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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION

2 COMMISSION

3

4 In re the Wednesday morning ) DOCKET NOS.UE-961184,

) UE-961185, UE-961117,

5 Agenda ) UE-960696

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8 A meeting in the above matters was held at

9 9:08 a.m. on October 9, 1996, at 1300 South Evergreen

10 Park Drive Southwest, Olympia, Washington before

11 Chairman SHARON L. NELSON and Commissioners RICHARD

12 HEMSTAD, WILLIAM R. GILLIS.

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24 Michael P. Townsend

25 Court Reporter

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

2 CHAIRMAN NELSON: Good morning, ladies  
3 and gentlemen. This meeting of the Utilities and  
4 Transportation Commission will please come to order.  
5 We'll begin with the consent to no action agendas.  
6 Is there anything on the consent to no action agendas  
7 that any member of the audience would like to address?  
8 I see no one.

9 COMMISSIONER GILLIS: Madame Chair, I  
10 move the agenda be accepted and the Secretary be  
11 directed to enter an appropriate order.

12 COMMISSIONER HEMSTAD: I will second the  
13 motion.

14 CHAIRMAN NELSON: And that motion carries.  
15 Now we can turn to item 2-A, Puget's proposed Schedule  
16 48.

17 MS. LINNENBRINK: This is Dixie  
18 Linnenbrink, Director of the Utilities. Before we  
19 start, I would like to propose a slightly different  
20 order today. I had carryover from last week's  
21 discussion, the issues would be the cost shifting,  
22 benefit sharing, where the shareholders bear risk of  
23 the lost revenues. There was the sunset versus a  
24 reopener type discussion, where there would be  
25 assurance that Schedule 48 recovers costs, and I would

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1 note that we did meet with the company and Clyde  
2 McKyver of ICNU on Friday, and we have worked out  
3 language in lieu of the sunset, and Jim Miernyk, that's  
4 included in his memorandum.

5                   Clarification of the company's open access  
6 proposal. There was discussion of the simultaneous  
7 implementation of Schedule 48 and an open access pilot.  
8 With the distribution charge in an open access pilot,  
9 should that reflect the transition charge on Schedule  
10 48. And I would propose that the company rather than  
11 staff go first today and answer those questions and  
12 their commitments and then follow-up with staff and  
13 our memo.

14                   CHAIRMAN NELSON: Very well. Is that  
15 acceptable?

16                   MS. LINNENBRINK: Oh, one other thing, I  
17 should note we have received some additional letters,  
18 if I could note those. King County Department of  
19 Natural Resources filed, noting they continue to  
20 support Schedule 48, and they also mention their  
21 support for the five-year reopener rather than the  
22 sunset. The Washington State Hospital Association  
23 filed comments stating the Commission should move  
24 forward with Schedule 48 if other customers get  
25 competitive access in an expeditious fashion. They did

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1 request that Schedule 48 be modified to a one-megawatt  
2 load, and that's what the order specified the timing  
3 and eligibility requirements for the pilot and open  
4 access program. They advocated a 25 percent vertical  
5 slice in the pilot.

6           The Energy Project filed comments in  
7 support of a sunset provision in stating their belief  
8 that Schedule 48 is discriminatory, they too requested  
9 simultaneous implementation of Schedule 48 and the  
10 open access pilot. Federated Department Stores filed  
11 urging rejection of Schedule 48. They support benefit  
12 sharing rather than just a no cost shifting concept,  
13 and they, too, urge the firm time table for a full open  
14 retail access program. And then King County Housing  
15 Authority wrote in, they addressed their concerns with  
16 low-income customers surrounding the cost shifting  
17 benefit sharing argument.

18           And those are all the comments I have  
19 received prior to the meeting.

20           CHAIRMAN NELSON: I should explain for the  
21 general audience that we have -- this particular Puget  
22 filing has been before the Commission on two previous  
23 meetings, it's sort of a moveable meeting we are having  
24 here. So why don't we have the company go first,  
25 then staff, then Public Council and anyone else who is

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1 here to speak to this.

2 MS. OMOHUNDRO: I will just start by  
3 addressing the issues that Ms. Linnenbrink has brought  
4 up. By the way, I'm Christie Omohundro, with Puget  
5 Sound Power and Light Company.

6 At the last meeting, the Commission asked us  
7 to address certain issues and clarify some of the  
8 issues regarding Schedule 48. The first that Ms.  
9 Linnenbrink addressed was the issue of cost shifting  
10 and the company's commitment to not cost shifting, we  
11 were asked to clarify. Under the proposal and staff's  
12 memo which the company agrees with, the commitment is  
13 as follows: The revenue difference between Schedule 48  
14 rates and the effective tariff rates that would  
15 otherwise be applicable to current Schedule 31, 46,  
16 49, or special contract customers, that is, lost  
17 revenues, shall not be shifted to other classes and  
18 shall be borne by shareholders until a future  
19 Commission determination regarding allocation of costs  
20 and cost savings, and then on a prospective basis only.

21 Our intent by this language is to be at  
22 risk for those lost revenues, as opposed to being  
23 at loss for those revenues, and the decision regarding  
24 how savings would be dealt with is deferred to a future  
25 Commission proceeding. Shall I go on with the other

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1 provisions, or do you want to go ahead and ask  
2 questions on that one?

3 CHAIRMAN NELSON: Go ahead.

4 MS. OMOHUNDRO: The next issue is the  
5 reopener sunset fresh look issue. The Commissioners  
6 asked us to consider a sunset or reopener for Schedule  
7 48. We are proposing with Commission staff that a  
8 commitment -- a review of Schedule 48, that we intend  
9 to meet the intent of what the Commission was asking  
10 for without destroying the commercial value of the  
11 Schedule 48 tariff. Our proposal at this point is Item  
12 No. 5 under the staff memo that says, "Review of  
13 Schedule 48." "Within 60 days after receipt of notice  
14 from the Commission, but no later than January 1, 2001,  
15 Puget Power shall refile Schedule 48 with the  
16 Commission along with updated supporting data including  
17 such information set forth in any such Commission  
18 notice. The Commission may approve the terms of or  
19 revision to Schedule 48, or may after hearing issue an  
20 order terminating or revising Schedule 48. In any such  
21 proceeding, Puget Power has committed to bearing the  
22 burden of proof. And we have provided a letter from  
23 Ms. Bortman making that commitment to bear that burden  
24 of proof.

25 The next issue was clarification of open

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1 access. According to our agreement and staff's  
2 proposal, the company is agreeing to the following:  
3 We will file a retail open access pilot tariff with  
4 the Commission by June 1, 1997 to study what open  
5 access is going to look like. That will be a vertical  
6 slice. Under that pilot, customers will have a choice  
7 of energy suppliers, it will be available to all  
8 customer classes, and it will introduce unbundled  
9 services and test the operational aspects of how open  
10 access may work. Following the completion of that  
11 pilot, or a year from its implementation date, the  
12 company will file a report with the Commission on the  
13 results of the pilot and addressing -- and will address  
14 through a plan what open access might look like for all  
15 customers.

16                   One other provision that we wanted to  
17 address in the staff's memo was the establishment of a  
18 non-core class of service. The memo recommends, and  
19 we agree, that the order language be proposed as,  
20 "Schedule 48 establishes a new class of non-core  
21 service for Puget Power and eligible customers. The  
22 creation of the non-core class affects long-term  
23 planning and resource acquisition decisions for the  
24 company. Therefore, the non-core rate schedule must  
25 have a status commensurate with the company's planning



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1 and resource acquisition decisions."

2 That pretty much covers the differences in  
3 the staff memorandum that we have worked out since last  
4 week, and maybe I should stop there and let you ask me  
5 some questions before I go on and address the specific  
6 questions from the Commissioners last week.

7 CHAIRMAN NELSON: Are there questions of  
8 anything Ms. Omohundro said so far?

9 COMMISSIONER GILLIS: I have a couple of  
10 questions. Maybe just a clarification for the moment,  
11 on your open access, what exactly are you planning  
12 to file for the pilot? Is it going to be a tariff, or  
13 a plan, or what in June of '97?

14 MS. OMOHUNDRO: It would be a tariff, it  
15 would be a pilot with a tariff that would be available  
16 to a vertical slice of customer classes and designed as  
17 a pilot.

18 COMMISSIONER GILLIS: And that will have  
19 costs associated with it?

20 MS. OMOHUNDRO: Yes. We will file cost of  
21 service with that open access tariff.

22 COMMISSIONER GILLIS: So you will file  
23 actual cost of service numbers with the tariff?

24 MS. OMOHUNDRO: Yes, and I say we will  
25 attempt to file very good cost of service data. We are

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1 limited by the time in developing full cost based  
2 transportation rates, but we will develop cost based  
3 transportation rates as best we can between now and  
4 June 1st.

5 COMMISSIONER GILLIS: Okay. That explains  
6 it a bit, I will ask staff about their memo, and they  
7 note that you will endeavor to provide cost based  
8 delivery, that sticks out to me why you are endeavoring  
9 rather than actually doing it.

10 MS. OMOHUNDRO: It's a new process for us,  
11 and we have never gone through the process of filing a  
12 cost-based transportation tariff, and we anticipate  
13 that it could take a long time to get good -- real good  
14 data. That's the only limitation.

15 COMMISSIONER GILLIS: Would you also  
16 explain the non-core class, why it's necessary to  
17 define a non-core class.

18 MS. OMOHUNDRO: Because when we filed as a  
19 non-core class, we will seek to mitigate costs  
20 associated with that class, and it's important to have  
21 the non-core class defined long term first for the  
22 assurances to customers that they will be able to  
23 continue to get non-core service in the future, and  
24 second, for the company to have the assurance that  
25 those customers won't come back on the tariff on a core

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1 basis, and then we would all of a sudden have to be  
2 available with the resources to serve them on a core  
3 basis.

4 COMMISSIONER GILLIS: So you would not be  
5 planning for capacity for these non-core customers?

6 MS. OMOHUNDRO: Only to the extent that  
7 they would contract us directly for it.

8 COMMISSIONER GILLIS: Do you anticipate the  
9 possibility that the non-core customers could become  
10 core customers later on?

11 MS. OMOHUNDRO: It's possible, I think it's  
12 unlikely if they were to become non-core customers  
13 later -- I mean, core customers later on. They would  
14 have to pay the incremental cost of capacity to get  
15 back on the system. There would be payment to come  
16 back on.

17 COMMISSIONER GILLIS: All right.  
18 Incremental costs at that time.

19 MS. OMOHUNDRO: That's correct.

20 COMMISSIONER GILLIS: Okay. That's all I  
21 have for now.

22 CHAIRMAN NELSON: Other questions?

23 COMMISSIONER HEMSTED: Well, a couple. On  
24 Paragraph 3 of the Staff memo on open access, this is  
25 an inquiry, the last sentence states that Puget shall

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1 evaluate the results of the open access value including  
2 a plan addressed to open access for all customers. I  
3 believe two weeks ago I was left with the impression  
4 at that time that at that point in time you would have  
5 a total complete open access, but now it says a plan  
6 addressing open access for all customers. Could you  
7 elaborate on that? What do you see will be included  
8 in that report and plan?

9 MS. OMOHUNDRO: What would be included in  
10 that report at minimum would be an evaluation of the  
11 pilot. There are many issues at this point that need  
12 to be dealt with. Policy and technical issues  
13 regarding open access, we simply don't have the answer  
14 to. So that pilot will look at those issues, study  
15 those issues and help us to formulate a plan going  
16 forward on how we would achieve open access for  
17 everybody, but at this point, I don't presume to know  
18 the answers to, you know, how would we do mirroring for  
19 residential customers, or who is the supplier of the  
20 last resort, what's the pricing of spending reserves,  
21 or would there be aggregators available to serve the  
22 residential class.

23 So to presume the details of an open access  
24 filing, we are just not there yet, and the pilot will  
25 help us determine those answers.



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1 status commensury with the company's planning and  
2 resource acquisition decisions." What does the term  
3 "commensury" mean in this context?

4 MS. OMOHUNDRO: It means that the non-core  
5 rate schedule must be durable in order for the customer  
6 to no longer plan for that customer class.

7 COMMISSIONER HEMSTED: That's fine, that's  
8 all the questions I have.

9 CHAIRMAN NELSON: Thank you. I don't have  
10 any.

11 MS. OMOHUNDRO: Should I --

12 CHAIRMAN NELSON: A few more reactions to  
13 someone in the staff there I think you said you wanted  
14 to take up?

15 MS. OMOHUNDRO: There were a couple more  
16 questions, I don't know, I can go ahead and address  
17 these further. Commissioner Gillis asked about, could  
18 we do simultaneous implementation of Schedule 48 along  
19 with the open access pilot, and also asked us to  
20 address transition charges, what they would be under  
21 the open access pilot. Should I go ahead and address  
22 those now?

23 COMMISSIONER GILLIS: Yes, now would be a  
24 good time.

25 MS. OMOHUNDRO: The issue was raised,

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1 should we have simultaneous implementation of Schedule  
2 48 with the open access pilot. Our response to that is  
3 there are a lot of policy issues that need to be dealt  
4 with and technical issues that need to be dealt with  
5 before we move forward with the open access pilot. We  
6 are going to be using the time between now and  
7 June 1, 1997, to design that pilot.

8           On the other hand, an immediate yet  
9 competitive need for Schedule 48 with our industrial  
10 customers, they are seeking assurance, they are  
11 determining their bypass options, they are making  
12 decisions today. So I would say no, it's not practical  
13 at this point for simultaneous implementation of those  
14 two things. We need to study, before we do the pilot,  
15 but we need Schedule 48 immediately for competitive  
16 reasons.

17           CHAIRMAN NELSON: Questions?

18           COMMISSIONER GILLIS: No.

19           COMMISSIONER HEMSTED: No.

20           CHAIRMAN NELSON: Anything else?

21           MS. OMOHUNDRO: Another question was  
22 raised, should the transition charges included in the  
23 open access pilot parallel the transition charges  
24 included in the proposed Schedule 48 tariff. The  
25 transition charges that we are talking about in the

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1 Schedule 48 tariff are merely a transition from one  
2 sales tariff to another. It's in a different context  
3 that these transition charges are proposed than would  
4 be proposed under the open access pilot. We have not  
5 designed, yet again, the pilot, so I don't know that we  
6 can address exactly what transition charges would be in  
7 the context of that pilot, but it would only be by  
8 accident if they were exactly the same.

9                   COMMISSIONER GILLIS: One question that  
10 really goes back to the question I asked you earlier  
11 that you answered, but I wanted to probe just a little  
12 bit more of exactly what are you endeavoring to do when  
13 you come up with cost based distribution charges?

14                   Will you consider recommendations of handling  
15 over market costs, for example, will you consider  
16 handling public purposes such as, you know, low income  
17 programs. Energy efficiency is even a part of the  
18 distribution charge. Could you respond to those?

19                   MS. OMOHUNDRO: Yes, those are all the  
20 types of things that we think we need to consider  
21 before we put forth the pilot. I don't have definitive  
22 answers for those today, but clearly those are items  
23 that we need to address and those are items that we  
24 need to talk to Commission Staff and interested parties  
25 about before we propose the pilot in June.



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1                   COMMISSIONER GILLIS:  And I'm not trying to  
2 beat a dead horse, but I'm trying to get a feel for what  
3 "endeavor" really means.  Do you think it's possible to  
4 do that, or are you going to give it your best shot?

5                   MS. OMOHUNDRO:  Oh, yes, absolutely.  
6 We will deal with those issues in some manner before  
7 filing the pilot.  I just don't know the answer today.

8                   COMMISSIONER GILLIS:  Okay.

9                   CHAIRMAN NELSON:  Really, really, really  
10 try.

11                   COMMISSIONER GILLIS:  I'm just wondering  
12 why we are endeavoring rather than saying, "We are  
13 going to do it."

14                   MS. OMOHUNDRO:  The endeavor was only in  
15 recognition of the short time frame.

16                   CHAIRMAN NELSON:  Anything else?

17                   COMMISSIONER GILLIS:  No.

18                   CHAIRMAN NELSON:  Thank you, Ms. Omohundro.  
19 Mr. Miernyk?

20                   MR. MIERNYK:  Good morning, I'm Jim Miernyk  
21 with the Energy Section.  First of all, I would like to  
22 state I appreciate the policy guidance you provided on  
23 October 2, it's allowed us to focus on the defining  
24 issues associated with Schedule 48.  From the staff's  
25 perspective, those issues included the issue of

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1 potential cost shifting, the sunset provision or  
2 reopener provision, and clarification on what is meant  
3 by Puget's proposed open access pilot.

4           Staff believes we have, through discussions  
5 with Puget, the large customer group, Public  
6 Council, and taking into consideration oral and written  
7 comments from interested parties, improved on our  
8 original recommended conditions for approval. I would  
9 like to just clarify a couple other items.

10           On the issue of course shifting, staff  
11 believes that a general rate case proceeding would be  
12 the format to formally address issues associated with  
13 cost shifting and allocations of any cost savings. In  
14 the absence of a general rate case proceeding for Puget  
15 Power, there is a five-year rate plan being addressed  
16 as part of the proposed merger with Washington Natural  
17 Gas.

18           On the reopener language, in my September  
19 25th presentation I had stated that I was comfortable  
20 that Schedule 48 rates were compensatory during the  
21 first two years under the power sales agreement but  
22 less certain thereafter.

23           The new language provides us an opportunity to  
24 address that while allowing Schedule 48 to go into  
25 effect now or November 1. Overall, staff believes that

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1 the modified conditions as included in the October 9  
2 staff memorandum are an improvement on the September  
3 25th version. Therefore, staff recommends the  
4 Commission issue an order approving Schedule 48  
5 effective November 1, with the conditions in the  
6 October 9th staff memorandum. I would be glad to  
7 answer any questions.

8 CHAIRMAN NELSON: Questions of Mr. Miernyk?

9 COMMISSIONER GILLIS: No.

10 COMMISSIONER HEMSTED: Well, I just wanted  
11 to -- first, I would want the record to be clear that  
12 in Condition No. 6, again, the phrase "commensurate"  
13 with the company's planning and resource acquisition  
14 decisions. Is it your understanding the meaning of  
15 that is that the company would not have a duty to plan  
16 for capacity for these non-core customers?

17 MR. MIERNYK: Yes, that's one item -- I'm  
18 glad you brought that up. Another reason for that  
19 language was to get at the issue of discrimination, and  
20 that if the Commission were to find and acknowledge the  
21 status of non-core service embodied in Schedule 48,  
22 then it would resolve issues related to discrimination.

23 COMMISSIONER HEMSTED: And the following  
24 note, from this condition, that refers back to the  
25 entire Paragraph 6. In other words, what is the

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1 antecedent "this" referring to when you said "this  
2 condition"?

3 MR. MIERNYK: The new Condition No. 6 is  
4 intended to be --

5 COMMISSIONER HEMSTED: I'm only asking a  
6 quite technical language question here. In the note  
7 following, --

8 MR. MIERNYK: Oh, No. 6, below that, the  
9 one that has the shading?

10 COMMISSIONER HEMSTED: The one that says,  
11 "Note, this condition was resolved in the revision."

12 MR. MIERNYK: I apologize for the  
13 confusion. This condition was in the original staff  
14 memorandum, and it was resolved in the company's  
15 September 24th tariff filing. In other words, that  
16 language on power cost transition charge adjustment was  
17 deleted from the schedule, so that was resolved.

18 COMMISSIONER HEMSTED: So on the  
19 assumption, the Commission adopts the staff  
20 recommendation here. The Item No. 6 note reference now  
21 included, or should be included --

22 MR. MIERNYK: The No. 6 with the shading  
23 init would not need to be included in the order.

24 COMMISSIONER HEMSTED: That's all I have.

25 CHAIRMAN NELSON: Anything else?

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1 COMMISSIONER GILLIS: No.

2 CHAIRMAN NELSON: Thank you, Mr. Miernyk.

3 Mr. Manifold?

4 MR. MANIFOLD: Good morning, Robert  
5 Manifold, Assistant Attorney General on behalf of  
6 Public Council. A couple of pretty brief points, I  
7 think. We are pretty much, on some of these issues,  
8 where we were four weeks ago. You know, that honeypot  
9 analogy I have really been struck with how good it  
10 still is. Sorry to have to log myself, but it still --  
11 I don't know if you saw the Seattle Times last night,  
12 but Mr. Locke of your staff was quoted in it regarding  
13 the amount of lost revenues that the company may  
14 sustain over the next five years as a result of this  
15 and other provisions that the company may have. It's a  
16 large number, 121 million dollars, according to the  
17 newspaper, according to Mr. Locke.

18 The question is, whether or not that lost  
19 revenue will be shifted to other customer in one  
20 strategy or another. That has been one of the primary  
21 focuses of this, as far as I'm concerned. If you  
22 believe that that's not going to be shifted, then it  
23 isn't that important to find out whether or not these  
24 customers have real bypass alternatives. That I think  
25 is the posture of the staff and the company. If you

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1 think that that lost revenue might in some way or  
2 another in the future be shifted to other customers,  
3 then I think the bypass thing becomes much more  
4 important.

5                 The language you have in front of you this  
6 morning appears to be adequate to handle these  
7 concerns. The reopener language allows the Commission  
8 to request such proof as it requires in its reopener  
9 notice. That proof could include proof of actual  
10 bypass, asking for the companies who have been granted  
11 these sorts of contracts. So I think you have, maybe  
12 not in the most straightforward way that I would urge,  
13 but I think you have in that language a remedy for that  
14 file.

15                 Secondly, there is the will costs be  
16 shifted now or in the future. That paragraph has been  
17 worked and reworked, and as late as 5:40 last night,  
18 been reworked. It's an interesting sentence. I would  
19 refer you to the Commission -- to the company's letter  
20 of July 29. They had a very simple straight  
21 declaratory sentence. It says, quote, No cost  
22 shifting. That was the period. Approval of Schedule  
23 48 will not result in shifting of costs to other  
24 customers during the rate stability period or  
25 thereafter. My understanding is that that is what the

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1 company is committing to, and what the Commission is  
2 intending and what the Staff is intending -- let me  
3 start that sentence over again. My understanding is  
4 that no cost shift now or in the future, period, is  
5 what the company has in writing committed to. It is my  
6 understanding that that is what Commission staff has  
7 accepted, and both the company and the Staff believe  
8 that the language before you accomplishes that.

9           It's my feeling that creative attorneys  
10 in the future might be able to pick apart parts of this  
11 and suggest it meant something else. I therefore think  
12 that you should reaffirm this morning as legislative  
13 history, if you will, that the company's statement that  
14 there will simply be no cost shifting now or in the  
15 future is, indeed, what your intent is in adopting that  
16 paragraph.

17           I, too, share Commissioner Hemsted's  
18 disappointment that the company has backed off of its  
19 statement of two weeks ago that it would go to full  
20 open access one year after the effective date of the  
21 pilot program. And probably like you I'm not surprised  
22 at that backing off, but it's disappointing  
23 nonetheless.

24           Finally, regarding the new Paragraph No. 6, I  
25 would suggest that the last sentence of that is

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1 backwards. It currently says, "Therefore, the non-core  
2 rate schedule must have a status commensurate with the  
3 company's planning and resource acquisition decisions.  
4 I would suggest that it should be the other way around,  
5 that when you have a tariff and customers being served  
6 under a tariff of whatever nature, core, non-core, your  
7 planning and resource acquisition decision should be  
8 commensurate with your tariffs, not your tariffs being  
9 commensurate with your planning, and I would suggest  
10 that that sentence be reordered to state what I  
11 understand the intent is, which is that the planning  
12 would proceed along the lines of this new service class  
13 of non-core, rather than they are going to plan for a  
14 certain way and therefore you have to make the non-core  
15 a certain way. It's the non-core is the way it's being  
16 established in the tariff, the planning should then be  
17 commensurate with that tariff. That's all my comments  
18 this morning.

19                   CHAIRMAN NELSON: Is the last point a  
20 distinction about the difference? I don't really  
21 follow it. The notion is that the non-core truly are  
22 non-core, and they can't rely on Puget for future  
23 capacity.

24                   MR. MANIFOLD: Well, in Ms. Omohundro's  
25 response earlier, I caught the flavor that she was --



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1 regarding that sentence, I caught the flavor that she  
2 was suggesting a response to one of your questions,  
3 that what that accomplished was that the rate schedule  
4 would have to have a status commensurate with their  
5 planning, so that if the schedule is adopted, and the  
6 company goes out and plans during the rest of this  
7 year that they are not going to have to serve that load  
8 as core load, my question is, if you initiate a hearing  
9 a year from now on Schedule 48, will the company stand  
10 in front of you and say, "Well, we have planned  
11 commensurate with this schedule, therefore you can't  
12 change it." That looked pretty --

13 CHAIRMAN NELSON: I would hope they would  
14 never make that argument.

15 MR. MANIFOLD: Well, quite frankly, a lot  
16 stranger things have been said.

17 CHAIRMAN NELSON: Other questions of Mr.  
18 Manifold?

19 COMMISSIONER GILLIS: You didn't comment on  
20 the open access pilot. Are you satisfied at this point  
21 with what is proposed in the pilot?

22 MR. MANIFOLD: No.

23 COMMISSIONER GILLIS: Would you expand on  
24 that.

25 MR. MANIFOLD: Yes. I heard your comments

00166

1 a week ago, and particularly, your comments about not  
2 making this more difficult than a Wednesday morning  
3 matter, and we are back on Wednesday morning now.  
4 If I was in writing, I would say a footnote, I did say  
5 a long time ago this shouldn't be a Wednesday morning  
6 meeting for these very reasons. I think that this is a  
7 nice start, it's not very adequate, or maybe it's  
8 adequate, but it's not very satisfactory. We are  
9 addressing those issues in another forum and would  
10 expect to do further work on this in that forum. So I  
11 don't see this as being a barrier to further  
12 examination of these issues in that forum, i.e., the  
13 merger case.

14 COMMISSIONER GILLIS: Okay. I'm not --  
15 haven't read the testimony yet for the merger case, I'm  
16 not exactly sure what was there, but for this  
17 specifically on Schedule 48, what would you see should  
18 be the elements of the cost based delivery service  
19 rates that the company is going to endeavor to come up  
20 with by June of 1997?

21 MR. MANIFOLD: I think as a starting place,  
22 I'm not sure they have to be cost based, heretical as  
23 that may sound. The pilot program is necessary whether  
24 Schedule 48 existed or not in my preponderance.  
25 However, part of the reason the pilot program is on

00167

1 this docket is it's sort of a quid pro quo that these  
2 certain set of customers are being favored with lower  
3 rates, well, let's then at least experiment with what  
4 it would be like to give lower rates to other  
5 customers. It seems to me that a way to do that, then,  
6 is to give those other customers the same sort of  
7 transition costs that the first set of customers were  
8 given.

9                   You know, I'm not saying exactly the same  
10 numbers, because they are served at different voltage  
11 levels, but there was some agreement made between the  
12 company and the ICNU people over how they would go from  
13 today's rates down to a market based pricing mechanism  
14 over, you know, two or three years. In specific, what  
15 I would imagine being, is that in a pilot program, if  
16 it were to run for five years, for instance, I would  
17 suggest that the transition charges for that class of  
18 customers mirror the transition charges in Schedule 48,  
19 which start high and then ramp down to nothing. I  
20 would further suggest that providers in the pilot  
21 program be allowed to average those transition charges  
22 over the whole five years if they want. So if it  
23 starts out at a hundred percent and ramps down to zero,  
24 rather than offering people the pilot a hundred, a  
25 percent ramping down to zero over five years, somebody

00168

1 would say, "Well, that averages 50 percent."

2                   So we are going to do a 50 percent for five  
3 years as a pricing mechanism. The reason I think this  
4 is important, which may also be the reason for your  
5 question, is that a pilot can explore several different  
6 things. One of the things it can explore is whether if  
7 the prices are exactly the same, but it's green power,  
8 people will sign up for it. That's of value. I think  
9 of more value is also if the price is less, i.e.,  
10 reflecting some market based rates, will people sign up  
11 for it, and if so, under what conditions. And how do  
12 you get to that lower rate unless you have some sort of  
13 transition charge similar to that in Schedule 48?

14                   COMMISSIONER GILLIS: Well, from your  
15 earlier comment, I guess we are going to hear more from  
16 you in the merger proceeding.

17                   MR. MANIFOLD: Yes. And those comments  
18 were filed in this proceeding, as well, which is why I  
19 feel free to discuss those.

20                   COMMISSIONER GILLIS: Okay.

21                   CHAIRMAN NELSON: Other questions of Mr.  
22 Manifold?

23                   COMMISSIONER HEMSTAD: No.

24                   CHAIRMAN NELSON: Thank you. Other parties  
25 wish to be heard from this morning? Ms. Pyron.

00169

1 MS. PYRON: Good morning, Commissioners.  
2 Paula Pyron, on behalf of the Washington Hospital  
3 Association. Not to beat a dead horse, having been  
4 here before and following those comments of the  
5 Commissioner on issues concerning the Hospital  
6 Association with the schedule, we are pleased with the  
7 improvements in the Staff recommendations, for example,  
8 to permit the choice in the pilot of actual other  
9 suppliers instead of just market based pricing. We  
10 feel like there are two areas of key critical  
11 continuing concern.

12 One is the parameters for the pilot program,  
13 there are none. This could be one percent, fifty  
14 percent, this could be a hundred percent. And we have  
15 been before the Commission asking that at a minimum  
16 loads of 1.0 megawatts or larger be allowed to  
17 participate as a condition for approval.

18 And the second area of concern is the same  
19 that's been expressed by more than one party here,  
20 which is that the Hospital Association had a different  
21 impression from what would happen in the next stage  
22 after the pilot. That there were definite deadlines  
23 intended for filing for an open access proposal, and  
24 now the impression that we have with Staff  
25 Recommendation No. 3 is we are stepping back to a plan

00170

1 that's very vague. That plan could frankly be  
2 something that is still in the next millennium. There  
3 is not any teeth here. And the reason we are back  
4 in front of the Commission again today and filed  
5 another set of comments is to ask to go back to where  
6 we were a couple of weeks ago with specific deadlines  
7 and proposed effectiveness dates for open access with  
8 some specificity for the other customers.

9 We agree with the scope of a pilot program to  
10 start, we think there need to be parameters there, and  
11 we think that following that one-year experimentation  
12 period, the Commission should set a definite  
13 requirement to file open access by a deadline certain  
14 as opposed to just having a report and plan.

15 CHAIRMAN NELSON: Ms. Pyron, how would you  
16 feel about another collaborative to design the pilot?

17 MS. PYRON: A collaborative to design  
18 another pilot would be a good idea in terms of knowing  
19 that customers would be assured access, would report to  
20 the Commission before the June 1st, 1997 date. And I  
21 think that would be a good thing to have happen here.

22 CHAIRMAN NELSON: We'll see how the company  
23 reacts. Any other questions of Ms. Pyron?

24 COMMISSIONER HEMSTED: No.

25 COMMISSIONER GILLIS: No.

00171

1                   CHAIRMAN NELSON: I've just been handed  
2 some other people who wish to speak to this issue. Mr.  
3 Fisher from Intel, you had a question mark.

4                   MR. FISHER: No, I'm fine.

5                   CHAIRMAN NELSON: Okay. Jeff Cox.

6                   MR. COX: Members of the Commission, my  
7 name is Jeff Cox, legal counsel of the Washington  
8 Retail Association. Like the Hospital Association, we  
9 filed a number of comments. I was, quite frankly, just  
10 going to say what Ms. Pyron said, so I won't  
11 reduplicate our sentiments in that direction. We would  
12 like to see some sort of parameters here on this pilot.  
13 And I understand they are recommending 25 percent, and  
14 that seems like a reasonable starting-out figure to us,  
15 but with that --

16                   COMMISSIONER GILLIS: Would you be willing  
17 to participate in some collaborative to design the  
18 pilot?

19                   MR. COX: Oh, absolutely.

20                   CHAIRMAN NELSON: Okay. Any other  
21 questions?

22                   COMMISSIONER HEMSTED: No.

23                   COMMISSIONER GILLIS: No.

24                   CHAIRMAN NELSON: Joe Mentor.

25                   MR. MENTOR: Thank you, Madame Chairman, my

00172

1 name is Joe Mentor, I'm representing Cost Management  
2 Systems. I don't agree with Mr. Miernyk or Ms. Pyron  
3 that this Staff recommendation is an improvement over  
4 the last version. With the one exception pointed out  
5 by Ms. Pyron, it allows other providers eligibility.  
6 Schedule 48 creates a new customer class, and it's  
7 being adopted without rate hearings or a cost of  
8 service study. We think that that has been justified  
9 as part of a transition plan, that there is no relation  
10 between Schedule 48 and the transition plan that seems  
11 to be part of this recommendation. We think there  
12 should be a firm time table to integrate Schedule 48,  
13 the pilot, and an open market access commitment. We  
14 are not even sure at this point whether Schedule 48  
15 customers can even participate in the pilot program.  
16 We don't see the relationship between 48 and the pilot  
17 and an open market commitment.

18                 Instead, I would make the following  
19 recommendations, which I think would integrate these  
20 three ideas. First, that Schedule 48 have an  
21 expiration date of September 1, 1998. We believe that  
22 a two-year period is an economically viable period,  
23 because Puget had been making short term resource  
24 commitments to meet that need.

25                 Second, we think the pilot as described by the



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1 Staff should be filed by June 1, 1997, effective  
2 September 1st, 1997, and that the company be required  
3 to submit an open market tariff by June 1, 1998,  
4 effective September 1st, 1998. So that the Schedule 48  
5 would expire at the same time the pilot program, in  
6 which case the open market tariff would be available  
7 for all those customers that were participating under  
8 either program.

9                   We agree with the term that there should be  
10 collaborative process, but that it should involve  
11 interested parties from all customer classes, that  
12 its primary purpose should be develop goals and  
13 objectives for the pilot program. If we are going to  
14 study this, we need to understand what it is that we  
15 are studying and what we hope to achieve by that study.  
16 I also agree that a plan is a far cry from a tariff in  
17 that an endeavor is not the same thing as a commitment.

18                   I'm reminded of a story about the  
19 difference between involvement and commitment which you  
20 may or may not have heard. There are two animals that  
21 participated in making a plate of ham and eggs, a  
22 pig and a chicken. The chicken was involved and the  
23 pig was committed. And when we see adjectives put  
24 into this qualifier, I think we'd rather be arguing  
25 over whether the cost of service studies are cost based

00174

1 or whether the company should be endeavoring to provide  
2 one.

3 CHAIRMAN NELSON: Thank you, Mr. Mentor.  
4 Who do you represent?

5 MR. MENTOR: Cost Management Systems, we  
6 are an aggregator of natural gas.

7 CHAIRMAN NELSON: And you intend to have a  
8 business plan being an aggregator of electric service  
9 customers?

10 MR. MENTOR: We would like to, that's  
11 right.

12 CHAIRMAN NELSON: Having been through  
13 several previous other sector restructurings, you know,  
14 the phrase, "The perfect shouldn't be the enemy of the  
15 good" always comes to mind. We are still in  
16 telecommunications seeing creative attorneys, as Mr.  
17 Manifold has talked about, and the creative Federal  
18 Regulators, who seek to shift costs. So trying to  
19 nail all of this down, being certain for production.

20 Would you be satisfied as being a participant  
21 in a collaborative attempt to design the pilot and then  
22 the future open access, and there are a lot of things  
23 left to be nailed down at the Federal level about open  
24 access and all that. We are not just the only policy-  
25 maker in this whole issue area, you know.

00175

1                   MR. MENTOR: I understand that, and I think  
2 that's why to a certain extent we are not as concerned  
3 about the future as we might otherwise be. I think,  
4 you know, as Mr. Cox pointed out last week, we have  
5 been struggling with being on the cutting edge of this  
6 transition here in the state, and that's always a  
7 certain area to be, but I predict that by next year we  
8 will be at the trailing edge, and I think that without  
9 some firm decision to continue, to move forward, we can  
10 always decide to put this off if we don't have the  
11 pieces all in place. But I think unless we push  
12 forward with that sort of a goal in mind and deal with  
13 48 and the pilot as parts of the whole leading us into  
14 this transition and try to decide now what we are going  
15 to learn from those and how they relate to each other,  
16 I think that we are going to find ourselves without  
17 really having the useful information that not just the  
18 company will need but all the different customer  
19 classes will need, as well, to make decisions about  
20 this. So that's why I think that we should try to  
21 integrate these three ideas together and have an end  
22 point in mind that I think is very doable.

23                   Yes, I think the collaborative is a great  
24 idea, I think that we should try to plan this out and  
25 involve everyone so that by June 1st of next year we

00176

1 have a pretty good idea of what it is we are trying to  
2 accomplish with the pilot.

3 CHAIRMAN NELSON: Thank you. Other  
4 questions?

5 COMMISSIONER GILLIS: No.

6 COMMISSIONER HEMSTED: No.

7 MR. MENTOR: Thank you.

8 CHAIRMAN NELSON: Any other person in the  
9 room wish to address this issue? The staff have any  
10 reaction to the idea of a collaborative to design a  
11 pilot?

12 MS. LINNENBRINK: We would participate. I  
13 have a reaction, and it's only regarding logistics. We  
14 have had some experience with collaboratives in the  
15 past, and I think it's going to be difficult to get the  
16 collaborative completed by June 1, much less the pilot  
17 filed. If that's the way you guys want it to go, of  
18 course, we would do that. I might offer an alternative  
19 of putting together a collaborative to move forward  
20 on the full open access as opposed to a pilot. I would  
21 ask, would that be acceptable?

22 CHAIRMAN NELSON: A collaborative for the  
23 post pilot phase, but with full open access, that could  
24 start immediately.

25 COMMISSIONER GILLIS: Why couldn't it be

00177

1 phased? The first phase of discussion is cast before  
2 you which is putting together a quality open access  
3 pilot, and the second phase is what goes beyond it.  
4 The idea of giving the company some solid input into  
5 the design of that open access pilot.

6 MS. OMOHUNDRO: We could do that, it's just  
7 that the logistics are challenging between now and  
8 June 1 the way a collaborative would go.

9 CHAIRMAN NELSON: I think Mr. Mentor's idea  
10 of linkages are right. You know, the plan was to  
11 call that an experiment, then we got to the end of the  
12 experiment and we didn't really have a control group,  
13 what we really had was an ad hoc sort of thing. And we  
14 have learned a lot of about collaboratives, I think the  
15 staff knows more and has done some internal soul  
16 searching about how to better arrange collaboratives so  
17 they don't take a lot of time and energy and amount to  
18 nothing. I think that's right, don't I see Mr.  
19 McClellan and Mr. Stapleton saying they have learned  
20 something?

21 COMMISSIONER GILLIS: I would have to say  
22 that I'm disturbed by adjectives this morning for some  
23 reason. "Endeavor" and the "pilot," the object is to  
24 study, and the note that logistical challenges, and I  
25 guess I wish I were hearing more of a can do attitude,

00178

1 that you are committed to do this. Am I just --

2 MS. OMOHUNDRO: We are committed to do it,  
3 we just don't know what it is going to look like yet,  
4 but we are committed. We would welcome the guidance of  
5 staff on how to run collaboratives.

6 CHAIRMAN NELSON: Let's just do it.

7 MR. OLDGMAN: Commissioner Gillis, this is  
8 Ken Oldgman, with the Commission staff. I would like  
9 to at least address your concern about the verb  
10 "endeavor," and at least what we were wrestling with  
11 when we came up with the language. As it stands now,  
12 we don't know what open access would look like, we  
13 don't know what kind of services would be contemplated  
14 by open access. At best what we know today is that we  
15 can bifurcate the bundled rate into a resource  
16 component and a delivery component.

17 And at least what the staff contemplated,  
18 and I believe the company has contemplated, why we use  
19 the term "endeavor" is that once we have an experiment  
20 and once we go forward with it, at least that much  
21 open access, a bifurcated rate, we can then begin to  
22 amass the information to determine what is the elements  
23 of a bundled network retail wheeling service. In other  
24 words, what elements can be offered a la carte. We  
25 just don't have the data now.

00179

1                   And then as part of that, we also have the  
2 water power direct access experiment, and what we would  
3 see, have further information there about what is  
4 retail open access. So first, in terms of what we  
5 can do and what we know today. The other element that  
6 really strikes me is that at least in a cost study and  
7 trying to determine cost based rates, it's difficult at  
8 best to determine what is a bundle allocated cost  
9 service between customers classes, and when we get down  
10 to looking at unbundled distribution elements, it's  
11 even becoming more difficult, and quite frankly  
12 probably more contentious considering the diverse  
13 parties and interest about who pays. And so we just  
14 don't think that we can get there that quickly, but we  
15 are willing to work and we want to move there. And  
16 what we are hearing from the company is they are going  
17 to do the best they can to get there as quickly as  
18 possible.

19                   So this is the best we could come up with  
20 in terms of a compromise about what it is that we can  
21 do today knowing what we know today. So I hope that  
22 clarifies, at least, why we use the wobble word in  
23 terms of "endeavor," and that's the best that we can do  
24 today for pursuing open access.

25                   COMMISSIONER GILLIS: Well, I think caution

00180

1 is probably prudent, and not over promising. I'm more  
2 reacting, I guess, to what we have been hearing around  
3 Schedule 48, we hear the Hospital Association  
4 expressing interest in getting access to market rates,  
5 we have heard from the retail association and others.  
6 And they may, indeed, find legitimate bypass threats,  
7 are we going to be seeing special contracts coming in  
8 from other parties eventually?

9                   The only reason I raise that is just, I  
10 just get a sense of urgency that the only solution is  
11 going to be to figure out a way to pursue open access  
12 in an equitable fashion, and it is a challenge that we  
13 have to take on, and that's why I am urging a can do  
14 attitude.

15                   MR. OLDGMAN: I understand that.

16                   CHAIRMAN NELSON: Any other questions?

17                   COMMISSIONER HEMSTED: No.

18                   CHAIRMAN NELSON: Thank you, Mr. Manifold,  
19 thank you, Ms. Omohundro.

20                   MR. MANIFOLD: A comment on the  
21 collaborative idea. We have posed that there be a  
22 collaborative, we have had the mixed experiences in the  
23 learning curve that has been referenced. I would  
24 suggest you consider having a collaborative run by a  
25 Commission neutral. One of the -- there have been a



00181

1 number of problems with collaboratives and a number of  
2 strengths. One of the problems is they have been run  
3 by the company who is the only party that has the  
4 resources to run it. That has made some collaboratives  
5 be more like advisory committees than collaboratives.  
6 Not out of, I think, ill-will, but just the nature of  
7 resources available.

8                   So having a Commission appointed neutral  
9 run the collaborative might be a very good way to make  
10 it work faster and leaner. Secondly, collaboratives  
11 tend to work better when they have been implementation  
12 oriented, not policy oriented. So to the extent that  
13 you can provide policy guidance and then have a  
14 collaborative go out and implement and report back when  
15 more policy guidance is needed, things can done with  
16 greater accuracy and less time invested.

17                   CHAIRMAN NELSON: Thank you. We know that.  
18 We are getting a lot of experience in arbitrating these  
19 interconnection arrangements including unbundling local  
20 telephone networks. So we might have some cross  
21 fertilization there.

22                   Okay. You want to make a motion or have  
23 some discussion?

24                   COMMISSIONER GILLIS: Well, I'm not going  
25 to stand in the way of this by myself, certainly. And

00182

1 I do have concerns, I guess partly I am hoping that I  
2 would like for the headline tomorrow to say that Puget  
3 Power is taking some of the first steps towards  
4 customer choice for all customers. I'm afraid  
5 headlines are going to say, "Commission Approves  
6 Discounts for Large Customers." And actually, what's  
7 built into Schedule 48 can be looked at both ways, I  
8 think that's the story, and that's the story I would  
9 like to come out of this, is that you have committed to  
10 do a pilot, you have committed to put together an open  
11 access program, and it's Schedule 48 is just a  
12 transition.

13                   But I don't know, I'm satisfied there has  
14 been some good work in the last few weeks in at least  
15 preventing some of the cost shifting that understand is  
16 there. And I hope this collaborative really does take  
17 this seriously and make it happen, because, as I say, I  
18 have a personal sense of urgency, but I would be  
19 prepared to make a motion.

20                   COMMISSIONER HEMSTED: I really don't have  
21 anything to add.

22                   CHAIRMAN NELSON: I think, actually given  
23 what we said last week, that we are all three convinced  
24 that the transition in this industry is going to go  
25 much faster than it did in natural gas or

00183

1 telecommunications, and this is just the first step in  
2 this transition to a new market structure. And I'm  
3 also satisfied that this is good enough, and some debts  
4 and risks and so on have been hedged well enough.

5                   COMMISSIONER GILLIS: With that, with  
6 regard to Docket UE-960696, Puget Sound Power and Light  
7 Company, I move the Commission approve Schedule 48,  
8 Puget Power's proposed optional large power sales  
9 service in that docket effective November 1, 1996,  
10 with the conditions listed in the Staff memo. Would  
11 that do it, Counsel?

12                   COMMISSIONER HEMSTAD: Yes. I would like  
13 to offer an amendment, taking into account the comments  
14 of Mr. Manifold and with the help of our council, to  
15 essentially restructure the last sentence, Sentence No.  
16 6 so it would read, "Therefore, the company's planning  
17 and resource acquisition decisions would have a status  
18 commensurate with any rate schedule applicable to the  
19 non-core class."

20                   COMMISSIONER GILLIS: I would accept that.

21                   CHAIRMAN NELSON: That's sounds like a  
22 friendly amendment, and the maker has accepted the  
23 amendment.

24                   COMMISSIONER HEMSTED: And I will second  
25 the motion.

00184

1                   CHAIRMAN NELSON:  And therefore, it's been  
2 moved and seconded, and the motion carries, and with  
3 the understanding that the Commission will in due and  
4 rapid course convene a collaborative to address the  
5 issues that we have discussed today.  And that's sort  
6 of a ministerial task that we will figure out to how  
7 to assign resources to.

8                   Okay.  The motion carries, thank you all  
9 for your very hard work, appreciate it amongst  
10 everyone.  Then we can clear the room and move on  
11 to the next item.

12                   (Meeting adjourned at 10:00 a.m.)

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