

00211

1 BEFORE THE WASHINGTON UTILITIES AND
 TRANSPORTATION COMMISSION
2 WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)
3)
 Complainant,) Docket Nos. UE-011570
4) and UG-011571
 v.) (consolidated)
5 PUGET SOUND ENERGY, INC.,)
) Volume III
6 Respondent.) Pages 211 to 427
)
7 _____)

8 A hearing in the above matter was held on
9 February 18, 2002, at 9:30 a.m., at 1300 South Evergreen
10 Park Drive Southwest, Room 206, Olympia, Washington,
11 before Administrative Law Judges DENNIS MOSS and
12 THEODORA M. MACE and Chairwoman MARILYN SHOWALTER and
13 Commissioner RICHARD HEMSTAD and Commissioner PATRICK J.
14 OSHIE.

 The parties were present as follows:
15 THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION, by ROBERT CEDARBAUM, Assistant Attorney
16 General, 1400 South Evergreen Park Drive Southwest, Post
Office Box 40128, Olympia, Washington, 98504. Telephone
17 (360) 664-1188, Fax (360) 586-5522, E-Mail
bcedarba@wutc.wa.gov.

18 PUGET SOUND ENERGY, by KIRSTIN S. DODGE and
19 MARKHAM A. QUEHRN, Attorneys at Law, Perkins Coie, LLP,
411 - 108th Avenue Northeast, Suite 1800, Bellevue,
20 Washington 98004, Telephone (425) 453-7326, Fax (425)
453-7350, E-Mail dodgi@perkinscoie.com.

21 THE PUBLIC, by SIMON FFITCH, Assistant
22 Attorney General, 900 Fourth Avenue, Suite 2000,
Seattle, Washington, 98164-1012, Telephone (206)
23 389-2055, Fax (206) 389-2058, E-Mail simonf@atg.wa.gov.

24
25 Joan E Kinn, CCR, RPR
Court Reporter

00212

1 INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES,
2 by S. BRADLEY VAN CLEVE and MELINDA DAVISON, Attorneys
3 at Law, Davison Van Cleve, 1000 Southwest Broadway,
 Suite 2460, Portland, Oregon, 97205, Telephone (503)
 241-7242, Fax (503) 241-8160, E-Mail mail@dvclaw.com.

4 KING COUNTY, by DONALD C. WOODWORTH, Senior
5 Deputy Prosecuting Attorney, 500 Fourth Avenue, Suite
 900, Seattle, Washington 98104, Telephone (206)
 296-0430, Fax (206) 296-0415, E-Mail
6 don.woodworth@metrokc.com.

7 NORTHWEST INDUSTRIAL GAS USERS, by CHAD M.
8 STOKES, Attorney at Law, Energy Advocates LLP, 526
 Northwest 18th Avenue, Portland, Oregon 97209, Telephone
 (503) 721-9118, Fax (503) 721-9121, E-Mail
9 cstokes@energyadvocates.com.

10 KROGER COMPANY, by MICHAEL L. KURTZ, Attorney
11 at Law, Boehm, Kurtz & Lowry, 36 East Seventh Street,
 Suite 2110, Cincinnati, Ohio 45202, Telephone (513)
 421-2255, Fax (513) 421-2764, E-Mail mkurtzlaw@aol.com.

12 FEDERAL EXECUTIVE AGENCIES, by NORMAN J.
13 FURUTA, Attorney at Law, Department of the Navy, 2001
 Junipero Serra Boulevard, Suite 600, Daly City,
14 California 94014-1976, Telephone (650) 746-7312, Fax
 (650) 746-7372, E-Mail FurutaNJ@efawest.navfac.navy.mil.

15 COGENERATION COALITION OF WASHINGTON, by
16 DONALD E. BROOKHYSER, Attorney at Law, Alcantar & Kahl,
 LLP, 1300 Southwest Fifth Avenue, Suite 1750, Portland,
17 Oregon 97201, Telephone (503) 402-8702, Fax (503)
 402-8882, E-Mail deb@a-klaw.com.

18

19

20

21

22

23

24

25

00213

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

INDEX OF EXAMINATION

WITNESS:	PAGE:
LISA A. STEEL	
Direct Examination by Mr. Cedarbaum	241
Cross-Examination by Mr. Quehrn	251
Cross-Examination by Mr. ffitch	348
Cross-Examination by Mr. Kurtz	390
Cross-Examination by Mr. Van Cleve	393
Examination by Chairwoman Showalter	395

00214

1			
2		INDEX OF EXHIBITS	
3			

4	EXHIBIT:	MARKED:	ADMITTED:
5	LISA A. STEEL		
6	401TC	239	247
7	402	239	247
8	403	239	247
9	404C	239	247
10	405	239	247
11	406	239	247
12	407C	239	247
13	408	239	247
14	409C	239	247
15	410	239	247
16	411C	239	247
17	412	239	247
18	413	240	247
19	414C	240	247
20	415C	240	247
21	416	240	248
22	417	240	248
23	418	240	248
24	419	240	248
25	420	240	248

00215

1	421	240	248
2	422	240	248
3	423	240	248
4	424C	240	248
5	425	249	344
6	426	263	347
7	427C	263	347

8

9 BENCH REQUESTS

10 1 - 325

11 2 - 420

12

13

14

15

16

17

18

19

20

21

22

23

24

25

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

2 JUDGE MOSS: Good morning, everyone. We are
3 convened this morning on President's Day to begin our
4 evidentiary hearings in the interim phase of the matter
5 styled Washington Utilities and Transportation
6 Commission against Puget Sound Energy, Docket Numbers
7 UE-011570 and UG-011571. We're concerned, of course,
8 only with the electric docket in this phase.

9 Our basic agenda today, we will take
10 appearances using the short form of appearance, that is
11 to say your name, your affiliation if you wish to state
12 it, and the party whom you represent, unless it is your
13 first appearance, in which case I will ask you for
14 additional information. We will take up any preliminary
15 matters other than the motions that are now pending, and
16 I do have a comment, for example, on the subject of
17 confidential material. We will then take up PSE's
18 motion, which I think of as a motion in limine. And we
19 had this morning the Industrial Customers filed a
20 response, and I know that that's been pre-distributed to
21 all parties. It's sufficiently brief, I'm sure you, as
22 I, have had an opportunity to read that. We also have
23 what I think of as anticipatory objections by Staff and
24 Public Counsel with respect to some of the material
25 that's to come in later or proposed to be put in later.

00217

1 I think we will go ahead and take that up this morning
2 as well and get that out of the way. And then we will
3 proceed to our witnesses beginning, I believe, with
4 Ms. Steel followed by Mr. Lott, and so forth according
5 to the witness order we established during our final
6 pre-hearing conference last Thursday.

7 I will now slow down the pace at which I am
8 speaking and remind all parties that for the sake of our
9 reporter, it is important to both speak clearly and into
10 the microphone and at a more deliberate pace than what I
11 have exhibited thus far.

12 At the conclusion of the day, we may have
13 some other business to take up, specifically with
14 respect to some exhibits that have been handed up to me
15 this morning that are proposed to be used during
16 cross-examination. We may actually mark those tomorrow
17 instead of today since this being a state holiday we
18 don't have our usual cogeris of support staff available.

19 All right, let's begin with the appearances
20 then, and we will start with the company.

21 MR. QUEHRN: Good morning, Mark Quehrn for
22 Puget Sound Energy.

23 MS. DODGE: Kirstin Dodge for Puget Sound
24 Energy.

25 MR. STOKES: Morning, my name is Chad Stokes

00218

1 with the Northeast Industrial Gas Users. This is also my
2 first appearance.

3 JUDGE MOSS: Okay, Mr. Stokes, but you're
4 with Davison Van Cleve? I'm sorry, Industrial Gas
5 Users.

6 MR. STOKES: Yes.

7 JUDGE MOSS: I'm sorry, I've got so many
8 acronyms going around.

9 MR. STOKES: With the law firm of Energy
10 Advocates.

11 JUDGE MOSS: You're with Mr. Finklea's firm?

12 MR. STOKES: Correct.

13 JUDGE MOSS: All right, well, we have that
14 information, so we will just rely on that. Thank you,
15 Mr. Stokes.

16 MS. DAVISON: Good morning, I'm Melinda
17 Davison. I'm here on behalf of the Industrial Customers
18 of Northwest Utilities, and also here with me is Brad
19 Van Cleve.

20 MR. KURTZ: Mike Kurtz on behalf of the
21 Kroger Company.

22 MR. FFITCH: Simon ffitch, Public Counsel.

23 MR. CEDARBAUM: Robert Cedarbaum for
24 Commission Staff.

25 MR. BROOKHYSER: Good morning, Your Honor,

00219

1 Don Brookhyser for the Cogeneration Coalition of
2 Washington.

3 MR. FURUTA: And Norman Furuta for the
4 Federal Executive Agencies.

5 JUDGE MOSS: Anybody else?

6 MR. WOODWORTH: Don Woodworth, King County.

7 JUDGE MOSS: Okay.

8 Do we have anybody on the conference bridge
9 line who wishes to enter an appearance?

10 Do we have anybody on the conference bridge
11 line at all?

12 Apparently not. I guess I need to tell them
13 they're being muted.

14 All right, does that complete our appearances
15 then?

16 All right, I said I wanted to take up
17 preliminary matters other than the pending motions. On
18 Thursday, I did raise with the parties the I will call
19 it problem that I see with the volume of confidential
20 material in this proceeding, on a pre-filed basis at
21 least, and I asked the parties, and I specifically was
22 focused on PSE since they are the source of much of the
23 information that's present in the proceeding, asked the
24 parties to complete their final preparations with an eye
25 to eliminating as much of that as possible. And I will

00220

1 just ask you, Ms. Dodge, I think the conversation was
2 with you, if Puget has had an opportunity to review that
3 material and lessen the amount of material that we're
4 going to have to deal with on a confidential basis.

5 MS. DODGE: Your Honor, during our
6 preparations, we have had an eye to that. It may be a
7 little bit of an ongoing process since Puget's witnesses
8 are coming later in the week. But, for example, I
9 believe that Mr. Quehrn in preparing for
10 cross-examination with Ms. Steel has been able to
11 identify certain materials that will not need the
12 confidential designation. It appears that Staff and
13 some of the other parties may have given things a
14 confidential designation out of an abundance of caution,
15 which we appreciate, and certainly with respect to those
16 matters, those will not need to be identified as
17 confidential. But it's we thought as we go, it may make
18 more sense.

19 JUDGE MOSS: Sure, it does make more sense to
20 take it up as we go along, so I will be asking about it
21 from time to time, or you all can just tell me that you
22 have already considered it, and we will remove the
23 confidential designation as to specific portions of
24 documents, and that will be very helpful.

25 I will go ahead and comment for any who are

00221

1 present in the room who are not signatories to the
2 confidentiality agreements that are part of the
3 protective order in this proceeding that there is a
4 certain amount of material that has been designated
5 confidential, and you are not privy to that if you are
6 not a signatory. We hope that it will not be necessary
7 to modify our hearing procedures in order to have a full
8 and disclosive proceeding, but we do sometimes have to
9 take steps to ensure that material as to which a
10 legitimate claim of confidentiality has been asserted
11 are indeed protected, and those steps might include
12 reference to documents or transcript that only those who
13 are privileged to see it will be able to see. We have
14 on occasion in past hearings even had to ask those who
15 are not privy to the confidential material to leave the
16 hearing room temporarily. So I hope that we don't have
17 to do any of that, but it's a possibility, and I just
18 wanted to alert you to it now so you won't be surprised
19 if I do something like that.

20 Are there any other preliminary matters
21 parties want to raise before we get to the motions?

22 Yes, Ms. Dodge.

23 MS. DODGE: Your Honor, you had asked the
24 parties to talk about whether we would stipulate on
25 admission of certain exhibits, particularly

00222

1 cross-examination exhibits and things that are data
2 request responses and so forth.

3 JUDGE MOSS: Sure.

4 MS. DODGE: I don't know if this is the
5 appropriate time to talk about that.

6 JUDGE MOSS: Would it be better to handle
7 that in the same fashion as the confidentiality and take
8 it up as each witness appears? In other words, if you
9 have stipulated to the admission of certain
10 cross-examination exhibits for Ms. Steel, we can
11 identify those when she takes the stand and so forth. I
12 think that would probably be easier for me if that will
13 work for everyone else.

14 MR. FFITCH: I guess my only thought, Your
15 Honor, is that Ms. Dodge had made a representation to us
16 about the company's general position with regard to the
17 exhibits that we had offered. We had made a similar
18 sort of a counter representation to them. So it might
19 be useful to just hear the general, have Ms. Dodge just
20 -- and the Bench may like to hear, just hear the general
21 approach the company is planning to take without going
22 through exhibit by exhibit.

23 JUDGE MOSS: All right, let's hear the
24 general approach.

25 MS. DODGE: Your Honor, it appears that many

00223

1 of the cross-examination exhibits are simply one party
2 or another's response to data requests, and rather than
3 having everybody go through foundational questions, if
4 they intend to just get it into evidence and not ask
5 questions, I don't know if the suggestion is maybe a
6 little bit of a tit for tat, but certainly we wouldn't
7 want one party to agree to let in everyone's but yet
8 require their witness to go through a foundational
9 exercise. So I don't know if that's Mr. ffitch's
10 concern, but I do have all the exhibit numbers listed if
11 that would be helpful.

12 JUDGE MOSS: Maybe we will look at your list
13 at a break, but yeah, to the extent the parties have
14 previously discussed, I mean normally unless there's an
15 objection to foundation, we don't worry ourselves unduly
16 about it, and so the parties can understand based on
17 their prior conversations whether they need to go
18 through a brief litany of foundation. If the parties
19 are comfortable based on their conversations that
20 they're not going to need to do that without drawing an
21 objection, then don't do it.

22 Does that work, Mr. ffitch?

23 MR. FFITCH: Yes, thank you, Your Honor.

24 JUDGE MOSS: Anything else prior to taking up
25 the motions?

00224

1 All right, I will note for the record that
2 Puget Sound Energy and Staff and Public Counsel all
3 filed papers at mid day and later on Friday, the final
4 business day prior to our hearing. These are variously
5 styled as motions to strike or objections or what have
6 you. The PSE document I would regard essentially as a
7 motion in limine, a motion directed to the proposition
8 that certain matters ought to be excluded as being
9 outside the scope of what should be before the
10 Commission on the record of this proceeding. The other
11 objections by Staff and Public Counsel are essentially
12 raising other forms of objection, hearsay at its heart,
13 and assertions of prejudice.

14 We have had the opportunity to carefully
15 study the individual testimony and exhibits that PSE,
16 Staff, and Public Counsel would have us exclude from the
17 record for one reason or another. Puget's motion is
18 grounded in the question of relevance, and we are fully
19 mindful of Puget's arguments as stated in its written
20 motion. We have this morning reviewed the Industrial
21 Customers' arguments in response with respect to
22 primarily I think or perhaps exclusively to the matters
23 concerning Mr. Schoenbeck. Considering the arguments
24 most favorably to Puget Sound Energy, we find that
25 there's no need to have responsive argument, and we deny

00225

1 PSE's motion.

2 We consider that PSE's motion depends in
3 large part on our recent order granting interim relief
4 in the Olympic Pipeline matter despite what we think was
5 a clear and unequivocal warning in that order that
6 parties should not look to it for guidance in future
7 interim rate proceedings. Interim relief is an
8 extraordinary remedy that if granted provides relief in
9 the face of unusual, even highly unusual circumstances
10 that confront our regulated companies from time to time.

11 A request for interim relief demands
12 flexibility in approach, not rigidity. Parties should
13 not mistake the factors or criteria that are central to
14 our decision in one case, Olympic for example, or the
15 oft cited PNB decision as bright line standards that can
16 be raised as barriers to our need to address quickly and
17 effectively asserted dire circumstances that are by
18 their nature unique to the company that seeks interim
19 relief and the circumstances in which it finds itself.

20 In this context, we must not impose undue
21 restrictions on the parties as they advance their
22 respective theories of the case. Ultimately we may
23 accept or reject a given theory, or we may defer its
24 consideration to a later phase of the proceeding. But
25 our decision to take any particular course of action by

00226

1 a party must come, proposed by a party, must come after
2 we have heard the evidence and argument, not before.

3 Without discussing each of the numerous lines
4 of testimony and supporting exhibits to which PSE
5 objects, we will briefly summarize what we have found on
6 close review.

7 We note that PSE offers considerable
8 testimony to support its argument that its present
9 financial condition is not of its own making, that it is
10 a victim of circumstances. Parties are entitled to
11 present evidence that may cast some question on PSE's
12 assertions, testimony that suggests other causes for
13 PSE's asserted financial straits, yet PSE objects to and
14 asks us to exclude such testimony.

15 Some of what PSE objects to consists of one
16 party or another's remedy theory, evidence related to
17 what relief is necessary to be given, if any at all, in
18 light of PSE's present and reasonably foreseeable
19 financial circumstances. The question of what relief is
20 required, if any, is centrally relevant to our
21 proceeding. Again, we may ultimately accept or reject
22 particular theories, but we do not think it is proper to
23 foreclose any of the ideas advanced by the parties in
24 advance of our hearing the evidence and the arguments.

25 PSE objects to testimony concerning its net

00227

1 power cost during the relevant period, yet those costs
2 are central to PSE's own case. The balance of what PSE
3 objects to concerns testimony related to the company's
4 recent financial history. Such testimony provides
5 context vis-a-vis PSE's claim that its current
6 circumstances are extraordinary and require immediate
7 relief.

8 Finally, we note that there will be a single
9 record in this proceeding, both the interim and the
10 general phases. Given that, the question of relevance
11 must be considered in a somewhat broader context than
12 what PSE argues in its motion.

13 For the reasons stated, we deny PSE's motion
14 to exclude the pre-filed testimony and exhibits that it
15 identifies in Attachment A to its motion.

16 All right. Now moving on, we have Staff and
17 Public Counsel essentially urging us to limit the record
18 by excluding the same materials. Exhibit Number 28 is
19 objected to as being improper hearsay, and we are asked
20 to exclude Mr. Donald Gaines's testimony that relates to
21 that exhibit. Staff and Public Counsel also object to
22 what's been marked for identification as Exhibit Number
23 168 and Exhibit Number 207, which are portions of the
24 pre-filed testimony and exhibits and a workpaper
25 prepared by Mr. Heidell, who is slated to appear as a

00228

1 witness in the general proceeding or general phase but
2 not in the interim phase. Pre-marked Exhibit Numbers
3 168 and 207 were tendered as possible cross-examination
4 exhibits by the Federal Executive Agencies and the
5 Industrial Customers Northwest Utilities respectively.

6 We will hear argument on these, and I'm going
7 to ask the parties to please begin by telling us, the
8 sponsoring parties, to please begin by telling us the
9 purpose for which the exhibits are being offered. And
10 we will start with, we have Staff and Public Counsel's
11 pre-filed arguments, so we will start by hearing Puget's
12 response to the objections to Exhibit Number 28 and
13 Mr. Gaines's testimony that relates to that exhibit.

14 MS. DODGE: Thank you, Your Honor. Looking
15 first at Mr. Gaines' testimony, Exhibit 25T, page 16,
16 line 22, through page 17, line 3, this portion of
17 Mr. Gaines' testimony is a statement of his opinion,
18 he's a financial expert, as to whether the company will
19 be able to issue equity and whether investors will
20 purchase such equity if the level of interim relief is
21 limited to that advanced by the respondents. Exhibit 28
22 is cited in that portion of his testimony. It is
23 something that he has considered and forms part of the
24 basis of his opinion, but his opinion is not limited to
25 Exhibit 28.

00229

1 His opening testimony, Exhibit 21T, states in
2 a couple of places that Puget can not issue equity and
3 that investors will not be interested in purchasing such
4 equity. So this is not something that's been -- that's
5 new or that's been created out of Exhibit 28, the letter
6 from the Merrill Lynch expert that's been objected to.
7 So the testimony itself should come in, and the
8 objection should be overruled.

9 With respect to Exhibit 28, that's the letter
10 from Anthony Leness of Merrill Lynch to Mr. Donald
11 Gaines, again, it's important to view this in context.
12 Mr. Gaines testified in his direct pre-filed, as I have
13 stated, his opinion as to whether the company can issue
14 equity and whether investors will be interested. The
15 respondents have questioned that and stated that he
16 hasn't shown that and that they don't believe it
17 essentially. So the letter from Mr. Leness provides
18 additional evidence from someone in the financial
19 community that steps through whether the company can or
20 should issue equity goes exactly to the respondents'
21 case.

22 Now the question is whether this letter from
23 an investment banker who specializes in issuing utility
24 equity is the kind of evidence on which reasonably
25 prudent persons would be expected to rely in conducting

00230

1 their affairs. This is not Mr. Gaines saying he heard
2 in a bar that someone said X. This is a letter from a
3 financial expert in exactly this area. A letter is the
4 kind of information that a reasonably prudent person
5 would be expected to look at and consider in making a
6 decision, and it's exactly the kind of thing that comes
7 in in administrative hearings under the strict exception
8 to strict application of hearsay rules.

9 Finally, Staff has suggested that Mr. Leness
10 has an interest in the outcome of this proceeding
11 because Merrill Lynch owns Puget Energy stock. It's my
12 understanding that Merrill Lynch, as with many other
13 firms of its type, holds stock for its customers. The
14 customers are the owners of the stock. In addition,
15 typically the side of the house that is issuing equity
16 has nothing to do with the side of the house that may be
17 holding that stock or purchasing it on behalf of its
18 customers. Even if one felt that Staff's argument with
19 respect to credibility had some merit, that goes to the
20 weight of the letter and not to whether it should be
21 admitted and considered at all.

22 JUDGE MOSS: Ms. Dodge, it sounded to me like
23 you were uncertain as to the status of Merrill Lynch's
24 asserted interest in the company. Am I correct in
25 picking that message up from your words? You don't know

00231

1 if the two sides of the house are separate or you don't
2 know that this institution does not itself hold stock;
3 at least that's the impression I got. I'm asking the
4 question, is that the case?

5 MS. DODGE: I'm not an expert in such
6 matters. It's my understanding that that's the case.
7 Mr. Gaines could be questioned on this matter, and I'm
8 sure he would know.

9 JUDGE MOSS: Okay.

10 Mr. Cedarbaum, anything in response?

11 MR. CEDARBAUM: Yes, Your Honor. Without
12 trying to repeat the points we made in our motion --

13 JUDGE MOSS: No, there's no need to do that.

14 MR. CEDARBAUM: With respect to Exhibit
15 Number 28, listening to Ms. Dodge I think just confirms
16 our concern, letters being offered for the truth of the
17 matter asserted in that letter, and then Mr. Gaines
18 relies upon that letter to reach some of his own
19 conclusions. We have no opportunity to cross examine
20 Mr. Leness. He's not a witness in this case. We just
21 have no ability to inquire about the substance and the
22 merits or demerits of his letter and the answers to the
23 questions that were posed to him. Without him as a
24 witness, we are simply prejudiced in that regard.

25 JUDGE MOSS: Okay.

00232

1 MR. CEDARBAUM: With respect to whether or
2 not Mr. Leness's firm, Merrill Lynch, has a monetary
3 interest in the outcome of the case, my understanding
4 is, and we attached that document, the FERC form, to our
5 motion, which shows the number of shares that Merrill
6 Lynch clients own in Puget Sound Energy. Clearly Merrill
7 Lynch, even though it may not be the owner itself of
8 those shares, has a financial interest in its clients,
9 commissions from clients and sales and purchase of stock
10 of Puget Energy, Puget Sound Energy, so there is still
11 that financial interest. So we believe that our
12 objection to Exhibit 28 is well founded and ask the
13 Commission to grant it.

14 With respect to the testimony of Mr. Gaines,
15 looking at page 16, line 22, he refers to that exhibit
16 specifically for support of statements in that
17 testimony. If those statements are his own but they're
18 reflected elsewhere in his testimony, then this material
19 is also duplicative and could be excluded on that basis.
20 But to have a paragraph of testimony that duplicates
21 other testimony but relies specifically upon the hearsay
22 evidence of Mr. Leness we believe is objectionable, and
23 we maintain our objection on that point.

24 JUDGE MOSS: Thank you, Mr. Cedarbaum.
25 Mr. ffitich, you're also a proponent here.

00233

1 MR. FFITCH: Thank you, Your Honor, I would
2 concur in the remarks of Mr. Cedarbaum.

3 JUDGE MOSS: Okay, thank you, Mr. ffitch.

4 CHAIRWOMAN SHOWALTER: I just have one
5 question. Ms. Dodge, since Mr. Leness appears to be an
6 expert and is refuting point by point Ms. Steel's
7 testimony, why didn't you bring him on as an expert
8 witness for that purpose?

9 MS. DODGE: I believe it's primarily a
10 practical matter. We had eight business days to put in
11 a rebuttal case.

12 JUDGE MOSS: All right, we're going to take a
13 brief recess to give the Bench an opportunity to confer.
14 We will be back by 10 after, so everybody be back in
15 their seats by then, please.

16 (Recess taken.)

17 JUDGE MOSS: It took a little more time I
18 suppose than we call the expression a New York minute.
19 I suppose in hearings, we ought to think in terms of
20 Texas minutes where we amble.

21 All right, the Commission has had an
22 opportunity to deliberate on the argument with respect
23 to the pending objection. We want to note again, as I
24 said previously, that this is an expedited proceeding,
25 and of course we have to be flexible in what evidence we

00234

1 consider. However, on consideration, the Commission
2 finds that the letter, Exhibit Number 28, is too much in
3 the nature of expert testimony. It was prepared
4 specifically in response to testimony tendered in this
5 proceeding and not something that was prepared in the
6 ordinary course of business. The Merrill Lynch interest
7 in Puget is unclear at best, and without the ability to
8 have the witness here to examine him, we can't really
9 measure the degree of reliability and weight that would
10 be appropriate to the exhibit, so it will be excluded.

11 The testimony, however, as to that portion of
12 the objection, it will be overruled. The testimony will
13 be allowed, and, of course, Mr. Donald Gaines will be
14 available to be questioned with respect to that in the
15 course of his time on the stand.

16 Now we need to take up the matter of Exhibit
17 Numbers 168 and 207. Let's go ahead and since 207 is
18 the broader exhibit with respect to Mr. Heidell and 168
19 is one of the workpapers of Mr. Heidell, we will take up
20 207 first.

21 And let me again focus you, are you going to
22 argue this one, Ms. Davison?

23 MS. DAVISON: I am, Your Honor.

24 JUDGE MOSS: Let me focus you again on the
25 question of for what purpose this exhibit has been

00235

1 proposed and marked for identification.

2 MS. DAVISON: Thank you, Your Honor. I am
3 pleased to report that I believe that we have reached a
4 compromise with Staff, Mr. Cedarbaum, as well as with
5 Mr. ffitich, and let me explain what our compromise is.
6 Essentially we are offering these two exhibits not for
7 the purposes of litigating the rate spread methodology,
8 the cost of service study here in the interim case. We
9 are offering it for two purposes. One is for the
10 purpose of showing that it is an inconsistent approach.
11 The second reason for offering it is that Mr. Schoenbeck
12 relies on it in part in calculating -- reaching his own
13 calculations, and we think that it will assist the
14 Commission if there are any questions that they have
15 with regard to Mr. Schoenbeck's testimony.

16 As I understand the objection, the concern is
17 that we should not dive into the merits of the cost of
18 service study, which by the way ICNU does not agree with
19 entirely anyway, and we will agree not to do that. And
20 if we inadvertently cross over the line of the agreement
21 we have reached with Mr. Cedarbaum and Mr. ffitich, they
22 will preserve their objections to say that we have
23 crossed that line. Otherwise, I think we are in
24 agreement as to the use and admissibility for these
25 purposes.

00236

1 JUDGE MOSS: Well, now you said these two
2 exhibits, 168 is not yours, is it?

3 MS. DAVISON: Right, but I think the argument
4 is the same.

5 JUDGE MOSS: All right, well, we will let
6 Mr. Furuta argue his own Exhibit Number 168, which as I
7 understand it is a workpaper that perhaps relates to
8 Exhibit 207.

9 Mr. Furuta, why don't you -- we will need you
10 to approach a microphone up here. I apologize that we
11 don't have microphones back there.

12 I see someone is kindly making a space for
13 you up front here. Thank you, Mr. Stokes.

14 MR. FURUTA: Thank you. I believe FEA also,
15 I had an opportunity to speak during the break to
16 Mr. Cedarbaum, not to Mr. ffitch, but I believe we are
17 willing to abide by the same principles that ICNU has
18 just espoused, and that we, FEA, was not seeking to
19 utilize Exhibit 68 to establish or to support the cost
20 of service study or rate spread offered by the company.
21 And, in fact, we may not even have a need to refer to
22 Exhibit 168 depending on how our cross-examination goes
23 of this witness, but we believe that we can abide by the
24 same agreement that ICNU just stated.

25 JUDGE MOSS: Okay, let me just see if I can

00237

1 recapitulate here and capture it briefly. The Exhibits
2 207 and 168 are being offered for the limited purpose of
3 showing there is an inconsistent approach as between the
4 interim and the general with respect to rate spread.
5 And the other point you made, Ms. Davison, was that
6 Mr. Schoenbeck relies on it in some way, but he's not
7 sponsoring it, it's been tendered as a proposed
8 cross-examination exhibit, as I understand it, it's not
9 one of Mr. Schoenbeck's exhibits, is it?

10 MS. DAVISON: No, it's not, although it could
11 just as easily have been made an exhibit to his
12 testimony.

13 JUDGE MOSS: Now that the cat is out of the
14 bag, people will cross examine him with respect to it,
15 I'm sure.

16 Mr. Cedarbaum, Mr. ffitch, are you
17 withdrawing your objections if they're being offered for
18 this limited purpose, or what's the state of affairs
19 here?

20 MR. CEDARBAUM: Your Honor, when we filed our
21 motion, we indicated that our objection depended on the
22 purpose, and I'm satisfied in listening to Ms. Davison
23 that the purposes are the two that you noted and that
24 the merits or demerits of the company's cost of service
25 study that Mr. Heidell sponsors in the general rate case

00238

1 is something that will be determined in the general rate
2 case and not in this proceeding. So with that
3 understanding, we would withdraw our objection subject
4 to Ms. Davison's not crossing the line later on, in
5 which case we will pipe up.

6 JUDGE MOSS: The exhibit, of course, has not
7 been tendered for admission at this point, so the
8 opportunity to object further is not foreclosed, but we
9 were just trying to sort of clear the decks here before
10 we start with our witnesses.

11 So, Mr. ffitch, are you also satisfied at
12 this juncture?

13 MR. FFITCH: Yes, Public Counsel is also
14 satisfied in the way that was stated by Mr. Cedarbaum.

15 JUDGE MOSS: Okay, well, the objection is
16 withdrawn subject to the discussion we have had. But,
17 of course, an objection may be renewed at the time the
18 exhibit is tendered if it is tendered. Others may have
19 a different objection to it, we will see when we get
20 there, so we will not need to rule on that matter at
21 this time.

22 All right, is there anything else we need to
23 take up prior to calling our first witness?

24 Then why don't we proceed with that.
25 Mr. Cedarbaum, please call your first witness.

00239

1 MR. CEDARBAUM: Thank you, Your Honor.
2 Staff calls Lisa Steel to the stand, please.
3 JUDGE MOSS: And, Ms. Steel, as you get
4 situated, if you will remain standing, please raise your
5 right hand.

6
7 (The following exhibits were identified in
8 conjunction with the testimony of LISA A. STEEL.)
9 Exhibit 401TC is LAS-1TC: pre-filed Response
10 Testimony (Confidential in Part). Exhibit 402 is LAS-2:
11 Summary Calculation of Company's Surcharge Request.
12 Exhibit 403 is LAS-3: Surcharge to Meet 2.0x's New
13 Indenture First Mortgage Bond Coverage Ration. Exhibit
14 404C is LAS-4C; Total Debt to Total Capitalization.
15 Exhibit 405 is LAS-5: \$40 Million January 16, 2002
16 Secured Notes Issuance Detail. Exhibit 406 is LAS-6:
17 Moody's Rating: January 2002 PSE \$40 Million Issuance.
18 Exhibit 407C is LAS-7C: Financial Ratio Trend Analysis -
19 (Based on Company Projections). Exhibit 408 is LAS-8:
20 PSE Response to Staff Data Request 54-I. Exhibit 409C
21 is LAS-9C: Calculation of the Company's Total Debt to
22 Total Capitalization Covenant. Exhibit 410 is LAS-10:
23 Electric Light & Power - PSE Interview, December 2001.
24 Exhibit 411C is LAS-11C: Evaluation of the Effect of an
25 Accelerated Equity Issuance on Share Price. Exhibit 412

00240

1 is LAS-12: Residential Electric Rates in WA - 1000
2 kwh/month. Exhibit 413 is LAS-13: Short Term Projected
3 Cost-Benefit Analysis for Ratepayers of Interim Rate
4 Relief. Exhibit 414C is LAS-14C: Staff Modifications of
5 Company Projections and Recommended Surcharge. Exhibit
6 415C is LAS-15C: Minimum Surcharge to Keep the Company
7 on Schedule to Meet a 2.0 Times First Mortgage Bond
8 Coverage Ratio Requirement at 10/31/02. Exhibit 416 is
9 Staff Response to PSE Data Request No. 9-1. Exhibit 417
10 is Staff Response to PSE Data Request No. 10-1. Exhibit
11 418 is Staff Response to PSE Data Request No. 11-1.
12 Exhibit 419 is Staff Response to PSE Data Request No.
13 12-1. Exhibit 420 is Staff Response to PSE Data Request
14 No. 31-1. Exhibit 421 is Staff Response to PSE Data
15 Request No. 32-1. Exhibit 422 is Staff Response to PSE
16 Data Request No. 34-1. Exhibit 423 is Staff Response to
17 PSE Data Request No. 2-1. Exhibit 424C is Richard L.
18 Hawley Workpapers.

19

20 Whereupon,

21

LISA A. STEEL,

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

24

25

JUDGE MOSS: Thank you, please be seated.

00241

1 Mr. Cedarbaum, proceed.

2 MR. CEDARBAUM: Thank you.

3

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

5 BY MR. CEDARBAUM:

6 Q. Ms. Steel, can you please first state your
7 name.

8 A. My name is Lisa Steel.

9 Q. And for the reporter, just your last name is
10 spelled S-T-E-E-L?

11 A. Yes.

12 Q. And what is your business address?

13 A. My business address is 1300 South Evergreen
14 Park Drive Southwest, Olympia, Washington 98504-7250.

15 Q. And by whom are you employed?

16 A. I'm employed by the Washington Utilities and
17 Transportation Commission.

18 Q. What is your position with the Commission?

19 A. I'm employed as the Assistant Director of
20 Energy.

21 Q. And have you prepared direct testimony on
22 behalf of the Commission Staff in this proceeding?

23 A. Yes.

24 Q. Referring you to what's been marked for
25 identification as Exhibit 401TC, do you have that in

00242

1 front of you?

2 A. Yes.

3 Q. Does that exhibit constitute the direct
4 testimony that you have prepared for this case?

5 A. Yes.

6 Q. And this was prepared by you or under your
7 supervision or direction?

8 A. Yes.

9 Q. It is true and correct to the best of your
10 knowledge and belief?

11 A. Yes.

12 Q. During the course of your testimony, you
13 refer to a number of exhibits. Are the exhibits that
14 have been marked for identification as Exhibits 402
15 through 415C the exhibits that are referenced in your
16 testimony?

17 A. Yes.

18 Q. And all of those exhibits were prepared by
19 you or under your supervision or direction?

20 A. Yes.

21 Q. Are they true and correct to the best of your
22 knowledge and belief?

23 A. I have -- yes, they are, with the exception
24 of page 1 on Exhibit 14C, I have several clarifications.
25 The first one is --

00243

1 JUDGE MOSS: I'm sorry, I'm not with you,
2 what exhibit number?

3 THE WITNESS: Exhibit 14C of my testimony,
4 page 1.

5 JUDGE MOSS: That would be 414C for the
6 record.

7 MR. CEDARBAUM: So just give everybody a
8 chance to get to Exhibit 414C, page 1.

9 JUDGE MOSS: I think we're there,
10 Mr. Cedarbaum.

11 BY MR. CEDARBAUM:

12 Q. And if you could go ahead and make the
13 corrections, start with the first one, and please
14 indicate which language or whatever information on the
15 exhibit should be deleted, and then provide what should
16 be added.

17 A. On line 2 of that testimony, after the word
18 less in the second column, strike CMLTD due after period
19 end, and replace that with, portion of reassigned
20 debt/equity.

21 Q. Why don't you go ahead and repeat what the
22 addition is again just so everybody gets it.

23 A. Portion of reassigned debt/equity.

24 Also on that line, the last column, strike
25 repayments or refinancing after the end of the general

00244

1 rate case, and replace that with PSE responses to Public
2 Counsel 62-I Staff DR 275-I.

3 JUDGE MOSS: Ms. Steel, you need to slow
4 down, we're trying to write this down as you say it, so
5 it's PSE responses to PSE 62.

6 A. 62, Staff Data Request 275 and company SEC
7 forms 10-Q and 10-K for 9-30-00 and 12-31-00 and
8 3-31-01.

9 Q. Why don't you pause and let everybody catch
10 up or see if we need to let them catch up.

11 MR. CEDARBAUM: Your Honor, should she repeat
12 that for everyone?

13 JUDGE MOSS: I think so.

14 THE WITNESS: Okay.

15 BY MR. CEDARBAUM:

16 Q. Why don't you go ahead and just repeat slowly
17 what replaces the line 2, extreme right column.

18 A. PSE responses to Public Counsel 62, Staff
19 275, and company SEC forms 10-Q and 10-K for 9-30-00,
20 12-31-00, and 03-31-01.

21 JUDGE MOSS: Okay, I think everybody got
22 that.

23 Q. And then I believe you have one more change
24 to make, can you please do that.

25 A. That's correct, to line 12 of that exhibit in

00245

1 the last column, add the following clarification before
2 the word 2-Q 2001 beginning with --
3 CHAIRWOMAN SHOWALTER: Just a second, I'm
4 lost, what line?
5 A. Line 12, which reads, historical maximum cash
6 working capital shift. If you go to the end of that
7 line to the last column, add the following
8 clarification.
9 CHAIRWOMAN SHOWALTER: Is this after the word
10 payments or after the word --
11 A. It should start at the beginning, because I'm
12 giving the source for it.
13 JUDGE MOSS: It's actually at line 11 1/2.
14 CHAIRWOMAN SHOWALTER: Is it after the
15 word --
16 JUDGE MACE: It's before 2-Q.
17 MR. CEDARBAUM: Insert before second quarter
18 2001.
19 A. From statement of cash flows account.
20 JUDGE MOSS: Slowly, please.
21 A. Changes in certain current assets and
22 liabilities. And I will repeat that as from statement
23 of cash flows account changes in certain current assets
24 and liabilities.
25 BY MR. CEDARBAUM:

00246

1 Q. And when you refer to changes in certain
2 current assets and liabilities, is that a specific term
3 that's used on the cash flow statement?

4 A. Yes, it is.

5 Q. So would it be best to put that phrase in
6 quotes?

7 A. Yes, it would be.

8 COMMISSIONER HEMSTAD: So the quotes are
9 around which phrase?

10 THE WITNESS: Changes in certain current
11 assets and liabilities.

12 MR. CEDARBAUM: Your Honor, has everyone got
13 that?

14 JUDGE MOSS: (Nodding.)

15 MR. CEDARBAUM: Thank you.

16 JUDGE MOSS: Did the parties all get that?

17 Okay, I'm just going to interject here that
18 to the extent we have changes like this going forward,
19 if they can be tendered in the form of a revised
20 exhibit. I recognize the exigencies of time make that
21 difficult, and I don't mean to imply any criticism, but
22 it is difficult and time consuming to do this sort of
23 thing on the stand, so please, parties, be attentive to
24 this in the future.

25 All right, go ahead, Mr. Cedarbaum.

00247

1 BY MR. CEDARBAUM:

2 Q. With those changes then, Ms. Steel, is your
3 Exhibit 414C now true and correct to the best of your
4 knowledge and belief?

5 A. Yes.

6 MR. CEDARBAUM: Your Honor, at this time I
7 would offer Exhibit 401C and the related Exhibits 402
8 through 415C.

9 JUDGE MOSS: All right, I'm just going to
10 note two things. One, that there does not appear to be
11 any objection, and two, I mismarked 401. It should be
12 401TC to designate that it is pre-filed testimony, so
13 please note that on your exhibit list.

14 And hearing no objections, those exhibits
15 will be admitted as marked.

16 MR. CEDARBAUM: The witness is available for
17 cross-examination.

18 JUDGE MOSS: And we have indicated an order
19 for cross-examination that would have Puget go first.

20 MR. QUEHRN: Thank you, Your Honor. As a
21 preliminary matter before we begin cross-examination,
22 would it be appropriate to now address the question of
23 stipulations to exhibits for cross-examination?

24 JUDGE MOSS: Sure.

25 MR. QUEHRN: In that regard then, I would

00248

1 like to refer to cross-examination Exhibits Numbers 416
2 through 424C inclusive, and it's my understanding that
3 Staff has or will stipulate to the admission of these
4 exhibits, and therefore I would like to offer them into
5 evidence.

6 JUDGE MOSS: Okay, hearing no objection, we
7 will go ahead and admit the stipulation, the
8 cross-examination exhibits as previously marked 416
9 through 424C.

10 MR. QUEHRN: And then, Your Honor, still as a
11 preliminary matter, there is one additional
12 cross-examination exhibit that I would like to refer to
13 at this point. It's a -- this was pre-distributed
14 before the hearing this morning. It's WUTC Staff Data
15 Request Number 321, and it became available on Friday,
16 the day after the pre-hearing conference.

17 JUDGE MOSS: Okay, so that is Staff's
18 response or I'm sorry?

19 MR. QUEHRN: It's Staff's request.

20 JUDGE MOSS: Okay, so it's your response?

21 MR. QUEHRN: Our response.

22 JUDGE MOSS: Okay, PSE response to Staff Data
23 Request WUTC 321 will be marked for identification as
24 Number 425.

25 MR. QUEHRN: And I believe it's in the back

00249

1 of the packet that has been provided to the Bench.

2 JUDGE MOSS: Oh, there's a packet that's been
3 provided, I'm sorry, I didn't realize -- what have I got
4 here? You have given me several exhibits?

5 MR. QUEHRN: I think the other exhibits that
6 have been provided are for when we get to those
7 witnesses, Your Honor. We just have packaged them all
8 together and then separated them by witness in the
9 package, so it is the very last paper, last document in
10 that package.

11 JUDGE MOSS: All right, now I'm clear.

12 CHAIRWOMAN SHOWALTER: The last paper is
13 going to be 425?

14 JUDGE MOSS: Yeah, it's labeled at the top
15 WUTC Staff Data Request Number 321-I. It's a two page
16 exhibit. It's marked for identification as Number 425.

17 Was that one also stipulated?

18 MR. QUEHRN: I think we -- I would like to
19 move for its admission, I don't believe it fairly falls
20 within the four corners of the stipulation we discussed,
21 however. I would like to give Mr. Cedarbaum an
22 opportunity to respond.

23 JUDGE MOSS: Any objection, Mr. Cedarbaum?
24 You seem to be the primary mover here.

25 MR. CEDARBAUM: Your Honor, I guess I would

00250

1 just like to maybe reserve this one.

2 JUDGE MOSS: All right, we'll take it up when
3 it's offered at the end.

4 MR. QUEHRN: And finally, Your Honor, one
5 other, this is just direction I'm requesting. Under the
6 normal process of the company's case going forward, at
7 this point, issues with respect to the admissibility of
8 our witnesses' testimonies and exhibits would have been
9 addressed by now, and Ms. Steel's testimony that we will
10 be cross examining makes reference to some of the
11 things, for example, that Mr. Donald Gaines has
12 testified to in his exhibits, and it's -- to me it feels
13 awkward I guess then to be asking questions about those
14 documents that are as not yet in the record. So with
15 respect to Mr. Donald E. Gaines's testimony and
16 exhibits, I would like to ask if we can have them
17 admitted at this point for the limited purposes of
18 cross-examination.

19 JUDGE MOSS: Any objection to that idea?

20 MR. CEDARBAUM: For those purposes, I don't
21 have an objection.

22 JUDGE MOSS: I think that given the nature of
23 things, I would prefer to admit the exhibits with the
24 witness on the stand. But we all understand that this
25 material has been pre-filed and is available to us and

00251

1 can appropriately be referred to for purposes of
2 cross-examination. But squeezing toothpaste back into
3 tubes is difficult, and I don't want to admit these
4 until the witness is on the stand. There may be some
5 objection to their general admission as opposed to their
6 admission for a limited purpose, and so if that comes up
7 at that time, I can deal with the whole package at once,
8 and that's the way I think I would prefer to proceed.
9 Another novel issue in our proceeding.

10 So let's go, you can freely refer to the
11 pre-filed material as to which Ms. Steel's testimony is
12 responsive.

13 MR. QUEHRN: Thank you, Your Honor.

14 JUDGE MOSS: By identification exhibit
15 number.

16

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

18 BY MR. QUEHRN:

19 Q. With the preliminary matters out of the way,
20 good morning, Ms. Steel. I would like to begin this
21 morning by referring you to Exhibit 414C, page 1 of 7,
22 which I believe is the same exhibit that we have just
23 made some corrections to.

24 JUDGE MOSS: So we're looking at 414C; is
25 that right, Mr. Quehrn?

00252

1 MR. QUEHRN: Yes.

2 JUDGE MOSS: Thank you.

3 MR. QUEHRN: Yes, Your Honor.

4 And, Your Honor, again, I'm sorry, there is
5 one more preliminary matter. I would note that this
6 exhibit is marked confidential. I believe this is one
7 of the examples of where Staff out of an abundance of
8 caution marked the entire exhibit confidential. With
9 respect to the questions that I intend to ask Ms. Steel
10 this morning concerning this exhibit, I do not believe
11 that we have any need to assert confidentiality over the
12 material that's shown here.

13 JUDGE MOSS: Okay, so is there nothing
14 confidential on this page, can we just delete the C?

15 MR. QUEHRN: Correct.

16 JUDGE MOSS: All right, fine, confidentiality
17 problem is removed with respect to 414. Thank you,
18 appreciate that.

19 MR. CEDARBAUM: Just a point of
20 clarification, just with respect to page 1, which I
21 think is what you referenced, or to the entire exhibit?

22 MR. QUEHRN: I'm only making the
23 confidentiality waiver with respect to page 1, yes,
24 correct.

25 JUDGE MOSS: All right, well, with that, it

00253

1 will retain its C designation. All right, fine, go
2 ahead.

3 MR. CEDARBAUM: Your Honor, I'm getting off
4 to a late start here, but just again for clarification,
5 I have advised the witness about the difficulty of
6 working with confidential information and told her that
7 she should make every attempt she can to avoid
8 testifying to confidential information, but that if she
9 feels restrained in giving an answer, she should say so,
10 and we would consider a closed session. So even though
11 Mr. Quehrn is asking questions about page 1 of Exhibit
12 414C, which apparently now does not have confidential
13 information, it may be that confidential information
14 comes into play.

15 JUDGE MOSS: All right.

16 MR. CEDARBAUM: And I -- the witness is going
17 to treat it -- that other information as confidential
18 unless she is told otherwise.

19 JUDGE MOSS: All right, well, if the witness
20 raises a concern, then we will take it up at the time.

21 MR. QUEHRN: Thank you.

22 BY MR. QUEHRN:

23 Q. Once again, good morning, Ms. Steel. Turning
24 now to Exhibit 414C, page 1 of 7, this is your
25 calculation of Staff modifications of company

00254

1 projections and recommended surcharge; is that correct?

2 A. That's correct, these are my corrections to
3 the company's projections.

4 Q. Now referring to line 1 of this exhibit, line
5 1 identifies the company's short-term debt in the amount
6 of \$486,000,568 for January through October; is that
7 correct?

8 A. That's correct, line 1 refers to the figure
9 of \$486 Million.

10 Q. And continuing to look at line 1, there is a
11 reference to the far right of that number referring to
12 Public Counsel 62, page 22, for short-term debt. Do you
13 understand that to be a reference to Mr. Hawley's
14 workpapers?

15 A. Would you please repeat the question, because
16 my exhibit shows a reference to page 7, column 2.

17 Q. Line 1, immediately to the right of the 486,
18 my copy shows response to Public Counsel 62, page 22.

19 JUDGE MOSS: That's what mine shows too.

20 CHAIRWOMAN SHOWALTER: Mine shows page 7.

21 MR. CEDARBAUM: Your Honor, on February 4th,
22 we filed and served a revision to this page, which it
23 sounds like some people have and some people don't.

24 MR. QUEHRN: Your Honor, I stand corrected,
25 the revision in the revised -- I apologize, it is page

00255

1 7.

2 JUDGE MOSS: All right, well, everybody seems
3 to have the revised version except me. But as long as
4 -- do you all have it? All right, the commissioners
5 have it, so I am satisfied we can just proceed.

6 And, Mr. Cedarbaum, maybe you can just give
7 me another set later on.

8 MR. CEDARBAUM: Why don't I hand you up my
9 copy, because I can work with --

10 JUDGE MOSS: You have an honorable memory.
11 Thank you very much. Of course, now all my corrections
12 are going to have to be redone. Thank you very much.
13 Let's proceed, sorry, clearly we will have some small
14 disruptions as we go along. But I do apologize,
15 Mr. Quehrn, go ahead with your question. I think we're
16 clear now.

17 BY MR. QUEHRN:

18 Q. And the question is, is the reference in this
19 instance to Mr. Hawley's workpapers?

20 A. The reference is to the workpapers that
21 Mr. Hawley provided in response to Public Counsel Data
22 Request 62.

23 Q. Okay. Then could we please turn to what has
24 been marked as Exhibit 424C, please.

25 A. (Complies.)

00256

1 Q. And do you recognize Exhibit 424C as a copy
2 of Mr. Hawley's workpapers?

3 A. Yes.

4 Q. Could we turn, please, turn now to page 7 of
5 that exhibit, and for reference, page 7 shows up at the
6 top left-hand corner the title short-term debt, no
7 interim relief. With respect referring back now just
8 momentarily to your Exhibit 414C, the figure that you
9 had indicated for short-term debt was \$486 Million. Is
10 that the same \$486 Million that we see in column B here
11 on page 7 of Mr. Hawley's workpapers?

12 A. That is the same amount, it is on line 14,
13 column B.

14 Q. Okay. Then continuing on page 7, if you move
15 over to the second column, which is column C, is there
16 not an adjustment to that number, to the \$486 Million?

17 A. Yes, the company makes an adjustment of \$31
18 Million for the month of November. However, later on in
19 my exhibit, I do a correction to December, because I
20 have more recent numbers, and that's taken into account
21 in the \$62 Million adjustment that I referenced on line
22 5 of my Exhibit 14C, page 1.

23 Q. Okay. Specifically, however, with respect to
24 the amount of short-term debt as of the end of November,
25 is it your testimony that the amount should be the --

00257

1 I'm sorry, let me strike the question.

2 With respect to the \$31 Million adjustment,
3 do you understand that as an adjustment of the
4 projection to actuals for the month of November?

5 A. Are you referring to line 14?

6 Q. I'm referring to line 14, yes, I am.

7 A. Yes, that is the company's adjustment of its
8 values to true them up to November. Again, Staff had
9 more recent information and trued up to December.

10 Q. Okay. If you were to adjust -- okay, does
11 the -- referring then back to the \$486 Million on line
12 1, that number then does not include a true up for
13 November, that is the projection, correct?

14 A. That \$486 Million is the company's projection
15 for October, from its October projection for the period
16 October 2002.

17 Q. And then without getting into any adjustments
18 that you might make later, would you agree that if that
19 number were trued up to November actuals, that rather
20 than \$486 Million, it should be \$518 Million as
21 reflected in column D on line 14 of page 7 of
22 Mr. Hawley's workpapers?

23 A. No, I think the true up is incomplete, and I
24 have not had the opportunity to review all of the
25 numbers that are included in the November true up that

00258

1 the company used. But the -- because I didn't have the
2 November 30th, 2001, balance sheet to compare it to.
3 But I don't believe that that adjustment even for
4 November is complete.

5 Q. Turning then to line 2, on line 2 going back
6 to Exhibit 414C, and this is the line where you made
7 some revisions before you began your testimony, and just
8 to review that, the line 2 now reads, less portions of
9 reassigned debt/equity, and is the number then still \$25
10 Million in the column?

11 A. Yes, the dollar amount in the column January
12 through October 2002 is still \$25 Million.

13 Q. Now you referenced, Ms. Steel, several
14 sources for that \$25 Million number. Is it no longer
15 representative of long-term debt? I haven't had the
16 opportunity to go back and look at each one of those
17 data requests.

18 A. The number is representative of the long-term
19 debt and as well the equity that Puget Sound Energy --
20 it's more reflective -- it's just a portion of the
21 adjustment that should be made, but it is reflective of
22 debt and equity adjustments that need to be made to
23 Puget Sound Energy's balance sheets, and they are in
24 relation to the debt and equity that -- I should correct
25 that to say the equity that was transferred out of Puget

00259

1 Sound Energy in order for the company to form Infrastrux
2 as an entity held by the parent, Puget Energy.

3 Q. But the number stays \$25 Million?

4 A. Yes.

5 Q. Okay. I would now like to refer to page 2 of
6 Exhibit 414, if I could, please. On page 2 of Exhibit
7 414, there are some column of numbers under the column
8 year 2000, and I believe there are some handwritten
9 notes to the right of that column. Is that -- are those
10 your handwritten notes?

11 A. All of the handwritten notes on the page are
12 mine.

13 Q. And next to the handwritten note December 10,
14 2002, there is a number of \$25 Million; is that correct?

15 A. Yes, there is a number \$25 Million on that
16 page, however, that's not an elective redemption number.
17 That happens to be a \$25 Million, and it's not the same
18 \$25 Million that's referenced on page 1 of my exhibit.

19 Q. Okay. Nor is it the basis of the \$25 Million
20 that we are now referring to as your exhibit has been
21 corrected; is that the case?

22 A. That's correct. If you go to -- I can tell
23 you the original source of that number.

24 Q. Excuse me, Ms. Steel, which number?

25 A. The \$25 Million which was included in the

00260

1 page 1 of my exhibit at line 2.

2 Q. Thank you.

3 A. The source would be on page 4 of my Exhibit
4 14C. At the bottom of that exhibit, there are two
5 handwritten lines, and there was a line called elective
6 redemptions, which is the first line.

7 Q. Correct.

8 A. And that line has a \$30 Million number at the
9 end in December 2002. And the original source for my
10 \$25 Million adjustment was I could not tell from the
11 information the company had provided at that time
12 whether the company had included some of that adjustment
13 in its projections or if instead the -- some of the
14 equity that I expected to be in Puget Sound Energy --
15 more was missing than I had expected due to the
16 Infrastrux transfer, and I was able to clarify that with
17 the company subsequently.

18 Q. Okay. Then could I please have you maybe
19 just turn then to the next page of your exhibit, which
20 is page 5 of LAS-14C or Exhibit 414, and I would like to
21 refer to about two thirds of the way down the page there
22 are entries for long-term debt and then a few more rows
23 down short-term debt. And I'm looking first of all to
24 the entry for short-term debt, which is column 2, column
25 2 corresponding to year end number for 2002. Do you see

00261

1 where I'm referring to?

2 A. I see the reference to short-term debt, and I
3 think it has a check next to it on my exhibit.

4 Q. Okay, it does. And then the number for year
5 end for 2002, is that number \$486,000,568?

6 MR. CEDARBAUM: You said for year end.

7 Q. I'm sorry, for October 2002, thank you,
8 second column.

9 A. For the second column I see a short-term debt
10 \$486,568,000, and I also see repayments of long-term
11 debt is included in the long-term debt line.

12 Q. Correct. Now, Ms. Steel, if we then refer
13 back to the first page of 414, we are backing out of
14 that short-term debt number, the \$486,000,568, \$25
15 Million. Can you see where I'm -- that's your line 2.

16 A. Yes, I see line 2 has \$25 Million on it.

17 Q. Can you explain to me then how the adjustment
18 we are now making to that number is reflected or
19 included in the \$486 Million that you have indicated is
20 the short-term debt amount? In other words, I want to
21 make sure we're not backing out something that wasn't
22 included in the first instance.

23 A. I don't believe we are. That \$25 Million is
24 the return of equity and/or the removal of debt
25 associated with PSE's long-term -- with PSE's

00262

1 non-regulated operations. And I could reference you to
2 some of the exhibits that the company has provided in
3 its responses to Staff data requests to clarify that if
4 you like.

5 Q. It would be helpful if it clarifies how that
6 is included in the short-term debt amount for PSE in
7 that particular column, yes, please.

8 A. Okay. The first point of reference that I
9 used is the company's March 31st, 2001, SEC form 10-Q,
10 page 11. That balance sheet shows that the company has
11 additional paid in capital of \$470.179 Million at
12 December 31st, 2,000, and that reduces to \$382.584
13 Million at March 31st, 2001. So that's a drop of
14 \$87.595 Million of paid in capital from Puget Sound
15 Energy. My understanding is that that amount was
16 primarily for the formation of Infrastrux.

17 MR. CEDARBAUM: Your Honor, I'm sorry to
18 interrupt the witness, but I have copies of the
19 documents that Ms. Steel is referencing, and I could
20 circulate them as exhibits. I guess I'm not sure what
21 they would be called, but I can --

22 JUDGE MOSS: Well, I think the Bench at least
23 would find it useful to have the material to which she
24 refers to follow along. It's not otherwise in the
25 record?

00263

1 MR. CEDARBAUM: No, it's not. If you want to
2 take a break for two minutes, I can circulate this.

3 JUDGE MOSS: Yeah, go ahead and circulate
4 that so everybody has that. Thank you, Mr. Cedarbaum.
5 (Discussion off the record.)

6 JUDGE MOSS: We have marked for
7 identification Exhibit 426 and Exhibit 427C, which are
8 documents the witness was referring to, some fairly
9 detailed numbers.

10 And, Ms. Steel, if you could just start over
11 with your explanation referring to those exhibits, that
12 would be helpful to us.

13 A. When I looked at the workpapers of the
14 company, there were several adjustments that needed to
15 be made. It was hard to know from those exhibits alone
16 what the company had done with regard to its debt, and
17 one reason for that is that the company included
18 elective redemptions in its debt repayment schedule, and
19 I could not understand the basis for including those
20 elective redemptions, and I wasn't sure of the total
21 dollar amount that was included.

22 And another reason why it's difficult to
23 understand the company's equity and debt situation is
24 that it's returned a significant amount of capital to
25 its parent, Puget Energy, upon the formation of the

00264

1 holding company, and that was to effectuate the transfer
2 of Infrastrux, which was held by Puget Sound Energy, the
3 utility, to the parent. And you can see the transfer in
4 the amount of dollars on my Exhibit 426 on the line
5 which reads, additional paid in capital. That line is
6 six lines down on the page.

7 In the column for March 31st, 2001, you see
8 that the additional paid in capital for Puget Sound
9 Energy is only \$382.584 Million, which is a reduction
10 from the additional paid in capital for the company at
11 December 31st, 2000, of \$470.179 Million. That
12 indicates that the company is now missing \$87.595
13 Million for the formation of Infrastrux as an entity
14 owned by Puget Energy instead of Puget Sound Energy.
15 BY MR. QUEHRN:

16 Q. Ms. Steel, with respect to what is now marked
17 as Exhibit 426, I see the reference to the I think your
18 handwritten note says missing \$87 Million, and I'm
19 having difficulty understanding how that number
20 translates to \$25 Million and also why it's reflected in
21 short-term debt. Perhaps those are two separate
22 questions.

23 A. Okay. On the first one, how we got \$25
24 Million from that is that is the portion that Staff --
25 portion of equity for which we believe the utility,

00265

1 Puget Sound Energy, should be compensated for the loss
2 of its subsidiary. Puget Sound Energy, as we have
3 testified in other places and is available in my direct
4 testimony and in Exhibit 7, is highly leveraged, and
5 Puget Sound Energy transferred out Infrastrux as if it
6 were nearly 100% equity capitalized. That equity
7 investment in Infrastrux came from Puget Sound Energy
8 over a short period, and it's hard to understand or
9 think that it would be fair to transfer out the
10 subsidiary as if it were 100% equity capitalized on
11 March 31st, January 1st, 2001, when the transfer
12 occurred.

13 On page 2 or it would be Exhibit 427, which
14 shows the comparative balance sheet, which is a pro
15 forma of it for Infrastrux, in column 2 of that exhibit,
16 if you go to the bottom where it shows liabilities and
17 shareholders' equity, for the revolving credit facility
18 it shows \$2.3 Million of debt. And further down in
19 long-term debt, it shows \$1.2 Million of debt at
20 12-31-2000. So when Puget Sound Energy transferred out
21 its subsidiary Infrastrux, it transferred out all of its
22 equity, but it did not transfer out any debt. This is a
23 return of part of that in order to compensate the
24 utility for its loss.

25 Q. And when did that transfer of equity occur

00266

1 that you're -- from the parent to the subsidiary?

2 A. I believe that transfer took place on January
3 1st, 2001.

4 Q. And are you aware of any subsequent transfers
5 of equity from the parent to Infrastrux subsequent to
6 that time?

7 A. I'm not aware of it, but Staff's
8 investigation on that issue continues in separate
9 dockets.

10 Q. But you have no evidence to suggest that
11 there has been any subsequent transfer of equity at this
12 point?

13 A. I do not have evidence that indicates there
14 have been subsequent transfers of equity to Infrastrux.
15 However, I am concerned about subsequent transfers of
16 possibly regulated assets to non-regulated ventures, for
17 example, the transfer of trucks to the non-regulated
18 entities Pilchuck and Quanta, which do similar sorts of
19 work that Infrastrux does.

20 Q. But do you have any evidence before you that
21 would suggest that that was -- that resulted from the
22 transfer of equity from the parent to subsidiary at this
23 point?

24 A. I have not reached a conclusion that that
25 resulted in the transfer of equity from Puget Sound

00267

1 Energy to the parent, Puget Energy, at this time.

2 Q. Okay. And then just so I fully understand,
3 moving the \$25 Million, or pardon, the \$87 Million that
4 you reference here on your Exhibit 426, the \$25 Million
5 adjustment is just a Staff determination of some
6 appropriate amount of that that happens to be \$25
7 Million as far as your line 2 adjustment is concerned on
8 page 1 of 414?

9 A. That's correct, that is what we consider to
10 be an appropriate adjustment for this proceeding to take
11 into account. And I would note that the \$25 Million
12 adjustment and the \$50 Million adjustments that I have
13 made to the company's debt and equity are less than the
14 company's own adjustment of \$80 Million that it
15 references in its rebuttal testimony for including
16 elective redemptions in its debt schedule.

17 Q. Okay. Maybe just one final question about
18 this number, and thank you for walking me through these
19 exhibits, I now understand at least where the \$25
20 Million is coming from. Is it your testimony that the
21 \$25 Million adjustment that you were making was included
22 in the \$486 Million that you showed as short-term debt;
23 was it in short-term debt before you backed it out?

24 A. Would you please repeat the question?

25 Q. Was the \$25 Million that you are backing out

00268

1 here in line 2 included in the \$486 Million in
2 short-term debt?

3 A. Yes, I think that the \$486 Million number
4 that Puget provides depends on its loss of equity and no
5 loss of debt that took place with its transfer of
6 Infrastrux to the subsidiary or to the parent.

7 Q. Okay, maybe I'm not clear, let me try again.
8 I understand that you think it's an appropriate
9 adjustment. My question is just more basic. In terms
10 of how the number \$486 Million was calculated for
11 short-term debt, did that calculation include the \$25
12 Million that you are now backing out?

13 A. In fact, I think the 486 includes more than
14 just the 25 that I am backing out, because the company's
15 current debt situation as reflected in its projections
16 depends on these transfers taking place in which it's
17 lost \$87 Million of its equity without compensation.

18 Q. Then if, in fact, we go back to your page 5
19 of Exhibit 414 and look at the short-term debt number,
20 the \$486 Million seems to be the very same number that
21 you pull up to line 2. That didn't include the
22 long-term debt in that instance. I'm sorry, do you --

23 A. I'm not at the correct page reference.

24 Q. Page 5, 414.

25 A. Okay.

00269

1 Q. Just to clarify, you believe, it's your
2 testimony that that number, that \$486 Million that is
3 shown there, includes the \$25 Million that you are now
4 adjusting for?

5 A. Again, the \$486 Million, \$486 Million of debt
6 shown in short-term debt is a direct outcome of all of
7 the changes that have happened to the company's debt and
8 equity over the past year, including the transfer of
9 Infrastrux to Puget Energy without compensation. And
10 that dollar amount is much more than \$25 Million, it is
11 \$87 Million.

12 Q. Are you able to on the basis of the
13 information you have actually point to dollars, show me
14 where the amount of short-term debt was increased by
15 that amount?

16 A. No, I'm not able to do that, because I don't
17 have a copy of the company's financial modeling
18 software, so I am not able to evaluate the company's
19 financial model. As well, it is a custom package, so I
20 can't look at an independent assessment of it to
21 determine how the inputs that the company used to that
22 model created the outputs that it used. But I can
23 reason through and understand the inputs that the
24 company is -- on which the company bases its projections
25 and understand and draw the conclusion that the \$486

00270

1 Million of short-term debt that the company projects for
2 October 2002 is in part a consequence of the debt and
3 equity choices it made in 2001.

4 Q. Ms. Steel, let's return to page 1 of Exhibit
5 414, and I would like to refer you now to line 5,
6 please.

7 MR. CEDARBAUM: Your Honor, before we leave,
8 it looks like we're leaving that area, I don't know who
9 you would like to offer 426 and 427C.

10 JUDGE MOSS: Is there any objection to the
11 admission of the exhibits marked 426 and 427C?

12 Hearing none, they will be admitted as
13 marked.

14 MR. QUEHRN: Excuse me, Your Honor, can I
15 reserve my objection on that. I just received these as
16 the witness was testifying. It appears that --

17 JUDGE MOSS: All right, it's pretty clear to
18 me this witness is going to take us up to the lunch
19 hour, so parties who need to study exhibits can do so.
20 I will withdraw my ruling. You have to move quickly in
21 here if you're going to object.

22 MR. QUEHRN: Thank you, Your Honor.

23 BY MR. QUEHRN:

24 Q. Okay, Ms. Steel, returning now to page 1 of
25 Exhibit 414, and I want to refer you now to line 5.

00271

1 Line 5 shows a \$62 Million adjustment that is referred
2 to as excess working capital. Is that correct?

3 A. Yes, that's correct, line 5 shows an
4 adjustment to working capital.

5 Q. Okay. I would then like to refer you over a
6 couple of pages to page 6 of Exhibit 414, and there is
7 there again, I believe, some handwritten notes.

8 A. Yes, those are my handwritten notes.

9 Q. Okay. And in the first column, you bracketed
10 the \$82 Million in the first column, and then if I
11 follow your notes, that \$62.6 Million over projections
12 is essentially this is the origin of the entry on line 5
13 of your page 1 of your exhibit; is that correct?

14 A. Well, the 62 doesn't flow directly from the
15 82. 62 is calculated from working capital, which is
16 defined as current assets minus current liabilities.

17 Q. Let me be more clear. The \$62.6 Million that
18 you show in your handwritten notes in the margin on page
19 6, is that supposed to reflect the \$62.2 Million that
20 you show on line 5 of page 1?

21 A. Yes, the source of line 5, page 1, is the \$62
22 Million adjustment detail shown on page 6.

23 Q. Okay. Then if you go back to page 6, which
24 isn't -- title at the top is Puget Sound Energy, Inc.,
25 balance sheet, do you understand this to be a

00272

1 consolidated balance sheet, by that meaning including
2 results of subsidiaries as well as Puget Sound Energy?

3 A. Would you please repeat the question
4 including a reference page?

5 Q. I'm sorry, back to page 6 of Exhibit 414, the
6 balance sheet, and the question is, do you understand
7 this to be a consolidated balance sheet?

8 A. Yes, the balance sheet provided by Puget
9 Sound Energy is a consolidated balance sheet. The note
10 at the bottom says that subsidiary results are
11 consolidated at quarter end only.

12 Q. So with respect to the \$82 Million that's
13 shown in the column and is the origin of the 62, do you
14 know how much of that money, how many of those dollars
15 reflect subsidiary dollars as opposed to regulated
16 entity dollars?

17 A. All of those dollars I believe in cash should
18 be considered, should be considered the regulated
19 entity's dollars. The company has claimed in its
20 projections that the cash it shows for the regulated
21 entity is the only cash that should be attributed to
22 that entity.

23 Q. So if -

24 A. But --

25 Q. I'm sorry, go ahead.

00273

1 A. But I think that's simply not fair to call
2 all the cash the non-regulated entity's and all the debt
3 is the regulated entity's.

4 Q. But if the cash actually belonged to the
5 subsidiary, wouldn't it be appropriate to make an
6 allocation between the dollars that belong to the
7 subsidiary as opposed to the dollars that belong to the
8 utility, if the cash actually belonged to the
9 subsidiary?

10 A. Well, Puget Sound Energy is the consolidated
11 entity, is the entity on which you report your financial
12 results, and I think that it may not be appropriate to
13 do that. And in addition, I think it's a factual issue
14 to be determined about whose cash belongs -- that all of
15 this cash really belongs to the non-regulated entity
16 rather than to the regulated entity when the regulated
17 entity is providing the debt that's used to serve the
18 entire subsidiary.

19 Q. Okay. With respect to that factual issue
20 then, could I refer you to and I believe we have just
21 marked this as Exhibit 425, and it was the WUTC Staff
22 Data request Number 321 that was distributed, and I
23 don't know if you have a copy of that or not.

24 JUDGE MOSS: There you go, Ms. Steel.

25 THE WITNESS: Thank you.

00274

1 BY MR. QUEHRN:

2 Q. Are you familiar with this data request and
3 response?

4 A. Yes, I am familiar with this data request and
5 response.

6 Q. In the response to the question A, which
7 starts at the bottom of the page, there is a discussion
8 of the allocation of those dollars we were just talking
9 about between the subsidiary and Puget Sound Energy. Do
10 you see that response? I see you're still looking.

11 A. I see that response. I'm actually looking
12 for a different exhibit in response to it.

13 Q. Would you like me to wait?

14 A. That would be very much so appreciated.

15 JUDGE MOSS: Are you ready, Ms. Steel?

16 THE WITNESS: Yes, I'm ready.

17 BY MR. QUEHRN:

18 Q. Very specific question now with respect to
19 the response. When you read the response, it indicates
20 that of that \$82 Million we were looking at before,
21 there is a \$60 Million allocation and a \$17 Million
22 allocation to subsidiaries Puget Western and Connex,
23 correct?

24 A. I see the company's response; I don't agree
25 with the company's response.

00275

1 Q. Actually, that wasn't the question.

2 If you then turn the page and continue on and
3 look at how once you make that adjustment, which I
4 understand you don't agree with, there is another number
5 there that indicates how far off, if you will, the
6 projection of the company's cash flow or what the
7 appropriate adjustment would be to the projection of the
8 company's cash flow if you, in fact, allocate those
9 dollars out to the subsidiary. Do you see that?

10 A. Which lines are you referring to on page 2?

11 Q. Top of the second page, the last sentence
12 that starts when adjusted for.

13 A. Okay, I see the item that you have
14 referenced.

15 Q. Okay. Would you agree that if the dollars
16 that belong to the subsidiary are the \$60 Million and
17 the \$17 Million reflected below, if you were to make
18 that assumption, that the appropriate adjustment would
19 then be \$1.7 million to, if you will, true this back up
20 to the forecast?

21 A. Well, if those were the only adjustments to
22 working capital.

23 Q. And that was the question.

24 A. Then I would agree that the math would be as
25 the company has stated. But I don't agree that that is

00276

1 the way that the adjustment should be calculated, and I
2 don't agree about the allocation of cash to the
3 non-regulated entities.

4 Q. Okay. Let's return, if we could, please, to
5 page 1 of 414C, and now I need to adjust my papers for a
6 minute.

7 Okay, I would like to have you take a look at
8 line 11 of page 1, which is Staff projected line of
9 credit excess or deficit. And as the exhibit states
10 there, you have a number of \$83 Million excess; is that
11 correct?

12 A. That's correct.

13 Q. Okay. Would you agree that if some of the
14 other adjustments that we have discussed that you do not
15 agree with, and just to revisit them briefly, the \$518
16 Million as opposed to the \$486 Million on line 1, which
17 essentially trues that number up to actuals as of the
18 end of November, which you don't agree with, if we
19 disregard the \$25 Million, I believe it's now an equity
20 adjustment as opposed to long-term debt after you have
21 corrected your exhibit, so the 486 would be a 518, the
22 \$25 Million would become 0, and then if we go down to
23 line 5, understanding again that you believe that the
24 subsidiary dollars should be included here, if we back
25 them out, that number let's just say in round numbers

00277

1 would be \$2 Million instead of \$62 Million.

2 JUDGE MOSS: Is there a question, Mr. Quehrn?

3 Q. Would you agree that that would be the
4 appropriate adjustment then for that if you didn't
5 assume that you would include subsidiary dollars? It's
6 really the question you have answered already, that that
7 number would be 1.7 rather than \$62 Million disregarding
8 subsidiary dollars.

9 A. Well, I can't be sure that the numbers that
10 you provided in response to 321-I, now that I read it
11 more carefully, are actually the numbers at 12-31-01,
12 and the company has not provided its complete annual
13 report for that period, so I can not evaluate that. But
14 if those numbers that you provided in response to 321-I
15 are at 12-31-01 rather than November 30th, then I think
16 it would be comparing the same thing.

17 Q. So would you accept that as subject to check
18 then?

19 A. Would you please clarify what it is I'm to
20 accept?

21 Q. That that number would be \$1.7 Million as
22 opposed to \$62 Million?

23 JUDGE MOSS: He's referring to line 5 on page
24 1 of Exhibit 414C.

25 A. If you accept the company's adjustment, which

00278

1 I do not, then that would be the place where it shows up
2 on my exhibit.

3 Q. Okay. With those adjustments, would you
4 accept then that line 11, which you now show as an
5 excess, would be a deficit? We have essentially made an
6 adjustment to that number of \$116 Million.

7 A. Yes, I would accept that that's what the
8 adjustment would be, without accepting the adjustments.

9 Q. Okay. Then if we continue on to line 14,
10 which is at the very bottom of the page here, you have
11 shown in terms of your recommended surcharge a number
12 that's \$42 Million; is that correct?

13 A. Yes, that's the recommended relief on line
14 14.

15 Q. And was that number grossed up for taxes,
16 adjusted for taxes?

17 A. No, just -- my number does not gross up for
18 taxes just like the company did not gross up its own
19 request for coverage of an expense for federal income
20 taxes.

21 Q. This would be a revenue item, not an expense,
22 correct?

23 A. No, that's not correct. Staff has proposed
24 relief to cover the company's -- the possibility that
25 contingencies could occur.

00279

1 Q. But if --

2 A. Not to add to the company's expense.

3 Q. Excuse me though, if we had a surcharge of
4 \$42 Million, that would be revenue, would it not?

5 A. The purpose of the surcharge is not to
6 provide revenue. The purpose of the surcharge is to
7 allow for the possibility of contingencies, which are
8 expenses, and which would typically be deductible for
9 federal income tax purposes.

10 Q. So it's your opinion that that revenue item
11 should not be grossed up for taxes?

12 A. Staff's recommended relief should not be
13 grossed up for taxes.

14 Q. Okay. Do you know what the number would be
15 if you grossed it up for taxes?

16 A. No, I do not.

17 Q. If we go back then to what I was suggesting
18 were revised adjustments, and I will take you back to
19 line 11, we now have a negative I believe \$32 Million in
20 the column instead of the \$83 Million; is that
21 consistent with your calculations?

22 A. Would you please repeat the question?

23 Q. If we make the adjustments carrying down the
24 \$116 Million we calculated above, in other words
25 subtract 116 from 83, does that give you a result of

00280

1 approximately 32?

2 A. Yes, the result is approximately 32.

3 Q. And you would agree that if it were so
4 adjusted that that would be a deficit, not an excess?

5 A. Yes, that would be a deficit, not an excess,
6 if it were so adjusted.

7 Q. Then to follow your methodology, if the
8 number were 32 as a deficit number, would you add the 32
9 to the 106 on the next line?

10 A. No, I don't know that I would do that,
11 because the result that Staff achieved with the
12 adjustments that it made to the company's projections
13 came up with a reasonable surcharge of \$42 Million. But
14 if instead we were to apply this methodology and add
15 \$106 Million, \$20 Million for contingencies, to \$32
16 Million, the result would be such an enormous amount of
17 money that given the reliability of the company's
18 projections, I'm not sure that Staff could any longer
19 support using this methodology to support a rate relief
20 on that theory.

21 Q. Let me ask the question differently. If you
22 just did the math the same way using the negative \$32
23 Million as opposed to the positive 83, would that be
24 additive to the 106, if you just did the math the same
25 way you did previously?

00281

1 A. Well, I don't think that you should do the
2 math the same way.

3 Q. That's not the question.

4 A. I don't think the calculation should be done
5 that way.

6 Q. But if you did the math the same way, if you
7 calculated with the adjustments the same way you
8 calculated the first time, would those two numbers be
9 additive?

10 A. Yes, they would be additive if you did the
11 calculation the same way, which you should not.

12 Q. And the total then would be approximately 140
13 instead of 42?

14 A. Yes, it would be. Again, I would like to
15 caution that coming up with such a large number when the
16 company has provided projections which are low quality I
17 think would be difficult for Staff to make that sort of
18 recommendation for relief from that.

19 Q. Is it your practice to change the methodology
20 once you take a look at the result of the calculation?

21 A. Yes, I think you should always take a look at
22 the result and judge whether or not it's reasonable.

23 Q. So it is your testimony that if the
24 calculation does not give you an answer that you think
25 is appropriate that you go back and modify the

00282

1 methodology to get there?

2 MR. CEDARBAUM: Objection, asked and
3 answered.

4 MR. QUEHRN: Question withdrawn.

5 BY MR. QUEHRN:

6 Q. Let's turn to something different, Ms. Steel.
7 I would like to first of all refer you to a statement in
8 your testimony at page 13 and 14, I believe. And in my
9 notes here, I forgot the line reference, which I will
10 give to you as soon as I open it up.

11 JUDGE MOSS: Page 13, I will just interject
12 here that in the press of time, the Exhibit 401 that
13 we're referring to now was distributed on colored paper,
14 which typically signals confidentiality. However, the
15 copy that I'm working off of, and I hope it's the copy
16 that others are working off of, has highlighted
17 portions. It is only those highlighted portions that
18 are confidential, and so that should be your guide in
19 questioning and answering and as we follow along.

20 MR. QUEHRN: Thank you, Your Honor. And
21 again, in this portion of my examination of Ms. Steel, I
22 do not believe we will be referring to any confidential
23 information.

24 BY MR. QUEHRN:

25 Q. The question presented to you on page 13,

00283

1 line 19, is, does the company have sufficient cash flow;
2 is that correct?

3 A. That's correct.

4 Q. Okay. And I believe you have another exhibit
5 that gives us some detail on this, which is I believe
6 Exhibit 407. I think you refer to it in your testimony
7 as LAS-7C. Perhaps we could turn to that now, please.
8 Do you have the exhibit?

9 A. Mm-hm.

10 Q. Okay. On Exhibit 407, you calculate, I
11 think, what is referred to specifically here as net cash
12 flow to capital expense; is that correct?

13 A. I calculate this based on the company's
14 projections, and that is the net cash flow number on
15 that page, yes.

16 Q. So you are calculating net cash flow to
17 capital expense, correct? I'm sorry, I didn't
18 understand your answer to the question. Is this your
19 calculation, or is this the company's calculation?

20 A. This is my calculation based on unadjusted
21 company projections.

22 Q. Okay. And is the calculation that you
23 provide here exclusive of payment of any dividend?

24 A. Well, there are three net cash flow ratios
25 and numbers on that page. The first is net cash flow to

00284

1 capital expense, the second NC up to cap expense
2 excluding common dividend, and the third is net cash
3 flow, so I'm not sure now which number you're referring
4 to. Could you please point me to the correct row?

5 Q. Well, let's refer back to your testimony
6 then, if we could, please.

7 A. Okay.

8 Q. Because on the bottom of page 13 going on to
9 the top of page 14, in answering the question about the
10 sufficiency of the cash flow --

11 A. Okay.

12 Q. -- you refer to this analysis, and again this
13 is line 1 on page 4, as excluding the common dividend;
14 is that correct?

15 A. Yes, that's the second number on my Exhibit
16 7, and that is correct for that ratio.

17 Q. In determining net cash flow, did you or did
18 you not on this calculation here, not someplace else
19 now, on this calculation, did you take into
20 consideration repayment of debt?

21 A. No, net cash flow typically does not take
22 into account repayment of debt, and I used the standard
23 use of net cash flow calculations and did not include
24 that in that calculation.

25 Q. So for sufficiency of cash flow, there's no

00285

1 determination of debt. Let's refer to Exhibit 414 for a
2 minute please, and I would like to go to page 2 of that
3 exhibit. And we looked at this once before, but just to
4 remind ourselves, on page 2, and again, I believe these
5 are your handwritten notes, it is the case that the
6 company has significant long-term debt coming due during
7 the interim period to the amount being \$117 Million; is
8 that correct?

9 A. The company has mandatory redemptions of --
10 excuse me, yes, that is correct, the company has \$117
11 Million of mandatory current maturities of long-term
12 debt. As well, the company was recently able to get \$40
13 Million of medium term notes which could serve as an
14 offset for refinancing of those amounts.

15 Q. But this amount was not taken into your
16 analysis of cash flow, correct? Yes or no.

17 A. No. No repayment amounts were taken into
18 account in my calculation of net cash flow, which is a
19 standard calculation of net cash flow. And in addition,
20 in my testimony I caution that this ratio does not take
21 into account repayments of debt.

22 Q. If you were to consider debts coming due in
23 the course of the interim period and the need to have
24 some internal cash available for that, are you saying
25 that it's inappropriate to ever consider what your debts

00286

1 are when you're determining the sufficiency of your cash
2 flow?

3 A. No, I'm not saying that it's inappropriate.
4 The typical calculation of net cash flow is what it is
5 without taking into account debt repayments. And then
6 if you want to use net cash flow in order to determine
7 debt repayments, you need to take into account many
8 factors, including debt repayments.

9 Q. So under some circumstances, it's appropriate
10 to consider repayment of debts in terms of the
11 sufficiency of the cash flow?

12 A. Yes, in some circumstances, it is appropriate
13 to take into account repayment of debt. However, it
14 would be hard to take -- think of a circumstance where
15 it would be appropriate to take into account only the
16 repayment of debt without the other financing impacts on
17 the company.

18 Q. Okay. Ms. Steel, at the pre-hearing
19 conference on Thursday, I distributed an illustrative
20 exhibit that takes some of these numbers that we're
21 talking about and presents them. Do you have a copy of
22 that?

23 A. Yes, I do.

24 MR. QUEHRN: Does the Bench have a copy of
25 the illustrative exhibit?

00287

1 JUDGE MOSS: Some of the Bench does at least.
2 Go ahead, Mr. Quehrn.

3 MR. QUEHRN: Thank you.

4 BY MR. QUEHRN:

5 Q. Now, Ms. Steel, what I would like to do first
6 is harken back to page 2 of 414 for a minute, and you
7 will notice that the second line of this portrayal of
8 cash flow requirements does show debt repayment. And I
9 understand that's not something you necessarily agree
10 with, but what I would like to do for a minute is just
11 confirm if you go back to page 2 of your Exhibit 414
12 that as I have carried those out there, in other words,
13 the \$10 Million, the \$60 Million, the \$92 Million, the
14 \$117 Million, which is cumulative, corresponds to your
15 handwritten notes on page 2?

16 A. Yes, these CMLTD schedules that you represent
17 in the fourth quarter of 2002 matches the \$117 Million
18 on that page.

19 Q. Okay. Just a second, I need to adjust my
20 papers.

21 Now if you look at line 5, I have also shown
22 an amount that is reflective of the amount of money it
23 would take to pay the dividend. And that number, if we
24 want to take a look at Exhibit 424, I'm sorry, 423C,
25 which is your workpapers, and I think we go all the way

00288

1 to the back or just about to the back, yes, it would be
2 page 17 of 19, line 7, and we're looking essentially at
3 the last four columns for 2002, tracking that number, I
4 have \$127,856,000 straight across the board. Does that
5 -- is that correct?

6 CHAIRWOMAN SHOWALTER: Mr. Quehrn, where are
7 you looking on this page 17?

8 MR. QUEHRN: I'm looking at Ms. Steel's
9 workpapers, which up in the upper right-hand corner
10 would say page 17 of 19.

11 CHAIRWOMAN SHOWALTER: What row?

12 MR. QUEHRN: It would be near the bottom of
13 the page, line 7, it says common dividends including
14 DRIP.

15 A. Yes, I say 127 in each column, but now that
16 you read the title on it, I can see that I have made an
17 error in my workpapers, that actually that's cash common
18 dividends, which excludes DRIP, so what I meant is that
19 it takes into account there is DRIP.

20 BY MR. QUEHRN:

21 Q. So if we exclude the DRIP, the dividend
22 payment would be \$127 Million? Do you agree with that?

23 A. I agree that's the cash dividend payment on
24 that row.

25 Q. Okay.

00289

1 JUDGE MOSS: Let me make sure I'm clear here,
2 Ms. Steel. This exhibit is one of your workpapers?

3 THE WITNESS: Yes, this exhibit is my
4 workpapers just taking the company's projections as is
5 without adjusting them.

6 JUDGE MOSS: All right. And that line 7,
7 instead of saying common dividends including DRIP, it
8 should say excluding DRIP?

9 THE WITNESS: That's correct, it excludes the
10 non-cash DRIP.

11 JUDGE MOSS: What is DRIP?

12 THE WITNESS: DRIP is dividend reinvestment
13 plan, and that is the company's delivery to certain
14 investors of stock instead of cash as their dividend.

15 JUDGE MOSS: Thank you.

16 BY MR. QUEHRN:

17 Q. Now if we refer back to the illustrative
18 exhibit line 7, which essentially looks at cash flow
19 excluding payment of any dividend, no dividend at all,
20 but essentially adds the debt repayments, and if you
21 carry the line across through the third quarter or the
22 interim period through third quarter 2002 and fourth
23 quarter 2002, is there sufficient cash flow to pay for
24 operations and to repay debt?

25 A. No, according to the company's calculation,

00290

1 there is not sufficient cash flow for the repayment of
2 dividends and debt. However, the company's calculation
3 is in error, and I do have an exhibit prepared which
4 corrects that calculation to take into account all of
5 the impacts that should be used in such an analysis.

6 Q. Perhaps that's a matter you can deal with on
7 redirect. I would just like to stick with what we have
8 here right now, please.

9 A. Okay.

10 Q. If you take a look then at cash flow and
11 include repayment of the dividend, which essentially
12 would be, or excuse me, payment of the dividend, which
13 would be line 6, does it show a greater deficiency as
14 far as the company's cash flow is concerned?

15 A. Would you please clarify the question to
16 specify greater than what?

17 Q. Are the deficiencies reflected in line 6
18 greater than the deficiencies reflected in line 7?

19 A. Yes, they are.

20 Q. Have you attempted to calculate those
21 deficiencies in actual dollars?

22 A. Yes, I have, and I have in my --

23 Q. With different assumptions than I have here
24 or with the assumptions that we have here, have you
25 calculated the shown form?

00291

1 A. I have calculated a free cash flow for
2 dividends on my own using my own assumptions and
3 calculation.

4 Q. But have you calculated the deficiencies
5 shown here with respect to these assumptions? Just yes
6 or no is fine.

7 A. No, I haven't modified the company's
8 calculation.

9 Q. Let's return to your testimony for a minute,
10 page 16, please.

11 JUDGE MOSS: Mr. Quehrn, are you shifting to
12 a new area, because we're going to need to break here in
13 the next couple of minutes.

14 MR. QUEHRN: This will be the last question
15 relative to this particular exhibit.

16 JUDGE MOSS: Okay, let's wrap up with that
17 then.

18 CHAIRWOMAN SHOWALTER: What exhibit?

19 JUDGE MOSS: Back to the testimony, pre-filed
20 direct or pre-filed response testimony, that's Exhibit
21 401.

22 Page what, Mr. Quehrn?

23 MR. QUEHRN: I believe it's page 16.

24 JUDGE MOSS: Thank you.

25 MR. QUEHRN: And it's line 15, which has been

00292

1 designated as confidential, although there is no data or
2 numbers in that particular statement, and I do want to
3 refer to the text. So as to that statement, again I
4 will waive confidentiality.

5 BY MR. QUEHRN:

6 Q. Ms. Steel, it's page 16, line 15 for your
7 reference.

8 A. Okay.

9 Q. Now here we say the company's projection
10 shows sufficient cash flow internally to cover necessary
11 near term expenses for ongoing operations; is that
12 correct?

13 A. That's correct.

14 Q. And in that context, is it correct to assume
15 that as we say internal cash flow to cover necessary
16 near term expenses that you are again excluding debt,
17 repayment of debt?

18 A. Yes, in that statement, I do exclude debt,
19 because the statement refers to operations needs, not
20 financing needs, not investment needs.

21 Q. And is it also correct to assume that in that
22 instance in terms of sufficient cash flow to cover
23 necessary near term expenses for ongoing operations,
24 that would assume that there is no payment of the
25 dividend from cash flow?

00293

1 A. I will need to take a look at my exhibit to
2 see what I referenced in that. This will just take me a
3 moment. Yes, that's correct, the statement in general
4 refers to the company not paying coverage of necessary
5 operations expenses and necessary capital expenses,
6 excluding the common dividend. However, in the second
7 quarter, my calculations show that the company could
8 also cover its dividend, so I'm -- I wouldn't agree that
9 it -- that at no point can the company not cover its
10 dividend.

11 Q. I don't believe that was the question. The
12 question was, is the statement here that sufficient cash
13 flow is made with consideration of or made under the
14 understanding that there is no dollars being paid to the
15 dividend; is that correct? Just yes or no.

16 A. Well, yes, that statement refers for the
17 whole year that there is no payment of dividend.

18 Q. Okay.

19 A. In the second quarter, it would also be true
20 with a dividend.

21 Q. Well, then let's refer back to the exhibit
22 then, and let's just be clear for the record. If we
23 look at line -- let's look at line 6, required cash flow
24 including common dividends. The numbers, would you
25 agree, going across in terms of the percentages are

00294

1 100%, 100.4%, 45.6%, 30.4%, and 21.2%? Is that the way
2 you read the Exhibit 2?

3 A. Yes, I read the exhibit in the same way. I
4 don't agree with the title, required cash flow.

5 Q. I understand that. And then with respect to
6 line 7, if you exclude the dividend, reading the
7 percentages across 161%, 99.9%, 84.3%, I'm sorry, 84.3%
8 and 81.3%; is that correct?

9 A. Yes, I read the exhibit the same way.

10 MR. QUEHRN: Your Honor, if we're looking for
11 an opportunity to take a break, my next line of
12 questions deal with something else, so.

13 JUDGE MOSS: All right, fine, then this would
14 be a good opportunity for our luncheon recess, and we
15 will reconvene at 1:30.

16 (Luncheon recess taken at 12:00 p.m.)

17

18 A F T E R N O O N S E S S I O N
19 (1:30 p.m.)

20 JUDGE MOSS: We will resume your
21 cross-examination of Ms. Steel, Mr. Quehrn.

22 MR. QUEHRN: Thank you, Your Honor.

23 BY MR. QUEHRN:

24 Q. Good afternoon, Ms. Steel. Could we please
25 turn to Exhibit 413.

00295

1 JUDGE MOSS: All right, give us a second
2 here, Mr. Quehrn.

3 MR. QUEHRN: And specifically page 1 of
4 Exhibit 413.

5 JUDGE MOSS: All right, go ahead.

6 MR. QUEHRN: Thank you.

7 BY MR. QUEHRN:

8 Q. Ms. Steel, this exhibit is entitled
9 short-term projected cost benefit analysis for rate
10 payers of interim rate relief; is that correct?

11 A. Yes, that's correct.

12 Q. And looking at this exhibit, the first box I
13 guess or the first half of the page does an assessment
14 of costs of interim rate relief, and this -- the cost is
15 calculated, essentially calculates interest costs of
16 incurring more debt; is that correct?

17 A. Essentially that is what the costs are
18 included in the first part, the interest costs of not
19 necessarily new debt but the debt that would be
20 affected, so it would also include interest cost on
21 first mortgage bonds, and that wouldn't change.

22 Q. Does it include anything other than interest
23 costs?

24 A. It also takes into account the impact a
25 ratings downgrade would have on interest costs.

00296

1 Q. By stating higher interest costs?

2 A. That's correct.

3 Q. Does the analysis of the cost of this -- I'm
4 sorry, let me rephrase the question.

5 The amount borrowed in this instance for your
6 analysis would be the \$170,000,727; is that correct? Is
7 that the principal upon which the interest costs are
8 determined?

9 A. Well, the -- not exactly. It is -- the \$170
10 Million is the cost of interim rate relief to rate
11 payers, so it's not really a loan per se, but you could
12 calculate the time value of money on that forgone money
13 to the rate payers, so.

14 Q. Let me rephrase the question. What is the
15 principal amount that you use in the top half of the
16 page for purposes of determining interest cost?

17 A. Well, there are different principals
18 involved. The \$170 Million is used for the value of the
19 company's request for interim rate relief. And then
20 there are different amounts in the line of credit. The
21 amount in that line is, I would have to look at the
22 formula to see what that is, but it's I assume I have
23 taken it from the company's projected line of credit
24 balance. And then the line 5 uses \$150 Million as the
25 principal amount. And then line 6 uses \$2.2 Billion

00297

1 dollars of existing first mortgage bonds as the
2 principal amount.

3 Q. Okay. If you refer then on the bottom of the
4 page to the net cost benefit of no interim relief, there
5 is a number there that is \$32 Million; is that correct?

6 A. That's correct.

7 Q. Okay. In terms of calculating the cost of
8 additional debt on this page, is there anywhere on this
9 page in this calculation where you include in the cost
10 of the company borrowing more money as opposed to
11 getting interim relief the cost of repaying the
12 principal?

13 A. Would you please clarify the question to
14 state what principal?

15 Q. The principal amount of the indebtedness that
16 the company would incur in lieu of getting interim
17 relief in the amount of \$170 Million per your cost
18 benefit analysis.

19 A. Well, I would not know whether the company
20 would incur new debt necessarily. The company might
21 forgo dividends, it might make changes to its capital
22 budget, it might make changes to its operations and
23 maintenance budget, so it might have cost savings that
24 it could incur that would offset that amount.

25 Q. Are any of those assumptions reflected in

00298

1 your cost benefit analysis where you come up with a
2 specific interest cost?

3 A. My cost benefit analysis does not make any --
4 doesn't make any statement about what the company would
5 do to obtain the funds for that.

6 Q. It is just interest costs that you look at
7 for purposes of the comparison; is that correct?

8 A. It's a comparison of the interest costs that
9 the company -- that rate payers would incur, assuming
10 all interest charges flowed through to them, versus all
11 costs including interest costs. So that would be the
12 \$170 Million that they would be out plus the interest
13 costs for the increased debt, increased cost of debt for
14 the company, versus the costs that they would incur if
15 they did not provide the company with any interim rate
16 relief.

17 See, the line of credit balances are
18 different in the top and in the bottom, I believe. In
19 the bottom, I have assumed that the line of credit is
20 fully extended, whereas I believe in the top in line 4 I
21 have taken the debt balance, revolver balance, that --
22 actually I don't know, I can't tell. My comment is
23 certainly long enough, but it doesn't tell what the
24 starting balance is, so I would have to look that up.

25 Q. At this point, I would like to make reference

00299

1 to an exhibit that has been pre-marked Exhibit 4119 for
2 cross-examination purposes.

3 JUDGE MOSS: Was that 419?

4 MR. QUEHRN: 419, yes.

5 BY MR. QUEHRN:

6 Q. Do you have a copy of this exhibit,
7 Ms. Steel?

8 A. Yes, I do.

9 Q. In this particular -- this is a data request,
10 PSE to Staff, and the question was:

11 Please provide an analysis and documents
12 in your possession or control that
13 Ms. Steel has prepared or reviewed
14 showing the impact on rate payers of the
15 recovery of the principal associated
16 with financing the requested relief in
17 the interim case versus the rate
18 increase that the company has requested
19 in this interim case.

20 In responding to that, the response was, the
21 analysis was provided with the testimony and exhibits
22 including Exhibit LAS-13, which I believe is the one
23 we're looking as, and its associated workpapers. Is
24 that still your response?

25 A. Yes, it is, it's clarified for me what your

00300

1 question means. I took that to mean that the principal
2 associated with financing the requested relief is the
3 \$170 Million of principal essentially that the rate
4 payers would be paying for the company in part one of
5 the exhibit. And in part two of the exhibit, they would
6 not be paying that principal for the company, rather
7 they would be paying the interest costs associated with
8 that decision. And I do believe I provided all of the
9 workpapers for that with Exhibit 13, because I provided
10 you with the electronic version, and in the electronic
11 version in the column, in row 4, in the column with the
12 415 or \$4.5 Million, there is a formula which you have
13 and could look up the dollar amount that I included in
14 the -- for the revolver.

15 Q. Well, let's just go back then to LAS-13 in
16 light of that data request in mind, and I want to take
17 you back, and I'm sorry, that's 413, back to line 13,
18 net cost of no interim rate relief, and there was a
19 number there of \$32 Million, correct?

20 A. That's correct.

21 Q. And that is all interest cost; is that
22 correct?

23 A. Yes, it is.

24 Q. And that does not take into consideration the
25 cost of repaying principal amount borrowed; is that

00301

1 correct?

2 A. No, it does not. However, if I were to
3 presume, as in this scenario you're presenting to me,
4 that the company has to go out and finance another \$171
5 Million, that would change that sheet by \$10 Million, so
6 line 13 would be approximately -- approximately \$43
7 Million, and line 14 would be reduced by the same
8 amount, approximately \$10 Million, so it would be \$157
9 Million.

10 Q. But again, your analysis in that instance of
11 the cost of no interim relief would just look at
12 interest cost, it would not look at repaying the
13 principal amount that would have been borrowed; is that
14 correct?

15 A. That is correct, because --

16 Q. Thank you.

17 A. -- the capital structure of the company is
18 the responsibility of the management of the company.

19 Q. Thank you. I would like now to refer back to
20 your testimony, which is Exhibit 401, at page 30. And
21 specifically I would like to refer to lines 13 through
22 15. And referring to your testimony, I think that the
23 text says:

24 Interest rates, terms, and availability
25 of new debt and uncommitted debt are

00302

1 affected by the credit ratings, but the
2 impact on cost is small, especially for
3 short-term debt.

4 You state that the cost and availability of
5 new debt are affected by credit ratings; is that
6 correct?

7 A. Yes, that's correct.

8 Q. In your opinion, should utilities seek to
9 maintain investment grade credit ratings?

10 A. That's a very broad question which goes
11 beyond the scope of what's the more narrow question
12 that's being discussed in this proceeding, and the
13 credit rating that the company should have maintained,
14 should maintain in the future, are issues that we will
15 -- that Staff proposes to reserve for the general rate
16 case when we can examine prudence and other issues in
17 depth. And I think that the credit rating that a
18 utility should maintain is in general such a big
19 question that how it relates to my testimony at that
20 line is something on which I would require some
21 additional clarification.

22 Q. I guess I'm just asking a simple question of
23 whether or not you think that a utility should seek to
24 maintain an investment grade credit rating as an
25 objective of how it manages its financial affairs?

00303

1 MR. CEDARBAUM: Your Honor, objection to the
2 form of the question. The witness has indicated that
3 the question is unclear to her. If it can be clarified,
4 that's fine. If not, then we should move on.

5 JUDGE MOSS: Well, I think Mr. Quehrn is
6 attempting to clarify it, Mr. Cedarbaum, and we will see
7 if Ms. Steel still has difficulties with the question or
8 not.

9 Ms. Steel, can you answer the question as
10 posed?

11 A. The question is -- I think it -- my answer to
12 that question is a complex answer, and I think that it
13 depends on the circumstances, the credit rating that a
14 utility should try to maintain.

15 BY MR. QUEHRN:

16 Q. Does it depend upon circumstances other than
17 the cost of new debt?

18 A. Yes.

19 Q. Would in your view a utility's -- let me
20 rephrase that question.

21 Do you think that a utility's credit rating
22 can affect its access to say access to wholesale
23 markets?

24 A. Yes, I think that a utility's credit rating
25 could affect its access, the terms of its access to

00304

1 wholesale markets. However, I do not think that a
2 utility or any entity is absolutely prohibited or barred
3 from participating in the wholesale markets simply
4 because it is not investment grade. There are a range
5 of options available to entities which are not rated
6 investment grade. For example, they can post a letter
7 of credit. A letter of credit for several million
8 dollars on a short-term basis costs in the range of
9 several thousand. A company alternatively could post
10 the collateral for that, and, in fact, it may be cheaper
11 for the rate payers to finance only the additional costs
12 of posting collateral. And, in fact, I have included
13 that amount in my Exhibit 14C, page 1, I have included a
14 \$20 Million allowance for contingencies such as that,
15 such as the requirement that a utility post cash
16 collateral, obtain letters of credit, or negotiate with
17 suppliers for different terms.

18 Q. If a utility's credit rating were say to fall
19 below junk status, do you, or fall to junk status, do
20 you think that things such as posting letters of credit
21 and providing other forms of security might be difficult
22 for the utility to do because of its credit rating?

23 A. Which rating are you referring to by junk
24 status, and which specific rating do you mean by junk?
25 Are you referring to the company's corporate rating, the

00305

1 first mortgage bond rating, and are you referring to
2 junk status as an S&P rating of double B plus or below?

3 Q. Could you answer -- I mean why don't you make
4 an assumption and answer the question, if you would,
5 please, that I asked.

6 A. Well, it depends on the rating. Let's assume
7 that the company's corporate credit rating is rated at
8 S&P double B plus. From that rating, one could presume
9 that its first mortgage bonds are likely still
10 investment grade.

11 Q. What if the rating were below investment
12 grade, which I believe was my question, would that using
13 the S&P rating and using the senior corporate credit
14 rating that you referred to, might that affect the
15 utility's ability to access some of the security
16 instruments that you acknowledged were necessary in
17 order to have access to the wholesale markets?

18 MR. CEDARBAUM: Object to that question as a
19 mischaracterization of testimony. She did not say that
20 those types of instruments like letters of credit and
21 collateral are necessary. She said they were options.

22 JUDGE MOSS: Well, and I'm a little confused
23 by the question too, Mr. Quehrn. When you refer to
24 rating, I think as I understood Ms. Steel a moment ago,
25 she said, well, what rating are you talking about, and

00306

1 you told her to make an assumption about which rating,
2 and I think she chose the corporate rating.

3 MR. QUEHRN: Correct.

4 JUDGE MOSS: So do you want her to now assume
5 that the first mortgage bond rating or some other rating
6 is --

7 MR. QUEHRN: No, I apologize, we can stick
8 with that rating, it's just that with the assumption
9 that she took was also an investment grade rating for
10 that particular. You did say triple B plus, correct?

11 THE WITNESS: No, I said double B plus.

12 JUDGE MOSS: Maybe we better start again and
13 break it into small enough chunks that we can all follow
14 it. I got lost in there, I know. I may be the only
15 one, but.

16 MR. QUEHRN: Maybe I did too, Your Honor.

17 BY MR. QUEHRN:

18 Q. Let's go back then too the company's
19 corporate credit rating, and let's consider both
20 Standard & Poor's and Moody's, and the question is, if a
21 utility's corporate credit rating were to fall to below
22 investment grade status, do you believe or is it your
23 opinion that that would have an effect on that utility's
24 ability to secure the type of security agreements that
25 you referenced that would be necessary or an option to

00307

1 maintain access to the wholesale markets?

2 MR. CEDARBAUM: I guess the question, an
3 objection, you are speaking to utilities in a broad
4 fashion, maybe you can define what you mean.

5 JUDGE MOSS: Well, Mr. Cedarbaum, I would
6 rather if you have an evidentiary objection that you
7 state it. If the witness has some problem with the
8 question, then she can let us know, and we will get some
9 clarification.

10 MR. CEDARBAUM: The objection is for
11 vagueness, I don't know what -- how broad or narrow the
12 question is with respect to utilities.

13 JUDGE MOSS: Do you have the question in
14 mind, Ms. Steel?

15 THE WITNESS: I do.

16 JUDGE MOSS: Do you think you can answer it?

17 THE WITNESS: I think I can form an answer to
18 it.

19 JUDGE MOSS: All right, why don't you go
20 ahead.

21 A. I think if Puget Sound Energy's corporate
22 credit rating falls below investment grade status on
23 both S&P and Moody's rating scale, which is itself a
24 hurdle to overcome and which I will explain later, that
25 the company would have more difficulty in obtaining

00308

1 these alternate forms of financing, because the utility,
2 Puget Sound Energy, would have to pay more for it. But
3 I don't think that the company would be precluded from
4 participating in the wholesale markets.

5 The reason that I think that the assumption
6 that both S&P and Moody's rate the company below
7 investment grade would be a stretch is that S&P and
8 Moody's have different ratings on the company's debt,
9 and the company's corporate credit rating would have to
10 fall two notches or more to get to the situation in
11 which you have asked me to envision.

12 BY MR. QUEHRN:

13 Q. I would actually like to turn --

14 MR. CEDARBAUM: Your Honor, I don't think
15 she's done with her answer. If you are, that's fine,
16 but if you're not, you should continue.

17 THE WITNESS: I'm finished.

18 MR. QUEHRN: I'm sorry, I thought she was
19 finished with her answer.

20 JUDGE MOSS: Mr. Cedarbaum, direct your
21 comments to me, and I will instruct the witness, all
22 right. Thank you.

23 Thank you, Ms. Steel, I think you said you
24 had completed your answer, so, Mr. Quehrn, why don't you
25 follow up with your next question.

00309

1 MR. QUEHRN: Thank you.

2 BY MR. QUEHRN:

3 Q. The answer that you gave was specific to PSE,
4 and I appreciate that. I am interested if in connection
5 with that answer and also with your testimony, what
6 analysis did you undertake to determine the impact of
7 such a downgrade on Puget's corporate credit rating on
8 its access to wholesale markets?

9 A. I provided some analysis in response to data
10 requests, and in addition I have work experience with
11 companies who are not investment grade, including
12 utilities, and have arranged for credit facilities to
13 assist them with accessing trade credit, including
14 wholesale financial markets and commodity markets.

15 Q. Now you mentioned analysis in response to
16 data requests. I would now like to refer to Exhibit
17 417, please.

18 JUDGE MOSS: I'm sorry, Mr. Quehrn, was that
19 417 or 407?

20 MR. QUEHRN: 417, Your Honor.

21 JUDGE MOSS: Thank you.

22 BY MR. QUEHRN:

23 Q. Ms. Steel, this is a question that was
24 presented to Staff that asked to provide analysis and
25 documentation that you prepared or reviewed that

00310

1 addressed the utilities, excuse me, the ability of a
2 utility to purchase wholesale markets under the WSPP
3 agreement. And your response, I believe, quotes the
4 agreement. Was there anything here outside of the four
5 corners of the agreement that you considered in
6 responding to this question that's not reflected in the
7 response?

8 A. No, there isn't. The question is narrow
9 about the specific documents that I reviewed with regard
10 to the WSPP agreement.

11 Q. Then if we move on to an exhibit that has
12 been marked 418, which is another data request, this
13 request asked to:

14 Provide all analysis or documents in
15 your possession or control that
16 Ms. Steel has prepared or reviewed that
17 addressed the ability of a utility to
18 trade in energy financials if the
19 utility is rated below investment grade.

20 MR. CEDARBAUM: Your Honor, I guess I will
21 object, we stated an objection in the response that we
22 felt the term energy financials was ambiguous, so I
23 assert that objection now unless Mr. Quehrn can define
24 what was meant by that term.

25 JUDGE MOSS: Well, I don't think we have a

00311

1 question yet.

2 MR. CEDARBAUM: Well, I guess I wanted to
3 jump in sooner than later since we're looking at this
4 document and reading from it.

5 JUDGE MOSS: Well, let's see what the
6 question is first, and then we'll see if there's an
7 objection.

8 BY MR. QUEHRN:

9 Q. The question is, are you aware of any
10 barriers that prohibit an entity from buying and selling
11 financials if that entity is -- energy financials if
12 that entity is rated below investment grade?

13 MR. CEDARBAUM: Is the question, what is her
14 response?

15 JUDGE MOSS: The question is whether
16 Ms. Steel sitting here today is aware of any barriers
17 that prohibits an entity from buying and selling
18 financials if that entity is rated below investment
19 grade, if I got it correct.

20 MR. QUEHRN: That's correct.

21 MR. CEDARBAUM: I would have an objection
22 that the term energy financials is ambiguous.

23 JUDGE MOSS: Well, let's see --

24 MR. CEDARBAUM: If it can be -- I'm sorry,
25 Your Honor.

00312

1 JUDGE MOSS: If the witness doesn't
2 understand the term, then she won't be able to answer
3 it.

4 Ms. Steel, do you understand the term energy
5 financials?

6 THE WITNESS: I think the term is so broad
7 that I can not define an answer to it.

8 JUDGE MOSS: Mr. Quehrn, if you can define
9 the term for the witness, then perhaps she can respond
10 to you in a more substantive way.

11 BY MR. QUEHRN:

12 Q. Energy financials in this instance I would
13 suggest are the ability to -- of an entity to trade in
14 the energy market. There were two questions here, well,
15 the ability of a utility to trade in the energies future
16 market.

17 MR. CEDARBAUM: And I would just ask the
18 witness if she's --

19 JUDGE MOSS: Well, do you have an objection
20 to the question, Mr. Cedarbaum? If the witness can't
21 understand the question, she can say so.

22 MR. CEDARBAUM: Then I will keep silent.

23 JUDGE MOSS: Thank you.

24 A. I think the clarification doesn't go far
25 enough. By energy futures market, do you mean buying

00313

1 gasoline futures, buying --

2 BY MR. QUEHRN:

3 Q. Swaps and options in the gas and electricity
4 wholesale markets.

5 A. Swaps and options of what, of interest rate?

6 Q. No.

7 JUDGE MOSS: Mr. Quehrn, can you identify a
8 specific type of transaction in the energy market that
9 you're talking about? I think the witness is struggling
10 with terms that are perhaps not terms of art that are
11 generally understood. At least I have to say I don't
12 understand them that way.

13 MR. QUEHRN: Yes, Your Honor. The prior
14 question, we talked about the WSPP agreement, which
15 deals with that type of trading, and it was pointed out
16 that it was too narrow or it was a narrow question, and
17 I guess what I'm trying to do is ask beyond transactions
18 of that nature.

19 JUDGE MOSS: Somebody has got an electronic
20 instrument going off that needs to be turned off.

21 You understand the struggle we're having,
22 Mr. Quehrn, is the witness is not understanding the term
23 energy financials as a term of art to which she can
24 relate. Is that correct, Ms. Steel, is that the problem
25 here?

00314

1 THE WITNESS: That's correct.

2 JUDGE MOSS: So it seems to me that if you
3 can define the term in some fashion by identifying some
4 specific type of transaction or perhaps set of
5 transactions. I'm just trying to help move us along.

6 MR. QUEHRN: Your Honor, I'm struggling to do
7 that, and as I would say, I would harken back to the
8 WSPP agreement as one example of those types of
9 transactions that we addressed, although there was a
10 suggestion in the response of the witness that that was
11 only a narrow set.

12 BY MR. QUEHRN:

13 Q. And I guess what I'm trying to ask is in a
14 broader context these type of energy future trading in
15 the wholesale gas and electricity markets.

16 A. Well, my answer even to the more narrow
17 question of the WSPP agreement is that it would not be
18 -- the company -- the utility, Puget Sound Energy, would
19 not as a definite matter of fact be known to be
20 precluded from participating in the purchase and sale of
21 wholesale power under the WSPP agreement even if it is
22 downgraded to below investment grade, because the
23 agreement itself allows the parties to negotiate that
24 among themselves. It does not require that the parties
25 take that into account and provides a series of options

00315

1 too for the companies. And if you go to the broader
2 question of other sorts of financial contracts, then my
3 answer would become even more broad, well, there would
4 be even more options, too many for me to list.

5 Q. And, I'm sorry, Ms. Steel, I think that at
6 this point you're answering a different question than I
7 asked. My question was, other than reading the contract
8 and referencing as you did specifically with respect to
9 the WSPP contract, did you do any other analysis to
10 determine what the impact of a downgrade to junk status
11 of a utility's credit rating would do to affect its
12 ability to trade in these types of markets?

13 A. Well, I didn't do any analysis on utilities
14 in general for the purpose of this testimony, and I did
15 not evaluate the options specifically available to Puget
16 Sound Energy. However, I do have experience with
17 utilities which are not investment grade which have
18 access to the wholesale power market.

19 Q. But there was no specific analysis done
20 outside of looking at the contract in this instance and
21 then applying your experience; is that correct?

22 A. Are you referring to Exhibit 418 or 417?

23 Q. Well, I'm referring to Exhibit 418.

24 A. For my response to Exhibit 418, I didn't look
25 at the contract, the WSPP contract.

00316

1 Q. In light of the discussion that we just had
2 about what energy financials means and as we have talked
3 about that in terms of access to the wholesale energy
4 markets, energy electric hedges, swaps, things of that
5 nature, trading in future, there was no analysis done of the
6 impact of a credit rating downgrade outside of the
7 context of your experience and your reading the WSPP
8 contract; is that correct?

9 A. No, that is not correct. I sought
10 information from the company about specific examples of
11 how it would be barred from trading in specific products
12 and the specific harm that it would be caused, but I was
13 not able to elicit specific information about what would
14 happen.

15 Q. And other than answering those questions, did
16 you do any other analysis?

17 A. There was nothing to analyze, so no.

18 Q. Thank you. I would like now to refer to page
19 31 of your testimony, Exhibit 401, please. Specifically
20 I would like to refer to lines 1 through 4. Here you
21 state that you can not predict what will happen to the
22 company's credit rating absent interim relief; is that
23 correct?

24 A. That is correct, I can not predict what will
25 happen to the company's S&P and Moody's credit ratings

00317

1 in the event that interim rate relief is not granted.
2 And in drawing that conclusion, I relied on statements
3 such as the S&P's December 2001 statement on how it took
4 into account the Commission's denial of interim rate
5 relief in the company's petition in Docket UE-011163.
6 And in that document, which I do have, S&P said that its
7 current ratings with the negative outlook were taken off
8 credit watch and fully took into account that interim
9 rate relief would not be available, that no rate relief
10 would be available until the conclusion of the general
11 rate case.

12 Q. Are you aware of other I believe the terms
13 are rating actions and rating directs that Moody's and
14 S&P have provided with respect to the likelihood of a
15 downgrade should the company get interim relief?

16 A. Yes, I am, I believe I have read everything
17 recent, that would be in the past three months or so,
18 from S&P and Moody's related to Puget Sound Energy's
19 debt.

20 Q. In addition to the December document that
21 you're referring to, have you looked at the S&P ratings
22 direct of October 30th, 2001?

23 A. Yes.

24 Q. And the Moody's rating of October 26, 2001?

25 A. Yes. I don't have them in front of me.

00318

1 Q. Okay. You can actually refer to those
2 documents. They're in Mr. Donald Gaines' testimony,
3 they're DEG-4, which I believe is Exhibit 24. Maybe we
4 should refer to those now.

5 JUDGE MOSS: And that would be Exhibit 24,
6 did I get that right, Mr. Quehrn, Exhibit 24?

7 MR. QUEHRN: Yes, Your Honor.

8 JUDGE MOSS: Thank you.

9 BY MR. QUEHRN:

10 Q. Let's look if we could, please --

11 A. Actually, I still don't have it in front of
12 me.

13 Q. Oh, I'm sorry.

14 JUDGE MOSS: Mr. Cedarbaum, do you have a
15 copy you could provide the witness, or can we get a copy
16 to her?

17 MR. CEDARBAUM: I'm wondering if she has a
18 copy of Mr. Gaines' testimony there. This would be an
19 exhibit to his direct testimony.

20 CHAIRWOMAN SHOWALTER: May I interject, the
21 question of is the Standard & Poor's December 2001, is
22 that -- where do I find that?

23 THE WITNESS: I have a copy here if you would
24 like.

25 CHAIRWOMAN SHOWALTER: Is it in our exhibits

00319

1 here anywhere?

2 THE WITNESS: No, it's not.

3 MR. CEDARBAUM: Chairwoman Showalter, we have
4 copies of that that we intended as an exhibit, and we
5 will get to that, or I can distribute them now if you
6 would like.

7 JUDGE MOSS: And you were going to distribute
8 those at what point?

9 MR. CEDARBAUM: I thought it may come up as a
10 redirect exhibit.

11 JUDGE MOSS: It may come up as a Bench
12 exhibit.

13 Would you like to have it now?

14 CHAIRWOMAN SHOWALTER: Well, it has been
15 referred to already in this discussion.

16 JUDGE MOSS: Why don't we have them now,
17 Mr. Cedarbaum, and we'll just have them as a Bench
18 exhibit since the Bench would find them useful.

19 MR. CEDARBAUM: Actually, Your Honor, they
20 were in the pile that I gave you this morning. It was
21 originally I thought about as an exhibit for Mr. Gaines,
22 Don Gaines, so you should have seven copies of it behind
23 you, and all of the parties can find that in their Don
24 Gaines supplemental exhibit, cross exhibit, file.

25 (Discussion off the record.)

00320

1 JUDGE MOSS: All right, under the
2 circumstances, I think I'm just going to mark this as a
3 Bench exhibit, and we will mark it 1, it will be Exhibit
4 Number 1. And this is the 5 December 2001 Standard &
5 Poor's bulletin re PSE.

6 And now I believe we also are looking at
7 Exhibit Number 24, Ms. Steel. Do you have that in front
8 of you?

9 THE WITNESS: Yes, I do.

10 JUDGE MOSS: And, Mr. Quehrn, you have a
11 question with respect to it, I suppose?

12 MR. QUEHRN: I do, Your Honor, although now
13 that I have been provided with a copy of Bench Exhibit
14 1, it might be helpful actually to go back first and ask
15 a clarifying question about that exhibit.

16 JUDGE MOSS: Go ahead.

17 BY MR. QUEHRN:

18 Q. Ms. Steel, did I understand your testimony
19 that you believe that this was the most recent statement
20 of S&P with respect to the subject matter?

21 A. No, it's not the most recent. It is a recent
22 statement though, and it's more recent than the October
23 statement.

24 Q. Are you familiar with S&P's February 1, 2002,
25 statement concerning this subject matter?

00321

1 A. Yes, and I understand that the company is a
2 client of Standard & Poor's, and I would note from
3 having read that February issue, that February opinion,
4 that the Standard & Poor's did not, in fact, take any
5 rating action or place the company's debt on credit
6 watch. It's merely a supportive statement to the
7 company.

8 Q. I'm sorry, could you repeat the answer to
9 that, please.

10 MR. CEDARBAUM: Can we have the reporter read
11 it back, please. Thank you.

12 JUDGE MOSS: Go ahead.

13 (Record read as requested.)

14 MR. QUEHRN: Thank you.

15 BY MR. QUEHRN:

16 Q. To your recollection, does the February 1
17 statement address the likelihood of a downgrade if
18 interim relief is not granted?

19 A. I don't have the February 1 opinion in front
20 of me.

21 Q. But what is your recollection in that regard?

22 MR. CEDARBAUM: Your Honor, the witness has
23 given her recollection, I think, to a specific question,
24 so what she remembers, she -- I'm assuming the company
25 has this and could provide her a copy of it so she could

00322

1 look and see --

2 JUDGE MOSS: Let's do that. In fact, let's
3 get copies to the Bench too. If we're going to be
4 talking about these things, let's have them so that we
5 can all follow along. So if we're going to be talking
6 about specific documents -- is this the only other one
7 that's not presently part of the accumulated documents
8 that are proposed to be made part of the record now? We
9 have the Bench Exhibit Number 1, the 5 December 2001
10 statement, we have had some reference here to a February
11 1 statement, are there others that we're going to be
12 talking about? Because we would like to have them all
13 so that we could look at them.

14 MR. QUEHRN: From my perspective, Your Honor,
15 at this point I would say yes.

16 JUDGE MOSS: There are others?

17 MR. QUEHRN: I'm sorry, no there are not.

18 JUDGE MOSS: Okay.

19 MR. QUEHRN: We did not actually make
20 reference to this December document such that if there
21 are other new materials I guess that are going to be
22 referenced in the course of Ms. Steel's testimony, at
23 that point, we might want to bring some other things up
24 for context. What I'm actually referring to is a
25 response to a data request that I would actually suggest

00323

1 that we use that for the February 1 document.

2 MR. CEDARBAUM: Your Honor, if I remember
3 correctly, this is a company response to a data request
4 which excerpts from the S&P February report, and I have
5 no idea if it's --

6 JUDGE MOSS: Does somebody have the February
7 1 report in this room? Raise your hand. Nobody has it?

8 THE WITNESS: Your Honor, I could obtain it.

9 JUDGE MOSS: All right, I will ask that Staff
10 obtain and provide that to the Bench at its earliest
11 convenience so we can have that.

12 Give me just a minute, please.

13 (Discussion on the Bench.)

14 JUDGE MOSS: All right, we're going to just
15 issue a Bench request and solve this problem this way,
16 and I will ask who can best and most efficiently provide
17 the response. We would like to have for our record all
18 the S&P's and Moody's reports that are of this
19 bulletins, what have you, that relate to Puget Sound
20 Energy for the period from let's say July 2001 through
21 today.

22 All right, who can most easily provide those
23 to us? Can the company provide those by say tomorrow?

24 MR. QUEHRN: Excuse me, Your Honor.

25 MR. CEDARBAUM: Your Honor.

00324

1 JUDGE MOSS: Or does Staff have a cache of
2 them and can provide them momentarily?

3 MR. CEDARBAUM: We can provide the February
4 2nd, which was shown to me on yellow paper, but I don't
5 think that it's confidential.

6 JUDGE MOSS: All right, well, let's go ahead
7 and get the February 2nd now plus the response from the
8 company on the rest of it.

9 MR. QUEHRN: I think we can provide the rest
10 of those. I believe they were provided in response to
11 one of the data requests. Just to be honest, I don't
12 remember which one it was sitting right here, but we
13 will track it down.

14 JUDGE MOSS: There's probably a stack of them
15 somewhere, so yeah, okay, then that Bench request will
16 be to the company, and we will ask you to try to get
17 that to us by tomorrow if you can, and let us know if
18 you can't. And in the meantime, Staff is procuring
19 copies of the February statement as to which we have a
20 question pending, I believe; is that right?

21 All right, well, I tell you what, let's take
22 just a five minute recess to stretch our legs while we
23 wait to get those copies up here.

24 (Recess taken.)

25 JUDGE MOSS: During our brief recess, Staff

00325

1 has provided us with copies of the February 1st, 2002,
2 bulletin from Standard & Poor's concerning Puget Sound
3 Energy, and I'm just going to include that in the Bench
4 Request Exhibit Number 1, and I'm also going to include
5 in that when we receive them the balance of the reports,
6 so that will be a composite exhibit consisting of those
7 various documents I have described.

8 And I should interject here that there's no
9 criticism meant or implied, the fact that these were not
10 available in the first instance. We understand that
11 things have been done quickly and that things may come
12 up during cross-examination that require the use of
13 documents. We just want to have them so that we can
14 refer to them. So if I left that impression, I did not
15 mean to.

16 So go ahead with your question now,
17 Mr. Quehrn.

18 MR. QUEHRN: Thank you.

19 May I please ask the court reporter to read
20 the question.

21 (Record read as requested.)

22 A. No, it does not. It states that
23 authorization of final rate relief, in the last
24 sentence, which is expected near the end of 2002 below
25 requested levels is likely to prevent PSE from

00326

1 recovering a financial position consistent with its
2 current triple B minus corporate credit rating. The
3 opinion also does not place the company's ratings on
4 credit watch, so I would not expect any immediate
5 ratings change.

6 BY MR. QUEHRN:

7 Q. What does it refer to in terms of whether or
8 not PSE's outlook, I'm sorry, does the report show PSE's
9 outlook as being negative?

10 A. Yes, the report shows PSE's outlook is
11 negative. However, there are three components to the
12 rating. There is the rating such as the triple B minus,
13 then there is whether or not it's on credit watch, and
14 then there is the outlook, which is a longer term look.
15 And the rating itself is investment grade. The rating
16 is not on credit watch, and that's indicative of a near
17 term change in a rating. And then the outlook is a
18 longer term view, and usually companies in the same
19 industry will often share the same outlooks, because it
20 is a longer term view. So, for example, when one of the
21 ratings agencies downgraded a great number of utilities
22 in the second half of 2001, most of the utilities in
23 that sector, even those that did not get a downgrade,
24 also were placed on negative outlook.

25 Q. I would like to refer back now to the

00327

1 sentence that you read. After the second part of the
2 sentence, it says, below requested levels is likely to
3 prevent PSE from recovering a financial position. Do
4 you suppose that those below requested levels was
5 actually referring back to the prior sentence, the
6 sentence preceding the one that starts authorization?

7 A. No, I believe that the requested level refers
8 to the amount of relief that would be provided in the
9 general rate case, because at the beginning of that same
10 sentence, it begins with authorization of final rate
11 relief.

12 Q. Could you please read the prior sentence.

13 A. (Reading.)

14 Both recommendations are well below the
15 company's interim request of \$170
16 Million, which the WUTC is anticipated
17 to decide by March 31st, 2002.

18 Q. Then isn't it reasonable to assume where it
19 says below requested levels, plural, in the next
20 sentence, that it might possibly be referring back to
21 the prior sentence?

22 MR. CEDARBAUM: Your Honor, I will object,
23 it's been asked and answered, the prior question and
24 answer.

25 MR. QUEHRN: The question is withdrawn.

00328

1 MR. CEDARBAUM: Mr. Quehrn --

2 JUDGE MOSS: The question has been withdrawn.

3 BY MR. QUEHRN:

4 Q. I would like to ask another question then
5 before we turn to some of the other S&P and Moody
6 documents. I believe in response to an earlier question
7 you mentioned that PSE is a client of S&P. Could you
8 just elaborate on what that means and why you think it's
9 significant, please?

10 A. I think it is important that PSE pays the
11 ratings agencies to rate its debt. The ratings agencies
12 are usually acting on behalf of the bond holders, but
13 typically it is the borrower, in this case Puget Sound
14 Energy, which actually pays the bill.

15 Q. Isn't it true that every company rated by a
16 rating agency has to pay a fee to be rated?

17 A. No, it's not true.

18 Q. So PSE is the only one that pays a fee for
19 its rating?

20 A. No, that's also not true.

21 Q. Can you identify for me some companies that
22 are rated by the rating agencies that don't pay a fee
23 for the service?

24 A. I can not identify a specific example.
25 However, I am aware of credits in the past that I have

00329

1 evaluated which have been rated by the ratings agencies
2 without payment for that specific rating as well as a
3 competitor of S&P and Moody's, Fitch, will sometimes
4 rate a rating for the agent for an issuance without
5 payment.

6 Q. Isn't it true though that at least to your
7 knowledge that the far and away majority of the
8 companies that are rated by rating agencies as a matter
9 of course pay a fee for that service?

10 A. As a matter of course, I do think that most
11 utilities pay the ratings agencies for their ratings,
12 and so they are clients of that rating agency.

13 Q. And is it the suggestion then that in the
14 paying such a fee in the normal course somehow biases
15 the rating?

16 A. Yes, I do think that the payment is a form of
17 bias and that there is a relationship, a financial
18 relationship, between the ratings agency and the
19 company. And the company and its -- can choose to have
20 one or the other ratings agencies rate its debt first,
21 can choose to pay one or the other rating agencies more
22 for a specific rating, and so there is a certain amount
23 of competition for the business involved. And in that
24 sense, I do think that the ratings agency has an
25 obligation to the company, its client, that it does not

00330

1 have to the WUTC, to Staff, or to Public Counsel, or any
2 of the other 17 parties referenced in the opinion.

3 Q. Are you aware of any risk or exposure rate
4 agencies might have if they bias their recommendations
5 to investors?

6 A. I think a rating agency has an obligation to
7 present its -- on behalf of the bondholders, it must
8 present to the bondholders fair -- a fair analysis of
9 the rating. But the obligation, I think, is limited to
10 the bondholders, not -- it doesn't have any obligation
11 to the WUTC. And I'm not aware, although it's calling
12 for a legal conclusion, of what sort of action one of
13 the parties could take, that's in the proceeding that
14 doesn't have a financial relationship with the rating
15 agency, that they could take if they disagree with the
16 company, with the rating agency's rating on the
17 company's debt.

18 Q. Ms. Steel, are you aware, does the company
19 offer any evidence that its credit rating will be
20 reduced to junk status if the full amount of relief is
21 not granted?

22 A. Would you please repeat the question and
23 clarify junk status and which specific issue, which
24 specific debt?

25 Q. Fair question. Does the company offer

00331

1 evidence that its senior credit rating will be reduced
2 to below investment grade status by either Moody's or
3 S&P if the full amount of relief is not granted?

4 A. By senior credit, do you mean secured or
5 unsecured?

6 Q. I believe I mean its senior credit rating.

7 A. Those are two different -- there are two
8 different senior credit ratings for a company, and I
9 believe --

10 Q. I'm sorry, senior secure.

11 A. Senior secure, so its first mortgage bonds?

12 Q. No, I don't believe that's what I'm asking.

13 MR. QUEHRN: May I just consult for a minute
14 so I make sure I ask the question properly?

15 JUDGE MOSS: Sure, take your time.

16 BY MR. QUEHRN:

17 Q. Ms. Steel, I would actually like to inquire
18 about the company's corporate credit rating, is that --

19 A. Yes, that's an unsecured rating.

20 Q. And again, referring back to Moody's and S&P,
21 does the company offer evidence that its credit rating
22 will be reduced to junk status or below investment grade
23 status if the full amount of relief is not granted?

24 A. Yes, the company does make that prediction,
25 however, I disagree with that prediction as well as with

00332

1 the company's ability to make that prediction. My
2 disagreement is premised on facts. For example, S&P and
3 Moody's currently do not rate the company's senior
4 unsecured debt the same right now, so the two ratings
5 agencies themselves do not predict the present the same.
6 And so for me, that raises a lot of questions about the
7 ability of an outside party to predict what those
8 ratings agencies will do in the future.

9 Q. So if we go back to an earlier question where
10 I had asked you if it was your testimony that you can't
11 predict what the credit rating agencies will do, are you
12 now projecting what the credit rating agencies will do
13 if we do not get interim relief?

14 A. No, I am not predicting what the ratings
15 agencies will do if the company does not get interim
16 rate relief. I'm merely questioning the ability of
17 other parties to make that prediction.

18 Q. Let's refer to a minute, if we could please,
19 to Exhibit 407.

20 JUDGE MOSS: And I do have that marked as
21 confidential.

22 MR. QUEHRN: I will get the page reference
23 here in just a second.

24 Your Honor, I believe with respect to page 1
25 that all of the confidential information that is

00333

1 contained in this page has also been stated in Mr. Don
2 Gaines' rebuttal testimony, which is not confidential,
3 so I would waive confidentiality as to this page, page 1
4 of the exhibit.

5 JUDGE MOSS: All right, we will mark that
6 accordingly.

7 CHAIRWOMAN SHOWALTER: Did you mean 407?

8 MR. QUEHRN: Yes.

9 JUDGE MOSS: 407?

10 MR. QUEHRN: 407, but only page 1, page 1 of
11 5, I believe it is.

12 BY MR. QUEHRN:

13 Q. Now, Ms. Steel, if we look at this exhibit,
14 on the far left-hand corner there is an indication of
15 four key credit protection ratios; is that correct?

16 A. Yes, that's correct, that label comes from
17 the company's exhibit filed as RLH-3, and then it has
18 been adopted by Donald Gaines, I believe.

19 Q. Now is it your understanding that these are
20 quantitative factors that bear upon the company's credit
21 rating?

22 A. Yes, specifically they are the factors that
23 S&P uses.

24 Q. And indeed, when you read down the exhibit
25 sort of right under the first series of rows that go all

00334

1 the way across, you show what some of those numbers mean
2 relative to a triple B range, for example; is that
3 correct?

4 A. Well, it --

5 Q. Do you --

6 A. It's almost correct. It is triple B range,
7 just to be clear, that means triple B minus and above.

8 Q. So this would be below investment grade?

9 A. That's correct, the shading shows levels that
10 are below investment grade.

11 Q. So then if we looked to back up above where
12 that information is provided to the rows going across
13 the top of the page, we have fourth quarter 2001, first
14 quarter 2002, so on and so forth through the end of
15 fourth quarter 2002, and those are all shaded areas,
16 correct?

17 A. Yes, those areas are all shaded.

18 Q. And that would indicate that with respect to
19 those four key credit protection ratios that under this
20 scenario PSE would be below investment grade status with
21 respect to each one of those ratios; is that correct?

22 A. Yes, based on the company's own projections,
23 which have not been corrected in this exhibit, it does
24 show that these ratios would be below investment grade.
25 I would note that in previous periods about half of

00335

1 those key ratios have been below investment grade as
2 well.

3 Q. But not all of them?

4 A. No, but not all of them would be below
5 investment grade in prior quarters.

6 Q. But they would all be at that level after
7 first quarter of 2002; is that correct?

8 A. Well, I could not know for sure --

9 Q. Per the chart.

10 A. But per the company's projections, that's
11 where they would be. My own projections would alter
12 those ratios, and I could explain how it would alter
13 those ratios.

14 Q. But this is your exhibit?

15 A. Yes, this is my exhibit based on the
16 company's projections as they were provided in its
17 direct testimony and in response to data requests.

18 Q. Ms. Steel, do you, and I'm not asking for a
19 legal opinion here, in your testimony, you relate
20 certain items to the factors that the PNB case gives for
21 assessing a request for interim rate relief. Do you
22 think that having or not having a below investment grade
23 credit rating is relevant to a consideration of the PNB
24 standard?

25 A. My answer is complex, and it requires more

00336

1 than a simple yes or no, because my answer is maybe it
2 should be part of the PNB standards. The way that I
3 read the PNB standards, I don't see any reference to a
4 specific credit rating with a specific credit rating
5 agency or specific debt that should or should not be
6 investment grade. However, I think in general the
7 company's credit is one of the many factors that enters
8 into consideration of the company's overall financial
9 condition.

10 Q. Is it your testimony I believe at page 42,
11 lines 1 through 3, and if I may, Ms. Steel, read it to
12 you:

13 My conclusion is that the company does
14 not meet all of the traditional
15 standards regarding rate relief and has
16 alternatives to the requested interim
17 rate relief.

18 That is your testimony, correct?

19 A. Yes, that's my testimony.

20 Q. And that is your testimony in light of the
21 information that you provided here in your exhibit
22 showing the company's falling below investment grade
23 status in all four key credit protection ratios; is that
24 correct?

25 A. Yes, that's correct. That exhibit does not

00337

1 give my prediction of where the company's ratios would
2 be. That exhibit reflects what the company has told us
3 those ratios would be, and as I have stated before, I
4 think certain of those ratios would improve.

5 Q. Can we assume since this was the exhibit that
6 you filed with your testimony that it is your opinion
7 that if the company falls below all four key credit
8 protection ratios that that in your view is not
9 sufficient to satisfy the traditional PNB standard since
10 this was your exhibit at the time you filed your
11 testimony and made that statement?

12 MR. CEDARBAUM: I will object to the
13 mischaracterization of the exhibit and testimony. The
14 witness indicated that this exhibit is based on company
15 projections and not her own adjusted ratios, so the
16 question mischaracterizes what her testimony and exhibit
17 is by asking her whether -- by asking her her opinion
18 based on this testimony and exhibit with respect to the
19 PNB standards.

20 JUDGE MOSS: I got lost in the objection,
21 Mr. Cedarbaum, I'm going to have the question back, and
22 we'll start again.

23 Go ahead, could I have the question back,

24 Ms. Kinn.

25 (Record read as requested.)

00338

1 MR. CEDARBAUM: Your Honor, I guess I will
2 wait until we get back on the record.

3 JUDGE MOSS: We have been on the record the
4 entire time.

5 MR. CEDARBAUM: I would withdraw the
6 objection as long as the -- it's clear on the record
7 that the question is being asked about an exhibit and
8 testimony that is based upon company projections.

9 JUDGE MOSS: I think Ms. Steel has made that
10 abundantly clear, and the exhibit itself says that, so I
11 think we're perfectly clear on that point, so the
12 objection is withdrawn.

13 And, Ms. Steel, do you have the question in
14 mind?

15 THE WITNESS: Yes.

16 JUDGE MOSS: Can you answer it?

17 THE WITNESS: Yes.

18 JUDGE MOSS: Please do.

19 A. The company may or may not meet the
20 traditional PNB standards if it falls below all four key
21 credit protection ratios. I have not provided that
22 analysis in my testimony, because I have not adjusted
23 the ratios.

24 But assuming that it did, there would be
25 other factors still to look at such as how much of the

00339

1 impact on the ratios was due to self inflicted damage,
2 what was the nature of the impact on those ratios, is it
3 short term, are there alternatives, are the ratios
4 expected to improve due to other circumstances such as
5 an improvement in supply expenses, such as alternative
6 proceedings in which relief can be considered.

7 So it would be difficult to know in general
8 just from the credit protection ratios listed on that
9 sheet whether or not a company meets the traditional PNB
10 standards. Those standards are broad. They go to the
11 overall financial condition of the company, not just to
12 whether or not it meets the four mechanistic ratios from
13 Standard & Poor's.

14 BY MR. QUEHRN:

15 Q. Thank you, Ms. Steel. I would like now --
16 just a couple more questions, I would like to turn to
17 page 16 of your testimony for a minute, please. And I
18 would like to refer to line 12, the statement, the
19 company has not claimed a loss of access to all
20 financing. Again referring to your understanding of the
21 PNB standard, is it your understanding of the PNB
22 standard or the PNB factors for analysis that the
23 company must demonstrate a loss of access to all
24 financing in order to be entitled to interim relief?

25 A. No, it is not my understanding of the PNB

00340

1 standards that a company must lose all access to all
2 financing in order to qualify for interim rate relief.
3 For example, it's my understanding of Staff's position
4 in the Avista case that Avista was able to finance at
5 very high rates, and Staff made a recommendation for
6 interim rate relief in that proceeding. That was in
7 docket UE-010395.

8 I also don't think that a company which has
9 lost all access to financing necessarily qualifies for
10 interim rate relief. For example, a company may have
11 allowed its revolver to lapse, it may not have an
12 immediate alternative access to financing, but it may
13 not need it, because it may have cash. So the fact that
14 it has lost access to financing would not substantially
15 affect the public interest, and so such a company, such
16 a hypothetical company, would also not qualify for
17 interim rate relief under the PNB standards.

18 MR. QUEHRN: Ms. Steel, thank you very much.

19 I have no further questions for the witness
20 at this point.

21 JUDGE MOSS: Thank you, Mr. Quehrn, I
22 believe, Mr. Ffitch, you have a few questions for this
23 witness; is that correct?

24 MR. FFITCH: I do, Your Honor.

25 (Discussion on the Bench.)

00341

1 JUDGE MOSS: Well, all right, Mr. ffitch,
2 let's go ahead with yours, and then we will take a brief
3 recess after that. I think you said you had a half an
4 hour or less.

5 MR. FFITCH: Well, it may be a half an hour
6 or a bit more, Your Honor.

7 JUDGE MOSS: All right, well, we'll see how
8 much the bit is and then play it by ear.

9 MR. FFITCH: I just need to shift binders
10 around.

11 MR. QUEHRN: Your Honor, while Mr. ffitch is
12 shifting binders, I just as a reminder, we had an issue
13 that I believe you wanted to get back to that has to do
14 with I think it was Exhibits 425 and 426.

15 JUDGE MOSS: There were a couple of exhibits
16 that were hanging out there. Let me just, let's see,
17 the 425 was one that PSE had tendered. That was the PSE
18 response to Staff Data Request 321. Is there any
19 objection to that one now that we have had the
20 examination?

21 MR. CEDARBAUM: Your Honor, Staff doesn't
22 object to part A of the exhibit since that was the
23 subject matter of the cross-examination and since this
24 is a company response to a Staff data request, but we
25 would object to the admission of parts B through H,

00342

1 which was not provided by Ms. Steel or even discussed
2 with her.

3 JUDGE MOSS: Do you need any of B through H,
4 Mr. Quehrn? Mr. Cedarbaum's observation is correct, you
5 only asked about the first part.

6 MR. QUEHRN: Well, Mr. Cedarbaum's
7 observation is correct, but after I believe this issue
8 had come up, we were then presented with some of the new
9 information that hadn't been provided to us earlier that
10 had to do with, and these are Exhibits 426 and 427,
11 which as they were addressed by Ms. Steel deal with
12 essentially sources of funding for activities of
13 Infrastrux. And it just so happens, although I can't
14 say I predicted this because I didn't know this stuff
15 was coming, the responses I believe to D, E, and F are
16 very much responsive to that, and we would like them to
17 be admitted for the record. And that would include
18 attachments, Your Honor, that I didn't hand up at the
19 time, because again, candidly when I first identified
20 this exhibit, I was only intending to use it for the
21 response to A.

22 MR. CEDARBAUM: Your Honor, if I could just
23 reply, I still stand by the Staff objection. Just
24 because Mr. Quehrn opens an area for -- on
25 cross-examination that the witness then refers to some

00343

1 documents that she has in her possession then doesn't
2 mean that documents that the company provided in a
3 response to a data request becomes admissible through a
4 Staff witness. This is all material that she did not
5 provide, including attachments which I don't have in
6 front of me. And I have no objection to part A, but I
7 just don't think there's any basis for admission of B
8 through H.

9 JUDGE MOSS: All right, well, we tend to be
10 pretty liberal about letting in responses to data
11 requests, but I see your concern, because this is the
12 company's response to a Staff data request, not the
13 other way around, and it was a cross-examination
14 exhibit.

15 And I think it's the case, isn't it,
16 Mr. Quehrn, you did not question the witness with
17 respect to parts B through H? Am I correct about that?

18 MR. QUEHRN: That is correct, because as I
19 would again point out only because we got the additional
20 exhibits that she was referring to in the flow this
21 morning. They were not pre-distributed on Friday or
22 Thursday last, so I had no way of anticipating what I
23 was going to need to respond to those.

24 MR. CEDARBAUM: Your Honor, I'm sorry, but
25 the implication that I somehow held back on exhibits is

00344

1 inappropriate.

2 JUDGE MOSS: I didn't draw that implication
3 from what he said.

4 MR. QUEHRN: Nor did I intend it, Your Honor.

5 JUDGE MOSS: I don't see any reason to -- I
6 will sustain the objection that this material was not
7 inquired into, and I don't see that it has any
8 particular bearing, so we will admit the response A.
9 Now that leaves open the question -- and not the rest.

10 Now we've got 426 and 427C, which were both
11 referred to during the course of the examination, and so
12 I would ask if there was any objection to those.

13 MR. QUEHRN: Well, I believe, Your Honor,
14 under Commission rules we are entitled to respond to
15 what's effectively new information, and so what I would
16 do at this point is indicate to you that we will respond
17 to these with the appropriate information in connection
18 with the testimony of Mr. Gaines when he's on the stand.

19 MR. CEDARBAUM: Your Honor, can I respond to
20 that?

21 JUDGE MOSS: Well, let me be sure I
22 understand. These appear to be documents that came from
23 Puget Sound Energy. Is that right, they're your
24 documents?

25 MR. QUEHRN: They are our documents. I'm

00345

1 just concerned about the implication of what I
2 understood the witness to say these documents mean, that
3 I do think we need to clarify when Mr. Gaines testifies.

4 JUDGE MOSS: Mr. Cedarbaum, you wanted to be
5 heard on that?

6 MR. CEDARBAUM: Yes, I do, Your Honor. First
7 of all, these two exhibits, 426 and 427C, were provided
8 because the company asked Ms. Steel specifically about
9 questions and what information she was relying upon with
10 respect to I think this had to do with Infrastrux, and
11 this was the information she relied upon, and she used
12 it, and then there were lots of discussion of numbers,
13 and the Bench wanted to see the documents, and so the
14 decision was to go ahead and have those distributed.
15 These are documents provided by the company, they were
16 discussed by the witness through her cross-examination,
17 and if the company disagrees with how the witness has
18 interpreted this information, they can continue to cross
19 her on it, but there's nothing wrong or without basis
20 for these documents to be admitted.

21 MR. QUEHRN: Your Honor, if I may.

22 JUDGE MOSS: Well, I don't think Mr. Quehrn
23 is objecting to their admission. He's just trying to
24 reserve a placeholder to discuss them later. My thought
25 on that, frankly is, well, if that comes up, then you

00346

1 may object and we will deal with it then. I'm not going
2 to in advance rule that you can have additional
3 examination with respect to these.

4 Now if we want to have that discussion and
5 debate, I'm going to have the two of you talk about it
6 off the record and bring it back to me in some sort of
7 cogent format. But I mean if the exhibits are in,
8 they're in, and other witnesses can be asked about them
9 so long as it's within the scope of the parties'
10 examinations. But I'm not at this time prepared to
11 grant you the opportunity for supplemental direct. I
12 may let you advance that suggestion again later if you
13 and Mr. Cedarbaum are at loggerheads about this and you
14 feel like it's something important to do.

15 But right now, the only question I'm caring
16 about is whether we can admit these without objection,
17 and I don't believe I heard you say you have an
18 objection, just that you were hoping to have a
19 placeholder.

20 MR. QUEHRN: Your Honor, I won't object, but
21 I would like just on this point to state one last thing
22 for the record as we think about it. Mr. Cedarbaum was
23 correct that these exhibits were produced in connection
24 with my cross-examination of Ms. Steel in response to
25 questions that I had asked her. I would point out,

00347

1 however, when Ms. Steel began her testimony today there
2 was a \$25 Million entry that had previously been
3 identified as long-term debt that now has something to
4 do with Infrastrux. That was news to us this morning,
5 we had no time to think about that or prepare for it,
6 which is why I believe under the Commission rules that
7 is new information, at which point which I believe is
8 during Mr. Gaines' testimony we would like to respond to
9 those implications.

10 JUDGE MOSS: Okay, I think it was short-term
11 debt, but be that as it may, we will handle these things
12 as they come up. If you feel the need to have
13 additional direct, then you can advance that at the
14 appropriate time. We've still got Ms. Steel on the
15 stand, there's going to be additional examination by
16 Mr. ffitich, there is I expect going to be some
17 examination from the Bench. If there is something that
18 a party feels that is not clear about an exhibit or that
19 needs elaboration, then we can advance that at the time,
20 but let's wait until we're at that point.

21 In the meantime, I don't think there is an
22 objection to the admission of these documents into the
23 record, and so we will admit them, and you may refer to
24 them.

25 MR. QUEHRN: And one more question, I had

00348

1 actually asked and had not yet received copies of these
2 attachments. If there is this level of concern, before
3 Ms. Steel steps down, I may actually seek to -- I do
4 have the attachments now, thank you, they just appeared
5 at my elbow.

6 JUDGE MOSS: This is to what?

7 MR. QUEHRN: The attachments that I was
8 referring to to the rest of this data request that deal
9 with --

10 JUDGE MOSS: 321-I?

11 MR. QUEHRN: 321-I, Exhibit 425, that deal
12 with the sources of funds for Infrastrux.

13 JUDGE MOSS: And you think you may have some
14 additional questions after having reviewed those
15 attachments?

16 MR. QUEHRN: Well, let me look at them,
17 please, and we will allow Mr. ffitch to go forward, and
18 then if need be, we can deal with my cross-examination.

19 JUDGE MOSS: All right.

20 Very well, Mr. ffitch, go ahead.

21 MR. FFITCH: Thank you, Your Honor.

22

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

24 BY MR. FFITCH:

25 Q. Good afternoon, Ms. Steel.

00349

1 A. Good afternoon, Mr. ffitch.

2 MR. FFITCH: I'm going to apologize in
3 advance, Your Honor, I may have to clear my throat
4 occasionally or work on a cough drop here.

5 BY MR. FFITCH:

6 Q. Ms. Steel, your overall recommendation in
7 this case and that of Staff is that Puget Sound Energy
8 be granted an interim rate increase of \$42 Million; is
9 that right?

10 A. That is correct, we recommend that Puget
11 Sound Energy be allowed a \$42 Million increase to allow
12 for the possibility of contingent expenses.

13 Q. And I would like to ask you some questions
14 about the basis of that recommendation using your
15 Exhibit 401TC, and I will just ask you to turn first of
16 all to page 8 in that exhibit.

17 MR. FFITCH: Your Honor, as you have
18 mentioned earlier on, there are some confidentiality
19 issues here in this case with the large number of
20 designated confidential information, and I'm going to
21 try to work around that as I testify, or excuse me, as I
22 testify.

23 JUDGE MOSS: Well, now that we know your
24 plan, Mr. ffitch.

25 MR. FFITCH: I guess that blows it.

00350

1 JUDGE MOSS: We will just crack it up to the
2 or attribute it to your cold.

3 MR. FFITCH: Frankly, I haven't -- I don't
4 have a master plan about how to deal with the specific
5 confidential information, and I was frankly hoping that
6 Puget would sort of bail me out by undesignating mass
7 quantities of these things. There is one such
8 undesignation has occurred, but I'm just warning you, we
9 may run into a couple of spots here where I have to
10 figure out either how to skirt this, or we may need to
11 have a confidential information on the record, so.

12 CHAIRWOMAN SHOWALTER: Mr. Ffitch.

13 MR. FFITCH: Yes.

14 CHAIRWOMAN SHOWALTER: I would appreciate it
15 if when you get to one of those questions, why don't you
16 first ask PSE if it needs to -- if the number on that
17 line needs to remain confidential. Because if it
18 doesn't need to be, it's better that it's not.

19 MR. FFITCH: Yes, thank you, I will take that
20 approach.

21 BY MR. FFITCH:

22 Q. Well, let's start with page 8, Ms. Steel. At
23 line 6 you note that Puget claims its request for
24 interim relief is consistent with the PNB standard set
25 by the Commission; is that right?

00351

1 A. Yes, that's what my testimony states on those
2 lines.

3 Q. And from your testimony, is it fair to
4 conclude that Staff also believes that the PNB standards
5 are the correct standards to evaluate the PSE request in
6 this case?

7 A. Yes, it's Staff's opinion that the company's
8 request is well considered in light of the PNB
9 standards. We did look at and consider whether or not
10 there was an opportunity in this case, as in any case,
11 to modify existing standards for new circumstances.

12 Q. But are you recommending some other standard
13 other than the PNB standard in this case?

14 A. No.

15 Q. And your testimony evaluates whether PSE has
16 met the six PNB standards, correct?

17 A. Yes.

18 Q. And still on page 8, you list the PNB
19 standards starting at line 12, and let's just take a
20 look at those, if you would. You would agree that
21 number 1 is a procedural requirement that a hearing be
22 held, right?

23 A. Yes.

24 Q. And if you would look then further down the
25 list at standards 2, 3, 4, and 5, would you also agree

00352

1 that those are designed to evaluate factual data
2 regarding the financial health of the company and then
3 to measure the severity of the financial problems, if
4 any, that are reflected in that data?

5 A. Yes, that's my opinion, that those standards
6 2 through 4 do provide some guidelines for evaluating
7 the overall financial health of a company applying for
8 interim rate relief.

9 Q. Okay. And actually in my question, that
10 included standard number 5, and would you also include 5
11 in that description?

12 A. Yes, I apologize, I would include standard
13 number 5. I forgot all about it when I turned back to
14 the previous page.

15 Q. And then standard number 6 is essentially the
16 overall public interest test that needs to be applied
17 under the Commission's statutory authority?

18 A. Yes.

19 Q. So is it correct to say that the core factual
20 financial analysis or analysis of the financial
21 condition of the company occurs under standards 2, 3, 4,
22 and 5?

23 A. I think it's also included in standard 6 as
24 well. The overall financial health of a utility needs
25 to be considered in light of standard 6 too.

00353

1 Q. But the core analysis or the factual analysis
2 occurs under the, first, under 2, 3, 4, and 5, does it
3 not?

4 A. I think a lot of the factual analysis -- I
5 agree, yes, that a lot of the financial analysis occurs
6 under standards 2, 3, 4, and 5, and there may be some
7 other types of analysis, financial analysis, that would
8 get incorporated through standard 6 that might not
9 otherwise get incorporated.

10 Q. Now page 9 at line 21, I'm sorry, I'm not
11 referring you to that line, yes, I am, pardon me,
12 misplaced my notes. At page 9, line 21, you conclude
13 that Puget does not meet all of the criteria of the PNB
14 test, correct?

15 A. Yeah.

16 Q. That's your testimony there? I'm sorry, I
17 didn't mean to step on your answer.

18 A. Yes, that is my testimony, that I do not
19 believe that the company meets all of the traditional
20 criteria of the PNB's test.

21 Q. All right, let's take a look at the standards
22 that you have analyzed here. Again on page 9, you look
23 at the first standard regarding the hearing, and you
24 conclude that that's been met, that a hearing is being
25 held, correct?

00354

1 A. Well, no, I don't fully agree with that. I
2 think that would -- we are having a hearing, that is a
3 factual conclusion. But I think whether or not this
4 hearing is adequate for the purposes of the PNB test is
5 something that would call for some legal analysis and
6 could only be determined after the actual hearing takes
7 place.

8 Q. All right, thank you for that clarification.
9 So you're actually not testifying in your written
10 testimony here that the first standard has been met; is
11 that right?

12 A. Yes, that is correct.

13 Q. All right. Let's turn to the second PNB
14 standard, and essentially that standard states that
15 interim relief is granted only when there is an actual
16 emergency or to prevent gross hardship or gross
17 inequity, right?

18 A. Yes, that's what the second standard says.

19 Q. Now can you turn to page 10 at line 5. There
20 you conclude, do you not, that there's no evidence of an
21 emergency on a historical basis for this company?

22 A. Yes, that is what I conclude, that based on
23 the evidence available at the date my testimony was
24 filed, Staff did not find evidence of an emergency on an
25 historical basis.

00355

1 Q. And the basis for that conclusion is set out
2 at lines 5 through 15 where you list a number of
3 factors, do you not?

4 A. Yes, that's a summary of what's to come.

5 MR. FFITCH: And can I ask the company if the
6 shaded information on lines 5 and 6 is confidential?

7 JUDGE MOSS: Mr. Quehrn.

8 MR. QUEHRN: Yes, Your Honor, may I address
9 my question to Mr. ffitch? I just want to make sure,
10 are we looking at the dates?

11 MR. FFITCH: The dates. I can proceed?

12 MR. QUEHRN: Yeah, we can waive
13 confidentiality as to the dates.

14 JUDGE MOSS: All right, go ahead, Mr. ffitch.

15 MR. FFITCH: All right, thank you, Your
16 Honor.

17 BY MR. FFITCH:

18 Q. So your analysis under this criteria found,
19 Ms. Steel, that the company has been and remains in
20 compliance with all its debt covenants; is that correct?

21 A. Yes, that is my testimony, that the company
22 has been and remains in compliance with all covenants on
23 its existing debt.

24 Q. All right. And the corporate debt ratings
25 remain investment grade; is that correct?

00356

1 A. Yes, it's correct that the company's
2 corporate senior -- that its corporate credit rating is
3 rated investment grade by both Moody's and S&P.

4 MR. QUEHRN: Excuse me, Your Honor, I would
5 like to raise an objection here. This appears to be
6 very friendly cross-examination, essentially presenting
7 the direct testimony.

8 JUDGE MOSS: Mr. ffitch, I'm sure you
9 understand that you are balanced on a fine wire here,
10 and I'm not, of course, sure at this point where you're
11 going with this. One of the features of this case is
12 that we have a number of parties who while they may be
13 aligned in a sense and not positioned to what the
14 company has proposed, they have themselves proposed some
15 very different relief. And so in that sense, they are
16 adverse to one another, so it's not as clear as it is in
17 some cases that friendly cross is being engaged in.

18 At this juncture, Mr. ffitch, I am unclear as
19 to whether these are foundation questions, and the
20 adversity and the adverse point that you have with this
21 witness and with Staff's case is going to become
22 apparent here momentarily or not. Maybe you could give
23 me some sense of where you're going with this line. The
24 last couple of questions I'm sure you recognize do fall
25 into the category of being supportive of your own

00357

1 position in the case, therefore being friendly.

2 MR. FFITCH: Well, Your Honor, the Commission
3 Staff in this case has recommended that interim relief
4 be given to the company and has concluded that under the
5 PNB test. That is not at all consistent with the
6 recommendation of Public Counsel in this case. As
7 Ms. Steel has just testified, Staff is recommending a
8 \$42 Million interim rate increase. Our primary
9 recommendation in this case is no interim rate increase
10 whatever, Your Honor, and I am conducting this
11 examination in order to try to determine the adequacy of
12 the basis of Staff's analysis for coming up with a
13 recommended rate increase for the company.

14 JUDGE MOSS: Okay, I'm a little concerned
15 about how much detail we need to go into to -- I
16 understood that point of adversity, but can we cut to
17 the chase a little bit in terms of getting to the point
18 that, you know, I mean we have the foundation that
19 Staff's analysis is that the traditional PNB factors are
20 not all satisfied, and they are nevertheless
21 recommending relief, which I understand is a foundation
22 you needed to build. But can we move on from that
23 without going detail by detail with respect to Staff's
24 view of the PNB analysis? Help me out, Mr. ffitich.

25 MR. FFITCH: Well, Your Honor, I would prefer

00358

1 to explore the Staff's analysis in some more detail, but
2 I will accept your guidance to perhaps try to be more
3 efficient with the cross and try to work through it more
4 quickly.

5 JUDGE MOSS: Thank you, Mr. ffitch.

6 MR. FFITCH: And obviously if you or if
7 you're still concerned along those lines, I'm sure I
8 will hear about it.

9 JUDGE MOSS: And my main concern is that we
10 not have to spend inordinate time dealing with friendly
11 cross-examination objections to each of your questions,
12 so my point simply being if you can get through to what
13 you need to get through without perhaps quite as
14 detailed point by point, that might be a useful way to
15 go.

16 In the meantime, I'm overruling the
17 objection.

18 BY MR. FFITCH:

19 Q. Well, I will just I guess conclude that line
20 of questioning by indicating or asking you, Ms. Steel,
21 if the remainder of this testimony at lines 5 through 15
22 lists factors which establish that there is no emergency
23 on an historical basis?

24 A. Yes, that lists the factors that were
25 available to Staff at that time that establishes that

00359

1 there is no emergency on an historical basis.

2 Q. And then you discuss those in more detail in
3 the subsequent pages; is that correct?

4 A. Yes, that's correct.

5 Q. And at page 16, line 7, you state that the
6 company is not facing extreme risk, it's not facing an
7 imminent risk of inability to acquire needed capital,
8 and there's no clear jeopardy to the utility or its rate
9 payers; is that correct?

10 A. Yes, that's what my testimony states there,
11 and I just want to note that in going through these
12 standards point by point, it is not Staff's opinion that
13 the PNB standards are a checklist to go through to check
14 whether each standard is met, yes, no, and then summed
15 up at the bottom of six to see whether or not on balance
16 the test has been met. Rather I think that the public
17 interest standard does apply to each of the other
18 standards and the way that we look at them.

19 Q. But you did perform a detailed analysis under
20 each one of these standards, did you not?

21 A. Yes, I did.

22 Q. And in this section of your analysis, you
23 refer to the fact that there is no emergency on an
24 historical basis, you actually reviewed current
25 information for the company as well, did you not?

00360

1 A. Yes, I reviewed September 30th, 2001, data,
2 which was available when the testimony was filed, and
3 subsequently some of the December 31st, 2001,
4 information has been made available, and more recent
5 information as it becomes available was also included.

6 Q. All right. So to the extent that you have
7 been able to acquire current and up-to-date information,
8 is it fair to -- would you characterize your conclusion
9 as there is no emergency either on a historical or a
10 current basis?

11 A. I think that's a reasonable characterization
12 of my testimony, that there is not evidence of an
13 emergency on an historical basis and that there is not
14 evidence of an emergency on the current -- at this
15 moment in time today.

16 Q. Thank you. And you say also, conclude under
17 the second PNB standard that relief is not necessary to
18 prevent gross hardship or gross inequity; is that
19 correct?

20 MR. QUEHRN: Your Honor, I would again point
21 out that I think Ms. Steel points out in her testimony
22 near the end that she doesn't feel the traditional PNB
23 test was met, and this I again think is friendly
24 cross-examination.

25 JUDGE MOSS: Mr. ffitich, I think that the

00361

1 point I was trying to make earlier, and I will reiterate
2 here, in sustaining the last objection to the last
3 question, is that we're going step by step through
4 what's in Ms. Steel's testimony. It's there. You can
5 refer to it on brief. We don't need to have a
6 reiteration of it during cross-examination.

7 I understand the point you're going to, which
8 is despite what you have testified, you're still
9 recommending relief, and that's fine, and you can
10 explore why that might be if you wish. But simply going
11 through Ms. Steel's testimony and having her confirm the
12 various points that she has expressed in here I don't
13 think is something that we can allow. It does go into
14 the realm of friendliness just a bit too far, so I am
15 sustaining that last objection and will ask you to try
16 to frame your questions in light of that.

17 MR. FFITCH: Thank you, Your Honor. This
18 will take me a few moments then to try to look through
19 my questions and try to focus in on things that would be
20 consistent with your ruling.

21 JUDGE MOSS: All right, are you suggesting
22 this might be a good time for us to take a brief recess?

23 MR. FFITCH: I think that would be helpful,
24 Your Honor.

25 JUDGE MOSS: All right, why don't we recess

00362

1 until half past the hour.

2 (Recess taken.)

3 JUDGE MOSS: Mr. ffitch, have you had an
4 adequate opportunity?

5 MR. FFITCH: Yes, thank you, Your Honor,
6 hopefully I can shorten things up a little bit here.

7 BY MR. FFITCH:

8 Q. Let me ask you, Ms. Steel, to turn to page 42
9 of your testimony to line 1, and there you state that
10 you conclude that the company does not meet all of the
11 traditional standards regarding interim rate relief and
12 has alternatives to the requested interim rate relief,
13 correct?

14 A. Yes, that's my testimony. My testimony
15 shouldn't be read though to mean that the company
16 doesn't meet any of the traditional standards, because
17 just because they don't meet all of them doesn't mean
18 that they don't meet the traditional standards.

19 Q. Well, let me see if I understand your
20 testimony. My reading of your testimony is that the
21 company does not meet standards 2, 3, 4, or 5 of the
22 Pacific Northwest Bell test; isn't that a fair reading
23 of your testimony?

24 A. I think on 4 and 5, the company falls into
25 the gray area or the penumbra even of these criteria and

00363

1 that it's important to take a look at them in the
2 context of the West Coast energy crisis of 2000/2001.
3 And that would cause me to in making a judgment about
4 whether or not the company meets the standards overall
5 to want to take the company's evidence in an even more
6 favorable light.

7 Q. Let me ask you this in another way. If you
8 set aside the public interest standard in PNB criteria
9 number 6 for the moment and you go through sequentially
10 your analysis in this testimony through criteria 2, 3,
11 4, and 5, do you not conclude that the company has not
12 met any of those standards?

13 A. I would agree that the company has not
14 clearly met those standards, but I would not go so far
15 as to say that on 4 and 5 that the company has simply
16 not met them.

17 MR. FFITCH: This is going to make it hard
18 for me to shorten up my cross, Your Honor. If I can
19 have a moment to look back and see if that answer
20 changes my intended approach.

21 BY MR. FFITCH:

22 Q. First of all, just taking that answer,
23 Ms. Steel, based on that answer, you're agreeing that
24 the company clearly does not meet criteria number 2 and
25 criteria number 3; is that right? I'm just trying to

00364

1 understand your previous answer in which you, I believe,
2 stated that but stated that 4 and 5 were in a gray area.

3 A. It's a difficult question for me, because I
4 don't have a checklist for myself to look at and say was
5 it met or not. And it's difficult to put aside the
6 public interest standard, because it weighs on every
7 evaluation as -- I'm not sure that the standards would
8 have meaning without the public interest standard in
9 them. But I think it is fair to say that on balance of
10 the net evidence, I don't think that the company
11 presented net evidence that it met 2 or 3 and as well on
12 5. I think on balance, the net evidence is that the
13 company did not make a good showing for number 5, but
14 there is some evidence for 5 and some for 4 too.

15 Q. Well, I'm not asking you to catalog whether
16 there is some evidence on a given point. I'm probing
17 your conclusions, which I thought were quite clear. So
18 if I understand where we are, you would agree that the
19 company does not meet standard number 2, standard number
20 3, or standard number 5; is that correct?

21 A. I think it's not -- that would be correct
22 except that I think it is not clear whether the company
23 meets standard number 5, and it -- and there are several
24 parts in standard 5 too. For example, imminent
25 disaster, that part of it, I think my conclusion was

00365

1 clear that I don't think the company is facing an
2 imminent disaster today. Now there are other parts in
3 the standard, in standard number 5.

4 Q. Okay, let's take a look at those.

5 A. Okay.

6 Q. Let's go to page 40, line 12, is it correct
7 to characterize this criteria as stating that relief
8 should only be granted if to deny the relief would cause
9 clear jeopardy to the utility and detriment to its rate
10 payers and shareholders and that you don't grant interim
11 relief if the general rate case can be resolved without
12 clear detriment to the utility?

13 A. On page 41, would you please give me the
14 reference to line numbers?

15 Q. I'm sorry, I'm on page 40, and I'm just
16 paraphrasing the fifth PNB criterion.

17 A. Yes, I think the tools should be used with
18 caution in that it should be applied only in a case
19 where not to grant would cause clear jeopardy to the
20 utility and detriment to its rate payers and
21 stockholders. And that part of PNB criterion 5 is
22 difficult to measure, because should another West Coast
23 energy crisis like the one of mid 2000 to mid 2001
24 occur, I do think that the utility and its rate payers
25 would be at risk. But the other part of that standard,

00366

1 which refers to the preference for a full hearing, I
2 think it is -- the company has probably not met its
3 burdon that it's met that one.

4 Q. In your discussion of the fifth PNB criterion
5 in this testimony, you do not discuss any potential West
6 Coast energy crisis, correct?

7 A. That's correct that it doesn't follow
8 directly after that point.

9 Q. All right. That discussion --

10 A. I later then did --

11 Q. Excuse me, Ms. Steel, just if you would just
12 stay with me a minute here.

13 MR. CEDARBAUM: Your Honor, I think the
14 witness is trying to explain her answer, and she should
15 be allowed to.

16 MR. FFITCH: Your Honor, the witness is
17 continuing with long answers, and I'm hoping to try to
18 focus this in somewhat consistent with the direction I
19 got from the Bench earlier.

20 JUDGE MOSS: Well, sometimes it's necessary
21 for the witness to explain an answer, Mr. ffitich, and I
22 do believe that's where Ms. Steel was going, to point
23 out that while she may not have addressed the point that
24 you asked her about specifically in these pages, she may
25 have addressed it elsewhere, and I think if she did

00367

1 address it elsewhere, we do need to know that.

2 So go ahead with your answer, Ms. Steel.

3 A. That is correct that I didn't address it
4 immediately following point 5. But beyond the question
5 at line 16 on that page, I then later described a
6 scenario in which the grant of interim rate relief in
7 this time period would be of use to both the utility and
8 its rate payers.

9 BY MR. FFITCH:

10 Q. And that discussion occurs under the sixth
11 PNB criterion, correct?

12 A. Yes, that's correct that that discussion
13 occurs under the sixth PNB criterion.

14 Q. All right.

15 A. But I think the sixth PNB criterion is more
16 special than the others in that I think it does color
17 the interpretation of all of the other criterion, as I
18 noted previously.

19 Q. I understand that, but what I'm asking you to
20 do, and I realize that you have reached a final
21 conclusion under the sixth criterion, the public
22 interest criterion, that you go back and come up with
23 your ultimate conclusion based on the sixth public
24 interest standard, I understand that. What I'm asking
25 you to do is to go back, setting that aside for a

00368

1 moment, and I want to look at your analysis in this
2 testimony of the other factors. So it would be helpful
3 if you could answer my questions with respect to the
4 specific factor by factor analysis. And if --

5 MR. CEDARBAUM: Your Honor, I guess I would
6 object to the comment as being argumentative. The
7 witness has testified that while there is a sixth
8 criterion that discusses the public interest, that that
9 public interest test or this test or notion is subsumed
10 within all of the other standards, and that's how she's
11 answering these questions. And to, you know, pigeonhole
12 every single one, if she wants to disagree with that,
13 she ought to be able to disagree with that.

14 JUDGE MOSS: And, Mr. ffitich, I think we have
15 to focus on this witness's analysis of the factors and
16 not some hypothetical analysis that assumes away
17 something that she finds critical to these inherently
18 subjective factors. It's not like we're dealing with
19 bright line standards here that we can measure it's a
20 plus or a minus above or below, and the witness has
21 explained on a couple of occasions now that in her view
22 the standards must be considered, all of these standards
23 must be considered or all of these factors must be
24 considered in light of the public interest standard, so
25 I don't know how assuming that away is going to advance

00369

1 the ball very much.

2 MR. FFITCH: Your Honor, I am simply trying
3 to ask the witness questions about the specific
4 testimony that has been presented in evidence in this
5 case, and I'm asking her to focus specifically on the
6 answers that are being offered in evidence with respect
7 to each factor. And the answer that I'm getting, rather
8 than discussing the specific testimony that she has
9 presented for the record, the witness is continuing to
10 refer to her final conclusions and her discussion of the
11 public interest test. You know, I understand that she's
12 given that testimony. I understand that that's her
13 conclusion. What I would like to do is have her talk
14 about the rest of her testimony as written, and we're
15 having some difficulty with that.

16 JUDGE MOSS: Well, we are having some
17 difficulty, Mr. ffitich, because her testimony as written
18 stands on its own, and you're free to argue it and brief
19 it any way you want to. But if you want to inquire as
20 to what she means by a specific answer and her answer
21 back to you is, well, my answer is qualified by the fact
22 that I view all of these factors in the context of the
23 public interest standard that is included in the so
24 called fifth or sixth or whatever it is PNB statement,
25 then that's her answer. And you may not like her

00370

1 answer, but that is her answer. And, you know, we could
2 go on all day trying to get her to give some different
3 answer, but I don't expect based on what I have
4 witnessed so far today that she's going to do that. So
5 I'm just not -- we seem to be belaboring the point here.
6 The witness has explained how she views the PNB
7 criteria, and she views them in that context. I think
8 that's perfectly clear, and we could ask her about it
9 all day long, and it just becomes argumentative, as
10 Mr. Cedarbaum has suggested.

11 So I have frankly lost track of the question
12 at the moment, but maybe you could pick up from that
13 point and move forward. Did you have a question
14 pending, Mr. ffitch? Do you need it read back?

15 MR. FFITCH: I don't think I did, Your Honor.

16 JUDGE MOSS: All right, go ahead then.

17 BY MR. FFITCH:

18 Q. I think I was inquiring in general,
19 Ms. Steel, about your conclusions with regard to
20 criteria 2 through 5, and we were talking about PNB
21 criteria number 5. Your answer, your analysis of PNB
22 criteria number 5 is at the top of page 41, correct? At
23 least -- well, let me rephrase that question.

24 There you are asked, in your opinion, is the
25 company facing an impending disaster. And in that

00371

1 answer, you do not conclude that, yes, the company is
2 facing an impending disaster, correct?

3 A. That's correct, I conclude that the company
4 may face a financial disaster, but that the company has
5 options.

6 Q. All right. Now let's go back to page 16,
7 line 7, now here you're discussing one of the earlier
8 factors, but I think as we agreed just a moment ago,
9 under criterion 5, the Commission looks at issues
10 related to clear jeopardy, correct?

11 A. Yes.

12 Q. I'm referring to page 40 where you set out
13 the standard, right? On page 16, line 7, you conclude
14 that the company is not facing extreme risk and it's not
15 facing clear jeopardy, correct?

16 A. Yes, on page 16 in line -- at lines 7 through
17 10, I do conclude that the net evidence at this time is
18 the company is not facing a clear extreme risk or
19 jeopardy. However, given what has happened in the
20 recent past, circumstances could quickly change.

21 Q. So those are factors which also play into a
22 consideration of whether the fifth criterion is met,
23 right?

24 A. Yes, I think evidence of an imminent
25 emergency is part of the fifth PNB criterion.

00372

1 Q. All right.

2 A. Which is a complex, compound criterion.

3 Q. And you do not include any discussion of the
4 general public interest concerns that you have in your
5 discussion of criteria number 5 in your testimony,
6 correct?

7 A. That's correct that they don't show up
8 immediately following the fifth PNB criterion and are
9 not labeled as such. In order to avoid repetition in
10 the testimony, it is placed in a box toward the end.

11 Q. Okay. I would like to turn to your
12 discussion of criterion number 4. That is essentially
13 an analysis that occurs or under criteria number 4
14 essentially is an analysis of various financial indices
15 of the company, correct? And page 28 is the reference.

16 A. Yes, that is the analysis of the financial
17 indices is part of the fourth criterion, and the other
18 part of that fourth criterion is the impact that they
19 will have on financing demands.

20 Q. Okay. Now page 31 of your testimony,
21 beginning at page 31, line 13, you go through a number
22 of financial indices to look at trends, do you not?

23 A. Yes, I do, beginning on line 13 of that page,
24 I go through an analysis of the company's projections as
25 they presented them to -- as they presented them with

00373

1 their direct testimony.

2 Q. Well, I'm not going to take you through every
3 one of these, number one, to save time, number two,
4 there's a lot of confidential information here. Would
5 it be fair for me to characterize this analysis overall
6 as indicating a general positive trend in the company's
7 financial indices?

8 A. I think it would be more fair to characterize
9 the trend as going downward for a short period of time
10 and then recovering toward the end of 2002 even in the
11 absent interim rate relief scenario.

12 Q. Okay. So based solely upon this analysis,
13 without your broader public interest conclusions, do you
14 think that Puget's financial indices show a need for
15 immediate relief as required in the fourth criterion?

16 A. I think that yes, I would agree that the
17 financial indices by themselves are not indicative of
18 the company's need for interim rate relief. These
19 financial indices in particular do not indicate a need
20 for immediate financial relief in the form of interim
21 rate relief. But I don't know that even worse financial
22 ratios by themselves over a short period would ever lead
23 to that conclusion to grant interim rate relief, because
24 there are other factors. Even within that fourth
25 criterion, there is the standard to look at of what will

00374

1 the impact of those ratios be. So I think it's not
2 possible to just mechanistically look at the ratios and
3 know the conclusion about whether or not they indicate a
4 need for financial relief in the form of interim rate
5 relief.

6 Q. Okay, well, let's take a look at that. Your
7 testimony does not look at the impact of those ratios
8 and conclude that PNB solely on the basis of the impact
9 of those ratios has established a need for interim
10 relief, correct?

11 A. Yes, that's correct, I don't conclude that
12 there is a need for interim rate relief solely on the
13 basis of these ratios.

14 Q. Okay.

15 A. Nor do I exclude that possibility based on
16 what I have seen from the ratios. There is a
17 significant downward trend during the mid part of 2000
18 based on the company's projections.

19 Q. You said the mid part of 2000?

20 A. 2002, I'm sorry, that's my error, the mid
21 part of 2002.

22 Q. Okay. I think we're finally going to get to
23 talk about the sixth criterion here, and that discussion
24 in your testimony takes place on page 42 beginning at
25 line 4 and continuing to line 12; is that correct?

00375

1 A. Yes, that's correct that it shows up there,
2 and I think on line 18 there's some more discussion
3 onward.

4 Q. Is there any other discussion in your
5 testimony of the sixth public interest, the sixth
6 criteria for PNB, excuse me, the sixth PNB criterion, is
7 this the extent of the discussion right here?

8 A. I think it colors the analysis of all of the
9 prior discussion, but I believe that is where it is
10 specifically placed on its own and discussed.

11 Q. Okay. Now in that section of your testimony
12 at line 8, you say:

13 Most importantly, the company is not
14 prepared for another crisis.

15 As I understand it, there you are referring
16 to an energy crisis of the type that occurred in 2000
17 and 2001; is that correct?

18 A. That is correct that that's one such crisis
19 that could occur. However, it's not limited to that.
20 If I were asked to predict prior to the energy crisis of
21 2000/2001, is such a crisis possible, I'm sure that I
22 would have responded no. So it's hard to know that
23 something like that could not happen. It certainly
24 didn't seem possible at that time.

25 I wouldn't restrict it to another West Coast

00376

1 energy crisis though, because there has been a lot of
2 turmoil in the market from the Enron bankruptcy and
3 secondary effects from the West Coast energy crisis, and
4 I could not go forward and predict what exactly that
5 crisis -- what form that crisis would take.

6 Q. Is there anywhere in your testimony where,
7 other than this section of the testimony, where you
8 provide any projections or predictions or any other
9 analysis or information about the potential crises that
10 you mention?

11 A. No, there is not in my testimony. I do have
12 some other information though.

13 Q. Have you reviewed any projections of
14 wholesale power costs over the term of interim relief?

15 A. I did not specifically analyze wholesale
16 power costs in my testimony. However, I have reviewed
17 wholesale power costs, and I am aware of where they are
18 in a general sense.

19 Q. Is there a crisis in the wholesale electric
20 market at the present time?

21 A. No, I do not believe there is a crisis in the
22 wholesale power market at the present time.

23 Q. Is there a draught in the Pacific Northwest
24 at the present time?

25 A. No, there is not a draught in the Pacific

00377

1 Northwest at the present time.

2 Q. Perhaps we're all kind of hoping that maybe
3 it will let up here a little bit pretty soon.

4 Have you reviewed any analysis or projections
5 of the supply of hydroelectric power in the Northwest
6 between now and October 2002?

7 A. I have not reviewed hydroelectric power
8 projections, hydroelectric power availability for the
9 purposes of my testimony. I am aware in a general sense
10 of what those projections are, because I did review a
11 recent presentation from the Northwest Power Planning
12 Counsel.

13 Q. And what did that show?

14 A. It showed that hydroelectric power will be
15 available in great supply over the next year.

16 Q. It's true, is it not, that the Federal Energy
17 Regulatory Commission has imposed price mitigation
18 measures on the Western wholesale electric market which
19 are in place until September 2002?

20 A. I could not stipulate to the date, the
21 September date; however, I do know that the FERC has
22 imposed price mitigation measures in the West Coast
23 through the second half of 2002.

24 Q. Would you accept that date subject to check?

25 A. Yes, I would accept that date subject to

00378

1 check.

2 CHAIRWOMAN SHOWALTER: What was the date you
3 gave?

4 MR. FFITCH: September 2002.

5 CHAIRWOMAN SHOWALTER: September what?

6 MR. FFITCH: I don't have that date myself.
7 My understanding is September 30th, but I don't -- I
8 can't answer that question, Your Honor. The question
9 was intended to mean through September or through the
10 end of September 2002. If I have that wrong, and the
11 witness is checking, then I'm sure I will be corrected.
12 BY MR. FFITCH:

13 Q. Such measures were not in place in the crisis
14 of 2000 and 2001, correct?

15 A. That's correct, these mitigation measures
16 were not in place during the I would say throughout the
17 entirety of the West Coast energy crisis.

18 Q. Can I ask you to turn to page 37, please, of
19 your testimony, and I'm looking at the question and
20 answer lines 6 through 17. This is the section of the
21 testimony where you develop the actual \$42 Million rate
22 increase recommendation; is that correct?

23 A. Yes, that's correct.

24 Q. And as stated in this testimony, that
25 recommendation is based upon a concern about another

00379

1 power market crisis like 2000 to 2001, correct?

2 A. Yes, that's one such scenario that could
3 leave the company in a crisis, one such, but not the
4 entirety of all such crises that could occur.

5 Q. But you don't mention any other crises here,
6 do you?

7 A. No, not there, and I'm vague in the other
8 reference that we discussed.

9 Q. Now here you conclude that if such a crisis
10 were to occur, Puget would be less prepared, and that in
11 order to put the company in a better position in the
12 event of a large -- well, excuse me, now I'm getting
13 into confidential testimony here.

14 MR. FFITCH: So at this point, I will ask the
15 company, looking at lines 14, 15, actually that whole
16 answer, perhaps I could ask the company to determine
17 whether those numbers need to be confidential or the
18 narrative testimony. I believe the number on line 7 has
19 already been testified to without protection.

20 MR. QUEHRN: Your Honor, in response to
21 Mr. ffitich's question, the shaded text in lines 14
22 through 15 would be matters that we waive
23 confidentiality. The shaded text, however, in line 10
24 is a matter that we need to maintain confidentiality.

25 JUDGE MOSS: How about line 7?

00380

1 MR. QUEHRN: Line 7 I believe is a matter we
2 can waive confidentiality. Let me just quick double
3 check on that.

4 It's not our number, Your Honor, so that's
5 line 7 is fine.

6 MR. FFITCH: Just to clarify company
7 counsel's statement, the numbers shown on lines 14 and
8 are 15, are those included in your statement, in the
9 company's statement, Your Honor?

10 JUDGE MOSS: My understanding is that the
11 only number on page 37 as to which the company wishes to
12 maintain its assertion of confidentiality is the line of
13 -- is the shaded number appearing at line 10. And I'm
14 seeing an affirmation by the shake of a head, so.

15 MR. FFITCH: Thank you, Your Honor.

16 JUDGE MOSS: Okay.

17 BY MR. FFITCH:

18 Q. So your calculation of an amount necessary
19 for the company here, Ms. Steel, is based upon a worse
20 case scenario of a large swing in working capital which
21 would leave a \$22.4 Million shortfall, correct?

22 A. It's correct that it's based on the largest
23 historical working capital swing. I wouldn't
24 characterize it as the worse case scenario, because you
25 never know what the worse case is until it happens, but

00381

1 it is the worse that has happened.

2 Q. All right. And that yields a \$22.4 Million
3 shortfall, correct?

4 A. That's correct.

5 Q. Now in the next sentence, you add another \$20
6 Million for contingencies; what's the basis of that \$20
7 Million?

8 A. The calculation in paragraphs -- in the
9 paragraph in lines 13 through 17 is based on the sort of
10 analysis that you would do for a company looking for
11 bridge financing at a bank or a company looking to
12 ensure that it had financing in place in the event that
13 contingencies would occur and that volatility could
14 occur. So the first part of it is to take a -- to try
15 to get a parameter around how big those contingencies --
16 how big known needs could be to handle volatility. And
17 then the second part, the \$20 Million is for other
18 contingencies which aren't specified or known.

19 And you certainly wouldn't expect all of them
20 to happen at one time. Rather that would -- should that
21 occur, you would want to reevaluate it. But one such
22 contingency that could occur might be the company would
23 have to post cash collateral for some portion of its
24 power supply requirements or would need additional cash
25 to finance letters of credit, although that option, the

00382

1 letter of credit option, as I previously testified to,
2 is a fairly inexpensive cost.

3 Q. So is it fair to say this \$20 Million
4 represents your estimate of what contingencies might
5 occur?

6 A. Yes, it's fair to say that it is my estimate,
7 and I think that there is -- there are reasons to
8 support a \$20 Million amount, which I could go through.

9 Q. Is that reflected in your workpapers or your
10 testimony anywhere?

11 A. No, it is not reflected in my filed testimony
12 or workpapers. It was also a judgment call too. It was
13 20% of the amount of the volatility factor, which I
14 think is a reasonable amount to allow for contingencies.

15 Q. All right, well, I'm not going to ask you any
16 further questions on that. If your counsel wants to on
17 redirect, that may well occur.

18 Now if we look back at your testimony on page
19 42 regarding public interest, the only factors that you
20 reviewed here bear on the impact on Puget Sound Energy;
21 is that correct?

22 A. I'm sorry, would you please repeat the
23 question?

24 Q. The only factors which you have reviewed in
25 lines 4 through 12 on page 42 bear on the financial

00383

1 health of Puget Sound Energy; is that correct?

2 A. I think that they -- that is correct that
3 they bear on the -- on Puget Sound Energy, and I have
4 not looked at the impact on other utilities, but I think
5 as well these impacts apply to the company's rate
6 payers.

7 Q. Well, can you show me where in your public
8 interest analysis you discuss the impact of your
9 recommendation on residential or commercial electric
10 customers?

11 A. I believe I have looked at that in Exhibit 12
12 of my testimony when I look at the impact of the rate
13 increase that the company has proposed. And taking a
14 look at that graph, you can infer what the amount that I
15 have proposed, about, you can approximate about where
16 that would leave the company's rates about 6% higher.

17 And I have also looked at it in Exhibit 13
18 when I did an analysis of the relative hardship that
19 would occur to the rate payers and to the utility with a
20 grant of interim rate relief in the amount the company
21 proposed and with a grant in the amount that -- with a
22 grant of zero. And it's a simple matter then to go
23 through that exhibit, which I filed electronically as
24 well, to do different scenarios on that.

25 Q. Wouldn't a reasonable person be able to

00384

1 conclude from looking at Exhibit 13 that it would be in
2 the public interest of the rate payers that the interim
3 rate relief request be denied given the huge disparity
4 between impacts?

5 A. Well, I think it's fair to conclude that the
6 rate payers if that is the only impact would be better
7 off to pay interest only rather than to pay a company's
8 principal and debt cost. But that's not the only factor
9 to consider, because availability of power in the event
10 of a crisis and insulation from a large rate increase in
11 the event of a crisis are other factors that aren't in
12 this chart. So it's hard to conclude that the rate
13 payers would always be better off in the scenario that
14 you presented.

15 Q. Do you discuss anywhere in your testimony the
16 impact of your requested rate increase on the commercial
17 customers in the recessionary climate?

18 A. I believe I do. It would take me a moment to
19 find that reference.

20 Q. Well, my question is going to be, why isn't
21 that included in your public interest discussion on page
22 42 under the sixth PNB criterion? Feel free to go find
23 that if you would like.

24 A. In part the reason it's not included in the
25 analysis on pages 41 through 42 is that Staff's analysis

00385

1 on specific impacts on commercial customers is not
2 completed. We do have another chart similar to 12C that
3 we are preparing for the commercial customers. It's a
4 more difficult analysis to compare across utilities for
5 commercial customers because the companies do not charge
6 on the same sort of schedule at the same break points.
7 That is, a customer who uses over 5000 kilowatt hours in
8 a month might be on one schedule for one utility, might
9 be on a different sort of schedule for another utility,
10 and so it is a more complex chart, which we hope to have
11 ready for the general, certainly by the time the general
12 rate case comes up.

13 But in my discussion of rate payers above on
14 page 41, I do mean all of the company's rate payers.
15 And in my analysis of all the criterion, I do intend to
16 reflect the impact on all rate payers, not just the
17 residential rate payers. However, I just don't have
18 additional analysis on -- for the impact on commercial
19 customers at this time.

20 Q. Now you have indicated again on page 42 in
21 this discussion on line 8 and also in the section where
22 you develop the \$42 Million recommendation your concern
23 that the company be prepared for another crisis. And in
24 this line 8 testimony on page 42, you refer to that as
25 the most important factor. Is it fair to say that that

00386

1 is the most important factor driving this
2 recommendation?

3 A. Yes, I think that is one of the most
4 important factors driving this recommendation, that the
5 company -- the company's current financial situation as
6 evidenced by its balance sheet indicates the company is
7 not financially prepared for another crisis.

8 Q. And so if you were to conclude that the
9 company is not or that the state of Washington is not
10 facing any imminent crises of the type that you have
11 testified to, would that change your recommendation with
12 regard to interim relief for the company?

13 A. Would you clarify whether you mean a power
14 market crises or any sort of crises by crises?

15 Q. Well, I will start with a power market crisis
16 since that's the type of crisis that you refer to in the
17 section where you specifically develop the \$42 Million,
18 let's start with that. If you assume that there is not
19 going to be a power market crisis between now and
20 October of 2002, would your recommendation be the same
21 in this case, or would it be different?

22 MR. CEDARBAUM: Your Honor, I guess I will
23 object with respect to vagueness, because there has been
24 some discussion about what power crisis means, and
25 perhaps Mr. ffitich can just clarify what he meant in

00387

1 that question, and then I would withdraw my objection.

2 JUDGE MOSS: I think I will just overrule the
3 objection.

4 Do you have the question in mind?

5 THE WITNESS: Yes, I do.

6 JUDGE MOSS: Can you answer it?

7 THE WITNESS: Yes, I can.

8 JUDGE MOSS: Please go ahead.

9 A. It's impossible to know the future, and so I
10 think that if I knew that there were no power market
11 crisis that were going to happen for sure, the only way
12 I -- the only point in time that I would know that for
13 sure would be after the period had been completed. And
14 even if I thought that no power market crisis were
15 likely over the next period, which may be true, I would
16 still think that as a business, the company needs to be
17 prepared for other sorts of volatility, volatility in
18 general. It is a good practice of good financial
19 management to have the ability to withstand
20 contingencies, the ability to withstand volatility in
21 supply prices and in other factors, volatility in
22 revenues. So I'm -- I could not say that having a
23 pretty good forecast that there will not be another
24 power market crisis over the next year would at all
25 change my testimony.

00388

1 MR. FFITCH: Your Honor, I think I'm just
2 about done. I think I have one other short line of
3 questioning, and I should be able to finish it up, so.

4 JUDGE MOSS: Please proceed.

5 BY MR. FFITCH:

6 Q. If I could get you to turn to your Exhibit
7 414C, Ms. Steel. In earlier cross-examination -- do you
8 have that in front of you?

9 A. Yes, I do.

10 Q. In earlier cross-examination, you have
11 identified four rather large sources of funds that the
12 company didn't recognize in their request for \$170
13 Million of rate relief, and I will just recap that, and
14 you can tell me if I'm wrong. But on line 2, \$25
15 Million of current maturities of long-term debt, excuse
16 me, rather based on your correction, your corrected
17 testimony, that's portions of reassigned debt and
18 equity. Then on line 4, \$50 Million of optional debt
19 redemption, line 5, \$62.5 Million of working capital,
20 and on line 8, \$40 Million of medium term notes which
21 were issued in January. Would you accept subject to
22 check that adds up to \$177.5 Million?

23 A. Yes, I would accept that figure.

24 Q. And that's 177.5 the company did not account
25 for in the original filing, correct?

00389

1 A. Yes, that's \$177.5 Million that the company
2 did not account for in this fashion in its original
3 filing.

4 Q. And here's my simple question, perhaps it's
5 uninformed. The company has asked in this case for \$170
6 Million from rate payers. You have found in this
7 Exhibit \$170 plus Million of cash that the company did
8 not admit that it had. Why doesn't this rate increase
9 just go away based on these finances, and why do you
10 conclude notwithstanding these numbers that \$40 Million
11 is necessary by way of an interim rate increase?

12 A. I don't make that conclusion because I have
13 not used the same methodology in calculating my relief
14 as the company used in making its request for relief.
15 It is my belief that in making its request for interim
16 rate relief that the company overstated its case and its
17 need for money to repay its short-term debt. But I
18 don't accept the company's methodology of coming up with
19 \$170 Million in the first place, so it's my correction
20 would not directly apply to their methodology.

21 MR. FFITCH: Thank you.

22 May I just have one moment, Your Honor, I
23 think I'm finished.

24 JUDGE MOSS: Yes, Mr. ffitch.

25 MR. FFITCH: I don't have any further

00390

1 questions. Thank you, Ms. Steel.

2 JUDGE MOSS: Thank you, Mr. ffitich.

3 Mr. Kurtz, I believe you said you had ten
4 minutes or less.

5 MR. KURTZ: Yes, sir.

6 JUDGE MOSS: Would you go ahead, please.

7 MR. KURTZ: Yes.

8

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

10 BY MR. KURTZ:

11 Q. Good afternoon, Ms. Steel.

12 A. Good afternoon.

13 Q. My name is Mike Kurtz. I represent the
14 Kroger Company, who operates just by way of background
15 approximately 130 grocery stores in the state of
16 Washington, 66 of which are served by PSE. Just a few
17 questions for you.

18 In your Exhibit 414C where you develop the
19 \$42 Million rate increase, you base your calculation you
20 just said on a methodology different from the company;
21 is that right?

22 A. That's correct.

23 Q. The company essentially tried to calculate
24 their power costs from their last rate case and their
25 projected power costs and came up with a differential of

00391

1 \$170 Million; is that a fair shorthand way of saying
2 that?

3 A. I think that's fair to characterize the
4 company's request as a request for recovery of just that
5 cost.

6 Q. And you on the other hand did this sources
7 and uses calculation; is that right?

8 A. That's correct, I looked at the overall
9 financial situation of the company.

10 Q. And you did not directly tie your proposed
11 rate increase to energy costs at all, you looked at
12 essentially financial need or financial integrity, as
13 you stated; is that right?

14 A. That's correct.

15 Q. All right.

16 A. I did not tie any one cost in particular to
17 my recommendation for overall financial relief.

18 Q. Let me just ask you to turn to page 25 of
19 your testimony, if you would, please. Perhaps this is
20 one section that you were looking for earlier in
21 response to some questioning from Mr. ffitich. It was
22 about the impact on the commercial customer class. Do
23 you see the question that begins on line 11?

24 A. Yes.

25 Q. Okay. You were asked, would the grant of

00392

1 immediate rate relief cause gross hardship or gross
2 inequity. And you answer in part in the third sentence,
3 you have a -- there is a -- you have a particular
4 concern of its impact on the company's 98,800 commercial
5 customers; is that right?

6 A. That's correct, I mentioned that commercial
7 customers in particular because they are businesses like
8 Puget Sound Energy, and when they're faced with an
9 increased cost, which they would be if the company's
10 request for interim relief is granted, they will have to
11 make choices in their capital budget, in their
12 operations and maintenance budgets, that might be more
13 difficult choices than the company seems to have made in
14 its filing.

15 Q. Are there any other reasons that cause you
16 particular concern for the commercial customers other
17 than the ones you have stated in your testimony and in
18 your last answer also?

19 A. There are not that I have analyzed for this
20 proceeding.

21 Q. Did you look, when you answered this
22 question, did you look at the relative rates of return
23 or the profit margin that the company was already
24 earning on its sales to commercial customers vis-a-vis
25 industrial and residential customers to see if the

00393

1 commercial customers were already paying in excess of
2 cost of service before this interim rate increase even
3 goes into effect?

4 A. No, I did not look at that question for the
5 interim proceeding. The impact on one class of
6 customers versus another class of customers is an issue
7 that's covered in the testimony of Staff witness Merton
8 Lott, and I will have to defer to Mr. Lott on the sort
9 of analysis he did.

10 MR. KURTZ: Thank you, Ms. Steel.

11 Your Honor, those are all my questions.

12 JUDGE MOSS: Thank you, I believe that
13 completes the parties' cross-examination as indicated in
14 our last pre-hearing conference.

15 MR. VAN CLEVE: Your Honor, I just have a
16 couple of brief questions.

17 JUDGE MOSS: All right.

18

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

20 BY MR. VAN CLEVE:

21 Q. Good afternoon, Ms. Steel.

22 A. Good afternoon, Mr. Van Cleve.

23 Q. As I understand your testimony, you believe
24 that the interim rate relief should not be attributable
25 to any particular type of cost recovery; is that

00394

1 correct?

2 A. My testimony is that the decision to grant
3 and the amount to grant should be based on the overall
4 financial health of the utility rather than specific
5 elements taken out of context.

6 Q. And if you could refer to the last page of
7 your testimony, page 44, you state at line 4 that the
8 interim relief should be granted without attribution of
9 recovery of a specific cost or costs; is that right?

10 A. Yes, that's correct that I recommend that the
11 surcharge be granted without attribution to recovery of
12 a specific cost or costs.

13 Q. And does --

14 A. That is the decision to grant or not and the
15 total amount.

16 Q. Does Staff believe that interim rate relief
17 in this case should be subject to refund?

18 A. Yes, and that is a topic covered in the
19 testimony of Mr. Merton Lott. I will have to defer to
20 him on questions of refunds.

21 MR. VAN CLEVE: Thank you, that's all I have.

22 JUDGE MOSS: All right, anybody else?

23 That certainly completes my list plus one.

24 All right, I think the Bench has some questions. Do we
25 require a recess?

00395

1 All right, then let us proceed.

2

3

E X A M I N A T I O N

4

BY CHAIRWOMAN SHOWALTER:

5 Q. Ms. Steel, I want to thank you first of all
6 for your very clear voice, your perfect diction, your
7 short declarative sentences, and in particular your
8 habit of paraphrasing part of the question and
9 incorporating it into your answer. It makes it a lot
10 easier to understand what it is you're testifying to,
11 and I appreciate it.

12 A. Thank you.

13 Q. My general effort here is to try to pinpoint
14 the differences between the Staff recommendation and the
15 company recommendation and to understand whether
16 anything, in fact, has been reconciled, and also whether
17 the differences are more in the nature of fact, although
18 those may be projections versus judgments on the general
19 environment or other predictions.

20 But first, I would like to go through your
21 testimony and just get some clarifications from you on
22 words or phrases or other things I don't understand. So
23 could you begin by turning to page 10 of your testimony.
24 On line 11, you say, the company continues to finance on
25 reasonable terms. Can you tell me what your definition

00396

1 of reasonable means, and if possible, what would a
2 reasonable interest rate be today?

3 A. I think a reasonable interest rate takes into
4 account overall interest rates that are in place. So my
5 analysis depends on the interest rate that the company
6 got on a large debt placement of \$40 Million during the
7 pendency of this interim rate request. On a two year
8 secured issuance, the company obtained a rate of 6.25%,
9 which is lower than the cost of debt embedded in the
10 company's rates from its last general rate case. I
11 believe the long-term debt from that last general rate
12 case rate was 8.11%. And so relative to that, 6.25
13 looks very reasonable, if not low.

14 Q. In other words, are you saying that the
15 interest rate that's built in to the last revenue
16 requirement for long-term debt was 8.11%?

17 A. That's correct.

18 Q. Can you tell me --

19 A. I could check that if you would like.

20 Q. All right, go ahead.

21 A. Yes, it's 8.11%.

22 Q. Can you tell me what an unreasonable interest
23 rate or unreasonable terms would be today, or is that
24 something that can't be answered out of context?

25 A. I think the context is important, but I would

00397

1 state that in this climate that an interest rate around
2 10% with interest rates being very low would seem
3 unreasonable for a company, and then there is a lot of
4 area in between.

5 Q. Very low, did you say?

6 A. No, sorry, an interest rate of 10% I believe
7 would not be a reasonable rate for the company to be
8 able to obtain financing on its first mortgage bonds.

9 Q. All right. Then on the next page, page 11,
10 on line 2, let's see, you say this debt to
11 capitalization ratio is the only financial covenant on
12 the company's committed line of credit. No, that's, I'm
13 sorry, it's line 5 that my question refers to. You're
14 saying for the period September 30th, this ratio is
15 improved to 59.4%. Do you have this ratio for a later
16 period, or is September 30th the latest that it's
17 available for?

18 A. September 30th is the period, the most recent
19 period that I had available at the time I wrote that
20 part of my testimony.

21 Q. Do you have a later one now?

22 A. I could calculate it, but I don't have the
23 company's calculation of that covenant. I could
24 calculate it from the balance sheet that the company
25 provided. And if you prefer, I could take a few minutes

00398

1 to make that calculation, but I don't have a covenant
2 compliance document prepared by the company for the
3 period ended December 31st, 2001.

4 CHAIRWOMAN SHOWALTER: My general interest is
5 in getting up-to-date information if it's available, so
6 I don't know how to handle it. Would this be good to do
7 it as a --

8 JUDGE MOSS: Can you do that calculation very
9 quickly?

10 THE WITNESS: Sure.

11 JUDGE MOSS: Why don't you just go ahead and
12 do it.

13 THE WITNESS: Can I go over and talk to
14 counsel, because he's got the exhibit I need.

15 JUDGE MOSS: Why don't we take a brief recess
16 and let the witness get what she needs in the way of
17 documents so we can get an answer to this, so we will
18 just be off the record for a few minutes.

19 (Recess taken.)

20 JUDGE MOSS: We have a question pending, I
21 think.

22 A. Okay, for the period December 31st, 2001, the
23 company has calculated debt to equity ratio, or I'm
24 sorry, I'm sorry, the company's calculated ratio would
25 be 59.84%.

00399

1 BY CHAIRWOMAN SHOWALTER:

2 Q. So that's the update from the 59.4% of
3 September 30th?

4 A. That's correct.

5 Q. Thank you. Then sticking on that same page
6 on line 10, 9 and 10, you say, for the most recent
7 period through December 2001, the company would have
8 complied with the new 2.0 times ratio. I'm just
9 interested in your use of the word would. You mean they
10 did, or is your would based on some estimate or
11 conjecture on your part?

12 A. That calculation is based on the company's
13 projections, and I believe it's also clear from their
14 testimony that they believe they would meet that ratio
15 through the end of December.

16 Q. Since we have passed December, I'm just
17 wondering why it's would, why isn't it they did?

18 A. Well, the company did not provide us with a
19 balance sheet for December 31st, 2001, and with the
20 results of operation until --

21 Q. I see.

22 A. -- I think January 24th of 2002.

23 Q. So that as of this testimony, these were
24 projections for the year end 2001?

25 A. That's correct.

00400

1 Q. As opposed to actuals?

2 A. That's correct.

3 Q. Then on lines 11 and 12, I think you state
4 that the coverage ratio for first mortgage bonds applies
5 only to new issuances, the majority of the company's
6 debt is unaffected. I guess my question is, does the
7 credit rating affect the ability of institutional
8 investors or others to hold the existing outstanding
9 first mortgage debt?

10 A. Some institutions may be impacted, because
11 some institutions can only hold investment grade rated
12 bonds or can only hold a portion of their portfolio in
13 non-investment grade securities, so some investors in
14 the company's bonds may be impacted.

15 Q. All right, and I'm going to get to sort of a
16 discussion of the scenario where the company might be
17 downgraded below investment grade in a minute.

18 Then if you could turn to page 13 at the top,
19 the sentence actually begins at the bottom of page 12,
20 you say, the only independent assessment provided PG&E's
21 review was favorable and has resulted in the resumption
22 of trading on the same terms. Whose review of what was
23 PG&E's review?

24 A. PG&E's review was of the company's credit
25 risk.

00401

1 Q. But who was doing the review?

2 A. PG&E was doing a review of PSE's credit risk
3 for the purposes of trading with it.

4 Q. I see.

5 A. Sort of a trade credit analysis.

6 Q. So what you're referring to here is PG&E was
7 a trading partner with PSE and did a review of PSE?

8 A. Yes.

9 Q. And the result was favorable?

10 A. Yes.

11 CHAIRWOMAN SHOWALTER: Okay, while I'm on
12 this page, on page 13, this page 13, lines 13 through
13 17, there are two different sentences that are listed
14 there as confidential. I would like to ask the company
15 if they need to be.

16 MR. QUEHRN: Your Honor, I'm advised that
17 this information has now been filed with the SEC, so it
18 no longer needs to be kept confidential.

19 CHAIRWOMAN SHOWALTER: Okay, thank you.

20 MR. FFITCH: Your Honor, could I just get
21 clarification that that's the information on page 13,
22 lines 13 to 17; is that correct?

23 JUDGE MOSS: That's correct.

24 BY CHAIRWOMAN SHOWALTER:

25 Q. Then on page 24 of your testimony, lines 10

00402

1 and 11, you say:

2 Another way for the company to preserve
3 cash and minimize its financing needs is
4 to issue a partial stock dividend.

5 And can you explain to me what that is? Do
6 you mean issue a dividend not as large as prior
7 dividends?

8 A. Well, not to -- what I mean by that is to
9 issue a greater percentage of its dividend as stock
10 dividend than it currently issues, so to issue a lower
11 cash dividend.

12 Q. I see, okay. So basically more stock, less
13 cash?

14 A. Right.

15 Q. Then on page 36, line 18, you say:
16 PSE incurred large allowances for
17 doubtful accounts due to California
18 wholesale sales.

19 Can you just explain to me what this means?

20 A. Okay. That is allowance for doubtful
21 accounts is an accounting entry that is taken against
22 the company's accounts receivables that reduces the
23 amount of accounts receivables that the company reports
24 on its balance sheet, and the purpose is to fairly
25 reflect the likelihood of recovery of certain accounts.

00403

1 It may also, it I think does in fact, also reflect a
2 percentage of those accounts that may not be recoverable
3 based on past experience.

4 Q. So you are saying in effect that they were
5 generous in assumptions of what amounts of money they
6 might not get, what accounts receivable they may not
7 receive; is that correct?

8 A. I think that's correct. I think the
9 company's balance sheet may end up looking better than
10 it's reported at this time should that positive
11 contingency occur that they receive the money, moneys
12 owed from the California wholesale power supply, power
13 purchasers.

14 Q. All right. Did you take this factor into
15 account one way or another in your analysis? In other
16 words, do you make a different judgment about this or
17 not?

18 A. No, I do not make a different judgment about
19 this than the company makes.

20 Q. Then on page 44, line 4, Mr. ffitch asked you
21 about this, and my question is, if we grant interim
22 relief according to your recommendation, what happens to
23 the amounts that were deferred and put into the deferred
24 account? Do they go away, are they assumed to be taken
25 care of by the interim rate relief?

00404

1 A. No, it's Staff's recommendation the deferred
2 account, the deferred amounts are written off in the
3 current period, the period incurred, but that's a topic
4 of Mr. Lott's testimony, treatment of the deferral.

5 Q. So those amounts don't go away as a result of
6 the interim rate increase, but nevertheless your
7 recommendation or Mr. Lott's recommendation is that they
8 be written off; is that what I heard you say?

9 A. I believe that Mr. Lott does not recommend
10 continuing the deferral, that it would not continue in
11 the deferred amount. You know, actually, I don't think
12 I should characterize Mr. Lott's testimony about what --
13 how he treats the first quarter of 2002's deferral. It
14 is my belief that Mr. Lott does not continue the
15 deferral though.

16 Q. All right. So but the net of Staff's
17 recommendation is grant an interim rate increase but
18 terminate the deferral with no further action; is that
19 correct?

20 A. I believe that's correct, and the company
21 projections on which I relied in this case don't include
22 deferred amounts either, because this filing was prior
23 to their obtaining the deferral from the Commission in
24 late December. So that's not a change from, you know,
25 it's not as if I have taken their projections and failed

00405

1 to correct the impact of a deferral, because it was not
2 there.

3 Q. Okay. I want to have a little bit broader of
4 a discussion at this point. One of the themes running
5 through the testimony of the different witnesses is what
6 is the probability of a downgrade to below investment
7 grade, and second, what are the adverse consequences if
8 that event occurs.

9 A. Okay.

10 Q. So I want to focus first on the first
11 question, what is the probability of a downgrade, and
12 maybe we could begin by looking at your testimony on
13 page 31, because I want to understand it. All right,
14 you say here you can't predict what Moody's or S&P will
15 do, but then I thought I heard you testify that you did
16 not think they would downgrade if your level of interim
17 relief were given. Did I hear that correctly or not?

18 A. Well, I'm not making a prediction, but I
19 specified that for S&P's rating, according to the
20 opinion that they released in December after the
21 Commission rejected its first interim rate relief
22 request and after the company had filed its second one,
23 the comments from S&P seem to be that the ratings
24 currently in effect for Puget Sound Energy take into
25 account that interim rate relief will not be available

00406

1 to them until the general rate case is completed.

2 Q. What about Moody's, is there any comparable
3 inferences that you can draw?

4 A. Well, I think it is important that the
5 Moody's ratings are actually under review right now.
6 That's the equivalent to being on credit watch at S&P.
7 The ratings are not on credit watch at S&P. The
8 company's corporate credit rating remains investment
9 grade at S&P but at the lowest level. At Moody's, its
10 credit ratings are rated higher, the corporate credit
11 ratings are rated higher than the Standard & Poor's
12 equivalent rating, and those are on watch. Those are
13 under review, which is the Moody's terminology.

14 Q. So was the implication there that even though
15 Moody's is currently reviewing their rating, because
16 it's higher relatively than S&P's, there's more room to
17 fall before falling below investment grade?

18 A. Yes, that's the correct implication, there is
19 more room between the current rating for Moody's and the
20 lowest investment grade level than there was for Puget
21 Sound Energy's S&P ratings.

22 Q. Then I want to ask you about the \$20 Million
23 for contingencies that you recommend. Does that assume
24 that the company maintains an investment grade rating,
25 i.e., are you saying \$20 Million is enough for

00407

1 contingencies if the company remains investment grade,
2 or are you also saying \$20 Million should be enough even
3 if a downgrade below that level should occur?

4 A. If a single downgrade occurs on Moody's, the
5 company would not be non-investment grade, it would
6 remain investment grade. So I don't think there would
7 be any requirement to dip into this \$20 Million
8 contingency aside from I believe the company's line of
9 credit fee goes up very slightly. But if the company's
10 credit ratings for both S&P and Moody's were both
11 dropped at the corporate credit rating level to below
12 investment grade, then the company may have to make some
13 changes in its supply arrangements. I don't necessarily
14 know that those would cost a material amount more, but I
15 believe that \$20 Million is a reasonable amount to
16 include for that contingency, that single contingency.

17 Q. So am I right that your answer is that in
18 your view, even if the company is downgraded a corporate
19 level to below investment grade, a \$20 Million
20 contingency fund should be enough to take care of most
21 events that you can think of?

22 A. Single events. A worse case would be, you
23 know, the unlikely occurrence of many different factors
24 occurring. And given a \$20 Million amount for single
25 amounts, various sorts of factors I could think about,

00408

1 and one single event would be a downgrade.

2 Q. Now we ventured into the second part of my
3 question, which is, what are the adverse consequences
4 should the company be downgraded, and you have covered
5 them. And I guess one question I want to ask is whether
6 you have taken into account what I will call I think is
7 sometimes referred to as the cliff effect, but that is
8 that once a company is downgraded to below investment
9 grade, it triggers various events that can trigger even
10 further events, so that in the first instance, first
11 mortgage bonds might cost more, which can be calculated,
12 but then what happens if certain investors can't own the
13 stock? And maybe you can play out more of these effects
14 than I can. I think the company listed some of them.
15 And I guess my question is, are you not overly concerned
16 about that because you don't really think the company
17 will be downgraded to that level, or even if it is, the
18 \$20 Million should get it through to the end of the rate
19 case?

20 A. I can't say whether or not the down -- such a
21 downgrade would occur. I would just note though for the
22 first mortgage bonds to become rated below investment
23 grade that they would have to drop two notches for S&P
24 and three notches for Moody's, and I have not seen
25 testimony from the other parties that the first mortgage

00409

1 bond ratings are likely to be rated below investment
2 grade over the interim period.

3 Rather it's the second case, that I think
4 that the direct consequence of a downgrade over a short
5 period until the interim is completed on the corporate
6 credit rating would not have such a significant impact
7 that \$20 Million could not handle. And I think that
8 cascading effects can take some time to wind their way
9 through, and in the six months from now until a lot of
10 the general rate case issues are aired in the public,
11 then I think it's not so much time to really have a lot
12 of factors cascade and interact and interplay.

13 I have done what specific analysis on those
14 factors I could. I have asked the company for its
15 information and quantification of what these factors are
16 that it alleges, but it has not provided me with very
17 specific information to analyze. And so there is some
18 of my own judgment in that \$20 Million number, which I
19 have attempted to further clarify with questions, data
20 requests to the company since filing my testimony, but I
21 haven't been able to get better information that would
22 cause me to change that \$20 Million recommendation.

23 Q. In other situations, you can see very rapid
24 cascading effects, and I can think of, you know, Enron
25 and its stock or Qwest. Are you at all concerned about

00410

1 I suppose the cascading effect of negative perceptions
2 on the company in a number of quarters or are reinforced
3 and accelerated from a number of quarters from which it
4 would be difficult to regain or restore an adequate
5 credit rating even if at the end of a general rate case
6 we have well justified rates?

7 A. Perceptions are slippery. I myself
8 characterize Staff's case as very positive for the
9 company. We carefully analyzed the company's overall
10 financial situation and found it to not be a disastrous
11 situation. In fact, we found some positive elements in
12 the company's financial situation, and our
13 recommendation provides relief and shores up the
14 company's financial situation in two ways, by improving
15 the inflow available for contingencies and then also
16 controlling the outflow of cash from the utility. So my
17 own opinion of how Staff's testimony and case should be
18 perceived is that it should be perceived of as positive
19 and supportive of the company.

20 Now how the ratings agencies will perceive
21 Staff's case in particular is a difficult question for
22 me to analyze, because I do not have a financial
23 relationship with the ratings agencies, so I do not have
24 the same level of access to them that the company has.
25 I am also not able to influence those ratings in the

00411

1 same way and their opinions and statements that they
2 publicize in the same way that the company is able to.
3 So I am concerned about in particular what the ratings
4 agencies will say and how they perceive it, but I don't
5 think that it is a dispositive factor that should be
6 used to set a level of rate relief or decide to grant or
7 not, because it is too hard to pin down and quantify.

8 Q. Well, that leads to the question of what
9 information the rating agencies have, and I assume they
10 have information that the company wants to provide them
11 and some information that the rating agencies ask the
12 company for, and I will go into that with Mr. Gaines.
13 My question to you is, do you have the ability to lay
14 out for the rating agencies your analysis? I guess they
15 can read your testimony, but some of it's confidential,
16 but do you think that their opinion of the company's
17 situation would be affected if they reviewed your
18 testimony and also I guess agreed with it?

19 A. I think that it might be. I can't discuss
20 the confidential portions of the testimony with the
21 ratings agencies, but I have discussed with their
22 personnel that we have information available here, and
23 if they are interested, they can file a public
24 information request and get that information if they
25 believe that we have access to information that they do

00412

1 not. And I have also asked them about the types of
2 information that they have analyzed, and I don't believe
3 that they have any information that is not available to
4 Staff, nor do I believe that they have analyzed
5 information about Puget Sound Energy in particular that
6 Staff did not analyze.

7 But it's difficult to engage in a meaningful
8 discussion when you can't -- you may both have access to
9 the same data, but you can't really talk about it
10 because I can't -- I can not, you know, reveal to them
11 that information, although I believe they may be privy
12 to it if they wanted to be, they could request it from
13 the company.

14 Q. Okay. Then could you turn to Exhibit 407. I
15 believe with regard to the shaded numbers in the upper
16 right-hand corner, you said, I believe, that you had
17 done your own analysis that would alter these numbers;
18 am I correct?

19 A. I could analyze these, go through and tell
20 you how the ratios would be affected up or down, but I
21 don't have the specific calculation. That analysis
22 would be that the FFO numbers would be higher and the
23 pre-tax interest coverage as well. Total debt to total
24 average capital would essentially be unaffected.

25 Q. All right. But if you were to redo this with

00413

1 substituting your either numbers or judgments for the
2 company's, does that essentially mean that you would be
3 taking -- maybe you should tell me, in other words, what
4 numbers would you be substituting in your analysis that
5 would lead to different numbers here, or if not numbers,
6 just what items?

7 A. Okay. On the FFO to total debt ratio, I
8 would be correcting that to include an improvement to
9 net cash flow from the \$9.75 Million which I have made
10 an adjustment for for O&M budget savings, and I would
11 also increment cash flow, the FFO, from the capital
12 savings. Actually, I may have these reversed. 7.8 is
13 the capital savings.

14 Q. All right. Are those values that you refer
15 to included on any exhibit here?

16 A. Yes, they are, they're included on Exhibit
17 14C, page 1.

18 Q. All right. And that was actually I wanted --
19 were you finished on the previous question?

20 A. There would be some adjustments to net cash
21 flow lower down on the page, but I don't believe your
22 question was about all the ratios, right?

23 Q. All right, well, then I wanted anyway to go
24 next to 414C. I think what I'm after, if it's possible,
25 is to get an apples to apples comparison of your

00414

1 calculations or judgments versus the company's, so I'm
2 not sure this is it, because I think I heard you say
3 this was really the company's methodology anyway. Am I
4 right on that?

5 A. In Exhibit 7 or this exhibit that was on
6 the --

7 Q. 414 I'm talking about.

8 JUDGE MOSS: It was your pre-marked LAS-14C,
9 it's now marked as 414C.

10 A. That is my own exhibit.

11 Q. And I was paying close attention to the
12 questions from Mr. Quehrn and writing down the
13 differences, but I think I was going through somewhat of
14 the analysis that maybe Mr. ffitich went through in which
15 there were comparisons of, well, line 1, you have 486,
16 PSE would put in 518. Am I correct on that?

17 A. Well, I think the company is starting with
18 the wrong number. Actually that 518, I think that what
19 they're trying to get at is my adjustment in line 5.

20 Q. Okay.

21 A. But that number isn't --

22 Q. But that was the nature of that line of
23 questioning?

24 A. Yes, it was.

25 Q. And then on line 2, you have \$25 Million, the

00415

1 company would have zero; am I right on that?

2 A. I suppose that's what they would put in
3 there.

4 Q. And then on line 5, what I thought I heard
5 was that you have \$62 Million plus and the company would
6 have and I thought I heard was \$2 Million there.

7 A. Yes, I think they had 1.7 or something like
8 that there.

9 Q. And then on line 11, you have \$83 Million
10 plus, and the company would have a negative \$32 Million;
11 am I right on that?

12 A. I believe that's what they propose.

13 Q. And then on line 14, you have a \$42 Million,
14 and the company would be 140 I wrote down; is that
15 right?

16 A. I don't recall the company using the 140
17 number.

18 Q. Well, I will look up the questioning. But
19 then what I heard you say in response to Mr. ffitch is
20 that this comparison of 42 to either \$140 Million or
21 something isn't particularly meaningful in your view,
22 because you don't really agree with this methodology
23 that's reflected on this chart, that this was the
24 company's methodology. Am I right or wrong on that
25 point?

00416

1 A. Oh, on this chart, Exhibit 414C, I fully
2 agree with the methodology in my own chart.

3 Q. Okay.

4 A. My own chart I think is the right way to
5 analyze a company in need of short-term financing or
6 short-term rate relief. I do not agree with the
7 illustrative exhibit that the company had on the easel
8 which appeared on blue paper in the pass around.

9 Q. Okay.

10 A. And I don't agree with that methodology,
11 because the methodology I would employ would begin with
12 cash flow necessary for ongoing operations, cash flow
13 for necessary investment, and then would begin -- then
14 would follow from that financing needs, then would end
15 with dividends available for shareholders. The company
16 inverts this traditional financial analysis and put
17 dividends at the top. It allows the other expenses to
18 fall from that.

19 Q. So my corrected view is the way this exhibit
20 starts out, you fully endorse, Mr. Quehrn led you
21 through some possible differences between you and the
22 company which you did not accept, but by accepting them
23 and just doing the math, there is a bottom line, and I
24 think you didn't know if it were \$140 Million, I heard
25 Mr. ffitich say \$170 Million, so I was going to try to

00417

1 pin that down.

2 A. I believe Mr. ffitich's \$170 Million just came
3 from the company's pre-filed testimony, which was based
4 on power costs. It didn't flow from this chart.

5 Q. All right. Then if you could turn to Exhibit
6 416. This discusses the WSPP agreement, and this may be
7 somewhere else in your testimony or someone else's
8 testimony, but what is the significance of the WSPP
9 agreement; is that a master agreement?

10 A. Would you please clarify which exhibit?

11 Q. Oh, I'm sorry, apparently it's 417, I
12 apparently gave the wrong number.

13 A. Would you repeat the question, please?

14 Q. Yeah, the question, this is a discussion of
15 the WSPP agreement, and I don't know what the
16 significance of the WSPP agreement is. Is it a master
17 agreement, or why is it being discussed?

18 A. I think it is the agreement in place for what
19 I believe is called the Western System Power Pool.

20 Q. Okay.

21 A. And it is a master agreement that governs the
22 trading relationships of the parties. But you can see
23 from the agreement that there's significant flexibility
24 that individual parties have in negotiating terms among
25 themselves.

00418

1 Q. All right. And then two pages into that
2 exhibit, oh, it's, which is it, no, it's Exhibit 418,
3 you had discussion with Mr. Quehrn that I was having
4 trouble following, so I will just ask you my own
5 question, which is, if Puget does go to junk status,
6 will it have more difficulty either accessing the energy
7 markets or with obtaining reasonable terms and
8 conditions? And I guess I better, since I -- I better
9 not use that word. Isn't it logical to think that if
10 Puget is downgraded to junk status, it will have more
11 difficulty with access or terms than it would if it's
12 not downgraded?

13 A. I think it's reasonable to conclude that the
14 company would likely experience more difficulty if it is
15 downgraded to below investment grade by both rating
16 agencies on its corporate credit rating. However, I
17 can't know that as a fact from reading this agreement,
18 because that is not a required outcome of this
19 agreement.

20 Q. Right, the agreement doesn't cause any of the
21 counter parties to take any particular action, but it
22 does entitle them to, doesn't it?

23 A. Yes, that's correct, it entitles them to take
24 that action without requiring them to take action.

25 Q. So then back to this broader environment of

00419

1 the West Coast, Enron, the last 18 months, FERC, et
2 cetera, would you say that there is a greater
3 probability of parties exercising these kinds of
4 provisions today than they would have 18 months ago if a
5 company had exactly the same financial indicators? I'm
6 getting at, is there a general nervousness in the energy
7 world for which we're all paying a premium in one form
8 or another?

9 A. I think there is that general uneasiness
10 right now that there wasn't 18 months ago, in part
11 because the economy is in recession, and in part because
12 of the energy crisis, after shocks, and in part because
13 of fallout from Enron's collapse. But I also think that
14 it's true that if a party 18 months ago was downgraded
15 to below investment grade, it would stand out as more of
16 an outlier than it would stand out today, because there
17 are some major trading partners who are having trouble
18 maintaining investment grade ratings right now and who
19 are getting -- making alternate arrangements. So in
20 that sense, I'm not sure that it would be more or less
21 difficult than it would have been 18 months ago. In
22 fact, because it's more common, it could be easier, and
23 a lot of big trading partners may not have such great
24 alternatives.

25 Q. But that actually gets at the flip side of my

00420

1 question, which is, has there been some kind of grade
2 deflation by the rating companies where they seem more
3 prone to downgrading, I don't know about downgrading
4 below investment grade, but more prone to downgrading
5 because maybe they are generally nervous?

6 A. I agree with that statement, and I do have a
7 copy of a rating agency's review of what it did in the
8 second half of 2001, and it does support that belief
9 that the rating agencies have been much more quick to
10 downgrade. I could provide that as a -- a copy of that
11 if the Bench would like it. It is Standard & Poor's
12 ratings direct analysis of credit quality in 2001 for
13 U.S. utilities. It's dated January 18, 2002, and it
14 shows that U.S. utilities' credit quality displayed a
15 steep decline in 2001, and the negative trend is likely
16 to continue. And it also shows that most of its ratings
17 actions in 2001 were negative, as they were in 2000.

18 JUDGE MOSS: I think the Bench will request
19 that as Bench Request Number 2, Mr. Cedarbaum, and given
20 the late hour, perhaps copies in the morning. Would
21 that be good, copies for all, thank you.

22 MR. CEDARBAUM: So that's going to be Exhibit
23 2?

24 JUDGE MOSS: It will be Bench 2, yeah,
25 Exhibit 2.

00421

1 In the morning then.

2 CHAIRWOMAN SHOWALTER: I will look for
3 guidance from others. I want to turn to some of Donald
4 Gaines' rebuttal testimony, rebuttal to your testimony,
5 and ask for your response, but it is almost 5:30, and I
6 know that Mr. Cedarbaum wanted to -- had a deadline. So
7 we could either stop now and take it up in the morning,
8 or I could run through these questions.

9 MR. CEDARBAUM: I can make arrangements.

10 CHAIRWOMAN SHOWALTER: That's all right.

11 MR. CEDARBAUM: The other concern I have is
12 the witness has been on the stand since mid morning, and
13 she's probably -- she deserves a break.

14 CHAIRWOMAN SHOWALTER: She looks pretty fresh
15 to me.

16 JUDGE MOSS: All right, I would like to have
17 us -- can the parties all be here at 9:00 in the
18 morning? Is everybody spending the night who is from
19 out of town? So that way we can go ahead and mark these
20 remaining few exhibits that are outstanding and make
21 sure we're all on the same page and so forth before the
22 commissioners take the Bench at 9:30, so let's plan to
23 be back at 9:00.

24 And there was a question apparently from
25 Ms. Davison before we go.

00422

1 MS. DAVISON: Your Honor, I just wanted to
2 remind you that we had one discovery dispute with PSE,
3 and that was the answer to our Data Request 8.1. I'm
4 not sure when you would like to take that up, but I just
5 wanted to let you know that we still have not resolved
6 that dispute.

7 JUDGE MOSS: Well, I don't think the
8 commissioners need to be on the Bench for a discovery
9 dispute, so unless they just want to stay, we will let
10 them go, and we will take up your discovery dispute
11 right now.

12 MS. DAVISON: Thank you, Your Honor.

13 JUDGE MOSS: Will that unduly cause a problem
14 for you, Mr. Cedarbaum?

15 MR. CEDARBAUM: No.

16 JUDGE MOSS: I don't need to keep you
17 unnecessarily. We could take it up in the morning, I
18 suppose.

19 MR. CEDARBAUM: No, I very much appreciate
20 the accommodation, but I think that especially since the
21 discovery issue is between ICNU and the company, if I
22 need to leave, if I have permission to leave, I will do
23 that.

24 JUDGE MOSS: All right, let's go ahead with
25 that. It's not going to take more than ten minutes, is

00423

1 it?

2 MS. DAVISON: I don't think so. I think it's
3 a very straightforward question. Basically the question
4 that we posed has been the question that has been the
5 central issue for today's cross-examination, which is we
6 asked PSE to provide to us at what level of interim rate
7 relief does the company believe that its credit rating
8 will be reduced from triple B minus to junk, and we
9 asked for them to explain all assumptions in responding
10 to this request. The answer that the company gave us
11 was that they believe that the rating will be lowered if
12 the company's request is not granted. Well, that wasn't
13 the question that we asked. We wanted to know at what
14 level of interim rate relief will this projected
15 downgrade occur, and I think that it is a very critical
16 issue in this case, and I think that we have posed a
17 proper question and that the company should have
18 specifically answered this request.

19 JUDGE MOSS: Well, maybe it's the late hour
20 and I'm just puzzled, but as I understand what you just
21 read to me, it is the company's response that unless
22 they get their \$170 Million, they are going to be
23 downgraded.

24 Is that the company's response?

25 MS. DODGE: Yes.

00424

1 JUDGE MOSS: And I'm seeing a lot of heads
2 nodding in affirmant, so isn't that the answer to your
3 question, whether you disagree or not?

4 MS. DAVISON: Well, no, my question was at
5 what level of interim rate relief.

6 JUDGE MOSS: As opposed to what, what do you
7 mean, do you mean something different by a level than I
8 mean by a level, which is dollar amount?

9 MS. DAVISON: Well, I guess if the company is
10 saying that they need their entire \$170 Million interim
11 rate request or they're going to be downgraded to junk
12 bond, then I suppose this answer is accurate.

13 CHAIRWOMAN SHOWALTER: I tell you, I did not
14 see that in the testimony, so that what I see in the
15 testimony is if it's zero, there will be a downgrade, if
16 it's 170, there will not be, and there has not been with
17 any precision any assessment about what happens to
18 something in between.

19 MS. DAVISON: That's right, the levels, and
20 that's what we are asking for, and we tied it to a
21 column of Don Gaines's testimony, and I can show you the
22 question and the answer, but this very simple response
23 is nonresponsive.

24 JUDGE MOSS: Well, that's hard for me to
25 evaluate in light of the company's apparent position

00425

1 that it is fully responsive, that that's their story and
2 they're sticking to it. So I don't know if there is
3 some answer in between. I understand how you might
4 think there could be and how there could be some further
5 analysis of at this level this is going to happen and so
6 on and so forth, but maybe we should hear from the
7 company on this and see if we can develop the issue a
8 little bit more.

9 Mr. Quehrn, Ms. Dodge.

10 MR. CEDARBAUM: Your Honor, can I just
11 interrupt to seek permission for the witness to leave
12 the stand.

13 JUDGE MOSS: Ms. Steel, I'm sorry, certainly
14 you can leave the stand.

15 Did somebody from the company wish to speak
16 to this question?

17 MR. QUEHRN: Thank you, Your Honor. First of
18 all, I believe the way you're understanding the question
19 is the way we intended it to be understood, is that we
20 have requested \$170 Million, and by saying that we
21 believe that the rating will be lower if the request is
22 not granted at that level directly responsive to the
23 question is \$170 Million. I do believe that this is
24 addressed as far as the rationale largely in the
25 rebuttal testimony of Don Gaines.

00426

1 JUDGE MOSS: So when we have Mr. Gaines on
2 the stand, certainly you can ask him what if the company
3 gets \$135 Million of relief, do you still believe
4 they're going to be downgraded, and he can say yes or no
5 or I don't know or I didn't analyze it or whatever the
6 answer is. As far as the discovery is concerned, it
7 appears the company has not analyzed anything beyond its
8 assertion that without \$170 Million it's going to be
9 downgraded. That's how I understand what the company is
10 saying here on the record today.

11 CHAIRWOMAN SHOWALTER: They're not on the
12 record, this is attorneys talking. The issue is what is
13 in the record in terms of testimony, which we will ask.
14 I will ask that question because I didn't see it.

15 MS. DAVISON: Your Honor, can I just get one
16 quick clarification, because I understand that answer,
17 and if that is the answer, then it is responsive, but I
18 just want to note that the question asks to junk, not a
19 downgrade as we heard from Ms. Steel today, but to junk
20 status.

21 And is that accurate, Mr. Quehrn, that the
22 answer is intended to say that you will be downgraded to
23 junk if you don't get the full \$170 Million?

24 JUDGE MOSS: Is that how you understood the
25 question in helping the witness prepare a response to

00427

1 that?

2 MR. QUEHRN: That's how I understood the
3 question. The author of the response is right behind
4 me, if I could just confer with him to confirm.

5 JUDGE MOSS: You may do so.

6 MR. QUEHRN: Mr. Gaines provided some
7 clarification that may be helpful. The corporate credit
8 rating is currently one notch above junk, if you will,
9 at this point in time, such that it is his answer that
10 it is his belief that if we do not get the full amount
11 of interim relief that that credit rating will be
12 downgraded to junk status.

13 JUDGE MOSS: Okay, so that's the answer for
14 purposes of your inquiry when you have the witness on
15 the stand, and others may have inquiry in this same
16 line. The Bench has indicated it does have some
17 inquiry. So that is the discovery response, and I think
18 you can work with that.

19 MS. DAVISON: Thank you very much, Your
20 Honor, that solves my issue.

21 JUDGE MOSS: All right, anything else before
22 we go off the record for today?

23 Then we will be in recess until 9:00 tomorrow
24 morning. See you then.

25 (Hearing adjourned at 5:30 p.m.)

