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1                   BEFORE THE WASHINGTON UTILITIES AND  
                          TRANSPORTATION COMMISSION  
2   In re the Matter of                    )  
   the Petition of                        )  
3                                            ) DOCKET NO. UE-011514  
   AVISTA CORPORATION d/b/a             )  
4   AVISTA UTILITIES                     )  
                                          ) Volume II  
5   For an Order Finding Avista's       ) Pages 67 to 132  
   Deferred Power Costs Were           )  
6   Prudently Incurred And Are         )  
   Recoverable                          )  
7   \_\_\_\_\_ )  
                                          )  
8   WASHINGTON UTILITIES AND            )  
   TRANSPORTATION COMMISSION,         )  
9                                            )  
                  Complainant,         ) Docket No. UE-011595  
10                                         )  
                  v.                     )  
11                                         ) Volume II  
   AVISTA CORPORATION d/b/a             ) Pages 67 to 132  
12   AVISTA UTILITIES,                    )  
                                          )  
13                   Respondent.         )  
   \_\_\_\_\_ )  
14

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16                   A hearing in the above matter was held on  
17   February 25, 2002, at 10:00 a.m., at 1300 South  
18   Evergreen Park Drive Southwest, Room 206, Olympia,  
19   Washington, before Administrative Law Judge DENNIS MOSS  
20   and Chairwoman MARILYN SHOWALTER and Commissioner  
21   RICHARD HEMSTAD and Commissioner PATRICK J. OSHIE.

22

                  The parties were present as follows:

23

24

Joan E. Kinn, CCR, RPR  
25   Court Reporter

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4

WITNESS:

5

MATT STEUERWALT

6

DON SCHOENBECK

7

ALAN BUCKLEY

8

TOM SCHOOLEY

9

JON ELIASSEN

10

KELLY NORWOOD

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BRUCE W. FOLSOM

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

2 JUDGE MOSS: Good morning, everyone. We are  
3 assembled in the matters styled Washington Utilities and  
4 Transportation Commission against Avista Corporation  
5 doing business as Avista Utilities, Docket Number  
6 UE-011595, which concerns requests for both interim and  
7 permanent rate relief. And also in the joint hearing  
8 session the matter styled In the Matter of the Petition  
9 of Avista Corporation doing business as Avista Utilities  
10 for an Order Finding Avista's Deferred Power Costs Were  
11 Prudently Incurred and are Recoverable, and that's our  
12 Docket Number UE-011514.

13 We are convened for purposes of hearing from  
14 the witnesses and the counsel perhaps as well with  
15 respect to a settlement stipulation that was filed  
16 during the middle of last week, and we have assembled  
17 here our panel of witnesses we will hear from shortly.

18 Our basic agenda will include taking  
19 appearances, and looking around the room, it appears the  
20 short form will be adequate, your name, your affiliation  
21 if you wish, and whom you represent will be adequate  
22 unless you're entering an appearance for the first time.  
23 We will take a status report from counsel and I suppose  
24 have the settlement agreement presented as an exhibit,  
25 which I have pre-marked as Exhibit Number 1 for purposes

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1 of identification. We have also been handed up a 1 page  
2 spreadsheet entitled Impact of Settlement on Financial  
3 Indicators 1999 through 2003 With Rate Increases, and I  
4 have pre-marked that for identification as Exhibit  
5 Number 2. I understand it will be sponsored by  
6 Mr. Eliassen. Once we have discussed the proposed  
7 exhibits, well, I suppose actually we will call and  
8 swear the witnesses first, and then we will deal with  
9 exhibits, and we will take any narrative testimony from  
10 the witnesses, and we will have examination perhaps by  
11 counsel, certainly from the Bench, and we will take up  
12 any other business that we have.

13 So let's begin with the appearances, and I  
14 will start with you, Mr. Meyer.

15 MR. MEYER: Thank you, Your Honor, appearing  
16 on behalf of Avista, David Meyer.

17 JUDGE MOSS: Mr. Van Cleve.

18 MR. VAN CLEVE: Your Honor, Brad Van Cleve on  
19 behalf of the Industrial Customers of Northwest  
20 Utilities.

21 JUDGE MOSS: Mr. Cromwell.

22 MR. CROMWELL: Thank you, Your Honor, Robert  
23 Cromwell on behalf of Public Counsel.

24 JUDGE MOSS: And Mr. Trotter.

25 MR. TROTTER: Donald T. Trotter and Jonathan

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1 Thompson, Assistant Attorneys General for Commission  
2 Staff.

3 JUDGE MOSS: All right. I think at this time  
4 since we have pre-marked the settlement stipulation and  
5 the other spreadsheet, I will go ahead and swear the  
6 witnesses, so I will ask that you all stand and raise  
7 your right hands, please.

8

9 Whereupon,

10 MATT STEUERWALT, DON SCHOENBECK, ALAN  
11 BUCKLEY, TOM SCHOOLEY, JON ELIASSEN, and KELLY NORWOOD,  
12 having been first duly sworn, were called as witnesses  
13 herein and were examined and testified as follows:

14

15 JUDGE MOSS: Thank you, be seated.

16 All right, Mr. Meyer, did you wish to present  
17 the exhibits or Mr. Trotter?

18 MR. MEYER: I believe Mr. Trotter had  
19 pre-distributed what has been marked as Exhibit Number  
20 1, and that was a settlement stipulation. And then I  
21 have distributed Exhibit Number 2, which you have  
22 indicated is an exhibit with financial indicators to be  
23 sponsored by the company and testified to by  
24 Mr. Eliassen. Those are the only exhibits that I'm  
25 aware of that would be introduced, with the exception I

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1 believe Mr. Cromwell may have a comment or two about  
2 public submissions.

3 JUDGE MOSS: Okay, Mr. Cromwell, go ahead.

4 MR. CROMWELL: Thank you, Your Honor, I would  
5 ask that the Commission assign an exhibit number to the  
6 public comments which have been solicited by the  
7 Commission, received by both our office and the  
8 Commission. Ms. Hansen and I have been accumulating  
9 those, and I would propose to submit those as an  
10 exhibit. I believe I have the concurrence of all  
11 parties on that submission.

12 What I would like from you is an indication  
13 of when you would like that to be submitted by.  
14 Obviously this is sort of a rolling proceeding, and  
15 there's other parts that will continue this summer, so  
16 we will probably continue to receive comments, but it's  
17 probably fair to cut off the comments for this piece of  
18 the litigation at some point prior to the Commission  
19 considering and issuing an order regarding this  
20 settlement stipulation.

21 JUDGE MOSS: I think in light of the  
22 expedited schedule under which we have been proceeding,  
23 we would want to have any comments that relate to the  
24 interim and prudence phases sooner rather than later. I  
25 believe the public comment hearing is scheduled for the



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1 27th, this Wednesday, in Spokane. I wonder if we could  
2 have that exhibit the next day.

3 MR. CROMWELL: We could. I would -- my only  
4 thought would be that there might be folks who would  
5 come on Wednesday and then wish to write in and submit  
6 something, and so we might consider whether to build in  
7 a couple of days for the mail, and maybe Ms. Hansen and  
8 I could submit something next Monday, unless that is too  
9 far out for the Commission's purposes.

10 JUDGE MOSS: Well, while we're talking about  
11 this subject, we probably should discuss, go ahead and  
12 jump ahead a little bit and discuss scheduling and what  
13 the parties are requesting. I understand that there is  
14 a request to have, if the settlement is approved, I  
15 believe the idea is to have that approval come in  
16 sufficient time for the company to make a compliance  
17 filing and have these, whatever is approved, in place by  
18 March 15th; is that correct, Mr. Meyer?

19 MR. MEYER: That is correct.

20 JUDGE MOSS: Let's be off the record  
21 momentarily.

22 (Discussion off the record.)

23 JUDGE MOSS: Mr. Cromwell, while it may press  
24 people a little bit, I think what we would like to do is  
25 close the record on Friday.

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1 MR. CROMWELL: All right.

2 JUDGE MOSS: So Wednesday night when you  
3 discuss -- and I might just add I will not be presiding  
4 on Wednesday evening. One of our other administrative  
5 law judges will be presiding in my stead, and I will  
6 inform whoever that is of this discussion. You will  
7 need to emphasize to members of the public who may wish  
8 to submit supplemental written material that they need  
9 to expedite the delivery of that so that it does arrive  
10 by Friday, and we will close the record on Friday.

11 MR. CROMWELL: All right. I will coordinate  
12 with Ms. Hansen to make sure all submissions are to the  
13 Commission.

14 JUDGE MOSS: All right. And I will reserve  
15 Exhibit Number 3 for the purposes of that submission.

16 MR. CROMWELL: Thank you.

17 JUDGE MOSS: Any other preliminary matter  
18 concerning exhibits?

19 MR. MEYER: Just as to process, just so you  
20 have in mind at least what the parties had intended by  
21 way of presentation this morning, and of course it's to  
22 be done as you would like it, but we had in mind a  
23 panel. Initially Jon Eliassen would spend perhaps 10 to  
24 12 minutes with some opening comments. Mr. Norwood  
25 would be available to respond to questions but does not

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1 have prepared comments initially. Then it's my  
2 understanding that the parties have agreed that we would  
3 move to Staff, and Mr. Schooley and Mr. Buckley are  
4 available. I believe one or the other or both may have  
5 some prepared comments. You might confirm that.

6 MR. TROTTER: I just think, Your Honor, that  
7 Staff would be available for questions at that time.

8 JUDGE MOSS: Okay.

9 MR. TROTTER: We may have other Staff,  
10 depending on the question, we have other Staff available  
11 as necessary.

12 JUDGE MOSS: And I will acknowledge that  
13 Staff did file a statement, I think it was called an  
14 explanatory statement, regarding the settlement  
15 stipulation. And, of course, that is before us as well.  
16 It will not be marked as an exhibit given its nature,  
17 but we can refer to that as well, and we did have an  
18 opportunity to study that in advance of the hearing.

19 MR. MEYER: Very good. And then Public  
20 Counsel and ICNU have witnesses, Mr. Schoenbeck and  
21 Mr. Steuerwalt, who are available to respond as well.

22 Lastly, we have here in attendance others  
23 from the company who if there are questions that these  
24 two can't answer, I think they could provide the  
25 additional information.

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1                   And last but certainly not least, I would  
2 like to thank especially the parties to this process,  
3 Staff, Public Counsel, and ICNU, who have worked very  
4 well with the company. I think the parties have shown a  
5 lot of good faith in the process and moved quickly and  
6 have reached what we believe is an appropriate  
7 resolution. So thank you to the parties from the  
8 company.

9                   JUDGE MOSS: Any other preliminary remarks?

10                   All right, then with that, I believe we can  
11 hear from Mr. Eliassen with his opening remarks. Go  
12 ahead, sir.

13                   MR. ELIASSEN: Thank you. Good morning,  
14 Commissioners and others in the room. I would like to  
15 take 10 to 12 minutes to cover the reasons that I  
16 believe the settlement proposal before you today is of  
17 critical importance to the company, our investors, and  
18 our customers.

19                   But before I start, I too would like to add  
20 to David's -- I would like to recognize the efforts of  
21 Public Counsel, our industrial customers, and most  
22 importantly the Staff in working to help bring the  
23 settlement proposal to you today. Without everyone's  
24 willingness to really dig in on some very tough issues  
25 and to focus on desired outcomes, we would not be before

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1 you today.

2           As we noted in our original filing, even with  
3 full rate relief that we had requested, our financial  
4 results would not satisfy all the requirements for a  
5 triple B credit rating by the end of 2003. You have  
6 before you the Exhibit Number 2 that was entered this  
7 morning, and I would like to -- I don't plan to go  
8 through all of the numbers, but I would just encourage  
9 you to look at on the left side line numbers, line  
10 number one, internal funds from operations, interest  
11 coverage; line 3, the debt ratio; line 6, the pre-tax  
12 interest coverage including FUDC; and line 10, utility  
13 return on equity. And when you look at the rest of the  
14 page, the columns D and E, which are in the first  
15 section on year end projections, were the original  
16 filing for 2002 and 2003 projected results. The  
17 settlement stipulation are the two columns just to the  
18 right of columns D and E. And as you look at those four  
19 lines you can see the differences in the numbers that  
20 are shown. While the settlement stipulation isn't quite  
21 as good in terms of results as the original filing, we  
22 believe that it is an important and a positive first  
23 step, and I would like to go through just some of the  
24 assumptions.

25           The forecast assumed that we were going to be

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1 able to move up to \$90 Million in dividends from Avista  
2 Energy in 2002 or early 2003. This is over and above  
3 \$50 Million that Avista Corp. has already received from  
4 Avista Energy in the third quarter of 2001. So during a  
5 15 to 18 month period included in the 2002/2003  
6 estimates, we will have some \$140 Million of cash from  
7 our subsidiary to Avista Corp. to continue to support  
8 the business. Avista Energy's continued positive  
9 earnings and cash contributions are an important part of  
10 what we must do to make this company financially viable  
11 again.

12                   We also assumed that we could issue \$50  
13 Million, and that's what's included in both Columns D  
14 and E in the settlement stipulation columns, \$50 Million  
15 or more of new equity in the fourth quarter of 2002.  
16 That would be new common equity, and we would hope to  
17 issue a price in excess of \$18 a share. Today our stock  
18 is still trading at less than book value and at less  
19 than \$15.

20                   JUDGE MOSS: Mr. Eliassen, could you slow  
21 down just a little bit.

22                   MR. ELIASSEN: Sure.

23                   JUDGE MOSS: Thank you.

24                   MR. ELIASSEN: We have also assumed that we  
25 would retire up to \$150 Million of outstanding high cost

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1 debt in 2002. So far we have actually retired or  
2 defused \$75 Million of that debt, but our interest costs  
3 on an annual basis will continue to be above \$100  
4 Million a year through 2002 and well into 2003.

5           And in 2003, we have to refund \$175 Million  
6 of maturing debt, which currently has a coupon of 9  
7 1/8%. If we can not improve our credit rating or at  
8 least generate enough cash between now and August of  
9 2003 to buy in at least a large portion of this debt in  
10 advance, we may have a difficult time issuing new debt  
11 to retire those maturing notes.

12           We have reduced our capital budget for normal  
13 growth and maintenance in 2002. We have reduced it to  
14 about \$60 Million for those categories. We may need to  
15 reduce 2003 CapEx as well, and we are still looking at  
16 the possibility of doing that.

17           We have continued to maintain a hiring  
18 freeze, and we have taken other stringent cost  
19 reductions that were put in place in 2001. Those  
20 continue in 2002 and are inherent in our numbers. We  
21 have eliminated positions, we have reduced contract  
22 employees in a number of areas, and we are not filling  
23 all vacancies.

24           I think all of this is important context for  
25 the settlement discussion and the proposal that is

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1 before you today. With this settlement, our financial  
2 indicators are still in the same general range as shown  
3 on Exhibit 2 as our general filing, and for that reason,  
4 again, I believe that this is a very important first  
5 step as demonstrated by the exhibit page.

6           We have tried to balance our immediate and  
7 longer term financial needs with the needs of our  
8 customers and the company. We are balancing our  
9 forecast with a very tough two to three year recovery  
10 even with our original requested rate relief with the  
11 need to provide certainty for our banks and for our  
12 creditors so that we can continue to access capital.

13           We must continue to have access to commercial  
14 bank credit lines. We may be using a portion of those  
15 credit lines to retire a portion of that maturing debt  
16 in 2003. We need to continue to utilize our accounts  
17 receivable financing. As of today, we have \$90 Million  
18 outstanding on that line. We need to position the  
19 company to access equity markets so that we have the  
20 chance to restructure the balance sheet by reducing  
21 debt.

22           The settlement that we have collectively  
23 crafted is a critical next step in allowing the company  
24 that opportunity to return to financial health. First,  
25 the settlement provides certainty around the



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1 recoverability of deferred electric expense. Certainty  
2 is critical for us in renegotiating bank lines of credit  
3 and to assure credit rating agencies that we really have  
4 turned the corner.

5           The settlement provides for an overall 6.2%  
6 increase in rates, an additional amount of cash that  
7 will help us meet cash interest coverage and provide  
8 cash to fund CapEx and reduce debt. Plus we will have a  
9 reallocation of a portion of the current surcharge,  
10 which will also help bolster earnings as we go through  
11 2002 and beyond.

12           The settlement eliminates the uncertainty of  
13 the subject to refund language in the current surcharge.  
14 Banks and creditors do not like surprises, and they  
15 don't like the uncertainty of subject to refund. The  
16 settlement provides another key benefit. Not only is  
17 the issue of prudence dealt with in a positive manner  
18 through the end of 2001, but the surcharge is extended  
19 beyond the end of 2002 until the year end 2001 deferred  
20 energy balances are recovered, another key element that  
21 reduces and eliminates uncertainty.

22           Of course, the settlement of the prudence  
23 issues for energy costs incurred in 2001 requires a  
24 write off of nearly \$22 Million. While this weakens our  
25 balance sheet and increases leverage, I believe it is a

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1 reasonable outcome in the settlement process. The  
2 writeoff reflects our willingness to stretch to meet  
3 both the goals of the customers and the company.

4           The company still faces a number of  
5 challenges, longer term return to investment grade  
6 credit and financial strength will be impacted by the  
7 ultimate decision in the general case. The ultimate  
8 disposition of our request for power cost adjustment  
9 mechanism, the recognition of new additions to rate  
10 base, and the recovery of ongoing operating costs are  
11 also critical.

12           But at this point in time, the most important  
13 outcomes of this settlement include the positive  
14 disposition of the prudence decision on deferrals in  
15 2001, the extension of the surcharge, the recognition of  
16 increased financing costs in our allowed rate of return,  
17 the increase in rates to allow improvements to cash  
18 flow, the elimination of the subject to refund are  
19 positives for investors, commercial banks, and the  
20 credit rating agencies.

21           And also all parties' willingness to continue  
22 good faith negotiations over the remaining issues such  
23 as the PCA, as noted in the Staff's memo, goes a long  
24 way towards eliminating uncertainty. I believe the  
25 elimination of uncertainty is in the long-term best

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1 interests of our customers as well.

2           We have already heard from most of our  
3 commercial banks that the terms in the settlement will  
4 make it easier to renew our line of credit and will  
5 reduce some of the cost of borrowing under the line in  
6 the coming year. Now that's a reduction from what they  
7 were proposing, not necessarily a reduction from where  
8 we were a year ago. We will be meeting with our lead  
9 banks in New York this week, and I will also be meeting  
10 with each of the credit rating agencies on Thursday. I  
11 expect that they will all react to this settlement with  
12 cautious optimism, while recognizing that the company  
13 still has work to do to improve earnings and cash flow  
14 to reduce the debt burden. As an example, Standard &  
15 Poor's this week issued their brief statement and said  
16 that in part:

17           The settlement alone indicates a broad  
18           measure of support for Avista's  
19           financial well being.

20           And I think that that's the kind of message  
21 that we will continue to hear this week.

22           With that, I would be pleased to answer any  
23 questions.

24           JUDGE MOSS: All right, Mr. Eliassen, my  
25 first question is whether you might be able to provide

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1 your prepared remarks in a form that we could just go  
2 ahead and mark as an exhibit. Is that something that  
3 could be done?

4 MR. ELIASSEN: Can I run spell check again  
5 first?

6 JUDGE MOSS: I will certainly allow you to do  
7 that, and I won't fault you for any split infinities. I  
8 think that would be helpful to have.

9 Mr. Meyer, has the company requested an  
10 expedited transcript from today's proceeding?

11 MR. MEYER: We have not yet.

12 JUDGE MOSS: Well, let's discuss that at the  
13 end, I think that might be a prudent thing to do.

14 MR. MEYER: All right.

15 JUDGE MOSS: All right. And I did not take  
16 care of the matter of admitting the two exhibits that we  
17 did mark, and so I want to go ahead and do that before  
18 we move on. So assuming that there is no objection, and  
19 hearing none, Exhibit Numbers 1 and 2 will be admitted  
20 as marked.

21 All right, does that complete the opening  
22 statements by witnesses? Did anybody else wish to have  
23 an opening statement?

24 Apparently not. Did counsel have any inquiry  
25 of the witnesses before we begin with inquiry from the

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1 Bench?

2 It does not appear so, so the matter is open  
3 for questions from the Bench.

4 Chairwoman Showalter.

5 CHAIRWOMAN SHOWALTER: Depending on what  
6 others want to know, I would just as soon go through the  
7 agreement page by page and raise questions as we go  
8 through it. Is that all right with you?

9 COMMISSIONER OSHIE: Sure.

10 JUDGE MOSS: All right, that appears to be an  
11 approach that's agreeable, so let us turn to page 1 of  
12 Exhibit 1.

13 CHAIRWOMAN SHOWALTER: No questions.

14 JUDGE MOSS: No questions on page 1. All  
15 right, how about page 2?

16 CHAIRWOMAN SHOWALTER: No questions.

17 JUDGE MOSS: All right, page 3.

18 CHAIRWOMAN SHOWALTER: I have a question  
19 here. I believe I understand what this says, but let's  
20 just make sure, and that is that the \$196 Million will  
21 be collected, and it is collected first from the PGA  
22 monetization, second from the current surcharge, and  
23 then what remains is collected prospectively from the  
24 date of approval of the order as outlined in this order,  
25 stipulation, I'm sorry.

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1                   JUDGE MOSS:  And let me interject before we  
2 get to the response, I believe you misspoke, PGE  
3 monetization.

4                   CHAIRWOMAN SHOWALTER:  What did I say?

5                   JUDGE MOSS:  PGA.

6                   CHAIRWOMAN SHOWALTER:  Oh.

7                   JUDGE MOSS:  This reminded me of a point I  
8 discussed with our reporter in advance.  She has pointed  
9 out to me based on some hearings we did last week that  
10 it's very important when people are stating numbers that  
11 they be very precise in their statement, because she  
12 will record whatever you say.  And sometimes people  
13 misspeak when they're talking, particularly very large  
14 numbers, and so I want to just caution everybody to be  
15 very careful.  I will try to help you if I catch a  
16 misstatement.

17                   All right, do you have the question in mind?

18                   MR. NORWOOD:  Yes, I do, this is Kelly  
19 Norwood.  The balance basically at the end of 2001 would  
20 be reduced by the PGE monetization, as you mentioned.  
21 It would be reduced by the amounts collected through the  
22 effective date of the order, assuming the Commission  
23 approves this stipulation.  From that point forward  
24 then, there would be the future amounts reduce the  
25 deferral balance, and that is the 4/5.  1/5 at 25% would

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1 go to cover ongoing costs of the company. The remaining  
2 20% or 4/5 of the surcharge -- 1/5 would go to cover the  
3 ongoing costs, 4/5 would go to cover the deferral  
4 balance as we move to the future here.

5 Then in the general rate case, the dollar  
6 amounts -- in that general case, then we would decide  
7 what would happen on a going forward basis, what amount  
8 would be to cover ongoing costs and what level would be  
9 used to recover the remaining balance of the deferred  
10 costs.

11 CHAIRWOMAN SHOWALTER: Yes, but if we approve  
12 this settlement order, we are determining in our order  
13 that \$196 Million will be collected from amounts  
14 collected to date and amounts collected in the future.

15 MR. NORWOOD: That's correct.

16 CHAIRWOMAN SHOWALTER: Okay. Then my other  
17 question was just on the 90%. I understand that \$196  
18 Million is 90% of \$199.6 Million or so.

19 MR. NORWOOD: It's actually, there's a couple  
20 of pieces you have to add together to get to the \$196  
21 Million.

22 CHAIRWOMAN SHOWALTER: I see, all right, plus  
23 the \$18 Million.

24 MR. NORWOOD: That's correct.

25 CHAIRWOMAN SHOWALTER: I understand that. I

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1 just want to make sure that there's not another 10% out  
2 there. As I recall in an earlier filing, I thought you  
3 were only requesting that 90% be recovered, and I just  
4 wasn't clear whether it was that only 90% went into the  
5 deferred account to begin with and it would all be  
6 recovered, or there was a total amount, 90% of which  
7 would be recovered, but it might -- I think the simplest  
8 way to ask the question is, is \$196 Million 90% of all  
9 amounts incurred for power expenses beginning with  
10 whenever the deferred account was started?

11 MR. NORWOOD: Okay, let me answer that, and  
12 there's several pieces here. Beginning in July of 2001,  
13 we began deferring costs, and we deferred 100%, and that  
14 ran through December of 2001. So the \$196 Million  
15 represents 90% of the 100% that was deferred during the  
16 time period. But it's also important to recognize that  
17 during the July through November period that the  
18 mechanism was not fully inclusive and didn't recover all  
19 costs, so the company did absorb some costs during that  
20 period over and above this 10% that we're absorbing  
21 here. The other place that the 90% comes in is on a  
22 going forward basis for 2002, we're deferring 90%  
23 initially on a going forward basis.

24 CHAIRWOMAN SHOWALTER: And recovering the  
25 whole 90% of that amount?



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1                   MR. NORWOOD: That amount will be addressed  
2 in the upcoming general rate case. So the dollar  
3 amounts that we're dealing with today in this settlement  
4 go through December of 2001, and we deferred 100%, and  
5 the settlement proposes that 90% be recoverable, the  
6 remaining 10% be absorbed by the company in addition to  
7 what the company has already absorbed.

8                   CHAIRWOMAN SHOWALTER: All right, thank you.

9                   COMMISSIONER HEMSTAD: Pursuing the 90%  
10 issue, I understand this is a settlement, and I read  
11 Staff's commentary on the settlement. Can the parties  
12 give me some indication of what the 10% represents? Is  
13 that a balancing of the risks between the company and  
14 the rate payers, or is that some overtones of the  
15 prudence question, or both?

16                   MR. BUCKLEY: It's probably best that I  
17 answer that. I think, as you say, it is a settlement,  
18 so the exact number is hard to tie into anything, but I  
19 think in general it does represent what we feel is an  
20 appropriate sharing of the risk of the transactions that  
21 led to the amounts that went into the deferral. It is  
22 not a disallowance, if you will, of any kind related to  
23 prudence. It just represents that sharing.

24                   MR. SCHOENBECK: I would just like to add  
25 from our perspective, we looked at it as a total

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1 settlement on both the prudency and the interim case,  
2 interim change in rates going forward. So from our  
3 perspective, it was a trade off in large part between  
4 those two issues, the prudency of the costs we would  
5 allow through December 31st of 2001 coupled with the  
6 change in rates going forward. So from our point of  
7 view, it was much more of a packaged settlement as  
8 opposed to just focusing on the 10% with regard to just  
9 the prudency issue.

10 CHAIRWOMAN SHOWALTER: In other words, put it  
11 as regardless of why the 10% was excluded, of what is  
12 included here, all of the amount is felt to be prudent  
13 and an appropriate sharing of the risk.

14 MR. SCHOENBECK: That's correct, it's kind of  
15 a black box settlement, so it's the idea that \$196  
16 Million from that period of time should be recovered  
17 from the rate payers.

18 JUDGE MOSS: Before we move on, I want to  
19 make sure our record is perfectly clear on the numbers  
20 that are involved here, and there's one number that I  
21 didn't get. As I understand it, the deferred power  
22 costs from July 2000 through December 2001 total  
23 \$217,803,712. And, Mr. Eliassen, can you confirm that,  
24 or Mr. Norwood?

25 MR. ELIASSEN: Yes, I believe those are

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1 correct.

2 JUDGE MOSS: All right. And of that  
3 \$217,803,712, the settlement stipulation provides that  
4 \$196,023,342 is recoverable.

5 MR. ELIASSEN: That is correct.

6 JUDGE MOSS: All right. Now in looking  
7 forward to what the balance will be, assuming for the  
8 moment for purposes of discussion that the Commission  
9 approves the settlement and the company implements it on  
10 let's just say March 15th for the sake of discussion,  
11 what will the balance of \$196 Million plus, will that  
12 balance at that point be on the books reflected to  
13 account for the PGE monetization credit, or has that  
14 credit already been taken into account in getting to the  
15 \$196 Million figure?

16 MR. NORWOOD: The gross number that you had  
17 mentioned before, the \$217 Million roughly, is prior to  
18 the reduction for PGE. And so with the 196, the PGE  
19 would be subtracted from that number.

20 JUDGE MOSS: In terms of the balance that  
21 would be reflected on the books?

22 MR. NORWOOD: That's correct.

23 JUDGE MOSS: And in addition to that, the  
24 balance that would be reflected at that time would be  
25 reduced by whatever amount of surcharge has already been

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1 collected?

2 MR. NORWOOD: That's correct, beginning in  
3 October of last year and through the effective date of  
4 the order.

5 JUDGE MOSS: All right, and we have been  
6 receiving monthly reports at the Commission on that.

7 MR. NORWOOD: I believe that's correct.

8 JUDGE MOSS: I wonder if I should ask if  
9 those reports be made part of our record for purposes of  
10 the interim proceeding. Does counsel have thoughts on  
11 that?

12 MR. TROTTER: I would not object. That could  
13 be done, or you could take official notice of those  
14 filings as far as Staff is concerned.

15 JUDGE MOSS: Well, why don't we just -- I  
16 think, Mr. Eliassen, you were going to provide your  
17 statement for us, and so I'm going to make that Exhibit  
18 Number 4 for identification, and will there be any  
19 objection to our receiving that statement in written  
20 form?

21 Okay, that will be admitted as marked or as  
22 identified. And then I'm afraid I'm going to get lost  
23 in my notes here, but Exhibit Number 5 will be the  
24 monthly surcharge reports that have been filed since  
25 October of last year. And I heard from Mr. Trotter. Is

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1 there any objection from other counsel?

2 MR. CROMWELL: No objection, Your Honor.

3 JUDGE MOSS: Okay, hearing no objection, then  
4 we will go ahead and admit that, and those are part of  
5 the official records of the Commission.

6 All right, I think that, I hope, that I have  
7 covered all the numbers there, and I think I have. So  
8 are we through with page 3?

9 All right, let us move on to page 4.

10 CHAIRWOMAN SHOWALTER: I have a question here  
11 at the top of the page when it says:

12 Effective not later than March 15th,  
13 Avista will file tariffs for the  
14 permanent increase.

15 If we approve this stipulation earlier than  
16 March 15th or well earlier than March 15th, this  
17 settlement agreement doesn't appear to prohibit the  
18 company from filing tariffs earlier than March 15th, and  
19 I just wondered what your intention is and whether we  
20 should be couching our order with an expectation of the  
21 date is March 15th, or as soon as we get the order out,  
22 you will put this into effect?

23 MR. NORWOOD: As soon as we receive an order,  
24 we would turn a compliance filing around right away, so  
25 the sooner the better.

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1                   CHAIRWOMAN SHOWALTER: Okay. And then I take  
2 it that's the understanding of the other parties?

3                   MR. STEUERWALT: I think that was important  
4 to reaching a settlement was allowing the company to get  
5 going on this filing as soon as practical.

6                   CHAIRWOMAN SHOWALTER: All right. So if no  
7 one has an objection to an early order, assuming we go  
8 that way, are there reasons for us to get the order out  
9 as soon as we can? Do the parties think that that's in  
10 the public interest?

11                   MR. NORWOOD: Yes. As I mentioned, the March  
12 15th date I believe was in there to give the Commission  
13 time to get an order out, but if it can come out sooner,  
14 then yes, the sooner the order comes out and the sooner  
15 we gets rates into effect, the more it's going to help  
16 the company.

17                   CHAIRWOMAN SHOWALTER: Thank you.

18                   JUDGE MOSS: Better follow up on that,  
19 because there may be some pragmatic considerations that  
20 need to be taken into account. In terms of the usual  
21 course of events, once the company makes a compliance  
22 filing following a Commission order, the Staff normally  
23 has an opportunity to review that compliance filing. Is  
24 that something that's contemplated here and would  
25 require, I assume, some time?

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1 Mr. Buckley.

2 MR. BUCKLEY: Yes, that's what's anticipated,  
3 and we're working with the company to turn it around I  
4 won't say immediately, but within 24 hours.

5 JUDGE MOSS: All right, so fine.

6 CHAIRWOMAN SHOWALTER: Does the date, does  
7 March 1st have any significance, or does it not matter,  
8 that it's it can go into effect March 4th, March 12th?  
9 Does the first day of a month have any significance?

10 MR. NORWOOD: It doesn't make a difference to  
11 us. We can do it on the weekend. It doesn't matter  
12 what day it is, we will turn it around.

13 JUDGE MOSS: I think we have to have a  
14 compliance order.

15 MR. NORWOOD: Yes.

16 JUDGE MOSS: So I'm not sure the weekend is  
17 feasible. And again, we have provided that our record  
18 will close this Friday, and so I think as a practical  
19 matter, the earliest possible date would be the Monday.  
20 But then the company presumably would be prepared to  
21 turn a compliance filing within 24 hours, and the Staff  
22 apparently can review that within the following 24  
23 hours.

24 MR. NORWOOD: Yes, we can turn it around in  
25 24 hours.

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1                   JUDGE MOSS: All right. I apologize, I  
2 interrupted the flow of questions from the Bench. Were  
3 there other questions on page 4?

4                   COMMISSIONER OSHIE: I just have a question.  
5 On the bottom of page 4, we deal with the deferrals for  
6 2002, and maybe the parties can explain what their  
7 position is with regard to the references to the  
8 different projects that are involved at the bottom and  
9 also the general picture for the parties as to the 2002  
10 deferrals.

11                   MR. BUCKLEY: What we're trying to -- view  
12 this again to make sure that I'm getting this right. In  
13 the present deferral estimates for 2002, the company has  
14 put in certain costs, and those costs are outlined here.  
15 There are some costs related primarily to some small  
16 generation projects that the company entered into during  
17 the period of the high wholesale prices, as well as some  
18 costs associated with the acquisition of Coyote Springs.  
19 Presently they are in the 2002 deferral mechanism, which  
20 we aren't addressing as part of this proceeding.

21                   However, what we are saying here is that the  
22 interim dollar amount that we're recommending that the  
23 company obtain, that they will in turn take the dollar  
24 costs associated with these items out of the 2002  
25 deferral, so they won't be included, and thus the



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1 deferral balance for 2002 will be smaller by that  
2 amount. That's what this says.

3           So it resolves right now I think in another  
4 way, it actually resolves issues related to those  
5 projects that are identified here, Boulder Park, Kettle  
6 Falls, and Coyote Springs II, that those presently the  
7 costs associated with it are part of the general rate  
8 case that's ongoing. We're resolving in this proceeding  
9 the costs associated with those in this proceeding, so  
10 they won't be increasing the balance that they're  
11 recovering for the 2002 deferral period.

12           COMMISSIONER OSHIE: I guess is it actually  
13 resolved, Mr. Buckley, or is it still open to question?  
14 I'm reading ahead to page 5 and the final sentence.

15           MR. NORWOOD: Perhaps I can add to that, if I  
16 may.

17           COMMISSIONER OSHIE: But only on a  
18 prospective basis, I guess that's --

19           MR. BUCKLEY: Yes, that's the word.

20           COMMISSIONER OSHIE: Forward, okay.

21           MR. BUCKLEY: For example, there could be a  
22 cost associated with Boulder Park and Kettle Falls that  
23 are gone once we enter into the what you might want to  
24 call the power supply rate case for the general rate  
25 case. This resolved those to the extent that they would

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1 not be included in the deferral and that they would be  
2 not part -- they would be resolved and not even included  
3 in the general rate case. I think the important main  
4 one here is Coyote Springs II, and what that says is  
5 exactly on a prospective basis, the cost associated with  
6 that would be still a general rate case item.

7 MR. NORWOOD: If I may just say a couple of  
8 things. This was another part of the package deal of  
9 identifying the issues that were important to parties,  
10 and this was one situation where the company agreed to  
11 exclude the capital costs, interest costs, depreciation,  
12 non-fuel O&M for these specific projects during the  
13 pendency of the general rate case. The other costs  
14 would continue to go into the deferral at that 90/10  
15 sharing, and then these projects would be addressed in  
16 the general case, and then the recovery of those costs  
17 would be on a prospective basis beginning with the order  
18 of the general rate case.

19 CHAIRWOMAN SHOWALTER: Is another way to put  
20 this that whatever expenses you're incurring for these  
21 projects during the pendency, you will simply incur,  
22 they're covered by current rates, but it's a separate  
23 question from what goes into rate base prospectively?

24 A. Right, we will absorb the costs until the  
25 general rate case is done. Once the general rate case

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1 is done, a decision will be made about what goes in the  
2 rate base and what doesn't.

3 MR. SCHOOLEY: If I may put another spin on  
4 that, the Staff looked at this in that the increases in  
5 rates granted now are resolving the regulatory lag that  
6 these new projects would be incurring if they go into  
7 effect now without recovery for several months, and that  
8 was one way we looked at the justification of the new  
9 rate increase.

10 COMMISSIONER HEMSTAD: Are we done with that  
11 issue?

12 CHAIRWOMAN SHOWALTER: I think we're done  
13 with that issue. We're back on another earlier issue.  
14 Go ahead.

15 COMMISSIONER HEMSTAD: I was going to go back  
16 and just inquire generally about the last sentence in  
17 the last full paragraph on page 4. Starts:

18 If by order in the pending general rate  
19 case the Commission does not direct  
20 otherwise --

21 And then going on. I read that several  
22 times, and I'm not entirely sure what it is intended to  
23 address.

24 MR. TROTTER: I can respond to that, Your  
25 Honor. It might be more of a legal interpretive

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1 question, or not.

2 JUDGE MOSS: Go ahead, Mr. Trotter.

3 MR. TROTTER: What this page does is takes  
4 the existing 25% surcharge and takes the 5% of it and  
5 says, you don't need to apply those to deferrals. But  
6 that only -- that arrangement only lasts through the  
7 pending general rate case. The issue of what to do  
8 about a surcharge is going to be addressed in the  
9 general rate case. What this means is if you -- for  
10 some reason it's not, and then the 25% would go back to  
11 crediting all of it to the deferral balance. But I  
12 think it's obviously going to be a key issue in the rate  
13 case, so that event is highly unlikely, but that's what  
14 it's there to explain.

15 MR. NORWOOD: Commissioner, if I may add to  
16 that. In our filing, the company had proposed roughly a  
17 14.9% dollar amount going to offset deferrals and  
18 another amount that would go to cover ongoing operating  
19 costs of the company including penalty and interest  
20 costs and so on. So we do have a proposal before you on  
21 that, and we will ask you to rule on that. If for some  
22 reason there is no ruling, then this would be effective.

23 CHAIRWOMAN SHOWALTER: I want to go back  
24 actually to the top of the page on the permanent 6.2%  
25 increase. First, the word permanent I am taking as

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1 distinct from temporary or interim in the sense that the  
2 Commission if it approves a settlement would be  
3 approving I would use the word indefinite 6.2% increase,  
4 not permanent in the sense that should later events  
5 cause the justification for a reduction in a rate, there  
6 would be a proceeding to review that. Am I correct on  
7 that?

8 MR. NORWOOD: I don't think you should read  
9 more into permanent than what we should. We all  
10 understand that things are permanent until they're  
11 changed, so things can certainly change in the general  
12 case.

13 CHAIRWOMAN SHOWALTER: Well, I didn't even  
14 mean in the general case. I just meant that permanent  
15 sounds like a long time. I took permanent to mean until  
16 any subsequent proceeding perhaps subsequent to the rate  
17 case would justify reduced rates. I'm not saying I  
18 anticipate that event.

19 MR. NORWOOD: Right.

20 MR. ELIASSEN: Probably more important, it  
21 means not subject to refund.

22 CHAIRWOMAN SHOWALTER: Okay.

23 MR. ELIASSEN: So it's another way of  
24 eliminating some of those uncertainties in all this.

25 CHAIRWOMAN SHOWALTER: I see.

0104

1                   MR. BUCKLEY: From a practical standpoint, it  
2 also represents that level at which the general rate  
3 case revenue deficiency, if any, adjustments would be  
4 made to those rates. That's the way that we looked at  
5 it. And so in that sense, you're exactly right,  
6 permanent is permanent until the decision from the next  
7 general rate case. But it does form the basis for the  
8 level of rates at which that deficiency, if any, would  
9 be determined.

10                   CHAIRWOMAN SHOWALTER: And your comment leads  
11 to my other question, which is really one of  
12 perspective. But one way to look at this is that there  
13 is a general rate case pending. The parties apparently  
14 can see their way toward a 6.2% resolution of that  
15 pending general rate case. Is that one way to look at  
16 this, that is that it would be along the lines of maybe  
17 a conservative consensus of the general rate case leads  
18 you to agree on 6.2% and leave other issues to be  
19 decided?

20                   MR. SCHOOLEY: No, I would not look at it  
21 that way.

22                   CHAIRWOMAN SHOWALTER: Okay.

23                   MR. SCHOOLEY: This is more on justification  
24 of the financial needs of the company. If the evidence  
25 in the general rate case were presented that it should

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1 only have been 1% or 10%, that still is to come out. So  
2 this is not a prejudgment of the company's ultimate need  
3 for general revenues.

4 CHAIRWOMAN SHOWALTER: All right. And I just  
5 realized I could be getting 6.2% and 5% mixed up here,  
6 but so you do not mean to be making any statements about  
7 what comes out of the general rate case?

8 MR. SCHOOLEY: True.

9 MR. NORWOOD: Apart from some of the issues  
10 that were addressed in here, and that is the capital  
11 structure and the cost of debt that were discussed in  
12 the settlement agreement.

13 CHAIRWOMAN SHOWALTER: Yes.

14 MR. NORWOOD: But otherwise, the level of the  
15 rate increase coming out of the general rate case,  
16 there's no intent here to try to determine what that is.

17 CHAIRWOMAN SHOWALTER: All right.

18 MR. NORWOOD: And with the 5% and 6.2%, just  
19 for clarification there, the 6.2% is the amount over the  
20 base rates excluding the 25% surcharge. The 5%, it  
21 would be the 5% increase over existing rates including  
22 the surcharge is the way that's determined.

23 CHAIRWOMAN SHOWALTER: But in either case,  
24 we're talking about a temporary rate increase not  
25 subject to refund?

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1 MR. NORWOOD: That's correct.

2 CHAIRWOMAN SHOWALTER: But nothing more?

3 MR. NORWOOD: That's correct.

4 CHAIRWOMAN SHOWALTER: All right.

5 MR. STEUERWALT: I think the last sentence of  
6 that paragraph where it says that we'll look at the  
7 overall revenue requirements is the sentence which  
8 should help you with that conversation, and that  
9 captures the intent of what I think we were trying to  
10 do.

11 CHAIRWOMAN SHOWALTER: All right.

12 JUDGE MOSS: Does that complete our inquiry  
13 on page 4?

14 MR. SCHOOLEY: May I make one clarification.  
15 In a rate order coming out of this case in this phase, I  
16 would expect the 6.2% applied to the base rates is how  
17 it should be phrased, because the 25% surcharge is an  
18 entirely different schedule, and it's not applicable to  
19 that. So it would be the rates on the general tariffs,  
20 Schedules 1 and 11 and 21, that the 6.2% is applied.

21 JUDGE MOSS: So we would look at those  
22 existing rate schedules and multiply them by 1.062 to  
23 determine what the new rates would be on the uniform  
24 percentage basis proposal that's included in the  
25 settlement stipulation.



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1 MR. SCHOOLEY: Yes.

2 JUDGE MOSS: Thank you.

3 Let's turn to page 5.

4 MR. NORWOOD: Judge Moss, if I may clarify.

5 JUDGE MOSS: Yes.

6 MR. NORWOOD: What you described there as far  
7 as applying 6.2 to existing rate schedules or other  
8 calculations, I just want to make sure that we're  
9 accurate here, there's a revenue requirement  
10 calculation, but the net effect would be existing base  
11 rates would go up by 6.2%. I just want to make sure  
12 that you don't --

13 JUDGE MOSS: I didn't say something wrong,  
14 did I?

15 MR. NORWOOD: Well, I --

16 JUDGE MOSS: Maybe I did.

17 MR. NORWOOD: Technically you don't increase  
18 the rates on the schedule that way.

19 JUDGE MOSS: I see, you're increasing the  
20 revenue --

21 MR. NORWOOD: Requirement, right, and it  
22 flows through.

23 JUDGE MOSS: That's how it flows through?

24 MR. NORWOOD: Right.

25 JUDGE MOSS: Okay, yes, I was trying to use a

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1 shorthand there that maybe was --

2 All right, page 5.

3 CHAIRWOMAN SHOWALTER: Looking at the fat  
4 middle paragraph that begins with, the capital  
5 structure, as I read this, there are three elements.  
6 One is an acceptance of the capital structure of 49%  
7 debt, 9% preferred equity, and 42% common equity. And  
8 then are there two or only one question after, that then  
9 the cost of that debt and preferred equity might be  
10 different today or in the next few months than it was  
11 when we determined it last. And in addition, second  
12 element or third from where I started, if we approve a  
13 PCA, that could have further effects on the cost. Is  
14 that right? That is, we're not -- this preserves the  
15 option to look not only at what a PCA would do to the  
16 costs of debt and equity, but also just whether the cost  
17 is different now than it was last time.

18 MR. NORWOOD: I'll look to Jon.

19 MR. ELIASSEN: Let's take these a piece at a  
20 time here. The cap structure is the same capital  
21 structure that was agreed in our last general filing.  
22 We're comfortable with that as an appropriate target  
23 capital structure. Obviously we're going to have to  
24 reduce some debt to get there. The costs that are  
25 inherent in the allowed rate of return, the increased

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1 interest costs and increases for preferred stock were  
2 updated through known and measurable changes through  
3 November, so that reflects the impact at that point in  
4 time of the credit downgrade and other costs of debt.  
5 As we move forward, I would expect that ultimately there  
6 will be an upgrade of the company to investment grade,  
7 ultimately we will remove some of the high cost debt  
8 from the cap structure, and ultimately in the year  
9 2003/2004, you will see reductions in cost of debt, but  
10 probably not before that time. So the costs that are  
11 inherent here with the updated preferred and interest  
12 costs are pretty representative of where we are today  
13 and where we will be through 2002 and into 2003.

14           The issue around common equity, the common  
15 equity return is the same return that was agreed or  
16 inherent in the last Commission order of 11.16%, I  
17 believe. That's substantially below what the company  
18 believes its cost of equity is today. But I guess I'm  
19 comfortable at this point in time, and I think this  
20 still has to be resolved in the general case, that with  
21 a power cost adjustment mechanism of some type that an  
22 11.16% return on equity is probably adequate even given  
23 the company's reduced financial strength today. But we  
24 have reserved, all parties have basically reserved the  
25 right to look at cost of equity given the ultimate

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1 decision on the power cost adjustment mechanism, and  
2 that's basically included in the last sentence or two of  
3 that paragraph.

4 JUDGE MOSS: Mr. Eliassen, it may have just  
5 been my hearing rather than your speaking, but I thought  
6 I heard you refer initially to an 11.6% return on common  
7 equity and then later to 11.16. I just want to be clear  
8 on which it is.

9 MR. ELIASSEN: 11.16.

10 JUDGE MOSS: Thank you.

11 CHAIRWOMAN SHOWALTER: Well, supposing the  
12 Commission did not approve any PCA, I don't want you to  
13 think that that's where we are going, just supposing we  
14 didn't, then what kinds of changes to the costs of debt  
15 and equity does the settlement agreement anticipate?

16 MR. ELIASSEN: Well --

17 CHAIRWOMAN SHOWALTER: Or what kinds of  
18 arguments do you also get to make about it?

19 MR. ELIASSEN: I guess it's, and someone else  
20 may want to speak to this as well, my thought is that  
21 it's if there was not a PCA mechanism of some sort going  
22 forward that the risk to the company and the cost of  
23 equity would certainly be higher than the 11.16 in our  
24 opinion, in my opinion, and I would think that that is  
25 still an open issue to be resolved in the general case.

0111

1 CHAIRWOMAN SHOWALTER: Okay, that was my  
2 question.

3 MR. SCHOOLEY: That's I guess how I would  
4 look at it, is that the basis from which the arguments  
5 would be is 11.16%, and the addition or subtraction of a  
6 PCA would be above or beyond that, above or below that.

7 MR. TROTTER: Chairwoman, if I could just  
8 emphasize that the PCA issue only affects cost of  
9 equity, not debt or cap structure, according to the  
10 agreement.

11 JUDGE MOSS: What cost of equity does the  
12 company ask for in the general rate filing?

13 MR. ELIASSEN: 12.75 was the request.

14 JUDGE MOSS: Thank you. And did that request  
15 contemplate the implementation of a PCA, or was that  
16 independent of the implementation of a PCA?

17 MR. SCHOOLEY: It did contemplate a PCA, yes.

18 JUDGE MOSS: Is there an alternative proposal  
19 in the general rate filing if no PCA were to be  
20 approved?

21 MR. NORWOOD: There was a 50 basis point  
22 differential that was reflected in the company's filing.  
23 The company actually proposed I believe a 13.25% ROE but  
24 reduced by 50 basis points to 12.75 with the  
25 implementation of a PCA.

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1                   JUDGE MOSS: Thank you, Mr. Norwood,  
2 Mr. Eliassen.

3                   Do we have other questions on page 5?

4                   Yes, Commissioner Oshie.

5                   COMMISSIONER OSHIE: I would like to go back  
6 briefly to the 2002 deferral period just to get kind of  
7 a picture of what the exclusions really mean and a  
8 dollar amount. And I looked back through the petition,  
9 and I think that you were forecasting \$19 1/2 Million  
10 that would be accrued in the deferral account from the  
11 period of January 1 through the end of the general rate  
12 case. Now what does the exclusion of the small  
13 generation projects that are listed on page 4 and also  
14 Coyote Springs, what does that reduce that \$19 1/2  
15 Million figure to?

16                   MR. NORWOOD: I believe that reduction -- it  
17 looks like Alan may have that, so I will let him -- it  
18 would be just for the period from the effective date of  
19 the implementation of this rate until the conclusion of  
20 a general case.

21                   MR. BUCKLEY: I believe that amounts to, if  
22 you include Coyote Springs, Boulder Park, Kettle Falls,  
23 it amounts to about almost \$16 Million.

24                   COMMISSIONER OSHIE: So the exclusions amount  
25 to \$16 Million --

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1                   MR. NORWOOD: I think we need to back up  
2 there. I don't have the numbers in front of me, but we  
3 did look at this. I guess I'm hearing from the back  
4 here, \$7 Million to \$8 Million. You have to keep in  
5 mind the numbers on this exhibit are system numbers that  
6 would include Idaho and Washington. You have to take  
7 the Washington share and then just for the time period,  
8 so I believe it's \$7 Million to \$8 Million.

9                   MR. BUCKLEY: Yes, it's \$8.7 Million.

10                  COMMISSIONER OSHIE: So that \$8.7 Million  
11 would be, just to be clear, is the amount that is  
12 projected to be in the 2002 deferral account at the end  
13 of the general rate case, or is the 8.7 the amount that  
14 would be deducted from the 19 1/2 Million original  
15 projection?

16                  MR. NORWOOD: What we're proposing here in  
17 the settlement is that any dollar amounts related to  
18 Coyote or Boulder would not be deferred. Other dollar  
19 amounts would be, but what we're saying is that any  
20 dollar amounts related to these specific projects would  
21 not be included, whatever they may be. Coyote has moved  
22 around a little bit with the effective date, so if it  
23 comes on later, then there would be a lesser dollar  
24 amount that would be excluded, if that makes sense.

25                  COMMISSIONER: Sure.

0114

1                   MR. NORWOOD: So that's what we're saying, is  
2 that any dollar amounts, capital cost, interest cost,  
3 depreciation and so on will not be included in a  
4 deferral, and our estimate is in that \$7 to \$8 Million  
5 range.

6                   JUDGE MOSS: Let me interrupt here just a  
7 second just to be sure that we have a good, clean  
8 record. There's certainly no problem with people  
9 conferring, but I'm going to ask that we not have any  
10 sort of unnoticed conferring going on, if you will. So  
11 if you need to confer with counsel, that's fine, just  
12 say so, and we will offer that, but I just want a nice,  
13 clean record.

14                   The other thing is, Mr. Norwood, you made  
15 reference in your response to this exhibit, and I'm not  
16 sure what you were referring to when you said this  
17 exhibit. Perhaps you were referring to something that's  
18 not an exhibit in this record.

19                   MR. NORWOOD: I know that Mr. Buckley has a  
20 workpaper that we had provided to him, and that would be  
21 Mr. Bill Johnson's Exhibit WGJ-3, and I'm going to ask  
22 Mr. Buckley, is this in the prudence case?

23                   MR. BUCKLEY: Mr. Schoenbeck.

24                   MR. SCHOENBECK: Yes, it wasn't from the  
25 prudence case, it was actually from the general rate



0115

1 case interim filing.

2 JUDGE MOSS: Do we need to make it an  
3 exhibit? I don't necessarily want it to be an exhibit,  
4 I just wanted to make sure our record was clear?

5 MR. SCHOENBECK: (Shaking head.)

6 JUDGE MOSS: Okay, so we weren't actually  
7 referring to an exhibit in this record, but to a  
8 workpaper that the parties have shared among themselves.

9 MR. NORWOOD: That's correct.

10 JUDGE MOSS: That will clarify that, thank  
11 you.

12 Are there other questions, I think we're sort  
13 of skirting here between 4 and 5, in those pages, are  
14 there other questions from the Bench?

15 CHAIRWOMAN SHOWALTER: Not on that page.

16 JUDGE MOSS: Then let's go to page 6.

17 CHAIRWOMAN SHOWALTER: There are a number of  
18 measures listed on this page and going over to the next  
19 page. My question is, does any of these measures or  
20 actions require a waiver of any rule that we have? We  
21 recently adopted some rules that maybe operate on the  
22 fringes of these measures.

23 MR. MEYER: May we have just a moment, Your  
24 Honor.

25 JUDGE MOSS: Yes.

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1                   MR. MEYER: We have Mr. Folsom, who is  
2 perhaps more conversant with these particular measures,  
3 and we would be happy to make him available to respond  
4 to specific questions.

5                   JUDGE MOSS: Mr. Folsom, would you please  
6 raise your right hand.

7

8 Whereupon,

9                   BRUCE W. FOLSOM,  
10 having been first duly sworn, were called as witnesses  
11 herein and were examined and testified as follows:

12

13                   JUDGE MOSS: Thank you, please be seated.

14                   MR. FOLSOM: The question has to do with  
15 exemptions or waivers from existing WAC rules?

16                   JUDGE MOSS: Right, in terms of the programs  
17 that are displayed on pages 6 and carrying over to 7 of  
18 the settlement stipulation.

19                   MR. FOLSOM: The item 6.A, winter low income  
20 payment program, would require a waiver of the March  
21 15th date located in WAC 480-100-043. And we would  
22 simply propose that in our tariff sheet 70-K.1 we would  
23 reflect that we would run this program through and past  
24 March 15th, and we would do so with a cover letter  
25 seeking your waiver of that rule.

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1                   CHAIRWOMAN SHOWALTER: All right, so you are  
2 saying that then by our order approving this settlement,  
3 we in effect would be authorizing a waiver of our rule?

4                   MR. FOLSOM: Yes.

5                   CHAIRWOMAN SHOWALTER: That would be nice to  
6 have that explicit.

7                   Now given that this program is also the  
8 subject of a statute, are these actions within the  
9 statutory constraints?

10                  MR. TROTTER: Perhaps it would be a good  
11 idea, I didn't know which particular statute you're  
12 interested in.

13                  CHAIRWOMAN SHOWALTER: I'm not up to snuff  
14 enough about this particular program, but there is a  
15 statutory program on winter moratorium, and I want to  
16 make sure we're not violating it by approving this --

17                  MR. CROMWELL: Your Honor, Robert Cromwell.

18                  CHAIRWOMAN SHOWALTER: -- extension.

19                  MR. CROMWELL: I can not speak to the statute  
20 because I haven't looked at it recently. Mr. Folsom is  
21 probably in the best position in the room to talk about  
22 it. But my only recollection is that I think what we're  
23 dealing with is a floor requirement, and what the  
24 company and the parties are proposing here is to exceed  
25 that floor. So while it may be indeed prudent for

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1 someone to review the rule and the statute and make sure  
2 that we aren't inadvertently creating some conflict, I  
3 believe that we're in good position, because what the  
4 company has proposed and we're all agreeing to is  
5 something in excess of the requirement.

6 CHAIRWOMAN SHOWALTER: Right, that makes  
7 sense, but then I'm just wondering why then the WAC  
8 needs to be waived, but I haven't looked at it.

9 MR. CROMWELL: I'm in the same boat, I don't  
10 know.

11 CHAIRWOMAN SHOWALTER: Well, we will look at  
12 those rules.

13 JUDGE MOSS: Mr. Folsom, as the non-lawyer  
14 respondent here we can look to for the RCW, do you have  
15 that in mind, or are we going to have to do a little  
16 research?

17 MR. FOLSOM: Judge Moss, I have WAC  
18 480-100-143 in front of me, but I don't have the RCW in  
19 front of me.

20 JUDGE MOSS: All right.

21 CHAIRWOMAN SHOWALTER: It might have the cite  
22 to it right there at the bottom.

23 MR. FOLSOM: The cite is RCW 80.01.040 and  
24 .160.

25 JUDGE MOSS: All right, thank you for that,

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1 Mr. Folsom.

2 CHAIRWOMAN SHOWALTER: And actually, when I  
3 asked the question, I didn't even think of that. I was  
4 thinking more of these eligibility restrictions in b.2,  
5 and I just am not able to tell by looking at this  
6 paragraph whether it is about or whether it invokes our  
7 rules on delinquent payments, et cetera. In general, I  
8 think those rules entitle the company but don't command  
9 it to do certain things, and so our rules wouldn't need  
10 to be waived in this instance.

11 MR. FOLSOM: That is my understanding. We  
12 would need to reflect this change in our tariff sheet  
13 70-K Section 15, and our compliance filing would have a  
14 sentence in there that reads something like, during the  
15 period starting March 15, 2002, running through, and  
16 then we would pick a date certain, something like  
17 September 30th, where two of these restrictions that you  
18 see would be removed.

19 CHAIRWOMAN SHOWALTER: Okay.

20 MR. FOLSOM: And then we would also need to  
21 reflect for Section 6.C, deposits, we will need to  
22 change in our tariff the 50% number down to 25%.

23 JUDGE MOSS: Anything else on page 6?

24 Page 7 then, getting back into the boiler  
25 plate here I think at the bottom of page 7. Page 8

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1 concerns procedure and precedent, and that carries over  
2 onto page 9, which also covers the topic of execution,  
3 counterpart about which I think we have no questions.

4 All right, are there additional general  
5 questions from the Bench?

6 CHAIRWOMAN SHOWALTER: As a general comment,  
7 we will have our public hearing on Wednesday and receive  
8 comments, so we reserve judgment on the whole  
9 settlement, of course, but it is clear that the parties  
10 are to be congratulated for at least agreeing among  
11 themselves on some major issues, and we will -- well, I  
12 will leave it at that.

13 COMMISSIONER HEMSTAD: I have a question on  
14 Exhibit 2 with regard to the impact of the settlement.  
15 Under the heading settlement stipulation and then the  
16 description for 2002 and then 2003, I'm a bit puzzled  
17 that the 2003 figures tend to show a modest  
18 deterioration from 2002. Mr. Eliassen, maybe you could  
19 speak to that. Why is that occurring? Or I suppose  
20 beyond that, does that mean that 2004 will show a  
21 further deterioration?

22 MR. ELIASSEN: I can't speculate right now in  
23 2004. We have had such a moving target here with '02  
24 and '03 that we haven't really run firm numbers. In  
25 terms of -- I actually would expect 2004 to start to

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1 show some improvement over 2003 just given what we have  
2 here. But it's the impact on the company of increased  
3 operating expenses, increases to rate base. Again,  
4 remember that this is a test period of the year, what,  
5 2000, Kelly, so the general filing that we're looking at  
6 here today is a test period of 2000. We may not have  
7 all of our costs fully recovered.

8           So I think it's going to be a combination of  
9 getting through the general, taking a real hard look at  
10 our '03 and '04 numbers, eliminating interest costs.  
11 Interest costs are one of the biggest problems we have  
12 going forward, because interest costs a year and a half  
13 ago were \$65 to \$67 Million a year. Even today looking  
14 forward they're \$100 Million or more. So a reduction of  
15 debt and how quickly we can reduce debt is going to make  
16 a big difference in terms of the latter part of '03 and  
17 the '04 numbers. So those are some general  
18 observations.

19           Rating agencies have the same questions of  
20 us, and we are, of course, continuing to work with them  
21 and listen to their comments in terms of what we need to  
22 do at the company to help turn these numbers around as  
23 well.

24           MR. SCHOOLEY: If I may make a comment on  
25 that, the 2003 figure here includes, I believe, the

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1 assumption that the company has received its request in  
2 the general rate case, and that would be a constant  
3 between the two 2003 columns. So you can see the same  
4 deterioration in the columns D and E in a similar vein.

5 COMMISSIONER HEMSTAD: Mr. Eliassen, in your  
6 opening comments, did I understand you correctly, you  
7 are assuming you will be able to or you will attempt to  
8 seek equity financing of \$50 Million; was that the  
9 figure?

10 MR. ELIASSEN: Yes, there are two public  
11 financings assumed in this two year period of 02-03.  
12 One of them, and it's inherent in both the, well, all  
13 the columns here, a \$50 Million issuance of common  
14 equity in Q4 of this year. And when I said \$50 Million  
15 or more, and that is to issue some additional equity to  
16 allow us to use that to reduce debt to really  
17 restructure the balance sheet and reduce debt. Now the  
18 other financing that's required, of course, is the  
19 refunding of the debt that matures in August of '03.

20 COMMISSIONER HEMSTAD: Well, I assume you are  
21 assuming you will be able to issue that or to obtain  
22 that equity financing.

23 MR. ELIASSEN: I believe that with the  
24 settlement that we have here today and the changes in  
25 operations that the company is continuing to implement



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1 this year and moving into next year, and with again the  
2 company assumes the power cost adjustment mechanism in  
3 the general order, so assuming that general order, I  
4 think we will have the stock price at or above book  
5 value and be in a position to issue common equity. One  
6 of the problems in issuing common equity today, and it's  
7 what we faced last fall, is again the uncertainty. So  
8 even the settlement begins to remove a lot of that  
9 uncertainty that equity investors see in the company as  
10 well going forward.

11 JUDGE MOSS: Okay, I think just a couple of  
12 final points. I'm going to refer both to the settlement  
13 stipulation and also looking at the memorandum that was  
14 submitted by counsel for Staff, Memorandum of Commission  
15 Staff and Explanation of Settlement Stipulation, and  
16 there are a number of references to the word permanent,  
17 and we had some discussion about that earlier. And, of  
18 course, permanent is sometimes a term of art in utility  
19 rate making, and we just want to make sure our record is  
20 perfectly clear. And before posing a question, I would  
21 just say that I found the Staff memorandum to be very  
22 clear, very well written, and very helpful, Mr. Trotter.  
23 But I'm looking at page 7, in the second full paragraph,  
24 there is the sentence:

25 The settlement stipulation proposes that

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1           the 6.2% increase in base rates is  
2           permanent and not subject to refund.

3           Now based on the earlier discussion, my sense  
4 of that was that really the sort of synonymous, the  
5 meaning of permanent was, not subject to refund, and  
6 nothing more was meant to be implied by that.

7           MR. TROTTER: That's correct.

8           CHAIRWOMAN SHOWALTER: But further, don't you  
9 really mean temporary, non-refundable; is that correct?

10          MR. TROTTER: Yes, but it -- yeah, I think  
11 so, but I think when you look at it, and I use this in  
12 our discussions, if you look at it in the rate case, we  
13 would be asking the company to give us a pro forma  
14 adjustment to adjust for this revenue increase, so  
15 they're to add a column to their rate case portrayal  
16 adding in those revenues on an annual basis, and so  
17 their overall revenue deficiency will go down.

18          CHAIRWOMAN SHOWALTER: Right, but is the 6.2%  
19 increase intended to be temporary and non-refundable or  
20 permanent and non-refundable?

21          MR. TROTTER: It's intended to last through  
22 the general rate case, at which time you will set new  
23 rates based on the revenue requirement.

24          CHAIRWOMAN SHOWALTER: Right.

25          MR. TROTTER: Regardless of what existing

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1 rates are, you will determine the revenue requirement  
2 and set new permanent rates.

3 JUDGE MOSS: It's not a threshold, in other  
4 words?

5 MR. TROTTER: Right, so it's not in there  
6 forever in that sense of permanence. It means  
7 additional revenue that will be accounted for in the  
8 rate case, and then you will come up with a revenue  
9 requirement, and they will have a revenue deficiency or  
10 not, they may have a revenue surplus I mean just  
11 depending on how the numbers come out, but you will set  
12 rates accordingly.

13 JUDGE MOSS: Okay.

14 MR. SCHOOLEY: May I add another way to look  
15 at this is if you accepted the settlement, issued an  
16 order granting this 6.2% increase, and then the company  
17 decided to withdraw it's general rate case, that 6.2%  
18 would stay in effect until they filed for another  
19 change.

20 MR. TROTTER: And I would just add, Your  
21 Honor, that the company would need Commission approval  
22 to withdraw.

23 CHAIRWOMAN SHOWALTER: I know, but now,  
24 Mr. Schooley, that's actually the way I originally read  
25 it, I think. But then the discussion led me to think

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1 the other way, that this 6.2% increase is to take care  
2 of a certain amount of expenses and it is not subject to  
3 refund, but that when it's up, it's up. But now -- but  
4 originally I read it as 6.2% is in place until this  
5 Commission does something else to change that.

6 MR. SCHOOLEY: That's true.

7 CHAIRWOMAN SHOWALTER: And that's two  
8 different things. In one way, the amount that the rate  
9 is covering would end and so would the rate. And the  
10 other way, the rate is in place until disturbed.

11 MR. SCHOOLEY: I would think it's the second  
12 scenario.

13 MR. TROTTER: Yes, Your Honor, we would not  
14 have agreed to this but for the existence of a general  
15 rate case in which you're going to set rates.  
16 Mr. Schooley gave a hypothetical, which we do not  
17 believe would happen, but if the company petitioned to  
18 withdraw the rate filing and you granted it and you  
19 approved this, I assume the 6.2 could be in effect, but  
20 you may have some parties stating that that violates the  
21 stipulation. But it would only be in that scenario  
22 where the problem would be raised in my view, so it's  
23 because of the pendency of the general rate case that  
24 this is what it is.

25 JUDGE MOSS: It's fair enough to say that it

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1 would certainly violate the spirit of the stipulation  
2 and the intent of the parties entering into it if that  
3 withdrawal was to be proposed, because the settlement  
4 stipulation is in the context of the general rate  
5 proceeding going forward to some conclusion or another  
6 in terms of a rate order.

7 MR. TROTTER: I agree, yeah.

8 JUDGE MOSS: All right.

9 MR. NORWOOD: If I may add also, it's really  
10 important for the company that we follow through with  
11 the general rate case. We have rate base treatment of  
12 Coyote Springs at issue, Boulder Park, the interest  
13 costs, the PCA, you know, we're not going to withdraw  
14 the case.

15 JUDGE MOSS: We just want to be on certain  
16 legal ground, Mr. Norwood, and so it's important to have  
17 these inquiries so that the record is perfectly clear.

18 MR. NORWOOD: I see.

19 COMMISSIONER HEMSTAD: Well, so the record is  
20 clear, because of the extent that this case has now  
21 proceeded with this settlement in front of us, assuming  
22 approved, we are very far along, and the company could  
23 not withdraw without the approval of the Commission.

24 MR. BUCKLEY: Let me add one more thing that  
25 I think may help. Even though the settlement as we have

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1 discussed before as Mr. Schoenbeck said was a black box  
2 and it's hard to tie a specific number to something, I  
3 think it's safe to say that when we put in this part of  
4 the stipulation where there's a 6.2% increase that it  
5 wasn't done in a vacuum, that Staff has looked at the  
6 costs that are out there in the future and the cost  
7 pressures that certain items will put on Coyote Springs  
8 II in particular, and that even though it's not  
9 specifically tied, it does recognize that perhaps, you  
10 know, there is a I don't want to say necessarily a total  
11 increase in cost, but it is -- it does represent that  
12 there are cost pressures out there and that it's not  
13 done in a vacuum.

14           So I think it ties it in to, although it  
15 doesn't tie it in to exactly what we might recommend out  
16 of a general rate case because that involves a PCA and  
17 other factors which may go down, at least it does  
18 recognize I want to say explicitly some items that will  
19 increase probably potentially revenue to the company.  
20 That may help.

21           JUDGE MOSS: Mr. Buckley, you have in a sense  
22 anticipated one more thing that I wanted to do for our  
23 record, and that is to ask you and perhaps put the  
24 question to Mr. Schooley as well, whether you have had  
25 an opportunity to review and perhaps even had input into

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1 the factual underpinnings and statements that are  
2 included in the Commission Staff's memorandum that was  
3 submitted to the Commission in connection with this  
4 matter.

5 Mine is not date stamped, but I think it was  
6 probably on February 22nd, Mr. Trotter, that you filed  
7 that.

8 MR. TROTTER: Yes.

9 JUDGE MOSS: Okay. Did you have some input  
10 to that, or have you reviewed that memorandum of  
11 Commission Staff?

12 MR. BUCKLEY: Yes.

13 JUDGE MOSS: I'm sorry?

14 MR. BUCKLEY: Yes, we both have had input to  
15 it.

16 MR. SCHOOLEY: Yes.

17 JUDGE MOSS: And in participating in the  
18 preparation of that and/or subsequently in review, do  
19 you believe that all the factual statements made in  
20 there are accurate to the best of your knowledge,  
21 information, and belief?

22 MR. BUCKLEY: Yes, I do.

23 MR. SCHOOLEY: Yes.

24 JUDGE MOSS: Okay, you both have confirmed  
25 that you do. And so you would be comfortable if the

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1 Commission chose to refer to one or more factual  
2 statements in that filing and would subscribe to that  
3 statement of fact as your own testimony?

4 MR. BUCKLEY: Yes.

5 MR. SCHOOLEY: Yes.

6 JUDGE MOSS: Okay, Mr. Buckley has confirmed  
7 that and Mr. Schooley as well. All right, thank you  
8 very much.

9 Anything else from the Bench?

10 Anything else from the parties?

11 JUDGE MOSS: Yes, sir, Mr. Cromwell.

12 MR. CROMWELL: Just for the record,  
13 procedurally I think we had all concurred on the  
14 suspension and waiver of the pending procedural dates  
15 pursuant to the pre-hearing conference order, and I  
16 suppose it would be appropriate if the Commission does  
17 by order adopt the settlement that you note and strike  
18 all dates that were set in the prior pre-hearing  
19 conference.

20 JUDGE MOSS: For the interim and prudence  
21 phases you mean?

22 MR. CROMWELL: Correct.

23 MR. MEYER: Yes, just those phases.

24 MR. CROMWELL: With the general rate case  
25 procedural dates to remain in effect.



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1                   JUDGE MOSS:  Yes, well, the general rate case  
2  procedural dates will remain in effect.  This does not  
3  have any impact on our schedule there.  I don't really  
4  recall, in the pace of events in recent weeks here at  
5  the Commission, I don't recall frankly whether there was  
6  an official notice suspending the procedural dates for  
7  the interim and prudence phase or not.  Things happened  
8  so quickly, I think that was done informally, but I will  
9  just note for the record that the interim and prudence  
10 phase procedural schedule is suspended, and I don't know  
11 that you need a further written order on that.

12                   All right, anything else from counsel?

13                   All right, rather than closing myself,  
14 perhaps I should turn to Chairwoman Showalter to close  
15 our proceeding.

16                   CHAIRWOMAN SHOWALTER:  Well, I gave my  
17 closing remarks prematurely, but I will leave them at  
18 that.

19                   JUDGE MOSS:  All right, well, thank you all  
20 very much for appearing today on short notice and  
21 providing us with an excellent panel of witnesses to  
22 explain and discuss the proposed settlement agreement,  
23 and we will be in recess pending the public comment  
24 hearings on Wednesday night.  And then, of course, as I  
25 previously announced, the record will be closed on

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1 Friday for purposes of considering the proposed  
2 settlement stipulation.

3 Thank you very much, we're off the record.

4 (Hearing adjourned at 11:30 a.m.)

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