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APPEARANCES (Cont.)

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00637

1

I N D E X

2

	WITNESSES:	D	C	RD	RC	EXAM
3	BUERGEL		662	665		644
	BOTTIGER	667				
4	BUCKLEY	669				670
	KELLY	685				686
5	MARTIN	691				692
	SCHOENBECK	696				

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	EXHIBITS:	MARKED	ADMITTED
7	T-124 - 135	640	642

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

2 JUDGE HAENLE: The hearing will come to
3 order. This is an additional day of hearing in docket
4 Nos. UE-941053 and docket No. UE-941054 which is
5 the application of the Washington Water Power Company
6 and Sierra Pacific for merger. This hearing is taking
7 place on June 8, 1995 at Olympia, Washington before
8 the Commissioners. My name is Alice Haenle, and I'm
9 sitting in for Judge Canfield this morning. He was
10 assigned to a different hearing today, and in order to
11 get the hearing date that I understood was the
12 preference of the parties, I agreed to sit in.

13 I would like to take appearances, just your
14 name and your client's name if you have already given
15 an appearance. Just go around the table beginning
16 with Mr. Meyer.

17 MR. MEYER: Very well. I will enter joint
18 appearances on behalf of joint applicants, David Meyer
19 and Connie Westadt.

20 MR. TROTTER: I'm Linda Williams. I'm
21 appearing for Spokane Neighborhood Action Program and
22 Northwest Conservation Act Coalition.

23 MR. FINKLEA: I'm Edward Finklea of the
24 law firm of Ball, Janik and Novack appearing on behalf
25 of Northwest Alloys.

00639

1 MR. TROTTER: Donald T. Trotter, assistant
2 attorney general for the public counsel section.

3 MS. JOHNSTON: Sally T. Johnson, assistant
4 attorney general on behalf of Commission staff.

5 JUDGE HAENLE: Anyone here for Puget?

6 In the way of preliminary matters, there
7 has been a settlement submitted signed by a number of
8 the parties, and the purpose of the hearing today is
9 for the Commission -- for the settlement to be
10 presented to the Commission, and for the Commissioners
11 to have the opportunity to ask questions. It's my
12 understanding that the settlement has been signed by
13 the Washington Water Power Company and Resources West
14 Energy Corporation, by Sierra Pacific Power and Sierra
15 Pacific Resources, by the Commission staff, public
16 counsel and the Northwest Conservation Act Coalition
17 and Spokane Neighborhood Action Program. Is there
18 anyone else that signed the stipulation that I didn't
19 mention?

20 I am a little confused about WICFUR and
21 WICFUR's position. Is there someone here from WICFUR?

22 And I'm not sure whether Puget is
23 supporting or opposing. Is there anyone from Puget?

24 CHAIRMAN NELSON: Staff counsel or company
25 counsel can tell us.

00640

1 JUDGE HAENLE: Go ahead.

2 MR. MEYER: I should represent, and there
3 may be a letter to the file addressed to the secretary
4 of the Commission from one or both of those parties,
5 but it is my understanding -- and I'm also a little
6 hesitant to speak for other parties especially a
7 matter involving an agreement settlement, but I'm
8 advised that all three have furnished letters to the
9 secretary indicating that they do not oppose the
10 stipulation, the settlement.

11 JUDGE HAENLE: Thank you. I had not seen
12 letters from all of them, but if those are in the file
13 that would be a great help.

14 (Marked Exhibits T-124 - 135.)

15 In the way of preliminary matters, we need
16 to -- before we went on the record we discussed the
17 prefiled testimony and what the record would consist
18 of. It's my understanding that the stipulation is
19 attached as an exhibit to Mr. Buckley's testimony, and
20 so it will go in in that manner. We discussed the
21 party -- we discussed premarking the documents and
22 entering them by agreement of counsel rather than
23 going through one by one with all of the witnesses. I
24 believe all counsel agreed to that. I am told that
25 the signed original is at the records center, and I

00641

1 also asked that the responses to bench request be
2 marked for identification.

3 So just briefly the documents have been
4 marked as follows: Exhibit T-124 is Mr. Buergel's
5 prefiled testimony. T-125, Mr. Buckley's prefiled
6 testimony, APB-testimony. 126 for identification,
7 the stipulation, which is APB-1. T-127 for
8 identification, Ms. Kelly's testimony. T-128 for
9 identification, Mr. Martin's testimony. T-129 for
10 identification, Mr. Bottiger's prefiled. 130 for
11 identification, Mr. Bottiger's qualifications in one
12 page. 131 for identification, Mr. Bottiger's Exhibit
13 No. 2. 132 for identification, Mr. Bottiger's Exhibit
14 No. 3. T-133 for identification, Mr. Schoenbeck's
15 prefiled testimony. 134, the response to bench
16 request No. 1 and 135 the response to bench request
17 No. 2.

18 Now, is there anything else that's still
19 left hanging that needs to be marked and dealt with?
20 Anyone?

21 MS. JOHNSTON: Well, Your Honor, I have
22 something that needs to be dealt with but not marked
23 and that is that the parties have reached an
24 additional stipulation regarding the upstream costs
25 allocation issue, and I would like to make that

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1 representation on the record and see if counsel agrees
2 with my statement. It may shorten some of the
3 questioning this morning.

4 JUDGE HAENLE: Let's do that -- let me ask
5 if everyone has agreed to the entry of the documents
6 unless that changes the documents in any way, Ms.
7 Johnston. Does anyone object to these documents being
8 entered then by agreement of counsel?

9 Hearing no response I will enter T-124
10 through 135. If you would, please, Ms. Johnston
11 describe the additional agreement.

12 (Admitted Exhibits T-124 - 135.)

13 MS. JOHNSTON: Thank you. Commission
14 staff, the applicants, public counsel, Northwest
15 Alloys, NCAC and SNAP agree that the base rate freeze
16 described in the stipulation does not preclude the
17 Commission from addressing the issue of upstream cost
18 allocation in the applicant's next PGA. That is, that
19 no party will assert the stipulation is barred in
20 consideration of that issue.

21 JUDGE HAENLE: Thank you. That does make
22 it substantially clearer. Did anyone have anything
23 else to add in that regard?

24 Thank you. That's excellent.

25 We discussed before we went on the record

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1 EXAMINATION

2 BY CHAIRMAN NELSON:

3 Q. At page 3 of the stipulation agreement --
4 no, that's not it. It's page 6, 26 and following.
5 The company says the merger benefits will split 50/50.
6 Is this concept spelled out in any greater detail
7 anywhere else in the testimony or can you elaborate on
8 what your concept of 50/50 means?

9 A. Well, that's really -- this was I think
10 came from a question that was asked me during the
11 deposition hearing that was held in December, and I
12 was asked what would be a fair way to determine after
13 the fact if there was a fair distribution of benefits
14 between the two operating divisions, and my answer was
15 that I felt if -- that we could use kind of as a
16 guideline of 50/50 splitting of those benefits. If
17 you look at my original exhibit, the allocation of
18 benefits that we developed in that exhibit were
19 roughly 53/47, and so I felt looking at it after the
20 fact, if there was roughly an equal division of those
21 benefits, that that would be a good way of determining
22 that the allocation was equitable.

23 Q. So the original testimony you filed in this
24 case is where I should -- exhibits?

25 A. Well, the original exhibit shows an

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1 allocation of benefits that's roughly 53/47.

2 Q. There's a lot of just promises to cooperate
3 in the future in the stipulation agreement. And
4 similarly, there's some concepts in the agreement
5 that the applicant promise to work with staff on
6 future allocation issues. Now, in the Pacific Utah
7 merger we found that working on allocation took a long
8 time and a lot of effort. What if in the future, for
9 example, with allocation as another example with
10 respect to merger benefits, the parties disagree? How
11 are we going to deal with disagreements in the future
12 procedurally and substantively?

13 A. Well, that's a good question. I think
14 there were some lessons learned in the Pacific Utah
15 merger and in dealing with allocation I think they
16 went down some dead end roads and we certainly have
17 that history to learn from. Our approach to
18 allocations in the direct case I think dealt with them
19 fairly straightforward, and I think one of the
20 benefits that we have is that a lot of the allocation
21 methodology that we're proposing to use and have used
22 at Water Power are also similar allocators that are
23 used by Sierra in the states of California and Nevada.
24 So I'm trying to give the Commission some assurance
25 that there is some commonality between the allocators

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1 that are used between the two companies. I'm not
2 anticipating that there will be a lot of problems in
3 working out allocations. That in fact could happen,
4 but my hope is that we can work with the staffs in
5 each jurisdiction and get some resolution of the
6 allocation issues in the next year. Should there be
7 some disagreement then my hope is that we can get them
8 all together and resolve it as a group.

9 Q. Convene all the state staffs?

10 A. Yes.

11 CHAIRMAN NELSON: Please excuse me. I'll
12 return shortly but I have a call I have to make.

13 JUDGE HAENLE: Commissioner?

14 EXAMINATION

15 BY COMMISSIONER HEMSTAD:

16 Q. First, pursuing the chairman's initial
17 question about the 50/50 allocation, and I'm reading
18 from the stipulation, page 6, line 29 and a half,
19 after the 50/50 reference, "but will recognize Water
20 Power's higher contribution relative to Sierra's
21 contribution and the relative efficiencies of the two
22 companies going into the merger." That suggests to me
23 that the benefit distribution will be something other
24 than 50/50. You mentioned 53/47, but I assume I
25 understood that to translate into you were rounding

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1 the 50/50. What does the following clause mean and
2 how is that to be implemented?

3 A. How is that to be interpreted?

4 Q. Yeah.

5 A. I would have to give you my interpretation.
6 The 50/50 came from, again, my answer in depositions.
7 I think the staff's concern was that the company,
8 Water Power's contribution, if you look at it from an
9 equity standpoint, was higher than Sierra's
10 contribution to the merger, and so I believe the staff
11 was asking that there also be kind of an upper bound
12 put on this as well. I think, again looking after the
13 fact, if we're trying to measure was there a proper
14 allocation of benefits between the two operating
15 divisions, I think we would look at what happened and
16 did it fall within these ranges, and if it has then at
17 least it would be my interpretation that there was an
18 equitable allocation.

19 Q. I'm not sure I understood your answer.
20 Maybe it's not able to be fairly answered at this
21 point, but as I read this and understand generally the
22 relative efficiencies of the two companies, Water
23 Power is the more efficient and therefore would be
24 expected to -- well, maybe that cuts both ways. I was
25 about to say would be expected to achieve a relatively

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1 higher percentage of the benefits, but maybe the
2 greater benefits result from the less efficient
3 company.

4 A. Well, I think when you talk about
5 efficiency I think you have to look at all aspects of
6 operation with Water Power and Sierra, and I'm not
7 sure that I can arrive at a conclusion of one utility
8 is more efficient than another utility. I think there
9 are aspects that we're more efficient at and there are
10 other aspects of utility operation that Sierra is more
11 efficient at. But, again, what we were trying to do
12 in this paragraph was to set out some guideline so
13 that all parties would have a way of measuring, again
14 in an after-the-fact manner, whether there was an
15 equitable sharing of the benefits.

16 Q. What if there is a disagreement on this
17 issue between the commissions in Washington, Idaho,
18 and Nevada or the Commission staffs?

19 A. Well, if there is a disagreement and we
20 can't resolve allocation issues then the burden and
21 the risk really lies with the companies.

22 Q. The stipulation talked about the allocation
23 of current resources and planned resources. How will
24 new plant be allocated between the divisions
25 that are currently not planned?

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1 A. That are currently not planned? We're
2 still developing methodology for doing that, but what
3 we have talked about doing is allocating that plant
4 based on the needs of the two operating divisions at
5 that point in time. If a plant, production facility,
6 were developed in the year 2002 and the need was
7 entirely because of the Sierra operating division then
8 the facility would be directly assigned to that
9 operating division. If the need were 40/60 between
10 the two operating divisions then that's how you would
11 allocate it at that point in time.

12 Q. And how will that apply to, for example,
13 short-term power purchases or is my question even
14 relevant?

15 A. Well, there will have to be some either
16 direct assignment or allocation of short-term
17 purchases as well, and again, it would be based on the
18 relative needs of the two operating areas.

19 Q. The stipulation talks about measuring the
20 benefits against stand-alone costs. Correct me if I'm
21 misstating this, but measuring the benefits of the
22 merger as against what would have been apparently if
23 it had not occurred, I assume that's what stand-alone
24 costs would mean. How are you going to measure or
25 determine what stand-alone costs would have been?

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1 A. We'll have to work with the staff to
2 develop a methodology for or a mechanism for
3 calculating or developing what the stand-alone company
4 would have looked like. We know what the stand-alone
5 company looks like today. We know the level of
6 operating expenses, plant, revenues, some of those
7 things will be easy to calculate. Like revenues will
8 be easy to calculate as we go through time. Operating
9 expenses will not be as straightforward and easy, but
10 we will have to develop with the staff some way of
11 taking where we're at today and escalating it through
12 time so that we have a way of developing what that
13 stand-alone company might have looked like had we
14 remained a stand-alone company.

15 Q. The further out you go in time the more
16 abstract that becomes. What happens after the next
17 rate case in the year 2000? Will that go away at that
18 point or will that continue indefinitely?

19 A. Well, I think there is a point in time
20 where it probably becomes certainly a less meaningful
21 calculation, but I think there are other -- there are
22 other measures that we can look to. We can certainly
23 look to inflation rates and other things that are
24 occurring in the environment, and should we have the
25 need to file a rate case sometime after the rate

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1 freeze is off, I think those measures could be looked
2 to to see whether a need for rate increase is
3 reasonable and whether there is other cost increases
4 that are causing it other than the fact that the
5 merger occurred. I'm not giving you a lot of
6 specifics because at this point in time we have not
7 worked out a lot of specifics.

8 Q. Would you comment on Northwest Alloys's
9 position that there should be a rate design -- the
10 rate design issue should be addressed now before a
11 freeze. What is your position and response to that?

12 A. We're supportive of their position and
13 intend to file it in the PGA this coming fall.

14 Q. Is there then not a current difference of
15 opinion between the parties to the stipulation and
16 Northwest Alloys?

17 MR. MEYER: Excuse me, with respect to the
18 merits of the issues or with respect to the forum?

19 COMMISSIONER HEMSTAD: With respect to the
20 overall settlement here.

21 MR. TROTTER: Your Honor, the question was
22 regarding the parties and this witness probably can
23 talk about one of the parties but maybe counsel could
24 be heard on this issue. It might help.

25 COMMISSIONER HEMSTAD: Apparently that was

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1 your statement of the additional stipulation, Counsel,
2 so the matter is being deferred.

3 Q. Is that my understanding?

4 A. That's my understanding as well.

5 JUDGE HAENLE: Did we understand from Mr.
6 Finklea that with the modified stipulation or
7 clarified stipulation that you are no longer opposing
8 or there is no disagreement?

9 MR. FINKLEA: Perhaps we should clarify,
10 Your Honor. We filed a letter on the 19th of May,
11 which I think is part of the record in this
12 proceeding, for Northwest Alloys that clarified at
13 that time that we weren't opposing the merger but were
14 concerned about whether the base rate freeze language
15 could -- two aspects of it. One, whether it could be
16 entered to preclude addressing this interstate
17 pipeline cost reassignment issue in a PGA proceeding,
18 and it's our understanding, based on what we've worked
19 out among us and what Ms. Johnston represented this
20 morning, that it's all of the parties' position this
21 morning that the base rate freeze language does not
22 preclude the Commission from addressing this issue in
23 the PGA. And it's Northwest Alloys's position that in
24 light of the rate freeze that the issue needs to be
25 addressed in a PGA because the issue as Mr. Schoenbeck

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1 describes it from our perspective presents the issue
2 the way it does and that the PGA is the forum to
3 address it.

4 JUDGE HAENLE: Did any other counsel have
5 anything to add to that?

6 MR. TROTTER: I just wanted to --

7 JUDGE HAENLE: Either one of you.

8 MS. JOHNSTON: I just want to point out
9 that at least as far as staff is concerned no staff
10 witness is opining on the merits of any potential cost
11 shifting in the PGA.

12 JUDGE HAENLE: Mr. Trotter.

13 MR. TROTTER: That's our point, and I think
14 it's clear from Mr. Schoenbeck's testimony that
15 they're not seeking a determination of the merits so
16 any discussion of the merits or any resolution of the
17 merits is beyond the scope of this proceeding.

18 CHAIRMAN NELSON: It will be fully
19 litigated in that future PGA proceeding.

20 MR. TROTTER: But we're reserving all
21 issues and all objections and everything on that issue
22 except for the fact that particular provisions of this
23 agreement don't preclude -- however the stipulation
24 read, I think it's pretty clear, but all other claims
25 and arguments and et cetera are reserved. At least we

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1 are reserving those.

2 JUDGE HAENLE: Thank you. Commissioner,
3 does that answer your question?

4 COMMISSIONER HEMSTAD: Yes. I will defer
5 to my colleagues for further questions for the moment.

6 JUDGE HAENLE: Commissioner.

7

8 EXAMINATION

9 BY COMMISSIONER GILLIS:

10 Q. Good morning.

11 A. Good morning.

12 Q. In the stipulation there's reference to the
13 freeze of the base rates. Would you expand a little
14 bit more on what that means, in greater detail what
15 are base rates.

16 A. Well, in the -- maybe it's easier for me to
17 talk about it in terms of the natural gas service.
18 When we're talking about the base rates we're
19 separating out gas costs. The gas costs which are
20 normally dealt with in the PGA would not be frozen,
21 and as we file PGAs those rates may fluctuate up or
22 down, but the remaining costs, which we're referring
23 to here as base rates, do remain frozen.

24 Q. So unless identified otherwise they would
25 remain frozen?

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1 A. That's correct.

2 Q. Will implementation of a rate freeze result
3 in postponement of operations planned or resource
4 investments that might otherwise be undertaken to more
5 efficiently serve Washington customers?

6 A. No, it would not.

7 Q. Does the agreement include assurance to
8 provide that long run investment enabling the most
9 efficient and reliable service possible for Washington
10 customers will continue?

11 A. We will continue to do whatever is
12 necessary to provide a high level of service to our
13 customers. Whether that means additional investment
14 or additional O and M expense.

15 Q. What about DSM that meets the total
16 resource cost test?

17 A. Yes. We'll make whatever expenditures are
18 necessary.

19 Q. The company is committed to an accelerated
20 write-off of DSM assets over the six-year rate freeze,
21 as I understand it. Will that decision likely have an
22 impact on the amount of DSM investment that you may
23 acquire over the time period or are those independent
24 decisions?

25 A. Those would be independent decisions.

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1 Q. So there wouldn't be any displacement
2 effect associated with that?

3 A. No, that's correct.

4 Q. You mentioned about the -- in the
5 stipulation mentions a renewable resource study.
6 Could you expand upon the scope and size of that
7 study?

8 A. I do not have a lot of information on that
9 study. We have committed to funding a study on
10 renewable resources. It's my understanding that the
11 dollar amount would be approximately \$20,000, and
12 beyond that I do not have a lot of information
13 regarding that study.

14 Q. Do you know if there will be additional
15 stakeholder input into the design of the study as far
16 as scope and size?

17 A. I'm assuming there would be, yes.

18 Q. Couple of final questions. With regard to
19 the provisions on bond downgrades, as I understand the
20 stipulation the bond downgrades during the rate freeze
21 will be assumed to be a result of the merger.

22 A. Unless we can substantiate that some other
23 reason caused it.

24 Q. Even with a downgrade it's possible that
25 Sierra's need for capital might trigger additional

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1 financing needs during the period. If new bonds cost
2 more than the average cost how will the resulting
3 increased costs of money be allocated?

4 A. This is probably an issue that we have not
5 addressed or resolved. It would be -- it would be my
6 belief that when we're talking about costs of capital
7 that we would not necessarily be allocating costs of
8 capital between the two operating divisions, but you
9 would look at the total costs of capital of the entity
10 as a whole.

11 Q. Where would it be resolved? At what point?

12 A. Well, if we were of course filing a rate
13 case after the rate freeze is off, I assume the issue
14 would be resolved in the hearing process. We would
15 put on cost of money witnesses and I'm sure all
16 parties to that proceeding would put on cost of money
17 witnesses as well.

18 Q. It would be a part of a rate case?

19 A. Yes.

20 Q. One last question. With regard to
21 amortization of merger-related costs, will any of
22 these costs be amortized in the test year when a rate
23 case would occur?

24 A. No. We're trying to complete the
25 amortization of those costs during the rate freeze

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1 period so none of it would spill over into any
2 subsequent rate filing should they occur.

3 Q. Are you willing at this point then to
4 perform a cost-out on those amortized costs? Will you
5 be able to cost those out at this point or will that
6 be done at the time of the rate case?

7 A. Well, we will have completed amortizing all
8 of those costs, so in any rate filing should they
9 occur after the rate freeze period you would not see
10 any costs in there.

11 Q. Will they be identified at this time or
12 will they be identified later on?

13 A. As we finalize the merger and have the
14 ability to calculate what the total costs will be, we
15 certainly will share that with all of the staffs in
16 all jurisdictions we'll be operating in.

17 COMMISSIONER GILLIS: Thank you. That's
18 all the questions I have.

19 JUDGE HAENLE: Madam Chairman.

20 CHAIRMAN NELSON: Just a couple more.

21

22 EXAMINATION

23 BY CHAIRMAN NELSON:

24 Q. Mr. Buergel, in response to bench request
25 No. 2 where we asked you to describe in more

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1 particularity what a carve-out might be, you answered
2 that it might very well be municipally imposed taxes.
3 In our visiting with other Commissioners and talking
4 about our NOI that's pending in this jurisdiction
5 about new competition in the electric power industry,
6 I'm concerned about that at this point. This might
7 sound sort of strange, but it appears that part of the
8 competitiveness problem, at least in the northeast,
9 has been the involuntary use of utilities as state and
10 municipal tax collectors. And I guess I am just
11 trying to probe a little bit and see just how willing
12 the company is going to be to be vigilant about
13 looking at future utility taxes in Washington state
14 and just simply passing them through on their
15 customers' bills. Do you have any reaction to that
16 concern?

17 A. Well, I guess I can give you my reaction
18 from how we have responded to those in the past and
19 maybe give you my perspective. I was a division
20 manager operating in the field where we had cities and
21 municipalities who were trying to raise taxes to their
22 citizens, and our response in the past has been to
23 work with those municipalities and to try and minimize
24 those taxes as much as we could. I don't think we
25 have ever just simply sat on the sidelines and allowed

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1 those taxes to escalate.

2 Q. Thank you. Then finally the stipulation
3 agreement at page 11, line 26 and following, talks
4 about the future least cost planning process
5 explicitly including the company's transmission and
6 wholesale power marketing planning but then has an
7 important caveat about future confidentiality
8 treatment of that kind of planning, and I guess my
9 question is, is, given that the least cost planning
10 process is supposed to be an open planning process,
11 and yet we see competition heating up in the
12 northwest, at least on the wholesale marketing of
13 generation resources and so on, how sustainable do you
14 think the least cost planning process will be during
15 the period of this agreement?

16 A. Well, I may not be the best witness to ask
17 that question of because I have not been involved in
18 that process in the past, but I think competition
19 probably will affect those types of processes; where
20 in the past we have freely exchanged information, in
21 the new environment we may not be as willing to
22 exchange that type of information. But I believe that
23 certainly as a company we will continue to do that
24 type of planning, and I think we have gained benefits
25 from doing it in an open environment and to whatever

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1 extent we can make information available, we will
2 continue to do that. But I do think that as we go
3 through time there will be a concern about
4 confidential information.

5 CHAIRMAN NELSON: Thank you. That's all I
6 have for now.

7 JUDGE HAENLE: Commissioners, anything
8 else?

9 COMMISSIONER HEMSTAD: I don't have any
10 other questions.

11 JUDGE HAENLE: I had one just following up
12 on a question that's already been asked. You
13 indicated it is your intention to finish amortizing.
14 Did I understand that you would finish amortizing
15 merger-related costs?

16 THE WITNESS: Yes.

17 JUDGE HAENLE: If you for some reason are
18 not able to finish amortizing those merger-related
19 costs would the company commit to performing those
20 out?

21 THE WITNESS: Yes, we could.

22 JUDGE HAENLE: Thank you. That's all I
23 had. Did parties have any questions?

24 MS. JOHNSTON: I have one clarifying
25 question.

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1 JUDGE HAENLE: Go ahead.

2 CROSS-EXAMINATION

3 BY MS. JOHNSTON:

4 Q. Direct your attention to page 4 of the
5 stipulation, paragraph No. 6.

6 A. Yes.

7 Q. Now, is it true that this particular
8 section refers to extraordinary circumstances under
9 which the applicants would seek rate relief and
10 advertise those extraordinary circumstances to the
11 interim rate relief criteria?

12 A. Yes. Using the interim rate relief
13 criteria as a guideline, that's correct.

14 Q. So Chairman Nelson's questions regarding
15 municipally imposed taxes, you answered that question,
16 but this subparagraph 6 supersedes your response to
17 bench request No. 2. Is that true?

18 A. Yes.

19 MS. JOHNSTON: That's all I have.

20 JUDGE HAENLE: Thank you. Mr. Finklea.

21 MR. FINKLEA: This is a follow-up to
22 Commissioner Hemstad's questions.

23

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25

1 CROSS-EXAMINATION

2 BY MR. FINKLEA:

3 Q. Mr. Buergel, I'm Edward Finklea
4 representing Northwest Alloys, Inc. Does Washington
5 Water Power intend by the end of 1995 to file and
6 support the reassignment of interstate pipeline
7 charges among its natural gas sales and transportation
8 schedules through the company's PGA proceeding?

9 MR. TROTTER: I object to the question,
10 Your Honor. The question asks for whether the company
11 was going to support a particular form of relief, and
12 we don't believe that issue is before the Commission
13 at this time. If you would refer to Mr. Schoenbeck's
14 testimony, page 3, it's stated that Northwest Alloys
15 recognizes that this is not a proceeding to address
16 this matter. I think the stipulation forecloses that
17 question so I will object to it.

18 JUDGE HAENLE: I am concerned with -- that
19 since the parties have indicated there won't be a
20 discussion of the merits I think asking the company
21 what they intend to do is getting into that area, Mr.
22 Finklea.

23 MR. FINKLEA: Your Honor, I'm not trying to
24 probe the merits. What I am trying to probe is the
25 timing of when the company intends to address it and

00664

1 how it intends to address it, whether the PGA is the
2 forum that it intends to use to address the issue.

3 MR. TROTTER: That's in the stipulation.

4 JUDGE HAENLE: The timing might be --
5 timing it was indicated that it would be this PGA, I
6 think, and I think the other part does go to merits,
7 Mr. Finklea.

8 It is your intention that the first PGA be
9 the forum. Is that correct, sir?

10 THE WITNESS: That's correct.

11 JUDGE HAENLE: I think beyond that you do
12 get into the merits and you do that at the peril of
13 the other signatories.

14 MR. FINKLEA: Well, Your Honor, I'm simply
15 asking how the company intends to file this. I don't
16 think that gets to the merits and I have no other
17 question as I'm very sensitive to the merits concerns
18 of some of the other parties.

19 JUDGE HAENLE: Mr. Trotter.

20 MR. TROTTER: I think it's been answered.

21 JUDGE HAENLE: I'm going to sustain the
22 objection. I don't feel that that's an appropriate
23 query at this time, Mr. Finklea.

24 Anyone else have questions? Anything more
25 of the witness?

00665

1 Thank you, sir, you may step down.

2 MR. MEYER: One or two redirect.

3 JUDGE HAENLE: Let me know immediately so I
4 don't pass you over.

5 MR. MEYER: Two quick areas, and I will be
6 as fast as I can.

7 JUDGE HAENLE: That doesn't mean talk
8 quickly. That means be efficient.

9 THE WITNESS: I would just as soon he talk
10 quickly.

11 JUDGE HAENLE: Cheryl would never forgive
12 him.

13 MR. MEYER: I'm afraid to put this to a
14 vote.

15

16 REDIRECT EXAMINATION

17 BY MR. MEYER:

18 Q. In the allocation of new plant, you talked
19 about allocations based on need. Is that really a
20 reflection of allocation based on what we
21 traditionally think of as cost causation principles?

22 A. Yes.

23 Q. And that's the way we've been allocating
24 existing plant for years?

25 A. That's correct.

00666

1 Q. With reference to the brief discussion with
2 Commissioners on the 50/50 reference within the
3 stipulation to allocation. Was that meant as no more
4 than a rough benchmark with respect to gauging the
5 reasonableness of future allocations?

6 A. That's correct.

7 MR. MEYER: That's all I have.

8 JUDGE HAENLE: Did that generate anything
9 else?

10 Thank you, sir. You may step down. Let's
11 go off the record to change witnesses.

12 (Recess.)

13 JUDGE HAENLE: Let's go back on the record.
14 During the time we were off the record the witness
15 from Northwest Conservation Act Coalition and Spokane
16 Neighborhood Action Program assumed the stand.
17 Whereupon,

18 TED BOTTIGER,
19 having been first duly sworn, was called as a witness
20 herein and was examined and testified as follows:

21 JUDGE HAENLE: The witness's prefiled
22 testimony has been entered. Go ahead, ma'am.

23

24

25

1 DIRECT EXAMINATION

2 BY MS. WILLIAMS:

3 Q. Good morning, Mr. Bottiger. Since your
4 prefiled testimony has been moved and entered, I think
5 we can begin by asking you, have you any changes or
6 additions or corrections to that testimony which was
7 prepared in May?

8 A. I do, and it comes about as a result of the
9 stipulation having been entered. I would refer to
10 page 7 of the stipulation being article 4 and
11 paragraph D. The substance of my testimony was
12 directed to three items all of which are covered by
13 the stipulation. Paragraph D1 is a continuation of
14 the low income demand side management programs at
15 least at present funding level for five years
16 including natural gas customer weatherization
17 programs.

18 Paragraph D is the applicant's agreement
19 to seek improvements in the energy codes in the state
20 of Washington. The language is broad and general and
21 I am relying on the good faith of the applicant to
22 support the updating of those energy codes.

23 Paragraph D3 is the renewable resource
24 development. There is within the Bonneville Power
25 Administration as well as other public and private

00668

1 utilities an effort to develop future resources. The
2 applicant here has committed to a -- I would have to
3 say a minor role in that joint activity.

4 So with these three paragraphs I believe
5 that the stipulation is consistent with the Washington
6 state -- Washington energy strategy that was directed
7 by the legislature and approved by the legislature as
8 well as with the Northwest Power Planning Council's
9 activities in these areas. I believe therefore the
10 stipulation is consistent with the guidelines and the
11 recommendations found therein.

12 Q. Have you formed an opinion as to whether
13 the stipulation is in the overall public interest?

14 A. I have. As I say, the token renewable
15 energy resource activity would be the one little fuzzy
16 area. I would hope that there's an active interest by
17 this utility and others to enter that area, but in
18 that sense the three items I've mentioned are
19 consistent with my understanding of the public
20 interest.

21 MS. WILLIAMS: Thank you. I have no
22 further questions.

23 JUDGE HAENLE: Commissioners, questions?

24 CHAIRMAN NELSON: Just a follow-on. So
25 then you support the stipulation and its approval?

00669

1 THE WITNESS: Yes.

2 COMMISSIONER HEMSTAD: I don't have any
3 other questions.

4 COMMISSIONER GILLIS: I have no questions.

5 JUDGE HAENLE: Parties, any questions?

6 MR. MEYER: No questions.

7 JUDGE HAENLE: Anyone?

8 Thank you, sir. You may step down. Let's
9 go off the record to change witnesses, please.

10 (Recess.)

11 JUDGE HAENLE: Let's be back on the record.

12 During the time we were off the record the first staff
13 witness assumed the stand.

14 Whereupon,

15 ALAN BUCKLEY,

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

18

19 DIRECT EXAMINATION

20 BY MS. JOHNSTON:

21 Q. Mr. Buckley, do you have before you what's
22 been marked and admitted as Exhibit T-125?

23 A. Yes, I do.

24 Q. And does that consist of your prefiled
25 direct testimony and exhibit?

00670

1 A. Yes.

2 Q. Are there any changes, revisions or
3 corrections to your testimony or your exhibit in this
4 case you care to make?

5 A. Yes, two small corrections on page 5. On
6 line 5, line 30, the RCW reference there should be RCW
7 80.12.040. Also, on line 32, toward the end of the
8 line there, there's a couple of words of "ant other".
9 Should be struck and "another" put in its place.

10 Q. Do you have any other changes?

11 A. No.

12 MS. JOHNSTON: Your Honor, witness is
13 available for questioning.

14 JUDGE HAENLE: Commissioners, have you
15 questions of the witness?

16

17 EXAMINATION

18 BY COMMISSIONER HEMSTAD:

19 Q. Well, I will start, Mr. Buckley. The
20 stipulation, I believe in your testimony, addresses
21 the issue of monitoring and qualification and
22 reporting mechanisms and the like that will be
23 developed. If conflicts arise regarding these
24 mechanisms, how do you see them being resolved and how
25 will you determine that they have been resolved? How

00671

1 do you measure success?

2 A. I don't know if there's any true way to
3 measure success. It is hoped, as Mr. Buerger said,
4 that already the companies have several things in
5 favor is they have similar methods of approaching
6 allocation methodologies. We have methodologies in
7 place already for certain things in between
8 jurisdictions. I think the remaining issues that are
9 there to be resolved are to the allocation and
10 reporting and everything between the actual operating
11 divisions. I feel like in general that even though it
12 sounds like a lot that the actual conflicts that will
13 arise will be fairly limited in scope, and I'm just
14 confident that the parties can work together to come
15 to a decision.

16 In the ultimate event that that is not the
17 case right now I don't have a firm plan on how if we
18 just do not come to an agreement, I just don't picture
19 that happen. We've discussed things with the other
20 Commission staff. We've had discussions with them
21 regarding this and other matters and the parties all
22 seem reasonable and seem to be willing to work with
23 the company and each other to formulate an equitable
24 answer to some of these concerns we have on what's
25 mentioned here.

00672

1 Q. I asked this question of Mr. Buergel. What
2 if there is a substantial conflict, say, between
3 Washington and Nevada with regard to the allocation of
4 benefits? How do you see that kind of an issue being
5 addressed?

6 A. I think ultimately, as Mr. Buergel said,
7 that the risk is on the company to respond to those
8 situations that that may arise. I think that down the
9 line we'll have our rate cases when they come out of
10 the rate freeze and evidence will be presented that
11 staff believes that the proper way -- and it can be
12 decided both in a rate freeze, but I think ultimately,
13 as he said, the company bears the risk of the
14 different parties not coming to an agreement.

15 Q. Does that mean the company can get whip-
16 sawed with different directives coming from different
17 states?

18 A. I think that potential is there. We also
19 in the stipulation do have a provision which allows us
20 to look at what happens in the other jurisdictions,
21 and address those situations that both the company I
22 think and staffs feel that could be this whipsawing
23 effect of one jurisdiction taking a position that
24 might result in an equitable result for one of the
25 other jurisdictions. Again, I think we get to the

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1 point where it's the company that's at risk for that.

2 Q. The stipulation provides that there be a
3 six-year rate freeze but the -- with an escape clause
4 for extraordinary circumstances and then a reference
5 to the Pacific Northwest Bell case of 1972. Can you
6 give me an example or two of one of the possible kinds
7 of extraordinary circumstance in a conflict of where
8 we currently are where that could happen over the next
9 few years?

10 A. Regarding interim relief standards or
11 specific events?

12 Q. Well, specific event.

13 A. I think that some of the events in that
14 would be, as an example, I guess, that in the
15 likelihood that inflation might take off, for example,
16 into some fashion that the company's ability to obtain
17 financing on the market, that their financial
18 situation has gone down to such effect that that would
19 be a problem, that that would be something that
20 happened. I suppose you could always have acts of God
21 and nature that would go in there. We didn't
22 specifically define any event. What we chose to do
23 was to eliminate some identified carve-outs and
24 instead tighten that so that it would be the result
25 that's looked at, not the different events. That any

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1 event that might be severe enough to meet this interim
2 relief standard, which we think is a more severe
3 standard than what the company originally proposed,
4 would allow them to come in and request rate relief.

5 COMMISSIONER HEMSTAD: That's all I have
6 for now.

7

8 EXAMINATION

9 BY COMMISSIONER GILLIS:

10 Q. Will we need to wait for full rate case
11 before we're able to determine accurately whether
12 Washington customers have truly been held harmless
13 over this agreement?

14 A. That's a tough question. I think the
15 ultimate measure of that will be -- a partial answer
16 would be yes. Obviously that would not -- given that
17 there's no interim relief requested in the meantime,
18 that would be five, six years away. In the meantime
19 staff is convinced that the rate freeze, as well as
20 the increased amortization of the DSM assets, would
21 bring forth the benefits that the company has claimed.
22 So I think that we are seeing -- I think the answer is
23 both, that, yes, you will see the results during the
24 next rate case of the benefits of the merger and that
25 hopefully the company's costs will be lower than

00675

1 what they would have been. Hopefully that there will
2 be opportunities for increased revenues through other
3 activities as a merged company and that will certainly
4 help rates, but at the same time that the company is
5 positioning itself for that event in the future that
6 there are certainly benefits that are happening during
7 that five-year period, and that will be brought forth
8 through the rate freeze.

9 Q. The stipulation I recall includes a series
10 of reporting responses that the company agrees to over
11 the time period. Will those help us at all in terms
12 of tracking these benefits?

13 A. Yes. That will help us to look at it. And
14 the hope is, is, it will be able to monitor the
15 company's performance to insure that the allocation
16 methodologies work, to make sure that we're tracking
17 the right things. The industry is obviously a fast
18 changing industry right now, so we also put in
19 provisions for changes, either increases, decreases,
20 elimination of certain reporting requirement. That
21 will certainly allow us to monitor in the event that
22 the company -- and hopefully they would do extremely
23 good in the merger, better than what's envisioned.
24 The parties do have as a stipulation we can go in and
25 file an earnings complaint if that pleasurable event

00676

1 happens. We hope there is more benefits than what's
2 been identified, so we have that option to then
3 propose some sharing mechanism or some mechanism in
4 the future in case the benefits are greater than what
5 the company has identified.

6 Q. I'm particularly interested in the labor
7 savings calculation of the benefits, since it
8 represents about 46 percent of the total benefit
9 calculation. Could you explain to me the methods that
10 you use in calculating those labor saving benefits?

11 A. Well, the methods that the company used is
12 what we did was -- what I did was to look at what the
13 company's case and work papers and response to data
14 requests indicated taking a look at an initial look at
15 the different areas that the labor savings were
16 claimed to make sure of two things. One, that they
17 were reasonable and two, that they were
18 merger-related. Those are the two items we looked at.
19 And in that calculation, these labor-related savings
20 are essentially elimination of duplication of duties,
21 particularly in the corporate administrative levels
22 and that the calculation was simply the elimination of
23 so many positions times the average salaries for that
24 area, so the salaries identified to that area times
25 the number of years, and in this case labor savings

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1 were identified over a period of ten years, but, as we
2 know, if a duplication is eliminated, that those
3 savings do extend beyond the ten years.

4 Q. Was there a calculation of a benchmark in
5 the stand-alone assumption of the work force that
6 would have occurred over the ten-year period if there
7 were not a merger, to compare that?

8 A. No, because I think in this particular
9 instance that the savings were solely identified as
10 being the elimination of -- solely in the great
11 majority of cases was at the corporate level, the two
12 companies merging. The number of people I don't
13 believe was all that great. I think it was 250 total,
14 but, so, there wasn't an attempt by staff to look at
15 this in the eyes of what it would be stand-alone
16 companies. Staff was pretty much convinced on the
17 Water Power side that as operating as a stand-alone
18 company that it was a pretty lean and mean company.
19 Water Power at least has -- had several efficiency
20 programs in place over the last few years, so the way
21 that this was analyzed was not a comparison of
22 stand-alone and merged numbers. It was the
23 elimination of duplication of corporate level.

24 Q. So what you're saying is that you feel that
25 the productivity efficiency options have been pretty

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1 well taken care of and there wouldn't be additional
2 ones that will be expected over the next ten years
3 without a merger?

4 A. As a stand-alone company. And the
5 applicants have also, as a result of their validation
6 report, have identified additional areas of savings
7 that relate to, I think, some efficiency savings at
8 the corporate level, and by that I mean that even
9 though they're not merger-related they were found
10 because of the transition teams looking in certain
11 areas.

12 So there were areas where additional
13 positions were efficiencies also positions were
14 identified in the validation report, and that is one
15 of the bases for staffs extending the rate freeze
16 another year as well as the amortization of the DSM
17 assets. That we had an extra pool of money, if you
18 will, that was identified by the applicants as being
19 related to the merger. So, yes, yes there was
20 additional efficiencies to a certain extent identified
21 by the company.

22 Q. As a result of the merger. What I'm
23 struggling with, and less so as you talk, is to the
24 extent that there could be expected productivity
25 increases, labor saving productivity increases over

00679

1 ten years on a stand-alone option, the benefits would
2 actually be less than are stated because comparing the
3 benchmark with the merger options is the correct, at
4 least in my view the correct, comparison of savings?

5 A. Yes, that would be the case, and I think
6 that those are, at least in the case of the Water
7 Power operating division, I think the potential for
8 that is somewhat limited given their history of the
9 last few years of their programs to do exactly that.

10 Q. Would carve-out adjustments if they were to
11 occur be brought forward as a part of a general rate
12 case or a more limited proceeding? Maybe this has
13 already been asked.

14 A. I think first of all it's been asked and I
15 think it's been identified that the carve-outs are an
16 item that's not there. It's nonrelevant under the
17 stipulation, and as you discussed I think in one of
18 the first questions is we're left with the interim
19 relief standard as a basis at least for the
20 company's coming in where there's not anything
21 specifically identified but there are certain other
22 items which interim relief standard addresses, and I
23 think staff witness Kelly also is familiar with some
24 of those and could maybe elaborate on those.

25 Q. I recall the earlier response now. Would

00680

1 you explain to me the stream flow adjustment in more
2 detail?

3 A. There's not a whole lot more detail than
4 what we have in here. The staff and the company has
5 in the last year before the merger application was
6 filed just entered into very preliminary discussions
7 about the possibility of the company filing a stream
8 flow adjustment. We've talked a few times about it.
9 The company has filed one in Idaho and has had it in
10 place fairly successfully. The initial discussions
11 that we had with the company was -- was more on a
12 limited scope than what Idaho's adjustment mechanism
13 would be. So, we felt that this particular item being
14 very -- would be very limited in scope as we've
15 discussed it with the company up to this date, would
16 be at some benefit to both the company and ratepayers
17 to possibly have such a mechanism in place.

18 Q. What's the rationale for separating out
19 stream flow resource from any other energy resource
20 for special treatment?

21 A. Just the variability in water flows,
22 particularly given the drought situation we've had in
23 the past few years and it seems like when there's not
24 a drought there's a lot of water. The company in our
25 initial discussions expressed some concerns that this

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1 variability in water presented problems when it came
2 to budgeting items such as some O and M items, and
3 they would -- in a year of a lot of water they could
4 ramp up O and M programs, have the money for it, get
5 everybody on board and then if the water flow the
6 next year went down they would essentially have to
7 stop the programs, lay the people off and just for
8 budgeting purposes, and we felt that if that could be
9 evened out that there would be some efficiencies
10 gained by having a steady program with this, say, O
11 and M budget, specifically identify that, and that
12 would be a benefit.

13 Q. This isn't, though, a guaranteed
14 pass-through?

15 A. No, not at all.

16 Q. It will be assessed on an individual case
17 basis?

18 A. Yes, and there would be trigger levels. It
19 would be more to capture, at least as envisioned early
20 on, and the company has not made a firm filing on
21 this, would be envisioned something that would be in
22 the case of extremes.

23 Q. Let me offer another scenario that I'm just
24 curious about. I can see where stream flows would be
25 influenced by natural situations, but I think on some

00682

1 of Water Power's streams that they utilize there's a
2 bull trout or some trout that's in question. What
3 about political decisions that have influenced stream
4 flow? Is that something --

5 A. No. This was meant to just address
6 weather-related stream flow.

7 COMMISSIONER GILLIS: I believe that's all
8 my questions.

9 JUDGE HAENLE: Commissioners, other
10 questions?

11

12 EXAMINATION

13 BY CHAIRMAN NELSON:

14 Q. I just got to clear up this understanding
15 of what carve-outs and what superseding by the
16 agreement means. By law companies have to pass
17 through utility taxes, so that carve-out remains
18 something that the staff will allow them to put on a
19 ratepayer's bill.

20 A. Yes.

21 Q. But what you mean by superseding with the
22 Pacific Northwest Bell criteria is for dramatic
23 increases in the cost of capital. That's what
24 superseding the previous --

25 A. Yes. That would be a good example, that in

00683

1 the event that there was some dramatic increase in
2 cost of capital or some other event that it wouldn't
3 automatically be identified as meaning they could come
4 in for rate relief, that even if that event happened
5 and their financial situation did not require them to
6 come in for rate relief through their increased
7 savings, that that would -- the standard would be more
8 the basis.

9 Q. I'm pretty familiar with those criteria of
10 the PNB case. The company has to be in pretty dire
11 financial straits to get relief on that ground, but
12 let's assume another ground. Let's assume an act of
13 terrorism, blowing up of a dam or a thermal plant.
14 Obviously, a rule of reason controls here and they can
15 come in and request relief there, right?

16 A. Yes. And there's several other rules of
17 reason. There's staff -- I mentioned earlier the
18 event that staff could or we could file or recommend
19 that an earnings complaint be made under the company
20 in case they overearned. We would certainly take into
21 consideration the downside potential too, that the
22 company is absorbing -- we have the savings. They
23 have committed to absorbing other bad events, so we
24 take this all into consideration.

25 Q. Thank you.

00684

1 JUDGE HAENLE: I just had one question with
2 regard to page 8 of your testimony at line 9. Your
3 sentence is, "The appropriateness standard was applied
4 to determine whether or not the claimed savings were
5 indeed merger-related." What do you mean by the
6 appropriateness standard?

7 THE WITNESS: That would be relating to
8 what I said up above, that the way that I looked at
9 each of the savings items was reasonableness and
10 appropriateness, and by appropriateness I just mean
11 whether the item would be considered merger-related or
12 not. In a merger, there's issues that are obviously,
13 because the companies are merging -- and you can take
14 some of those, a duplication of officers, take the
15 controller. They don't necessarily need two
16 controllers, so there's an obvious savings in the
17 merger. There's other savings that happen that are
18 not directly a result of the merger that they could
19 have done anyway and some of those might have been
20 some efficiency improvement programs or just a
21 reduction of personnel through that similar to what
22 Water Power has experienced over the last couple of
23 years. So it was meant to be one was the category
24 reasonable, if the savings could be derived in that
25 point, from that item, and also was it merger-related

00685

1 versus nonmerger-related.

2 JUDGE HAENLE: Thank you. Parties have
3 questions anyone?

4 MR. MEYER: No questions.

5 JUDGE HAENLE: Any redirect?

6 MS. JOHNSTON: No.

7 JUDGE HAENLE: Thank you, sir, you may step
8 down. May we have the next staff witness, please.

9 (Recess.)

10

11 DIRECT EXAMINATION

12 BY MS. JOHNSTON:

13 Q. Ms. Kelly, do you have before you what's
14 been marked and admitted as Exhibit T-127?

15 A. Yes, I do.

16 Q. And that consists of your prefiled direct
17 testimony in this proceeding?

18 A. That's correct.

19 Q. Do you have any changes or revisions or
20 additions that you care to make in your testimony this
21 morning?

22 A. No.

23 MS. JOHNSTON: Thank you. Your Honor, the
24 witness is available for questioning.

25 JUDGE HAENLE: Commissioners.

1 EXAMINATION

2 BY COMMISSIONER HEMSTAD:

3 Q. Ms. Kelly, would you elaborate a bit on
4 this distinction between bond downgrade that would be
5 merger-related and downgrade that would not be. Can
6 you give me an example.

7 A. I believe that the provision in the
8 stipulation that the company bear the burden to
9 demonstrate that a bond downgrade is not
10 merger-related addresses this issue because it's going
11 to be difficult to separate out what is a
12 merger-related downgrade and what is not, and from my
13 perspective it seems that as the company enters into
14 this as their preferred alternative for addressing
15 competition, the merger is their preferred
16 alternative, that as the market becomes more
17 competitive it's going to be difficult to discern what
18 happens to the merged company in that competitive
19 environment, and so if it is competition-related, if a
20 downgrade were to be competition-related then that is
21 tied to the merger in that this is their response to
22 competition.

23 So I think it's very difficult. I think
24 you've raised an important question of how do we
25 discern and that's why I, in the stipulation, felt

00687

1 that it was important that the company bear that
2 burden of proof to show.

3 Q. Well, for example, it's at least being
4 currently argued that the electric utility industry
5 generally is becoming more risky. I suppose at some
6 point in the future there could be a significant
7 downgrading of all or most utilities in this changing
8 environment, but that would be a result of the larger
9 competitive environment, and but from what you just
10 stated that would be classified as merger-related?

11 A. It could be. That's a question that would
12 be raised at the time, and Standard and Poor has done
13 some revisions, did them last year, to change their
14 rating system to recognize some of the changes that
15 are going along in the industry and there were some
16 downgrades that occurred then, and it's difficult to
17 know how that will play out as the competitive
18 environment evolves and if companies are to split off
19 into focusing different sections of the electric
20 industry, then there could be changes and I think it's
21 difficult to -- it's one of the difficult things to
22 get your arms around is what's going to happen in the
23 future as far as risk and the way that the companies
24 will address it and how to separate how Resources West
25 would address it versus how Water Power would address

00688

1 it, and that's something that we did struggle with.

2 COMMISSIONER HEMSTAD: That's all I have.

3 JUDGE HAENLE: Commissioner.

4 EXAMINATION

5 BY COMMISSIONER GILLIS:

6 Q. You just commented on the difficulty of
7 sorting out the -- if there were to be a downgrade in
8 bond rating, in sorting out whether it's
9 merger-related or not. Have you already or does staff
10 plan to have technical discussions with the company on
11 how that might be measured or are there objective
12 standards that can be applied in this case?

13 A. Well, I think we can rely some on the bond
14 rating agencies themselves and when action is taken
15 generally there is, at least my understanding, my
16 experience is that there is an explanation as to why
17 that bond downgrade occurred, and so that may help to
18 shed light on the issue. However, we may end up
19 having to discuss this prior to the next general rate
20 case or whenever the issue arises and trying to work
21 through how to deal with these costs, and looking at
22 what the best way for Washington ratepayers, holding
23 Washington ratepayers harmless, using that as the
24 metric that we would measure against and try to figure
25 out where Washington Water Power might have been given

00689

1 the competitive environment and all of that.

2 Q. Even without any change of bond ratings,
3 there can be changes in the cost of bonds of capital.
4 Given that there may be, you indicated in your
5 testimony at some point that you would expect there
6 would be some additional capital needs as a result of
7 a merger from Sierra, and how would those be allocated
8 between the jurisdictions, those additional costs?

9 A. Well, in general the cost of capital is
10 looked at on a company basis rather than on an
11 operating division basis, and so looking at an
12 allocated cost of capital would be very difficult if
13 not impossible. I think what we can look at is the
14 same standard of Resources West and asking the company
15 to demonstrate that if the costs of capital for
16 Resources West have increased, have they increased
17 over what Washington Water Power's cost of capital
18 would have been on a stand-alone basis, and we have
19 financial forecasts. We have the five-year financial
20 forecasts that give us an idea of when Washington
21 Water would have had to go to market, and we can
22 examine those and use those as a check as we head out
23 into the future, but after the rate freeze period it's
24 going to become even more and more difficult to look
25 at the operating division separately because Resources

00690

1 West is going to be the company that's rated and we
2 have to recognize that on a going forward basis.

3 COMMISSIONER GILLIS: That's all my
4 questions.

5 JUDGE HAENLE: Maybe you would not be able
6 to answer this until you did have the discussions with
7 the company that you described, but my concern in
8 saying that the applicants have the ongoing burden to
9 prove that customers are better off or to prove that a
10 downgrade is not due to the merger, I think the
11 Commission would want to know what that burden would
12 look like or what you would expect the company to do
13 to carry that burden. Is that something that would
14 not be able to to be answered until you had discussed
15 with the company?

16 THE WITNESS: I think it would be a
17 difficult thing to answer on a general basis. If a
18 specific action was taken it may be easier to know --
19 to answer the question then, so I would say it's
20 situation-specific. We should, you know, from staff's
21 perspective work with the company to identify the
22 information that we need for them to satisfy that
23 burden.

24 JUDGE HAENLE: Thank you.

25 Commissioners, anything else of this

00691

1 witness?

2 COMMISSIONER HEMSTAD: No.

3 COMMISSIONER GILLIS: No.

4 JUDGE HAENLE: Other parties, anything?

5 Any redirect?

6 Thank you, you may step down. I think
7 we're on a roll. May we have the last Commission
8 witness, please.

9 MS. JOHNSTON: May I have five minutes.

10 JUDGE HAENLE: Let's take a recess at this
11 time, be back at five minutes after 11. Take a ten
12 minute recess.

13 (Recess.)

14 JUDGE HAENLE: Let's be back on the record
15 after our morning recess. The next staff witness has
16 assumed the stand.

17 Whereupon,

18 ROLAND MARTIN,

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

21

22 DIRECT EXAMINATION

23 BY MS. JOHNSTON:

24 Q. Mr. Martin, do you have before you what's
25 been marked and admitted as Exhibit T-128?

00692

1 A. Yes, I do.

2 Q. And that consists of your prefiled direct
3 testimony in this proceeding?

4 A. Yes.

5 Q. Do you have any revisions, additions or
6 corrections to your testimony you care to make this
7 morning?

8 A. Yes. I have one correction. On page 5,
9 line 28, insert the words "transaction cost" after the
10 bracket No. 3. Line 28 should read, "3), Transaction
11 costs will be capped at 25 million dollars for
12 regulatory reporting purposes." That's all the
13 corrections I have.

14 MS. JOHNSTON: Mr. Martin is available for
15 questions.

16 JUDGE HAENLE: Thank you. Commissioners.

17

18 EXAMINATION

19 BY CHAIRMAN NELSON:

20 Q. Just one, Mr. Martin. You have experience
21 with the Pacific Utah merger allocation process, and
22 so I would like to ask you the same question that I
23 asked Mr. Buerger. Do you have the same hopes that he
24 does that this will be an easier process because
25 you've learned from that experience?

00693

1 A. I hope that my experience will help make
2 things easier. There are lessons that are learned
3 and hopefully I will be able to apply them in this
4 proceeding, in this situation.

5 Q. And if disputes develop, do you have some
6 idea of how -- that is between the states or between
7 the company and your staff, do you have any idea how
8 that dispute will be resolved?

9 A. Yes. Normally the issue is presented
10 before the different groups of people comprising the
11 task force or the group, the allocation group. And
12 they debate and argument ensues, and sometimes or
13 more likely a consensus will be reached. At that
14 point in time the issue will be resolved. However, if
15 there is something that is really controversial, the
16 members of the task force normally enlist the
17 assistance of even the commissioners so that it wasn't
18 uncommon during the meetings that commissioners among
19 themselves are doing the deep debate, so I hope that's
20 a question that will not happen.

21 Q. Well, so, that sounds a lot like the
22 Pacific Utah merger teams where commissioners did get
23 involved, and that's the ultimate resolution mechanism
24 is to convene a regional group of Commissioners to try
25 to hammer out this by consensus?

00695

1 will be serving its utmost usefulness during the
2 initial years of the merger because that is the best
3 available tool to measure whether benefits really were
4 achieved. There are some other alternatives but they
5 are less precise, I guess, or they are more subject
6 to arguments and questions. So, over the long run, I
7 recognize that stand-alone modeling will lose its
8 usefulness and, as Mr. Buergel mentioned, there will
9 be some other benchmarks in which we will be able to
10 come out with the measurement of whether the perceived
11 benefits were really achieved or not.

12 COMMISSIONER HEMSTAD: I have no other
13 questions.

14 COMMISSIONER GILLIS: I have no questions.

15 JUDGE HAENLE: I have nothing either.

16 Anything from the parties? Any redirect?

17 Thank you, sir, you may step down. Does
18 that complete the staff witnesses then?

19 MS. JOHNSTON: Yes, it does.

20 JUDGE HAENLE: Mr. Trotter, you had no
21 witnesses?

22 MR. TROTTER: That's correct.

23 JUDGE HAENLE: May we have your witness,
24 please.

25 MR. FINKLEA: Thank you, Your Honor. At

00696

1 this time Northwest Alloys would call on Don
2 Schoenbeck.

3 Whereupon,

4 DONALD SCHOENBECK,
5 having been first duly sworn, was called as a witness
6 herein and was examined and testified as follows:

7

8 DIRECT EXAMINATION

9 BY MR. FINKLEA:

10 Q. Mr. Schoenbeck, you're the same Donald
11 Schoenbeck that has prefiled testimony in this
12 proceeding which has been marked as T-133 and
13 admitted; is that correct?

14 A. Yes, I am.

15 Q. Do you have any revisions to that
16 testimony?

17 A. Yes, I do. They start on page 7.

18 MR. FINKLEA: Your Honor, for the record, I
19 will note that we did fax to the parties yesterday
20 revised sheets for Mr. Schoenbeck's pages 7, 8 and 9
21 and what Mr. Schoenbeck would be doing today is
22 reading those into the record.

23 JUDGE HAENLE: All right. We'll, because
24 the commissioners don't have any questions, as I
25 understand, perhaps we could just do those in a

00697

1 written form and I could just substitute the pages.

2 MR. FINKLEA: That's fine.

3 JUDGE HAENLE: Did any parties have
4 questions? Anyone?

5 All right. Why don't we have you submit
6 those in written form and we'll substitute the pages
7 then and that will take care of it.

8 MR. FINKLEA: I should submit the revised
9 pages?

10 JUDGE HAENLE: Yes, sir. There are three
11 revised pages if I understand.

12 MR. FINKLEA: And should we retype those
13 rather than have them handwritten or as they were?

14 JUDGE HAENLE: Not on my account. I think
15 that the handwritten revisions show very clearly where
16 the revisions are. It's fine with me.

17 All right. Thank you, sir. You may step
18 down.

19 Does that complete the witnesses then?

20 I think the loose ends that we have
21 involve, first of all, as I understand there has been
22 no -- the Commission hasn't indicated a date for the
23 public hearing.

24 CHAIRMAN NELSON: We have to find one, but
25 our thought was, Mr. Trotter, that we would try just

00698

1 to do the telecommunications link between here and
2 Spokane. Have sort of -- we had earlier thought about
3 trying to combine this hearing with some other
4 hearings that will bring us to Spokane but the
5 calendar is so tight that we don't want to hold this
6 proceeding until the end of July to have that public
7 hearing, so we'll try to find a date where we could
8 have an electronic public hearing in the service
9 territory and let you know as soon as possible.

10 JUDGE HAENLE: If the parties want to write
11 down any dates of conflicts you have in the next, say,
12 four weeks and turn them in after the hearing, the
13 Commission will do the best it can to consider them.

14 We also have -- we've discussed before we
15 went on the record, Mr. Trotter, public letters. Have
16 any been received?

17 MR. TROTTER: I checked my file before I
18 came down and did not find any, but we will be
19 vigilant and keep checking and we'll have an exhibit
20 for you to the extent we receive some.

21 JUDGE HAENLE: Thank you. I had suggested
22 before we went on the record that those letters, the
23 cutoff date be the date of the hearing, whatever it
24 is, and that Mr. Trotter be prepared to either provide
25 those letters or report on that date, if that's all

00699

1 right with everyone.

2 Are there any other procedural -- yes, sir.

3 COMMISSIONER HEMSTAD: Well, in view of Mr.
4 Trotter's comment, just ask the parties, I assume you
5 would not expect any substantial public comment then
6 in the current status of the merger proposal at this
7 point? In other words, in the service territory, do
8 you discern any significant concern or questions of
9 the like about the merger?

10 MR. MEYER: I will just represent what
11 happened in Idaho earlier this week with reference to
12 the public hearing. We had the evidentiary session
13 Monday during the day, Monday evening public hearing,
14 at which time we had one person appear, and I am
15 advised that although I didn't attend in Nevada I
16 think that was also true in Nevada. They had some
17 Carson City hearings at which just one customer
18 appeared.

19 JUDGE HAENLE: Are there any other
20 procedural loose ends? Anyone?

21 The Commission will advise you then as
22 soon as possible to set a public hearing date and
23 we'll be in recess until that time. Thank you.

24 (Hearing adjourned at 11:18 a.m.)

25