

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

2	WASHINGTON UTILITIES AND)	
	TRANSPORTATION COMMISSION,)	DOCKET NO. UE-940728
3)	
	Complainant,)	VOLUME 5
4)	
	vs.)	PAGES 356 - 423
5)	
	PUGET SOUND POWER & LIGHT)	
6	COMPANY,)	
)	
7	Respondent.)	
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9 A hearing in the above matter was held on
10 September 15, 1994, at 9:30 a.m. at 1300 South
11 Evergreen Park Drive Southwest before Chairman SHARON
12 NELSON, Commissioner RICHARD HEMSTAD and
13 Administrative Law Judge ALICE HAENLE.

14 The parties were present as follows:

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

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

20 FOR THE PUBLIC, ROBERT MANIFOLD, Assistant
Attorney General, 900 Fourth Avenue, Suite 2000,
21 Seattle, Washington 98504.

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25 Cheryl Macdonald
Court Reporter

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

2 JUDGE HAENLE: The hearing will come to
3 order. This is a fifth day of hearing in the Puget
4 PRAM 4 case. The purpose of the hearing this morning
5 is to take testimony from members of the public about
6 the PRAM 4 filing. The hearing is taking place before
7 Chairman Sharon Nelson, Commissioner Richard Hemstad.
8 My name is Alice Haenle. I'm the administrative law
9 judge assigned to the case.

10 This is a fifth day of hearing in the PRAM,
11 and counsel today are the same as they were during our
12 last session, that is, James Van Nostrand for the
13 company, Sally Johnston for the Commission, and Robert
14 Manifold acting as public counsel.

15 I have asked everyone who wants to give
16 testimony to print their name and address on the
17 sign-up sheet in the back. So far we have one
18 gentleman. I don't know if that's a function of
19 traffic or what it might be, but I suggest that we
20 take testimony from the gentleman who is here and then
21 recess and give other people a chance to get here,
22 give them a few additional minutes. Mr. Manifold, did
23 you want to give first a brief summary of this case?

24 MR. MANIFOLD: I think, given that there's
25 one person here and he's had a chance to pick up the

1 sheet that I passed out at the back of the room, I
2 would waive doing that, if I may.

3 JUDGE HAENLE: The information, did you see
4 that at the back of the room?

5 FROM THE AUDIENCE: Doesn't matter. That's
6 fine.

7 JUDGE HAENLE: Why don't you come forward
8 and take a seat at the microphone.

9 Whereupon,

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

13

14 DIRECT EXAMINATION

15 BY MR. MANIFOLD:

16 Q. Mr. Jacobs, would you please state your
17 full name?

18 A. Bob Jacobs.

19 Q. And it's J A C O B S?

20 A. That's correct.

21 Q. Your address?

22 A. 720 Governor Stevens Avenue Southeast,
23 Olympia, 98501.

24 Q. Are you a customer of Puget Power?

25 A. Yes.

1 Q. Are you a stockholder in Puget Power?

2 A. No.

3 Q. Are you affiliated with them in any other
4 way?

5 A. I am not. I am a residential customer.

6 Q. Are you speaking for anyone in addition to
7 yourself here?

8 A. No.

9 Q. Please go ahead and make your comments.

10 A. Thank you. Your Honor, and Chairwoman and
11 Dick, I appreciate the opportunity to be here and
12 testify on this matter. I want to make it clear that
13 I am testifying only for myself, not for anyone else
14 or any other organizations, and I am interested in one
15 part of this rate filing only, and that is the
16 portion, according to this little brochure I got from
17 Puget Power that says a part of the increase in the
18 fees is going to be for increase to customer growth.
19 That's the only part that I want to testify about.
20 It's my view that growth is the biggest issue facing
21 this area. We are faced now with problems of siting
22 another airport; siting more sewage treatments plants;
23 siting more prisons; paying for all of those things;
24 paying for more roads, sewers, infrastructure of
25 various kinds; bearing the costs in terms of air

1 pollution, water pollution, lost salmon runs and all
2 the rest. And so that's why I see growth as the major
3 issue in this area. I think it adds insult to injury
4 to ask ratepayers to actually subsidize that growth,
5 and that's what's going on here.

6 I believe that growth should pay for
7 itself. The legislature when it adopted the Growth
8 Management Act in 1990 recognized that this is a
9 legitimate thing to do. It allowed development impact
10 fees for all new growth in the area and these have
11 begun to be imposed by local jurisdictions. I believe
12 that growth should also pay for growth in the electric
13 utility and in all the other utilities that you
14 regulate, and since the utility has been able to
15 calculate the cost, we should, without too much
16 trouble, be able to figure a way to have that cost be
17 borne by the new growth.

18 When I called a phone number that was
19 listed in the brochure and questioned this particular
20 item, I was told by the woman who answered that, well,
21 gee, if we had this increased growth cost be borne by
22 the new developments, quote, it would drive up the
23 cost of new housing if the contractors had to pay it,
24 end quote. Yes. Exactly. That's exactly the point.
25 If every new house, every new business that comes into

1 the area bears its fair share of the costs that are
2 occasioned by its moving into the area, we will at
3 least mitigate some of the negative impacts of growth.
4 We will still have the pollution and so forth to deal
5 with, but at least we'll mitigate some of it.

6 And so I urge you to disallow this portion
7 of the filing and to force the utility to pass these
8 costs directly on to those who caused them. I want to
9 add as a footnote that I've talked to some people who
10 have some expertise in this area and there may be some
11 question as to the legal authority of the Commission
12 to impose this kind of fee. I would suggest that you
13 go ahead and impose it on the new developments rather
14 than waiting for the legislature to adopt any policy.
15 Go ahead and impose it. If it's a questionable area,
16 let it be challenged and take it on that way. I think
17 it has more of a chance of surviving that way given
18 the legislative power of Puget Power. Thank you.

19 JUDGE HAENLE: Thank you. Questions,
20 Counsel?

21 Q. Mr. Jacobs, you can probably tell I don't
22 live in Olympia. I didn't realize you were the mayor
23 of Olympia.

24 A. I'm here as an individual.

25 Q. Do you distinguish between growth between

1 the increased housing needs because people grow up
2 here and move away from their parents' home and need
3 to buy a home versus people that are moving into the
4 area and need a new home because of that?

5 A. No. The effect is the same. Growth
6 Management Act also doesn't distinguish that way.
7 That's state policy.

8 MR. MANIFOLD: I don't have any other
9 questions.

10 JUDGE HAENLE: Counsel?

11 MS. JOHNSTON: No questions.

12 JUDGE HAENLE: Commissioners, questions?

13

14 EXAMINATION

15 CHAIRMAN NELSON:

16 Q. I'm just trying to ascertain a little more
17 specificity and fit this into our rate making paradigm
18 here. We do have policies on service to new
19 communities, but I don't remember what they are.
20 They're different for the gas utility than they are
21 for the electric utility, but in terms of kilowatt
22 hour prices to residential users, we don't distinguish
23 between the new residents and the old. So are you
24 talking about trying to do what is now in the electric
25 industry paradigm coming to be called tiered rates

1 where the old customers have the advantage of the
2 hydro system and the new customers would pay for
3 presumably the more expensive sources of generating
4 power?

5 A. I have not researched this to know the
6 details of it. I can tell you the way the development
7 impact fees work in local government, and that is, for
8 instance, for every new house built in Olympia, we
9 know statistically that there will be one half of a
10 school child generated, and since building schools
11 costs about \$15,000 per pupil space, the impact just
12 for the capital facilities to serve that house is
13 about \$7500. Now, if that were the way that this
14 could be done, there's a paradigm. There's a way of
15 doing it. Maybe there are other ways of approaching
16 it, and I haven't, as I said, done the research to get
17 real specific about approaches, but you've got a whole
18 staff that works on that. There's legislative staff
19 and city and county staff who work on impact fees, and
20 I'm sure that assistance could be had.

21 Q. It's falling into the category in my mind
22 line extension policy which we did actually try to
23 study few years ago along these lines.

24 A. What we don't do in the local impact fees
25 is try to deal in any way with the operating costs.

1 And that same example of the school, the costs of the
2 teachers and custodians and books and all of that will
3 be borne by the sales taxes and property taxes that go
4 into the local area and that will be paid
5 automatically by the new residences, but as you have
6 growth and have to put the new buildings in place,
7 that's a one-time cost, that capital cost, which is
8 now increasingly being borne by the development.

9

10 EXAMINATION

11 BY COMMISSIONER HEMSTAD:

12 Q. It's an interesting issue. I've been
13 struck since I've been here with the different
14 paradigms in land use and in energy policy. Land use,
15 as you say, has moved in that direction of growth
16 paying for growth. There isn't anything comparable,
17 at least that I am aware of, at least in electricity;
18 but of course one of the problems that electrons are
19 electrons as they move down the wire, and it's hard to
20 say, pretty hard to say, that electrons going to one
21 place are going to be more expensive than going to
22 another, at least on an ongoing basis. There's the
23 tiered rate mechanisms that are used to encourage
24 conservation in usage, but I will just give you an
25 historical comparison. We went for decades with the

1 price of energy falling. No one at that time
2 suggested that the new residents or the new entrants
3 should pay less as the additional quantity came on
4 line that was cheaper than the old power at the time.
5 The unit costs every decade got lower. Now, at least
6 in the northwest, in the near term basis, the unit
7 cost is going up. That's not to say that technology
8 might not turn that around again at some point, which
9 further complicates the matter. I mean, I don't
10 assume you would suggest that historically that the
11 new residences should have paid less when it was
12 getting cheaper?

13 A. I haven't looked at that, but perhaps the
14 analogy to our public utilities would be apt. We in
15 the city of Olympia, for instance, run a sewer utility
16 and a water utility and when a new house is
17 constructed, there is an upfront fee of I think it's
18 roughly a thousand dollars in each case for each
19 house, and that is contributed again toward the basic
20 capacity, not the operating costs at all, but the
21 construction of the basic capacity, and perhaps the
22 same thing would happen here. That's what's in my
23 head at least; when there's a new development there
24 need to be new lines strung, perhaps new transformers
25 or whatever. Those are initial capital costs which I

1 think would more appropriately and directly parallel
2 to the city situation be borne by the new development.
3 And the operating costs would be spread among all of
4 the users. So yes, an electron is an electron. I
5 don't know about tiered rates so I can't really
6 comment on that.

7 Q. It's a complex issue.

8 A. Yes.

9 JUDGE HAENLE: Commissioners, anything
10 else?

11 CHAIRMAN NELSON: No.

12 JUDGE HAENLE: Counsel, anything else?

13 MR. MANIFOLD: Just that I wonder if --
14 this is going to be one of those wonderful statements
15 in the form of a question -- if you were aware that in
16 I believe it was the last general rate case involving
17 Puget, but it may have been their rate design case, my
18 office presented the concept of a hookup fee for the
19 sorts of purposes that you're mentioning, and there
20 was testimony and exhibits presented on that, and the
21 Commission said that people ought to go off and study
22 that at that time. I suspect that that's the sort of
23 proposal that you're directing your comments to
24 although for maybe a slightly different reason.

25 A. I was not aware of that. It sounds like

1 what I had in mind and if my testimony helps things
2 along to get that idea analyzed, I will be very
3 pleased.

4 JUDGE HAENLE: Anything else of the
5 witness?

6 All right. Thank you, sir, you may step
7 down. Is there anyone else present in the hearing
8 room who wants to give testimony?

9 Actually, it's 20 minutes to. I think
10 people have probably had time to get here. The only
11 other thing we have is the packet of public letters
12 that were received by the Commission and by public
13 counsel which has been set in front of you. I asked
14 to be added to that the letter that Mr. Manifold wrote
15 to the public just to illustrate what they might have
16 been responding to in their letters. I will mark this
17 as Exhibit 105 for identification.

18 (Marked Exhibit 105.)

19 JUDGE HAENLE: Does anyone have objection
20 to that being entered into the record for illustrative
21 purposes?

22 MR. VAN NOSTRAND: No.

23 MS. JOHNSTON: No objection.

24 JUDGE HAENLE: I will enter 105 then for
25 illustrative purposes. We will recess at this time,

1 then. Reconvene at 1:30 for oral argument. Thank
2 you.

3 (Admitted Exhibit 105.)

4 (Hearing recessed at 9:50 a.m.)

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1 AFTERNOON SESSION

2 1:30 p.m.

3 JUDGE HAENLE: The hearing will come to
4 order. We recessed this morning after the public
5 portion and now at 1:30 the oral argument part of the
6 hearing is scheduled. I will remind counsel that each
7 party is given a maximum of 20 minutes for its
8 argument and the company an additional 10 minutes to
9 present rebuttal, so please keep in mind the time
10 limits set by the Commission. Is there anything we
11 need to talk about before we begin the oral argument?
12 Anything we've missed?

13 Go ahead.

14 MR. VAN NOSTRAND: I have a one page
15 summary of the issues I would like to distribute.

16 JUDGE HAENLE: Sure.

17 MR. VAN NOSTRAND: Good afternoon,
18 commissioners and Judge Haenle, Mr. Lott. This is the
19 fourth annual proceeding implementing Puget's periodic
20 adjustment mechanism or PRAM. In the company's June 1
21 filing they sought approval of 98.2 million dollars
22 with a first year rate increase of 66.8 million.
23 Subsequently, on July 12, the company revised its
24 request downward to 60.6 million dollars. When the
25 company in its rebuttal case accepted some of the

1 staff adjustments, the figure was further revised
2 downward to 55.5 million. This represents a 4.9
3 percent rate increase. For residential customers, the
4 filing would produce a decrease of 0.3 percent after
5 taking into account the company's proposed revision to
6 schedule 94, the BPA residential exchange credit.

7 At the outset, it's worthwhile to note the
8 points on which the parties have reached agreement
9 during this proceeding. One issue concerns the
10 treatment of assumed displacements of the company's
11 cogeneration projects when power costs for the PRAM 4
12 period are projected. The company agreed with staff's
13 proposal to eliminate the assumed displacements in
14 projecting PRAM 4 power costs. Under the staff
15 approach, the displacements which actually occur will
16 be picked up in the next PRAM filing. A remaining
17 disagreement between staff and the company on this
18 issue concerning the calculation of the impact of
19 eliminating these displacements was resolved in
20 staff's revised testimony submitted on Monday when
21 staff accepted the company's calculation. So staff
22 and the company now are in agreement on how this issue
23 could be treated. Public counsel, on the other hand,
24 has staked out a different position, which I will
25 discuss in a moment.

1 Another issue which is no longer in dispute
2 is the conservation incentive payment to be received
3 by the company as the third component of the incentive
4 mechanism adopted by the Commission in docket
5 UE-910689. Staff, public counsel and the company
6 agreed on a stipulation and proposed settlement that
7 would permit the company to include \$232,000 incentive
8 payment in this proceeding. This settlement was
9 accepted by the Commission Monday morning in the
10 conservation incentives docket.

11 Turning to the issues which remain in
12 dispute, it is remarkable that the same conservation
13 program which was found to be deserving of incentive
14 payments in 1992 and now in 1994 in recognition of its
15 outstanding performance in developing the conservation
16 resource is the subject of such critical testimony by
17 staff in this proceeding. Staff has proposed a series
18 of adjustments to the company's conservation rate base
19 that total about 1.1 million dollars. While some of
20 the adjustments may seem somewhat inconsequential in
21 their magnitude, the policy implications are very
22 serious.

23 About \$300,000 of staff's adjustment, for
24 example, are expenditures incurred by the company in
25 connection with implementing the nonresidential energy

1 code or NREC. This code was passed by the legislature
2 this year and took effect on April 1 with substantial
3 support from public and private utilities and
4 governmental organizations. The company for its part
5 has taken the lead in organizing the Utility Code
6 Group, to work cooperatively with other utilities
7 implement this code and achieve conservation savings
8 in the most cost effective manner possible. By
9 working with other utilities the company believes it
10 will be getting more bang for its conservation buck.

11 In response to its taking initiative on
12 implementing the code, however, the company has been
13 greeted by a proposed disallowance based on technical
14 arguments about whether the program is included in
15 schedule 83 and concerns about proposed future
16 budgets of the Utility Code Group. The issue here,
17 however, is not about documentation for future budgets
18 but the \$300,000 actually spent during this period for
19 which the company has provided adequate explanation
20 and documentation. Moreover, it is not necessary
21 that these activities be expressly included in
22 schedule 83 for the company to receive recovery in
23 this case, just as inclusion in schedule 83 does not
24 guarantee recovery. In any event, the company
25 believes that the current provisions of schedule 83

1 are sufficiently flexible to cover these expenditures.

2 Another staff adjustment with serious
3 implications is the \$147,000 for the conservation
4 education program conducted by the company and public
5 schools throughout its service territory. Staff does
6 not claim that the company should not be engaging in
7 these activities or that these activities are not
8 related to conservation. The sole basis for staff's
9 disallowance is another technical argument based on
10 staff's mistaken belief that this program constitutes
11 advertising and therefore is included in the pro forma
12 expense amount for conservation advertising. The
13 company's conservation education program does not
14 constitute advertising and never has been classified
15 by the company as advertising. This program is
16 apparently caught up in the misunderstanding about
17 what constitutes the company's corporate
18 communications plan versus conservation advertising,
19 but the bottom line is that under staff's adjustment
20 the cost of this program would be disallowed from
21 conservation rate base in this proceeding.

22 Another category of valid and necessary
23 expenditures which has been caught up in this apparent
24 misunderstanding is \$50,000 related to
25 program-specific conservation brochures. The company

1 previously treated the costs of these materials as
2 administrative expenses of the specific programs
3 rather than as conservation advertising. Staff has
4 mistakenly included these items as part of the
5 corporate communications plan and therefore proposes
6 to disallow the pre-October 1993 expenses for
7 program-specific brochures. The company indeed began
8 expensing these costs effective as of October 1, 1993
9 following the March 1994 consultation with staff. As
10 to the the pre-October 1993 amounts, however, they
11 were not classified by the company as conservation
12 advertising and should be recoverable. The largest
13 staff adjustment to conservation rate base, about half
14 a million dollars, concerns the company's corporate
15 communications plan and whether or not pre-October
16 1993 expenses are proper conservation expenditures.
17 If the Commission will recall, the company's corporate
18 communications plan was an issue in the company's last
19 general rate proceeding. In that proceeding the
20 Commission directed that prospectively the company
21 should expense rather than capitalize its conservation
22 advertising expenditures. The company believes that
23 it has fully complied with the Commission's
24 directives. It immediately wrote off \$652,000 and
25 effective October 1993 began charging all conservation

1 advertising to expense.

2 Most of staff's adjustment relates to the
3 conservation advertising campaign which was running
4 during 1993, the major expense of which was incurred
5 prior to May 1993 as part of the spring flight of ads.
6 Although staff has concluded that only \$80,000 of the
7 \$500,000 of the conservation advertising is
8 recoverable, the company in Exhibit 92 identified
9 additional ad agencies expenses of \$211,000 excluded
10 by staff for ads run prior to October 1993. In
11 addition, there were other agency fees and costs of
12 measuring the effectiveness of the campaign that were
13 incurred prior to October of 1993 and were part of the
14 ongoing cost of the campaign.

15 Moreover, the company did not abandon the
16 conservation advertising campaign as staff incorrectly
17 states. While it is true the company chose to cancel
18 its proposed fall 1993 advertising, customers
19 ultimately benefited from the expenditures incurred
20 by the company in maintaining its ongoing relationship
21 with its advertising agency and in some of the
22 planning and production costs for 1993, which are
23 being used this fall in ads to be run in the coming
24 months. Thus, many of the costs proposed to be
25 disallowed by staff on the basis of a terminated

1 campaign have in fact provided, and will continue to
2 provide, the benefit to the company's customers.

3 Turning to power cost issues, as noted
4 above, the company has reached agreement with staff on
5 most of the power costs proposed for recovery in this
6 proceeding. Exceptions are the inclusion of staff's
7 recommendation in the prudence review, of course, and
8 two additional updates which the company included in
9 its rebuttal testimony. As noted in staff's Exhibit
10 55, staff was rejecting a proposed update to wheeling
11 costs on the Montana intertie. Under PRAM procedures,
12 this cost would be trued up in PRAM 5 anyway.

13 The second item, a proposed update to the
14 purchase power contract with the Washington Water
15 Power company, is more problematic in two respects.
16 First, this contract is not trued up, so adopting
17 staff's recommendation to reject the update will deny
18 the company recovery of its actual costs. Second,
19 rejection of this update on the grounds that the
20 change in rate occurred after the company made its
21 initial filing is at odds with the approach followed
22 by staff in both PRAM 1 and PRAM 2. In both of those
23 cases there were updates to the rate and the Pacific
24 Power & Light contract that became known after the
25 company's initial filing. In both of these cases they

1 were accepted by staff: PRAM 1, Exhibit T-21 at pages
2 12 and 13 and in PRAM 2, Exhibit T-84 at page 2.
3 Consistent with that prior practice, the updated rate
4 in the Water Power agreement should be accepted here.

5 In contrast to the relatively similar
6 positions of the company and staff on power cost
7 issues, public counsel is at the complete other end of
8 the spectrum. Public counsel proposes three separate
9 adjustments none of which should be accepted. First,
10 public counsel makes an adjustment to the deferral to
11 adjust for the actual displacements of cogeneration
12 projects which have already occurred. Public
13 counsel's adjustment, which amounts to about \$380,000,
14 is based on incorrect calculations and assumptions.
15 First, the adjustment disregards the actual provisions
16 in the company's actual contracts with the
17 cogenerators and uses the secondary market rate as the
18 price rather than the replacement power cost agreed
19 upon by the company and the cogenerator under the
20 express terms of the contract. This accounts for
21 about 20 percent of the adjustment. Most of the
22 adjustment, about 80 percent of it, according to
23 Exhibit C-73, arises from an inexplicable assumption
24 referenced only in a footnote to use the greater of
25 actual or projected displacement amounts.

1 As described in note J of Exhibit C-70, in
2 order to achieve about \$300,000 of its \$380,000
3 adjustment, public counsel made the unsupported
4 decision to adjust the quantity of displaced megawatts
5 by using the greater of the displacements that
6 actually occurred or the displacements which the
7 company is projecting in the next PRAM period. In
8 other words, whichever number is bigger. Rather than
9 look at the company's actual experience, which is
10 known since it's already happened, if a higher number
11 is projected for next year, public counsel just
12 substituted that higher quantity and claimed the
13 company should have displaced this higher amount.

14 Public counsel's other two adjustments
15 reflect a complete misunderstanding of the secondary
16 energy market and, more specifically, whether or not
17 the company can simultaneously buy and sell power at
18 different prices to generate profits. The ability to
19 game this issue arises from the fact that the
20 company's power cost work papers show for each month a
21 higher rate for sales on the secondary market than for
22 purchases on the secondary market. These rates simply
23 reflect the average purchase and sales rates over the
24 course of a month. As one would expect, the company
25 is acting rationally, and over the course of a month

1 sells power at a higher price, higher average price,
2 than it pays on average for power. This does not mean
3 that these transactions can occur simultaneously.
4 Seizing upon this difference in secondary purchase and
5 sales rates, public counsel misapplies these figures
6 to produce absurd results in terms of profits the
7 company is assumed to make in secondary sales
8 transactions.

9 These results are reflected in two separate
10 adjustments, one for the displacement of cogeneration
11 units, and the other for assumed transactions on the
12 company's share of the third AC intertie. The
13 adjustment for the secondary sales for displacement of
14 cogeneration units amounts to about 3 million dollars
15 while the intertie would add about 11.8 million
16 dollars in new profit. As Mr. Lauckhart testified,
17 public counsel's adjustments represent a complete
18 misunderstanding of the secondary energy market and a
19 misapplication of the information included in the
20 company's power supply cost work papers. The company
21 cannot simultaneously buy at one price and resell it
22 at a higher price.

23 Public counsel compounds the error with its
24 analysis of the third AC intertie where it assumes
25 that the company can keep its share of the intertie

1 100 percent loaded by such fictional simultaneous
2 transactions. Actual loadings of the intertie during
3 the most recent 12-month period have only been about
4 22 percent, as shown in Exhibit 79, and the company
5 itself estimated loading in the 70 percent range in
6 its economic analysis examining the benefits of
7 participating in the intertie. Public counsel's
8 adjustment assuming 100 percent loading is wholly
9 unsupported. When asked, public counsel was unable to
10 produce any analysis of buyer and sellers to suggest
11 that the company was capable of buying and selling
12 sufficient quantities of power to keep its share at
13 100 percent loaded.

14 In connection with both of these public
15 counsel adjustments, it should be noted that the
16 simple dispatch model will capture the benefits of
17 cogen displacement and transactions on the third AC
18 intertie. With respect to cogen displacements, past
19 operation of the simple dispatch model, or SDM, has
20 captured savings for displacement which have been
21 passed on to customers, and the SDM will continue to
22 do so in the future without any need for further
23 adjustment. As for the benefits of the third AC
24 intertie, they would be reflected through the true-
25 up of actual wheeling costs for the PG&E exchange,

1 the true-up of wheeling charges, and the true-up to
2 actual secondary sales rates which will be affected
3 when the third AC is energized.

4 Another issue in this proceeding which
5 warrants mention is the company's request to recover
6 interest on PRAM deferrals. The company's testimony
7 shows a significant financial penalty imposed by not
8 allowing carrying charges on PRAM deferrals. The
9 deferral as of April 1994 is about 98.5 million
10 dollars as shown in Exhibit 15, as compared with the 5
11 to 6 million dollars on which it is earning carrying
12 charges through the working capital calculations from
13 the last general rate case. The inability to recover
14 carrying costs on these balances has been a
15 substantial drag on the company's financial
16 performance, and has contributed to its inability to
17 earn its allowed return. Public counsel's own
18 analysis shows that in 1993 the company fell 120 basis
19 points below its allowed return on equity. Public
20 counsel points to the benefits of the PRAM through
21 lower hydro risk and reduced impact of weather on
22 sales, both of which were taken into account in
23 reducing the company's return on equity. Having had
24 its equity return reduced, however, the company has
25 fallen far short of earning even this lower figure.

1 The financial results from Mr. Story's testimony
2 illustrates this earnings decline, which is expected
3 to continue.

4 The company respectfully requests that the
5 Commission approve the requested figure of 87.1
6 million dollars, to produce a first-year increase of
7 55.5 million or 4.9 percent. The company submits that
8 this is the increase which results from the proper
9 application of the PRAM procedures. Given that the
10 company's return on equity has been reduced to reflect
11 the perceived reduction in risk associated with the
12 company as a result of PRAM, it is essential that the
13 basis for this reduction in equity return be validated
14 through adherence to accepted and sound PRAM
15 procedures. Thank you.

16 JUDGE HAENLE: Commissioners, do you want
17 to ask questions of the parties as we go along or do
18 you want to wait until the very end?

19 CHAIRMAN NELSON: I might wait until the
20 end. You go ahead if you like.

21 JUDGE HAENLE: I had two general questions
22 that I would be asking of each of the three of you to
23 try to be sure I've got your positions clear in my
24 mind. Referring to the benefits to the third AC line,
25 in the 11th supplemental order, the Commission at page

1 46 directed the company to address the issue of
2 treatment of the projected benefits of the third AC
3 entitlement and the acceptance of risk in the PRAM by
4 Puget and/or the ratepayers in PRAM 4. What is the
5 company's position with respect to the treatment of
6 these benefits in this proceeding and the true-up in
7 future PRAM proceedings?

8 MR. VAN NOSTRAND: Well, Your Honor, as you
9 know, I think as Mr. Lauckhart testified, the company
10 has not yet signed the contract to participate in the
11 third AC and therefore the benefits are not reflected.
12 As I just indicated in my comments, when the benefits
13 in the third AC participation materialize, which is
14 expected during this period, they will be reflected in
15 the true-up of the wheeling charges under the PG&E
16 contract wheeling charges in general, and in the
17 impact it has on the secondary rates. So, through
18 true-up under the existing PRAM procedures and the SDM
19 model, we feel the benefits of the company's
20 participation in the third AC when they materialize
21 will be reflected in rates.

22 JUDGE HAENLE: When would this true-up be
23 accomplished specifically?

24 MR. VAN NOSTRAND: For the PG&E exchange
25 contract, for example, the figures included in the

1 company's work papers will be trued up to actuals, so
2 to the extent the company will pay lower wheeling
3 charges once it has access from a third AC, those
4 lower charges would be reflected in the true up of the
5 cost item and similarly for the secondary -- excuse me
6 -- for the wheeling rates that the company assumed to
7 pay in those power cost supply work paper
8 transactions.

9 As to the secondary rate, the company's
10 work papers have an assumption that it will -- that
11 there is a five mill difference between power marketed
12 within the northwest and power marketed over the
13 intertie, and that's an estimate of the benefits, but
14 the actual -- the company expects that that will be
15 reflected in actual results, so whatever the actual
16 secondary rates are, which should reflect that
17 benefit, it will be achieved through the true-up of
18 the secondary rates.

19 JUDGE HAENLE: In each PRAM?

20 MR. VAN NOSTRAND: Yes.

21 JUDGE HAENLE: Is the recommendation for
22 treatment in this PRAM proceeding, that is, prior to
23 the next general rate case, different than your
24 preferred treatment?

25 MR. VAN NOSTRAND: As to the third AC?

1 JUDGE HAENLE: Yes.

2 MR. VAN NOSTRAND: I do not believe so.

3 JUDGE HAENLE: Okay. And the other issue
4 is with regard to dispatchability of the new
5 contracts. The company's direct case assumed the
6 displacement of these contracts for certain periods.
7 Is it correct that this displacement was assumed to be
8 a benefit?

9 MR. VAN NOSTRAND: Yes. I think based --
10 well, again, it goes back to this assumption or this
11 reflecting the power cost supply work papers of
12 looking at the average prices of sales on the
13 purchases over a month. Given what the contractual
14 terms provide, it has to be a benefit in order for the
15 parties to agree that a displacement will occur. Now,
16 whether or not when you looked forward, it looks as
17 though it will be of benefit, because of this
18 difference in the purchase and sales rate and
19 projections, it may not appear to be a benefit, but
20 whatever benefit there is is captured in the true-up
21 in the next PRAM.

22 JUDGE HAENLE: What is the company's
23 position regarding the actual displacement benefits
24 that occur during the PRAM period? Should they be
25 trued up then?

1 MR. VAN NOSTRAND: We believe the SDM model
2 as it operates captures, captures these benefits,
3 because the actual secondary rates are used. As to
4 displacement which actually occurred during the PRAM 3
5 period we believe they are picked up through the
6 operation of the SDM.

7 JUDGE HAENLE: So it would not then be
8 trued up?

9 MR. VAN NOSTRAND: What happens in PRAM 4
10 will then be trued up in the next PRAM period. We're
11 saying as to what actually happened as to previous
12 displacements, there is no need for further
13 adjustment, and then the same will happen for what
14 actually occurs in PRAM 4 will be picked up in the
15 next PRAM proceeding.

16 JUDGE HAENLE: Is there a better long-term
17 position regarding these benefits in future
18 proceedings, the dispatchability benefits?

19 MR. VAN NOSTRAND: I think there's been
20 some testimony about the inability of the SDM model to
21 capture these benefits, but it's my understanding from
22 Mr. Lauckhart's testimony on Monday that the SDM, the
23 simple dispatch model, will pick up the actual
24 benefits of displacement, and like I say, it happens
25 through the true-up process. There is confusion when

1 you try to project it, and I think that's why staff
2 and the company reached the agreement that we're not
3 going to try to project what displacements occurred
4 during the program 4 period; we would just allow
5 the actual results to be reflected in the next PRAM
6 proceeding. So I think we feel that the SDM will
7 adequately reflect these actual results.

8 JUDGE HAENLE: Thank you. That's all I
9 have. You said you wanted to wait with your questions
10 then?

11 Ms. Johnston.

12 MS. JOHNSTON: Thank you. Good afternoon.
13 The Commission should grant Puget an increase for PRAM
14 4 not to exceed \$45,446,815 or, in other words,
15 \$10,095,599 less than the \$55,542,414 filed for by the
16 company in its rebuttal case. The Commission should
17 approve staff's total adjusted PRAM deferral balance
18 as of April 30, 1994 of \$82,052,443 for recovery in
19 rates using the first in/first out method within two
20 years after December 31st of the year in which they
21 were booked. Staff's recommendations affecting rates
22 beginning October 1, 1994 are depicted and compared
23 with the company's case in Exhibits 64, 65 and 66.

24 I've organized my presentation today into
25 two parts. I will first address issues which have

1 immediate rate impacts and then issues which will
2 affect rates in subsequent PRAM periods. First, I
3 would like to point out that the 10.1 million
4 differential between staff's and the company's revenue
5 requirements, approximately 10.9 million is due solely
6 to adjustments related to proposals by staff in the
7 prudence case. I will not spend a lot of time on this
8 particular issue here, but do recommend that if the
9 Commission accepts staff's proposal in that case, the
10 Commission also accept the implementation of the
11 impacts on rates in the manner presented by staff in
12 this docket.

13 With regard to power supply issues, there
14 are two remaining issues between the staff and
15 company. The company updated its estimates of
16 projected costs of purchasing power from the
17 Washington Water Power Company resulting in a \$412,200
18 power cost increase over the company's original
19 filing. The Commission should reject this update.
20 The procedure provided guidance on inputs and true-ups
21 to the SDM model provided that projections for this
22 specific power contract shall be computed on the
23 quantity megawatts based on, quote, best estimates
24 priced at contract rates known as of the PRAM cutoff
25 date of April 30. In short, the update of the company

1 at the rebuttal stage violates this procedure and
2 resurrects concerns about parties coming out with
3 their own estimates at various and all stages of the
4 proceeding.

5 Predictability and certainty are key in
6 this context. The parties must be able to rely on the
7 numbers as of the cutoff date. The company must live
8 with those numbers. Mr. Van Nostrand referred to a
9 previous adjustment made by Mr. Winterfeld in another
10 docket, and on this point I would just like to state
11 that Mr. Winterfeld's adjustment in that case was
12 based on reasons peculiar to that case and was in no
13 way precedent setting.

14 Due to the abbreviated schedule of the PRAM
15 proceeding, this late update put the staff and other
16 interested parties at a great disadvantage because of
17 very limited, if not impossible, opportunity to
18 conduct discovery and perform any analysis. Updates
19 made after the cutoff date, especially for a contract
20 that will not be trued up to actuals, such as this
21 contract, defeat the very purpose of the cutoff date
22 which is in part to put an end to discovery. Puget
23 also updated in its rebuttal case the projected cost
24 of wheeling of the Montana intertie to reflect a
25 recent amendment to that contract with BPA. This

1 update is different from the Washington Water Power
2 update insofar as its treatment in the SDM is
3 concerned because this cost is trued up to actual.
4 Although the update results in a decrease of
5 \$1,416,200 in power supply expense, staff is not
6 recommending its approval because it was presented
7 after the April 30th cutoff date. If the amendment
8 will indeed result in a reduction this will be
9 reflected in the true-up process at a later time and
10 such benefit will eventually flow to the ratepayers.

11 Now I would like to turn to some additional
12 power supply issues, the first being the BPA sale. In
13 his testimony in the prudence case, Mr. Winterfeld
14 argued that Puget did not provide information in its
15 prudence filing to prove that its BPA sale was cost
16 effective. Mr. Winterfeld recommended that the BPA
17 sale be addressed in PRAM 4 regarding the issue of
18 risk to ratepayers.

19 At the time of the Commission's order,
20 staff envisioned that it would indeed be able to make
21 a recommendation in this case as to revenue
22 requirement levels. As it stands, staff does not
23 believe that it has adequate information to make this
24 determination. The tracking of light load hours
25 secondary transactions is critical to an evaluation or

1 assessment of the cost effectiveness of Puget Power's
2 decisions with regard to its BPA winter sale. It is
3 particularly important to have the tracking system I
4 just referred to in place since Puget has already
5 opted to reduce the amount of winter energy delivered
6 to Bonneville during the first winter contract period,
7 and to increase the amount of winter energy delivered
8 to Bonneville during the fourth winter contract
9 period, which covers the month of October 1996 through
10 April 1997.

11 This deferral of winter sales obligations
12 will place greater pressure on Puget to perform under
13 this contract and cause Puget to be pressured to move
14 power to BPA that could have been sold elsewhere or
15 perhaps used by Puget itself to serve native load.
16 This tracking system will be instrumental and
17 essential in evaluating the prudence of Puget's
18 decision to enter into this contract in the first
19 place in future rate making treatment. With regard
20 to the third AC intertie entitlement, staff believes
21 that it is important that the transactions there be
22 monitored as well. The parties must be able to
23 evaluate the accuracy of Puget's claims and
24 assumptions benefits which Puget sponsored in its
25 general rate case and PRAM 4 filings.

1 Transactions on the third AC must be booked
2 and reviewed prior to PRAM recovery. This treatment
3 is logical considering, as Mr. Lauckhart testified,
4 Puget has not yet participated in third AC. At this
5 point in time, we don't know yet the level of Puget's
6 participation or the terms of that participation.
7 Nothing has been finalized. As a result, since Puget
8 will not begin ownership and use of its third AC --
9 not begin ownership and use, excuse me, its third AC
10 intertie capacity entitlement until October 1994,
11 it is fair that all costs incurred and revenues from
12 transactions on the third AC be tracked and booked
13 simultaneously for review beginning in PRAM 5 for the
14 months of October 1994 through April 1995. Although
15 Puget has omitted some of its alleged benefits from
16 the third AC from its compliance filing, costs and
17 benefits have not yet begun to be booked. They can
18 still be reviewed.

19 As such, staff recommends all costs and
20 benefits of Puget's intertie entitlement be tracked
21 and evaluated in PRAM 5 prior to cost recovery. This
22 is consistent with the Commission's 11th supplemental
23 order in UE-921262 on the treatment of projected
24 benefits and acceptance of risk in the PRAM to Puget
25 and ratepayers.

1 Given how little we know about Puget's
2 involvement in the third AC, staff is not opposed to a
3 true up during the interim period between now and the
4 next general rate case, with the understanding that
5 this treatment is in no way precedent setting. Staff
6 further recommends that the company be held
7 accountable for and accept the risk that if Puget's
8 utilization of the third AC does not yield anticipated
9 benefits, any shortfall be borne by the company, as
10 Mr. Winterfeld recommended in the general rate case.

11 Another area of contention, significant
12 amount of contention, is the appropriate amount of DSM
13 layer which is added to rate base for recovery
14 beginning October 1994. Puget has agreed that the
15 proper level of disallowance per the Commission's
16 order in UE-921262 is not the general rate case test
17 year level of \$652,000 but rather the rate year level
18 of \$696,700. Although the company accepted some of
19 staff's remaining DSM adjustments in part, we maintain
20 that the Commission should adopt all of staff's
21 adjustments. In its review of conservation rate base,
22 staff identified four areas where adjustment to the
23 company's proposal are necessary. The first
24 adjustment involves expenses associated with
25 conservation advertising. Before I go through each of

1 the adjustments, I would like to point out that these
2 adjustments collectively result in \$459,989 being
3 excluded from rate base.

4 The first adjustment involves expenses, as
5 I said, associated with conservation advertising. For
6 purposes of its analysis, staff divided the
7 advertising costs included by the company in the PRAM
8 4 conservation layer into three categories. Hinton
9 and Steele costs related to advertising campaigns
10 which were aired prior to October 1, 1993, Hinton and
11 Steele costs related to production and service fees
12 for campaigns after October 1, 1993; and advertising
13 costs related to labor, printing, electric
14 associations, contract labor and other miscellaneous
15 expenditures.

16 First, staff recommends that \$80,483 in
17 Hinton and Steele expenses related to an advertising
18 campaign run prior to October 1, 1993 be included in
19 conservation rate base. The company contends that
20 this amount should be increased by \$130,547 because
21 additional advertising, of which staff had not been
22 informed, had occurred prior to October 1, 1993.
23 However, the company's allegations that an advertising
24 campaign continued after May of 1993 are wholly
25 unsupported. The company has not demonstrated that

1 ratepayers received any benefit from this \$130,000 in
2 expenditures. This amount should not be allowed in
3 conservation rate base.

4 Second, staff has recommended that all
5 service fees and production-related expenses incurred
6 from May 1993 through October 1993 for future
7 advertising campaigns be disallowed. The ratepayers
8 have received no benefit from these expenses either.
9 The company cancelled the fall 1993 campaign for
10 which these expenditures were incurred just days after
11 the Commission granted a 2.1 million pro forma expense
12 level for conservation advertising. In the last
13 general rate case, the company argued in its answer to
14 petitions for clarification and reconsideration that
15 the campaign was an integral component of its
16 conservation acquisition, yet there was no mention of
17 the material fact that the campaign had been cancelled
18 by the company 25 days prior.

19 The company contends that since there are
20 four 30-second commercials currently airing on the
21 radio, approximately \$150,000 incurred between May of
22 1993 and October of 1993 related to future campaigns
23 should be allowed in conservation rate base in this
24 case. This cannot be considered reasonable in light
25 of the fact that Hinton and Steele can write and

1 produce nine 60-second commercial for just \$37,000.
2 Under the company's proposal ratepayers would pay
3 \$12,000 per month in agency service fees for the
4 months of May 1993 through October 1993. However, the
5 company agrees that there was no advertising during
6 the months of June, July and August, and has not
7 demonstrated that there was advertising during most of
8 May and all of September. The company's witness, Ms.
9 Smith, stated that it is reasonable to expect that
10 service fees would decline during a period of less
11 advertising activity. This expectation is not
12 reflected in the company's case.

13 Additionally, the company has insured that
14 it will be able to cancel its current campaign in
15 October should the Commission's decision in the
16 prudence review be unfavorable to it, just as it did
17 after receiving significant rate relief in the last
18 general rate case. Apparently this cancellation could
19 take place with impunity.

20 Moreover, the Hinton and Steele document
21 provided in Exhibit 95 proves that the current
22 campaign was designed to boost the company's
23 credibility with its ratepayers and diffuse issues
24 raised by the UTC staff. While the company may
25 contend that this was not its goal in airing the

1 current campaign, Hinton and Steele designed the
2 campaign to boost the company's credibility and the
3 company wholeheartedly accepted and endorsed Hinton
4 and Steele's recommendation. Hinton and Steele
5 recommend using conservation commercials because
6 they're the issues closest to the customers' hearts and
7 wallets. Nowhere is it discussed how the advertising
8 campaign might encourage Puget's ratepayers to
9 conserve electricity.

10 Furthermore, company witness Smith admitted
11 that there is significant overlap between the
12 company's conservation advertising and its promotional
13 advertising as shown in Exhibit 93. WAC 100-480-043
14 specifically states that "no electric utility may
15 recover for any person other than the shareholders
16 of such utility any direct or indirect expenditure by
17 such utility for promotional or political
18 advertising."

19 The Commission should reject Puget's
20 argument that this current campaign has provided
21 benefits to ratepayers and should instruct the company
22 to book all of the costs, both direct and indirect,
23 associated with this credibility enhancing campaign
24 below the line.

25 Third, with regard to the advertising costs

1 unrelated to work by Hinton and Steele, the company
2 has attempted to shift the burden of proof to staff.
3 Despite staff's recommendation that these costs be
4 disallowed from conservation rate base, the company in
5 its direct rebuttal case has provided no detailed
6 analysis of support for including these costs in rate
7 base. With no demonstrated benefit for
8 ratepayers, these costs should not be included in
9 conservation rate base.

10 The second adjustment proposed by staff
11 relates to approximately \$197,116 in expenses which
12 were formerly classified as conservation advertising
13 and as such are embedded in the 2.1 million pro forma
14 expense level in current rates. It is not fair, just
15 or reasonable for ratepayers to pay for these
16 expenditures once in the current rates and again as a
17 rate base item. During rebuttal cross of Ms. Smith,
18 the company accepted staff's adjustments related to
19 empowerment instruction. The empowerment instruction
20 and school presentations are different components of
21 the same activity. Accordingly, the company's
22 acceptance of staff's adjustment to empowerment
23 instruction should also apply equally to the
24 adjustment to school presentation.

25 The company contends that the terms

1 "corporate communications plan" and "conservation
2 advertising" should not be used interchangeably; yet,
3 as shown in Exhibit 50 and testified to by Ms. Kelly,
4 these terms were used interchangeably by all parties
5 throughout the last general rate case. Ms. Smith
6 offers Exhibit 93 as an illustration of the overlap
7 between corporate advertising and the corporate
8 communications plan. However, she admitted during
9 cross-examination that this illustration pertains to
10 the PRAM 4 period, that is, the seven months between
11 the Commission's order in the general rate case and
12 April 1994.

13 The company also admits to reclassifying
14 costs incurred between May 1993 and October 1993
15 related to program-specific brochures from
16 conservation advertising to conservation
17 administration. This reclassification occurred in
18 December of 1993. Despite the fact that this type of
19 expense has been and continues to be a conservation
20 advertising expense, this \$50,000 of expenses remains
21 classified as conservation administration in the PRAM
22 4 layer. According to Exhibit 27 no bill stuffers
23 were sent after May 1993. Here again, the company has
24 not demonstrated that these expenditures provided any
25 benefit to the ratepayer.

1 The third adjustment to conservation rate
2 base recommended by staff relates to \$315,400, which
3 is Puget's share of training and technical assistance
4 expenses associated with the nonresidential energy
5 code. Staff's arguments, contrary to what the company
6 asserts here today, are not merely technical
7 arguments. Staff recommends that these costs be
8 excluded from rate base until the program is approved
9 under schedule 83 and the company has demonstrated
10 that the expenses are reasonable and prudent.

11 Over the past year, staff has hosted
12 several meetings with representatives from the
13 Northwest Power Planning Council, Washington State
14 Energy Office, Utility Code Group, Building and Design
15 2000, all with the specific purpose of discussing
16 staff's needs related to rate recovery for utility
17 funding of the nonresidential code. At each of those
18 meetings staff expressed support for the code, and in
19 September of 1993 staff outlined five concerns upon
20 which staff support for recovery was contingent. To
21 date, over one year later, Puget has yet to meet three
22 out of five of those concerns.

23 First, Puget has not demonstrated that its
24 funding of code is cost effective for Puget
25 ratepayers. The program has yet to be approved under

1 schedule 83. Second, as currently constructed,
2 Puget's ratepayers would be required to pay for three
3 levels of overhead, the first being Puget's overhead,
4 second being Utility Code Group's overhead, the third
5 being building and Design 2000's overhead. This
6 hierarchy of for-profit and nonprofit organizations
7 all funded by ratepayers appears to be an extremely
8 inefficient manner of implementing the code. The
9 company has been aware of staff's concerns in this
10 regard for more than a year, and yet, as I said, no
11 explanation of how ratepayers benefit from this
12 exceedingly absurd situation has been offered. It is
13 also disturbing that Puget has booked to rate base 100
14 percent of the president of UCG's labor yet Puget's
15 share of UCG expenditures is only 28.8 percent. The
16 company has admitted that the information provided
17 regarding budgets and expenditures does not allow
18 staff to determine what percent of these expenditures
19 relate to administrative overheads. Staff has
20 requested a detailed breakdown of expenses associated
21 with the UCG, yet even the supplemental response
22 provided in Exhibit 99 provides only summary totals.

23 Third, the disparity between Northwest
24 Power Planning Council's initial estimate of \$500,000
25 per year for training and technical assistance and the

1 4.1 million dollars signed contract between the UCG
2 and B and D 2000 for training and technical assistance
3 over three years warrants explanation. The company
4 has not yet explained why the costs of training and
5 technical assistance tripled in a one-year time frame.

6 Finally, during rebuttal cross-examination
7 Ms. Smith expressed dissatisfaction with staff's
8 responses to data requests related to the NREC. These
9 responses were provided to the company prior to the
10 prefiling date of rebuttal testimony, yet the company
11 neither notified staff of its dissatisfaction nor
12 issued supplemental requests. Once again, the company
13 is attempting here to shift the burden of proof to
14 staff, a burden which the company rightly bears.

15 The final adjustment proposed by staff
16 relates to \$100,133 in miscellaneous administrative
17 expenses. In the company's rebuttal case, witness
18 Smith provides no testimony on the majority of these
19 expenses and offers no new evidence on others. The
20 company has not responded to staff's concerns that
21 these expenses are remotely related to conservation
22 and has not demonstrated that there is consistent
23 treatment of these expenses between supply- and
24 demand-side resources. If DSM is to compete with
25 other supply-side resources, expenses such as those

1 identified by staff should not be allowed in
2 conservation rate base. It makes conservation more
3 costly than it actually is.

4 I beg your indulgence, Your Honor. May I
5 continue to discuss items with future rate impacts? I
6 recognize that my time is up.

7 JUDGE HAENLE: Yes, go ahead.

8 MS. JOHNSTON: Thank you. For the reasons
9 detailed in staff's testimony, Puget's proposal for
10 actual cost recovery for items moved from the base to
11 the resource categories should be rejected. The
12 company neither rebutted nor cross-examined the staff
13 on this issue. What has become a perennial issue it
14 seems is the company's request for interest on PRAM
15 deferrals. The company's continued attempts to
16 acquire additional rate relief this time based on
17 unadjusted reports of actual rates of returns that are
18 riddled with errors and nonrecurrent events evidences
19 the company's appetite for more money. Puget wants a
20 guarantee that its shareholders will reap more and
21 more benefits in addition to the unique benefits the
22 PRAM mechanism offers. Instead of cherishing the
23 deferrals arising from the PRAM as regulatory
24 endowment, the company is saying that it's not enough.
25 The company wants to refer the burden to ratepayers

1 who are designated to unilaterally to shoulder the
2 brunt of such deferred assets under the current
3 scheme. Puget wants the Commission to give the
4 regulatory asset now, to order the ratepayers to reach
5 deeply into their pockets in order to give the company
6 and its shareholders the promised regulatory benefits
7 without delay and that if that can't be done there
8 should be a penalty for the untimely execution of a
9 promise.

10 The company's request to accrue interest
11 on deferrals should again be rejected. Although staff
12 has presented the testimony and in cross-examination
13 the valid bases for such a rejection, I will highlight
14 some of those points. Unadjusted rates of return
15 figures based on inaccurate and misleading data are
16 not the standard by which rate relief is granted. The
17 data used to calculate the reported returns on rate
18 base are riddled with errors and not adjusted to a,
19 quote, Commission basis, end quote. Rate base has
20 been overstated by the presence of plant items which
21 this Commission explicitly disallowed and items that
22 do not belong in rate base, for example, the debit
23 balances and the residential exchange account. NOI
24 has been diminished by financial accounting standard
25 requirements, not rate making standards to account for

1 voluntary separation and enhanced separation programs
2 which are extraordinary nonrecurring events. Interest
3 on PRAM deferrals is no different from the debt costs
4 included in the return on rate base which is already
5 embedded in rates that the ratepayers are currently
6 paying.

7 The company has not presented any
8 analytical evidence to Commission standards that would
9 even tend to show that the provision in rates for cost
10 of money is insufficient to give the company its
11 opportunity to earn its authorized rate of return.
12 To the contrary, the evidence in the record shows
13 that there are positive indicators that the company
14 will over-earn the authorized level. Most significant
15 are the company's actions to curtail operating costs
16 without passing on to ratepayers the resulting
17 benefits. Rather, the allowance in rates for these
18 declining costs continues to grow and ratepayers
19 continue to pay assumed escalation. Compared with
20 levels embedded in the last general rate case,
21 transmission and distribution expenses actually
22 declined; production rate base actually declined;
23 advertising expenses actually declined; administrative
24 and general expenses actually declined; yet the
25 allowed revenues intended to cover such expenses

1 continued to escalate with the increasing numbers of
2 customers.

3 The perceived relative decline and the
4 actual unadjusted rates of return is expected and in
5 fact mandated by this Commission based on its findings
6 in the recent general rate case that the company is
7 entitled to earn a rate of return of not 10.16 but
8 8.94. The company perceived this drop in the
9 authorized rate of return as drag on its earnings but
10 admits that it is not seeking to increase the
11 authorized level in this proceeding.

12 JUDGE HAENLE: Chairman has indicated just
13 five more minutes.

14 MS. JOHNSTON: Thank you. The company's
15 expectation that the bottom line earnings would suffer
16 is illusory and nothing more than mere unfounded
17 pessimism. The actual rates of return and earnings
18 figures, besides being inaccurate as previously
19 discussed, do not contain the annualized or full
20 effects of the rate relief that was granted the
21 company in October of 1993. It is unwise to draw
22 conclusions on partial results of such a rate increase
23 without taking into account the full year impacts.

24 The company's proposed plan to accrue
25 interest contemplates applying a return on deferrals

1 as soon as incurred even prior to Commission review
2 and approval of the deferred amounts. Such a plan
3 obviously sidetracks regulatory scrutiny, especially
4 if one takes into account that the magnitude of
5 deferral balances can be rendered flexible because of
6 cutoff dates, customer true-up methods and shaping
7 factors.

8 The Commission acceded to the concerns of
9 the company when it recognized the need to collect
10 deferrals within two years following the period of
11 booking the deferral. The company seems to discount
12 that accommodation as well as the fact that it was
13 granted with the proviso that no interest on balances
14 is to be accrued. Should interest be calculated, and
15 staff believes that it should not, the collection
16 period not be confined to two years. In addition, the
17 revenue requisition should be postponed to the actual
18 time of collection. Thank you very much.

19 JUDGE HAENLE: Commissioners, did you want
20 to wait questions on this one as well?

21 I think you've answered the questions that
22 were in my first set. With regard to the second set
23 of questions and the dispatchability of new contracts,
24 is it correct that the displacement was assumed to be
25 a benefit?

1 MS. JOHNSTON: Well, apparently Puget never
2 forecasted displacement in the past PRAM proceedings
3 or in the last general rate case so I can't answer
4 that question.

5 JUDGE HAENLE: What is the position of the
6 staff regarding the actual displacement benefits that
7 occurred during the PRAM period? Should they be trued
8 up, and if so, how?

9 MS. JOHNSTON: Staff recommends that true-
10 ups only be allowed after review of actual
11 displacement.

12 JUDGE HAENLE: And how often would that
13 occur?

14 MS. JOHNSTON: Every PRAM period, Your
15 Honor.

16 JUDGE HAENLE: And does the staff have a
17 recommendation about any better long-term position
18 regarding the benefits of displacement and future
19 proceedings?

20 MS. JOHNSTON: Not at this time, Your
21 Honor.

22 JUDGE HAENLE: Thank you. Mr. Manifold.

23 MR. MANIFOLD: I have five points to cover
24 in my comments. A preliminary one, which is zero on
25 my outline, not number one, is that as you noticed in

1 our presentation we did not include the effects of the
2 prudence case. As you might imagine, this does not
3 mean an abandonment of our prudence case and will
4 obviously have to be worked into your decision. One
5 comment on the staff case in that regard, and that
6 is, they assumed, or they presented in their case that
7 the money that was -- is being collected until the end
8 of this month subject to refund be refunded over a
9 two-year period rather than a one-year period. Our
10 preference would be for a one-year period unless that
11 creates such a rate shock or earnings shock that a
12 two-year spreading out of that amount is necessary.
13 Without knowing the quantity of that I cannot make a
14 specific recommendation on it, but we would certainly
15 assume that since it was collected over one year it
16 would be returned over one year, or that portion of it
17 that is returned.

18 The first point I want to deal with from
19 our case regards the deferral period. I think the
20 questions that were just asked, the period from May of
21 1993 to April 1994, the cogeneration projects were
22 displaced on some occasions, and that's incorporated
23 in Puget's case. There are other occasions in which
24 the data that Puget has provided indicates that they
25 should have been displaced, and so we made inquiries

1 as to why they were not. There did not seem to be any
2 adequate reasons for why they were not displaced.
3 Basically, if I may characterize the answers, "we
4 didn't displace them because it didn't look good at
5 the time and we don't have any data to show you about
6 why we made that decision at the time."

7 As you might imagine, this does not strike
8 us as a very good rate making standard. The benefits
9 of these contracts -- that all of the parties, I think
10 assumed during a prudency review -- included the
11 limited amount of dispatchability that the contracts
12 do have. What we're seeking to do by this adjustment
13 during the deferral period is to hold those contracts
14 to that standard. This is, as the company has
15 indicated, approximately a \$380,000 issue.

16 All regulation is incentive regulation.
17 There is an issue of how detailed do we have to get in
18 looking at every day's dispatch decisions by the
19 company. I'm not particularly eager to do that. I
20 don't think that the Commission should be particularly
21 eager to do that either. What needs to be done,
22 though, is to have the expected decisions captured in
23 rate making so that the company has the appropriate
24 decisions. I think that this adjustment accomplishes
25 that.

1 The second issue concerns the next -- well,
2 second issue concerns the projection period,
3 projection of revenues during the period starting the
4 first of next month. The first issue concerns the
5 Sumas contract, an amendment to that contract which
6 provides for a greater benefit to Puget than it had
7 originally negotiated. We have included that in our
8 testimony and that is approximately a \$200,000 issue,
9 Exhibit T-68, page 12.

10 The second subissue under projection is
11 this issue of the -- is the issue of projecting the
12 dispatchability of the cogeneration contracts during
13 the next year. In its direct case Puget projected
14 that they would be dispatched approximately 16 percent
15 of the time. As Ms. Johnston just indicated, this is
16 a new issue. This has not been presented before
17 because it didn't need to be presented before. It has
18 been our testimony that the simple dispatch model
19 cannot adequately recognize the -- all of the
20 transactions that Puget itself necessarily and does
21 recognize in its decision making. The simple dispatch
22 model -- and it switches as to the first name at
23 least, very aptly named it appears in this regard --
24 simply is not that sophisticated. What we have
25 recommended doing is projecting the amount of those --

1 taking Puget's projection of the amount of those
2 displacements and putting that into the PRAM 4
3 projection aspect. Staff and the company have agreed
4 that maybe it's better just not to project these
5 displacements at all. I could accept that if and only
6 if the actual experience were trued up in PRAM 5, and
7 when I say actual experience I mean what really
8 happens, not a true-up using the simple dispatch
9 model. I was perhaps a little naive; when I
10 originally heard these terms I thought that true-
11 up meant true up to what actually happened. I have
12 come to understand that when the word "true-up" is
13 used in these PRAM proceedings that is not necessarily
14 what the term means. A true-up means running the
15 simple dispatch model again using different and actual
16 input values. You still get the results of the simple
17 dispatch model even in that true-up process. As you
18 may recall, staff witness Mr. Moast agreed on
19 cross-examination that it would be appropriate -- if
20 the cogeneration displacement is not projected that it
21 would be appropriate to true that up and to true it up
22 not just using the simple dispatch model but truing it
23 up to reality.

24 Third issue concerns the intertie. In
25 Puget's decision to purchase the intertie and in

1 support of that decision to this Commission, it
2 planned on using its portion of the intertie to do two
3 things, one to market its own surplus energy, and
4 number two to market the surplus energy of other
5 people; whether that's purchased first or simply done
6 as a transmission operation doesn't matter for these
7 purposes. In the compliance filing apparently neither
8 of these showed up. In this case, in the PRAM case,
9 Puget is assuming only use of the intertie for the
10 first purpose, that is, sale of its own surplus. We
11 can reasonably expect that it is going to use it for
12 the sale of other people's surplus; at least that's
13 why it said it purchased the item.

14 Dr. Blackmon therefore assumed, on the
15 basis of no other information to assume, that they
16 would use their entire amount of the intertie that
17 they had purchased, the 100 percent of the capacity.
18 He made an adjustment based upon that which is about
19 11.4 million dollars. I should put a footnote here,
20 if one can do that orally, that if the displacements
21 are not projected in the last item I spoke to, that
22 does affect the intertie, the amount of energy
23 available to sell on the intertie and Dr. Blackmon's
24 adjustment worked back through the calculation he's
25 done, I understand would be about 8.2 million dollars.

1 The issue here, it seems to me, is that the company,
2 while it has projected approximately 72 percent use of
3 the intertie, has not projected any use of it for one
4 of the purposes for which it obtained the resource.
5 It presumably will use it for some other purpose and
6 something should be implied for that.

7 Now to perhaps anticipate the question on
8 true-ups. Again, if this is going to be really trued
9 up, then, fine. No big deal. If it is not going to
10 be really trued up -- and by "really trued up," as you
11 may know or take, I mean to actuals, not to simple
12 dispatch model use -- if it is not going to be really
13 trued up then we will have left something out of the
14 calculation of actual revenues if we don't make some
15 projection of use of the intertie for that purpose.

16 One last point on the intertie and that is
17 that the adjustment -- this adjustment for projected
18 use of the intertie is not covered by the 2.3 million
19 dollar adjustment in the general rate case for
20 within-month transactions as testified to by Dr.
21 Blackmon that that was his suggested adjustment in the
22 general rate case. As he indicated on the stand here
23 he did that based upon the historical experience of
24 Puget, and historically Puget has not owned anything
25 of the intertie so it per force could not include any

1 intertie use.

2 Fourth issue I would like to address is
3 interest. I have a little sense of deja vu because I
4 seem to recall that last year when we were here public
5 counsel was proposing an adjustment and the company
6 said that it was inappropriate to change the PRAM
7 process outside of the evaluation process or a general
8 rate case. This year the company has proposed a
9 change in the PRAM process by its proposal to include
10 interest. As a first matter, I think it should be
11 rejected because it's out of order. It should be
12 either suggested during the general rate case or
13 included as one of the items -- I'm going to do it now
14 -- in the collaborative that is discussing the
15 PRAM evaluation.

16 As our testimony indicated, and I guess a
17 little bit echo the earlier comments, PRAM is already
18 assisting the company to moderate its weather and
19 power expense fluctuations. The granting of the PRAM
20 itself is wholly discretionary to the Commission, and
21 it appears to us that Puget is simply asking for more
22 of what is already a discretionary item. In terms of
23 its -- Puget's assertion that this is an item that is
24 much more expensive to it at this point than that
25 which was included in the last general rate case, that

1 simply brings up the usually rejected issue of taking
2 one cost or expense issue out of an overall cost of
3 service and claiming that this one has gone out of
4 control without the ability to look at all of the
5 other offsetting cost of service issues that one would
6 normally examine in a general rate case.

7 My last item, number five, concerns
8 conservation and advertising. As you know, we have
9 addressed this, public counsel has addressed this
10 issue a lot in the past. We do not in this case; we
11 left that to the staff, which seems to me has done a
12 very able job on a complex and seemingly unimportant
13 because of the number of dollars, but I think based
14 upon both the comments of Puget and staff this morning
15 is an issue that may not have a large number of
16 dollars compared to some of the things that we
17 consider but that has some important policy
18 ramifications.

19 We concur with the approach that staff has
20 taken in this and are particularly troubled by the
21 apparent lack of candor in reporting the exact status
22 of advertising expenses during the last case. That
23 concludes my comments.

24 JUDGE HAENLE: I think you've answered the
25 two sets of questions that I had been asking of the

1 other parties, but I did have one question about an
2 alternative that Mr. Blackmon in his testimony
3 describes for dealing with displacement where the
4 simple dispatch model would be modified so that
5 true-ups are based on simulated displacement decisions
6 rather than on actual decisions. Mr. Blackmon
7 describes this as the same treatment as that of
8 Puget's coal plants. I would like to ask you a couple
9 of questions about how that would work if you could
10 answer them, I hope.

11 MR. MANIFOLD: See.

12 JUDGE HAENLE: Is this an alternative
13 something that could be ordered in this case or is it
14 just a suggestion for the future?

15 MR. MANIFOLD: I can't answer that.

16 JUDGE HAENLE: Do you know how he would
17 recommend or you would recommend how this change would
18 be implemented or how it ought to work?

19 MR. MANIFOLD: Well, I think the reference
20 to the coal was simply to indicate that the type of
21 analysis he was performing was not strange. It was
22 the type of rate making treatment that is given as to
23 other resources.

24 JUDGE HAENLE: So you don't know whether
25 this record contains the information that the

1 Commission would need if it decided to try to
2 implement that at this point?

3 MR. MANIFOLD: I can't answer that off the
4 top right now.

5 JUDGE HAENLE: That's all I had, then. Do
6 you want to ask your questions of the counsel before
7 he does his rebuttal?

8 CHAIRMAN NELSON: One. Just to be clear,
9 Mr. Manifold, with respect to the conservation
10 advertising, do you also concur with staff's
11 recommendation for the treatment of the commercial
12 code in this PRAM?

13 MR. MANIFOLD: Yes. I think all the
14 parties support the commercial code. It's a very
15 cost-effective way to obtain conservation. One pundit
16 compared the Puget's proposed proposal in this case to
17 taking a very cost-effective resource and making it a
18 cost-effective resource.

19 CHAIRMAN NELSON: Thank you.

20 COMMISSIONER HEMSTAD: For Mrs. Johnston, I
21 believe Mr. Van Nostrand made the point with regard to
22 the code limitation expenses that I think,
23 paraphrasing, that it would be irrelevant, at least to
24 this proceeding, whether it was included in schedule
25 83 or not. Is it your position that that has to be

1 decided first as to whether this is a schedule 83
2 expense before it would be eligible for PRAM
3 treatment?

4 MS. JOHNSTON: Yes. That's staff's
5 position.

6 COMMISSIONER HEMSTAD: Why?

7 MS. JOHNSTON: You mean what is peculiar or
8 sacred about schedule 83 so that we would need to know
9 these expenses?

10 COMMISSIONER HEMSTAD: Yes.

11 MS. JOHNSTON: Well, I suppose,
12 Commissioner Hemstad, that the most basic response to
13 that would be that once a program appears in schedule
14 83 it's been proven to pass the TRC test, and in this
15 particular circumstance that hasn't happened yet for
16 Puget.

17 COMMISSIONER HEMSTAD: Okay.

18 JUDGE HAENLE: Did you have additional
19 questions before we take Mr. Van Nostrand's rebuttal?

20 MR. VAN NOSTRAND: Thank you, Your Honor.
21 I really have no additional comments to add to what I
22 said earlier. I do find it necessary to correct a
23 characterization of the record concerning the issue of
24 the company's projected use of the third AC intertie
25 when it performed its economic analysis. The

1 impression seems to be created that the company itself
2 assumed it would use the analysis 100 percent of the
3 time and therefore Mr. Blackmon's adjustment does
4 nothing more than restore to this proceeding the
5 estimates that the company itself made. This issue
6 was precisely the one covered with my recross of Dr.
7 Blackmon at transcript page 249 where I asked him,
8 "What assumed levels of intertie loading were made by
9 Puget when it did its analysis?"

10 His response, "In the general rate case
11 there was -- I don't have the exact number but I think
12 it was in the range of 70 to 80 percent use.

13 "QUESTION: But it's not the 100 percent
14 that you are assuming here for purposes of your
15 adjustment, was it?

16 "ANSWER: No, it's not."

17 So I do not want to leave the Commission
18 with the impression that the company itself assumed
19 100 percent loading of the intertie. The assumption
20 is absurd, and the company itself certainly didn't
21 make it, and it's misleading to suggest that the
22 public counsel adjustment does no more than restore
23 numbers that the company itself assumed. That's
24 really all I have to say, Your Honor.

25 MR. MANIFOLD: If I may, I think I can

1 enter into some agreement on that so you don't have
2 any more duties, I guess. I did not understand any of
3 our presentation to suggest that Puget's original
4 analysis was 100 percent loading of it, so if that was
5 an implication of my comments, it's certainly not one
6 that was intended.

7 JUDGE HAENLE: Additional questions,
8 commissioners?

9 COMMISSIONER HEMSTAD: Just pursuing that
10 point. Why would Mr. Blackmon conclude that there
11 would be a 100 percent utilization of the intertie?
12 Is that just a plug for want of a better number?
13 It seems to me to be a bit far-fetched to expect 100
14 percent utilization, or is that used simply for want
15 of a better number?

16 MR. MANIFOLD: Do you have available to you
17 Exhibit 72?

18 COMMISSIONER HEMSTAD: Is that in the
19 rebuttal?

20 MR. MANIFOLD: It was in Blackmon's
21 original testimony.

22 JUDGE HAENLE: We have it here.

23 MR. MANIFOLD: Page 3 of that exhibit is
24 where he made the calculations that you're asking
25 about, and it's my understanding that your last

1 supposition is the correct one. In the absence of any
2 better information he assumed they would use it all of
3 the time. That's what he does on this page. He takes
4 their total amount that they purchased, subtracts the
5 amount that is known to be used for various purposes
6 and then at line 5 comes up with the -- excuse me,
7 at line 6 -- with the unused intertie capacity, and
8 the process of that is to take the whole 400
9 megawatts, take out the PG&E exchange, because we know
10 they're going to use it for that, get the net intertie
11 capacity. Puget has said they're going to use it for
12 the marketing of their own surplus, so take that out,
13 and then the rest is what's left available, and then
14 he was left with, okay, so how much of that are they
15 going to use? In the absence of any other information
16 he used 100 percent. In your judgment you could
17 decide it's 50 percent or whatever.

18 COMMISSIONER HEMSTAD: That's all I have.

19 JUDGE HAENLE: Commissioners, other
20 questions?

21 CHAIRMAN NELSON: No, thanks.

22 JUDGE HAENLE: Anything more to come before
23 the Commission at this time then? The hearing will be
24 adjourned then and a Commission order will issue.

25 (Hearing adjourned at 2:50 p.m.)