a result, the savings listed for Sand and Woods on your Exhibit 48 will have to flow through the gas cost tracker and not be directly assignable to

the different operating divisions, but will be allocated based on how the rest of gas costs are allocated in the tracker. Isn't that true?
A. Well, it's my understanding that in the two examples that you're talking about here where I made direct assignments that as we manage that gas supply supply for Resources West that this will be the impact on the contracts that we presently have in place to supply gas to either the Water Power operating division or the Sierra operating division, and that's the reason that we made the direct assignment.
Q. Do you have any knowledge of any negotiations between Water Power or Sierra Pacific and the Nevada Public Service Commission regarding employment levels in the Reno area and stated goal of no net employment loss in the event that this merger is consummated?
A. No, I'm not aware of any discussions that have taken place in that regard. I have been present at several meetings that we've had with the Nevada staff and there have certainly been no discussions about -- and I'm struggling a little bit for the exact wording that you put in the question, but no discussions along that line.
Q. Are you meeting with the Nevada staff in an

effort to settle the case?

A. Not to settle the case but in both cases we were there, as we met with all staffs, to try and explain what savings we had developed, how we had developed them, why we developed them and to talk about the rate plan that we have put in place.

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

JUDGE CANFIELD: Thank you. Questions from intervenors?

MR. UDA: No. Thank you.

CROSS-EXAMINATION

BY MS. PYRON:

Q. Good afternoon, Mr. Buergel.

A. Good afternoon.

Q. Referring to your testimony, Exhibit T-46, page 4, line 17 to 24, actually looking at 21 to 24. Are you with me?

A. Yes, I am.

Q. Is it accurate to characterize the company's proposal as seeking a Commission determination that it wouldn't file a general rate case causing a change in net income before January 1st of the year 2000?

A. That's correct.

Q. Referring to the next page on page 5 and some of the testimony that we've heard today, the use of the word, quote-unquote, freeze. Does your company's request actually seek a rate freeze on any rate schedule?

A. I'm not sure that I follow you.

Q. Well, I would like for you to define what you mean, I guess. Let me withdraw that and rephrase that. What is the company's proposal with regard to the level of rates for any given rate schedule, whether it's electric or gas?

A. At this point with probably the exception of our gas tracker schedule, we're proposing that those rates be frozen at the level that they're at.

Q. Are you proposing that the rates freeze at the exact level that they are now for each given rate schedule?

A. Yes.

Q. I'm sorry, but that would seem to be inconsistent with your earlier testimony with Ms. Johnston. Is the company also seeking the ability to redesign rates for different --

A. Yeah. Let me back up a little bit. What we're really asking for is a freeze in terms of net

income and we have -- as you're pointing out we have asked for the ability, should it be necessary, to adjust tariffs, make tariff modifications, which might include adjusting the specific rates on some of those tariffs. Does that help?
Q.   Could the adjustments go up or down for any given rate schedule; is that correct?
A.   Yes, they could.
Q.   So you're not proposing a cap on any given rate with the company's proposal at this time; is that correct?
A.   Yes, that would be correct.
Q.   And are you proposing a floor on any given rate during this window of time until January 1st, 2000?
A.   No, we're not.
Q.   So it will be your testimony then that rates could decrease for a given rate schedule before January 1st of the year 2000?
A.   Again, to keep net income in a zero position, if you are trying to adjust, whether it's within a single schedule or within several schedules, if you're trying to make an adjustment up in one rate you're certainly going to have to adjust another rate downward.

Q. And as I recall your earlier testimony that if the company did envision or find in the circumstance of redesigning rates, would it be your testimony that you anticipate that that would be based on an updated cost of service study?

A. Yes.

Q. Are you aware that this Commission is currently considering the issue of appropriate cost of service methodology for the costs of providing transportation service to all customers in the gas local distribution company context?

A. No, I wasn't.

Q. But if the Commission were to come out with a decision between now and the time that you would be potentially implementing a new rate design, you would be adopting that methodology, could that be one of the things that could cause --

A. We would certainly have to examine ultimately what the Commission's decision was and then see whether that would have any impact.

Q. Could that also have an impact on given relative cost of service misalignment that you've testified to earlier today?

A. Potentially it could, but again, I'm not aware of it. If it's an open docket I'm not aware of it. The work that I've been doing over almost the last year have been almost totally involved in the merger.

Q. Related to the company's proposal, are there any caps on the costs that are proposed for this merger anywhere within the company's proposal?

A. No, there are not.

Q. Does the company's filing provide for any true-up of costs versus merger benefits for its ratepayers?

A. I'm not sure exactly what you mean by true-ups. We will, during that five-year rate freeze, as we have in the past, we will continue to file semi-annual reports with this Commission which should also break out estimated merger benefits.

Q. Well, what if the cost savings from the merger are greater than the merger costs from now until January 1st, 2000? How does the company's proposal deal with that?

A. I don't know that our proposal specifically deals with that other than, again, we would be filing semi-annual reports, and I'm sure if for some reason merger benefits exceed by a wide margin what we have estimated they would be, then I'm sure that would be something that we would be sitting down with the staff and discussing.

Q. Turn with me to your testimony on T-46 to page 12. On lines 10 through 13 you indicate a 12 to 18-month lag before Water Power knows what allocators it will actually recommend for Resource West common cost. Is that accurate?

A. Well, this was an estimate that we made as we were preparing testimony. We are currently working on that study right now.

Q. What would be your time estimate for when --

A. Well, I'm hopeful that we can have at least something proposed to all commission staffs prior to the completion of the merger.

Q. Would you put a time estimate on that at this point in time? You have a 12 to 18-month estimate in here and August of 1994 so where would you put it now?

A. Well, the problem that I'm struggling with is -- and again, it kind of goes back to my answer on deposition 38. We're pretty thin in our rate staff right now because of transition work, but it certainly would be my goal to try and get something done in the next two to three months.

Q. I have some other questions related back to the concept of rate freeze. Is it accurate that the company is seeking certain carve-outs from its concept of a net income freeze during the time period from now until January of 2000?

A. Yes. We ask for certain carve-outs.

Q. And within those carve-outs I had a question related to demand side management. Does Water Power consider its new demand side management surcharge and accounting method to be one of the uncontrollable carve-outs to the company's net income freeze concept?

A. I don't know. At the time we were writing the testimony I did not -- I was not thinking of the DSM tariff rider as being a carve-out. I think we went on to talk about in my testimony that we would be filing revised DSM tariffs at the end of 1994 and in fact that has occurred.

Q. So relative to the list that you have on your testimony, Exhibit T-46, at pages 8 to 9 of your testimony, you would not include the DSM program in that list; is that correct?

A. That's correct.

Q. If you can turn with me in your testimony at T-46 to page 15, lines 29 to 32. We have a statement in your testimony that "future allocations of cost and savings would not result in rate increases beyond what would have occurred without the merger." What is the basis of your statement that future allocations of cost and savings would not result in rate increases beyond what would have occurred without the merger happening?

A. What I'm trying to convey there is that the Water Power operating division will be no worse off to the future because of the merger and that future allocations of costs or savings will not cause our customers to have higher rates as a result of the merger.

Q. What specific provision is in the company's proposal that limits a Washington Water Power ratepayer's exposure?

A. Well, what we're proposing to do is to again file with this Commission reports that will indicate what the level of -- estimated level of benefits are and will show our costs for that period of time during the rate freeze period and certainly beyond.

Q. But you're not proposing any sharing of a decrease from the net merger savings in this proposal at this time to your ratepayers?

A. You're talking about a rate decrease?

Q. Rate decrease.
A. No, we're not.
Q. I had some questions related to Exhibit 48. Mr. Buergel, in Exhibit 48 is there any discounting applied for present value purposes in deriving the savings?
A. Between years? No, there is not.
Q. So is this entire exhibit consisting of nominal dollars?
A. Yes, it is.
Q. Is there any escalation for inflation included within any of your calculations in Exhibit 48?
A. That is a question that probably would be better answered by Mr. Flaherty, but, yes, I believe there is escalation built in there. For instance, labor escalation is built in there.
Q. Would it be the same escalation as it was applied, to your knowledge, as Exhibit 42?
A. Oh, yes. These numbers came from Exhibit 42.
Q. Is there any reflection in here for the tax accounting treatment of the costs of the merger?
A. I would answer that the same way Mr. Flaherty this morning on his Exhibit 42. They're all

pre-tax numbers.

Q. I had one other question just if you bear with me for just a second. It's a follow-up to a question from earlier. If you could turn back to your testimony on page 6 on line 31 to 33. The statement is that, with regard to the deferred balances, that major regulatory assets during the rate freeze period include costs associated with electric DSM and SFAS 106 post retirement benefits and the cancelled coal-fired project. Are there any other costs other than those three that are also present in deferred account balances that the company will be amortizing during this period that are referenced in your statement?

A. No. There are none others that are referenced here. There could be other types of costs that might be, as an example, in 183 that potentially I suppose could be amortized or written off during that period of time, but I guess at this point I'm not aware of any.

Q. So this would be an inclusive complete list and you would not add to it with regard to assets of -- regulatory deferred assets that you would anticipate being fully amortized over this period? This is complete then; is that correct?

A. These are the major deferred regulatory assets that we anticipate amortizing during this period.

MS. PYRON: Thank you. I have no other questions at this time.

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

CROSS-EXAMINATION

BY MR. TROTTER:

Q. Mr. Buergel, one of the first questions that Ms. Pyron asked you on the rate freeze proposal was the company's commitment not to file a rate case before January 1, 2000, and my recollection from the deposition was that you were only committing to having a rate case implemented before that date of that year, in other words, you could file 10 months before January 1, 2000. Could you explain that apparent discrepancy?

A. Well, potentially we could. What we're in effect doing is freezing rates for that five-year period which would technically mean that we could file a rate case nine or 10 months before January 1, 2000.

Q. And Mr. Canning earlier today talked about the letter agreement that Sierra has with BPA and I

believe he said that BPA could "wheel" to Water Power a net block of power and there would be no -- the wheeling of the power would be free because I guess there's a second named delivery point in Water Power's territory. Do I have that basically correct?
A.   I'm not all that familiar with those agreements that they have reached with either BPA, Idaho Power or Pacific. It's my understanding those agreements have just recently been signed, and I have not had a chance to review them.
Q.   So you don't know whether, if there is such a power transfer to Water Power, whether Sierra will charge wheeling even though they aren't charged for it by BPA?
A.   No, I'm not aware.
Q.   Will that be part of your transfer price methodology?
A.   Well, I'm not sure that I'm following the question completely. If there is a use of Water Power's facilities to supply energy or capacity to Sierra or vice versa, certainly that would be a part of our transfer price methodology.
Q.   Turn to page 3 of your testimony and on lines 4 through 11 you discuss the public interest to be served and you indicate you're going to make

efforts to -- or you've made efforts to control costs in the past and making no compromise in the area of customer service and then on the next paragraph you indicate that according to your merger proposal you will again not sacrifice customer service. Do you see that?

A. Yes, correct.

Q. The company is offering no specific standards in quality of service that it promises to achieve as a condition of merger approval, is it?

A. Specifically in this filing I don't believe we are, but I think several witnesses have talked about customer surveys that we conduct. I think that gives us a benchmark to measure customer services. We go through the merger and into the years after the merger.

Q. And is the company, as part of its proposal here, committing to any particular monetary sanction or benefit if those customer surveys turn out bad or good respectively?

A. No, we are not.

Q. Turn to page 5 of your testimony. On line 5 you indicate electric customers in Washington have only seen one small rate adjustment since March of '87 and I asked you in deposition if that should be

revised to reflect the DSM rider and I believe you agreed it should; is that correct?
A. That's correct.
Q. Do you agree with Mr. Redmond's statement that the company's marginal cost is less than its average cost of service?
A. I was trying to recall in reference how Mr. Redmond made that statement.
Q. Let me ask it differently. Is your marginal cost of service less than your average cost of service?
A. Total cost?
Q. Yes.
A. I guess my gut reaction to that is that it probably is not, but I don't have any cost information to base that on.
Q. If it is not then the company should not be encouraging customer additions to its system, should it?
A. Are you talking specifically about additional customers that we are adding?
Q. Yes.
A. Again, I don't know what our marginal cost of service is.
Q. Could you answer the question I said it was

conditioned on if --

A. We should not be encouraging customers to -- well, again, I think as you add customers to your system you probably will gain some additional benefits. One additional benefit is spreading your A and G costs which we've been successful at doing.

Q. But if your marginal cost is higher than your average cost you're not contributing to overheads, are you? It's a net detriment, isn't it?

A. Yeah. If in fact your total cost of serving that customer is higher, I think your statement would be true.

MR. TROTTER: Your Honor, I have a five-page exhibit which is a series of responses to public counsel data requests.

JUDGE CANFIELD: And you're requesting that that be marked as one exhibit?

MR. TROTTER: Yes.

JUDGE CANFIELD: I'll mark that as the next exhibit in order and that's Exhibit 118.

(Marked Exhibit 118.)

Q. Do you recognize Exhibit 118 as a series of four of your -- five of your responses to our data requests?

A. Yes, I do.

Q. The first page indicates that the rate freeze proposal applies to all schedules except for your gas tracker schedule, correct, and again, keeping in mind your definition of rate freeze per your cross today.

A. That's correct.

Q. But in no event is the company's proposal limiting the rights of any one complaint filed against its rates at any time?

A. That's correct also.

Q. Next page of the exhibit we asked you to define some terms in your testimony. Turn to page 8 of your testimony. Around line 21 you indicate the focus here for your carve-outs is on uncontrollable events which could potentially have a significant effect on the company, correct?

A. That's correct.

Q. Then we asked you to define that on page 2 of this exhibit, and you indicate that you're not proposing an exact definition. Ultimately the Commission would determine that; is that right?

A. That's also correct.

Q. So do I take it correctly that if the company did file for a rate increase based on a carve-out and the Commission determined that rate

relief had been -- the need for rate relief had been demonstrated they could nonetheless deny it on the basis that it was not significant as they would define that term?
A. That's correct.
Q. And in such a carve-out case that would be a normal rate case and any offsetting adjustments could be considered; is that right?
A. Could be considered, that's correct.
Q. Now, with respect to uncontrollable, you include the term tax changes in that category; is that right?
A. Yes. I was thinking of cost increases that were outside the control of the company where a government agency might impose a tax on us.
Q. If a tax increase, for example, was imposed, the company can still manage that by offsetting decreases in other costs, can it?
A. Yes, and as a matter of fact we had done that in the past. As an example, when federal income tax law changed recently and went from 34 to 35 percent, we did not come before this Commission and seek recovery of that amount.
MR. TROTTER: Your Honor, I would note, I believe page 4 of this exhibit has already been

admitted but as long as it's here I would just move the entirety of this exhibit at this time.

JUDGE CANFIELD: Might make it easier than trying to break it out. Any objections to Exhibit 118?

MR. MEYER: None.

JUDGE CANFIELD: Exhibit 118 is so entered into the record.

(Admitted Exhibit 118.)

MR. TROTTER: I have two exhibits at this time. First is response to our request 363 and second is their response to 371.

JUDGE CANFIELD: And those will be respectively marked as Exhibit 119 and 120.

(Marked Exhibits 119 and 120.)

Q. Referring you to Exhibit 119 for identification, we asked you to indicate whether Water Power was opposed to lowering retail rates in order to pass to customers an equitable share of merger benefits, and your response is as shown. Do I take it that your answer to the question is no with your explanation?

A. That's correct.

Q. Exhibit 120 asks under what conditions the highest resource in the Sierra portfolio could be included in rates for Washington ratepayers of Water Power and under what conditions its lowest resource could be so included, and your answer was that it would only be true to the extent that either division has surplus and then at prevailing market rates; is that right?

A. That's correct.

Q. And this gets into the transfer price issue that's been discussed so far?

A. That's correct.

MR. TROTTER: Move the admission of Exhibits 119 and 120.

JUDGE CANFIELD: Any objections?

MR. MEYER: No.

JUDGE CANFIELD: Exhibits 119 and 120 are so entered into the record.

(Admitted Exhibits 119 and 120.)

MR. TROTTER: Next exhibit is the company's response to our request 349, and following that, answer to our request 351.

JUDGE CANFIELD: The response to request No. 349 will be marked as Exhibit 121 and the response to request 351 will be marked as Exhibit 122.

(Marked Exhibits 121 and 122.)

Q. Referring you to Exhibit 121 for

identification, this is a revision of the Exhibit 40 showing the net savings over the 10-year period; is that right?

A. Yes, that's correct.

Q. And turning to the second page of the exhibit, it shows that the last six years of benefits are significantly higher than the first few years; is that right?

A. That's correct.

Q. And the next exhibit, 122, refers to your testimony on page 3 where you testified that the company's efforts in the past has yielded lower rates to customers than would otherwise have incurred due to your efficiency, improvements and cost controls; is that right?

A. That's correct.

Q. According to your response shown on Exhibit 122, it is not the company's position, is it, that the Commission would necessarily have passed through costs that did not reflect cost control and efficiency; is that right?

A. That's correct.

MR. TROTTER: Move for the admission of Exhibit 121 and 22.

JUDGE CANFIELD: Any objections?

MR. MEYER: None.

JUDGE CANFIELD: Exhibits 121 and 122 are so entered into the record.

(Admitted Exhibits 121 and 122.)

MR. TROTTER: Last is a response to data request 368.

JUDGE CANFIELD: That two-page document is so marked as Exhibit 123.

(Marked Exhibit 123.)

Q. Do you recognize Exhibit 123 as your response to our data request 368?

A. Yes. I sure do.

Q. And that asked you to provide an example of how an allocation process might occur when Sierra -- under the assumption that Sierra later adds a base load generating resource?

A. That's correct.

MR. TROTTER: Move for the admission of Exhibit 123.

JUDGE CANFIELD: Any objections?

MR. MEYER: None.

JUDGE CANFIELD: Exhibit 123 is so entered.

(Admitted Exhibit 123.)

MR. TROTTER: Your Honor, just so it doesn't get lost in the shuffle, just make a record requisition for the company to indicate with respect to the testimony of Mr. Canning earlier regarding the BPA contract and the "free wheeling" due to the special feature in that contract, whether a transfer of power between -- from Sierra to Water Power there would be imputed a wheeling charge. I assume this would be part of the transfer price document but if it isn't I will ask for it separately. Is that doable?

THE WITNESS: Yes. I would assume that it is.

JUDGE CANFIELD: That's record requisition No. 27.

(Record Requisition 27.)

Q. Finally, Mr. Buergel, what is called the rate freeze proposal, you indicated it's a freeze on net income, and by that you mean that the company, if it came in for a case to redesign rates or something else, that the net revenues to the company would not be increased in that docket; is that right?

A. Well, net revenues or net income as a result of that.

Q. You could term it either way?

A. Yes. I would think you could term it either way.

MR. TROTTER: That's all I have. Thank

you.

JUDGE CANFIELD: Commissioners, questions for Mr. Buergel?

CHAIRMAN NELSON: I think I will pass.

EXAMINATION

BY COMMISSIONER HEMSTAD:

Q. I just have a couple. With regard to the transmission pricing issue, will Water Power division charge fully embedded costs of the transmission system to the Sierra division when it's moving power to Sierra?

A. No. I would not anticipate that we would charge fully embedded cost. What we would charge, though, is a market rate. What is the rate that we would charge any other user of that system at that point in time and that's the rate that would be imputed as a transfer price.

Q. What implications does that have for how cost benefits would be allocated between the two divisions?

A. Well, I think it creates a fair allocation of costs between the two operating divisions. The movement of power over our system and the wheeling that would be charged for that movement of power is based on a market price and that's the price that we would charge Sierra regardless of whether we were merged or not.

COMMISSIONER HEMSTAD: That's all I have.

EXAMINATION

BY COMMISSIONER GILLIS:

Q. Mr. Buergel, you indicated that the company hasn't decided yet whether you're going to, for book purposes, write off the merger expenses in a single year or to amortize them over five years or several years?

A. That's correct.

Q. But regardless, if you write it off on the books in year one you're still going to ask the accounting order?

A. That's correct also.

Q. So you still for regulatory purposes treat it as five year --

A. That's correct.

Q. Only have one other question. On the carve-outs one of the factors you listed on page 9 as an extraordinary event is a major loss of load.

A. That's correct.

Q. Let me just offer you a hypothetical just to see where you're at on it. Suppose that Water Power ends up with a good deal of excess capacity that you're unable to find a market for out there. Say it's a result of a major economic recession that undermines your wholesale market or, alternatively, let's say competition takes away your wholesale customers. Is that something that you would see as an extraordinary event that would cause you to come back for a carve out?

A. I suppose potentially that could happen, although I think the majority of our wholesale right now is -- the majority of the wholesale revenue we receive is under long-term contracts. When I talk about major loss of load I'm also thinking of the other side, which is the resource side as well. Say something were to happen to one of our generating resources and we were to lose a couple of units at Noxson or one unit at Noxson, it might have a significant impact on the company.

Q. I guess I'm really concerned on the other side to see if that is what you're thinking of. In particular, one of the objects of the merger that you've stated or other people from your company have testified about is to be able to expand your wholesale markets into the southwest more efficiently, and if those markets turned south for some reason are Washington ratepayers going to be in some way held liable for problems that you have in your wholesale market?

A. I would, especially discussing the sales that might occur as a result of the merger, if some of those sales do not materialize, I would not anticipate that that would have a significant impact on the company and be the type of item that would trigger this carve-out.

Q. I'm less worried about the sales not materializing than I am that they do materialize and something happens in California, not just California but to these new wholesale markets you're going after. Couple of things you could have happen. In a competitive market you never know. Some of your wholesale companies could go bankrupt due to the competitive market you're in or, secondly, a major economic recession could hit and you could lose those wholesale sales that you've obtained capacity for and that capacity is back on your system and somebody has got to pay for that. Are you going to come back and ask for the ratepayers to pay for that?

A. I understand that, and I'm trying to think of some examples that might occur that would cause a significant impact on us from an earnings standpoint, and I guess sitting here I'm not able to come up with any. I would think if something would happen and we had excess capacity available to us we would make every effort to try and market that to another customer, and try and compensate for any lost revenue before we would even consider coming back before this Commission.

Q. It would only be a real gloomy scenario, but if we were in a national recession you may not have that option and somebody has got to pay so the question is who pays?

A. If there was an event that occurred that created that kind of a situation potentially, I suppose, again, if it had a significant impact on the Water Power operating division then we may have to come back and discuss that with this Commission and staff.

Q. So you wouldn't -- in your proposal you're not eliminating the possibility that you would come back and ask the Commission to raise rates in the state of Washington for problems that you would form in your wholesale market elsewhere?

A. Again, I'm having a difficult time seeing where that might have a significant impact on the

company, so I'm not anticipating that that would occur.
Q. Now, the other question I haven't really been able to formulate so I'm not even sure whether to ask it, but I'm wondering, in this world of unbundled services one of the things that very well may happen is that the value of transmission may go up considerably in the future as wheeling -- if wheeling becomes a more common practice, the companies that own transmission, at least until new construction comes along, if new construction comes along, so that the value of that transmission service price of it could be quite a bit above price conceivably -- of cost, of the embedded cost of that service?
A. It could.
Q. So I'm wondering how that -- I haven't been able to formulate the right question but what I'm wondering is how that affects Washington ratepayers. You would essentially have -- to the extent you're using that transmission system to service your Washington ratepayers, if you don't charge them in rates the price that you can receive elsewhere there's an opportunity cost there your company is losing. Do you follow what I'm saying? I'm not explaining it very well but I'm wondering, in this world, when

transmission prices go up are companies going to come back and ask for more money from the ratepayers?

A. I'm thinking back to the testimony that Mr. Bryan gave yesterday and I believe in his answer he talked about transmission facility being built to serve our retail load, so that's what that transmission investment has been made for. If there's an opportunity to move somebody else's power over that transmission system and receive some compensation for that, which we would through wheeling revenues, then that wheeling revenue would come back as a benefit against the Washington customers, a credit back against their rate levels. If you were able to charge above cost then that would just simply make that wheeling revenue or that credit larger.

Q. And also causes a bit of dilemma that you have to figure out how to charge your own customers because the value of that wheeling -- value of that transmission service is higher than it costs. Right now you're charging either, at least theoretically, at cost or even below cost in the market you're in right now?

A. That's for those customers that are using our transmission system for wheeling purposes to move their power across our system, our customers are being charged the cost. That's what's in their rates less any wheeling revenue that we receive.

COMMISSIONER GILLIS: That's all.

CHAIRMAN NELSON: Follow-up.

EXAMINATION

BY CHAIRMAN NELSON:

Q. Mr. Buergel, haven't got through the Pacific Utah merger review. I'm going to wait with some anticipation as staff and public counsel, intervenors' case on what the ratepayer benefit should be, but my question is similar to Commissioner Gillis's on the carve-outs, and as I read them right now these are vague and susceptible to lots of interpretation later, and I am sure by the time I get to the rebuttal phase of this case that they will be more specific and I will be able to see more clearly where the shareholders are assuming some of the risk of the merger, both positive and negative. But for example, with respect to the hypothetical Commissioner Gillis was just exploring, carve-out No. 2, costs were made effective by state and federal agencies. As I recall in the Pacific and Utah merger the FERC imposed the open access requirements on transmission system of Pacific and Utah and also, as I recall their order, made them liable for building any extra capacity should requesters ask for it. So that would be a cost that would seem to me imposed on the merged utility by a federal agency. And again, I'm not sure I'm comfortable just leaving that open-ended carve-out there. I don't know how you might want to respond to that now, but my other concern with that particular carve-out is that, again, Nevada may impose costs that result in the acquisition of a fairly high-priced geothermal project which we may not think is such a great idea up here in the northwest, so I guess you can try to answer. I guess I'm making more of a statement than a question, but I hope to see some more specificity with respect to what is in fact an event beyond the utility's control.

A. We can certainly try to put more specificity into these examples. I think just to kind of respond to the two examples you gave. In the case of FERC where another customer may require wheeling service where we're required to make some enhancements to our transmission system, it's my understanding that that customer would also be liable for compensating us for those additions.

Q. I didn't recall that part of the order.

A. And the second example that you gave where

Nevada may in fact, may in fact, require them to take in -- by them I mean Sierra Pacific -- to take into account some economies in the state, and if that facility is being built to serve the customers of Nevada then that facility would be directly assigned to the Sierra operating division. But again, we can try to put some more specific examples down.

CHAIRMAN NELSON: I appreciate it. Thank you.

JUDGE CANFIELD: Maybe just couple of clarification here and then I will get back around.

EXAMINATION

BY JUDGE CANFIELD:

Q. Maybe, Mr. Buergel, you can help me understand. According to the FERC system of accounts, how would merger costs be treated absent an accounting order from this Commission?

A. Well, I guess I can't answer necessarily for FERC. I probably should be able to but I think the gap would require us to write those costs off as they're incurred.

Q. Do you have any further clarification on how they would be written off?

A. They would be written off as they're

incurred or at the time that the merger comes together. Our accountants, our outside accountant, Deloitte and Touche, feel that it is okay to defer those costs until the date the merger comes together. And at that point if we did not have an accounting order from the Commission that would allow deferral those costs would be written off at that point in time.

Q. And what about the amounts that would be charged and whether those accounts are typically operating expenses that are above the line cost for ratemaking purposes?

A. Well, if they're written off at the time the merger comes together, it's hard for me to imagine that somehow that would be recovered through rates in a one-time write off. I'm not sure I'm answering your question. Maybe it's -- maybe I'm not understanding it completely.

Q. Maybe we can just briefly flip to page 12 of your testimony. You indicate that Washington Water Power promises that rates will be no higher than they would be without the merger by 10 or more years down the road. This may have been touched upon a little bit earlier, but how would you measure what the rates would be as if the merger never existed let alone if the rates are less than that?

A. We're going to have to develop a way of measuring what those rate levels would be on a stand-alone basis, and I would anticipate that we would work with the various state commission staffs to develop a methodology.

Q. That hasn't been developed?

A. Not as of this time. I think we can identify at least at the date the merger comes together what the benefits or the savings are because we have transition teams that are currently working on developing those and verifying validating those savings. But what the stand-alone company might look like 10 years out we're going to have to develop a way of doing that and that will have to be developed in cooperation with the state commission staffs.

Q. And Exhibit 48, your allocations there are allocations of savings; is that right?

A. Those are allocations of savings, correct.

Q. And how long can you do an allocation based on benefits as opposed to allocating costs?

A. Well, at the time the merger comes together, you're allocating costs.

Q. Along the same lines, just let me get one step further. On page 13 of your testimony you list goals of the allocation. I'm wondering whether you could list those in order of priority.

A. On page 13 what I was listing here was the goals that we had set out when we were trying to revise our allocation methodology for CP National and we have put them in here as suggested goals for working on new methodology for Resources West. I'm not sure that I could put these in any kind of priority. I think they're all important. And I would hope that we could achieve all of these goals as we work through it. Certainly one that produces reasonable results and is acceptable to all regulators -- and I'm kind of combining the first one and the fifth one -- would be ones that will be very important.

JUDGE CANFIELD: Mr. Meyer.

MR. MEYER: Just two or three quick ones.

REDIRECT EXAMINATION

BY MR. MEYER:

Q. During your deposition, Mr. Buergel, you referred to a PCA as something that the company was giving some consideration to in order to track uncontrollable stream three conditions. Do you recall that?

A. Yes, I do.
Q. And would the company under your rate freeze proposal be prevented from that type of filing?
A. No. I don't believe it would be, and I believe I indicated that at the time we went through depositions that we have carried on some preliminary discussions with staff regarding the possibility of implementing a weather-related PCA.
Q. For uncontrollable weather conditions?
A. Yes.
Q. Now, the only other areas. There were two or three questions related to transfer pricing at the market. Do any examples come readily to mind with regard to pricing power sales made by Water Power to others in order to assure that those sales are, quote-unquote, at the market?
A. Yes. We currently have a contract that we negotiated with NCPA, Northern California Power Authority. It was negotiated in 1991 and as a part of that contract the pricing of energy is based on market and in accordance with that contract we keep track of market prices not only on a daily basis but I believe we keep them on an hourly basis.
MR. MEYER: That's all I have.
JUDGE CANFIELD: Any questions on recross?

MR. TROTTER: Can I just ask a record requisition. If the company develops a clarification of its carve-out policy if it would provide that in response to the next record recognition in order.

JUDGE CANFIELD: And that will be record requisition No. 28.

(Record Requisition 28.)

JUDGE CANFIELD: As we did with one prior record requisition maybe I could make that a bench request No. 2 as well.

Any others then? Hearing nothing, thank you, Mr. Buergel. You're excused.

Does that complete the applicant's presentation then, Mr. Meyer?

MR. MEYER: It completes our direct case.

JUDGE CANFIELD: With that I assume a notice of hearing will be issued concerning the next phase in the process and that will be issued in due course then. Thank you all.

(Hearing adjourned at 5:15 p.m.)