

00299

1 BEFORE THE WASHINGTON UTILITIES AND
2 TRANSPORTATION COMMISSION

3

4 In the Matter of the) Docket No. UE-990267
Application of)
5) Volume V
PUGET SOUND ENERGY, INC., for) Pages 299-420
6 (1) Approval of the Proposed)
Sale of the Colstrip Generating)
7 Units, and (2) Authorization)
to Amortize Gain Over a)
8 Five-Year Period.)

9

10

11 A hearing in the above matter was
12 held on July 16, 1999, at 9:00 a.m., at 1300
13 Evergreen Park Drive Southwest, Olympia, Washington,
14 before Administrative Law Judge MARJORIE SCHAER, and
15 CHAIRWOMAN MARILYN SHOWALTER, COMMISSIONER WILLIAM R.
16 GILLIS, and COMMISSIONER RICHARD HEMSTAD.

17

18 The parties were present as

19 follows:

20 PUGET SOUND ENERGY, INC., by
Matthew R. Harris, Attorney at Law, Summit Law Group,
21 1505 Westlake Avenue North, Suite 300, Seattle,
Washington 98109, and Kimberly J. Harris, Attorney at
22 Law, 411 108th Avenue N.E., OBC-15, Bellevue,
Washington 98004-5515.

23

INDUSTRIAL CUSTOMERS OF NORTHWEST

24 UTILITIES, by S. Bradley Van Cleve, Attorney at Law,

Duncan, Weinberg, Genzer & Pembroke, P.C., Suite

25 2915, 1300 S.W. Fifth Avenue, Portland, Oregon,

97201.

00300

1

THE COMMISSION, by Robert Cedarbaum,
2 Assistant Attorney General, 1400 South Evergreen Park
Drive, S.W., P.O. Box 40128, Olympia, Washington,
3 98504.

4 PUBLIC COUNSEL, by Robert Manifold,
Attorney at Law, 6933 Via Valverde, La Jolla,
5 California 92037.

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24 Barbara L. Spurbeck

25 Court Reporter

00301

1

2

3

INDEX OF WITNESSES

4

5

6

7

8 WITNESS:

PAGE:

9 JIM LAZAR

10	Direct Examination by Mr. Manifold	309
11	Cross-Examination by Mr. Harris	314
12	Examination by Chairwoman Showalter	365
13	Examination by Commissioner Hemstad	369
14	Examination by Chairwoman Showalter	374
15	Examination by Commissioner Gillis	381
16	Examination by Judge Schaer	387
17	Redirect Examination by Mr. Manifold	392
18	Voir Dire Examination by Mr. Harris	408
19	Redirect Exam. (Continuing) by Mr. Manifold	412
20	Recross-Examination by Mr. Harris	415

21

22

23

24

25

00302

1

2

INDEX OF EXHIBITS

3

4 EXHIBIT:	MARKED:	OFFERED:	ADMITTED:
5 Number 56	304	--	304
6 Number T-57	308	310	310
7 Number 58	308	310	310
8 Number 59	311	314	314
9 Number 60	311	322	322
10 Number 61	311	327	327
11 Number 62	312	withdrawn	
12 Number 63	312	329	329
13 Number 64	312	333	334
14 Number C-65	312	400	400
15 Number 66	312	344	344
16 Number 67	312	345	345
17 Number 68	313	351	351
18 Number 69	313	351	352
19 Number 70	313	353	354
20 Number 71	313	357	362
21 Number C-72	406	408	411
22 Number 73	412	414	415
23 Number T-74	419	419	419
24 Numbers 75 and 76	419	419	419
25			

00303

1 JUDGE SCHAER: The hearing will come to
2 order. This is a hearing in Docket Number UE-990267,
3 Application for approval of the proposed sale of
4 Colstrip facilities, filed on behalf of Puget Sound
5 Energy.

6 Today's date is July 16th, 1999. We are
7 meeting in Room 108 of the Washington Utilities and
8 Transportation Commission. My name is Marjorie
9 Schaer, I'm presiding. The Commissioners are also
10 presiding in this proceeding, and I believe that all
11 of the appearances are the same as yesterday's.

12 As preliminary matters this morning, we
13 have a number of replaced exhibits, cleaned up
14 exhibits, expanded exhibits, one response to a bench
15 request. So I would like to note that Exhibit 36,
16 which is the response to Puget Sound Energy Data
17 Request Number 14 has been replaced by a complete
18 copy of the response that's been furnished by Staff.

19 Exhibit 47, which is a response to Puget
20 Sound Energy Data Request Number Three has been again
21 replaced by a complete response provided by
22 Commission Staff.

23 MR. CEDARBAUM: That's right. It's all
24 been put into the record, since there was a
25 cross-reference to our response to 16, and I think

00304

1 Exhibit 36 we included in the response to 16, as
2 well, in 36.

3 JUDGE SCHAER: Okay. Have you seen that,
4 Mr. Harris or Ms. Harris?

5 MR. HARRIS: It was passed out. I haven't
6 had a chance to look at it.

7 JUDGE SCHAER: Why don't you look at it
8 right now. I don't expect there will be a problem,
9 but let me know.

10 We have received a copy of Exhibit C-53,
11 which has been photocopied in color paper and marked
12 correctly to be a confidential exhibit in this
13 proceeding, and we have received a copy of Bench
14 Request Number Four from Mr. Martin, and I have
15 numbered that as Exhibit 56 for identification. Does
16 anyone have any objection to that being entered into
17 the record? Hearing none, that document is admitted.

18 Is there anything else of a preliminary
19 nature that we need to discuss before we start with
20 our first witness of the morning?

21 MR. CEDARBAUM: I have a copy of Mr.
22 Story's response to Record Requisition Number One,
23 Exhibit Number 20. I don't remember if that was just
24 distributed this morning or yesterday.

25 MR. HARRIS: That was distributed this

00305

1 morning, also.

2 MR. CEDARBAUM: So that might be a
3 housekeeping thing.

4 JUDGE SCHAER: Okay. Would you show me
5 what that looks like, please, Mr. Cedarbaum? I need
6 to find mine. Okay, thank you. Mr. Harris, have you
7 been provided with a copy of that document?

8 MR. HARRIS: Yes, and you can have another
9 right now.

10 JUDGE SCHAER: I took some stuff out of
11 here, because I was getting buried. We've also
12 received a response to Record Requisition Number One,
13 which is Exhibit 20. And would you like this to
14 replace what's currently Exhibit 20, or how are we
15 going to treat this document?

16 MR. MANIFOLD: I don't think there is an
17 existing 20. I think this was pre-numbered as
18 Exhibit 20 in order to let it come in. And we'd like
19 to hold off on this, because we haven't looked at it
20 yet, before putting it in.

21 JUDGE SCHAER: We would treat this as we
22 previously discussed. Exhibit 20 is here now and has
23 been admitted, but there is the opportunity for
24 anyone to object if there's anything in Exhibit 20,
25 if anyone raises objection.

00306

1 Now, I have exhibits for Mr. Lazar from the
2 Company. Does any other party have exhibits for Mr.
3 Lazar? Mr. Van Cleve?

4 MR. VAN CLEVE: No.

5 JUDGE SCHAER: Mr. Cedarbaum?

6 MR. CEDARBAUM: No.

7 JUDGE SCHAER: Mr. Manifold.

8 MR. MANIFOLD: Yes, there's some correct
9 errata pages.

10 JUDGE SCHAER: Okay. Would you please pass
11 those out now?

12 MR. HARRIS: Your Honor, before we start
13 numbering those exhibits, just to close the loop, I
14 think it was Exhibit 47 that included the extra data
15 response. We have reviewed that, and it's fine. We
16 have no objection.

17 JUDGE SCHAER: Thank you, Mr. Harris.
18 Okay. Commissioners, what you've got in front of you
19 this morning is we have replacements for Exhibits 36
20 and 47, C-53. We have the response to Bench Request
21 Number Four, which has been numbered as Exhibit 56,
22 and then we have replacements for C-23, 49 and 50.
23 We were just about to begin marking Mr. Lazar's
24 materials.

25 Are you ready to call your witness, Mr.

00307

1 Manifold?

2 MR. MANIFOLD: Yes. Public Counsel would
3 call Jim Lazar.

4 JUDGE SCHAER: Mr. Lazar, will you raise
5 your right hand, please?

6 Whereupon,

7 JIM LAZAR,

8 having been first duly sworn by Judge Schaer, was
9 called as a witness herein and was examined and
10 testified as follows:

11 JUDGE SCHAER: I'm going to mark for
12 identification the following documents. First, let
13 me ask. I know we have corrections to Mr. Lazar's
14 deposition. Is someone going to be -- is that part
15 of your package of materials for Mr. Lazar, or does
16 that need to be added to the materials, Mr. Harris?

17 MR. MANIFOLD: We agreed that Mr. Harris
18 would include this as part of the deposition.

19 JUDGE SCHAER: And is the deposition in
20 this stack of materials you have passed out?

21 MR. HARRIS: Yes, it is. It's the first
22 exhibit. So we'd ask that the corrections be
23 included as part of that exhibit.

24 MR. MANIFOLD: So the first page of
25 corrections I passed out should leave that set and go

00308

1 with the deposition, which is the top Puget
2 cross-examination document.

3 JUDGE SCHAER: I'm going to take the
4 corrections to the exhibit, the deposition, and put
5 them with the depositions, and then we will get into
6 his -- so for Mr. Lazar, I have original testimony,
7 which I'm going to mark for identification as Exhibit
8 T-57. And as part of Exhibit T-57, I am going to
9 include the errata sheet to testimony of Jim Lazar,
10 which was distributed this morning.

11 As Exhibit 58, I'm going to mark the
12 exhibit of Jim Lazar. Is that the only exhibit that
13 you have in here, Mr. Manifold?

14 MR. MANIFOLD: Yes, it is. I would note
15 that in the revisions -- well, there is one page
16 that's revision changes to testimony that we marked
17 as part of Exhibit T-57 and attached to that, but it
18 should be separated, our replacement pages for the
19 two pages in Exhibit 58.

20 JUDGE SCHAER: Okay. So even though 58
21 does not have the JL-1 designation, these pages do?

22 THE WITNESS: And just for errata to the
23 errata, there is a replacement page that is marked
24 page nine, revised 7/8/99. And in fact, it is a
25 replacement for page ten.

00309

1 JUDGE SCHAER: Okay.

2 MR. MANIFOLD: It looks like this.

3 JUDGE SCHAER: I assume Docket Number 269
4 was just a very bad printing slip on the exhibit?

5 THE WITNESS: Yes, on the cover sheet,
6 there's an error in the cause number.

7 JUDGE SCHAER: So I have from you, Mr.
8 Manifold, Exhibit T-57 for identification and Exhibit
9 58?

10 MR. MANIFOLD: Yes.

11 JUDGE SCHAER: Go ahead, please.

12 MR. MANIFOLD: Has the witness been sworn
13 in?

14 JUDGE SCHAER: Yes.

15 MR. MANIFOLD: Sorry.

16 DIRECT EXAMINATION

17 BY MR. MANIFOLD:

18 Q. Mr. Lazar, do you have before you what's
19 been marked as Exhibit T-57?

20 A. Yes, I do.

21 Q. And does that constitute your prefiled
22 direct testimony in this case?

23 A. Yes, it does.

24 Q. Is it true and correct, to the best of your
25 knowledge, with the errata that was distributed and

00310

1 included as part of it?

2 A. Yes.

3 Q. Do you have before you what's been marked

4 as Exhibit 58?

5 A. Yes, I do.

6 Q. And does that constitute your prefiled

7 exhibits in this case?

8 A. Yes, it does.

9 Q. And are those true and correct, to the best

10 of your knowledge, including the two pages that were

11 corrected this morning?

12 A. Yes, it does.

13 Q. Are the corrections that you made to your

14 testimony and exhibits the ones that you noted in

15 your deposition that you would be making?

16 A. Yes.

17 MR. MANIFOLD: Okay. Your Honor, I'd move

18 for the admission of Exhibit T-57 and Exhibit 58.

19 JUDGE SCHAER: Is there any objection?

20 MR. HARRIS: No, Your Honor.

21 JUDGE SCHAER: Those documents are

22 admitted.

23 MR. MANIFOLD: The witness is available for

24 cross-examination.

25 JUDGE SCHAER: Mr. Harris, did you have

00311

1 questions for this witness, or Ms. Harris?

2 MR. HARRIS: Yes. Could we go through and
3 mark for identification our cross-examination
4 exhibits, starting with Mr. Lazar's deposition, which
5 now includes the errata sheet passed out by Mr.
6 Manifold.

7 JUDGE SCHAER: I'm going to mark for
8 identification as Exhibit 59 Mr. Lazar's deposition,
9 including errata sheet.

10 THE WITNESS: I would note, in the errata
11 to errata category, on the corrections sheet, the
12 second correction says page 22, line seven, and it
13 should be page 24, line seven. I had a little
14 confusion with the four-up format.

15 MR. MANIFOLD: It should be page 24, line
16 seven?

17 JUDGE SCHAER: Line 17.

18 THE WITNESS: Line 17.

19 MR. MANIFOLD: Okay, line 17.

20 JUDGE SCHAER: Then I'm going to mark for
21 identification as Exhibit Number 60 a paper authored
22 by Mr. Lazar titled Should Utility Conservation
23 Efforts Continue During A Surplus. Is there a date
24 for this paper, Mr. Lazar? May 3rd, 1984. As
25 Exhibit 61, a document entitled Economics of the

00312

1 Centralia Target Solution by Jim Lazar. Is there a
2 date on this paper, Mr. Lazar?

3 THE WITNESS: There is not.

4 JUDGE SCHAER: As Exhibit 61, a paper
5 entitled Conservation and Resource Development, it
6 was in the People's Power Guide.

7 MR. HARRIS: Is that 62, Your Honor?

8 JUDGE SCHAER: It is, thank you. As
9 Exhibit 63, the response of witness Jim Lazar to
10 first discovery request of PSE. As Exhibit 64, a
11 cover letter from Don Trotter, Attorney General's
12 Office. Attached two memoranda and special contracts
13 as Number C-65. Exhibit of William B. Marcus in
14 Docket Number UE-960195. As Exhibit 66, another
15 portion of the response of Jim Lazar to the PSE first
16 discovery request.

17 MR. MANIFOLD: Your Honor, that is number
18 10. There are sub-numbers on those, so that might
19 help distinguish them.

20 JUDGE SCHAER: That is sub-10, thank you.
21 As Number 67, another response to the first request.
22 This is sub-30.

23 MR. HARRIS: Then the next exhibit, Your
24 Honor, has already been marked and admitted as
25 Exhibit C-43.

00313

1 JUDGE SCHAER: Okay. So you may remove
2 that from the packet. The next page is Exhibit 68
3 for identification. It's titled Power Stretch and
4 Best Practices as Percentage of Associated Costs.
5 Then this indicates that it was a top secret exhibit
6 in the merger proceeding. Is it currently a secret
7 exhibit or confidential exhibit?

8 MR. HARRIS: No.

9 JUDGE SCHAER: I'm going to strike that
10 designation so we don't confuse ourselves. As
11 Exhibit 69, we have a portion, again, of the
12 transcript in the merger hearings, a portion of
13 Volume 14. And as Exhibit 70 for identification, we
14 have another portion of Volume 14. And as Exhibit 71
15 for identification, we have motion of Public Counsel
16 to exclude testimony of Applicant's Witness Heidell.

17 MR. HARRIS: We were going to ask that that
18 be marked as a single exhibit together with the
19 actual testimony of Witness Heidell.

20 JUDGE SCHAER: So we will treat, then, the
21 rebuttal testimony of James Heidell, which was with
22 this, as another portion of Exhibit 71 for
23 identification. Go ahead, Mr. Harris.

24 MR. HARRIS: I'd start by taking care of a
25 housekeeping matter, Your Honor. We'd offer at this

00314

1 time Exhibit 59, which is the deposition transcript
2 of Mr. Lazar's deposition in this proceeding,
3 together with the errata sheet provided this morning.

4 JUDGE SCHAER: Any objection?

5 MR. MANIFOLD: No objection.

6 JUDGE SCHAER: That document is admitted.

7 C R O S S - E X A M I N A T I O N

8 BY MR. HARRIS:

9 Q. Good morning, Mr. Lazar.

10 A. Good morning.

11 Q. Let's talk for a minute about the rate
12 plan. Probably a more pleasant subject than last
13 night's Mariners game, if you saw that?

14 A. My attorney didn't have the same opinion as
15 you, for some reason.

16 Q. About the rate plan or about the Mariners
17 game?

18 MR. MANIFOLD: Objection.

19 JUDGE SCHAER: Sustained.

20 Q. Back to California. Okay. Just so we're
21 clear about what we're talking about, we're talking
22 about the five-year merger rate plan.

23 A. Yes.

24 Q. You understand that? And we're about
25 halfway through that rate plan now, about two and a

00315

1 half years into it?

2 A. Yes.

3 Q. And the plan itself represented a trade-off
4 between customers on the one hand and PSE's interests
5 -- PSE's shareholders' interests on the other hand,
6 didn't it?

7 A. There was more to it than that, but those
8 are the most important factors.

9 Q. In fact, it would be fair to say that
10 customers got their share of the savings in the rate
11 plan period up front in the form of the rate plan
12 itself?

13 A. No, ratepayers got an assurance of rate
14 increases annually over the term of the rate plan. I
15 wouldn't call that necessarily a benefit. It was
16 perhaps a mitigation of potentially greater harm, but
17 that's different than a benefit.

18 Q. Would you agree, though, with the statement
19 that the customers got their share of the savings in
20 the rate plan period up front in the form of the rate
21 plan itself?

22 A. Yes, I mean, to the extent that there are
23 benefits they were assured from the beginning.

24 Q. And the Commission, in its order, agreed
25 that there were benefits associated with the rate

00316

1 plan, didn't they? The Commission, in fact, stated
2 that if past rate changes are any guide to what rates
3 would do in the next five years, the rate plan is
4 beneficial to Puget's customers?

5 A. Yes.

6 Q. Okay. I want to jump to your prefiled
7 testimony, page 21. Are you with me?

8 A. Yes.

9 Q. Okay. And up there at the top of page 21,
10 you start a description of an alternative proposal
11 that would, in your words, flow 100 percent of the
12 benefits to ratepayers under a sale of Colstrip. Do
13 you see that?

14 A. Yes.

15 Q. And then I just have a few clarifying
16 questions. Over on page 22, you talk at the top of
17 the page about an alternative to your proposal on
18 page 21. And on page 22, as I understand your
19 proposal, it's to change rates?

20 A. The alternative proposal on page 22 would
21 be to change rates now.

22 Q. And it would reduce rates 53.9 million per
23 year as a condition of approval?

24 A. That's one of the corrections on my errata
25 sheet, and that's now 44.1 million per year,

00317

1 consistent with the change that was made to page ten
2 of my exhibit, reflecting the 20-year, instead of
3 five-year, amortization of the gain on sale.

4 Q. Because originally, when you put your
5 exhibit together, you put it together with a
6 five-year amortization period, but now you've decided
7 to change that to a much longer amortization period?

8 A. Well, I noted at the time of the deposition
9 that that was an error and that a 20-year
10 amortization would be more appropriate.

11 Q. But you originally put it together with a
12 five-year?

13 A. I originally did the math with a five-year.

14 Q. But back to page 22, one of your proposals,
15 then, to assure that the benefits flow through to
16 ratepayers is to change the terms of the rate plan
17 itself? Let me reword that. Modify the rate plan by
18 imposing a rate decrease?

19 A. It wouldn't modify the rate plan. It would
20 impose a rate decrease. The rate plan would still be
21 in place, providing for one to one and a half percent
22 increases as specified in the rate plan. It was
23 simply, at a point in time, change the base to which
24 those are applied.

25 Q. You would agree with me, though, wouldn't

00318

1 you, that this was a change in rates that was not
2 anticipated by the rate plan itself?

3 A. Yes.

4 Q. On to a new subject. Let's talk about the
5 life of the plants, Colstrip One, Two, Three, Four.
6 As I understand it, one of your critiques of PSE's
7 analysis is that it assumes a plant life that ends in
8 2018. In fact, you make adjustments for that, don't
9 you?

10 A. I propose an end effects adjustment, yes.

11 Q. And by proposing an end effects adjustment,
12 you're essentially saying that the plant should be
13 analyzed as if it was going to have a life that
14 extended past 2018?

15 A. Yes.

16 Q. Okay. And Colstrip One and Two were put in
17 service in the mid-1970s?

18 A. Yes.

19 Q. And Colstrip Three and Four were put in
20 service in the mid-1980s?

21 A. Correct.

22 Q. So in 2018, I did the calculation, Colstrip
23 One and Two will be 43 years old, and Colstrip Three
24 and Four will be about 33 years old, and the average
25 life of the four facilities will be 38 years. Would

00319

1 you accept that, subject to check?

2 A. Yes.

3 Q. Okay. You would agree with me, wouldn't
4 you, that these plants do have finite lifetimes?

5 A. Well, not in the same way that you and I
6 are likely to have finite lifetimes. When -- at some
7 point in time, it will become uneconomic to
8 reconstruct and rebuild us, but that's less certain
9 with respect to a coal plant. There are coal plants
10 in service in this country that date back a very,
11 very long time.

12 I remember when Pacific Power applied to
13 the Commission for approval to sell its share of the
14 output I believe of Colstrip Four to Black Hills
15 Power and Light, we criticized that they were only
16 getting revenue for a 30 or 35-year term. And when
17 we looked at the Black Hills Power and Light resource
18 base, they had coal plants that dated from the
19 twenties and thirties that were still in service and
20 operating reliably.

21 Q. So you disagree with the statement that the
22 plants have finite lifetimes. Would you also
23 disagree with the statement that the
24 generally-accepted lifetime of a coal plant is 35 to
25 40 years?

00320

1 A. I would accept that the generally-accepted
2 economic life of a coal plant without reconstruction
3 is 35 to 40 years. But to get well beyond that, you
4 would probably have to make significant investments
5 to operate the plant on a steady baseload reliable
6 basis longer than that amount of time.

7 Q. So you do agree, then, that the
8 generally-accepted lifetime of a coal plant is,
9 subject to your caveat, 35 to 40 years?

10 A. Yes, and I certainly don't want my answer
11 to be characterized, in rejecting the finite life, to
12 mean that there's an infinite life. There's a finite
13 life, but I don't think 35 to 40 years captures that
14 it could be 70 or 80 or 100 years.

15 Q. Could you take a moment and look at Exhibit
16 60, which is your paper entitled Should Utility
17 Conservation Efforts Continue During a Surplus?

18 A. Yes.

19 Q. And would you turn, please, to page 12 of
20 that paper?

21 A. Yes.

22 Q. Are you with me on page 12? Do you see the
23 paragraph that starts, Power plants have finite
24 lifetimes?

25 A. Yes.

00321

1 Q. And then you go on to say the
2 generally-accepted lifetime of a coal plant is about
3 35 to 40 years. Do you see that?

4 A. Yes.

5 Q. And then you explain further that some
6 plants have operated for much longer periods of time
7 than this, and then you say this is due, in part, to
8 the fact that they are used only sporadically. Do
9 you see that?

10 A. Yes, that was a --

11 Q. You wouldn't characterize Colstrip as a
12 facility that's used only sporadically, would you?

13 A. No, but that kind of use is implied by the
14 end effects analysis that I included in my exhibit,
15 because I had those benefits, even though the benefit
16 per kilowatt-hour was very high at that point, I had
17 the total benefits dropping off very sharply after
18 that time, with the plant going to zero over a
19 10-year period, so --

20 Q. So you assume sporadic use starting in
21 2018, but up until the point of 2018, and in fact,
22 Colstrip, through its life, has not been used
23 sporadically; it's been used on a regular, fairly
24 intense basis?

25 A. Yes, that's correct.

00322

1 MR. HARRIS: Okay. We'd offer Exhibit 60,
2 Your Honor.

3 JUDGE SCHAER: Any objection?

4 MR. MANIFOLD: No.

5 JUDGE SCHAER: The document's admitted.

6 Q. Just to summarize, PSE did choose an
7 analysis period that falls squarely within the middle
8 of the range of lifetime values that you predict for
9 coal plants. It picked a 38-year period for the life
10 of the plant. You say it should last 35 to 40 years,
11 subject to your caveat.

12 A. It's pretty close. I guess I wouldn't
13 describe it as a 38-year average life, because one
14 would weight the average by the capacity of the two
15 plants, perhaps, and --

16 Q. So it might be slightly --

17 A. But it's in the 35 to 40-year range.

18 Q. Okay. Let's talk about carbon tax for a
19 minute. You understand, don't you, that PSE's
20 rebuttal analysis includes scenarios that show the
21 effect of a carbon tax and how that would affect the
22 cost of energy produced by Colstrip?

23 A. Yes.

24 Q. And PSE used an estimate of \$10 a ton for
25 the carbon tax?

00323

1 A. Yes.

2 Q. And would you agree that \$20 a ton would be
3 a reasonable number to use?

4 A. Well, I think that the range of 10 to 40
5 that the Power Planning Council used is
6 representative of the range that analysts use, and 20
7 is well within that range.

8 Q. And \$20 a ton is well within the range
9 proposed by several different states?

10 A. Yes.

11 Q. And that the carbon tax itself is a very
12 real long-run possibility, isn't it?

13 A. Yes, but a carbon credit is, I think,
14 probably an equal possibility.

15 Q. And you would agree that PSE's number, the
16 \$10 per ton number, is a conservative number? It's
17 at the bottom of that 10 to \$40 range?

18 A. Well, I'll agree it's at the bottom of the
19 10 to \$40 range.

20 Q. And if a carbon tax is imposed, you would
21 agree that it would sharply increase the cost of
22 operating Colstrip?

23 A. It depends how it's imposed.

24 Q. If it's imposed without a carbon credit?

25 A. If it's imposed without a grandfather

00324

1 clause, it would increase the cost of operating
2 Colstrip. But when other environmental regulatory
3 efforts have been implemented, such as the sulfur
4 dioxide trading program, existing facilities were
5 grandfathered in. And that would have a completely
6 different impact on Colstrip.

7 Q. Would you take a look at what's been marked
8 for identification as Exhibit 61?

9 A. Yes.

10 Q. Economics of the Centralia Target Solution.

11 MR. MANIFOLD: Before you proceed with
12 this, I was just alerting your Staff that, on my copy
13 at least, page three is blank.

14 MR. HARRIS: Yeah, that's how we received
15 it. If you've got another copy that's not -- I'd be
16 happy to substitute one later, but I'm not going to
17 ask any questions about any pages other than page 11.

18 MR. MANIFOLD: Okay.

19 Q. Do you have that document? I'm sorry.

20 A. Yes, I do.

21 Q. Okay. This was authored by you?

22 A. Yes, it was.

23 Q. And when did you write this document?

24 A. About two years ago.

25 Q. Okay.

00325

1 A. I was contracted by the Environmental
2 Protection Agency to assist them in -- actually, by
3 Mt. Rainier National Park to assist them in the
4 collaborative decision-making process on the
5 Centralia emissions negotiation.

6 Q. And let's turn to page 11. Do you see the
7 section entitled Financial Risk to Owners?

8 A. Yes.

9 Q. Okay. Do you see the paragraph that
10 begins, Imposition of any sort of carbon dioxide tax,
11 energy tax, based on fuel input or other
12 environmental tax not assumed in the Pacificorp
13 analysis would also adversely affect the economics of
14 the plant? That was part of your analysis that you
15 did?

16 A. Yes, that was part of my analysis at that
17 time.

18 Q. And you talk about how a carbon tax of \$20
19 a ton would approximately double the operating costs
20 of the Centralia plant?

21 A. Yes.

22 Q. And then you talk about whether it's a
23 long-run possibility. You identify it as a long-run
24 possibility as the nation struggles to balance the
25 federal budget, which apparently has gotten better

00326

1 recently, but also still needs to comply with the Rio
2 Accords on carbon dioxide emissions?

3 A. Yes, that was what I wrote at that time.

4 Q. And you don't mention in here the credits
5 in the section that you were just talking about?

6 A. No, the notion of a carbon credit is
7 something I actually learned when Pacificorp
8 interviewed me as a possible consultant for them in
9 the sale of Centralia, that they viewed one of the
10 values of keeping the plant that if a carbon program
11 similar to the sulfur program was implemented, then
12 there would be a, if you will, freight to throw
13 overboard. There would be a grandfathered carbon
14 emitter that you could sell the carbon emission
15 rights from, and that created a value to Centralia.

16 But I had not -- sort of a perverse
17 incentive. It was a concept I had not previously
18 considered, but it's exactly what happened with
19 sulfur, and that strategy was confirmed to me by the
20 buyer of Centralia, Transalta (phonetic), in a
21 meeting that I had with -- I sat in on with them a
22 couple months ago.

23 Q. You haven't done any analysis, have you, of
24 the likelihood of some sort of carbon credit being
25 looked at?

00327

1 A. No, I haven't done any analysis of the
2 likelihood of either a carbon tax or a carbon credit.
3 That's a political decision, and they don't -- they
4 lend themselves to a different set of analytical
5 skills that I have as an economist.

6 Q. But you have identified the carbon tax as a
7 long-run possibility and given reasons for that?

8 A. Yes.

9 MR. HARRIS: Okay. I'd offer Exhibit 61.

10 MR. MANIFOLD: No objection. I don't know
11 why there was a blank page three, but if we can find
12 it in the original, we may seek to supplement the
13 record with that.

14 JUDGE SCHAER: Okay. Sixty-one is
15 admitted.

16 Q. Turn to the subject of forecasting itself.
17 You would agree that forecasting is, at best, an
18 inexact science and probably better labeled an art?

19 A. Well, I'm an economist, and we call
20 ourselves the dismal science. Dismal art doesn't
21 sell.

22 Q. I'm sorry, the dismal art --

23 A. Dismal art doesn't sell, so I like to think
24 it's an inexact science, rather than an art.

25 MR. HARRIS: Your Honor, just a

00328

1 housekeeping matter. We withdraw Exhibit 62. We're
2 not going to use that.

3 JUDGE SCHAER: Okay.

4 Q. Saw a quote in the paper on forecasting
5 from Leon Panetta this week, Clinton's chief of
6 staff, his budget director, chairman of the house
7 budget committee. And I just want to see if you
8 agree with this about forecasting.

9 He said, Believe me, we were stretching it
10 when we did five-year projections. Any time you get
11 out beyond a few years, you're in never-never land.

12 A. Is there a question?

13 Q. Yeah, the question -- I'm sorry, I started
14 with the question -- was whether you agree with that
15 statement as a characterization of forecasting?

16 A. I don't agree with that statement, and I
17 think any citizen that buys a house and takes out a
18 30-year mortgage is implicitly disagreeing with that
19 assumption. They're making a judgment that, one, the
20 house will last that long, and two, that it will be a
21 value over a long period of time. I've already
22 agreed that it's an inexact science.

23 Q. By the way, we asked you for the power
24 forecasts that you've done since 1980, didn't we? If
25 you turn to Exhibit 63 --

00329

1 A. Yes.

2 Q. And you responded in Exhibit 63, you
3 objected, you refused to provide the forecasts. You
4 didn't provide any documents in response to this
5 request, and you explained that, quote, "Any power
6 cost forecast in years long ago would be irrelevant
7 today;" correct? That was your response?

8 A. Yes. My response is marked as Exhibit 63.

9 Q. That's right. And the reason that they
10 would be irrelevant, in your view, is because they'd
11 be old and, by now, they would be wrong?

12 A. Well, they're old and, by now, we would
13 supplant them with newer forecasts. There were
14 forecasts done in that era that, by happenstance,
15 proved to be quite accurate. But I would describe
16 that as happenstance. There were many more that were
17 done that were wrong.

18 Q. So your testimony is if they were correct,
19 it would be by accident, by happenstance?

20 A. Well, by happenstance.

21 MR. HARRIS: Okay. We'd offer Exhibit 63.

22 JUDGE SCHAER: Any objection?

23 MR. MANIFOLD: No objection.

24 JUDGE SCHAER: The document is admitted.

25 Q. Here you've taken the Company's analysis,

00330

1 the original analysis supplied with its testimony,
2 and you've revised it; correct? You've made your
3 changes to it, and in JL-1, your exhibit, which is
4 now 58, you present your analysis of the benefits and
5 costs associated with the sale?

6 A. Well, first I replicated it on page six of
7 that exhibit, and then I applied a different discount
8 rate and an end effects analysis to the Company's
9 analysis.

10 Q. You started with the Company's analysis and
11 modified it?

12 A. Correct.

13 Q. And even your analysis shows benefits to
14 customers in the early years, and your analysis then
15 shows that those benefits turn negative as you move
16 towards the out years?

17 A. Yes, the benefits turn negative in about
18 2004, and on a cumulative basis, ratepayers are
19 greatly disadvantaged by the Company's proposal.

20 Q. Would you agree with me that short-term
21 benefits are quite certain and the magnitude of the
22 long-term impacts to ratepayers could be
23 significantly different?

24 A. Yes, the benefits to shareholders during
25 the rate plan period, when the Company has contracted

00331

1 to buy power back from PP&L Global at 20 to 22 and a
2 half mills, are very certain. It's getting rid of
3 something that's costing it more than 30 mills and
4 buying the same thing, essentially, back at a lower
5 price. Those benefits are very certain. And all of
6 the other costs and/or benefits are less certain than
7 the one that's been locked in by contract.

8 Q. The benefits in the early years, the reason
9 you say they're more certain, too, is you have more
10 confidence in the early year forecasts of market
11 power than you do in the out year forecasts of market
12 power?

13 A. No, I have more confidence in the
14 contractual price that is stated in a specific range
15 than I do in market prices, short or long-term.

16 Q. Would you agree with the general
17 proposition that as the length of a forecast
18 increases, so does its speculative nature?

19 A. I wouldn't use it -- I don't think I would
20 prefer to use the term speculative nature.

21 Q. Is a 20-year forecast less certain than a
22 two-year forecast?

23 A. I don't think they're less certain.
24 They're both, I think, equally uncertain. One is
25 exposed to that same uncertainty for a longer period

00332

1 of time.

2 Q. Which one's more likely to be correct?

3 A. I think both of them are equally certain to
4 be incorrect. The chances of forecasting anything
5 perfectly are approximately zero.

6 Q. Which one is likely to be more incorrect?
7 The longer forecast, isn't it?

8 A. The longer forecast is probably more likely
9 to be incorrect, but I don't think we can say whether
10 it would be too high or too low.

11 Q. I'm not -- yeah, that's fine. Here, what
12 will happen in the out years, in the years as we get
13 -- in this 20-year analysis period. I want to ignore
14 your extension of the period beyond 2018. But what
15 will happen in the out years is more uncertain than
16 what will happen in the near and intermediate term,
17 isn't it?

18 A. Generally, I would agree with that, without
19 agreeing that it will be higher or lower.

20 Q. New subject. Did you participate back in
21 the special contract proceedings involving Georgia
22 Pacific or Bellingham Cold Storage?

23 A. Yes, I did.

24 Q. Okay. Could you take a look for a moment
25 at Exhibit 64?

00333

1 A. Yes, I don't recall seeing this document
2 before.

3 Q. Well, I only have questions on -- if you
4 want to take just a moment and look at it,
5 familiarize yourself with it generally, I only have a
6 question on the last page.

7 JUDGE SCHAER: Of the document or the --

8 MR. HARRIS: The document itself. The very
9 last page is a chart that says Puget Power
10 Above-Market Resources.

11 THE WITNESS: Yes. Actually, the last page
12 was prepared by me.

13 Q. Okay. And on that page, you identify
14 Colstrip Three and Four as an above-market resource?

15 A. Yes, and by implication, Colstrip One and
16 Two was not above-market resources and, therefore, by
17 definition, below-market resources.

18 Q. And you identify the excess cost of
19 Colstrip Three and Four, out in that right-hand
20 column, as \$52 million per year; correct?

21 A. Yes, and that, of course, is --

22 MR. HARRIS: That's fine. That's all I
23 asked, is whether that was correct. We'd offer
24 Exhibit 64.

25 JUDGE SCHAER: Any objection?

00334

1 MR. MANIFOLD: Yes, Your Honor. I haven't
2 had a chance to review 64. I noticed my name is on
3 it. It's long enough to know that I don't remember
4 it very well, but if the relevance was the last page,
5 and I think that was the page Mr. Lazar is familiar
6 with and produced, perhaps it would make sense for
7 that to be the page that's marked as an exhibit.

8 MR. HARRIS: We're happy to redesignate
9 Exhibit 64 as that single page. And given the
10 testimony on the record, I think it's been identified
11 as part of Public Counsel's submission in the 1996
12 Georgia Pacific and Bellingham Cold Storage special
13 contract proceeding, fair?

14 MR. MANIFOLD: Uh-huh.

15 JUDGE SCHAER: Do you agree to that
16 characterization?

17 MR. MANIFOLD: Yes.

18 JUDGE SCHAER: I think that's a sensible
19 way to proceed. We will treat this page and this
20 page only as Exhibit 64, and that document is
21 admitted.

22 Q. New subject. Let's talk about what --
23 well, let's talk about the gain on the sale. Part of
24 what's in dispute here is what to do with the gain on
25 the sale.

00335

1 A. Yes, I think that's the smallest part of
2 the disagreement, but it's part of the disagreement.

3 Q. Let's change the facts slightly. Assume
4 that there was a loss instead of a gain on the sale.
5 In fact, we'll make it the same amount. Assume that
6 the loss is \$40 million instead of a gain of \$40
7 million. So we're here arguing about what to do with
8 a \$40 million loss. Will you make that assumption?

9 A. Yes.

10 Q. Consistent with your approach here, will
11 you allocate a hundred percent of that loss to
12 customers?

13 A. I believe I addressed that question or one
14 very similar to it in a deposition, and I'd like to
15 take a moment to review that answer.

16 Q. You addressed it -- not quite exactly the
17 same, but you did address it at pages 35 and 36 in
18 your deposition, line 19 through six, if you want to
19 review that.

20 A. Yes, I see that. And now having reviewed
21 that and to answer your question, on a \$40 million
22 loss, no, that would have to be examined to see if
23 the shareholders had been compensated for that risk.

24 Q. And what conclusions would you draw, if
25 any? I mean, how would that come out?

00336

1 A. Well, in this situation involving Colstrip,
2 if that were the case, I would conclude that the
3 shareholders had been compensated for that loss,
4 because their return on equity was set at a level
5 designed to compensate them for the risks of being in
6 the electric utility business.

7 Q. So under your approach, if there's a loss,
8 shareholders eat the entire loss, and if there's a
9 gain, the gain flows through entirely to ratepayers
10 for Colstrip?

11 A. In the case of Colstrip, where 100 percent
12 of the cost has been included in rate base and the
13 Company's rate of return on equity has been set at a
14 level determined to be compensation for the risk of
15 being in the utility business, I would normally
16 propose that the loss be allocated to the
17 shareholders. There are things that might cause
18 exceptions to that, but that would be my starting
19 point of an analysis.

20 Q. Your starting point is all loss to
21 shareholders, all gains to ratepayers?

22 A. Under the circumstances that are before us,
23 yes.

24 Q. New subject. The scope of your analysis in
25 this case. As part of the work that you've done, you

00337

1 did not include any analysis of PSE's current overall
2 cost structure, did you?

3 A. Not beyond power supply, no.

4 Q. And your analysis didn't include anything
5 -- any analysis of unexpected costs that PSE has had
6 to absorb during the rate plan period?

7 A. Nor unanticipated savings.

8 Q. And you're not offering any evidence on
9 either of those subjects, are you?

10 A. Well, my direct testimony does not.

11 Q. So you're not offering any evidence on
12 those subjects, are you?

13 MR. MANIFOLD: Your Honor, I'd object as
14 asked and answered.

15 THE WITNESS: I don't know what I'm
16 offering until I'm off the stand.

17 JUDGE SCHAER: Mr. Lazar, would you please
18 refrain for a moment until we deal with the
19 objection?

20 THE WITNESS: I'm sorry.

21 JUDGE SCHAER: It did sound like the same
22 question. Was there something different?

23 MR. HARRIS: I was looking for an answer.
24 He said his direct testimony didn't address the
25 subject. I want to make sure he's not offering -- by

00338

1 restricting his answer to that, I'm concerned that
2 he's planning on offering it in redirect or has some
3 other evidence that he's thinking of on the subject.
4 If he can give me a simple answer that he's not
5 offering any evidence on that subject, that's all I
6 want.

7 JUDGE SCHAER: Go ahead and answer the
8 question, Mr. Lazar.

9 THE WITNESS: I don't know the extent of
10 what I'm offering until I'm done testifying. I
11 haven't yet. And I guess we'll have to see where
12 your questions and other questions take us from here.

13 Q. Well, that's fine, thank you. Your
14 recommendation to the Commission in your direct
15 testimony is based solely on your analysis of the
16 proposed transaction itself and the effects it will
17 have?

18 A. Yes, unless 100 percent of the benefits of
19 the transaction are conveyed to ratepayers, the
20 transaction is inconsistent with the public interest
21 and ratepayers would be disadvantaged. That's really
22 the extent of our analysis that was necessary in this
23 case.

24 Q. And that analysis and that conclusion is
25 based on your examination of the specifics of this

00339

1 transaction, not an examination of PSE's overall
2 revenues and overall costs right now?

3 A. At the time I prepared my testimony, that
4 was true. I've sat through yesterday and know more
5 now than I did then.

6 Q. Let's return for a minute to the subject of
7 the rate plan itself. Your understanding is that,
8 under the rate plan, PSE is entitled to retain, I
9 think in your view, certain types of savings?

10 A. Yes.

11 Q. And those savings are identified as falling
12 into three categories, we've heard a lot about this,
13 best practices, merger synergy savings and power
14 stretch savings?

15 A. Yes.

16 Q. And the overall design of the rate plan was
17 it was designed to give PSE the maximum incentive to
18 find savings by leaving all of the savings achieved
19 in the hands of the shareholders?

20 A. Yes, savings.

21 Q. Yes. And shareholders started with one
22 foot in a hole and got to keep the benefits. That
23 was the trade-off?

24 A. No, I wouldn't agree with that
25 characterization.

00340

1 Q. I'm sorry. I don't want to be unfair here.
2 I'm actually using your words to say that
3 shareholders started with one foot in the hole, but
4 got to keep all the benefits. That was from your
5 deposition. I'm not trying to mislead you here.

6 A. Okay.

7 Q. Would you agree that shareholders started
8 with one foot in the hole, but got to keep all of the
9 benefits? And when I say benefits, I realize you are
10 limiting the benefits to the defined categories.

11 A. I agree that I made that statement at the
12 time of the deposition. Since the deposition, I went
13 back and reviewed my exhibits from the merger, and
14 the position that I took was that with no rate
15 increases, but achievement of the projected savings,
16 that the Company would do very well, and that the
17 rate increases were only justified to, if you will,
18 one, make a deal. Most important, reach an
19 agreement.

20 But the justification that I used in my
21 mind at the time of the merger was that the treatment
22 of the residential exchange, of rolling the 10 mills
23 into permanent rates, justified some take to go with
24 the give. And the rate plan was the take -- part of
25 the give and take associated with that. And one

00341

1 could characterize that as starting with one foot in
2 the hole or one could characterize it as a balanced
3 set of opportunities and commitments.

4 Q. So you retreat from your statement that you
5 made in your deposition?

6 A. A little bit, yes.

7 Q. All right. And you would agree that PSE
8 faced a real risk at the start of the rate plan
9 period. Absent meeting the stringent criteria for
10 emergency or interim rate relief, PSE agreed not to
11 come back in for any rate increases for five years;
12 right?

13 A. Yes.

14 Q. But part of your position is when it comes
15 to power stretch goals or power cost savings, PSE
16 should be permitted to keep only the benefits that
17 result from restructuring or realigning purchase of
18 power contracts?

19 A. No, absolutely not. There was also -- I
20 address this in the deposition and it's addressed in
21 the Company's response to data request number --
22 Public Counsel Data Request Number 65, which is not
23 in the record.

24 That had to do with the Montana Power
25 contract, which, in the first glance, would be a

00342

1 power supply contract, and I would say yes, of
2 course, those savings would go to shareholders as
3 power stretch. But the detail of that included the
4 prices for delivery of coal to Colstrip One and Two
5 reduced, prices for delivery of coal to Colstrip
6 Three and Four were reduced, and the Company -- the
7 response there, the Company expects annual reductions
8 in power supply costs of approximately \$13 million as
9 a result of the settlements. Now, that's not a power
10 contract. That's the fuel supply for the
11 Company-owned resources, and I think that that is
12 something that, during the rate plan period,
13 appropriately belongs to shareholders unless we find
14 that the deal they made was for cheaper fuel during
15 the rate plan period, in exchange for higher prices
16 after.

17 If it was pushing a bow wave of costs
18 forward, my analysis would be different. But if it's
19 a reduction during the rate plan period with either a
20 continuing beneficial effect or no adverse effect
21 after the end of the rate plan period, reducing the
22 costs of operating a power plant, getting the same
23 amount of electricity for the service of the
24 ratepayers would be a savings, and that savings would
25 belong to the shareholders during the rate plan

00343

1 period.

2 Q. So you have this defined, and I think it's
3 not precisely defined, but there is this defined
4 category of power stretch savings where the Company
5 gets to retain the benefits if the savings fall
6 within this category that you define, and if it's
7 outside that category, your suggestion or your
8 position is that those benefits should be deferred
9 until the end of the rate plan period?

10 A. Well, roughly, yes.

11 Q. Okay. And the basis for this -- let's turn
12 to Exhibit 66.

13 A. Are we skipping C-65?

14 MR. HARRIS: Yeah, we're going to withdraw
15 C-65, also.

16 Q. Do you have 66 before you?

17 A. Yes, I do.

18 Q. We asked you to provide all the documents
19 that support, refute, refer or relate to your
20 contention in your direct testimony that the sale of
21 Colstrip was not contemplated to be part of the power
22 stretch proposal discussed during the merger
23 proceedings. Do you see the question?

24 A. Yes, I do.

25 Q. And you tell us all the documents are in

00344

1 the possession of the Company, you say that this is
2 the testimony and exhibits of the Company and the
3 other parties, but then you go on to explain that you
4 did not separately review these documents in
5 preparing your testimony, but instead relied on your
6 memory of the proceeding. Do you see that?

7 A. Yes, I do.

8 Q. Then you identify down in the next
9 paragraph, though -- it looks like you identify a key
10 document. It's a document that was discussed
11 yesterday, TS-34, which is now Exhibit C-43 in this
12 proceeding. See that in the middle of that
13 paragraph?

14 A. Yes.

15 MR. HARRIS: We'd offer Exhibit 66.

16 MR. MANIFOLD: No objection.

17 JUDGE SCHAER: That document is admitted.

18 Q. Then, while we're at it, if you could turn
19 to Exhibit 67. We asked you to provide all your
20 documents that refer or relate to any analysis of
21 power stretch goals. You talk about how you had to
22 destroy or return copies of top secret documents, and
23 that you again relied on your memory and this time
24 also consultation with other participants in the
25 merger negotiations over the breadth of what was

00345

1 intended by power stretch. Do you see that?

2 A. Yes.

3 MR. HARRIS: Okay. We'd offer Exhibit 67.

4 MR. MANIFOLD: No objection.

5 JUDGE SCHAER: That document is admitted.

6 THE WITNESS: I would note that one of
7 those items identified, PC-53, is in the record as
8 page eight of Exhibit 15.

9 Q. Thank you. Let's turn for a moment to the
10 document that you identify as an important document,
11 which is TS-34, which is C-43.

12 A. Yes.

13 Q. You're familiar with this document now --

14 A. Yes.

15 Q. -- after yesterday's proceedings? Have you
16 looked at it in the last two days?

17 A. Yes, I have.

18 Q. Maybe we can cut right to the chase. It
19 doesn't define power stretch goals anywhere, does it?

20 A. No, it quantifies them, but doesn't --

21 Q. Yeah, it gives some -- it actually sets
22 forth the goals themselves on the bottom of page six
23 in a single line item without ever defining how they
24 will be attained or what they are?

25 A. Yes.

00346

1 Q. It doesn't limit what constitutes a stretch
2 goal, doesn't exclude any category of transactions
3 from the definition of stretch goals, does it?

4 A. No, I think there are other documents from
5 the merger, many of which are now of record in this
6 proceeding, that address that.

7 Q. But the document that you identify in your
8 data response as a key document, TS-34, certainly
9 doesn't define what is and is not a power stretch
10 goal?

11 A. No, to me, the key to this document is that
12 it quantified them.

13 Q. Let's turn to one of the exhibits that you
14 prepared during the merger proceedings, which is
15 Exhibit 68. Do you have that before you?

16 A. Yes, I do.

17 Q. Do you recognize that as an exhibit that
18 you prepared and submitted?

19 A. Yes.

20 Q. Presented during the merger proceeding?

21 A. Yes.

22 Q. In that exhibit, you identify power stretch
23 and best practices as a percentage of an associated
24 cost; correct?

25 A. Yes, and I orally compared that to, for

00347

1 example, Bonneville's goal of cutting costs by 10 to
2 20 percent.

3 Q. I think we have that testimony in the next
4 exhibit. And you show -- the purpose of this exhibit
5 was to show that Puget had not set unrealistic goals
6 when it set those power stretch goals; fair?

7 A. Yes.

8 Q. And the way you did that is you took the
9 power stretch goals themselves, which are set forth
10 there on the second line, about \$152 million?

11 A. Yes.

12 Q. And you compared them to Puget's cumulative
13 power cost for the entire rate plan period?

14 A. Correct.

15 Q. And you came up with a percentage of 4.91
16 percent and, based on that, you said these look like
17 reasonable goals, these look achievable?

18 A. Yes.

19 Q. And that three billion number at the top,
20 that doesn't include just PURPA contracts, does it?

21 A. No, it doesn't.

22 Q. It's not limited to purchased power? It
23 actually includes --

24 A. I'd have to go back and look at what it was
25 and where it came from. And I say that in the

00348

1 context -- if you'll, with me, look back at page six
2 of Exhibit C-43. That's the blue exhibit. There is
3 a line, the second line of numbers on that page is
4 purchased and interchanged, which appears to be, to
5 me, to be power supply cost.

6 JUDGE SCHAER: Which page are you on,
7 please?

8 THE WITNESS: On page six.

9 JUDGE SCHAER: The second line?

10 THE WITNESS: The second line. It's under
11 operating expenses, operation and maintenance,
12 purchased and interchanged.

13 JUDGE SCHAER: Thank you.

14 THE WITNESS: And it shows something on the
15 order of \$800,000 a year or four billion over five
16 years, as compared to the three billion over five
17 years that I used on Exhibit 68. So I would not
18 commit that that three billion dollars is, by any
19 means, all power supply cost.

20 Q. You didn't specifically exclude Colstrip
21 from that three billion dollar number, did you?

22 A. I don't know if I did or didn't, looking at
23 this number in this context today. I have with me
24 enough documents to ascertain whether three billion
25 dollars is a number that would or would not include

00349

1 Colstrip, but I certainly can't answer that now on
2 the spot.

3 Q. You'd certainly agree, though, that that
4 three billion dollar number is not limited to just
5 the PURPA contracts?

6 A. I'm not certain. I don't have with me the
7 derivation of that number.

8 Q. If I gave you TS-220, which is what you
9 based it on, would that be helpful?

10 A. It might be, but I would want some time to
11 look at a variety of other things, as well.

12 JUDGE SCHAER: Mr. Harris, how are you
13 doing on your estimate?

14 MR. HARRIS: I've got maybe five more
15 minutes.

16 JUDGE SCHAER: Okay. I'm wondering if this
17 would be a good time to take a morning break.

18 MR. HARRIS: That would be fine.

19 JUDGE SCHAER: Let this witness look at the
20 materials. But I do want us to keep on schedule.
21 You're getting a little bit beyond your estimate,
22 which is okay, but --

23 MR. HARRIS: You know, I can wrap this up
24 in five minutes right now. Well, it will take 10
25 minutes, so if you want to take a break, let's take a

00350

1 break.

2 JUDGE SCHAER: Okay. We're going to take
3 our morning recess at this time. Please be back
4 promptly at 10:20 by the clock in this room. We're
5 off the record.

6 (Recess taken.)

7 JUDGE SCHAER: Let's be back on the record
8 after our morning recess. Did you want to continue
9 with your questions, Mr. Harris?

10 MR. HARRIS: Yes, I have, at most, I
11 believe 10 more minutes, that we could finish up.

12 Q. Returning to Exhibit 68, now that you've
13 had a chance to investigate 68 a little further, is
14 it fair to say, Mr. Lazar, that the three billion
15 dollar number at the top of Exhibit 68 includes all
16 of PSE's estimated power cost, electric power cost,
17 for the rate plan period?

18 A. Yes, that number was calculated by taking
19 Ms. Lynch's estimate of power costs that she provided
20 in the merger, which included fixed and variable
21 costs, subtracting out \$80 million for an
22 overestimate that I identified in her DSM cost
23 analysis, and \$80 million of depreciation cost
24 adjustment associated with production plant,
25 including Colstrip, for a net of \$3,093,000,000, as

00351

1 shown on Exhibit 68.

2 Q. So subject to that explanation, the three
3 billion dollar number at the top of the page there on
4 Exhibit 68 captured Puget's entire power resource
5 portfolio?

6 A. Yes, about 80 percent of that cost is
7 purchased power and about 20 percent is company-owned
8 resources.

9 Q. I'm sorry, when you say 80/20, you're
10 talking about the three billion dollar --

11 A. Of the three billion, purchased power is
12 something like 500 million a year.

13 MR. HARRIS: We'd offer Exhibit 68.

14 MR. MANIFOLD: No objection.

15 JUDGE SCHAER: That document is admitted.

16 Q. If you'd turn for a moment to Exhibit 69.

17 A. Yes.

18 Q. And if you look at -- I think we can get
19 through this fairly quickly. If you look at the
20 bottom of page 2094, carry over to page 2095, this is
21 a discussion of the three billion dollars in power
22 cost, testimony by you in response to questions by
23 Commissioner Hemstad?

24 A. Yes.

25 MR. HARRIS: We'd offer Exhibit 69.

00352

1 MR. MANIFOLD: No objection.

2 JUDGE SCHAER: The document is admitted.

3 MR. MANIFOLD: Oh, I would like to reserve
4 the option of supplementing this with pages
5 surrounding this if, upon examination, it appears
6 more context is needed.

7 MR. HARRIS: Sure.

8 JUDGE SCHAER: Any problem with that, Mr.
9 Harris?

10 MR. HARRIS: No.

11 MR. MANIFOLD: And I propose to do that
12 within the five days.

13 JUDGE SCHAER: Okay. That will be allowed.
14 Go ahead, please.

15 Q. While we're at it, if you could turn to
16 Exhibit 70, this is more testimony from the merger
17 proceeding. If you turn to page 2077, and see this
18 is your testimony in response to the questions by Mr.
19 Wright, and at the bottom of the page there, you
20 describe Public Counsel's proposal that -- the
21 reference there is to Public Counsel's proposal in
22 the merger proceedings?

23 A. Correct.

24 Q. And you say, Under Public Counsel's
25 proposal, there's no rate changes, there's no rate

00353

1 cases, there's no average system cost filings,
2 there's no PRAM, there's no ECAC. Ratemaking is very
3 simple and management is given a full five years to
4 achieve all of the types of savings that will benefit
5 shareholders and ratepayers alike. We just decided
6 it was easier to freeze rates in their entirety for
7 five years, rather than pick bits and pieces that
8 would flow through in whole or in part.

9 That was your testimony about Public
10 Counsel's proposal during the merger proceeding,
11 wasn't it?

12 A. Yes, that was talking about savings. As my
13 testimony shows, there essentially are no savings
14 associated with the sale of Colstrip.

15 MR. HARRIS: We'd offer Exhibit 70, also,
16 and if Mr. Manifold wants to reserve the right to
17 supplement additional pages, we have no objection to
18 that.

19 MR. MANIFOLD: Thank you. I have no
20 objection. This was cross-examination of Mr. Lazar
21 during the presentation of the various parties'
22 cases, as opposed to cross-examination of the
23 stipulation, which was a separate matter.

24 MR. HARRIS: That's correct. And just so
25 it's clear, the entire transcript is now part of the

00354

1 record from the stipulation hearing.

2 JUDGE SCHAER: Yes. I'll admit the
3 document, but I will allow you, on redirect, to
4 discuss with Mr. Lazar any limitations about this
5 proposal, as compared to what was adopted.

6 MR. MANIFOLD: Thank you.

7 Q. Now, do you recall -- this came up
8 yesterday, too -- that PSE offered in its rebuttal
9 testimony a proposal that was labeled a
10 performance-based ratemaking proposal, but it was a
11 proposal whereby excess savings would be shared with
12 ratepayers, but ratepayers would also share some of
13 the risk of excess cost. Do you recall that?

14 A. I recall that Puget distributed testimony,
15 including such a proposal. I don't recall whether it
16 was ever offered.

17 Q. If you could, if you'd turn to Exhibit 71,
18 which is actually made up of two documents. If you
19 could look at the rebuttal testimony of Jim Heidell,
20 if that refreshes your recollection.

21 A. Well, no, I remember this rebuttal
22 testimony of Mr. Heidell being distributed. The
23 question you asked was, you said that Puget offered,
24 and I don't recall -- because I think it was struck,
25 I don't know whether it was offered and then struck

00355

1 or struck as a result of a motion without having been
2 offered. I recall that it was distributed.

3 Q. I'll represent to you that it was offered
4 and then stricken, but the distinction is not
5 important here. You do recall, though, I think you
6 just said, that Public Counsel moved to strike the
7 testimony that presented this performance-based
8 ratemaking proposal?

9 A. That's reflected in the motion that you've
10 distributed.

11 Q. And this proposal would have allowed a
12 sharing of excess savings between ratepayers and
13 shareholders?

14 A. Yes, and it proposed a -- as I recall,
15 proposed a definition of excess.

16 Q. But this proposal was rejected by Public
17 Counsel and did not become part of the merger
18 stipulation in any form, did it?

19 A. That's not the way I would describe it. I
20 would describe it as Public Counsel objected to it
21 and the bench rejected it, and the transcript speaks
22 to why it was rejected. And I don't think it was the
23 -- had anything to do with the substance of the
24 proposal, but had to do more with the timing of
25 offering a whole new proposal in the context of

00356

1 rebuttal.

2 Q. But this sharing proposal did not end up in
3 any form as part of the stipulation or, in fact, the
4 merger order itself, did it?

5 A. To say that the negotiators of the
6 stipulation, which were mostly Mr. Elgin, Mr. Davis,
7 myself and Counsel --

8 Q. I want to interrupt just for a second. I
9 want to caution you not to discuss the negotiations
10 themselves.

11 A. Thank you. To say that the three
12 substantive negotiators, Mr. Elgin, Mr. Davis and
13 myself, weren't influenced by things that we read
14 that weren't in the record would probably be
15 inaccurate. We learned from many things, other than
16 what's in the record, and we carried much more than
17 was in the record into the stipulation negotiations.
18 But to say it wasn't influenced by this might be
19 going too far.

20 Certainly the mechanism proposed by Mr.
21 Heidell was not incorporated into the stipulation and
22 is not a part of the merger order, but to say that we
23 weren't influenced would probably be going too far.

24 Q. It would be fair to say that the Company
25 offered this sharing proposal as a part of the merger

00357

1 proceedings, it was stricken from the record, and it
2 was not included in the stipulation? Put aside the
3 issue of whether it influenced anybody's thinking.

4 A. Yes.

5 Q. Fair statement?

6 A. Fair statement.

7 MR. HARRIS: I'd offer Exhibit 71.

8 MR. MANIFOLD: Your Honor, I'd object on
9 the basis of relevance. I think we did this
10 yesterday. There was a similar motion from Staff to
11 strike a portion of the Company's rebuttal case. And
12 I think you didn't let that one in, but yesterday's
13 already a little hazy. But at any rate, I don't see
14 the relevance of this to this case, since it wasn't
15 part of the merger proceeding.

16 MR. HARRIS: May I respond?

17 JUDGE SCHAER: Go ahead, Mr. Harris, but
18 let me ask you to consider also whether the testimony
19 that you've just elicited from Mr. Lazar is
20 sufficient to make the point that it appears you're
21 trying to make and to tell me if there's something
22 else in these documents that you can give me in the
23 record, other than what's just been --

24 MR. HARRIS: Okay. I'd like to address
25 both those points. First, on its relevance, I do

00358

1 think in interpreting the rate plan itself, that the
2 background of what happened leading up to the rate
3 plan, at least what happened in the hearing room and
4 on the record, is important. I think it's important
5 for the Company to be able to explain that, during
6 the merger process, it offered a proposal that would
7 have specifically provided for sharing of excess
8 savings or savings among ratepayers and shareholders,
9 and that's what this is here. And that it was
10 rejected in the proceeding itself and did not become
11 part of the stipulation.

12 As far as whether there's been enough
13 testimony here that I don't need the document, if I'm
14 not going to have the document in the record, I do
15 want to spend more time on testimony eliciting some
16 of the specifics that are set forth in the document.
17 I think it would be far more efficient to just have
18 the document as part of the record.

19 JUDGE SCHAER: Okay. Now, in terms of
20 relevance, this was a plan that was put forward in a
21 case that settled a different plan. And I believe
22 there were plans put forward in that case. You've
23 brought in evidence that Public Counsel put in a plan
24 that was not adopted. I would assume there may have
25 been other parties, such as Staff put in a proposal

00359

1 that was not adopted.

2 I really am having trouble understanding
3 the relevance of the details of different rate plans
4 that were not adopted. I think you have in this
5 record the fact that Puget proposed a plan that
6 included sharing. If you want to ask whether that's
7 true, I would have no problem with that. I do have
8 problems with having a witness who did not author a
9 motion, who did not sponsor the testimony in the
10 question being asked in this proceeding to sponsor
11 the facts that are in these documents. And because I
12 view them of marginal relevance, I'm having more
13 concern about including them.

14 I personally don't know what more we need
15 to get that you haven't obtained from testimony. I
16 will allow you to ask a few more questions to elicit
17 any understanding Mr. Lazar has from his memory of
18 what went on in that case, but I don't think this is
19 -- I think if the Company wanted to re-sponsor some
20 of its exhibits, it should have done so through its
21 own witnesses at a time it would have allowed other
22 parties to be prepared for that, perhaps if they
23 thought it important to bring in their own rate
24 proposals from an earlier proceeding. So I'm not
25 going to admit this document at this time.

00360

1 MR. HARRIS: May I respond briefly?

2 JUDGE SCHAER: You may.

3 MR. HARRIS: The testimony of Mr. Heidell
4 is included because it makes the motion itself
5 understandable. The motion makes little sense
6 without -- it's beautifully written.

7 MR. MANIFOLD: Thank you.

8 MR. HARRIS: But it makes little sense
9 without Mr. Heidell's testimony. That's why it's
10 included. As far as the Company having an
11 opportunity to put this motion in in some other form,
12 we have a single witness from Public Counsel, he's
13 the only witness being presented by Public Counsel,
14 he's the only witness that would be appropriate to
15 sponsor this document. It would be inappropriate for
16 the Company to be putting in the motion of Public
17 Counsel. Certainly the Company didn't offer it.

18 And we do think it's very relevant to the
19 issues here, that a sharing approach and what's being
20 discussed here in this proceeding is whether
21 benefits, savings that are being achieved during the
22 merger rate plan period, should be split off to
23 ratepayers, rather than retained by shareholders.

24 This motion and the testimony attached to
25 it was a proposal to do exactly that, and we think

00361

1 it's highly relevant that it was rejected during the
2 merger proceeding itself.

3 We're asking only that the document be
4 allowed to come into evidence and the parties be
5 allowed to make their arguments about the relevance
6 of the document in the briefs.

7 JUDGE SCHAER: Okay. We're going to go off
8 the record for a moment.

9 (Discussion off the record.)

10 JUDGE SCHAER: Back on the record. While
11 we were off the record, there was a discussion of the
12 evidentiary question among the Commissioners, and
13 there was also a discussion among Counsel of how to
14 resolve this issue. It's my understanding now that
15 Exhibit 71 will be treated as the motion, which is
16 included here?

17 THE WITNESS: Three pages?

18 JUDGE SCHAER: And attached to the motion
19 that I have before me is a declaration of Neil
20 Talbot. Should that be withdrawn?

21 MR. HARRIS: No, that's part of the motion.

22 MR. MANIFOLD: There's also a data request
23 response attached to the motion, apparently.

24 JUDGE SCHAER: And also a data request
25 response. Do you want all of those items to stay in?

00362

1 MR. HARRIS: Yes, I think that's the
2 complete motion.

3 JUDGE SCHAER: Okay. Then we will leave
4 these items in, and we'll allow either the order or
5 the portion of the transcript which ruled upon this
6 motion to be used to supplement Exhibit 71. When can
7 that be produced?

8 MR. HARRIS: The order itself? We'll
9 submit it in --

10 MR. MANIFOLD: Three days.

11 MR. HARRIS: Monday.

12 JUDGE SCHAER: And then the second document
13 to be filed as part of Exhibit 71, the rebuttal
14 testimony of James Heidell from the merger
15 proceeding, will not be included in Exhibit 71.

16 MR. HARRIS: Yes.

17 JUDGE SCHAER: Go ahead.

18 MR. HARRIS: Thank you. I apologize for
19 the delay.

20 Q. Just a few final questions, Mr. Lazar.
21 Turning away from what was offered and rejected and
22 looking instead at what was actually ordered by the
23 Commission, the order itself states that the -- and
24 this is at page 21, if you have Exhibit 27.

25 A. Yes.

00363

1 Q. It states that the rate plan reflects the
2 implicit balance struck by the stipulating parties
3 between five years of rate certainty for customers
4 and five years of opportunity for the Company to
5 manage its resource cost pressures. Within the
6 five-year window, PSE's financial results will be a
7 function of management's ability to achieve savings
8 in order to provide shareholders with an opportunity
9 to earn a reasonable return on an investment. Do you
10 agree with that statement?

11 A. Well, I agree that's what the order says.

12 Q. Do you agree that's the deal the parties
13 made?

14 A. Savings, yes. The key word is savings.

15 Q. And then, if you turn to page 26 of the
16 order -- I'm sorry. We're in Exhibit 27, and we're
17 now on page 26. See there where it talks about the
18 balancing of consumer rate certainty against the
19 Company's opportunity to manage its affairs?

20 A. I'm not following you.

21 Q. Let me -- I'll direct you right to it. I'm
22 sorry.

23 MR. MANIFOLD: It's the beginning of the
24 second full paragraph.

25 THE WITNESS: Yes, okay. I see it now.

00364

1 Q. You see that? You're with me there, okay.
2 It says it can only be considered fair if the Company
3 actually takes advantage of this opportunity and
4 discusses the strong management team. Then it goes
5 on to say, We fully expect PSE to pursue synergy
6 savings and operating cost efficiencies aggressively
7 during the five years of the rate plan, including,
8 but not limited to what have been identified by the
9 joint applicants as best operating practice savings
10 and power stretch goals. Do you see that?

11 A. Yes, I do.

12 Q. That's what PSE was ordered to do, wasn't
13 it?

14 A. That's -- well, I guess I'd have to turn to
15 the part of the order and see if that appears in the
16 order itself.

17 Q. I'll reword the question. That's what the
18 Commission expected PSE to do?

19 A. Yes.

20 MR. HARRIS: I have no further questions.

21 JUDGE SCHAER: Mr. Van Cleve, did you have
22 questions for Mr. Lazar?

23 MR. VAN CLEVE: No, Your Honor.

24 JUDGE SCHAER: Mr. Cedarbaum.

25 MR. CEDARBAUM: No.

00365

1 JUDGE SCHAER: Commissioners, do you have
2 questions for Mr. Lazar?

3 CHAIRWOMAN SHOWALTER: I have one.

4 E X A M I N A T I O N

5 BY CHAIRWOMAN SHOWALTER:

6 Q. Mr. Lazar, on your testimony this morning,
7 I think you testified that where the shareholders
8 have received the benefit of their investment through
9 revenues from the ratepayers, that then a gain should
10 go to the ratepayers and a loss to the shareholders
11 in this situation; was that correct?

12 A. Where the shareholders have been allowed to
13 include the entire investment in rate base and
14 received an equity rate of return under equity
15 investment, that they've been compensated for the
16 risk of ownership and losses would normally go to the
17 shareholders.

18 And gains, since the ratepayers have borne
19 all of the costs and risks through the costs through
20 operating expense and depreciation and return and the
21 risks through the equity component of that return,
22 the ratepayers would receive the benefits. And
23 that's pretty much exactly what the Commission
24 ordered when I first testified on this issue back in
25 the 1985 rate proceeding.

00366

1 Q. And I'm following the logic. Since the
2 ratepayers took on the costs and paid for them and
3 since the shareholders received a return, but what is
4 the reasoning behind that cause and effect or behind
5 that reasoning? Why?

6 A. That's what the equity rate of return is
7 for, is to compensate the owner for risk. If I lease
8 an apartment for two years for \$500 a month, I have
9 an obligation to pay the \$500 a month. If the
10 apartment burns down, that's the landlord's problem.
11 If the property taxes go up, I still pay \$500 a
12 month, unless my agreement called for me to pay
13 something differently. The landlord has accepted the
14 risk in exchange for the defined reward. And I treat
15 Colstrip the same way.

16 We, in effect, made a compact to pay for it
17 as long as it's prudent, used and useful, and we pay
18 an equity of return in exchange for which we get
19 certain benefits and the Company absorbs certain
20 risks.

21 Q. And I guess my question is why is it that
22 one of those benefits is to receive the gain after
23 these years have passed and the payments have been
24 made?

25 A. Because we have paid all of the costs and

00367

1 the Company has paid none of the costs up to that
2 point in time, we are entitled to that benefit.
3 There's two parts to this. There's the gain on sale.
4 The gain on sale is entirely attributable to the fact
5 the depreciation rates that were proposed by the
6 Company, adopted by the Commission over the years,
7 turned out to be too high. If the depreciation rates
8 have been set precisely, and they never can be, there
9 would be no gain on sale, because the physical
10 depreciation and the book depreciation would be
11 identical. The gain on sale is entirely driven by
12 the fact that the book depreciation rates that were
13 included in rates in accordance with normal
14 accounting principles turned out to collect more
15 depreciation from the ratepayers than the actual
16 depreciation, as measured in the marketplace at the
17 time of the sale.

18 The gain on sale is just we paid too much
19 over the last 22 years, since Colstrip -- 23 years,
20 since Colstrip One and Two went into rates in Cause
21 U-76-1, and we should be allowed to recapture that
22 overpayment.

23 The second half of this, what's much, much,
24 much more important, is the power cost effect, the
25 Company's proposal of having us go from being

00368

1 effectively owners or long-form lessors to being
2 renters takes a whole bunch of benefits in the short
3 run from the fact that Colstrip is above-market in
4 the short run and gives those to shareholders and a
5 whole bunch of detriments in the long run and gives
6 those to ratepayers. That's just a reshuffling.
7 That's pushing a bow wave of cost forward.

8 If you separate the issues into the two
9 pieces, the gain on sale is clearly the ratepayers',
10 because all it reflects is excess depreciation that
11 was collected. The power cost issue is equally
12 simple. It's just reshuffling costs and taking
13 short-term benefits for the shareholders and
14 long-term detriments to the ratepayers. And if we
15 were able to recapture the excess depreciation and
16 made it no worse off, that would be fine.

17 And that's what happened with Tenaska, is
18 everybody's better off, but nobody's worse off. In
19 the Tenaska restructuring, the Company got the amount
20 of savings that are reflected in Exhibit C-31 for the
21 first four years and the ratepayers will get the
22 savings that are reflected for the subsequent years.
23 Everybody's better off, nobody's worse off. That's
24 fine.

25 But in Colstrip, it's really two different

00369

1 transactions, and both of which there's, I think,
2 compelling reasons for the ratepayers to receive it.
3 Frankly, the Commission's decision in the '85 case
4 spoke to that, I thought very eloquently. Basically,
5 it adopted Public Counsel's position, it found that
6 the ratepayers had borne the costs and the risks, and
7 were entitled to the benefits.

8 CHAIRWOMAN SHOWALTER: Thanks.

9 EXAMINATION

10 BY COMMISSIONER HEMSTAD:

11 Q. I'd like to pursue that in taking up Mr.
12 Harris' hypothetical, which was to assume there was a
13 \$40 million loss on the sale. Wouldn't that mean
14 that the return on equity was insufficient?

15 A. No.

16 Q. Okay. Now, explain, then, elaborate on the
17 hypothetical of the loss. But in a perfect world,
18 there should be no gain or loss, I suppose, because
19 the plant will have been, at any given time or at its
20 endpoint, will be completely depreciated. So in a
21 perfect world, even on a sale, theoretically it
22 should be a wash if all the accounting and all the
23 predictions had been perfect. Wouldn't that be the
24 case?

25 A. Assuming the plant operated for its

00370

1 lifetime or was still in operational condition at the
2 time it was sold, I would agree. Had the Commission
3 adopted one of the recommendations of Public Counsel
4 in the '85 rate case for a phase-in of Colstrip,
5 seeking fund depreciation or trended rate base, we
6 probably would not have a gain on sale to discuss
7 here. But the Commission allowed straight-line
8 depreciation, and by virtue of the fact that the
9 selling price was above the book value, the physical
10 depreciation was less than the straight-line book
11 depreciation.

12 And so I attribute the gain as mostly to
13 the depreciation rates weren't perfect, but none of
14 us are perfect. The issue of a loss and the return
15 on equity, the return on equity has been received by
16 the Company since 1976 on this investment. They've
17 received a premium above the risk-free rate of
18 return. And one of the methods of calculating rate
19 of return is simply the equity risk premium method,
20 comparing it to their utility bonds. Another is the
21 capital asset pricing model, comparing it to the
22 risk-free rate of return. And that premium is
23 compensating them for a whole host of risks.

24 And one of those risks, I believe, is that
25 resources, investments may fail during their life,

00371

1 and whether that's a Trojan nuclear plant being shut
2 down after 20 years, when it was supposed to last for
3 35, or Colstrip -- or some asset being sold for less
4 than book value, I would argue that that's what the
5 return on equity compensates for. I would certainly
6 expect the Company to disagree with that and the
7 Commission to adjudicate it, based on the facts that
8 were relevant to that particular asset and its
9 particular history.

10 Now, you've just done that. Earlier this
11 year, the Washington Water Power Company came before
12 you. It had sold a hydroelectric project at Myers
13 Falls. There was a loss on that sale, about
14 \$200,000. Much smaller numbers. And the Commission
15 order allocated that loss to the Company, and they
16 were going to take the write-off in the current time
17 period.

18 In the most recent experience of a
19 generating facility that had been in rate base and
20 was sold at a loss, the loss got allocated to the
21 shareholders, consistent with my recommendation.
22 Now, if it had been 40 million instead of 200,000, I
23 think it would have been a longer discussion, and I'm
24 not going to predict where that discussion would have
25 ended.

00372

1 But it's the return on equity that Water
2 Power had received since, I think, 1910 on Myers
3 Falls, something like that, that compensated them for
4 the risk that, in the end, it might not be worth
5 what's still on the books.

6 Q. But the net result of all that is back at
7 the very beginning, when the return on equity was
8 set, the Company would be compensated for its risk.
9 If at the end there's a loss, it means that the
10 calculation of that risk was wrong. In other words,
11 more rapidly changing technology or a faster
12 deterioration of plant than expected results in a
13 loss, but your point is that the calculation of a
14 return on equity initially was taking all of that
15 into account?

16 A. Calculation of the return on equity is done
17 in every rate case over time.

18 Q. Right.

19 A. There's an initial one when it first comes
20 in, but then it stays with --

21 Q. Over time, it keeps changing, sure.

22 A. Over time, whatever the market for equity
23 and compensation for the risks of being a utility
24 are, and the utility recovers that continuously over
25 the life of what's in. The sorts of things I would

00373

1 expect the Commission to look at is if the resource
2 were decommissioned prematurely because of government
3 actions, a carbon tax or a prohibition on emission of
4 certain pollutants, clearly nothing that management
5 was in a position to control, it would be one thing.

6 If the plant was decommissioned early
7 because the Company hadn't maintained it and it fell
8 apart, I think you would look at it differently. I
9 just chose two fairly extreme examples to show if
10 it's management's fault, clearly the burden, I think,
11 would fall on the management. If it was none of
12 their fault, I think you would look at it perhaps
13 differently.

14 But you should always look at the return on
15 equity. I don't think one needs to decide what would
16 be done in a circumstance that's not before you and
17 hasn't been defined in order to decide what to do in
18 this situation, where what's happened is clear, the
19 ratepayer paying too much depreciation over the plant
20 life, so there's a gain on sale.

21 And the conversion of an owned resource
22 with predictable costs for a market resource with
23 much less predictable cost produces benefits in the
24 short run and is projected to produce detriments in
25 the long run, but we're less certain of that, I think

00374

1 it's much -- this case is pretty well defined for
2 you.

3 CHAIRWOMAN SHOWALTER: I have a follow-up
4 question.

5 EXAMINATION

6 BY CHAIRWOMAN SHOWALTER:

7 Q. Suppose we had six separate plants and
8 three are like Colstrip, where there's a gain, and
9 three are like the Water Power situation, where
10 there's a loss, and each justified individually.
11 There'd be, in your view, the gain to the ratepayers
12 in the first three and the loss to the company in the
13 second three.

14 And if you did that seriatim, serially,
15 there would be three separate incidents of gain and
16 three separate incidents of loss. Now, if you --
17 let's say we have restructuring or something that
18 requires us to do all of these things at once. Would
19 the result be the same if a company was getting rid
20 of or selling six plants, three at a gain and three
21 at a loss, all as individually justified the way that
22 we posited? Is the result the same, a lot of gain to
23 the ratepayers and a loss to the company, or would
24 you say they should be offset against each other?
25 A. Well, if a look-at-this was required by

00375

1 some outside event, such as a requirement for
2 restructuring, you'll examine it, I think,
3 differently if you -- I think Mr. Elgin cited the
4 Commission's policy statement. It shows on page 23
5 of his testimony, at line five, where he says,
6 Stranded cost should be based on the amount by which
7 the cost of the entire generation portfolio of the
8 utility exceed likely market valuation, rather than
9 be based on individual resources or individual power
10 purchase contracts.

11 Now, what the Company is trying to do here
12 is to take the benefits from one resource that's
13 below-market and can be, therefore, sold
14 beneficially, and take the short-term power cost
15 benefits from going from a declining cost,
16 depreciating resource to an increasing cost market
17 resource, and of course there's benefits in the early
18 years, and without addressing the rest of its
19 portfolio and considering it holistically, as the
20 Commission directed.

21 And on Puget's system, there are resources
22 that are below market. Mr. Van Cleve asked a
23 question about the Mid-Columbia resources, Puget's
24 most wonderful, most valuable possession. And at the
25 other end of the spectrum are its Tenaska and March

00376

1 Point contracts that are -- particularly March Point
2 now, that is way above market.

3 The Commission order saying look at this
4 wholistically makes sense. We presented evidence in
5 the merger on looking at it wholistically.

6 Q. But then how does that square, that
7 approach and looking at it wholistically, how does
8 that square with your theories here that, on any
9 given transaction, the ratepayers should get the gain
10 and the company the loss, understanding the premises
11 of how the plants were paid for to begin with?

12 A. As I explain in my testimony, I'm saying
13 that -- my recommendation is that you reject this
14 proposal. This proposal is to sell the asset and
15 give the shareholders a hundred million dollars, more
16 or less, of benefits, and the ratepayers \$80 million,
17 more or less, of detriments. And it doesn't say how
18 we should deal with the gain on sale.

19 I give you some alternatives of, if you
20 feel compelled to approve this, for whatever reason
21 you might feel compelled to approve the sale, you
22 need to make sure that the ratepayers are not worse
23 off with the sale than we would be without the sale.
24 And since there are no savings, this is a net of a
25 zero.

00377

1 And most recently, Mr. Story's Exhibit 20
2 shows a \$3.6 million benefit total over the life to
3 shareholders and ratepayers alike out of a billion
4 and a half dollars of present value, or two-tenths of
5 one percent. I mean, who would sell their house and
6 become a renter for expected savings of two-tenths of
7 one percent? There's no savings here.

8 One hundred percent of the short-term
9 benefits and one hundred percent of the gain on sale
10 has to go to ratepayers or we're worse off. I
11 suppose, you know, if you believe this exhibit, you
12 could give them \$3.6 million of the savings and the
13 gain on sale and give the rest to ratepayers. If you
14 believe my exhibit with end effects, you could give
15 -- they would have to give up a substantial amount in
16 order to make us be not worse off.

17 Q. Well, Mr. Elgin's suggestion is that, as a
18 condition of approving the sale, we force the Company
19 to sell its assets -- excuse me, to -- am I correct?
20 I don't want to --

21 JUDGE SCHAER: I'm sorry, you really can't
22 ask him that.

23 CHAIRWOMAN SHOWALTER: I'm sorry on that.

24 Q. You cited his testimony just now. I'm
25 trying to get to the question of if the Company

00378

1 either does or is required, conditioned, or whatever
2 to look at all of its assets, as opposed to just
3 Colstrip, do you think they should be rolled into one
4 and the pluses and minuses added up in sort of a
5 stranded cost exercise or not?

6 Because it seemed that your theory here is
7 that you look at each asset individually and how the
8 ratepayers have or haven't paid for it and what the
9 risks have been, and from there you determine that,
10 under certain conditions, gain goes to the ratepayers
11 and loss to the Company. And I don't think I've
12 gotten an answer to that question.

13 A. Both Mr. Elgin and I make recommendations
14 for what to do if you want to look at this
15 wholistically, all right. And our recommendations
16 are very similar. One option would be to say to
17 Puget, you may sell Colstrip, but as of July 1, 2002,
18 your electric rates will be made at market. That is,
19 if we're going to look at this wholistically, you can
20 sell the good stuff and sell the bad stuff, or you
21 can sell the bad stuff and keep the good stuff, or
22 you can sell the good stuff and keep the bad stuff,
23 but Mr. Elgin's recommendation is to use the holding
24 company structure to move the resources into a power
25 supply sub and let the ratepayers pay market. That's

00379

1 one way of looking at it holistically.

2 Another way of looking at it holistically
3 would be to turn this proceeding into a holistic
4 stranded cost proceeding. And if I can refer you to
5 Exhibit 15, which was the packet of cross-examination
6 that Public Counsel put in yesterday, page seven, our
7 Data Request Number 52 asked the Company, Provide
8 Puget's most recent analysis of the magnitude of
9 potentially stranded generation costs the Company
10 faces.

11 The Company's response to that was, PSE
12 objects that the request seeks information that is
13 neither relevant nor reasonably calculated to lead to
14 the discovery of admissible information. They took
15 the position that stranded costs were not on the
16 table. But clearly, stranded benefits are on the
17 table.

18 I think that's a non-wholistic way to look
19 at their resources. And therefore, one of my
20 recommendations is, okay, if we're going to look at
21 it piecemeal, let's look at it piecemeal. What does
22 it take to make ratepayers no worse off with this
23 sale than we would be if the Company kept Colstrip.
24 And the answer is at page 13 of my testimony, shows a
25 range of scenarios that I calculated at the time I

00380

1 prepared the testimony that, as projected by the
2 Company, there were some small benefits to the sale
3 in the aggregate.

4 As adjusted by me for the corrected
5 discount rate and the corrected cost of debt and
6 corrected property tax and end effects, it looked
7 like there was a negative. On balance, I'll call
8 that a zero. I look at that as zero, plus or minus,
9 not very much in the context of a billion and a half
10 dollars. This whole range is a couple of percent off
11 of zero, that if a hundred percent of the benefits go
12 to ratepayers and we're exposed to a hundred percent
13 of the detriments over time, once we get beyond 2002,
14 beyond the rate plan, but we are indifferent to the
15 sale of Colstrip, but if any of the benefits go to
16 shareholders, then we are adversely affected by the
17 sale and would prefer that the Company keep it.

18 And I gave you two different ways, from an
19 accounting perspective, to get a hundred percent of
20 the benefits to the ratepayers. One is similar to
21 Staff's. Defer the gain on sale, the power cost
22 savings, and the carrying costs of both of those, or
23 carrying benefits, because the Company gets the cash,
24 until the next rate case. That's the Staff
25 recommendation and one of my options.

00381

1 Or cut rates -- and I calculate that on
2 page 10 of my exhibit. Cut rates now one time, which
3 would be consistent with the language in the merger
4 order that said the rate plan levels are rate caps
5 for bundled service. It didn't really preclude
6 decreases during the term of the rate plan. It's
7 page 26 of the merger order.

8 So you know, I've given you a bunch of
9 different options here, but they come down to if
10 shareholders get any of the benefits, then ratepayers
11 are worse off, because this is pretty much a zero sum
12 gain.

13 JUDGE SCHAER: Anything further?

14 E X A M I N A T I O N

15 BY COMMISSIONER GILLIS:

16 Q. Yeah, pursuing that last point a little
17 bit, it's more a clarification than anything. If the
18 Company were to concede that the premium, as we've
19 been discussing it, would go to the consumers, then I
20 suppose the economic question for buy/sell is
21 maximizing the economic value of that premium to the
22 consumer. Is that an oversimplification?

23 You'd buy today -- you'd sell today, if
24 that was going to maximize the value to those
25 consumers. You'd sell in the future or keep it,

00382

1 whatever the decision is.

2 A. If there was something unique about today
3 that means you can get a whole lot more for it today
4 than you can tomorrow or next year or 10 years from
5 now, and selling it today and becoming a renter is
6 projected to be a better deal than continuing to be
7 an owner, then it should be sold, and there are net
8 benefits to selling.

9 And while I would argue that those net
10 benefits should go to ratepayers because they
11 overpaid depreciation, I think there could be a
12 meaningful discussion about how to split up a net
13 benefit.

14 With the Company's proposal, just to pick
15 the most recent scenario run, Mr. Story's Exhibit 20,
16 they give \$76 million to the shareholders, a negative
17 \$73 million to the ratepayers. I guess if that's
18 their idea of 50/50 sharing, they're using new math.
19 That's just --

20 Q. Well, I guess I'm talking about the
21 hypothetical that consumers get a hundred percent,
22 the ratepayers get a hundred percent of the premium,
23 whatever it may be. If that hypothetical were true
24 or accepted, then is your forecast that today is
25 still not the right time to sell the plant from the

00383

1 standpoint of, I guess, maximizing return to the
2 ratepayers?

3 A. I'd bring you back to page 13 of my
4 testimony, the graphic there, which summarizes the
5 scenarios that I ran before we had the lower Montana
6 property tax. And I think, most likely, selling is a
7 mistake.

8 With the lower Montana property tax, all of
9 this shifts down by about \$20 million. So the
10 original Company analysis, adjusted for the Montana
11 property tax, went from 24 million total benefit to
12 six million. Everything shifts down about 20
13 million. And the corrected discount rate, corrected
14 cost of debt, and it may be shown in the wrong order
15 here, of property tax, which is pretty well known,
16 ahead of that.

17 I think it's a mistake to sell. But if
18 this Company really wants to be a distribution
19 company and the Commission wants them to be a
20 distribution company, get out of power supply
21 business, and we can give ratepayers some certainty
22 that they won't be paying above-market costs at the
23 end of the rate plan period, not only do you have a
24 wholistic approach that may be able to make the
25 shareholders better off in the short run without

00384

1 adversely affecting the ratepayers, because we pay
2 rate plan rates, and makes ratepayers probably better
3 off in the long run by having market rates beginning
4 July 1, '02.

5 If it weren't a coal plant and if it
6 weren't 600 miles from the service territory, if this
7 was a combined cycle plant located in the service
8 territory or a hydroelectric project located in
9 central Washington, I would be unequivocal. Keep it.

10 As I said in my deposition, I agreed with
11 some of Mr. Gaines' characterizations of the risk of
12 owning a coal plant. They're not to be ignored. If
13 ratepayers get a hundred percent of the benefits,
14 it's about a push. If not, then it shouldn't be
15 sold.

16 Q. Just for my clarification, understanding
17 the issue here, and one of the issues seems to be the
18 sharing of the benefit or who that premium should go
19 to if it's sold, and then the other difference seems
20 to be a difference between the forecast of the future
21 that you're suggesting to us versus the forecast of
22 the future that the Company is suggesting to us; is
23 that right?

24 A. No, I've used their forecast.

25 Q. Is it the same forecast?

00385

1 A. I have used their forecast of power for
2 market power costs.

3 Q. But --

4 A. Dollar for dollar, that's in Exhibit 7, in
5 their base scenario. I haven't touched the forecast.

6 Q. But differences -- when we do political
7 variables, like forecast of what's going to happen
8 with a carbon tax and those kind of issues?

9 A. No.

10 Q. No, okay.

11 A. No.

12 Q. Help me with this.

13 A. I think that I did something that the
14 Company never did, which is I separated out the
15 impacts during the pre- and post-rate plan period.
16 Page six of Exhibit 15 is the Company's response to
17 our Data Request 33. We asked, Provide any analysis
18 of the costs and benefits of the Colstrip sale
19 proposal prepared by the Company which separately
20 identify impacts during the rate predictability
21 period in the merger from impacts after that time.

22 Their response was, The Company has not
23 done such a calculation. Clearly, the calculation
24 that they originally did, their original Exhibit 7,
25 showed a \$24 million benefit, and they said this is a

00386

1 good idea, and they proposed accounting treatment of
2 that that may well have seemed logical to them, but
3 they never looked at how does it affect shareholders
4 versus ratepayers. I did look at that.

5 It's unambiguously a bad deal for
6 ratepayers if you approve their accounting petition.
7 It's about a push if you either give all of the
8 benefits to ratepayers through one of the mechanisms
9 that Mr. Martin or Mr. Elgin or myself have proposed,
10 or it changes the risk and opportunity structure if
11 you say, We'll let you proceed with this, but we
12 expect all prices will be at market at the end of the
13 rate plan period, and you can go ahead and sell
14 anything else you want, too.

15 Centralia case is coming right behind this
16 one. It's got different issues to it, but you'll be
17 looking at a similar proceeding, where something's
18 being sold for more than book value in a very short
19 period of time for all three of the regulated
20 utilities, because they're all owners of Centralia.

21 As I say, we're willing to rewrite the
22 rules of the game. Either your resources are
23 regulated, in which case we have to either look at
24 them piecemeal or wholistically, or they deal with
25 stranded costs all at once, not divide up the

00387

1 stranded benefits now and face the stranded costs
2 later. Or you can say, We're going to make you at
3 market as of a date certain, and good luck.

4 COMMISSIONER GILLIS: Okay. That's
5 helpful.

6 JUDGE SCHAER: Anything else for Mr. Lazar?

7 EXAMINATION

8 BY JUDGE SCHAER:

9 Q. Mr. Lazar, I've just got a couple
10 questions. As I recall the merger case, the Company
11 put in its case, Public Counsel put in a case,
12 Commission Staff put in a case. As I recall, it was
13 looking for about maybe \$75 million in reductions or
14 savings. There was some testimony that came in
15 yesterday about it.

16 In that case, was it your perception that
17 the Company had certain opinions about how much it
18 could save, and other parties were afraid they
19 weren't going to be able to save that much?

20 A. I don't recall any parties being concerned
21 that they couldn't save that much. I think most of
22 -- I'm thinking now primarily of Public Counsel's
23 case, because I was most intimately involved in that,
24 is Dr. Talbot, I thought, indicated that he thought
25 that their goals were pretty modest.

00388

1 My testimony in that case showed that,
2 without the residential exchange issue, the Company
3 had an expectation of having high returns. I showed
4 a substantial surplus of revenues to the Company in
5 my analysis. My analysis was different from the
6 others, because it was based all on non-confidential
7 data in the record. I showed that they had a
8 surplus.

9 Q. But let me ask the next question. If the
10 Company had achieved all the savings that they
11 indicated they would achieve in their merger case,
12 what kind of earnings would they be having? Would
13 they be robust earnings or weak earnings?

14 A. Those estimates are contained in the top
15 secret exhibits in the merger. The earnings were
16 expected by a point in -- I don't know how vague to
17 be here -- by a point in time during the rate plan
18 period to equal or exceed the last allowed rates of
19 return on common equity for the two companies.

20 Q. Okay. And could the merger order be read
21 in some ways to say to the companies, This is what
22 your plan is, go out and fulfill your plan, go and
23 take what you have and go forward and solve your
24 problems, so that when you come back in five years,
25 your imprudent contracts are dealt with, you don't

00389

1 have stranded costs, and you're ready to go forward
2 in a new environment?

3 A. Yes, and I think that would be very
4 consistent with Mr. Sonstelie's testimony that I
5 think is now of record through a redirect exhibit of
6 Mr. Elgin, and the expectation that we all expressed
7 on the stand at the end of the proceeding.

8 Q. Now, you've talked about what is savings
9 and what isn't savings, and I had some questions for
10 -- I believe it was Mr. Gaines about that earlier in
11 the proceeding. And I believe you discussed a
12 situation where PSE and the other Colstrip partners,
13 or at least PSE had been able to lower the cost of
14 coal delivered to Colstrip, and that you'd
15 characterize that as a savings; is that correct?

16 A. Yes.

17 Q. And now, what we're looking at in this
18 proceeding is the sale of a generating asset and the
19 amount that could be received for that asset. Do you
20 consider the amount that can be received for that
21 asset to be a savings?

22 A. No, I consider that to be a recapture of
23 excess depreciation expense that was charged to
24 ratepayers.

25 Q. So that selling your capital and getting

00390

1 money for it is in some way different than lowering
2 the costs that are going in to capital asset. Is
3 that an economically correct view of things, or is it
4 just me?

5 A. There are times to sell your capital.

6 Q. Okay.

7 A. Okay. And those times are defined by
8 different sorts of events. And one reason to sell
9 now, argued by the Company, is that by bundling it
10 with the Montana Power sale, we can get more for it
11 now than some other time. And that may be true, and
12 if all else were equal, that would be influential,
13 but once you say now is the best time to sell, the
14 question is should I sell. And actually, that's not
15 the best -- if now is a good time to sell, is selling
16 a good thing at this price. And that's what my
17 analysis and, frankly, the Company's analysis shows
18 as no, not necessarily a good deal. Something close
19 to a wash in the aggregate.

20 Q. But assume, just as a hypothetical, that
21 there is some maybe three million dollars above, as
22 you posited earlier. Would you call that three
23 million dollars a savings?

24 A. I wouldn't call that a savings by itself.
25 As I answered in response to the Commissioners'

00391

1 questions, there's two pieces of this. There's the
2 excess depreciation, the gain on sale part, and
3 there's the change to market, going from being an
4 owner to being a renter. And if there was a three
5 million dollar net benefit, I would call it a net
6 benefit and I would be discussing how to divide up
7 the net benefit after first making sure that the
8 ratepayers are whole.

9 Q. Well, I guess I'm looking at --

10 A. The precision of what we're doing is so
11 poor --

12 Q. Okay. I guess what I'm looking at is the
13 word "savings" in the stipulation and in the order,
14 and I'm questioning what does savings mean? I mean,
15 it's clear to me that if you go out and negotiate
16 which coal price to go down, that you've saved
17 something. What I'm asking you is if you sell a
18 piece of an asset and you get some net benefit, is
19 that a savings?

20 A. I don't consider it to be a savings. I
21 consider it to be a transaction. There's two parts
22 to the transaction. There might be a net benefit.
23 If there's a net benefit, you should decide how to
24 allocate the net benefit, the three million dollars.
25 But the other effects of the transaction, if you're

00392

1 going to approve the transaction, need to be
2 structured in such a way the ratepayers aren't
3 adversely affected. Now, that's what the Commission
4 did with Tenaska.

5 JUDGE SCHAER: Okay. That answers my
6 question sufficiently. Is there any redirect for
7 this witness?

8 MR. MANIFOLD: Yes.

9 JUDGE SCHAER: Why don't we take a
10 five-minute stretch break and be back at 11:35.

11 (Recess taken.)

12 JUDGE SCHAER: Let's be back on the record.
13 Do you have any brief redirect, Mr. Manifold?

14 MR. MANIFOLD: I do have some redirect, and
15 I will try to be as brief as possible.

16 R E D I R E C T E X A M I N A T I O N

17 BY MR. MANIFOLD:

18 Q. Mr. Lazar, Mr. Hemstad, Commissioner
19 Hemstad asked you if, as I understood it, if there's
20 a gain on a sale like this, and you say that means
21 that ratepayers paid too much depreciation, why, if
22 there's a loss, in essence, doesn't that mean that
23 ratepayers paid too little depreciation, and
24 therefore, the loss should be a ratepayer
25 responsibility, just as you say the gain should be?

00393

1 A. If there is a loss, it does mean that the
2 ratepayers paid less in depreciation than physically
3 occurred, but it was the management of the Company
4 that made a decision to choose a particular resource.
5 And it turns out that their decision was that the
6 plant doesn't last as long as we thought it did, it
7 depreciates faster.

8 And management had access, better access to
9 that information than anyone else and made that
10 decision. That's the general thrust of what that
11 examination, were that situation to occur, would
12 focus on.

13 Q. The Chairwoman asked you some questions
14 that, as I understood it, went to the following
15 point. Comparing your testimony on what happens with
16 a gain and a loss when you look at one plant sale and
17 comparing that situation with a wholistic approach,
18 where, as in your alternate recommendation, where one
19 looks at all the plants and one would net the gains
20 and losses, why should there be a different answer
21 when you do it all at once versus if you did a bunch
22 of gains and losses sequentially?

23 A. You're doing two different things, and
24 therefore, you need to approach it differently. If
25 you're being asked to make decisions piecemeal, which

00394

1 is the case here, then you have to analyze things
2 piecemeal. If you're being asked to analyze things
3 wholistically, then you have the opportunity to
4 consider everything. And we asked the Company for
5 data to enable us to try and do that, and it was
6 refused.

7 Q. You were asked some questions by Mr. Harris
8 regarding the depreciation or regarding the expected
9 life of Colstrip and making analyses on a 20-year or
10 other period of time. Was there some other basis for
11 why you think it's reasonable to go beyond 2018 in
12 analyzing the life of the plant?

13 A. Yes, page 12 of Exhibit 15 is the last
14 depreciation study on Colstrip. And for Colstrip
15 Four, the remaining life in '91, after six years of
16 operation, was up to 34 and a half years for some
17 elements of the investment. That would take us out
18 from '91 through 2025.

19 Depreciation doesn't march in lock step
20 because you make investments in a plant all along the
21 life. After 12 months, typically, the remaining life
22 has only been reduced by 10 or 11 months, because you
23 maintain the investment. But as of the last
24 depreciation study, it was up to 35 years of life
25 left.

00395

1 Q. Was that the Company's depreciation study?

2 A. Yes, that was the Company's depreciation
3 study. While Colstrip One and Two would hit the end
4 of their life sooner, there would still be some
5 benefits from Three and Four.

6 Q. You were shown Exhibit 64. Could you take
7 that out, please? That's a one-page document at this
8 point.

9 A. That was --

10 Q. That's the Puget Power above-market
11 resource page.

12 A. Yes.

13 Q. Do you have it?

14 A. I don't, but I recall it vividly.

15 MR. MANIFOLD: May I show him mine?

16 JUDGE SCHAER: Yes, you may approach the
17 witness.

18 THE WITNESS: Thank you.

19 Q. Colstrip -- this was prepared by you?

20 A. Yes, it was.

21 Q. And it shows Colstrip Three and Four as
22 being above market or below market?

23 A. Above market.

24 Q. And what would it -- first of all, when did
25 you prepare this, or what's the data point upon which

00396

1 this is based?

2 A. I prepared this in mid-1996.

3 Q. Okay. Would you consider Colstrip Three
4 and Four above market today?

5 A. Very slightly above market today, yes.

6 Q. Would the amount by which it's above market
7 be different and a good deal lower than the amount
8 that you show on that exhibit?

9 A. Yes, for two reasons. First, this exhibit
10 shows that the cost was 41 mills per kilowatt-hour in
11 '96. The plant has depreciated three more years, and
12 the fixed cost component has gone down by more than
13 any operating cost increases. And secondly, market
14 has come up in that same period of time.

15 So the market comes up and cost goes down,
16 the potentially stranded costs, or what I termed here
17 excess costs, would be much smaller.

18 Q. Okay. What if -- and Colstrip One and Two
19 are not on that list. Why is that?

20 A. Colstrip One and Two I judge to be below
21 market, based upon, as it says on here, a market
22 value of 20 mills per kilowatt-hour. Colstrip One
23 and Two were cheaper than that. They were cheaper to
24 build and farther along in depreciation, so much
25 cheaper.

00397

1 Q. Did you have any analysis to you at that
2 time, available to you, that showed what if you
3 combined Colstrip Three and Four and Colstrip One and
4 Two to see if the package, as it were, was above or
5 below?

6 A. Well, yes. In the merger, Mr. Marcus
7 testified for Public Counsel, and he testified as to
8 several different stranded -- potentially stranded
9 cost scenarios and calculated the potentially
10 stranded costs separately for Puget's larger
11 generating resources, for its Mid-Columbia resources,
12 for its contract resources.

13 Q. Okay. Is that what's shown -- is one of
14 those scenarios what's shown in what was marked as
15 Exhibit C-65?

16 A. Yes.

17 Q. Could you refer to that, please?

18 MR. HARRIS: I'd object to this as beyond
19 the scope of cross-examination. We didn't ask any
20 questions about this exhibit, we withdrew the
21 exhibit, and it's beyond the scope of the questions
22 that were asked of the witness.

23 MR. MANIFOLD: I agree that it was
24 withdrawn and no questions were asked from it, but
25 the witness was asked about Colstrip Three and Four

00398

1 being above or below market, and Colstrip -- he
2 answered in that part of the examination by Mr.
3 Harris about Colstrip One and Two. This exhibit,
4 whether it was originally marked by them or by us, we
5 could put it forth now, it allows the witness to
6 complete his answer about the combination of the two.

7 JUDGE SCHAER: I'll allow the witness to
8 give his answer about the combination of the two and
9 I will allow the Company, on re-cross, if they wish,
10 to ask what the source of that information was, but
11 let's not go into something that's been withdrawn.
12 Just ask him what the number would be.

13 Q. Mr. Lazar?

14 A. Yes.

15 Q. What was your opinion or what would your
16 opinion have been based on if you had combined
17 Colstrip One and Two and Colstrip Three and Four as
18 to whether they were above or below market as a
19 package at the time of the merger?

20 A. I would have relied on the different
21 scenarios that were prepared by Mr. Marcus, and those
22 scenarios generally showed that the combination of
23 Colstrip One and Two, plus Colstrip Three and Four,
24 measured from a year 2002 forward perspective, had
25 negative stranded costs or stranded benefits. And

00399

1 that's illustrated by the calculation at the bottom
2 of the second page of C-65. The second to the last
3 line is MPV 2002 to 2020 in 2002.

4 JUDGE SCHAER: Mr. Lazar, you're referring
5 right now to a document that's not admitted in this
6 proceeding, so I would ask you just to give the
7 information you've given and move on, please.

8 MR. MANIFOLD: Your Honor, if I may, that
9 would be fine with us, but this information is marked
10 by the Company as confidential, so he cannot do that
11 on the record.

12 JUDGE SCHAER: I believe he's just done it
13 on the record, has told us that that shows negative
14 net benefit. And I believe that was the point you
15 were trying to make, Mr. Manifold, or do you need the
16 numbers in the record?

17 MR. MANIFOLD: I'd like to have the
18 numbers.

19 JUDGE SCHAER: Then would you like to have
20 this marked for identification and offer it, so we
21 can deal with that?

22 MR. MANIFOLD: I would. Yes, I would. Do
23 we need to mark it again or can we --

24 JUDGE SCHAER: Okay. You have shown me a
25 document that's been previously marked for

00400

1 identification in this docket as C-65. Did you wish
2 to offer that exhibit at this time?

3 MR. MANIFOLD: Yes, I do, Your Honor.

4 JUDGE SCHAER: Is there any objection?

5 MR. HARRIS: We just object -- we have a
6 continuing objection that this questioning is going
7 well beyond the scope of the cross-examination, and
8 we object to the admission of the exhibit on that
9 basis, also.

10 JUDGE SCHAER: I'm going to overrule the
11 objection. Exhibit C-65 is admitted.

12 Q. Mr. Lazar, directing your attention to the
13 second page of Exhibit C-65, is what you're referring
14 to in your previous answer, that the net benefit, as
15 measured in the manner you described for Colstrip One
16 and Two and Colstrip Three and Four together, would
17 be the sum of the two numbers that are under those
18 columns in the next to last row?

19 A. Yes, and it shows net present value for the
20 rate plan period in one line, three lines from the
21 bottom, at a different present value looking forward
22 from the end of the rate plan period, and we're now
23 closer to the end of the rate plan period than the
24 beginning.

25 Q. Okay. You were asked about whether you had

00401

1 any information about how the Company had done in its
2 merger commitments and its attempt to manage its
3 costs and achieve savings. Do you have any
4 information from the Company that's more recent
5 regarding its achievements?

6 A. We have information, first of all, that I
7 mentioned on the record from the response to -- I
8 think it's Public Counsel Data Request 65 that
9 indicates they're saving \$13 million a year from the
10 Montana Power contract reformation, and there is
11 information in Exhibit C-31 on the Tenaska contract
12 restructuring.

13 Q. Excuse me. Let me be a little more direct.
14 Did you have a recent press release that spoke to
15 that?

16 A. Oh, on April 22nd, the Company reported
17 that 12-month utility operation and maintenance
18 expenses were down three percent, primarily due to
19 increased operating efficiencies achieved during the
20 period.

21 Q. That's 1999?

22 A. April 22nd, 1999, yes.

23 Q. You were asked some questions about, and
24 you responded to some, regarding your role in the
25 negotiations that resulted in the stipulation. And

00402

1 you're aware of some lines of what we're to put in
2 the record here and not regarding those negotiations.
3 So rather than asking you about what anyone else
4 thought, was it your intention, as one of the
5 crafters of the stipulation, that the sale of a plant
6 like Colstrip -- well, the sale of Colstrip, there is
7 no other plant like it -- was part of the power
8 stretch goals for the Company?

9 A. No, absolutely not. I always interpreted
10 power stretch to mean reducing the operating costs of
11 things that were operating and reforming the power
12 purchase contracts.

13 MR. HARRIS: I'd object to the question and
14 move that the answer be stricken. I think it's
15 irrelevant. The negotiators' subjective intent
16 during the merger negotiations has no bearing on the
17 issues before the Commission now.

18 JUDGE SCHAER: You may respond.

19 MR. MANIFOLD: It seems to me that the
20 stipulation is, in essence, a contract among the
21 stipulating parties. If there is uncertainty as to
22 the terms of the contract itself, then anyone who has
23 to understand it has to go beyond the four corners of
24 the document. It seems to me the intent of the
25 crafters of that stipulation is one source. There's

00403

1 been a lot of other ones put in during the course of
2 the hearing, and this is one other one, one other
3 data point as to what meaning this witness thought it
4 had.

5 MR. HARRIS: May I respond briefly?

6 JUDGE SCHAER: Yes.

7 MR. HARRIS: It's Black letter law in
8 Washington, under *Berg v. Hudesman*, in interpreting
9 contracts, if this were to be viewed as a contract,
10 that unexpressed subjective intent of the parties to
11 a contract is entirely irrelevant to interpretation
12 of the contract itself.

13 I also think it's bad policy for the
14 Commission to take account of subjective intent of
15 parties negotiating an agreement to try to reform the
16 agreement in some way after the fact.

17 JUDGE SCHAER: Mr. Manifold, I'd like you
18 to re-ask the question in terms of what his current
19 understanding of the stipulation and order is,
20 please.

21 Q. Mr. Lazar, is your current understanding of
22 the stipulation in the merger case and the
23 Commission's order that resulted therefrom, is it
24 your understanding that the sale of Colstrip is a
25 power stretch savings?

00404

1 A. No, that would be inconsistent with my
2 understanding of the order.

3 Q. Early in his examination of you, Mr. Harris
4 asked you about your change, one of the changes
5 you've made, which went from a five-year amortization
6 to a 20-year amortization. Why did you make that
7 change?

8 A. I made that change because it more closely
9 reflects the economic life of the asset, and previous
10 Commission orders that I had reviewed on asset sales
11 favored longer, rather than shorter, amortization
12 periods.

13 Q. Okay. Would you turn, please, to your
14 deposition. There is an apparent inconsistency in
15 two statements that I'd like you to clarify. Your
16 deposition -- I'm sorry, I don't have an exhibit.

17 JUDGE SCHAER: Exhibit Number 59.

18 MR. MANIFOLD: Thank you, Your Honor.

19 Q. Exhibit 59, internally deposition page
20 number 21, line 15, and deposition page 36, line 13.
21 In each instance, you make reference to previous
22 Commission precedent, in particular -- I believe it's
23 a Water Power case, the Othello combustion.

24 Were you responding to different points
25 here? In one instance, you say you don't recall; in

00405

1 the other instance, you cite it as a precedent.

2 A. At page 21, I was addressing power cost
3 savings that might result from the sale of Othello.
4 And at page 36, I was referring to the gain on sale.
5 And as I've discussed extensively, those are two
6 completely separate issues, and I don't recall what,
7 if anything, was done with power cost savings. But
8 clearly, the Commission order on Othello was that 100
9 percent of the gain on sale was to go to ratepayers.

10 Q. Okay. Last line of questions. On Exhibit
11 C-43, which was the formerly top secret exhibit in
12 the merger case?

13 A. Yes.

14 Q. You were asked by Mr. Harris whether this
15 defined stretch goals, and you said no, but it had
16 been useful to you. Why was it useful to you in
17 understanding what you think the merger order and
18 stipulation meant by power stretch goals?

19 A. Well, the most important part was that it
20 quantifies the power stretch goals on a year-by-year
21 basis.

22 MR. MANIFOLD: Your Honor, I have a
23 redirect exhibit. May I distribute it now?

24 JUDGE SCHAER: Yes. You've handed me a
25 one-page document, headed at the top PSE Progress on

00406

1 Power Stretch Goals. And is this a confidential
2 exhibit, Mr. Manifold?

3 MR. MANIFOLD: I don't believe so, Your
4 Honor.

5 JUDGE SCHAER: You've got a heading of
6 Exhibit C at the top.

7 MR. MANIFOLD: I have to ask the Company.

8 MR. HARRIS: Just one moment.

9 JUDGE SCHAER: Okay.

10 MR. MANIFOLD: Oh, I'm sorry. I do believe
11 it is. I misspoke.

12 JUDGE SCHAER: Okay. So you're going to
13 take care of getting this treated properly under the
14 protective order; is that correct?

15 MR. MANIFOLD: I will, I will. I'm sorry.

16 It is confidential. One of the sources here is a
17 document that the Company says is confidential.

18 JUDGE SCHAER: Okay. When you handed this
19 out, did you hand it out to anyone who isn't --

20 MR. MANIFOLD: No, I didn't.

21 JUDGE SCHAER: So I'll mark this for
22 identification as Exhibit C-72.

23 Q. Mr. Lazar, can you describe what's been
24 marked as Exhibit C-72, and how it relates to Exhibit
25 C-43?

00407

1 A. Yes, the line seven of Exhibit C-72 is the
2 annual power stretch goal for '98 through 2001, taken
3 directly from C-43.

4 Q. And what does C-72 show? What's the point
5 of it?

6 A. It's intended to show how the Company is
7 doing, how it's done so far on its power stretch
8 goals from the data that we have been able to elicit
9 from the Company so far. Line one is the Montana
10 power savings. Line two is the Tenaska savings,
11 coming from Exhibit C-31.

12 We asked for and were refused data on March
13 Point, Sumas Energy, and Encogen, so there's no
14 numbers shown there. Line eight shows the percentage
15 of the original goal that has been achieved from the
16 reformations of the Montana Power agreements and the
17 Tenaska contract.

18 Line nine shows, from my exhibit, what the
19 Company is asking for in this proceeding, and line
20 11, then, shows the percentage of their goal that
21 would be achieved from Montana Power, Tenaska and
22 Colstrip, were the Company's request in this
23 proceeding to be approved.

24 Q. Does this show that, based on existing
25 contract reformations, the Company has achieved a

00408

1 substantial portion of its power stretch goals?

2 A. Yes.

3 Q. And does this show that if the Company were

4 to receive Colstrip recovery as it's requested, it

5 would greatly exceed its power stretch goals?

6 A. Yes.

7 MR. MANIFOLD: Your Honor, I'd move for the

8 admission of what's been marked as Exhibit C-72.

9 MR. HARRIS: May I voir dire the witness,

10 Your Honor?

11 JUDGE SCHAER: Yes, you may.

12 VOIR DIRE EXAMINATION

13 BY MR. HARRIS:

14 Q. Did you create this exhibit, Mr. Lazar?

15 A. Yes, I did.

16 Q. When did you create this exhibit?

17 A. This morning.

18 Q. And when did you first discuss creating

19 this exhibit?

20 A. Last night.

21 MR. HARRIS: Your Honor, I would object to

22 the admission of this exhibit on the basis that it

23 should have been provided to us immediately upon its

24 creation. This is the first we've seen of it. It's

25 covered by our discovery request. We asked for any

00409

1 and all documents that relate to their contention
2 that the savings from Colstrip fall outside of the
3 power stretch savings. That's exactly how they're
4 using this document.

5 If it had been provided to us at the start
6 of hearing this morning, we would have had an
7 opportunity to at least prepare to question the
8 witness on it. It comes as a complete surprise to
9 us.

10 JUDGE SCHAER: Mr. Manifold, brief
11 response.

12 MR. MANIFOLD: Yeah, I was not aware that
13 this was the subject of a data request. It only
14 really appeared to us yesterday during the hearing
15 how important the power stretch goals from the merger
16 case have become in this case, and therefore, this
17 wasn't an analysis which we had seen as important
18 before.

19 We could have simply had the witness give
20 this information or summarize it from the record, but
21 for the fact that a bunch of it has been classified
22 as confidential by the Company. That's really the
23 reason for putting it on a piece of paper, is because
24 the Company has precluded us from just saying it in a
25 hearing, as we would normally on redirect, but for

00410

1 the confidentiality that we're trying to respect that
2 the Company has asserted and we have not challenged.

3 JUDGE SCHAER: Looking at the document, the
4 first line, response PC-65, is that an exhibit in
5 this proceeding?

6 THE WITNESS: No.

7 MR. MANIFOLD: It's a response by the
8 Company to a Public Counsel data request, and I guess
9 it's not an exhibit at this point.

10 JUDGE SCHAER: Was that a confidential
11 response, Mr. Harris?

12 MR. HARRIS: I don't believe so.

13 MR. MANIFOLD: I don't believe so.

14 JUDGE SCHAER: Okay. And then Exhibit C-31
15 is in the proceeding?

16 MR. MANIFOLD: Yes.

17 JUDGE SCHAER: And Exhibit C-43 is in the
18 proceeding?

19 MR. MANIFOLD: Excuse me. But in case it
20 matters, the question marks are in this proceeding,
21 as well, because the refusal to answer those. And
22 Exhibit C-43 is in the proceeding as line nine,
23 non-confidential, and the rest is math.

24 JUDGE SCHAER: Mr. Harris, normally I would
25 uphold your objection, but my concern here is that

00411

1 there are certain numbers on here that are
2 confidential, and so I'm inclined to admit this as an
3 illustrative exhibit unless you have some concern
4 that the numbers in the first line are not accurate.

5 So what I would like to do is give you
6 until next Friday, as we have done with other items
7 that have been entered into the record, to review
8 this and to let the Commission know any concerns you
9 have regarding its accuracy and to object at that
10 point.

11 MR. HARRIS: Thank you, Your Honor.

12 JUDGE SCHAER: I do not like to see
13 exhibits that have not been previously shared come in
14 in this kind of a proceeding. I share your concern.

15 MR. HARRIS: Thank you.

16 JUDGE SCHAER: At this point, this will be
17 admitted under those guidelines. Go ahead, Mr.
18 Manifold.

19 MR. MANIFOLD: I have one more.

20 JUDGE SCHAER: Have you previously shared
21 this with --

22 MR. MANIFOLD: No, it's a redirect exhibit.
23 I didn't understand there to be any time in the
24 process when we were to distribute redirect exhibits
25 any more than any other parties have for their

00412

1 redirect exhibits. They've all been distributed when
2 the witness was subject to redirect, I think.

3 JUDGE SCHAER: So long as this is not
4 something that's been sought and its sources are
5 readily identifiable.

6 MR. MANIFOLD: Is this confidential?

7 THE WITNESS: No.

8 JUDGE SCHAER: I'm marking for
9 identification as Exhibit 73 a one-page document,
10 which reads at the top Revision of Management Cost
11 Responsibility to Reflect All Adjustments. Go ahead,
12 Mr. Manifold.

13 R E D I R E C T E X A M I N A T I O N (CONTINUING)

14 BY MR. MANIFOLD:

15 Q. Mr. Lazar, what is Exhibit 73, what's been
16 marked as Exhibit 73?

17 A. Exhibit 73 is a page from my exhibit in the
18 merger, in which I used all non-confidential data to
19 support Public Counsel's recommendation that no rate
20 increase be permitted, the rate plan be zero percent
21 for five years, and that the residential exchange
22 benefits be required to continue to flow at the then
23 approved level.

24 The top half of the page are my adjustments
25 to Ms. Lynch's non-confidential exhibit, taking her

00413

1 cost control target, her merger savings, three -- or
2 some specific adjustments that I addressed in my
3 testimony on DSM cost, the depreciating production
4 rate base. That column would include Colstrip, meter
5 reading and billing.

6 And I computed that instead of having a
7 shortfall, the Company had a \$207 million management
8 surplus, and then the bottom half of the page, I
9 compared that to both the residential exchange, and
10 the one percent, at that time, proposed one percent
11 increases. The first column at the bottom part of
12 the page is the carry-over of a \$207 million surplus.
13 The \$150 million was the amount that the one percent
14 increases were expected to provide.

15 The third column is the potential loss of
16 the exchange benefit and that left the Company with
17 Public Counsel's proposal, no increases, and absorb
18 any loss of the exchange with a potential exposure of
19 274,000 -- \$274 million of potential cost exposure,
20 which I compared to their power cost in excess of
21 market, which was derived from Exhibit 64, and showed
22 that if the Company couldn't achieve such things as
23 power stretch savings, that they would be exposed to
24 as much as 34 percent of absorption of above-market
25 power costs.

00414

1 Q. Mr. Lazar, does this relate to the
2 questions that have come up about what would have
3 happened with -- whether or not the Company had a
4 very good opportunity to achieve its power stretch
5 and other savings that it committed to during the
6 merger?

7 A. Yes, I think it's directly relevant to what
8 became the stipulation that gave the Company some
9 rate increase and required it to absorb any loss of
10 exchange benefits. As Mr. Elgin testified, those
11 were a trade-off. The trade-off was more favorable
12 to the Company than my exhibit showed was necessary.
13 But that's the nature of stipulations and
14 settlements.

15 Q. Does this assist in responding to the
16 question you were asked this morning by the bench
17 about what other parties thought about whether Puget,
18 or PSE, rather, could achieve its commitments?

19 A. Yes, it does.

20 MR. MANIFOLD: Okay. Your Honor, I'd move
21 for the admission of Exhibit 73.

22 JUDGE SCHAER: Any objections?

23 MR. HARRIS: May I just get one
24 clarification, Counsel? Was this a document that was
25 admitted in the merger proceeding? This is not

00415

1 something that was prepared -- may I ask the witness
2 the question?

3 JUDGE SCHAER: Yes, you may.

4 THE WITNESS: Yes, this was a part of --

5 MR. HARRIS: I don't need the detail. It
6 was just part of the merger proceeding. It's not
7 something that you prepared for this proceeding.

8 MR. MANIFOLD: Yeah, I think that's
9 reflected in the little inset that shows UE-960195.

10 THE WITNESS: It was part of Exhibit 220.

11 MR. HARRIS: Thank you. No objection.

12 JUDGE SCHAER: That document is admitted.
13 Do you have anything further, Mr. Manifold?

14 MR. MANIFOLD: No, that's all, Your Honor.
15 Thank you.

16 JUDGE SCHAER: Are there any questions by
17 any other party?

18 MR. HARRIS: I have very brief re-cross.
19 Really, three minutes.

20 JUDGE SCHAER: Go ahead, please.

21 R E C R O S S - E X A M I N A T I O N

22 BY MR. HARRIS:

23 Q. You were asked by Mr. Manifold some
24 questions about depreciation. Return on equity is
25 calculated on net rate base, isn't it?

00416

1 A. The component or revenue requirement that
2 represents the return on equity is computed by
3 multiplying the allowed rate of return on equity by
4 net rate base, yes.

5 Q. So if depreciation has been too great, then
6 the shareholders have been receiving a return based
7 on a net rate base that is too small?

8 A. The shareholders have received the
9 depreciation and have that money, and the rate base
10 is smaller as a result.

11 Q. And they are receiving a return on that
12 smaller rate base?

13 A. Not if the -- if the Company continues to
14 own it, then the ratepayers pay less in the future,
15 because the rate base is smaller and, thereby, secure
16 more benefits from continued ownership of the asset.
17 If the asset is sold, then the ratepayers no longer
18 get that benefit of paying that return on a smaller
19 rate base.

20 Q. You were asked quite a few questions about
21 the power stretch savings, and you provided some
22 information about whether the Company's meeting their
23 goals or not meeting their goals. There's no cap in
24 the stipulation or in the merger order implementing
25 the rate plan on how much the Company can achieve in

00417

1 power stretch savings, is there?

2 A. No, but --

3 Q. In fact, if the Company exceeds its goals,

4 it's entitled to keep all of the excess. There is no

5 sharing agreement built in, is there?

6 A. I'm not sure I can go quite that far.

7 There is no sharing mechanism built in, but the

8 language of the order specifies on page 26 that the

9 rate plan rate levels are rate caps.

10 Q. So is it your position that if the Company

11 achieves -- overachieves on its power stretch

12 savings, that, under the rate plan, its rates could

13 be reduced?

14 A. I think that -- well, the language speaks

15 for itself.

16 Q. Is that your position?

17 A. That it wasn't expected that that would --

18 that they would be reduced by me? I mean, I kind of

19 thought that we had a deal and a deal was a deal.

20 But the language of the order, which reflects, from

21 parties more than me, was it says that the rate plan

22 rate levels are rate caps for bundled service, and I

23 would assume that that language should leave some

24 flexibility for the Commission. It doesn't say rate

25 floors; it says rate caps.

00418

1 Q. So it's your understanding, then, that if
2 the Company does too well on power stretch savings,
3 it faces the risk during the rate plan period of
4 having its rates reduced, yes or no?

5 A. I'm trying to see the relevance of that at
6 this proceeding, because this proceeding isn't
7 addressing power stretch savings; it's addressing
8 Colstrip, which is outside of power stretch.

9 Q. I'm just asking you the question. If the
10 Company exceeds its power stretch savings, is it your
11 understanding that it faces a risk of having its
12 rates reduced during the rate plan period?

13 A. I didn't expect that to be the case, but
14 the order seems to provide for that to potentially be
15 the case.

16 MR. HARRIS: I have no further questions.

17 JUDGE SCHAER: Anything further for Mr.
18 Lazar, Commissioners? Thank you for your testimony,
19 Mr. Lazar. You may step down.

20 Mr. Van Cleve, did you want to address Mr.
21 Schoenbeck's testimony at this time?

22 MR. VAN CLEVE: Yes, Your Honor. We would
23 like to offer the testimony of Donald Schoenbeck, and
24 I believe the parties are willing to stipulate to its
25 admission. And Mr. Harris has also provided two data

00419

1 request responses by ICNU, which we're also willing
2 to stipulate to the admission of.

3 And I would like to point out one error in
4 the testimony. On the cover page, the docket number
5 is incorrect, although the rest of the caption is
6 correct.

7 JUDGE SCHAER: Okay. At this time, I'm
8 going to mark for identification as Exhibit T-74 the
9 testimony of Mr. Schoenbeck. I'm going to mark for
10 identification as Exhibit 75 ICNU's response to PSE's
11 first set of data requests, response to Data Request
12 Number Five. And I'm going to mark for
13 identification as Exhibit 76 ICNU's response to PSE's
14 first set of data requests, Data Request Number Nine
15 in response. Did you want to offer the testimony at
16 this point?

17 MR. VAN CLEVE: Yes, Your Honor.

18 JUDGE SCHAER: Any objection to its
19 admission in the record? That document is admitted.
20 Did you want to offer Exhibits 75 and 76, Ms.
21 Harris?

22 MS. HARRIS: Yes, Your Honor.

23 JUDGE SCHAER: Any objection to those
24 documents? Those documents are admitted. Is there
25 anything further to come before the Commission?

00420

1 MR. VAN CLEVE: Your Honor, there is an
2 exhibit to Mr. Schoenbeck's testimony. It's his
3 qualifications.

4 JUDGE SCHAER: Okay.

5 MR. VAN CLEVE: You could treat that as the
6 same exhibit, if you want.

7 JUDGE SCHAER: Okay. Then let's note that
8 Exhibit T-74 includes the qualifications of Mr.
9 Schoenbeck. Thank you. Anything else that needs to
10 come before us at this time?

11 It's my understanding that the Company has
12 ordered an expedited transcript and that will be
13 delivered to all parties electronically next
14 Wednesday. Briefs in this matter are due on July
15 31st. And hearing nothing else, we are off the
16 record.

17 (Discussion off the record.)

18 JUDGE SCHAER: Let's be back on the record
19 for just a moment. The date the brief is due in this
20 proceeding is July 30th, not July 31st. We are off
21 the record.

22 (Proceedings adjourned at 12:20 p.m.)

23

24

25