

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 IV
 6 Respondent.) Pages 428 to 671
 _____)
 7

8 A hearing in the above matter was held on
 9 February 19, 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.

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P R O C E E D I N G S

JUDGE MOSS: A few procedural matters we will take up here, and then we will make sure we're ready for substantive work and proceed with that. The procedural matters are that this morning for 30 minutes or so we convened a little early and marked a few exhibits that have come in late due to their having either been identified by a party a little later than might have been ideal as something that ought to be used during cross-examination or potentially used during the cross-examination. Some of that is because the discovery process is ongoing, and responses are still being received, and some of it is because parties are still preparing their cross-examination as we go, which is a haunting memory I have of working through the evening hours in the course of one of these hearings when I was sitting where you sit instead of where I now sit. And I do understand that there is an element of challenge in that, and I want all of us to understand that everyone is working very hard on a tight schedule. And it may come to pass that things will come up that were unanticipated, and we have to be flexible in that.

I'm going to ask you all to not object to these late exhibits for the sake of form. If you have a serious concern, if you are seriously concerned that you

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1 or your witness need to study something that you haven't
2 previously had an opportunity to look at, then okay, I
3 will hear that, and I will make some accommodation. I'm
4 not going to prejudice anybody. But if you're just
5 objecting for the sake of form, and that's, you know,
6 sometimes that's part of your job, I understand that,
7 but let's try not to do it if we can possibly avoid
8 that. So if you have a genuine deep seeded concern, let
9 me know, and we will accommodate it in some fashion or
10 another. And again, we have to be a little bit flexible
11 in the context of an expedited proceeding, and that's
12 the sort of tone, if you will, that I would like to set,
13 and I appreciate all of you being cooperative as you
14 have been thus far in that regard.

15 Were there other procedural matters or
16 process matters anybody wanted to raise at this time? I
17 am going to take appearances just quickly, but prior to
18 that, does anybody have any preliminary matters they
19 want to discuss?

20 MR. CEDARBAUM: Your Honor, I have just one
21 preliminary matter.

22 JUDGE MOSS: All right.

23 MR. CEDARBAUM: It involves the discussion we
24 had off the record of Exhibit 425.

25 JUDGE MOSS: Okay.

00436

1 MR. CEDARBAUM: Which was the company's
2 response to Staff Data Request 321-I.

3 JUDGE MOSS: Okay.

4 MR. CEDARBAUM: Currently the only parts of
5 that exhibit that have been admitted would be the part A
6 question and the part A answer. I think we have an
7 agreement of counsel that we could also admit part E and
8 F questions and part E and F answers, which would
9 include what is handwritten at the bottom of the exhibit
10 as page 4. It's a chart that's entitled Puget Sound
11 Energy, Inc.

12 JUDGE MOSS: Hang on half a second,
13 Mr. Cedarbaum.

14 And now that we're all here, Mr. Cedarbaum,
15 I'm going to just briefly recapitulate your comments, or
16 reiterate your comments I should say. The discussions
17 concerning Exhibit 425 that I have now distributed
18 copies of to everyone on the Bench, and the counsel have
19 agreed -- initially we had admitted Exhibit 425 with
20 respect to question A and answer A. There has been an
21 agreement by counsel that the questions E and F and
22 responses to those also can be part of Exhibit 425.

23 And at that point I cut you off,
24 Mr. Cedarbaum, so please continue.

25 MR. CEDARBAUM: And that would include the

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1 handwritten page 4 in the exhibit, which is a table
2 entitled Puget Sound Energy, Inc., list of asset
3 transfers.

4 JUDGE MOSS: Okay, so I will just note there
5 are both printed and handwritten page numbers in this
6 exhibit, so we're going to focus on the handwritten page
7 numbers as those being the pages of the exhibit that
8 should be included.

9 And there are five of those, five pages to
10 the exhibit now? That's the last hand numbered page I
11 have is five.

12 MR. CEDARBAUM: I'm confused, I guess I --

13 JUDGE MOSS: That's actually to H, 321 sub
14 part H, is that not supposed to be part of the exhibit?

15 MR. CEDARBAUM: Our agreement went to if you
16 go four pages in from the back.

17 JUDGE MOSS: Okay.

18 MR. CEDARBAUM: Of the exhibit, there's a
19 handwritten page 4 at the bottom.

20 JUDGE MOSS: Yes, I have that.

21 MR. CEDARBAUM: That's part of the company's
22 response to questions E and F, and we have agreed that
23 that could be admitted along with questions E and F and
24 the answers to E and F.

25 JUDGE MOSS: All right.

00438

1 MR. CEDARBAUM: Looking at page 5, that was
2 an exhibit that we had pre-distributed possibly for
3 Mr. Gaines and talked this morning off the record that
4 it might be a redirect exhibit of Ms. Steel. I have no
5 objection if counsel doesn't to just admitting that as
6 well as part of Exhibit 425, or I can take it up in a
7 different way.

8 CHAIRWOMAN SHOWALTER: Are you referring to
9 the page that's following page 4?

10 MR. CEDARBAUM: Yes.

11 CHAIRWOMAN SHOWALTER: Well, my handwritten
12 page 5 is two pages after the page following page 4.

13 MR. CEDARBAUM: I'm sorry, the blank pages
14 were separation pages that were on green paper in the
15 original copy. When we copied it, we didn't --

16 CHAIRWOMAN SHOWALTER: So you're talking
17 about handwritten page 5?

18 MR. CEDARBAUM: Yes, so if you would like me
19 to, Your Honor, I can repeat what I think we have agreed
20 to admit and what I'm suggesting we can add to that.

21 JUDGE MOSS: Before we do any of that, are
22 those portions of the exhibit that Mr. Cedarbaum has
23 identified, is that adequate to Puget's concerns about
24 the completeness of this?

25 MR. QUEHRN: I believe so, Your Honor, if I

00439

1 just may repeat, because I was shuffling paper at the
2 time. It would be in addition to the question A and the
3 response to A, which have already been admitted, the
4 question and response to E and F, and then with respect
5 to F, the attachment that has the handwritten page 4 on
6 the bottom that Mr. Cedarbaum was referring to, and then
7 I have no objection if we want to add the handwritten
8 page 5 as well, although if we do that, I suspect the
9 corresponding Q&A needs to be provided for context.

10 JUDGE MOSS: I'm sorry, the corresponding
11 what?

12 MR. QUEHRN: Question and answer in the
13 initial data request.

14 MR. CEDARBAUM: And that would be sub part H,
15 and I would have no objection to that.

16 JUDGE MOSS: Okay.

17 MR. CEDARBAUM: Your Honor, if you would
18 like, maybe off the record at lunch time we can create
19 an exhibit that blanks out everything that we have
20 agreed shouldn't be admitted and replace that for
21 Exhibit 425 after lunch.

22 MR. QUEHRN: Your Honor, one of the reasons
23 for giving you a complete package now, I suspect that we
24 may return to this exhibit and perhaps some of these
25 other attachments when Mr. Gaines is on the stand. And

00440

1 so actually the idea was to give you a complete package,
2 agree to the admission of the specific pieces that we
3 just discussed, and then if we do need to go back and
4 talk about any more of this exhibit, we can use it as
5 Exhibit 425. If we don't, we don't.

6 MR. CEDARBAUM: That would be fine. I wasn't
7 thinking in my head that way.

8 JUDGE MOSS: All right. For the present,
9 Exhibit 425, as I understand it, consists of four sheets
10 of paper, WUTC Staff Data Request 321-I parts A, E, F,
11 and H, the responses, the narrative responses, A appears
12 on that first page, E, F, and H the narrative responses
13 appear on the second page. And then I have a page that
14 is a table up in the upper left-hand corner, says Puget
15 Sound Energy list of asset transfers, and it's got a
16 handwritten page number 4 at the bottom. And then the
17 last sheet I have is a sheet that's marked at the top as
18 change in consolidated, equity, and it has a hand
19 numbered page 5 at the bottom. So if the exhibit needs
20 to be supplemented later and there's some dispute about
21 that, then we can take that up at the time, and we will
22 supplement it accordingly.

23 MR. CEDARBAUM: Your Honor, there was just
24 one related procedural issue with respect to those. I
25 think what we have been talking about really is

00441

1 additional cross-examination of the witness, and it
2 doesn't matter to me whether that happens now or after
3 the commissioners' questions, but I was hoping it could
4 happen before redirect so we wouldn't have to back up
5 and go over it again.

6 JUDGE MOSS: Well, the usual process that we
7 follow is if the questions from the Bench cause parties
8 who have cross examined to believe they need to ask a
9 clarifying question or two, we allow that before the
10 redirect, and so I think that's what you were suggesting
11 as well.

12 MR. CEDARBAUM: I'm just suggesting that my
13 understanding is the company has questions of Ms. Steel
14 with respect to what we have agreed to admit in Exhibit
15 425. I just think it's more efficient for them to ask
16 those questions before redirect.

17 JUDGE MOSS: I agree, that will be the plan.

18 MR. QUEHRN: Your Honor.

19 JUDGE MOSS: Yes.

20 MR. QUEHRN: If I may, just one comment on
21 that, we were handed this morning as we walked in the
22 door a new exhibit that is to be used on redirect, and
23 we were just having an opportunity to look at that right
24 now.

25 JUDGE MOSS: You're having a look at that

00442

1 right now you say?

2 MR. QUEHRN: Correct.

3 JUDGE MOSS: You may have some questions with
4 respect to that?

5 MR. QUEHRN: Correct.

6 JUDGE MOSS: That would also be most
7 efficient I would think to allow for that if you're
8 planning to use it.

9 MR. QUEHRN: My questions, just to be clear,
10 will logically follow Mr. Cedarbaum's redirect as to
11 those matters, those new matters.

12 JUDGE MOSS: All right, well, we sometimes do
13 allow for recross. I will make the observation that we
14 are behind where we comfortably ought to be. We have
15 not even completed the first witness yet, and so I'm
16 going to be perhaps a little tight in allowing for
17 recross, and I may limit your time, so.

18 MR. QUEHRN: And I would just ask that we
19 limit it to the new information that was distributed
20 this morning.

21 JUDGE MOSS: All right, well, we will take
22 that up if we need to. We will see what Mr. Cedarbaum
23 develops with respect to any redirect exhibit or what
24 have you.

25 All right, anything else before we take up

00443

1 our witness?

2 MS. DAVISON: Your Honor, I have distributed
3 our two additional cross-examination exhibits, and I
4 have given those to the parties, and we can mark it at
5 whatever time is convenient for you.

6 JUDGE MOSS: Who are the two exhibits for?

7 MS. DAVISON: They're for Mr. Donald Gaines
8 and Ms. Luscier.

9 JUDGE MOSS: All right, let's do it at the
10 luncheon break.

11 MS. DAVISON: Thank you, Your Honor.

12 JUDGE MOSS: Just take a few minutes.

13 All right, are we ready now to resume our
14 examination of Ms. Steel?

15 Is the Bench ready?

16 All right, apparently we are.

17 Ms. Steel, I will remind you that you remain
18 under oath this morning, and we will resume with I
19 believe Chairwoman Showalter still has a few questions
20 for you, and then we will follow on from there.

21

22 Whereupon,

23 LISA A. STEEL,
24 having been previously duly sworn, was called as a
25 witness herein and was examined and testified as

00444

1 follows:

2

3

E X A M I N A T I O N

4 BY CHAIRWOMAN SHOWALTER:

5 Q. Good morning.

6 A. Good morning.

7 Q. I wanted to follow up on one question I asked
8 yesterday. I will just ask it a different way. Is your
9 recommendation based on calculations that take into
10 account or assume PSE's costs for power for January and
11 February of this year?

12 A. Yes, it takes into account the company's
13 projections of its costs for January and February, and I
14 have not altered those costs in any way.

15 Q. Then there are a number of moving pieces here
16 in terms of what the company could or could not do to
17 address its situation, such as issue more equity or
18 borrow more money or cut its dividend, and I want to
19 hold some pieces constant just for the sake of analysis.
20 So assume that for whatever reason, it is not advisable
21 or possible for the company to issue new equity between
22 now and the end of the general rate case, so that that
23 is not a realistic possibility. Is the amount that you
24 are recommending sufficient to address the company's
25 financial needs even if it can not issue more equity

00445

1 between now and the end of the general rate case?

2 A. Assuming that Puget Energy can not issue any
3 new equity between now and the end of the general rate
4 case, my recommendation would not change. It does not
5 include any -- it does not incorporate any new equity at
6 the Puget Energy level.

7 Q. Okay. Now add on to that assumption the
8 assumption that it can not reduce or should not reduce,
9 will not reduce, the dividend amount that it pays,
10 although whether it's cash or partial stock is not part
11 of this assumption.

12 A. Okay. If Puget Energy can not do that, then
13 the company would be able to with the relief I have
14 recommended still pay that level of dividend.

15 I would caution that that's not such a good
16 idea, and I question the company's motives for regulated
17 purposes of maintaining that dividend level from Puget
18 Sound Energy. The company has an agreement with its
19 non-regulated subsidiary, Infrastrux, and in that credit
20 agreement, it requires the utility to continue to pay
21 its same level of dividend. To me, that clearly shows
22 some level of subsidization of the non-regulated entity
23 by the regulated entity.

24 Q. All right. I want to ask you some questions
25 that relate to Mr. Gaines' rebuttal testimony in

00446

1 response to your testimony.

2 A. Okay.

3 Q. And see what your response to his response
4 is.

5 A. Okay.

6 Q. If you could turn to Exhibit I believe it's
7 25T, which is Mr. Gaines', Donald Gaines's rebuttal
8 testimony, page 16, and I'm looking at lines 5 and 6
9 where the assertion is that your recommendation would
10 force the company to incur greater debt which is
11 inconsistent with restoring a better debt equity ratio.
12 Do you believe your recommendation does force the
13 company to incur greater debt?

14 A. No, the company has options to incurring new
15 debt.

16 Q. All right. Now let's assume though that
17 those assumptions I just mentioned, dividends and
18 equity, are off the table.

19 A. Okay.

20 Q. Just for purposes of trying to isolate
21 different factors. Under those assumptions, is the
22 company forced to incur greater debt?

23 A. No, the company still has options. It can
24 take a close look at its capital budget, it can take a
25 close look at its operations and maintenance budget, and

00447

1 it can increase earnings in that fashion and retain
2 those earnings then.

3 Q. And another question I have on incurring
4 greater debt, is it incurred only, if it's incurred that
5 is, is there any -- does the company have any plan to
6 incur more debt between now and the end of the rate
7 case?

8 A. The company has no plans to issue new first
9 mortgage bonds between now and the end of the rate case.
10 In fact, according to its responses to data responses,
11 it has no plans to issue new debt through 2005 in first
12 mortgage bonds. It does have plans to use its revolver
13 at a higher or lower level for the purposes of financial
14 analysis of the company. A lot of analysts would look
15 at the full amount of the revolver as if it were fully
16 extended.

17 Q. All right.

18 A. So the fact that its balance fluctuated
19 seasonally or went up over a period of time through the
20 end of the -- until the general rate case were decided I
21 don't think would be really considered incurrence of new
22 debt.

23 Q. All right. Could you turn to page 17, lines
24 17 and 18, and the company states that:

25 Absent interim relief, the company can

00448

1 not issue first mortgage bonds to
2 complete these redemptions. To avoid
3 default, the company must first fund
4 redemptions.

5 Can you explain this statement, and then tell
6 me whether you agree or disagree with it?

7 A. I disagree with it. Again, the company has
8 alternatives, and the company can repay these, the debt
9 that's due. I'm not sure what he means in this part of
10 his testimony. If he's talking about the elective
11 redemptions that he included in his original
12 projections, that's debt that's not due for ten or more
13 years, but which the company would have the option to
14 repay if it wanted to this year without penalty, without
15 a prepayment penalty. That is not debt that's due. So
16 I'm not sure if he's including that in there. That
17 clearly is debt that does not need to be refinanced. It
18 does not need to be redeemed. It can be just left alone
19 as is.

20 For the first mortgage bonds which are --
21 which have current maturities, actual maturities this
22 year, the company can fund those from its short-term
23 debt line, its line of credit, which is what I have
24 assumed in my recommendation, that it doesn't -- it does
25 not incur new debt, rather it replaces that debt with

00449

1 its revolver debt.

2 Q. All right. This sentence here says, absent
3 interim relief, which I take to mean without any interim
4 relief, so I just want to alter the sentence for the
5 sake of getting your opinion.

6 A. Okay.

7 Q. With the amount of relief that you are
8 recommending, can the company avoid default?

9 A. Yes, that's shown on Exhibit 14C, page 1.

10 Q. All right. Next page, 18, I think you may
11 have answered this question, but I will ask it again to
12 make sure. On lines 4 and 5, the company says that your
13 analysis overlooks the fact that a cost of such
14 financing in addition to the incremental interest cost
15 includes repayment of the principal. What is your
16 response to that statement?

17 A. I believe Mr. Quehrn covered this yesterday
18 when he went through my Exhibit 13, and his -- the
19 scenario that he presented to me is that the rate payers
20 would then be responsible for providing \$170 Million of
21 new capital to the company. It is my opinion that rate
22 payers are not responsible for providing the
23 capitalization of a utility, rather they are required to
24 pay a return on the investment in that company. And it
25 is the investors who are responsible for capitalizing

00450

1 the utility through their equity and through the debt
2 that they are able to obtain on that. So I do not think
3 that it's proper to include the repayment of the
4 principal in that.

5 Q. All right. Can you turn to page 25, line 5,
6 this has to do with the Infrastrux, and I think there
7 was some -- quite a bit of testimony yesterday on this.
8 But my question is, you impugn, if that's the word, \$25
9 Million back to or kept back to the regulated utility, I
10 believe, in your calculations.

11 A. Mm-hm.

12 Q. And why did you pick that number?

13 A. Well, it was based on my look at their
14 capital structure in 2000 through 2001. And looking at
15 the change from first quarter of 2000 through the second
16 quarter of 2001, there was a lot less equity in the
17 company than I had expected there would be. And
18 further, in the company's projections, there was even
19 less.

20 And as well, I could not explain the change
21 in debt. It appeared to me that debt was going with the
22 non-regulated subsidiary when the non-regulated
23 subsidiary was essentially dividended out to the parent
24 company, which would only be fair given that the line of
25 credit the company has is at the Puget Sound Energy

00451

1 level. So it seemed to me that that level of debt, some
2 level of debt that should be associated with that went
3 with it.

4 Well, and I also knew that there was some
5 level of current maturities of long-term debt, but I
6 could not sort out the amount that each one -- that
7 particular adjustment that I needed to make for each
8 one, because I don't have the company's financial model.
9 It's very unusual the way they presented the financial
10 model. The Excel spreadsheet that we got contains
11 formula that just give a number in it like 14.3759.
12 Something like that you know is clearly calculated
13 someplace else, but that calculation is not available to
14 us or to any of the other parties, to my knowledge,
15 because we don't have the model. So it was impossible
16 for me to know how was this sorted out.

17 And it's not a reasonable assumption either
18 in interim financing, at interim rate relief request in
19 an emergency situation, to look at the company repaying
20 a huge amount of current maturities of long-term debt
21 that does not have to be repaid. So the true up of
22 those I had to do on my own and figure out about how
23 much I thought was coming from each one. It wasn't
24 until we received responses from data requests and also
25 through phone calls with the company that continued

00452

1 until early last week that we were able to clarify which
2 amounts go on which and were able to correctly label it.

3 But I picked the 25 because that, in my
4 opinion, is a minimum fair amount to include in the
5 interim proceeding to account for the debt that should
6 have gone with Infrastrux. I think it's reasonable to
7 conclude that probably the full amount of that transfer
8 should be returned to the company, should be returned to
9 Puget Sound Energy as a form of compensation to the
10 utility for the loss of that investment in Infrastrux,
11 but we can take up the rest of that in a general rate
12 case.

13 Q. And I understood all the rationale; it was
14 why 25, why not 20, why not 40?

15 A. Okay.

16 Q. So I take it what you're saying is that in
17 your view, the appropriate amount is \$25 Million or
18 higher?

19 A. Right, it's probably just about \$88 Million,
20 and what we had included is we took into account about
21 half of what we thought the leverage of the company
22 would be. So Puget Sound Energy is approximately -- is
23 assuming that 60/40 debt ratio on it. We took into
24 account we will try to do half of it in the interim,
25 take into account that, and then we will look at the

00453

1 rest of it in the general rate case. Because it may be
2 possible that some amount of that, but certainly not
3 half of it, should remain with the utility, that that's
4 really utility debt rather than debt that belongs to
5 this non-regulated venture.

6 Q. All right.

7 A. So that's about, you know, half of what -- if
8 you assume that Infrastrux has 60% leverage too just
9 like the utility from which it came, then that would be
10 half of that.

11 Q. All right. Turn to page 30, line 17. It may
12 be premature to ask you this question, but are you in a
13 position to say whether you agree or disagree with the
14 company's estimate that the rate of return for the
15 interim period will 5.55%?

16 A. I think there are reasons to believe -- to
17 question whether it will be that low. First, the actual
18 power supply costs that the company is going to incur
19 over this year are most likely projected to be lower,
20 and the company's interest costs we know are now lower,
21 because they just issued another \$40 Million of debt at
22 6.25%, which is lower than their own stated embedded
23 cost of debt in Donald Gaines's Exhibit 4C. In
24 addition, I believe there are O&M and capital budget
25 savings. I think it may not be reasonable to assume

00454

1 that they will actually spend what they are saying they
2 are going to spend in their capital O&M budgets this
3 year. So I think it could be somewhat higher, but I
4 don't think it would meet their authorized rate of
5 return this year.

6 By itself, I don't think that a rate of
7 return at that level is sufficient to grant interim rate
8 relief even if it is 5.5% in one month. I don't believe
9 they're making the claim it will be that low for the
10 entire year, and I would not agree with that claim.

11 Q. All right. And then finally, on page 31, you
12 may have covered this elsewhere in your testimony, but
13 this is a convenient place to pin down differences. The
14 company is, I believe, listing the consequences without
15 interim relief, which I take to mean with no interim
16 relief, and so I would just like to ask you about these
17 elements with the interim relief that you are
18 recommending. So with the interim relief that you are
19 recommending, can you tell me what the pre-tax interest
20 coverage ratio would be?

21 A. I don't have that number calculated. I could
22 calculate it, but I couldn't do it on the stand. It
23 would require a spreadsheet. It would be higher than
24 the stated number though.

25 Q. All right. And then on line 11, can you give

00455

1 me any estimate of the company's funds from operations
2 to total debt percentage and what it would be projected
3 to be with the amount of relief that you are
4 recommending?

5 A. Again, I don't have it calculated. I would
6 have to go through the financial model and make the
7 corrections to all of the financial statements and
8 recalculate the ratios. If I were to do that, it would
9 be higher, but I do not believe it would be investment
10 grade.

11 Q. All right. And then what about on line 15,
12 the number operations interest coverage ratio, same
13 answer?

14 A. Yes, I think it would be a bit higher. It
15 would be close to investment grade level. As is is
16 close to investment grade level.

17 Q. All right. And for the next three items, is
18 it similar that you can't give me numbers on the stand
19 for those factors, but that you could recalculate it
20 based on your recommendation?

21 A. Yeah, I could in response to a Bench Request,
22 I could provide those numbers.

23 Q. All right.

24 A. I think that the total debt to total average
25 capital would not move much, but I don't calculate that

00456

1 ratio for quite the same way I would calculate the way
2 that the company calculates it for its covenant, not the
3 way that it is calculated in ROH-3. That's an S&P
4 calculation that imputes purchase power contracts as
5 debt, when, in fact, in the Pacific Northwest, those
6 purchase power contracts are more like an asset for
7 Puget Sound Energy. They're certainly not like debt, so
8 I would ignore them and just calculate it the way that
9 its banks and financial institutions calculate it, and
10 it would be a lower number than that. But after I do
11 that calculation to modify for my adjustments, I believe
12 it would be lower, but it would not be investment grade.

13 Q. All right. Well, I think what I would like
14 is a calculation from you on these factors assuming the
15 amount of relief that you are recommending, and in
16 addition, being very careful to point out any other
17 changes in assumptions that you are making that are
18 different from the company's here.

19 A. Okay.

20 Q. Is that all right?

21 A. Okay.

22 JUDGE MOSS: All right, and, Ms. Steel, you
23 understand the scope of the Bench Request, which is
24 Bench Request Number 3? That's a question, do you
25 understand the scope of the request?

00457

1 THE WITNESS: Yes.

2 JUDGE MOSS: All right, and so we will
3 reserve that Bench Request number for an exhibit.

4 I want to make one other comment in this
5 connection. Ms. Steel, you made reference to one of I
6 believe Mr. Hawley's exhibits, his number 3, which has
7 now been adopted by Mr. Donald Gaines and would be
8 correspondingly DEG-3, which has been marked for
9 identification as Exhibit 23 just for the record.

10 THE WITNESS: Thank you.

11 CHAIRWOMAN SHOWALTER: Also, these items run
12 over to the next page, the list of items. And if you
13 aren't in a position to answer it all, well, that's okay
14 too, I just want to get a sense of comparison on these
15 points.

16 JUDGE MOSS: And that's pages 31 and 32 of
17 Exhibit 25T.

18 MR. CEDARBAUM: Your Honor, I don't know how
19 long it will take the witness to run those calculations
20 or when you need to have the Bench Request responded to.
21 Do you have a time frame in mind?

22 JUDGE MOSS: As soon as possible.

23 Can it be done overnight, Ms. Steel?

24 THE WITNESS: I think so. I don't expect to
25 be a witness tomorrow, so.

00458

1 JUDGE MOSS: Hope springs eternal. We hope
2 you're not still a witness tomorrow too, Ms. Steel.

3 All right, well, we will look for those
4 tomorrow then, Mr. Cedarbaum. You will let us know if
5 that can't be done.

6 MR. CEDARBAUM: Thank you.

7 CHAIRWOMAN SHOWALTER: That's all the
8 questions I have, thank you.

9 JUDGE MOSS: Commissioner Hemstad.

10

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

12 BY COMMISSIONER HEMSTAD:

13 Q. First, I want to follow up on your answer to
14 a question from the Chair. I thought I heard you say
15 that there is an agreement with Infrastrux that requires
16 a payment of the dividend. I didn't understand that.
17 Would you elaborate on that, or if I misheard you, would
18 you state what the fact is.

19 A. I can elaborate on that. It will just take
20 me a moment to look at my notes.

21 What I'm referring to are my notes on
22 Infrastrux's credit agreement. The company provided
23 this in response to Staff Data Request 174-I. In that
24 credit agreement, it lists change in control as an event
25 of default. On page 3, the change of control is

00459

1 defined. Control of -- Puget Energy's control of Puget
2 Sound Energy is defined at the 100% level, whereas the
3 company is only -- Puget Energy is only required to hold
4 Infrastrux at the 80% level. So any loss of control of
5 Puget Sound Energy below 100% would put it into default,
6 whereas the borrower's, the borrower's guarantor, I'm
7 sorry, is only required to hold the borrower at 80%.
8 That shows me that Puget Sound Energy is maybe more
9 important to this guarantee of Infrastrux's credit
10 agreement than is Infrastrux, than is Puget Energy or
11 even Infrastrux.

12 The second thing in that agreement is on page
13 35 in Section 615, it states that Puget Sound Energy
14 must not enter into any agreement to limit its dividends
15 to Puget Energy. Well, that's a very unusual provision
16 to have in an independent subsidiary, Infrastrux. It to
17 me shows that Infrastrux is relying on payments from --
18 the Infrastrux credit agreement is relying on payments
19 from the regulated utility. And so the flexibility of
20 the regulated utility to help itself in the event of a
21 financial crisis has been severely curtailed by the
22 parent company having guaranteed and entered into this
23 credit agreement with Infrastrux.

24 This guarantee of Puget Energy I believe is
25 very important to the Infrastrux agreement. In fact,

00460

1 the guarantor is listed on the cover page. And we do
2 have a copy of that credit agreement if you would like
3 for it to be entered as an exhibit. We also could just
4 enter in those pages that I referenced, pages 3, 35, and
5 37.

6 COMMISSIONER HEMSTAD: I would like that in
7 the record.

8 JUDGE MOSS: All right, we will make a Bench
9 Request for a copy of the credit agreement the witness
10 just referred to.

11 MR. QUEHRN: Excuse me, Your Honor, just for
12 clarification, would that be the entire agreement or
13 just the referenced section? I would like to ask that
14 the entire agreement be entered into the record.

15 JUDGE MOSS: Well, I think that's the
16 preference of the Bench as well.

17 MR. QUEHRN: Thank you.

18 JUDGE MOSS: So that's what it will be.

19 And, Mr. Cedarbaum, is that something Staff
20 is in a position to provide?

21 MR. CEDARBAUM: Yes, it is.

22 JUDGE MOSS: All right. Can that be done
23 today?

24 MS. SMITH: Yes.

25 MR. CEDARBAUM: If there's enough paper in

00461

1 the building we can.

2 JUDGE MOSS: Oh, please, how thick is it?

3 MR. CEDARBAUM: (Indicates.)

4 JUDGE MOSS: All right, well, there's
5 probably enough paper in the Pacific Northwest anyway.

6 CHAIRWOMAN SHOWALTER: Ms. Steel, could you
7 repeat the page numbers you were referring to?

8 THE WITNESS: Page 3 defines change and
9 control. Page 35 lists the dividend restriction. And
10 page 37 lists the change in control as an event of
11 default.

12 BY COMMISSIONER HEMSTAD:

13 Q. I heard your answer, I'm trying to understand
14 perhaps that somewhat complex set of arrangements.
15 These arrangements are all internal to the Puget Energy
16 family, or is there any third party interest in those,
17 the guarantee or the credit arrangements or the
18 restrictions or the requirement for dividend payments?
19 In other words, are there any outside interests, or is
20 this entirely internal to Puget Energy and its
21 subsidiaries?

22 A. Well, both Infrastrux and Puget Energy
23 entered into the agreement, this credit agreement, with
24 the Industrial Bank of Japan and its bank group. And
25 Puget Energy made that restriction on Puget Sound Energy

00462

1 with that outside bank group and did not, to the best of
2 records that I could find, provide any compensation to
3 Puget Sound Energy for having entered into that
4 agreement with Infrastrux's bank group.

5 Q. Well, one of the options Staff suggests is
6 available to the company is to modify its current
7 dividend policy. Does that agreement prevent that
8 option from being considered?

9 A. No, it doesn't. It would require -- it would
10 require the guarantor, Puget Energy, and Infrastrux to
11 renegotiate that agreement with its bank group. But
12 Staff thinks that is more fair that it is Infrastrux
13 that has to then provide its own cash flow and own
14 support for its own operations than it would be for
15 Puget Sound Energy, the utility here, to enter into
16 those difficult discussions with its own creditors.

17 Q. Somewhat reluctantly I want to go back to
18 your Exhibit 414C, which has gotten lots of attention.
19 I'm still trying to understand its implications. And
20 part of this relates to your responses to Mr. ffitich's
21 questions. I take it 414C as it is captioned is the
22 Staff modifications of the company's projections, so
23 here you're using -- you're looking at it from the
24 perspective of how the company has come up with its
25 conclusions but then inserted your modifications. Is

00463

1 that a fair statement?

2 A. That's a fair statement.

3 Q. And the four principal issues here are item
4 two, the \$25,000 figure that we have discussed now at
5 some length. This is my lack of understanding, but
6 what, I guess you have been over this, I'm still having
7 some difficulty understanding, why was it your
8 conclusion it should be \$25,000 rather than I think the
9 figure was, I'm sorry, \$25 Million rather than the
10 figure of \$87 Million that is, or thereabouts, why isn't
11 it the larger figure?

12 A. I think it might well be the larger figure.
13 Staff is just not fully prepared to defend the full
14 amount in this proceeding. It is an expedited
15 proceeding. We have gone through some difficult
16 discovery on that point. I think we do have an
17 opportunity to take up the full amount in the general
18 rate case, and we're willing to do that at whatever
19 level. So I think the Commission has some flexibility
20 in interpreting Staff's number here, but I would caution
21 against using zero, because at some point then it will
22 be impossible to recover these dollars.

23 Q. Okay. Now in item number four, that's the
24 elective long-term debt redemptions, as I understand it,
25 the company is proposing to repay \$50 Million in

00464

1 elective debt, and you're canceling that out?

2 A. That's correct, they have actually through
3 the end of 2002 projected to pay debt that they don't
4 have to pay at the level of \$80 Million, and my
5 calculations of the portion of that that they had
6 scheduled for the January through October period is \$50
7 Million.

8 Q. Okay. Then the third item is on line 5, the
9 \$62 Million, and that which the company challenges, and
10 that gets into response A on Exhibit 425 or the
11 company's response in which they say you're simply wrong
12 on the \$62 Million. I have read the response A several
13 times, and it reflects my limitations, I don't
14 understand what the company has said in the response A.
15 Could you give me your interpretation of what they have
16 said, and then what is your response to that?

17 A. Would you please clarify what you meant by
18 response A, because I don't have that in front of me.

19 Q. I'm sorry, I'm looking at Exhibit 425.

20 JUDGE MOSS: That's the company's response to
21 Staff Data Request 321-I.

22 THE WITNESS: Oh.

23 BY COMMISSIONER HEMSTAD:

24 Q. And I believe it's the company's conclusion
25 that figure should be \$1.7 Million rather than \$62.6

00465

1 Million.

2 A. Okay.

3 Q. And their response at A references \$60.5
4 Million and \$17 Million with respect to Puget Western
5 and Connex. I think that that reflects at least much
6 of the difference, if I am reading it accurately.

7 A. I have an organization chart that would
8 clarify why I think Staff's position is correct on this,
9 and then we could also walk through our \$62 Million
10 adjustment to show you everything that's in there, if
11 you like. We could get copies of this if you like, and
12 I could just refer to it now.

13 Q. All right.

14 A. I think their response is incorrect, so I
15 would prefer to just ignore it and explain to you where
16 the \$62 Million comes from and why.

17 MR. CEDARBAUM: Excuse me, I'm sorry, Your
18 Honor, do you want to take 30 seconds to make copies of
19 that page?

20 JUDGE MOSS: Did you wish to have that,
21 Commissioner? If so, we can make it a Bench Request.

22 COMMISSIONER HEMSTAD: Well, if the witness
23 thinks it will be helpful.

24 JUDGE MOSS: Do you think it will be helpful,
25 Ms. Steel?

00466

1 Yes, all right, let's make it I think it's
2 Bench Request 4 unless I have lost count, which is
3 entirely possible. 3 I believe was the credit report,
4 so have I lost count anybody?

5 MR. CEDARBAUM: I have Bench Request 2 is the
6 Standard & Poor's U.S. utilities credit quality bulletin
7 research report. 3 is Ms. Steel is going to rerun her
8 model to show what she would reflect of the Staff case
9 with Mr. Gaines.

10 JUDGE MOSS: So 4 would be the agreement
11 concerning Infrastrux that is going to cause forests to
12 groan, and the one that we're working on now is 5, thank
13 you, Mr. Cedarbaum.

14 And you call that an organization chart I
15 believe you said?

16 THE WITNESS: That's correct.

17 JUDGE MOSS: And so that will be provided
18 here momentarily.

19 While we're waiting for the copies to be
20 made, I will just go ahead and announce that we're going
21 to take a break at 10:40, and we will be back at 11:15
22 after that break, because there is some other important
23 business that needs to be conducted, and members of the
24 Bench will have to be absent during that time frame.

25 All right, that has been distributed now,

00467

1 what has been marked as Bench Request 5, and so we can
2 continue.

3 Ms. Steel, I think the question was pending,
4 and you were going to use this in connection with your
5 answer.

6 A. Okay, I have starred Puget Sound Energy,
7 which is the utility, and the utility has several
8 subsidiaries which consolidate to form it, and they are
9 listed there below. This chart is actually not my own
10 handwriting. I have been told I should let you know
11 that. This was prepared by Staff regulatory analyst Jim
12 Russell, and I have reviewed the chart and agree with
13 the content.

14 The borrower under Puget Sound Energy's \$375
15 Million line of credit is Puget Sound Energy, and so the
16 debt is managed at the Puget Sound Energy level. What
17 Puget's argument in its response to 321-I is is that the
18 cash belongs to these subsidiaries, whereas the debt
19 that was used to invest in and fund a number of them
20 came from Puget Sound Energy, the utility. The
21 company's argument would leave the utility saddled with
22 all the debt and none of the cash, and it's simply not
23 fair, and I don't believe it's either true. So I think
24 that addresses their response.

25 To walk through what my \$62 Million

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1 calculation is then, I can reference you to Exhibit
2 LAS-14C, which is Exhibit marked 414, page 5, and that
3 shows Puget Sound Energy's financial statements that the
4 company projected. If you look toward the bottom of the
5 page, it has capitalization and liabilities. Below
6 that, there's a sub account of capitalization, which
7 includes long-term debt. In that long-term debt, Puget
8 Sound Energy has included its current maturities of
9 long-term debt. And then it has current liabilities,
10 and a sub of current liabilities is short-term debt.
11 And that short-term debt is its line of credit, but it
12 does not include the current maturities of long-term
13 debt.

14 The way I understand their financial model to
15 work is that the short-term debt account is their
16 balancing account, so all the changes in any other
17 account are going to show up, be trued up in the
18 short-term debt account. So that's why it's a good
19 account to pick to make adjustments from. If you're
20 going to try to simplify the adjustments that you make
21 to the projections to show where they would show up,
22 this is the right account to pick.

23 Comparing it then to the next page, which is
24 Exhibit 414, page 6 of 7, is the actual balance sheet
25 that Puget Sound Energy first provided to Staff on

00469

1 January 24th, 2002. This is not exactly comparable to
2 the previous page, because this is the presentation that
3 they give to financial analysts that puts the current
4 maturities of long-term debt in with the current
5 liabilities where it really belongs. But you will see
6 that there is a short-term debt account there, and then
7 below it, current maturities of long-term debt. The
8 short-term debt amount can be compared with the line of
9 credit amount that the company has.

10 The company did not rerun its projections,
11 but we needed to find some way of accounting for how
12 well Puget Sound Energy was able to project two months,
13 because the case took two months then to process, and it
14 doesn't appear that the company did a very good job of
15 that. So in order to take into account all of the cash
16 that it didn't include available to the utility and the
17 debt as it actually is, we used an adjustment to the
18 balance sheet working capital, and that's defined as
19 current assets minus current liabilities. And we
20 compared it on these two pages, took the difference, and
21 added that into the balancing account, which is the
22 short-term debt account.

23 Since I prepared this testimony, I think in
24 fact it was February 12th, I received a new balance
25 sheet from Puget Sound Energy. It was provided in

00470

1 response to Public Counsel Request 49 as a supplement.
2 And that new balance sheet shows if we were to do the
3 calculation on that, instead of making a \$62 Million
4 adjustment, we would make something like a \$72 Million
5 adjustment. So the company's, you know, sample balance
6 sheet that it provided to us even on January 24th two
7 weeks later shows a \$10 Million change, so that causes
8 me some concern about the company's ability to project.
9 Staff has not modified its calculations based on that,
10 but it does give you an idea of the kind of error that
11 is involved in the company's projections.

12 So the true up that we did to the company's
13 October 2001 projections fully took into account all of
14 the changes that occurred between October and the end of
15 December 31st, 2001, even as that December 31st, 2001,
16 number keeps shifting on us. But it takes into account
17 November, it takes into account November 1st, November
18 15th, everything up to that point. It is a way of
19 truing up what they have projected it would be with what
20 it actually was and should be considered to be on
21 December 31st of 2001, with the exception that we did
22 not reduce our recommendation for relief by \$10 Million
23 for the amount on the balance sheet as it's now reported
24 to us.

25 BY COMMISSIONER HEMSTAD:

00471

1 Q. Thank you. My last inquiry is on item eight,
2 the \$40 Million adjustment. What does that represent?

3 A. That's a first mortgage bond was medium
4 secured notes that the company was able to issue on
5 January 16 of 2002. This is a known fact, and I have
6 included a copy of the agreement, a summary of it, in my
7 exhibits.

8 Q. Okay. With those adjustments, and this gets
9 back to Mr. ffitch's question to you, and I didn't
10 really understand your answer, if you make those
11 adjustments, that totals \$177 Million on those four
12 items, which is more than the company is requesting.
13 But your response was that you analyzed the issue
14 differently when you come up with your recommendations
15 of \$42 Million. But these are adjustments to the
16 company's projections, which would suggest something
17 below zero. So how do you square those two different
18 kinds of conclusions?

19 A. Well, the company didn't put on the same kind
20 of case that Staff tried to help them put on. The
21 company said that they needed money because they were
22 going to be overextended on their short-term line of
23 credit. Well, Staff would not argue that you have to be
24 overextended on your line of credit in order to get an
25 amount of rate relief. We would want to support a

00472

1 utility to have some excess to that, so we are not
2 really comparing the same numbers. I can understand why
3 it's tempting to want to offset that amount. We
4 considered it, but we're really not comparing the same
5 things. We have actually tried to put together a
6 financial presentation for the company of what its real
7 needs are.

8 Q. Okay, that answers my question. You may have
9 already answered this, and I apologize if I'm asking you
10 to repeat here, you have \$20 Million for contingencies,
11 and I think you said that you had a worksheet or some
12 detail as to how you calculated the \$20 Million, and I,
13 at least, I didn't understand what the content of that
14 is.

15 A. In general, 20% allowance on top of financing
16 means is a good rule of thumb for contingencies to allow
17 for errors and to allow --

18 Q. And what is the 20% of what figure, and where
19 does that figure come from?

20 A. On line 12, I have this historical maximum
21 working capital shift, and that shows what, you know,
22 what some very unusual set of circumstances could occur
23 that the company would be forced to withstand.

24 Q. Just for clarification, that's line 12 of
25 414C?

00473

1 A. That's right, of Exhibit 414C, I'm sorry
2 about that. And then subsequent to my testimony, I was
3 able to get a clarification about some specifics from
4 the company in one of its data request responses. And
5 it is my estimation that if the company purchases a
6 certain amount of gas for short-term balancing needs
7 over a year, that assuming that those trade accounts
8 would have to be paid every 30 days, then you would take
9 the annual amount that they need, and you divide it by
10 12 billing cycles to figure out how much cash they might
11 have to have available at any one point in time in order
12 to pay for this.

13 They have provided a response of between \$150
14 Million and \$250 Million. I don't think the support is
15 very strong for that \$250 Million number, but if we take
16 \$150 Million by 12 billing cycles, we will get a \$12.5
17 Million need. And if we divide again that \$250 Million
18 number by 12 billing cycles, you get \$20.83 Million of
19 need to fund commodity purchases.

20 JUDGE MOSS: I think we want to go ahead and
21 take our recess now, so we will be in recess until
22 11:15.

23 (Recess taken.)

24 JUDGE MOSS: Commissioner Hemstad may have
25 another few questions.

00474

1 BY COMMISSIONER HEMSTAD:

2 Q. I will try to eliminate several other
3 questions I was going to ask, but get to a certain
4 point. With the exception of the company cutting its
5 dividend, were that not to be the case, you have -- and
6 the various adjustments taken into account with your
7 analysis in 414, would that make any difference at all
8 ultimately on Wall Street's evaluation of the company?

9 A. Would you please clarify whether you mean
10 Wall Street's evaluation of Puget Energy or their
11 evaluation of the utility, Puget Sound Energy.

12 Q. Puget Energy, because doesn't it follow that
13 Wall Street looks at the holding company rather than any
14 of its piece parts?

15 A. So you have assumed that the -- would you
16 please repeat the question? Could I have it read back?

17 Q. Well, I will state it again. What I'm trying
18 to get to is, assuming various adjustments are made that
19 would "protect" the company, the utility, but the
20 dividend were not reduced, would that have any positive
21 impact on how the rating agencies would rate the
22 company?

23 A. If the adjustments that I suggested were made
24 to protect the utility but the utility did not need to
25 restrict its dividend and Puget Energy paid the same

00475

1 dividend, then I think that would be supportive of the
2 utility, not as supportive as a limited restriction on
3 that dividend would be of the utility, but I think it
4 would be supportive at both the Puget Energy holding
5 company level, and it would be supportive at the utility
6 level. I don't think it would be as supportive at the
7 utility level, Puget Sound Energy, as a dividend
8 restriction in addition to that would add. And the
9 ratings agencies, to the extent that they rate debt
10 that's a concern I believe to us, it's the debt at the
11 utility level that is of concern to regulators here. So
12 I think it would add support, but not as much support as
13 could be added if a dividend restriction were added.

14 Q. Okay. But doesn't ultimately Wall Street
15 look at the entire company to determine whether it is
16 relatively attractive or unattractive as a debt
17 investment?

18 A. I don't believe that bond holders look at the
19 non-regulated side for support. I believe that the bond
20 holders look at the utility, so the debt --

21 Q. So long as the bonds are the utility bonds
22 only?

23 A. That's correct, and all of the first mortgage
24 bonds for Puget Sound Energy are Puget Sound Energy
25 bonds. They are for the utility.

00476

1 Q. How about unsecured debt?

2 A. The unsecured debt that Puget Sound Energy
3 has is the \$370 Million line of credit. It is located
4 below Puget Energy at the Puget Sound Energy level. And
5 so a restriction on dividends from Puget Sound Energy to
6 Puget Energy should add support to that line of credit.

7 On the other hand, there's another line of
8 credit, the Infrastrux line of credit, which has a lot
9 of references to Puget Energy in it, which is very
10 interesting since there is no compensation for Puget
11 Sound Energy for all its mentions of its name in this
12 agreement. I think this agreement may suffer from a
13 dividend, because, improperly, this agreement is relying
14 on the transfer of dividends to the parent and then back
15 to it or to the parent as support of the guarantor.

16 COMMISSIONER HEMSTAD: Okay, thank you,
17 that's all I have.

18 JUDGE MOSS: Commissioner Oshie.

19

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

21 BY COMMISSIONER OSHIE:

22 Q. Ms. Steel, I have a question that relates
23 back to a response that you gave to Chairwoman Showalter
24 yesterday, and as I understand it, there is and I will
25 call it a split between the rating agencies, as I

00477

1 understood it. And maybe that's not the right term, but
2 that's the term I will use at least until I'm corrected,
3 and you may do that. But as I understand it, S&P as a
4 rating rates the I guess it's the corporate rating for
5 Puget Sound Energy is triple B minus and Moody's rates
6 Puget Sound Energy one notch higher as I understand that
7 to be Baa2. Am I correct, was that your testimony
8 yesterday afternoon?

9 A. Would you please repeat the debts and the
10 debt ratings so -- because I have just found the place
11 in my notes where I have it written down, so I can be
12 sure we're comparing the same debt.

13 Q. Yes, it was my understanding that S&P had
14 rated Puget Sound Energy at triple B minus, but that
15 Moody's had rated them one notch above at Baa2.

16 A. Yes, that's correct, the reference that I
17 have on the Moody's, that is called its long-term
18 issuance, issue a rating which is the same, and I do
19 have a chart which compares the ratings between S&P and
20 Moody's, which can be used if you would like to verify
21 that a triple B minus is one notch below the equivalent
22 Baa2 for Moody's.

23 Q. I guess my question really is, that being the
24 case, what's the impact of such a split on the issuance
25 of new debt by Puget Sound Energy?

00478

1 A. Well, there are many different kinds of new
2 issuances. They could issue additional debt under the
3 line of credit, and that has a fixed amount. It's not
4 affected by the credit ratings. The pricing does change
5 as a result of the credit ratings. When the ratings are
6 split, the borrower under Puget Sound Energy's \$375
7 Million line of credit gets the benefit of the higher
8 rating. The difference in price is very small though.

9 Q. And with first mortgage bonds, is that also
10 the case?

11 A. Well, the first mortgage bonds that Puget
12 Sound Energy has issued, the price is fixed. It doesn't
13 change for anything. It doesn't change when interest
14 rates change. It doesn't change when the company goes
15 through good times or bad times. So there's no change
16 on the existing debt. On the new first mortgage bonds,
17 the company doesn't have any stated plans to issue any
18 new first mortgage bonds. But if the company were to
19 create some such plans, I would expect the ratings would
20 be that the price on that new debt would be higher.

21 Q. That it would be higher because of the lower
22 rating because one of the rating agencies had rated them
23 lower than the others?

24 A. Yes, it would be -- if instead both ratings
25 were equivalent and the -- to the higher of the two,

00479

1 then if it were instead split, it would be somewhat
2 higher pricing.

3 Q. I see.

4 A. And it would be somewhat higher even still if
5 both ratings were the lower of the two ratings.

6 Q. So they would find some middle ground, in
7 other words, for the price paid for the debt?

8 A. That's correct.

9 Q. Okay.

10 A. That's exactly what happens under Puget Sound
11 Energy's line of credit agreement. When there is more
12 than one notch between the two, then the borrower gets
13 the median of the two ratings, so they exactly do find
14 the middle ground.

15 Q. Now is that true in energy transactions in
16 relations with counter parties, they look for the middle
17 ground between if there is a split between rating
18 agencies?

19 A. Well, I think the relationships are more
20 complex there. There are a number of different
21 agreements there and -- but I would expect averaging it
22 all out in general that they would take a look at the
23 two ratings, and they may often give the borrower the
24 benefit of a higher rating similar to the way it occurs
25 with their line of credit.

00480

1 Q. I want to turn now on the \$40 Million
2 mortgage bonds that were, first mortgage bonds, that
3 were I guess issued in January 2002. And my question to
4 you, Ms. Steel, is that the interest rate paid I think
5 was 6.25%. Does that reflect investment grade
6 facilities or investment grade ratings by the agencies,
7 or does it, put another way, or does it reflect the
8 current shelf filing that was of PSE's?

9 A. The interveners have presented some testimony
10 and some studies on the relationship between rating and
11 price. My own experience with it is that it's easier to
12 take a rating and predict price than to go backwards and
13 say this price means this must be rated as such.
14 There's a great deal of variability in price. It
15 depends in part on the term. It depends in part on the
16 efforts of the issuer of the debt.

17 But I would just compare that 6.25% that
18 Puget Sound Energy was able to get on its \$40 Million
19 two year issuance of medium term notes with the 9.875%
20 which sold at a premium then, so the actual interest
21 rate was higher that Avista Corp. got on its \$300
22 Million medium term note issuance last year. And I
23 would argue that that is a lot of difference between the
24 two, and Puget Sound Energy certainly looks in the range
25 of investment grade to me in that context.

00481

1 Q. And I would assume that the rating agencies
2 when making that decision, they look forward, don't
3 they?

4 A. Yes, they do.

5 Q. And they would, I would assume because these
6 were two year mortgage bonds, that they would look
7 forward for a two year period at least?

8 A. I agree that in making that loan that I would
9 look at the company's position two years hence.

10 COMMISSIONER OSHIE: Thank you.

11 JUDGE MOSS: Ms. Steel, you will be relieved
12 to know I have just a couple of clarifying questions,
13 and then we will perhaps move quickly through the
14 balance.

15

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

17 BY JUDGE MOSS:

18 Q. I think the first question may be something
19 you want to defer to Mr. Lott. You mentioned this
20 morning in response to one of Chairwoman Showalter's
21 questions that I believe you said your or Staff's
22 recommendation, your recommendation, takes into account
23 power costs through the January and February period or
24 through the deferral period that was approved earlier
25 this year by the Commission.

00482

1 A. Yes, it takes into account the power costs in
2 the period incurred without consideration of the
3 deferral, so it's actually a little bit more negative
4 case than it would be if a deferral were finalized and
5 approved.

6 Q. And yesterday someone put the question to you
7 of what happens to the deferral account balance under
8 Staff's proposal, and I believe you deferred the
9 response to Mr. Lott. But in light of your response
10 this morning, I wonder if you could shed any light on
11 that or whether you would still prefer to defer that
12 question to Mr. Lott?

13 A. I would prefer to defer the questions on the
14 deferral to Mr. Lott.

15 Q. Okay.

16 A. It is covered more specifically in his
17 testimony.

18 Q. That's fine. Just one other thing, I would
19 like you to look at a couple of points in your pre-filed
20 direct testimony, which is Exhibit 401TC, and if you
21 would look at page 7 at lines 13 and 14, you could
22 perhaps mark that with your hand, and then turn also to
23 page 38 and look at line 18 or starting at line 18.

24 JUDGE MOSS: And let me ask first, and I will
25 look to you, Mr. Quehrn or Ms. Dodge, there is on line

00483

1 21 at page 38 there is a number there that is shaded
2 indicating confidential. Is that something that we can
3 talk about, or is that something that remains
4 confidential in your view?

5 MR. QUEHRN: Excuse me, Your Honor, could --

6 JUDGE MOSS: Page 38, line 21, Ms. Steel's
7 testimony.

8 MR. QUEHRN: I believe this is a number that
9 was calculated by Ms. Steel. Consequently, I can waive
10 confidentiality or the company can waive confidentiality
11 as to that number.

12 JUDGE MOSS: And, Ms. Steel, do you have any
13 independent need for that number to remain confidential?

14 All right, fine, then we will consider it
15 that way.

16 BY JUDGE MOSS:

17 Q. Now looking at those two pages, the lines
18 that I have indicated, you make reference there on page
19 7 to a minimum surcharge required for a two times new
20 indenture first mortgage bond coverage ratio at October
21 31, 2002. That figure is \$68.3 Million using the
22 company's projections. And then over on page 38, you
23 seem to be talking about the minimum amount again in the
24 use of the figure \$10.4 Million. And I just wanted you
25 to, if you could, reconcile those numbers. Help me

00484

1 understand why we're looking at two very different
2 numbers.

3 A. Okay. On page 7, I'm referring to the amount
4 if you measure it at October 31st, 2002, that would be
5 required. So for the 12 months prior to that, that's
6 what the measurement would be, the amount of money that
7 you need to add to the company's financial situation to
8 enable them to meet that covenant.

9 Q. Mm-hm.

10 A. On page 38, I'm talking about one year
11 forward, October 31st, 2003, so you would need to begin
12 helping the company -- or October 1st, I'm sorry, 2003.
13 So you would need to begin helping the company in the
14 month of October 2002 in order to get its 12 month lag
15 up to a level that would enable it to meet its covenant
16 no later than October of 2003.

17 JUDGE MOSS: All right, thank you very much
18 for that clarification. That's all I have.

19 CHAIRWOMAN SHOWALTER: Well, does the company
20 waive the confidential date on page 39, line 5?

21 MR. QUEHRN: Yes, Your Honor. Once again,
22 this, I think, relates to Ms. Steel's analysis.

23 JUDGE MOSS: Okay, good.

24 All right, now in terms of our process from
25 this point forward, typically we will offer on

00485

1 opportunity at the conclusion of the Bench questions for
2 brief additional cross prior to the redirect, and so I
3 suppose I should ask if we have the need for that.

4 Does the company have a need for any brief
5 additional cross?

6 MR. QUEHRN: Your Honor, I have a few
7 questions related to questions that were asked by the
8 Bench.

9 JUDGE MOSS: All right, it will probably be
10 most efficient to have those now.

11 MR. QUEHRN: Okay.

12

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

14 BY MR. QUEHRN:

15 Q. Good morning, Ms. Steel.

16 A. Good morning, Mr. Quehrn.

17 Q. I believe in connection with questions that
18 were asked by Chairwoman Showalter you made reference to
19 the Infrastrux credit agreement, and specifically I
20 think your testimony was is that agreement requires PSE
21 to continue to pay dividends; is that correct?

22 A. Yes, there are a number of requirements in
23 that agreement that refer to Puget Sound Energy. I
24 believe the agreement states that there's a schedule
25 that Puget Sound Energy can not -- beyond which Puget

00486

1 Sound Energy can not restrict its payments to Puget
2 Energy. And in addition, there is -- there are
3 covenants on the guarantor, Puget Energy, that -- such
4 as a fixed charge coverage and also a debt to
5 capitalization ratio that primarily relate to Puget
6 Sound Energy since Puget Sound Energy is the main part
7 of that holding company, Puget Energy.

8 Q. Thank you. And the agreement will be in the
9 record, and the agreement can largely speak for itself.

10 You mentioned three specific sections that
11 you thought were germane to the question of whether or
12 not the agreement requires the company to pay the
13 dividend. Was it just those three sections, or were
14 there other sections that you think relate to that
15 requirement?

16 A. Actually, I think the entire agreement will
17 be helpful to the commissioners to understand the
18 arrangement that was made and also to understand why
19 some sort of compensation to Puget Sound Energy should
20 have been made in connection with that agreement. So I
21 wouldn't just stipulate to those three pages. Staff was
22 merely trying to minimize the amount of paper that we
23 would have to provide in the record. In addition, there
24 is one other sheet of paper that the company failed to
25 provide us with its response to our data requests, and

00487

1 that is Schedule 3, which will be provided to the
2 commissioners. I understand the company will provide
3 that to Staff and that we will add that to our response.

4 Q. That will be part of the complete agreement
5 submitted to the record, right?

6 A. Yes, we hope that the company will help us to
7 complete that agreement by giving us all the pages that
8 we have requested in that data request.

9 Q. Now is it your interpretation of this
10 agreement that it requires PSE to pay a dividend?

11 A. Well, I think I should limit my
12 interpretation of that agreement until I get to see the
13 entire agreement, but there is a schedule --

14 Q. In connection --

15 A. Excuse me, Mr. Quehrn, I would like to finish
16 my answer. Exhibit 3 is a schedule of those payments
17 that Puget Sound Energy is allowed to make, and I have
18 not been provided that response. That is Staff Data
19 Request Number 35, which was made in December, so I am
20 looking forward to seeing it, and I would be able to
21 comment on it after I have seen it.

22 Q. Let me rephrase my question. In connection
23 with the portions of the agreement that you have seen,
24 which I think relates to your testimony, is it your
25 testimony that the agreement requires PSE to pay a

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1 dividend?

2 A. It is my testimony that the agreement limits
3 the flexibility of Puget Sound Energy to pay dividends
4 based on the dividends that are required by the
5 guarantor, Puget Energy, for its guarantee of
6 Infrastrux's credit agreement.

7 Q. And therefore, is it your testimony that the
8 agreement or the portions of the agreement that you have
9 seen limits the board of directors' discretion to pay or
10 withhold any amount of dividend?

11 A. No, that is not my testimony.

12 Q. Thank you. Chairwoman Showalter also asked
13 you a question, and she stated some assumptions, and I
14 would like you to make the same assumptions, please.
15 And I think the assumptions were that if the company
16 were not able to access equity capital and if you don't
17 take into consideration a dividend reduction, during the
18 interim period, would the company need to issue debt.
19 And if I may paraphrase your answer, I think you said,
20 no, the company has options; is that correct?

21 A. Would you please repeat the question.

22 Q. Again, with the stated assumptions that the
23 company has no access to equity capital and no dividend
24 reduction, would the company be required during the
25 interim period to issue debt. And I believe your answer

00489

1 was, no, the company has other options. And I will
2 further elaborate I think you specifically referred to
3 O&M budget, or excuse me, O&M and capital reductions as
4 the options.

5 A. My response is that the company has options
6 even if it has no access to the equity markets, which I
7 find to be not a credible assumption, and even if
8 dividends should not be limited, which I also find to
9 not be a reasonable presumption. Even then, I do think
10 the company has options to limit its capital budget and
11 its O&M budget in 2002. Further, I think that the
12 company has options that I have not mentioned.

13 Q. Could I please direct your attention briefly
14 to Mr. Donald Gaines' rebuttal testimony, which is
15 Exhibit 25, Table 4, which I believe is on page 8.

16 JUDGE MOSS: I believe that may be on page
17 10.

18 MR. QUEHRN: I'm sorry, it's page 10, thank
19 you, Your Honor.

20 BY MR. QUEHRN:

21 Q. If you would, please -- I'm sorry, Ms. Steel,
22 have you found the table?

23 A. Yes, I found the table.

24 Q. If you would, please, just for the purposes
25 of answering this question and for no other purpose,

00490

1 work with the company's numbers here on which would be
2 the first column on Table 4, no relief, and I would drop
3 down to the short-term debt entry, and the table
4 indicates that there is a -- there would be \$143 Million
5 over the credit limit. With respect -- do you see where
6 I'm referring to?

7 A. I do see where you're referring to.

8 Q. With respect to the options that you're
9 referring to such as O&M reductions, capital reductions,
10 the other options, do you believe that those options
11 enable the company to cover that \$143 Million?

12 A. I don't agree that the shortfall is \$143
13 Million for the reasons that I have gone through in
14 detail and in my Exhibit 414, especially page 1. In
15 addition, I can point out the one clear error in that
16 number is that you have failed to true it up for actual
17 results through December 31st of 2001.

18 Q. I would again restate my question. If for
19 purposes of answering this question you would work with
20 the company's numbers, please. Is it your testimony
21 that the options that you're referring to would allow
22 the \$143 Million to be covered?

23 A. I'm sorry, Mr. Quehrn, I simply can't work
24 with the company's numbers and come up with a reasonable
25 response to that question.

00491

1 JUDGE MOSS: You can try it another way,
2 Mr. Quehrn.

3 Q. Would you accept for purposes of answering
4 the question subject to check the company's numbers,
5 therefore the \$143 Million shortfall, and looking at
6 that shortfall, that the company has options?

7 MR. CEDARBAUM: Your Honor, I will object.

8 A. I can't accept --

9 MR. CEDARBAUM: The question was really just
10 rephrased, but it's the same question, and it was asked
11 and answered before.

12 JUDGE MOSS: Well, maybe we can move things
13 along in this fashion.

14 THE WITNESS: I could respond.

15 JUDGE MOSS: Well, Ms. Steel, let me just try
16 it this way and see if we can move this along. Have you
17 calculated the amount that you think was reasonably
18 attributable to the options you believe the company has
19 or that you have mentioned?

20 THE WITNESS: Yes, I have.

21 JUDGE MOSS: What is that amount?

22 THE WITNESS: The options available to it
23 through debt and equity.

24 JUDGE MOSS: The options that you believe are
25 available through the adjustments to O&M and capital

00492

1 accounts and the other unidentified recourses you
2 believe the company has under the assumptions we're
3 working with.

4 THE WITNESS: Well, I don't think that was
5 the complete question. I couldn't accept his numbers
6 subject to check.

7 JUDGE MOSS: Right.

8 THE WITNESS: Because I've already checked.

9 JUDGE MOSS: We're not working on his
10 question.

11 THE WITNESS: And I know they're wrong.

12 JUDGE MOSS: We're working on my question,
13 which is, have you calculated that, what you think those
14 options would make available to the company in the way
15 of cash?

16 THE WITNESS: I have detailed that on Exhibit
17 414, page 7, and that would total \$17.5 Million in the
18 case that I have outlined. And it could be greater than
19 that, but I have not done that calculation. I think
20 there are other reasonable assumptions which are greater
21 than that. For example, 25% of the increase in customer
22 services could be -- you could get more savings of that
23 by taking out more of the increase, in fact all of the
24 increase, which is what I think a lot of businesses, the
25 100,000 customers of Puget Sound Energy who are

00493

1 businesses, would make if they were faced with increased
2 costs.

3 JUDGE MOSS: Go ahead, Mr. Quehrn.

4 MR. QUEHRN: Thank you, Your Honor.

5 BY MR. QUEHRN:

6 Q. Ms. Steel, I believe in responding to a
7 question to Commissioner Hemstad you indicated or I
8 thought you indicated that you weren't clear if PSE's
9 request for relief included or did not include
10 assumptions with respect to payment of elective
11 redemptions. Is that something that is unclear to you?

12 A. Pardon me, would you please repeat the
13 question?

14 Q. Is it your testimony that PSE's proposal for
15 interim relief includes as an assumption that PSE will
16 be paying elective redemptions during the interim
17 period?

18 A. It is my testimony that PSE provided
19 financial projections along with its proposal for relief
20 which includes \$80 Million of elective debt redemptions.
21 That number is referenced in the testimony of -- in the
22 rebuttal testimony of Mr. Donald Gaines.

23 Q. Can I refer you to page 9 of Mr. Gaines's
24 testimony, lines 19 through 20, please.

25 CHAIRWOMAN SHOWALTER: Is this the rebuttal

00494

1 testimony?

2 MR. QUEHRN: Thank you, that is the rebuttal

3 testimony.

4 JUDGE MOSS: That's Exhibit 25.

5 MR. QUEHRN: Exhibit 25.

6 BY MR. QUEHRN:

7 Q. And does the referenced line not state that
8 the company's proposal, and I will quote:

9 The revised proposal also takes into
10 account an \$80 Million reduction in the
11 need for external capital by forgoing
12 elective redemption of debt.

13 Is that what the testimony says here?

14 A. That's what the testimony reads, but this
15 dollar amount is not flowed through in the tables
16 correctly. And in addition, the company then offsets it
17 with -- by modifying its deferral. That is a subject
18 that is covered by Merton Lott, and I would defer to him
19 on that topic.

20 Q. Just a couple more questions, Ms. Steel. And
21 again, I believe this was either in response to a
22 question by Chairwoman Showalter or Commissioner
23 Hemstad, perhaps both, and I believe this has to do with
24 your calculation of the \$25 Million adjustment that you
25 are now using on your schedule 14. And the reference

00495

1 was to an \$86 Million infusion of capital from the
2 parent company, Puget Energy, to Infrastrux on or about
3 December 31, 2000. Are you familiar with the issue?

4 A. I'm familiar with the issue. The dollar
5 amount of the transfer is at least \$87.5 Million though.

6 Q. I will use your number on that one without
7 agreeing to it, but assuming that it is \$87. -- pardon
8 me?

9 A. 87.5.

10 Q. Okay. Were you aware that prior to this
11 transfer that there was approximately \$102 Million
12 available in the sale of unregulated assets from sale of
13 assets from non-regulated subsidiaries prior to that
14 transfer?

15 A. I disagree that \$102 Million of extra -- of
16 excess cash was available from non-regulated sources.

17 Q. I would like to --

18 A. To fund this.

19 Q. I would like then if I could, please, to
20 refer to Exhibit 425 as it now exists to include
21 references to questions E and F and responses. And
22 specifically, in the interests of time, I would like to
23 refer directly to the attachment that has page 4 written
24 at the bottom in handwriting.

25 A. 425?

00496

1 JUDGE MOSS: Yeah, Exhibit 425, it has a
2 handwritten page number 4 at the bottom, and it's a list
3 of asset transfers, Puget Sound Energy's list of asset
4 transfers.

5 THE WITNESS: I don't have that exhibit
6 marked as 425. I have 425 as --

7 JUDGE MOSS: 425 is the response to WUTC
8 Staff Data Request 321-I.

9 THE WITNESS: Oh, 321, I've got it, okay.
10 BY MR. QUEHRN:

11 Q. If you look at this exhibit, I would like you
12 to start down the column, and the first one I would like
13 just to --

14 A. Which page are we on now, page 4?

15 Q. Page 4.

16 A. Okay, I haven't had an opportunity to review
17 the entire agreement, so I would like a few minutes to
18 do that.

19 Q. And actually, this isn't the agreement. It's
20 the document we handed to you yesterday and identified
21 to Mr. Cedarbaum to review with you, and I understood
22 that you had actually.

23 A. I received a copy of it this morning, but I
24 didn't know I would receive questions on all parts of
25 it.

00497

1 Q. It's just this one single page that we
2 identified and circled the entries for you yesterday to
3 take a look at.

4 A. I don't believe you handed me such a
5 document. I certainly don't have it in my folder, and I
6 need a few minutes to review it.

7 Q. Fine.

8 JUDGE MOSS: Ms. Steel, what is it that
9 you're seeking to do? We're still on the record.

10 THE WITNESS: I would like to ask counsel
11 about the packet of materials that have been presented
12 to me. They contain documents in a disjointed order
13 that I don't understand.

14 JUDGE MOSS: Well, all we're working with
15 here is the Exhibit Number 425.

16 THE WITNESS: I would like to get the copy of
17 it from my counsel.

18 JUDGE MOSS: All right.

19 Mr. Cedarbaum, would you please provide your
20 witness with a copy of Exhibit 425 as it is presently
21 constituted.

22 MR. CEDARBAUM: That's the data request
23 response.

24 THE WITNESS: Thank you.

25 All right, I'm ready.

00498

1 BY MR. QUEHRN:

2 Q. Referring again to the page that has
3 handwritten page 4 on the bottom, looking down the
4 left-hand column, I would like to focus your attention
5 first on the second entry. It says, sale of Cabot
6 common stock. Do you see that?

7 A. I see the entry.

8 Q. Could you tell me what the date of that sale
9 was and what the amount of proceeds were?

10 A. I can read the column 2 for you, it says May
11 6, 1999.

12 Q. And the proceeds?

13 A. I don't know what the proceeds were.

14 Q. As represented in the next column.

15 A. The company's representation of the proceeds
16 is \$37 Million.

17 I would note that the question that this is
18 supposed to be in response to is, list each asset
19 transferred from PSE over the period 6-30-1998 to the
20 present. I would note that the company in its response
21 to that says, see attached page 4, which is -- lists its
22 interpretation of its major assets sold and transferred
23 since 1998. The company volunteers that this list
24 includes assets owned by PSE and not leased equipment,
25 and it also notes that the list contains only the major

00499

1 assets sold and transferred for the period in question.
2 That is PSE's interpretation of the major assets.

3 It says that it can not provide a
4 documentation of all of the assets sold and transferred
5 greater than the million, which was the request. And I
6 would note that the company includes on this list dollar
7 amounts that are very small like the loan to
8 Schlumberger of \$1.325 Million. So I wonder why it is
9 that if this is truly a list that represents all of the
10 transfers why it would be so burdensome to list assets
11 down to \$1 Million. It's simply that this list is not
12 comprehensive and doesn't include the losses that the
13 company incurred on some of these sales.

14 Q. Ms. Steel, I understand your concerns with
15 the list. I would just like to ask you if this
16 transaction that is the second line down that I think we
17 show here for the company's number is let's say \$37.4
18 Million, is that a number that you took into
19 consideration when you made your \$25 Million adjustment?

20 A. I took into account the sale of the Cabot
21 common stock transaction, but I did not take into
22 account a \$37 Million figure because -- for that
23 transaction, because I do not believe that dollar amount
24 represents the net proceeds, net proceeds from all of
25 the transfers that took place over the relevant time

00500

1 period. The company has not provided that information.
2 We have done our best to calculate it, and we have taken
3 into account what we believe is the net position of the
4 non-regulated entity, and it is not reflected anywhere
5 on this page.

6 Q. Did you also take into account item number 5,
7 sale of Homeguard, September 29, 1999, company's number
8 shows \$13.3 Million?

9 A. I took into account the sale of Homeguard,
10 and I also took into account all of the other company
11 sales that I could track, but I did not take into
12 account the figure of \$13.3 Million, because that is not
13 a correct figure.

14 Q. Line item 12, which since it's not numbered
15 it's my reference to, down the chart a little bit, sale
16 of Cabot preferred stock, May 24, 2000, \$51.6 Million,
17 did you take that number into account when you made your
18 determination of the \$25 Million?

19 A. I took into account the sale of Cabot
20 preferred stock in my consideration of the position of
21 Puget Sound Energy's non-regulated ventures, but I did
22 not take into account a figure of \$51.6 Million for that
23 sale. And again, my reasons are the same, this list is
24 not inclusive. From this list, you would think that all
25 the gains belong to the non-regulated and all the losses

00501

1 belong to the utility. That's simply not a fair or true
2 position for the non-regulated ventures.

3 Q. Can you point to any specific evidence that
4 indicates that these numbers are inaccurate?

5 A. I can point to my statement that these dollar
6 amounts are not a complete list, and I will point to
7 your response to -- the company's response to item F,
8 which states that it is not a true and complete list.

9 Q. Would you agree subject to check that if you
10 take these three transactions alone and total them it's
11 approximately \$102.4 Million?

12 A. I would agree with the mathematics of that
13 calculation subject to check. However, I would not
14 agree that any meaning could be attributed to that
15 calculation whatsoever.

16 Q. I would like now to refer, and I will say for
17 a very limited purpose only, once again to your Exhibit
18 414C. I believe it was Commissioner Hemstad asked you a
19 question concerning this exhibit where he was trying to
20 rectify the numbers here with Puget Sound Energy's
21 request for relief of approximately \$170 Million. Do
22 you recall that discussion?

23 A. Yes, I do recall that discussion.

24 Q. Is the methodology reflected on Exhibit 414C
25 to your knowledge the methodology that Puget Sound

00502

1 Energy used in formulating its request for relief?

2 A. No, Puget Sound Energy incorrectly used a
3 power cost study to come up with this \$170 Million
4 request for relief without offsetting it against the
5 cost savings that it itself admits to within its own
6 direct testimony.

7 Q. So is it the case then that this methodology
8 is different than the methodology that Puget Sound
9 Energy used to formulate its request for interim relief?

10 A. Yes, the methodology that Staff employed
11 looks at the whole company, and it's the correct
12 methodology, and the company did not use that
13 methodology in formulating its request, although it did
14 provide financial information in an attempt to buttress
15 that request.

16 Q. Would you characterize then a comparison of
17 the \$170 Million figure that comes from anywhere from I
18 guess Exhibit 414C, page 1, to Puget's methodology where
19 it comes up with \$170 Million essentially as an apples
20 to oranges comparison?

21 A. Yes, I would agree that the two should not be
22 directly compared, that adjustments would have to be
23 made to Puget Sound Energy's \$170 Million request. And
24 that would be you would have to remove the amount for
25 any miscalculations in its power supply costs and that

00503

1 you would have to offset it against cost savings, and
2 then you would have to make other adjustments to it to
3 fully reflect the overall financial health of the
4 company.

5 That would be a very difficult calculation to
6 make, and so it would be more proper to take Puget Sound
7 Energy's short-term debt balancing account, which is the
8 account that is used to account for all changes to the
9 company's financial situation as they are reflected on
10 its balance sheet, and then flow through those changes
11 through that account to come up with a proper amount of
12 interim relief that should be granted.

13 MR. QUEHRN: Your Honor, at this point I have
14 no further questions of Ms. Steel. I am anticipating in
15 her redirect, however, that she will make reference to
16 an exhibit that was given to us this morning, and I
17 think it would be more efficient, because I do have a
18 couple of questions about that exhibit, if I could be
19 allowed to ask those questions after she has presented
20 it rather than trying to question it first before she
21 has had the opportunity to explain the exhibit. So with
22 that one caveat, and obviously if there is any other new
23 information that were presented, I would conclude my
24 questioning at this point.

25 JUDGE MOSS: Well, we have had such an

00504

1 enjoyable and long session with Ms. Steel on the stand
2 that I suppose we have to make allowances for the
3 possibility for some brief recross following the
4 redirect, and so I won't foreclose that possibility,
5 Mr. Quehrn.

6 But at this juncture, I need to ask if Public
7 Counsel has any further brief cross-examination based on
8 the Bench's inquiry?

9 MR. FFITCH: Yes, Your Honor, but very brief.

10

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

12 BY MR. FFITCH:

13 Q. Good morning, Ms. Steel, or just barely good
14 afternoon.

15 A. Good afternoon, Mr. ffitch.

16 Q. First of all, this is a question just for my
17 own clarification, again referring to Exhibit 414C, to
18 line 14. This may have been something you addressed in
19 corrections that I missed, but let me just ask the
20 question. The parenthetical after the \$42 Million
21 states that this is the sum of line 12 minus line 11
22 plus line 10; is that accurate?

23 A. Actually, it is not. I had not noticed it
24 before, and thank you for pointing it out. On line 14
25 in the last column, it should read, line 12 minus line

00505

1 11 plus line 13.

2 Q. Thank you. Commissioner Oshie asked you
3 about corporate ratings for the company, and I just
4 wanted to follow up on that. The corporate rating is
5 for Puget Energy, the holding company; is that correct?

6 A. Actually, the corporate rating I was
7 referring to is the corporate rating for Puget Sound
8 Energy.

9 Q. All right. Do you have information about a
10 separate corporate rating for Puget Energy,
11 Incorporated?

12 A. I may, it will take me a moment to find it.

13 Q. All right.

14 A. Mr. ffitch, I have information on Puget Sound
15 -- Puget Energy's corporate credit rating from Standard
16 & Poor's, but I do not have the equivalent information
17 for the holding company, Puget Energy, for Moody's.

18 Q. Could you provide the Standard & Poor's
19 rating?

20 A. Its corporate credit rating is triple B
21 minus.

22 Q. According to my notes, that's the same rating
23 that you testified to for, the same corporate rating
24 that you testified to for Puget Sound Energy.

25 A. Yes, that's the same value.

00506

1 Q. Now the first mortgage bond ratings that you
2 testified to earlier in response to -- well, let me
3 rephrase that.

4 The first mortgage bond ratings that you have
5 testified to are for Puget Sound Energy, correct?

6 A. That is correct, Puget Sound Energy is the
7 entity that issues the first mortgage bonds. Puget
8 Energy does not.

9 Q. And am I correct in understanding that the
10 first mortgage bond rating for Puget Sound Energy for
11 S&P is triple B?

12 A. Yes, you are correct.

13 Q. And that's higher than the triple B minus
14 rating for the corporate rating, correct?

15 A. That's correct, it is a higher rating.
16 Triple B is higher than triple B minus.

17 MR. FFITCH: Thank you, Ms. Steel, those are
18 all my questions.

19 JUDGE MOSS: Ms. Steel, we have had a lot of
20 testimony about ratings and so forth, and I believe in
21 response to Commissioner Oshie you mentioned that you
22 have a chart that shows us how we can equate the one
23 rating agency to the other.

24 THE WITNESS: Yes, it's a chart on one page
25 that shows --

00507

1 JUDGE MOSS: All right, I'm going to ask that
2 that be furnished as Bench Request Number 6 for the
3 record.

4 Mr. Cedarbaum, if you could work with the
5 witness and get that to us perhaps after lunch.

6 And, Mr. Kurtz, did you have any questions
7 that were prompted by questions from the Bench?

8 MR. KURTZ: No, sir.

9 JUDGE MOSS: Thank you.
10 Mr. Van Cleve?

11 MR. VAN CLEVE: No questions, Your Honor.

12 JUDGE MOSS: All right, then that brings us
13 to the redirect. It also brings us to the lunch hour.

14 Mr. Cedarbaum, we will give you the advantage
15 of the luncheon hour to shorten your list of questions.

16 MR. CEDARBAUM: I'm ready to go now if the
17 witness doesn't need a break and everyone else doesn't
18 need a break, but I can come back after lunch too.

19 JUDGE MOSS: How much do you think you have?

20 MR. CEDARBAUM: I have a few loose ends,
21 which shouldn't take long, and then the exhibit that
22 Mr. Quehrn and I have referenced.

23 JUDGE MOSS: 10 or 15 minutes do you think?

24 MR. CEDARBAUM: Probably max 20.

25 CHAIRWOMAN SHOWALTER: And then Mr. Quehrn is

00508

1 going to have some.

2 JUDGE MOSS: Well, Mr. Quehrn is going to be
3 very brief though, I'm sure, just with respect to the
4 one exhibit I think was his only concern. So I think we
5 can probably, it sounds like we can probably finish by
6 12:30 or perhaps shortly thereafter, so let's go ahead
7 and see if we can get Ms. Steel off the stand after her
8 marathon of cross-examination over the past two days.

9

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

11 BY MR. CEDARBAUM:

12 Q. As I said, Ms. Steel, I have a few loose
13 ends, and then we will get to the exhibit that you
14 prepared that has been referenced.

15 The first loose end was actually prompted by
16 a question from the Bench. If you look at your
17 testimony, Exhibit 401T, at the top of page 39, I think
18 this is just a housekeeping matter. Should the
19 reference to October 30th, 2002, on line 1 actually be
20 2003?

21 A. Yes, it should be.

22 Q. Would you like to correct your testimony to
23 that extent?

24 A. Yes, I would like to correct line 1 of page
25 39 for the second 2002 -- actually, no. No, I'm sorry,

00509

1 Mr. Cedarbaum, that is the amount that would be needed
2 in one month, the one month of October 2002, in order
3 for that to carry through with new general rates to
4 ensure that over the whole 12 months the company would
5 have met the first mortgage bond rating at that period
6 in 2003, so I would like to strike that correction.

7 Q. Okay, I think I had probably just
8 misunderstood your clarifying testimony before, but I
9 think now I'm clear.

10 In questions from Commissioner Hemstad on
11 Exhibit 414C, page 5, you discussed at that point with
12 him some new information that you received as the
13 company's response to Public Counsel Data Request 49.
14 Actually, I guess that was supplemental information; is
15 that right?

16 A. That's correct.

17 MR. CEDARBAUM: Your Honor, I know this was a
18 little bit out of order, but as we marked for
19 identification this morning Exhibit Number 74 for
20 Mr. Gaines at Public Counsel's request, 49 supplement, I
21 would like to offer that now through Ms. Steel.

22 JUDGE MOSS: That was the exhibit we marked
23 as 74?

24 MR. CEDARBAUM: Yes.

25 JUDGE MOSS: And that's the response to

00510

1 Public Counsel Request Number 49?

2 MR. CEDARBAUM: Correct.

3 JUDGE MOSS: And it was confidential?

4 MR. CEDARBAUM: Yes, it is, and it
5 specifically references the second supplemental
6 response.

7 JUDGE MOSS: All right, well, I suppose if
8 we're going to do this, we should renumber it. We will
9 mark it for identification as Exhibit 428C.

10 BY MR. CEDARBAUM:

11 Q. Referring you now, Ms. Steel, to Exhibit
12 428C, do you recognize that as the company's second
13 supplemental response to Public Counsel Data Request 49
14 which you referred in your testimony this morning?

15 A. Yes.

16 MR. CEDARBAUM: Your Honor, I would move the
17 admission of Exhibit 428C.

18 JUDGE MOSS: Hearing no objection, it will be
19 admitted as marked.

20 BY MR. CEDARBAUM:

21 Q. During the course of your testimony I believe
22 yesterday, Ms. Steel, you referenced the Infrastrux
23 transaction as a return of capital. Do you recall that?

24 A. Yes.

25 Q. Can you just briefly explain what that means?

00511

1 A. The company paid to, the company being Puget
2 Sound Energy, paid to its parent, Puget Energy, the
3 capital invested in its venture, Infrastrux, on January
4 1st, 2001, and that shows up on the company's
5 consolidated balance sheet, Puget Sound Energy's, for
6 March 31st, 2001, as a reduction, and it's paid in
7 capital of \$87.5 Million. So you can see the unusual
8 change in its -- the value of shareholders' equity in
9 Puget Sound Energy. It declines from \$470 Million to
10 \$382 Million over that three month period, and that
11 reflects that change. This is very unusual. Typically
12 something like that might be handled as a dividend, a
13 special dividend. However, Puget Sound Energy does not
14 have very much retained earnings, and had the company
15 elected to do a step like that, it may have limited its
16 ability to pay dividends.

17 Q. Again just moving around to some different
18 topics just briefly, you were asked with respect to
19 Exhibit 407C some questions about page 1, and you
20 indicated I believe yesterday that the page did not
21 include repayment of debt; do you recall that, with
22 respect to net cash flow to capital expense?

23 A. That's correct, in that line it does not show
24 repayment of debt, because typically net cash flow, all
25 of the calculations, they only show required operations

00512

1 expenses. There are other ratios that are used to take
2 that into account.

3 Q. And were you asked by the company a data
4 request to provide that type of information, an
5 explanation as to why you did not include a payment of
6 debt?

7 A. Yes, I was.

8 MR. CEDARBAUM: Your Honor, if we could have
9 marked for identification as the next exhibit.

10 JUDGE MOSS: It will be 429.

11 MR. CEDARBAUM: Should I bring those up to
12 you or --

13 JUDGE MOSS: Just pass them down is fine.

14 And this is the Staff Response to PSE Request
15 Number 49-I.

16 MR. CEDARBAUM: It was 429, Your Honor?

17 JUDGE MOSS: Yes, sir.

18 BY MR. CEDARBAUM:

19 Q. Ms. Steel, referring you to Exhibit 429 for
20 identification, do you recognize this as the company's
21 Data Request 49-I to Staff and your response on the
22 subject matter we just discussed?

23 A. Yes, it is my response, that that is the
24 request that they made of me, and that is my response.
25 I would just like to clarify that typically in the

00513

1 EBITDA calculation that the depreciation and
2 amortization part of that, the amortization that's
3 typically included there is good will amortization, and
4 debt amortization is typically not taken into account
5 because the ratio is used to determine financing
6 requirements and how much would have to be repaid, so
7 that comes in afterward.
8 MR. CEDARBAUM: I would move the admission of
9 Exhibit 429.
10 JUDGE MOSS: Hearing no objection, it will be
11 admitted as marked.
12 BY MR. CEDARBAUM:
13 Q. Yesterday and this morning as well, you
14 indicated some concern with the reliability of the
15 company's projections that you utilized in developing
16 your case. Do you recall that?
17 A. Yes, I do recall that.
18 Q. Can you just explain that in more detail, and
19 also indicate how you have taken it into account in your
20 case?
21 A. I have my concerns about the company's
22 ability to even predict the past, because it's balance
23 sheet is changing for December 31st, 2001, has changed
24 considerably over the past two weeks. So that causes me
25 to have concern as well about its ability to project the

00514

1 future. And in addition, there are a number of
2 questions that I have about the way it has projected the
3 future. For example, it is projecting large increases
4 in its O&M expenses at the same time that it is
5 projecting that its revenues are declining. This
6 combination is very unusual and deserves, I think, more
7 scrutiny and a better explanation than Staff was able to
8 obtain or able to account for.

9 The way that I took this into account in my
10 calculation is I made some reasonable adjustments to
11 their capital and O&M budgets, and although I do have
12 questions about their revenue and expense forecasts, I
13 did not adjust them. I have allowed \$20 Million in my
14 recommendation for relief to account for contingencies.
15 One of those contingencies could be the company's
16 ability to forecast.

17 Q. Last subject area, going to the exhibit that
18 you prepared.

19 MR. CEDARBAUM: And, Your Honor, at this
20 time, I would like to have marked for identification the
21 illustrative exhibit that the company discussed with
22 Ms. Steel yesterday, and then following that, a one page
23 exhibit which I will distribute now.

24 JUDGE MOSS: All right, the illustrative
25 exhibit or the one that was identified in that fashion

00515

1 yesterday, and there was a mark up board put up on the
2 chart there, will be 430. And then the exhibit you're
3 distributing now, which styles itself corrections to
4 PSE's revisions of LAS Exhibit 3 - workpapers, ratios
5 tab, will be 431 for identification.

6 MR. CEDARBAUM: And I believe unless told
7 otherwise by the company that both of these should be
8 confidential.

9 JUDGE MOSS: Well, we had the illustrative
10 exhibit displayed in open session, so I don't think
11 there should be any confidentiality with that.

12 Is that correct?

13 MR. QUEHRN: That's correct, Your Honor.

14 JUDGE MOSS: So 431 it does appear unless I'm
15 told otherwise is confidential.

16 BY MR. CEDARBAUM:

17 Q. Ms. Steel, directing your attention to
18 Exhibit 430, that's the illustrative exhibit that you
19 discussed yesterday with the company.

20 A. Okay.

21 Q. Do you have that?

22 A. Yes, I do.

23 Q. Can you just explain what page two is in your
24 understanding?

25 A. Page two of the company's exhibit was taken

00516

1 from my workpapers which evaluated their unadjusted
2 projections, and I have repeated that in my Exhibit 431
3 at the top of the page, lines 1 through 5.

4 Q. And then what is page 1 of Exhibit 430?

5 A. Page 1 of Exhibit 430 is the company's
6 modifications of my calculations to calculate some
7 ratios that it has stated in lines 6 and 7.

8 Q. Looking at page 1 on line 2 for required debt
9 repayment, do you see that?

10 A. Yes.

11 Q. Is it your understanding that that line
12 includes or excludes the \$40 Million debt issuance that
13 has been discussed that the company engaged in in
14 January?

15 A. That line 2 fails to include the \$40 Million
16 in new money that the company obtained on January 16th,
17 2002, through the \$40 Million medium term notes
18 issuance. The way that would impact it is it would
19 reduce each of those numbers in line 2 by \$40 Million.
20 However, that is not the only change that is required to
21 make this a useful calculation of the company's cash
22 flow requirements.

23 Q. Are those changes reflected in 431, or would
24 there be additional changes to 431?

25 A. Those changes are reflected in 431.

00517

1 Q. Okay.

2 A. And there are other changes too reflected in
3 431.

4 Q. Why don't we stay on 430 first and then turn
5 to 431.

6 A. Okay.

7 Q. Looking again still at page 1 of Exhibit 430,
8 there is a column for the fourth quarter of 2002. Do
9 you see that?

10 A. Yes.

11 Q. Is that a period of time in which rates from
12 the general rate proceeding would be in effect?

13 A. Yes, the last two months of that period would
14 have rates from the general rate case.

15 Q. And none of those additional revenues if the
16 Commission were to grant the company additional revenues
17 in a general rate case are reflected on this exhibit?

18 A. That is correct, those additional revenues
19 are not reflected in this exhibit, and it makes the
20 ratios look lower than they should be in that quarter.

21 MR. CEDARBAUM: I would at this time, Your
22 Honor, move the admission of Exhibit 430.

23 JUDGE MOSS: Hearing no objection, it will be
24 admitted as marked.

25 CHAIRWOMAN SHOWALTER: Ms. Steel, was your

00518

1 last answer about the last quarter in reference to 430
2 or 431?

3 THE WITNESS: It was in reference to the
4 company's exhibit, which is I believe Exhibit 430.

5 CHAIRWOMAN SHOWALTER: Thank you.

6 JUDGE MOSS: That is correct.

7 BY MR. CEDARBAUM:

8 Q. Now turning to Exhibit 431 for
9 identification, can you just describe first what this
10 document is without going into the detail of it, just
11 identify what it is.

12 A. This document is my corrections to PSE's
13 illustrative exhibit, page 1.

14 Q. What I would like you to do is to now go
15 through the exhibit and explain the lines to the extent
16 that you think necessary. And if you can as you do
17 that, I would like you to refer back to the discussion
18 you have had over the past couple of days about page 1
19 of Exhibit 414 and the adjustments that the company is
20 suggesting to your exhibit. And if it's possible, take
21 them one at a time, that would be preferable.

22 A. Okay. The top of the page in raw inputs
23 begins with the same data that the company begins with,
24 which is my calculation of net cash flow from the
25 company's unadjusted projections, and that's shown in

00519

1 lines 1 through 5. Below that then I go through an
2 analysis of that cash flow and adjust it for all capital
3 and financing needs changes, including the ones that I
4 have made in my Exhibit 414C, page 1.

5 The first line of that, line 6, is a
6 calculation of net cash flow prior to payment of
7 dividends, and that's calculated from lines 1 and 3
8 above. This is a very standard calculation of the
9 company's cash flow requirements. It begins with funds
10 available from internal operations, and the very last
11 thing that is taken into account is dividends. That is
12 very different from the way that Puget Sound Energy has
13 presented it, the way that -- its cash flow
14 requirements.

15 Puget Sound Energy has put its dividends
16 first before its repayment of all other debt, before its
17 accounting for the \$40 Million of debt redemptions, and
18 that's very unusual, I think, in a financial analysis.
19 It also does not reflect the priority of shareholders to
20 the -- to free cash flow from the company. That should
21 be available to ongoing operations first, then to new
22 capital expenditures, then to debt holders, including
23 repayment of debt, and finally to shareholders.

24 So beginning with that line 6, which is a
25 very traditional way of beginning a financial analysis

00520

1 of the company's statements, then correcting it for the
2 incremental cash that would be available from a
3 reasonable interpretation of the company's O&M budget
4 for 2002, and placing those savings in the second
5 through the third quarter of 2002 yields a corrected net
6 cash flow excluding common dividend on line 8.

7 Lines 9 and 10 are a subcalculation to
8 calculate the correct capital expenditure requirements.
9 On line 9, I take from my Exhibit 14C, line 6, the
10 amount of reasonable capital budget expenditure savings
11 that can be made available over what the company has
12 projected, and I have projected those to occur over the
13 second and third quarters of 2002. That correction then
14 to the capital expenditure is reflected in line 10, and
15 that is calculated as line 2 above minus line 9.

16 In the third group of corrections, then I
17 calculate the company's true financing needs and true
18 them up. The first correction is to take into account
19 the known fact that Puget Sound Energy was able to issue
20 \$40 Million at 6.25% medium term notes in January of
21 2001, and that reduces the company's financing
22 requirements by \$40 Million in each period. This same
23 calculation is shown on line 8 of my Exhibit 414, page
24 1.

25 The second correction is to true up the

00521

1 balance sheet for recent periods and for known
2 corrections that need to be made to the utility's
3 balance sheet, and that is the \$62 Million correction
4 that I have shown on line 5 of my Exhibit 414C, and that
5 reduces the company's financing requirements by \$62
6 Million.

7 The third correction, line 13 in that
8 section, is to correct the company's current maturities
9 of long-term debt scheduled to exclude the elective
10 redemptions and include only the mandatory redemptions.
11 This is shown on my Exhibit 414C at line 4, and for the
12 whole year, it's \$117 Million of mandatory redemptions.
13 And over the nine months ended third quarter 2002, it is
14 \$92 Million. This calculation is also shown in detail
15 in Exhibit 414C at pages 2 through 4.

16 The fourth correction in that group of
17 financing corrections is the addition of \$25 Million of
18 equity reassigned to the utility and/or debt removed
19 from the utility, and that is the correction that I have
20 shown on my Exhibit 414C at line 2. Totalling these
21 comes up with a corrected financing requirement for each
22 period.

23 The last line of this exhibit then shows the
24 corrected funds available for dividends, and this is
25 calculated by taking lines 8, which is the cash from

00522

1 operations, adding to that line 10, which is a negative
2 number and is the company's cash flow requirements, and
3 then subtracting from that the financing requirements on
4 line 15. So you've got operating cash minus capital
5 expenditures minus financing requirements, and you come
6 up with funds available for dividends.

7 JUDGE MOSS: Ms. Steel, the last line is the
8 confidential material I take it?

9 THE WITNESS: Yes, the last line. Actually,
10 I don't believe it's confidential, is it, funds
11 available for dividends? It's my calculation.

12 MR. QUEHRN: That's correct, Your Honor.

13 JUDGE MOSS: Okay, thank you, I apologize, I
14 saw the shading, so I assumed.

15 THE WITNESS: I'm sorry, I did the shading
16 just to draw attention to the bottom line.

17 JUDGE MOSS: All right, go ahead.

18 A. And that bottom line is important. This
19 shows that in first quarter 2002 on a lag and total
20 month basis, the amount of funds available for payment
21 of dividends from the utility, and it shows a healthy
22 amount at the end of first quarter 2002, which does take
23 into account the previous year.

24 The reason this is done on an annualized
25 basis, by the way, is that the company has seasonal

00523

1 earnings, and so it's more meaningful to look at 12
2 month calculations than it is to look at quarterly, and
3 this is consistent with the way the company did it too.

4 It does show a decline in the funds available
5 for dividends through the end of 2002 where it declines
6 to \$99 Million. However, there are funds available for
7 dividends, and a dividend level of \$99 Million or
8 approximately \$100 Million is well above average payout
9 for a utility, for an investor owned utility.

10 BY MR. CEDARBAUM:

11 Q. And also looking at the bottom line, fourth
12 quarter column, does your exhibit also not include the
13 impact of any additional revenues the company would
14 receive in its pending general rate case?

15 A. That is correct, it does not include any new
16 revenues from the general rate case. And it also
17 doesn't take into account that the company has cash
18 available and it has additional debt availability on its
19 line of credit.

20 MR. CEDARBAUM: Thank you.

21 Your Honor, I would move the admission of
22 Exhibit 431.

23 JUDGE MOSS: Hearing no objection, it will be
24 admitted as marked.

25 MR. CEDARBAUM: I believe that completes my

00524

1 redirect.

2 JUDGE MOSS: Thank you.

3

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

5 BY CHAIRWOMAN SHOWALTER:

6 Q. May I ask one follow-up question on this.

7 Does this include or not additional amounts of interim
8 relief that you recommend?

9 A. No, this exhibit does not include the interim
10 rate relief that I have recommended. I would just note
11 that the interim rate relief we have recommended is
12 intended to cover the possibility of higher expenses
13 that could occur. It was not intended as a true up to
14 increase revenue, but it would have that impact if those
15 possible expenses did not occur.

16 JUDGE MOSS: Mr. Quehrn, did you have some
17 questions on there were actually a couple of exhibits
18 entered there?

19 MR. QUEHRN: Yes, thank you, Your Honor, and
20 my questions will relate I think solely to Exhibit 431.

21 JUDGE MOSS: All right.

22

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

24 BY MR. QUEHRN:

25 Q. And we have debated some of these numbers

00525

1 already, so I won't go back and revisit those.
2 Ms. Steel, I would like to first of all refer to the
3 column for first quarter 2002, and if I'm reading this
4 correctly, that carries all the way down to the point
5 where the \$256 Million that you're showing as a dividend
6 payment is actually for first quarter 2002. I just want
7 to make sure that the exhibit has a double line break
8 here, but it's appropriate to carry -- read that up and
9 down? Do you understand my question?

10 A. No, I'm not sure that I understand your
11 question. Would you please clarify the question to
12 explain what you mean by carry down from where to where.

13 Q. If I look at the heading above line 1 of your
14 chart, of your exhibit that says net cash flow including
15 dividends and then read over, the first column is
16 identified as first quarter 2002.

17 A. I see that.

18 Q. Okay. Then if I go to the very bottom of the
19 page, I just want to make sure that that number, the
20 \$256 Million, would be a projected dividend payout or a
21 potential dividend payout for first quarter 2002?

22 A. It would not be a projected dividend payout.
23 In fact, I would not recommend that the company pay that
24 out. But all of the numbers in the column do flow --
25 the lower ones do flow from the upper ones, if that is

00526

1 your question, but I would not recommend that the
2 company pay out the full amount. It has a growing
3 service territory, and it's only reasonable that a
4 company with a growing service territory would invest in
5 that growth from which it is receiving increased
6 revenues.

7 Q. But that is the number available for
8 dividends first quarter 2002, correct, per this chart?

9 A. Well, it is funds --

10 Q. Just please yes or no, the title is corrected
11 funds available for dividends; is that correct?

12 A. The title is corrected funds available for
13 dividends absent rate relief, new financing, or
14 refinancing.

15 Q. Correct. Now if the company were to pay that
16 dividend, the numbers immediately preceding that in line
17 11 and line 12, \$40 Million, the \$62 Million, and let's
18 just both assume those two, the numbers on line 11 and
19 line 12 would essentially be applied to payment of that
20 dividend, correct, if that amount were paid out?

21 A. No, I disagree that those particular dollars
22 would be used to pay out dividends, dollars refundable.
23 Fewer funds in the bottom line would be available, but
24 it would be impossible to attribute them to one or
25 another source.

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1 Q. Let me try the question differently. If I
2 spent the \$40 Million looking at line 11 in the first
3 quarter for all of the company's obligations and
4 included the \$256 Million dividend payment as part of my
5 expenditures, would I have spent that \$40 Million, or
6 would I still have it in the bank?

7 A. Well, I want to clarify that the company, I
8 do not believe, spent \$256 Million on cash dividends, so
9 it is a hypothetical situation. But money that's spent
10 would not be available in future quarters.

11 Q. So if I applied it in the first quarter, I
12 wouldn't have the \$40 Million in the second quarter; is
13 that correct?

14 A. No, you would have the \$40 Million in that
15 quarter.

16 Q. Doesn't that \$40 Million come from the
17 issuance of first mortgage bonds that has already
18 occurred?

19 A. That occurrence of the issuance of first
20 mortgage bonds has already occurred, but I do not have
21 testimony to offer on what you have done with the money.
22 It would have been reasonable and prudent to expect that
23 you would have taken that \$40 Million and reserved it
24 for your known \$60 Million of debt repayments through
25 second quarter of 2002. What you actually did with it

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1 is not something that I can testify to.

2 Q. But there is an assumption, is there not,
3 with respect to the funds available for dividends at the
4 end of the first quarter 2002, that that \$40 Million and
5 for that matter the \$62 Million underneath it would have
6 essentially been applied to company financial
7 obligations for that quarter; is that correct, whatever
8 they may be?

9 A. That \$256 Million is available for company
10 obligations at the end of first quarter 2002 including
11 known future obligations.

12 Q. And my question really is, since both of
13 those numbers, the \$40 Million and the \$62 Million, were
14 year end balance sheet items, if I spend them in the
15 first quarter of 2002, are they available in the second,
16 third, and fourth quarter of 2002?

17 A. It depends on what you spend them on. If you
18 spend them on expenses that you know are coming up in
19 second, third, and fourth quarter 2002, then those
20 dollars are not available, and as well the expense is
21 not available, and they would offset each other.

22 Q. So would you then make a further correction
23 to your table if you assumed that those dollars were
24 spent in the first quarter of 2002 that the
25 corresponding entries for each of those quarters would

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1 be zero?

2 A. No, I would not make that correction, because
3 as I had stated before, if you spend it on a future
4 obligation, the bottom line will not change.

5 Q. But if they were on expenses, they wouldn't
6 -- the bottom line is if they were spent on expenses,
7 they would not be available in the second quarter or the
8 third quarter or the fourth quarter; is that correct,
9 because the money is gone?

10 A. Well, there would have to be some expenses
11 which are not projected in the company's projections,
12 because line 6, net cash flow, takes into account the
13 company's operating expenses as the company has
14 projected them.

15 MR. QUEHRN: I have no further questions,
16 Your Honor.

17

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

19 BY JUDGE MOSS:

20 Q. Ms. Steel, I just have one question on the
21 math on this exhibit. I'm looking at the very bottom
22 line where it says, line 8 plus line 10 minus line 15,
23 and I'm just curious, because if I look at line 8 there
24 in that first column, \$349 Million, and then I add the
25 negative \$210 Million, \$211 Million, and then subtract

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1 the \$117 Million, I come up with \$21 Million, and I'm
2 wondering if I've got some math error in my thoughts on
3 this or if you could help me understand.

4 A. I believe I have a sign wrong in the
5 correction that I gave you. The cash financing on the
6 exhibit, that's cash that's available is the positive,
7 so that was actually added in my calculation, and in my
8 note it is explained incorrectly, so it should be line 8
9 plus line 10 plus line 15.

10 JUDGE MOSS: Thank you.

11 All right, I suppose I have to turn back to
12 you, Mr. Cedarbaum, since we had some brief recross
13 there and ask if you had any further re-redirect?

14 MR. CEDARBAUM: No, I think I'm happy with
15 the record the way it is.

16 JUDGE MOSS: All right.

17 Then does the Bench have any further
18 questions for Ms. Steel?

19 CHAIRWOMAN SHOWALTER: I have just one
20 follow-up on the bottom line of 431.

21

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

23 BY CHAIRWOMAN SHOWALTER:

24 Q. Let's take say the second quarter, if that
25 amount, \$136 Million, were used for dividends in the

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1 second quarter, then does the next column over, 107,
2 change?

3 A. It would change, but not by the full amount,
4 because this is a 12 month calculation, and so you would
5 only take into account the 4 months or the 3 months for
6 that one quarter then that you're changing.

7 Q. Okay. But then simply looking at the bottom
8 line there, the four numbers are not independent of one
9 another. That is, if part of the money in an earlier
10 quarter is spent on a dividend, that results in some
11 less money for the bottom line of the subsequent
12 quarters?

13 A. I don't think so, that that's correct. I
14 think the columns are independent. They are based on
15 the company's projections. And if you want to make a
16 change to it, then the way to make the change is to
17 deduct the amount for the previous quarter that you
18 think is not available and then carry that through at
19 the bottom of the column. But it would not impact all
20 of the other numbers above it. You would still have the
21 same amount of net cash flow available and the same
22 amounts of all of the other numbers in that column.

23 Q. Well, I'm still confused. If I am the
24 company and I'm looking at this sheet and I'm looking at
25 what is available for each of these quarters, does that

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1 mean that in each of these quarters these amounts are
2 available for me to spend the way the board wants to?

3 A. No.

4 Q. Okay.

5 A. These calculations are 12 month calculations,
6 so the company doesn't ever have \$256 Million in any one
7 quarter to pay dividends. And, in fact, it doesn't pay
8 a cash dividend anywhere near that level. Its cash
9 dividend, I believe, is on the order of \$132 Million in
10 12 months, so that would compare with the \$256 Million
11 that's available in 12 months.

12 But if you were to take out dividends that
13 are already paid for say 9 months of that, you would
14 take out 9 months times three quarters times the one,
15 you know, times 132, and you would come up with the
16 excess that's available for carryover to the next
17 quarter. You could deduct just that amount then from
18 each subsequent quarter, but you shouldn't deduct, you
19 know, the full 132 as you move from quarter to quarter.

20 And in addition, you know, is that looking at
21 the 256, you can see the amount of excess that could or
22 should be available to the company as a reserve for
23 future quarters.

24 CHAIRWOMAN SHOWALTER: Okay, thank you.

25 JUDGE MOSS: All right, I believe that will

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1 complete our examination of Ms. Steel, and we thank you
2 very much for your testimony. I am sure you will be
3 with us for the balance of the case if we do need to
4 have you back.

5 Given the late hour, I will not stay and
6 accept exhibits right now, but those of you who have
7 some additional exhibits, do distribute them among
8 yourselves, and we will probably take that up at the end
9 of today or first thing in the morning. For now, let us
10 recess until 2:00, which will press you a little bit on
11 getting back from lunch, but we probably need to take
12 advantage of the time available, so we will be in recess
13 until 2:00.

14 (Luncheon recess taken at 12:45 p.m.)

15

16 A F T E R N O O N S E S S I O N

17 (2:00 p.m.)

18

19 JUDGE MOSS: Before I swear Mr. Lott in, I
20 have just kind of been asked to recapitulate some of the
21 exhibits. During the break -- well, let me just start
22 at the beginning. Bench requests. 1B was distributed
23 during Ms. Steel's examination. That's the 5 December
24 2001 Standard & Poor's bulletin regarding Puget Sound
25 Energy. 2B was handed out this morning, everybody
should have it, it's the rating agency reports and

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1 bulletins on PSE. I think it was in June 2001 through
2 February 2002, date of the hearing. 3B has not yet been
3 distributed. It is to be Ms. Steel's recalculation of
4 factors cited by I believe it was witness Donald Gaines,
5 one of the Gaines witnesses. It was Donald Gaines. 4B
6 was distributed during the luncheon recess. That's the
7 I'm just calling it for current purposes the Infrastrux
8 credit agreement. It's a fairly thick document. It's
9 actually titled amended and restated credit agreement
10 dated as of June 29, 2001, among Infrastrux Group Inc.,
11 as borrower, Puget Energy, Inc., as guarantor, and so on
12 and so forth. 5B was an organizational chart that
13 Ms. Steel produced during the course of her
14 cross-examination. And 6B is a document, a one page
15 document that is entitled credit ratings in bold
16 letters.

17 And I have a question about this one, I will
18 direct it to you, Mr. Cedarbaum. This says in the upper
19 right-hand corner, Provident Financial Group, and then
20 as we begin to look below the line, the title bar line,
21 we see there something called Provident Bank
22 subordinated debt, short-term senior debt, and so forth.
23 Do you see where I am?

24 MR. CEDARBAUM: Yes, I do.

25 JUDGE MOSS: Why are we looking at something

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1 about Provident Bank? Help me understand this exhibit.

2 MR. CEDARBAUM: I think really the portion
3 that the Commission is interested in is in the kind of
4 the middle third, the Standard & Poor's box and the
5 Moody's Investor Service box. That was the -- those
6 were the credit ratings that we have been discussing on
7 the record for the past couple of days. I think the
8 rest of the document was just part of the document that
9 Ms. Steel has, and she just used this kind of as a handy
10 reference tool, but I don't think those specific parts
11 of the document were really referenced during the
12 cross-examination.

13 JUDGE MOSS: So the parts that reflect
14 Provident Bank, that doesn't have anything to do with
15 PSE's credit ratings or anything like that?

16 MR. CEDARBAUM: I don't believe so, but quite
17 honestly, I would have to check. I think that is for
18 Provident Bank. This is just a document that the
19 Provident Financial Group prepares, and it had all the
20 S&P and Moody's credit ratings on it, and it was kind of
21 a handy piece of paper for her to be able to refer to.

22 JUDGE MOSS: Right, the purpose for which it
23 was requested is really reflected then in the bottom
24 three charts which show the ratings that the various
25 agencies use, and then we can just compare those as we

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1 go down?

2 MR. CEDARBAUM: And my understanding was just
3 confirmed to me by Ms. Steel.

4 JUDGE MOSS: Okay, so we can ignore the first
5 couple of tables up there that say Provident Bank.

6 MR. FFITCH: Your Honor, Simon ffitch for
7 Public Counsel, just to suggest that it might be useful
8 to have this document for Puget Sound Energy, not only
9 then having all the categories listed, but actually
10 having the ratings. You know, I would kind of defer to
11 Staff on this, but it's a suggestion at least.

12 MR. CEDARBAUM: Whatever the Bench's pleasure
13 is on this. I think the record, there's discussion on
14 the record in the questions and answers that have that
15 information. I suppose we could write on this document
16 additional information for Puget Sound Energy, but I
17 mean we can do that.

18 CHAIRWOMAN SHOWALTER: Well, I might be
19 joining this conversation late, but was the suggestion
20 that we get all of the ratings for all of the aspects of
21 PSE in one place or not? In other words, I would love
22 to have something that laid every rating that PSE has
23 currently for the corporate, the this and the that,
24 Moody's, S&P, and sort of laid out in one place. Was
25 that what you were suggesting?

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1 MR. FFITCH: That was the gist of my
2 suggestion.

3 JUDGE MOSS: Mr. Quehrn, can that be
4 provided?

5 MR. QUEHRN: Your Honor, we can provide that
6 information, yes.

7 JUDGE MOSS: All right, we will make that
8 Bench Request 7.

9 All right, also handed up during the luncheon
10 recess, the volume of paper growing on my desk keeps
11 developing, there were a number of proposed
12 cross-examination exhibits passed out. Those relate to
13 witnesses who are going to appear a little later in the
14 hearing, Luscier and some other company witnesses, so
15 I'm not going to mark those right now. We've got
16 precious little hearing time left today. I will take
17 those up either at the end of the day or first thing in
18 the morning depending on how much stamina we all have.
19 But those have been distributed, so the parties should
20 all have them, and if you have any questions of your
21 fellow counsel with regard to whom they relate and so
22 forth, ask those during the break and get straight, so
23 the marking will become essentially a mechanical
24 exercise a little later.

25 MR. FFITCH: Your Honor.

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1 JUDGE MOSS: Yes, sir.

2 MR. FFITCH: May I have a brief clarification
3 of point on Bench Request Number 7. I had asked
4 Ms. Steel about ratings for both Puget Energy and Puget
5 Sound Energy, and I just wanted to clarify that that was
6 part of the trend of my question, and I'm hoping that
7 the company will be providing those ratings for both the
8 holding company and the utility.

9 JUDGE MOSS: That is the Bench's desire and
10 the company's understanding.

11 MR. QUEHRN: Yes.

12 JUDGE MOSS: All right, anything else before
13 we swear Mr. Lott?

14 Okay, Mr. Lott, if you would please rise and
15 raise your right hand.

16

17 (The following exhibits were identified in
18 conjunction with the testimony of MERTON R. LOTT.)

19 Exhibit 451T is MRL-1TC: Pre-filed Response
20 Testimony. Exhibit 452 is Staff Response to PSE Data
21 Request No. 22-I. Exhibit 453 is Staff Response to PSE
22 Data Request No. 24-I.

23

24

25

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1 Whereupon,

2 MERTON R. LOTT,
3 having been first duly sworn, was called as a witness
4 herein and was examined and testified as follows:

5
6 JUDGE MOSS: Thank you, please be seated.
7 Mr. Cedarbaum.

8 MS. SMITH: Your Honor, this is Shannon Smith
9 with the Attorney General's Office, I will be --

10 JUDGE MOSS: Ms. Smith.

11 MS. SMITH: Thank you.

12

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

14 BY MS. SMITH:

15 Q. Mr. Lott, for the record, could you state
16 your first name and spell your last name.

17 A. My name is Merton Lott, Lott is L-O-T-T.

18 Q. Do you have before you what's been marked in
19 this proceeding as Exhibit 451T?

20 A. Yes, I do.

21 Q. And is that your direct testimony in this
22 case?

23 A. Yes, it is.

24 Q. Was that testimony prepared by you or
25 prepared under your direction?

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1 A. Yes.

2 Q. Do you have any changes to that testimony
3 this afternoon?

4 A. Yes, I did find a minor correction on page 9.

5 Q. And what are those, please?

6 A. I was waiting for the Chairwoman to get
7 there.

8 CHAIRWOMAN SHOWALTER: I'm the slowest.

9 A. On page 9, the table, quick explanation is
10 that is the \$24 Million number on what is referred to as
11 line 5, but it's line 9 in that table that I have there.
12 That's an undercollection, I mean that's a power cost
13 overprojection. That needed to be trued up for revenue
14 taxes, and therefore I need to slightly change line 5
15 and add a line 6. Instead of saying refund to affected
16 customers on line 5, it should say overprojection of
17 power supply costs. It would still be line 4 times line
18 1, and that would still be \$24 Million. And then a line
19 6 should be added, which would be refund to affected
20 customers. And then the -- I would probably have in
21 brackets a calculation line 5 divided by .955234, that's
22 955234, and then the amount would be \$25,124,734.
23 That's the only correction I know of.

24 COMMISSIONER HEMSTAD: Mr. Lott, would you
25 repeat the phrasing in your item 5.

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1 THE WITNESS: Line item 5 would be
2 overprojection of power supply costs.

3 JUDGE MOSS: Go ahead, Ms. Smith.

4 MS. SMITH: Thank you.

5 BY MS. SMITH:

6 Q. With this correction in mind, Mr. Lott, if I
7 were to ask you the same questions today that are asked
8 in your testimony, would your answers be the same?

9 A. Yes.

10 MS. SMITH: I would offer Exhibit 451T.

11 JUDGE MOSS: Any objection?

12 Being no occasion, it will be admitted as
13 marked.

14 MS. SMITH: Mr. Lott is available for
15 cross-examination.

16 JUDGE MOSS: Thank you, I believe the company
17 will go first.

18 MS. DODGE: Thank you, Your Honor. As a
19 preliminary matter, I would like to offer into evidence
20 Exhibits 452 and 453, which were part of the stipulation
21 discussed earlier in the week. These are Staff
22 responses to certain PSE data requests.

23 JUDGE MOSS: Okay, and that's per the prior
24 stipulation, so they will be admitted as marked.

25

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

2 BY MS. DODGE:

3 Q. Mr. Lott, good afternoon.

4 A. Good afternoon.

5 Q. I would like to ask you to look at your
6 testimony Exhibit 451 at page 19.

7 A. Okay.

8 Q. Lines 17 through 18 where it states, Staff is
9 open to considering a PCA in the general rate case
10 portion of this docket or in another proceeding. Is
11 that correct, that your testimony so states?

12 A. I believe so, yes.

13 Q. Now PCA is short for power cost adjuster; is
14 that right?

15 A. Adjustment, yes.

16 Q. What do you mean by in another proceeding?

17 A. Well, if we did not resolve it in the general
18 rate case, and I think the company in fact has asked for
19 one in the general rate case, so Staff will be making
20 recommendations there, but if it doesn't work out there,
21 Staff is willing to work in any other proceeding to try
22 to work on a PCA for the company.

23 Q. Okay. But in any case, you don't believe
24 that a PCA should be considered in this interim
25 proceeding?

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1 A. Let me correct that prior answer. We need
2 all the prerequisites in that other proceeding, and the
3 prerequisites would be having a base line established in
4 a general rate case, so that's in answer to this
5 question, yes, I do not believe it is proper to
6 establish a PCA in this proceeding for the reasons in my
7 testimony, one of which is the base line and the risk
8 factors.

9 Q. Which you're proposing to address later?

10 A. Well, earlier in the testimony than on page
11 19, but yes.

12 Q. Now generally your testimony raises several
13 questions regarding the appropriateness of approving
14 recovery of certain of Puget's gas hedges; is that
15 right?

16 A. Can you restate that, I mean not restate it,
17 but just say it again, please.

18 Q. Just generally, your testimony raises some
19 questions regarding the appropriateness of recovering
20 certain of Puget's gas hedges. Actually, if you wanted
21 to look I think at page 10 of your testimony.

22 A. No, I know what you're talking about. It's
23 no problem. Yeah, it's my testimony.

24 CHAIRWOMAN SHOWALTER: Well, it helps us to
25 tie into the testimony. So page 10?

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1 MS. DODGE: Yes, page 10, lines 10 through

2 13.

3 A. Yes, I discuss it there. I'm looking.

4 BY MS. DODGE:

5 Q. And page 26, lines 6 through 9.

6 A. That is where I was looking for, yes, in that
7 section. I do discuss hedges as part -- as one
8 particular item that Staff is concerned in in the
9 company's total power supply costs as one item that we
10 are currently looking at.

11 Q. Now I would like you to have a look at
12 Exhibit 453, please. Do you have that handy?

13 A. Yes, I do.

14 Q. I'm going to be just asking some general
15 questions, but you may wish to take a look at this as
16 part of answering those. I'm not going to direct your
17 attention anywhere in particular in this exhibit. But
18 it's my understanding that it's Staff's position that
19 hedging or fixing prices for fuel is a common utility
20 practice; is that right?

21 A. It's my observation over the time that, yes,
22 that is true, that the company has fixed prices for most
23 of its base load resources.

24 Q. But my question was broader than that, not
25 just the company, but generally this practice is

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1 relatively common in the industry?

2 A. For base load resources, yes.

3 Q. Now does Staff believe that it is generally
4 appropriate to recover hedge costs in rates for base
5 load absent some determination that a particular hedging
6 activity is inappropriate?

7 A. Yes, generally, I would think that that would
8 be correct.

9 Q. And is it also correct that at this time
10 Staff has not made any determination regarding whether
11 Puget's gas hedges for early 2002 are appropriate to
12 include in rates or not?

13 A. No, that wouldn't be totally correct. You
14 said that Staff has made. It is my viewpoint that there
15 are some portions of the \$42 Million that Staff looked
16 at that some of those are probably inappropriate to be
17 recovered in this mechanism or at this time because they
18 do not pertain to this period, that is the period of
19 January 1 through October 31st.

20 Q. Mr. Lott, can I --

21 A. But other than that, Staff has not made a
22 determination that any of the costs are imprudent,
23 saying that they're not. And it's my viewpoint that
24 those costs are not of this period, but Staff is not
25 fully -- has not completed that and is not ready to make

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1 that recommendation today.

2 Q. Can I have you look at page 26 of your
3 testimony?

4 A. I'm on page 26.

5 Q. Lines 1 and 2 where you state:

6 At this time, Staff has not been able to
7 determine whether any specific cost is
8 imprudent or inappropriate for recovery.

9 A. Not 100%. I'm not at this time ready to make
10 that recommendation. Your question before was Staff
11 viewpoint. My viewpoint is is that there are some
12 costs, particular some hedging costs that were not --
13 for unbalanced basis hedges that do not represent costs
14 during this period. I am not yet ready at this time to
15 exclude those from cost recovery, because we need to
16 spend more time on reviewing those. It's my personal
17 opinion that those are and should not be recovered
18 ultimately, but that opinion can still change prior to
19 future testimony.

20 Q. So what you have now is sort of a working
21 opinion as you work through the material?

22 A. That's correct.

23 Q. And you're prepared to revisit that as you
24 look at additional material and so forth?

25 A. That's correct.

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1 Q. And I think if you look at Exhibit 453, the
2 last line of the response, it states, at this time,
3 Staff is not claiming that any hedging activity is
4 inappropriate but is requesting the right to review that
5 issue in a later proceeding; is that right?

6 A. That's still the position, right.

7 Q. So that's consistent with what you just
8 stated today?

9 A. Right.

10 Q. Mr. Lott, are you familiar with the Pacific
11 Northwest Bell or PNB standard for interim relief?

12 A. Not to the extent that I think Ms. Steel was.
13 I reviewed it and tried to work with her and other
14 people on the previous case, an Avista case, but I'm not
15 -- to a limited extent I would say.

16 Q. Do you have a -- would it be your
17 understanding generally that the Commission may grant
18 interim rate relief if such relief is required by a
19 regulated company's financial circumstances?

20 MS. SMITH: I would object to this. This
21 goes beyond the scope of Mr. Lott's testimony. This was
22 evidence that was covered in Ms. Steel's testimony, and
23 she would have been the proper witness to cross on this
24 point.

25 JUDGE MOSS: Ms. Dodge.

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1 MS. DODGE: Your Honor, these couple of
2 questions are going to be very brief, but they do lead
3 to to some questions that go to revenue requirements
4 issues.

5 JUDGE MOSS: All right, they're foundation,
6 then we'll just overrule the objection.

7 A. I do believe that Staff's position is
8 presented by Ms. Steel, and I don't disagree with her
9 position.

10 BY MS. DODGE:

11 Q. So now I'm just trying to quantify this and
12 think about it in terms of a quantity of relief. If the
13 Commission, say the Commission were to determine the
14 company needed \$100 in interim relief, isn't it true
15 that any amount below that \$100 amount would not meet
16 the company's needs as determined by the Commission?

17 A. I'm just trying to figure out what you mean
18 by below that amount. I mean we set rates, and rates
19 produce revenue. The rates are established based on
20 your estimates in this case of your load. Therefore,
21 when the Commission gives you an amount, it's based on
22 those loads. The answer is generally yes, but again --

23 Q. So the assumption that I was asking you to
24 work with is that the Commission had determined the
25 company needed \$100, and so having that determination

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1 then made, wouldn't it then be true that any amount
2 below the \$100 would not meet what the Commission has
3 determined the company needs?

4 A. Again, that's not necessarily true, because
5 if the company needed \$100 based on a load and cost
6 projections to recover that load and then the load was
7 not at that level, then the company may need a lesser
8 amount. It depends on where the need for revenue
9 requirement came from. In this case, the projections
10 the company had -- the Commission has are the
11 projections the Commission has relating to the loads and
12 the costs that the company is going to incur. If those
13 loads aren't there or those loads are higher or lower,
14 that might impact the Commission's --

15 Q. I understand your response to be related to
16 some of your testimony about being concerned that maybe
17 projections won't pan out as projected, there may need
18 to be a step where you go back and look at how things
19 have panned out in hindsight. Is that what your
20 response is concerned about, making sure that you have
21 that placeholder in there?

22 A. That wasn't what I was referring to. I was
23 referring to the fact that the Commission will make a
24 decision based on the company's projections of their
25 income. Those projections of income include projections

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1 of load, power supply cost. If the company does not get
2 the revenue because the load was not there, other
3 factors are going to change. In other words, the
4 company is obviously going to have more power to sell or
5 less power to buy under that scenario. Because the
6 company didn't get \$100 worth of revenue from the
7 interim relief, which is what your question was, if the
8 company does not get the \$100 worth of relief from
9 revenue, they may have gotten the \$100 of relief from
10 reduced costs. I mean it's -- because the load -- they
11 do have substantial variable cost included within the
12 pictures.

13 Q. Mr. Lott, if you would turn to page 4 of your
14 testimony, lines 3 through 5. Now you're stating here
15 that your testimony addresses the mechanism to implement
16 any relief granted to Puget; is that right?

17 A. That's what it says, yes.

18 Q. Okay. And that Ms. Steel has recommended
19 that the Commission grant Puget \$42 Million of interim
20 relief?

21 A. Right.

22 Q. Now it's been my understanding that you're a
23 revenue requirements expert; is that right?

24 A. Generally my expertise has been in accounting
25 and calculation of revenue requirements, correct, cost

00551

1 service.

2 Q. I'm just going to ask some fairly what are
3 probably to you very basic questions, but I want to make
4 sure that I'm understanding the basics before I move on
5 to some other questions. If a company needed \$100 to
6 deposit in its bank account and it were to obtain these
7 funds through rate payers, you would have to gross up
8 the \$100 to reflect taxes and some other items in order
9 to actually determine the revenue requirement, wouldn't
10 you?

11 A. If a company needed \$100?

12 Q. At the end of the day in the bank account.

13 A. And you needed to create revenues in order to
14 get the \$100 into the bank?

15 Q. Yes.

16 A. So you could charge the customer enough money
17 to get the \$100?

18 Q. Yes.

19 A. You would then have to, yes, gross that up
20 for taxes.

21 Q. In other words, you would have to collect
22 more than the \$100 to end up with \$100 to put in the
23 bank account, because, for example, the company has to
24 pay taxes on the funds it collects from rate payers?

25 A. You would, that's correct.

00552

1 Q. And those would be federal income tax and
2 state utility taxes?

3 A. That's correct.

4 Q. And then typically you also need to account
5 for bad debt and fees paid to the Utilities and
6 Transportation commission?

7 A. Yes, those are all included in.

8 MS. SMITH: I'm going to object to this. I
9 think this goes beyond the scope of the witness's
10 testimony, and perhaps if we knew where Ms. Dodge was
11 going with this.

12 JUDGE MOSS: It seems to me to be well within
13 the scope of the witness's testimony, Ms. Smith.

14 Go ahead, Ms. Dodge.

15 BY MS. DODGE:

16 Q. So making these adjustments is what you would
17 refer to as gross up?

18 A. That's a conversion factor, gross up is what
19 a lot of people refer to it, yes.

20 Q. So when setting the amount to collect from
21 rate payers, you apply this conversion factor to get the
22 amount that you actually need to charge customers to
23 result in those sufficient funds after taxes, bad debt,
24 and so forth; is that how it works?

25 A. I think you have to be careful here,

00553

1 Ms. Dodge, you keep talking about the need -- the need
2 \$100 in the bank. It depends on whether that \$100 in
3 the bank is \$100 cash in the bank or whether that \$100
4 is a cushion in order to absorb a cost that might occur.
5 You keep referring to it as -- that was your question
6 that you asked me was if you needed \$100 in the bank.
7 Well, if you needed \$100 cash in the bank, the answer is
8 yes. But if you need \$100 as a cushion against a
9 potential expense that would also have tax effects, then
10 the answer is no. So, you know, that's -- and again,
11 Ms. Steel has testified to that subject matter already,
12 but there's a difference between cash in the bank and
13 having a cushion. Trying to get the right word, but I
14 will just call it a cushion, a cushion in order to allow
15 the company to absorb certain unexpected expenses.

16 Q. And I think some of my next few questions are
17 going to get down to that level of detail. If you have,
18 and I'm asking you to assume this now, if you had a
19 conversion factor that needed to take into account
20 federal income tax, state tax, bad debt, and the UTC
21 fee, wouldn't the conversion factor typically be
22 approximately 0.62?

23 A. Yes, about 0.62. I thought you said .062.

24 Q. 0.62?

25 A. Correct.

00554

1 Q. So in that example, if you were applying that
2 conversion factor, to end up with \$100, you would need
3 to collect approximately \$160; is that right?

4 A. I think that's about right.

5 Q. And then if the amount collected were
6 completely offset by expenses, then typically you
7 wouldn't be concerned about building the federal income
8 tax into the conversion factor; is that right?

9 A. That's correct.

10 Q. And is that what you were getting at in your
11 prior longer answer where you were saying you have to --
12 it depends on what the money is going to do?

13 A. That's correct.

14 Q. Okay. But in that case, you still have would
15 have state utility taxes, bad debt, and the UTC fee,
16 wouldn't you?

17 A. Yes.

18 Q. Because, for example, state utility tax is
19 not an income tax, it's just if you collect it, you pay
20 the tax?

21 A. That's correct.

22 Q. Okay. So in the case where you have no
23 federal income tax, then is your conversion factor
24 approximately 0.95?

25 A. That's the same one I gave you, yes, whatever

00555

1 I gave you earlier when I corrected my testimony.

2 Q. 0.955 something?

3 A. Yeah, something, something.

4 Q. Okay.

5 JUDGE MOSS: Just for a clear record, it's

6 .955234.

7 Q. So to end up with \$100 in that case, you
8 would need to collect about \$105?

9 A. Yes.

10 Q. Now if you would turn, Mr. Lott, to your
11 testimony at page 7, please. I'm looking at lines 2
12 through 11. Now you state on lines 2 through 3:

13 The \$42 Million interim relief proposed
14 by Ms. Steel results in a surcharge rate
15 of 0.421 cents per kilowatt hour
16 compared to the company's proposal.

17 Is that right?

18 A. That's what it says.

19 Q. Okay. Now as I understand the way you have
20 calculated the surcharge, you provide on line 6 a volume
21 of 9,983,987 megawatt hours; is that right?

22 A. That's correct.

23 Q. Okay. So if we multiply the volume here, the
24 9.9 million megawatt hours times this 0.421 cent per
25 kilowatt surcharge, do you come up with the \$42 Million?

00556

1 A. That's what it's intended to do, correct,
2 because the \$42 Million provided to me by Ms. Steel was
3 revenue for this, and since that's the rate and that's
4 the load.

5 Q. So the rate times the load gets you the \$42
6 Million?

7 A. Right.

8 Q. Now in this case, you have not applied any
9 conversion factor here, have you?

10 A. No, the number given to me by Ms. Steel was
11 revenue.

12 Q. What do you mean the number was revenue?

13 A. When I asked Ms. Steel what her \$42 Million
14 represented, and as she testified earlier today and
15 yesterday, \$42 Million represented the amount of revenue
16 the company needed.

17 Q. Do you understand that to mean that's the
18 amount -- that she was giving you the amount to collect
19 from rate payers?

20 A. Right.

21 Q. And she was not instructing you to, here's
22 the amount the company needs, do whatever you need to
23 get the revenue requirement?

24 A. No, in fact, I asked her questions whether
25 this represented revenue or the need for cost recovery,

00557

1 and she said revenue.

2 Q. Not cost recovery?

3 A. Right.

4 Q. Assuming for a minute that the \$42 Million
5 were a cost recovery number, isn't it correct that if
6 you applied a conversion factor including federal income
7 tax, the 0.62 amount we discussed earlier, you would
8 have to collect approximately \$68 Million from customers
9 to get \$42 Million of cost recovery?

10 A. I can accept your math as taking \$42 Million
11 and dividing it by the 62. I assume that's about right.

12 Q. And even if for some reason there were no
13 federal income tax consequences to that revenue still so
14 such that you applied the conversion factor of 0.95
15 rather than 0.62, wouldn't you need to collect
16 approximately \$44 Million or so in order to result in
17 \$42 Million of cost recovery?

18 A. Okay, that is not what Ms. Steel gave me, but
19 yes, if I was trying to get cost recovery not including
20 federal income taxes, you would divide that number by
21 the .95.

22 Q. And the way that this is -- now if we have
23 the 42, I'm sorry, if we have the surcharge set up the
24 way it is now where you're collecting \$42 Million from
25 rate payers, if there is federal income tax

00558

1 consequences, doesn't it mean that the cost recovery to
2 the company would be approximately \$26 Million once you
3 have applied your 0.62 conversion factor?

4 A. Can you give me the first part of the
5 question again?

6 Q. If you collect \$42 Million from customers and
7 there are federal income tax consequences associated
8 with that, isn't it correct that you apply the 0.62
9 conversion factor resulting in only \$26 Million cost
10 recovery to the company?

11 A. Yes, if the contingencies that Ms. Steel was
12 providing the \$42 Million to recover did not
13 materialize, then excess earnings that the company would
14 give to the excess profit would be approximately the
15 amount that you just stated, and I can check that.

16 Q. Meaning just check the math on the --

17 A. Certainly.

18 Q. Will you accept subject to check for now that
19 the conversion factor of 0.62 on \$42 Million would
20 result in cost recovery of \$26 Million to the company?

21 A. Yes. Let me write that down, please. I'm
22 not -- yeah, I guess I'm getting close, okay.

23 Q. Have you checked the number?

24 A. Close enough, yes.

25 Q. Close to the \$26 Million?

00559

1 A. Right.

2 Q. Mr. Lott, looking at page 9 of your testimony
3 where you made some corrections earlier, I understood,
4 Mr. Lott, that you added a line 6 such that a refund to
5 affected customers would be adjusted by a conversion
6 factor; that's essentially what you have done?

7 A. Yes, I did convert it for the .955234.

8 Q. Mr. Lott, why did you apply a conversion
9 factor to the refund?

10 A. Because the projections that Ms. Steel was
11 relying upon included the power supply costs that come
12 from Mr. Gaines's Exhibit WAG-3. I'm not sure what the
13 exhibit number is. And the example, the 3,533 number
14 here was not a revenue number. The 3,533 represented
15 cost number was included in Mr. Gaines' exhibit, and
16 therefore in order to convert the overcollection of
17 power supply costs in this - of Mr. Gaines's projection
18 to the revenue associated with it, and there was the
19 cost savings that would happen when the revenue went
20 away if it was refunded, taxes would have also gone
21 away, and therefore I needed to correct the revenue by
22 the revenue sensitive taxes. I would assume that the
23 federal income taxes, like Mr. Gaines does in his WAG-3,
24 would have been offset, the reduction in cost would have
25 been offset by the reduction in revenue, and that's

00560

1 exactly why Mr. Gaines -- only he uses a conversion
2 factor of .95 in his WAG-3 exhibit.

3 Q. And it's your understanding that he's doing
4 so and you have done so here because these are tied to
5 power costs?

6 A. Because the numbers on lines 2 and 3
7 represent power supply costs specifically included in
8 the projections that Ms. Steel and Mr. Don Gaines relied
9 upon in the models that the company ran for corporate
10 results.

11 Q. With respect to your last answer, Mr. Lott,
12 do you have an understanding of where Ms. Steel's \$42
13 Million number came from?

14 A. When I review Ms. Steel's Exhibit 14C, it
15 looks like Ms. Steel has created a contingency of
16 approximately, and I hope this is not confidential, but
17 \$126 Million. The contingencies include the \$20 Million
18 contingency that she talked about separately and a \$106
19 Million contingency that she calculated. When she gave
20 the \$126 Million worth of contingency, she ended up
21 trying to protect the company on the bottom side and
22 therefore gave them \$42 Million. Beyond that, I did not
23 completely review all of the workpapers that Ms. Steel
24 did.

25 MS. DODGE: I have no further questions for

00561

1 the witness.

2 JUDGE MOSS: Thank you, Ms. Dodge.

3 Mr. ffitich, do you have questions for

4 Mr. Lott?

5 MR. FFITCH: Yes, I do, thank you, Your

6 Honor.

7

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

9 BY MR. FFITCH:

10 Q. Good afternoon, Mr. Lott.

11 A. Good afternoon.

12 Q. Can I ask you to turn to page 4 of your
13 testimony, that's Exhibit 451, and to look at lines 4
14 through 7. I think this ground has essentially been
15 covered there, but there you state that your testimony
16 addresses the mechanism to implement any relief granted
17 PSE whether or not it's consistent with the
18 recommendation of Ms. Steel, and you also critique the
19 company proposal to recover deferred power costs; is
20 that correct?

21 A. That's correct.

22 Q. So you are not recommending in your testimony
23 that any interim relief be granted to Puget Sound
24 Energy, correct?

25 A. No, my testimony does not address the issue

00562

1 of how much interim relief the company should receive.

2 Q. And, in fact, at lines 10 through 13 on that
3 same page where you summarize your conclusion, the first
4 two sentences provide two independent bases under which
5 the Commission could reject the entire interim request,
6 do they not?

7 A. First two items on lines 10 through 13 do not
8 relate to whether the company should recover interim
9 relief. They deal with recovering interim relief as a
10 deferral recovery as proposed by the company as opposed
11 to the need for financial relief.

12 Q. All right. But if the Commission were to
13 conclude that the company's request was, in fact, a
14 request to simply recover these deferred power supply
15 costs or alternatively to establish a power cost
16 adjustment, then either one of those in your view
17 according to your testimony here would be a basis for
18 rejecting the interim request?

19 A. If the only purpose of the company's request
20 was to establish a PCA at this time, it wasn't for the
21 financial needs of the company, then yes, that would be
22 correct.

23 Q. Or if the only purpose was to recover
24 deferred power supply costs?

25 A. Yes, the two being the same thing.

00563

1 MR. FFITCH: Thank you, I don't have any
2 further questions.

3 JUDGE MOSS: Thank you, Mr. ffitich.
4 I guess Northwest Industrial Gas Users is
5 next, any questions?

6 MR. STOKES: Yes, thank you, Your Honor.

7

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

9 BY MR. STOKES:

10 Q. Good afternoon, Mr. Lott.

11 A. Good afternoon.

12 Q. If I can have you turn to page 4, lines 10
13 and 11 of your testimony. You state that PSE's approach
14 to recover its power supply costs here is inappropriate
15 single issue rate making; is that correct?

16 A. That's correct.

17 Q. You also state on page 4, lines 12 and 13
18 that PSE's filing does not meet the standards for a PCA;
19 is that correct?

20 A. That's correct.

21 Q. If PSE's proposal for interim relief was
22 treated as a PCA, is the cost of capital reduction
23 required because a PCA is basically a flow through
24 adjustment and eliminates risk for the company?

25 A. The Commission would need to reevaluate the

00564

1 cost of capital in establishing a PCA that could be --
2 it is I think Staff and previous commission's viewpoints
3 that a PCA would have an effect of reducing the cost of
4 capital. Does that -- that does not necessarily mean
5 that would be a reduction from the cost of capital the
6 company currently has. It would be a reduction from the
7 cost of capital from what it would be absent PCA.

8 Q. But is the reason for that reduction because
9 a PCA eliminates risk for the company?

10 A. Yes.

11 Q. Okay. Would I then be correct in asserting
12 that the natural gas side of the utility is less risky
13 than the electric because the gas side has pass through
14 adjustments through PGA's?

15 A. For that one particular item, gas, that would
16 be less risky for other items, in gas, that would be
17 more risky.

18 MR. STOKES: Okay, thank you, I've got no
19 further questions.

20 JUDGE MOSS: All right, thank you.

21 I believe Ms. Davison I guess would be next.

22 MS. DAVISON: Thank you, Your Honor, I will
23 try to continue with this trend that seems to have
24 developed this afternoon.

25 JUDGE MOSS: Yes, congratulations to you all

00565

1 so far.

2

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

4

BY MS. DAVISON:

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8

Q. Mr. Lott, is it correct that PSE's \$170 Million interim rate case request is based on its projections of power costs from January 2002 through October 2002?

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A. Their calculation of \$170 Million is the difference between projected power supply of costs during that time frame and what they believe, which I do not believe, but what they believe is the embedded cost of those same power costs during that same period of time.

15

16

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19

MS. DODGE: Objection to the degree the witness is describing the company's beliefs.

20

21

22

23

24

25

JUDGE MOSS: Noted.

Go ahead.

MS. DAVISON: All right.

BY MS. DAVISON:

21

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24

25

Q. Thank you, Mr. Lott. Is it correct that in PSE's general rate case that its power costs will be established on a normalized future basis?

A. I would assume so.

Q. And isn't the time period covered by the

00566

1 general rate case for the power costs October 2002
2 through September 2003? And if you don't know that,
3 would you accept that subject to check?

4 A. You're talking about the company's
5 presentation of the general rate case?

6 Q. That's correct.

7 A. Okay, as long as you're talking about the
8 company's presentation, I would assume that the
9 company's presentation, and I can check it, but I would
10 assume the company's presentation would be for the rate
11 year ended October 31st, 2003.

12 Q. Thank you. And in this case, would a refund
13 be subject to both a true up, which you described in
14 your testimony, and a prudence review?

15 A. Yes, there would be both at the same time is
16 my proposal.

17 Q. And given the mismatch of the time periods
18 between the power costs covered by the interim rate case
19 and the power costs to be established in the general
20 rate case, procedurally how would you propose that a
21 prudence review occur if the Commission were inclined to
22 give PSE an interim rate case increase?

23 A. My proposal is to wait until after the final
24 power supply costs can be measured for the interim
25 period, which would mean after the October 31st date,

00567

1 where the company could then provide a full calculation
2 of what their actual power supply costs were, and those
3 power supply costs could be reviewed in a proceeding
4 that would begin after that point in time. It doesn't
5 mean that Staff and other parties might not review it
6 during the general rate case partially, but since the
7 costs to be reviewed wouldn't be completed until October
8 31st, you would have to have a proceeding after the
9 general rate case. And I don't have particular timing
10 that would say you have to do it in October. I mean it
11 might be November, December, January, or exactly the
12 time, but I think it could be done rather expeditiously
13 after the company has their accounting done for that
14 time period.

15 Q. In your mind, would that be a separate
16 prudence review case along the lines that has occurred
17 with Avista?

18 A. Yes.

19 MS. DAVISON: I have no further questions,
20 thank you.

21 JUDGE MOSS: Let's see, I believe, Mr. Kurtz,
22 you would be next if you have some questions.

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

24

25

00568

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

2 BY MR. KURTZ:

3 Q. Good afternoon, Mr. Lott, I represent the
4 Kroger Company.

5 A. Good afternoon.

6 Q. One of the main points I took from your
7 testimony was that you believe that the original
8 proposal of PSE was improper single issue rate making?

9 A. That's correct.

10 Q. Okay. I counted a number of pages where you
11 referred -- where you make that statement, page 4, page
12 8, page 10, page 16 and 17. Does that sound about
13 right?

14 A. You have done more research than me, but
15 sounds right.

16 Q. Now it's your basic position then as I
17 understand it that if interim relief is granted, the
18 Commission should not base it on any one single cost
19 item which may have gone up or down since the last rate
20 case in 1992, but should be based on the company's
21 overall financial integrity type analysis?

22 A. Yes, that is my and that's the testimony of
23 Ms. Steel.

24 Q. And Ms. Steel's Exhibit 414C, her sources and
25 uses analysis that comes up with a 42 or so thereabout

00569

1 million, that looked at a total company financial
2 integrity picture, did it not?

3 A. Yes.

4 Q. Okay. In your testimony, and you probably --
5 you may or may not need a page reference, but page 11,
6 but you also state that even if the Commission wanted to
7 engage in single issue rate making and provide a
8 mechanism to collect -- if you want to turn to it,
9 that's fine, page 11, I guess what I'm looking at is
10 line 5. In this section of your testimony, you list
11 four reasons why the company's proposal is wrong, and
12 I'm on the third reason on line 5. And essentially as I
13 took your testimony as a whole, even if the Commission
14 wanted to establish a mechanism to recover the
15 difference between power costs in the 1992 rate case and
16 power costs projected from January through October 2002,
17 the Commission could not do that because there's not a
18 proper base line from the 1992 rate case to start with?

19 A. Yes, I not only think that the calculations
20 that the company provided in response to data requests
21 indicate substantial errors, the process that they went
22 through, the concept that you could establish a base
23 line based on emergent proceedings or the PRAM
24 proceedings, but Commission orders would indicate their
25 base line substantially understated, so.

00570

1 Q. So even if the Commission wanted to engage in
2 this purchase power single issue rate making or the
3 quasi PCA, power cost recovery, PCR, power cost
4 adjustment, PCA, even if they wanted to do that, the
5 information from the '92 rate case is insufficient to do
6 that?

7 A. That's correct.

8 Q. Okay. On page 17 of your testimony, you
9 again reiterate, well, I guess we should really turn to
10 page 16, it's the Q&A that carries over from the bottom,
11 your conclusion on single issue rate making, and among
12 other things you --

13 MS. DODGE: Your Honor, can I just object for
14 a moment and ask where this is going, because it seems
15 to me to be friendly cross at this point.

16 JUDGE MOSS: I've been having a growing
17 concern in that regard, Mr. Kurtz.

18 MR. KURTZ: It's foundation, we have a
19 difference of opinion with Mr. Lott on his proposed
20 allocation of any interim rate increase, and this is
21 foundation, and I think actually it's about the end of
22 the foundation along those lines.

23 JUDGE MOSS: All right, I will permit one
24 more question with the commitment to tie it up into your
25 position that is adverse.

00571

1 BY MR. KURTZ:

2 Q. Among other things, you state on page 17 that
3 certain costs have been going down for the company, and
4 in support of that you refer to the general rate case
5 testimony of Mr. Weaver, Ms. McLain, and Mr. Sherman; is
6 that right?

7 A. Yes.

8 Q. So I take it you have reviewed the general
9 rate case filing in preparation of your interim
10 testimony?

11 A. I have read them.

12 Q. Now one issue where you don't disagree with
13 the company is your proposed method of collecting the
14 \$42 Million; is that right?

15 A. That's correct.

16 Q. The company proposed a straight kwh charge on
17 all customers, and you support that concept to a lesser
18 -- support that concept with a lesser number because
19 you're collecting 42 and they're collecting 170, but the
20 concept of a straight kwh charge is something that you
21 have adopted?

22 A. That's correct.

23 Q. And I was reviewing your testimony for that,
24 and I seen it -- you refer to that in two sentences in
25 two places, page 4, line 18, where you say that level of

00572

1 relief should then be recovered on a uniform cents per
2 kwh excluding Schedules 448 and 449 and Special
3 Contract, okay that's your summary. And then on page 6,
4 line 17, you say, yes, any interim surcharge should be
5 based on uniform cents per kwh. Is there any other or
6 are there any other spots in your testimony where you
7 discuss this concept?

8 A. I don't believe there's another place in the
9 testimony. My general argument in favor of using
10 uniform cents per kilowatt hour is the argument
11 presented on page 6.

12 Q. Well, I didn't actually see an argument;
13 where are you referring to?

14 A. The line right after the line you quoted
15 says, further, by some of the requested relief may be
16 related to costs other than power supply, and that's if
17 the company got the whole \$179 Million, some of it may
18 be -- a majority of it -- any needed relief is driven by
19 increases in the power supply costs, therefore it is
20 appropriate to exclude Schedules 448, 449.

21 Q. Well, I read those last two sentences that
22 begin with further and therefore as being your rationale
23 for excluding the 448 and 449 and Special Contract
24 customers. I did not read that as a rationale for your
25 first sentence that says there should be a straight kwh

00573

1 charge.

2 A. I was basically trying to identify in that
3 sentence that the costs were power supply costs, and
4 those costs are generally spread on a basic rate kwh
5 basis a little bit off of that, but not much, using the
6 peak credit method. I did not go into that, because I
7 was agreeing with the company.

8 Q. So to the extent that you have discussed it,
9 this is it right here, this paragraph?

10 A. Yes.

11 Q. Now you have rejected the idea of single
12 issue rate making to recover simply power costs, isn't
13 that right?

14 A. I rejected the idea that the company should
15 be able to establish that they need to recover this
16 deferral 100% of this difference between one item in a
17 general rate case and another item in a general rate
18 case and that 100% of that needs to be recovered in
19 this proceeding because there was \$100 here and it's
20 \$102 here and we need to recover the \$2 without looking
21 at other items. I have not rejected the fact that the
22 costs that are causing the need for this rate relief are
23 power supply costs.

24 Q. Now you have referred to Ms. Steel's Exhibit
25 414C. Is there anything in that exhibit that is tied

00574

1 directly to power supply costs? That's her exhibit
2 where she calculated the \$42 Million.

3 A. Ms. Steel relied on the company's projections
4 of income and cash flow. Those projections of income
5 and cash flow are based on -- one portion of those are
6 based on Mr. William Gaines's projections of power
7 supply costs, and those projections of power supply
8 costs produced the 35.33 mils per kilowatt hour that
9 Mr. Gaines projects, and that is the basis of
10 Ms. Steel's projections.

11 Q. I thought you testified, and I know she
12 testified that she was looking at total company
13 financial integrity picture. Are you going back now to
14 trying to track power supply costs?

15 A. My testimony -- no, Staff's position is that
16 the company needs total relief. That total relief
17 includes a prediction by the company of power supply
18 costs in the neighborhood of 35.33 mils. Without that
19 power supply cost being at 35.33 mils, for example, if
20 that number was 30 mils, the company would not need the
21 rate relief that Ms. Steel is recommending in this case
22 nor the rate relief that Mr. Schoenbeck is recommending
23 in this case, definitely not what Mr. Hill is
24 recommending. Based on that, the need for interim rate
25 relief is based on the company's projections of and I

00575

1 would even call them high power supply costs of 35.33
2 mils. Those power supply costs include extraordinary
3 costs, not long-term costs as Ms. -- brain dead, the
4 other attorney, I'm sorry.

5 MS. DAVISON: Davison.

6 A. Davison asked me. But they do -- the relief
7 is there because the power supply costs that the company
8 projects to incur this year, and that is the emergency
9 relief, they are higher in this interim period than they
10 are for the extended period of rate relief from October
11 1, 2002, going through September 30th, 2003.

12 Q. And as you testified, other costs are lower,
13 other revenues are higher, et cetera, et cetera, and
14 it's improper single issue rate making to try to track
15 any one particular cost; isn't that also your testimony?

16 A. I'm stating that as I said to your earlier
17 question was trying to track that particular cost on a
18 fixed basis to a fixed basis from one rate case to this
19 particular proceeding, those costs were set at 16 mils
20 in the general rate case, the company tried to escalate
21 them based on some rate increases, I disagreed with
22 those escalations, they're trying to measure that one
23 particular item and try to set the whole rate, that we
24 need to recover 100% of this difference is what I'm
25 referring to as single issue rate making.

00576

1 Say that the company's need for rate relief
2 here was not caused by the extraordinary emergency power
3 supply costs that they have faced. Whether those be
4 prudent or not at this time, Staff is not sure, but it
5 is still Staff's viewpoint that this emergency rate
6 relief or interim rate relief that the company is facing
7 now is caused by power supply costs.

8 Q. Now does Ms. Steel's Exhibit 414C look at the
9 gas and electric operations or just the electric
10 operations?

11 A. It includes both.

12 Q. Includes both gas and electric; is that
13 right?

14 A. Yes.

15 Q. Why are you proposing to collect only from
16 electric customers a surcharge intended to maintain the
17 financial viability of both the gas and electric
18 companies?

19 A. I think with the same reason I just stated,
20 the main drive, the main need for the company's
21 financial condition is caused by the company's
22 unexpected increase in their power supply costs.

23 Q. How much of the \$42 Million is related to
24 power supply costs? You state in your testimony a
25 majority, how much of the -- how much of it exactly?

00577

1 A. My \$42 Million?

2 Q. Of Ms. Steel's \$42 Million, yes.

3 A. If the company was at a more normal level,
4 for example, 28 mils, we would have a 7 mils difference,
5 which would be 7 mils times 15 Million, \$7 times 15
6 Million would be a lot more than 42, that would be what,
7 85, so more than 100% of the \$42 Million would have been
8 caused by what I would consider the excess power supply
9 costs.

10 Q. If they had \$42 Million of extra revenue,
11 that would offset the need of the increase also. Do you
12 have -- is there anyplace in this record where you can
13 point to me Staff's calculation of how much of
14 Ms. Steel's \$42 Million is directly attributable to the
15 power supply cost situation you refer to?

16 A. Ms. Steel's calculations are based on
17 Mr. Gaines's projections of power supply.
18 Unfortunately, Mr. Gaines's projections of power supply
19 are simply projections, but they are in comparison to
20 what this Commission -- what the company projected in
21 the merger proceedings, which is something the
22 Commission has available. The difference between those
23 levels of power supply costs that were included in the
24 merger rate plan and the power supply costs that this
25 company is projecting in this proceeding are easily more

00578

1 than the \$42 Million.

2 Q. How much of the company's power supply costs
3 are variable and how much are fixed?

4 A. How much of the company's power supply costs
5 are variable and how much are fixed? I think you just
6 have to look at Mr. Gaines's exhibit to determine how
7 much is variable, but variability does not come from the
8 fact that they pay \$1,000 to Chelan PUD for the power at
9 one of the dams, I'm not sure, Rocky Reach, whatever
10 they are, and it doesn't come from that variability. It
11 comes from the ability of the company to either sell the
12 excess power or purchase power that they need to fill in
13 their -- in the resources. If the company -- if the
14 price of power is high and they can sell their
15 resources, then they can receive extra revenue which
16 offsets their total power supply costs.

17 They have fixed costs at Tenaska, they have
18 fixed costs at Encogen, they have fixed costs at Chelan
19 PUD, they have fixed costs at most of their resources
20 that they know of. The variable costs are relatively a
21 small portion when you look at the cost of, for example,
22 producing power at Colstrip, a very small portion. Same
23 thing with Tenaska and some of these other resources.
24 It is the ability of the company to market their
25 resources that creates the variability in their power

00579

1 supply model.

2 When you looked at -- when we looked at the
3 resources in the 1992 rate case, this is in my
4 testimony, the variability that we found was \$50
5 Million. That was the variance from the average to the
6 most extreme. The power supply costs included in that
7 calculation on a normalized basis were less than \$50
8 Million. So there was more variability than there was
9 average power supply costs.

10 Q. Do you remember my question?

11 A. You said how much -- not exactly, but you
12 were asked how much of -- of the company's costs are
13 variable in the power supply, and I'm trying to explain
14 there's two different ways to calculate that. You can
15 look at Colstrip, says 10 mils and the 50 mils of
16 producing power at Colstrip is variable, so you have 20%
17 variability. But if I can then go out and sell Colstrip
18 at 75 mils, if I can sell the excess power to Colstrip
19 at 75 mils, I reduce my total power supply cost by quite
20 a bit.

21 Q. Now your proposal is to collect this \$42
22 Million surcharge on a pure variable cost, pure kwh
23 basis; isn't that right?

24 A. That's correct.

25 Q. Now in that long answer you just gave me,

00580

1 part of it was that a substantial portion of power
2 supply costs are fixed, but you have -- yet you have
3 proposed no fixed cost recovery mechanism in your
4 surcharge, have you, a demand charge, for instance?

5 A. I have not allocated a portion of it to
6 demand.

7 Q. Now are power supply costs higher in the on
8 peak hour of the day or lower?

9 A. Generally speaking, they're higher on the on
10 peak.

11 Q. Are power prices higher in the peak days of
12 the week or lower?

13 A. Generally the higher the load, the higher the
14 price.

15 Q. And the same is true for the month, the peak
16 months have higher power supply costs than the non-peak
17 months; isn't that right?

18 A. Not necessarily the peaks of Puget Sound
19 Energy, but the peaks of the region and the total region
20 which might include California, yes.

21 Q. Now have you taken that into account in
22 designing your straight across the board kwh charge that
23 charges the same amount whether the energy is used in
24 the on peak hour or the off peak hour?

25 A. I looked at the prices and -- I looked at the

00581

1 prices that the company was charging the various classes
2 of customers and how the prices that were created today
3 came into existence, tried to determine whether it was
4 appropriate to charge those -- charge the surcharge to
5 classes of customers. I guess theoretically if I was
6 going to make an adjustment to this, I would consider,
7 and I do have a reason why this is inappropriate, I
8 would go back to the PRAM proceedings, and I could
9 consider allocating the power supply costs here in a
10 similar fashion to the resource costs in the PRAM
11 proceeding. However, there were some off siding factors
12 during the merger proceeding which 100% of the costs
13 were considered power supply. The residential class
14 received a much greater percentage of those increases
15 than they would have received under other things.

16 So when I'm looking at this, when I looked at
17 this and tried to decide whether I agreed with the
18 presentation of the company, I didn't just look and say,
19 you know, here's Mr. Heidell's testimony in this case,
20 which nobody has renewed. I looked at what happened in
21 '92, I looked at what happened in the PRAM proceedings,
22 and I looked at what happened during the merger
23 proceedings, and I looked at how power supply costs were
24 allocated in that '92 rate case and how rate increases
25 related to power supply costs have been passed through

00582

1 to the rate payers since then.

2 Q. Two questions, and you can answer these in
3 any order. Again, do you remember what my question was,
4 first question, and then number two, where is any of
5 that in your direct testimony?

6 A. I didn't -- I said it at the beginning of my
7 testimony, I don't remember your exact words to your
8 question, sorry. But no, I told you at the beginning of
9 my testimony, since I was agreeing with the company's
10 presentation, I saw no need to spend a lot of time. I
11 presented the fact that this was the power supply and
12 the Staff's viewpoint, power supply related. I pointed
13 to you in my testimony that I did believe that this was
14 power supply related situation, and Staff recommended
15 based on that.

16 Q. So the answer is that none of that is in your
17 testimony?

18 A. The answer that I just gave two minutes ago,
19 no.

20 Q. Now let me ask you my question again. How
21 did you take into -- let me strike that and rephrase it.

22 Under your proposal, if I use power at night
23 time on the weekend, the cheapest time, I will get
24 charged the same amount under your flat kwh proposal as
25 a customer that uses it on the peak days during the peak

00583

1 hours. You make no differentiation; isn't that right?

2 A. Did not try to allocate this thing between
3 the time of day usage prices that the company has in the
4 tariff.

5 Q. I would like to ask you this question again,
6 because I remember your answer, but I would like to hear
7 it again. When Ms. Steel does her gas and electric
8 total company financial integrity picture on Exhibit 414
9 and comes up with \$42 Million, what is your reason for
10 exempting the gas customers from any rate increase at
11 all and putting it entirely on the energy charge of the
12 electric customers?

13 MS. SMITH: I object to this question. I
14 believe it's been asked and answered by the witness.

15 JUDGE MOSS: Well, you did preface your
16 comment with the fact that you had the answer before,
17 Mr. Kurtz, are you going somewhere else with this?

18 MR. KURTZ: Well, I will state another
19 question.

20 BY MR. KURTZ:

21 Q. Why did you exempt the gas customers from any
22 rate increase at all if this is a gas and electric total
23 financial integrity recommendation?

24 MS. SMITH: And again, I have the same
25 objection, I believe Mr. Lott answered that question

00584

1 when it was posed to him earlier.

2 MR. KURTZ: I think it was a different
3 question.

4 JUDGE MOSS: Well, let's just go ahead with
5 the response. It's not going to unduly burdon the
6 record to have the answer again.

7 So go ahead Mr. Lott, and let's see if we can
8 move this along.

9 A. I guess I can give you two reasons, but the
10 first reason is the one I gave before, I believe, and
11 that is that I believe this is an emergency rate case
12 related to the company's interim need. That emergency
13 is caused by power supply costs. Number two, I was
14 dealing with the tariff filing of the company. This is
15 much less issue. I guess I could have have asked to
16 move it over to the gas side, but there is no gas tariff
17 proposal in front of me. The main reason is because the
18 costs that caused the emergency in my belief are power
19 supply costs.

20 BY MR. KURTZ:

21 Q. You from your resume' have testified a number
22 of times in front of the Commission. Are you aware of
23 any precedent where the Commission has taken a gas and
24 electric total company rate increase and spread it
25 simply to the electric customers?

00585

1 A. Yes.

2 Q. Can you explain?

3 A. Well, just recently we had the Avista
4 surcharge that currently -- that Avista is currently
5 charging to its customers. The Commission gave the
6 company emergency relief I guess is the proper term, and
7 there's currently a settlement on the interim relief in
8 the general rate case that is pending. But okay, I
9 guess that one's not through yet. But the emergency
10 relief granted by the Commission was because Avista is
11 in financially strung condition and --

12 Q. I take it --

13 A. -- they gave it to them all on electric.

14 Q. I take it Avista is a gas and electric
15 company, and the Commission put the entire rate increase
16 on the electric customers?

17 A. That's correct.

18 Q. Does that strike you as a subsidization of
19 the gas customers by the electric customers?

20 A. No, it does not. At Avista, it is probably
21 more clear that it is not, because in Avista's case,
22 there had just been a general rate case which
23 established a proper base line, and the emergency was
24 very specifically being able to define to the power
25 supply costs, and the Commission granted rate relief to

00586

1 recover a substantial portion of the power supply costs.
2 In this case, it's a little bit more difficult, and I
3 can understand that there is a difference between the
4 two but -- I was going to say something, but there's no
5 need.

6 Q. Now you testified earlier that you have
7 reviewed the general rate case testimony. In fact, you
8 refer to three pieces of it in your interim case, in
9 your interim testimony here; is that right?

10 A. I have tried to review it. I think I have
11 still failed to read the people's testimony that I am
12 actually responsible for, but.

13 Q. Did you review the company's cost of service
14 study or testimony in the general case?

15 A. No.

16 Q. So you did not make any determination at all
17 whether your straight kwh collection of this \$42
18 Million, how that would affect the cost of service
19 results from the electric case?

20 A. Well, I have reviewed Mr. Heidell's
21 testimony, not his testimony, but his exhibits do
22 recalculate the peak credit methods to more of it's
23 calculated on demand, which should change it slightly
24 from the 1992 rate case. But other than that, I have
25 not reviewed the cost of service case.

00587

1 Q. So if you have not reviewed the cost of
2 service study, you don't have any idea what cost of
3 service results your proposal would have?

4 A. My cost -- the rate case in this -- the
5 interim rate case in this case is to recover costs that
6 are not ongoing in my viewpoint. They are to recover
7 costs that are more emergency and short term related to
8 the company's high power supply costs during this
9 interim period.

10 Q. So in other words, you don't know if your
11 proposed rate increase hits hardest those customers who
12 are already paying the highest profit margin to the
13 company on their rates, because you haven't looked at
14 that question?

15 A. The Staff has not done a review or analysis
16 of that, and I wouldn't rely on Mr. Heidell's exhibits
17 at this time anyway because those -- you could look at
18 Mr. Heidell's, and I have not, so I'm not sure which
19 classes are going to, according to Mr. Heidell's
20 studies, are going to result in greater returns or
21 lesser returns for various classes, but I wouldn't rely
22 on those until it's been cross examined and other
23 parties have had a chance to take their position on it.

24 Q. Page 17 of your testimony in this case, you
25 rely on the testimony of Mr. Weaver, Ms. McLain, and

00588

1 Mr. Sherman in the general rate case, and that testimony
2 has not been cross examined, has it?

3 A. I'm not sure that Mr. Weaver, Ms. McLain or,
4 what's the other witness, Sherman, are correct. I'm
5 just stating that the company, in this statement, I'm
6 referring to the fact that the company has stated
7 themself that they're offsetting costs.

8 Q. And you believe --

9 A. This is related to the single issue. In
10 other words, you can't go out and do a single issue, and
11 I'm saying the company's own testimony says that there
12 are offsetting factors, and those offsetting factors --
13 offsetting factors should be taken into consideration
14 when setting rates. I'm not saying that they're
15 correct, that these costs have decreased or not
16 decreased.

17 Q. Now the company along the same line, same
18 logic, the company's own testimony in the general rate
19 case on cost of service, without saying whether it's
20 right or wrong, says that certain customer classes are
21 already paying substantially more in profit margin to
22 the company than other classes; isn't that true?

23 MS. SMITH: I would object to this. I
24 believe the witness has already testified that he hasn't
25 reviewed the company's cost of service studies in the

00589

1 general rate case, so I don't believe that he should be
2 cross examined on this subject.

3 MR. KURTZ: I will withdraw that question.

4 BY MR. KURTZ:

5 Q. Can I ask you to assume a hypothetical,
6 Mr. Lott. Assume that the high voltage industrial
7 customers on Rate 46 and 49 yield an after tax rate of
8 return on the electric rate base of Puget of 1.05%. And
9 further assume that the commercial customers on Rate 25
10 yield an after tax rate of return on the electric rate
11 base of 11.8%. Do you have that hypothetical in mind?

12 A. Yes.

13 Q. Wouldn't it be true that the profit margin on
14 the Rate 25 commercial customers is 11 times the profit
15 margin on the Rate 46 and 49 high voltage industrial
16 customers?

17 A. Well, the rate of return would be
18 approximately 11 times. The profit margin might be
19 something different. But the rate of return would be,
20 according to your statements there, and the rate of
21 return on equity from those would be negatives of each
22 other, but.

23 Q. Well, my hypothetical was the rate of return
24 on the rate base.

25 A. Yes, I'm saying, yeah, the rate of return, I

00590

1 mean 1.05 into 11.8 would be approximately 11 times.

2 Q. Now between those two hypothetical groups of
3 customers, which group is currently providing more to
4 support the financial integrity of the company?

5 A. If these were the proper cost of service
6 studies found appropriate by the Commission, the
7 Schedule 25 customers should receive a lower or no
8 increase in a general rate case that was granted by the
9 Commission.

10 Q. And since you have not reviewed any cost of
11 service analysis in agreeing with the company's
12 proposal, you did not take into account the relative
13 profitability from sales from any one particular group
14 when designing your surcharge to protect the company's
15 financial integrity?

16 A. Well, I think it's more than that, but part
17 of the answer is yes, because I did not review, but I
18 did not believe I should review. The Commission has not
19 made a decision, other parties have not submitted
20 testimony, and finally, as I have already said, the
21 costs that are being recovered in this proceeding are
22 not the same as the cost increases that will be
23 recovered through the general rate case.

24 Q. You're familiar with the economic concept
25 that power pricing should send the proper price signals

00591

1 to promote economic consumption of the commodity; are
2 you familiar with that concept?

3 A. Yes, I have heard that.

4 Q. Do you agree with that?

5 A. I agree that cost causers should pay the
6 cost, yes.

7 Q. Do you think that if the company was selling
8 electricity to certain customers below cost that it
9 would tend to have those customers overconsume the
10 product?

11 A. In some customer classes, that's a
12 possibility.

13 Q. In an extreme situation, we would have the
14 California example where there were not proper price
15 signals and customers continued to consume when the
16 wholesale prices were skyrocketing; wasn't that part of
17 the problem there?

18 A. I'm not an expert in what the loads in
19 California were, and I don't know whether people
20 increased their loads because of the prices. The prices
21 are high anyway.

22 Q. If customers consumed electricity
23 uneconomically, wouldn't that in itself help contribute
24 to Puget's financial instability if they consume more on
25 peak than is optimal?

00592

1 A. If customers were consuming and the company
2 was not able to pick up their incremental cost during
3 that time of consumption, that would contribute to the
4 company's financial woes.

5 Q. As a general matter of economics, do you
6 believe that high load factor customers efficiently
7 utilize the fixed resources of the company? In other
8 words, customers that use power around the clock rather
9 than customers who have the high spikes in their usage?

10 A. Generally speaking, high load customers tend
11 to cause a lower total power cost to the company, and
12 that's why the rates for high load customers tend to be
13 lower, substantially lower in the case of Puget's
14 customers, than they are for low load factor customers.

15 Q. Do you know how your straight kwh allocation
16 impacts high load factor versus low load factors
17 customers?

18 A. Depends on whether you're measuring this on a
19 -- based on the fact that a low load factor customer has
20 a higher rate than a high load factor customer. Based
21 on that fact, then a high load factor customer would get
22 a larger percentage increase I think is what you're
23 looking for.

24 Q. No, it's not.

25 A. But that would be the result. If you give a

00593

1 1 cent increase to a customer that has a lower average
2 rate because they -- then he ends up getting a higher
3 percentage.

4 Q. No, in fact, that wasn't where I was going
5 with this, and I certainly don't want to relitigate the
6 existing rates. We will assume those are just and
7 reasonable as a matter of law. But when you allocate
8 \$42 Million on a straight energy basis, a straight kwh
9 basis, doesn't that hit the high load factor customers,
10 those that use energy around the clock constantly, more
11 -- hits them worse, hits them harder, they pay more than
12 if there would have been a time of use or a demand
13 charge type recovery of these, of this interim rate
14 relief?

15 A. Well, you made the assumption that the -- it
16 is appropriate to have a time recovery of these
17 extraordinary costs. These extraordinary costs, I see
18 no identification in anybody's testimony that the
19 extraordinary costs incurred by the company are related
20 to a particular time period. So your -- I hear in your
21 question that you're saying that there's a cost
22 associated with the hour of midnight to 1:00 a.m. and
23 it's a lower cost per kilowatt hour than the cost at
24 noon to 1:00, and we're talking about incremental cost,
25 not the cost that was -- not the total cost, but the

00594

1 incremental cost.

2 The company does have time of use rates
3 currently for customers that can take advantage of them,
4 and they do have rates that are lower for customers that
5 have flat loads. High load factor customers have a
6 better rate structure than customers without high load
7 factors.

8 I see no evidence in this case nor any cost
9 of service studies in this proceeding that identify that
10 the incremental costs caused by the high or unexpected
11 costs in this proceeding are related to one hour a day.
12 In other words, if all power supply costs went from --
13 the midnight went from 20 mils to 21 mils and the
14 daytime prices went from 25 to 26, they both had an
15 increase of 1 mil.

16 Q. It's your --

17 A. Right.

18 Q. Go ahead.

19 A. You know, and in reality, if you look at a
20 year ago, I mean if you want to get into that, but I
21 mean the power supply costs during the day, there was a
22 much greater difference during certain times of the day,
23 during the middle of the day when the high load factor
24 customers were using it than there was -- than there is
25 now. The difference is not as great now as it was then.

00595

1 The rates are much flatter, the market prices are much
2 flatter today than they were then. But that -- I would
3 also not buy that argument.

4 Q. Now if I understand your testimony correctly,
5 you don't -- let's assume that you're right, that the
6 primary driver behind this extraordinary rate increase
7 is the power supply costs. It's your opinion that the
8 on peak power supply costs are the same as off peak
9 power supply costs?

10 A. I didn't say that. I said the prices -- no,
11 the price structure the company currently has is
12 designed to offer customers that take more power during
13 off peak get lower prices. High load factor customers
14 in Puget's tariffs do currently get lower prices.

15 Q. Mr. Lott, I'm not trying to relitigate the
16 existing tariffs that the Commission has ruled is just
17 and reasonable. I'm just focussing on the interim rate
18 case at issue here.

19 A. We're talking about incremental costs. You
20 said the total costs. You referred to the total cost
21 the company is incurring, not the incremental costs the
22 company is incurring.

23 Q. I'm trying to understand if it's your
24 position, if you really believe that assuming that power
25 supply costs have driven this rate increase that the on

00596

1 peak power supply costs, which are much higher than the
2 off peak, weren't more responsible for the rate
3 increase.

4 A. Well, back to the statement, they're not --
5 not much higher. We're talking about power supply
6 costs. We're not talking about the fixed costs of
7 Colstrip, we're not talking about the fixed costs of
8 Fredonia, we're not talking about the fixed costs of
9 even the Tenaska contract or the March Point contract.
10 We're talking about the variability in cost and the
11 ability of the company to market its power and buy power
12 to replace its variable cost power. So when they run
13 Fredonia, it cost the same at midnight to get a kilowatt
14 hour out of Fredonia as it does at 2:00 in the afternoon
15 or 9:00 in the evening, the variable cost of running
16 Fredonia. Same thing with Colstrip, the variable costs
17 of those things stays the same.

18 Q. When they buy power, it's much more expensive
19 on peak than off peak, isn't that right, when anybody
20 buys power?

21 A. Depending what the spread is, some days it's
22 much greater than others.

23 Q. But it's always higher on peak when you're
24 buying no matter who you are, isn't it?

25 A. Most of the time.

00597

1 Q. Let me ask you about your refund proposal.
2 Let's assume the Commission accepts Staff's \$42 Million
3 interim rate relief revenue and that the Commission also
4 accepts Staff's and the company's straight kwh
5 collection of those costs. But, third assumption, but
6 that in the general rate case, the Commission allocates
7 whatever rate increase comes out of that proceeding on
8 some sort of cost of service basis that is different
9 than straight kwh. Do you have that hypothetical in
10 mind?

11 A. Yes.

12 Q. Should there be a refund to customers to
13 account for the different allocation methodologies,
14 interim, straight kwh, general rate case, cost of
15 service based, should the Commission at the conclusion
16 of the general case give customers a refund to account
17 for the differential?

18 A. No, I don't believe so, because I believe
19 that the costs are being refunded are revenues that were
20 paid not for that future period, but they are revenues
21 related to this period. And since -- they should get a
22 refund of the revenues paid to make the company whole.

23 Q. Under your position is that there should be
24 no refund to those customers to account for if the
25 Commission makes an expedient straight kwh interim case

00598

1 as a practical matter, then in the general case it goes
2 into the more detailed cost of service, there should be
3 no compensation or refund to account for that
4 differential?

5 A. No.

6 Q. So there's no -- there would be no way to
7 correct if the Commission found that the straight kwh
8 was an improper method to recover costs, total financial
9 integrity costs, there would be no way to correct that
10 in the general case in your mind?

11 A. You say correct, and the problem is that I
12 have to go by the assumption that the rates that are
13 established for Puget Sound Power and Light today are
14 fair, just, and reasonable. Therefore, the rates that
15 they have today are that. And as the Commission grants
16 rates to go into the future, those rates would be fair,
17 just, and reasonable with this refund set up that I have
18 proposed. The refund is related to the rates that the
19 Commission would establish.

20 Second, as I have already pointed out I don't
21 know how many times, the costs that are being recovered
22 in the interim period are more than the long-term fixed
23 costs that are being established in the general rate
24 case. In Mr. Gaines's testimony, while not being able
25 to identify which portion is long term, I asked a data

00599

1 request, that's why I say this, but why he does state
2 that some of the costs are long-term, and some of the
3 costs are related to the, how do I want to call them,
4 the hydro conditions of last year and the market
5 conditions of last year that are falling over into this
6 year.

7 So in other words, the company has some
8 short-term situations, in particular some of these hedge
9 purchases that they have made. Those are not things
10 that are going to continue into the year 2003. Those
11 are things that are happening now as we're sitting here.
12 And therefore, the costs that would be settled in a
13 general rate case are not the same as the costs being --
14 that Staff is recommending recovery in this proceeding.

15 Q. Short answer is the fact that interim rates
16 are subject to refund will have -- provide rate payers
17 with no safety net if the Commission found a different
18 method of allocation was proper in the general case,
19 just there would be no way to --

20 A. Short answer is yes.

21 Q. Okay. Final couple questions. Were you here
22 when I asked Ms. Steel about a portion of her testimony
23 on page 25 that she was particularly concerned about the
24 rate impact of any interim increase on the 98,800
25 commercial customers of Puget?

00600

1 A. I was in the room for most of the thing, but
2 it was yesterday afternoon I think when you -- it was
3 pretty late, like what, close to 5:00, and I had to be
4 out of my office at 5:00, so I think I missed your
5 question.

6 Q. Well, let me state that as a foundation. She
7 states at page 25, and we can refer to it if you want
8 to. Do you have that?

9 A. I have her testimony, yes.

10 Q. Page 25, lines 11 through 16, well, line 14
11 through 16, she says:

12 Of particular concern is the impact on
13 the company's 98,800 commercial
14 customers, some of whom are already
15 facing margin pressures in light of the
16 state's economic downturn.

17 Do you see that?

18 A. Yes.

19 Q. When you -- let me say it this way. Since
20 you did not look at any cost of service information
21 prior to adopting the company's straight kwh charge, you
22 did not examine the effect that your straight kwh
23 proposal would have on the 98,800 commercial customers
24 Ms. Steel's concerned with, did you?

25 A. Well, the answer is I did not, but I did look

00601

1 at cost of service information, but just not the cost of
2 service information from this proceeding.

3 MR. KURTZ: Thank you, Your Honor.

4 JUDGE MOSS: Thank you, Mr. Kurtz.

5 (Discussion on the Bench.)

6 MR. FURUTA: Your Honor, all of my issues
7 have been fully explored, so I have no questions.

8 JUDGE MOSS: Okay, Mr. Furuta, thank you. I
9 believe then that was, no, let's see, we had
10 Mr. Brookhyser.

11 Is anybody here for Cogeneration Coalition to
12 ask questions?

13 I guess not. So that should complete the
14 parties' cross-examination, and the Bench apparently
15 just has one or two questions. Maybe we should go
16 ahead.

17

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

19 BY CHAIRWOMAN SHOWALTER:

20 Q. Mr. Lott, could you turn to page 5 of your
21 testimony. As I understand the Staff's case, Staff
22 recognizes power costs as the main driver of the
23 company's current predicament, but it does not therefore
24 follow that an interim rate increase should be limited
25 to or tailored to power costs. Am I right so far? That

00602

1 is, it would be single issue rate making to --

2 A. Can I try to answer?

3 Q. Okay.

4 A. In fact, I tried to tailor my proposal as
5 much to power supply costs as I could. However, I could
6 not agree with the company's belief that their
7 underrecovery of power supply costs was as great as the
8 company stated. And therefore, I can't recommend that
9 the deferrals that they proposed in December or the
10 calculation of the \$163 Million in Mr. Gaines's Exhibit
11 WAG-3 are correct.

12 I do, however, believe that we tried -- I
13 have tried to tailor the rate proposal to Mr. Gaines's
14 projections of power supply costs in the proceeding, but
15 it's the difference between that and what the company
16 has testified, those are included in base rates, they
17 have a big problem. And second of all with the fact
18 that the company would take no risks associated with the
19 power supply costs that are included in the base rates.

20 Q. All right, I will just skip to my question.
21 In lines 1 through 3, you recommend that the refund be
22 hedged to power costs. To me, this has the appearance
23 of single issue refunding, whereas the interim increase
24 itself is not directly based on power costs, it is
25 driven by power costs, but it's based on the Staff's

00603

1 assessment of the company's financial situation. So my
2 question is to you, is this single issue refunding, and
3 if so, is that appropriate, and if so why, and but if
4 not, tell me that it isn't?

5 A. Okay, you have asked the question a little
6 bit different than the company did. I guess it is
7 single issue refunding. They asked whether it was
8 single issue rate making, and I said no, and that was in
9 a data request they gave me.

10 Yes, it is single issue refunding, and the
11 reason why it's single issue refunding is because it's
12 the only major item that drives the company's
13 projections that has this level of potential error. I
14 mean the errors in their power supply, just look at what
15 they projected a year ago when they purchased gas for
16 the current period. They were -- they purchased gas at
17 \$5 to \$7, \$8, \$9 an MBTU or a decatherm as I call them,
18 and the current price is \$2. This drives their power
19 supply cost quite a bit. There's huge changes in where
20 the company's power supply costs are going to be, and
21 that's why the Staff is recommending that this is the
22 one area of the company's projections that are just
23 really questionable.

24 Staff also has concerns, as the company
25 questioned me on it, with those purchases for the CTs in

00604

1 particular, the purchases of those hedged prices for the
2 CTs. It's not something that we're fully ready to make
3 recommendations on.

4 So we are very concerned about the power
5 supply costs. We think that most of them are quite
6 legitimate, and they are driving the problem, and but
7 the projection of them is just extremely hard to make.
8 I mean I have been listening to power supply people for
9 a long period of time, and six months later it's
10 completely different, and I think that that's why we
11 have conditioned -- why my proposal is to condition the
12 interim relief to the company's projection of power
13 supply.

14 Q. If the Staff recommendation were adopted and
15 we ordered \$42 Million of interim relief, at the end of
16 the interim period, if power costs had -- actual power
17 costs were lower than projected but some other costs
18 were higher and perhaps the reason some of the \$42
19 Million was spent, would it be appropriate to refund
20 based only on the fact that power costs were lower but
21 not take into account that other costs in this
22 hypothetical were higher than projected?

23 A. I don't think that that would be a good
24 result. I testified in my -- my testimony addresses the
25 question of can we go out here and look at every single

00605

1 cost that the company had and try to evaluate whether
2 they underprojected or overprojected. The audit that
3 would be related to such a review would be -- no rate
4 audit that we ever do gets into that much detail of all
5 the costs that the company incurs in order to determine
6 whether those costs were the appropriate costs and
7 whether those costs were over or underrecovered during
8 that period. That's why our major concern, if it wasn't
9 that the power supply costs were so variable, we
10 wouldn't even have the refund proposal there at all.

11 In other words, if this was just the
12 financial condition the company got into and there
13 weren't this great potential for variability, then I
14 don't think Staff would be making a refund proposal at
15 all. We would just allow the company to have or suggest
16 that the company have a certain level of interim relief.
17 But I think that there should be great concerns about
18 projections of power supply costs that are in my opinion
19 about 7 mils. That's about 20% to 25% above what's
20 included in base rates when a year ago they were half of
21 what's included in base rates. So, you know, you just
22 have these huge swings, and that's what Staff is
23 concerned about.

24 Q. Thank you.

25 A. Staff doesn't see that in other cost areas.

00606

1 CHAIRWOMAN SHOWALTER: Thank you.
2 JUDGE MOSS: Commissioner Hemstad.
3 Commissioner Oshie.
4

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

6 BY JUDGE MOSS:

7 Q. Mr. Lott, Ms. Steel deferred a question to
8 you that I wanted to put to you, see if we could get an
9 answer for our record.

10 As you know, the Commission earlier this year
11 or perhaps it was late last year approved a power cost
12 deferral account for the period early this year,
13 January, February, perhaps March or a portion thereof.
14 What happens to the deferral account or the dollars in
15 the deferral account under Staff's proposal in this
16 case?

17 A. Well, the total dollars obviously don't stay
18 the total dollars. The company currently has the right
19 to bring those back, and here's the proceeding that
20 we're in to talk about them. And currently they should
21 not be on the company's books and records as far as
22 being reported to the financial community, because they
23 haven't got a rate order that establishes that. But
24 they would basically disappear as far as -- and so they
25 would not show up on their March financial statements.

00607

1 It is possible that a small portion of them,
2 depending on the level that the Commission granted for
3 interim relief if my refund proposal was adopted, that a
4 small portion of them could be actually booked. You
5 could take the interim relief, calculate the cost
6 portion of that interim relief, and divide it by the
7 projected loads and come up with a number below the 35
8 mils and say that this is in effect a base line, start
9 with January and say that that would be properly
10 deferred, but it would not -- it depends on the level
11 that the Commission would have. If the Commission ended
12 up granting the whole \$170 Million, I would still have
13 my refund proposal established, then I think the company
14 could defer the whole amount based on my answer just a
15 few seconds ago.

16 So it depends on the level of interim relief
17 the Commission grants. And then doing what I would call
18 a reverse calculation, they could actually say that
19 since my refund proposal was based on the level of power
20 supply costs, defer the difference that that interim
21 relief gave them on a unit cost.

22 Q. I guess I'm a little puzzled by your answer,
23 and I guess the concept of the funds disappearing
24 doesn't appeal to my sense of --

25 A. Disappearing, they never existed. I don't

00608

1 know what you mean funds.

2 Q. Well, there's a deferral account, and it's
3 going to have a balance, and my question is under
4 Staff's proposal, what happens to the balance in that
5 account if we adopt Staff's proposal in this proceeding?
6 Does that balance just sit there on the books for later
7 disposition? Is it expensed away in some fashion? Is
8 it amortized in some fashion? I'm just trying to figure
9 out what happens to it.

10 A. You made an assumption that a balance exists
11 in an account. The company comes to this Commission and
12 says, hey, we have the right to recover these dollars,
13 or at least we have the right to ask to recover these
14 dollars. An account, that might sit in some computer
15 that the company has there. That balance is not
16 reported to their stockholders as, you know, we have \$63
17 Million in this account, and therefore our retained
18 earnings are \$63 Million higher, because the company has
19 no rate order.

20 When I discussed that accounting position, of
21 course Staff said that they didn't need it, you -- when
22 the Staff talked to them about that accounting petition,
23 the company stated that this was simply for presentation
24 to the Commission. There is -- it doesn't exist. If
25 the Commission doesn't give them a rate order, it does

00609

1 not exist. So there's nothing to go away.

2 The Commission gives the company a level of
3 revenue, now revenue will show up on the company's
4 books. The Commission allowed the deferral to sit
5 there, instead of having revenue in the company's books,
6 you would have a credit to that deferral account, so
7 instead of having earnings -- it's a matter of what
8 month you're going to show their earnings. Are you
9 going to show their earnings in January, are you going
10 to show their earnings in April or March, whenever they
11 get the dollars. So the dollars will come in under
12 Staff's proposal as dollars the same way they would come
13 in under a deferral recovery. The only difference is
14 exactly what month. When you get done with the year
15 2002, income will be the same based on the interim
16 relief you grant them.

17 JUDGE MOSS: All right, I will just confess
18 to total confusion and ask if there are any other
19 questions from the Bench.

20 All right, did the Bench's questions prompt
21 any further cross before we go to the redirect?

22 Apparently not. Any redirect?

23 Will it be 10 minutes or less, because we
24 need to take a break at some point.

25 MS. SMITH: Your Honor, I propose that we

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1 take a break. That may help me scale down some of the
2 questions that I have in mind.

3 JUDGE MOSS: Okay, then I would appreciate
4 you making that effort during the break. We will be in
5 recess until 5 after the hour.

6 (Recess taken.)

7 JUDGE MOSS: While we were off the record,
8 Ms. Dodge indicated that she had missed an opportunity
9 and had just one or two questions follow-up to some of
10 the Bench questions, and then we'll see if there's any
11 redirect following that.

12 Go ahead, Ms. Dodge.

13 MS. DODGE: Thank you, Your Honor.

14

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

16 BY MS. DODGE:

17 Q. Mr. Lott, I just had a brief follow-up with
18 Chairwoman Showalter's questions about single issue
19 refunding, and your answers I believe went to concern
20 with the accuracy of Puget's power forecasts and the
21 potential variability in those forecasts. Now the
22 relief that the Staff has recommended at about \$42
23 Million, isn't that about a 75% reduction off of the
24 \$170 Million that the company requested?

25 A. Yeah, that would be just a little over 75.

00611

1 Q. Now doesn't this essentially adjust for any
2 concerns that you might have with the accuracy of
3 Puget's power costs forecasts?

4 A. No.

5 Q. Well, I'm trying to understand why you would
6 still need a refund mechanism that's tied to whether
7 Puget's power costs are forecast accurately if the
8 relief provided were to be only \$42 Million rather than
9 the \$170 Million requested by the company?

10 A. Well, the need for \$42 Million is based on
11 the power supply projections of Mr. Gaines just like the
12 need if \$170 Million were granted. If Mr. Gaines's
13 projections were lower than whatever shows up in WAG-3,
14 were lower than that, then the company's need for
15 interim relief would be lower.

16 MS. DODGE: Thank you, no further questions.

17 JUDGE MOSS: Any redirect?

18 MS. SMITH: No, thank you.

19 JUDGE MOSS: All right, thank you, Mr. Lott,
20 we appreciate your testimony today, and you may step
21 down from the stand.

22 And I believe this will bring us to your
23 witness, Mr. Hill, Mr. ffitch.

24 MR. FFITCH: That's correct, Your Honor.
25 Public Counsel calls Steve Hill.

00612

1 JUDGE MOSS: Mr. Hill, before you get settled
2 in, if you would please raise your right hand.

3

4 (The following exhibits were identified in
5 conjunction with the testimony of STEPHEN G. HILL.)

6 Exhibit 350TC is SGH-T-C: Pre-filed Response
7 Testimony (Confidential in Part). Exhibit 351 is
8 SGH-1C-SCHEDULE 1. Puget Sound energy, Inc. Current Bond
9 Yield Spreads Above Treasury Securities. Exhibit 352 is
10 SGH-1C-SCHEDULE 2. PSE Stock Price - December
11 1999-January 2002. Exhibit 353 is SGH-1C-SCHEDULE 3.
12 PSE Bond Rating Benchmarks and Puget Historical
13 Performance. Exhibit 354 is SGH-1C-SCHEDULE 4 PSE
14 Interim Increase Based on a F.M.B. Coverage of 2.0
15 Times. Exhibit 355 is SGH-1C-SCHEDULE 5. PSE Capital
16 Structure and Dividend Payout. Exhibit 356 is
17 SGH-1C-SCHEDULE 6. PSE Capital Structure Impact of
18 Retained Earnings. Exhibit 357 is SGH-1C-SCHEDULE 7.
19 PSE Electric Industry Dividend Payout Ratios. Exhibit
20 358 is SGH-1C-SCHEDULE 8. PSE Projected Capital
21 Structure Impact of Earnings Retention and Dividend
22 Reinvestment. Exhibit 359 is SGH-1C-SCHEDULE 9. PSE
23 Dividend Reductions in the Electric Utility Industry.
24 Exhibit 360 is SGH-1C-SCHEDULE 10. PSE Financial
25 Projections Income Statement Comparison. Exhibit 361 is

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1 SGH-1C-SCHEDULE 11. PSE Projected Income Statement Data.
2 Exhibit 362 is SGH-1C-SCHEDULE 12. PSE Projected
3 Operating Expenses. Exhibit 363 is SGH-2: Stephen G.
4 Hill Professional Qualifications. Exhibit 364 is Public
5 Counsel Response to PSE Data Request No. 10-I. Exhibit
6 365 is Public Counsel Response to PSE Data Request No.
7 11-1. Exhibit 366 is Public Counsel Response to PSE
8 Data Request No. 12-I. Exhibit 367C is Public Counsel
9 Response to PSE Data Request No. 18-I. Exhibit 368C is
10 Public Counsel Response to PSE Data Request No. 19-I.
11 Exhibit 369 is Public Counsel Response to PSE Data
12 Request No. 20-I.

13

14 Whereupon,

15

STEPHEN G. HILL,

16

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

18

19

JUDGE MOSS: Thank you, sir, please be
20 seated.

21

22

JUDGE MOSS: All right, Mr. ffitich has handed
up and is distributing an errata sheet, appreciate him
23 doing that so we won't have to labor through.

24

25

JUDGE MOSS: Mr. ffitich, before we get
started -- oh, I'm sorry, never mind, go ahead.

00614

1 MR. FFITCH: Thank you, Your Honor.

2

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

4 MR. FFITCH:

5 Q. Mr. Hill, could you please state your full
6 name for the record.

7 A. My full name is Stephen G. Hill.

8 Q. And could you please provide your business
9 address.

10 A. My address is P.O. Box 587, 4000 Benedict
11 Road, Hurricane, West Virginia 25526.

12 Q. And do you have before you your direct
13 testimony that has been marked as Exhibit 350TC in this
14 docket?

15 A. Yes, I do.

16 Q. And do you also have before you your exhibits
17 which have been marked as Exhibits 351 through 363 in
18 this proceeding?

19 A. Yes.

20 Q. And were these testimony and exhibits
21 prepared by you or under your supervision or direction?

22 A. Yes, they were prepared by me.

23 Q. And do you have any corrections to your
24 testimony and exhibits?

25 A. Yes, I do.

00615

1 Q. And are those listed in the errata sheet
2 that's been distributed to the Bench and to counsel?

3 A. Yes. As was pointed out to me in a data
4 request from the company, there was a transposition of
5 numbers on Exhibit 354, which is my Schedule 4, and that
6 caused a change in my secondary interim rate increase
7 recommendation from \$29 Million to \$30 Million, and that
8 number then cascaded through my testimony in several
9 places, and that's the essence of these corrections.

10 Q. All right. So all of these corrections shown
11 on the errata sheet relate to that one change?

12 A. Right.

13 MR. FFITCH: And, Your Honor, the item 8 on
14 the errata sheet contains a blank under the or next to
15 the exhibit, that's for reference to the Exhibit 354 in
16 this proceeding.

17 JUDGE MOSS: Thank you, Mr. ffitch. Give us
18 just a minute.

19 Go ahead, Mr. ffitch.

20 MR. FFITCH: Thank you, Your Honor.

21 BY MR. FFITCH:

22 Q. Mr. Hill, if I were to ask you the questions
23 contained in your direct testimony today, would your
24 answers be the same as set forth in the testimony and
25 the exhibits?

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1 A. Yes, they would.

2 MR. FFITCH: Your Honor, Public Counsel would
3 offer Exhibits 350TC through 363.

4 JUDGE MOSS: And hearing no objection, those
5 will be admitted as marked.

6 MR. FFITCH: Thank you, Your Honor, the
7 witness is available for cross-examination.

8 JUDGE MOSS: Thank you.

9 Again, I think the company will go first.

10 MR. QUEHRN: Thank you, Your Honor.

11

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

13 BY MR. QUEHRN:

14 Q. Good afternoon, Mr. Hill.

15 A. Good afternoon, sir.

16 Q. Mr. Hill, I would first like to refer you to
17 page 6 of your testimony, please, which is Exhibit 350C,
18 and I would like to refer specifically to page 6, lines
19 22 through 23, and then actually it carries over I think
20 to the first line on the next page.

21 A. Page 6?

22 Q. Correct.

23 A. Okay.

24 CHAIRWOMAN SHOWALTER: Mr. Quehrn, can you
25 just tell us what you are reading on that line 22 since

00617

1 it doesn't look like it's going to be the right one on
2 our page.

3 MR. QUEHRN: Yeah, I'm noticing that too.
4 Excuse me, just a minute, please. That's because it is
5 page 5, my apologies.

6 BY MR. QUEHRN:

7 Q. The bottom of page 5, lines 21 and through
8 basically the end of the page and the first line on the
9 top of the next page.

10 A. Yes, I have it.

11 Q. And I certainly hope I don't make that error
12 again. And the statement I'm referring to is:

13 Company management has elected to
14 continue to invest significant amounts
15 of common equity into its unregulated
16 operations (Infrastrux) at the same time
17 as it is before the Commission
18 requesting expedited rate relief.

19 The latest acquisition announced, It goes on
20 to say, December 12, 2001, was a gas pipeline, and
21 continues on through the line. My question to you is,
22 Mr. Donald Gaines testifies in Exhibit 25 at page 25
23 that the initial \$86 Million equity investment in
24 Infrastrux occurred year end 2000. Do you disagree with
25 this statement?

00618

1 A. Do I disagree with Mr. Gaines' statement that
2 there was a transfer of funds from Puget Sound Energy to
3 Infrastrux or Puget Energy effectively at that date; is
4 that your question?

5 Q. Two parts, that the initial equity investment
6 of \$86 Million occurred year end 2000, let's get that
7 first, and then we can talk about the amount if that's
8 your concern.

9 A. I believe that is my recollection. My
10 recollection is that that's correct for the date.

11 Q. Okay. And do you recall the amount to be \$86
12 Million?

13 A. That seems about right.

14 Q. Can you point to any investments of common
15 equity by the parent to the subsidiary subsequent to
16 that \$86 Million investment?

17 A. I haven't reviewed that data. The point I'm
18 making is that the parent company has moneys available
19 to spend on gas pipeline construction companies and is
20 doing so at the same time it's before these ladies and
21 gentlemen asking for money for its regulated operations.

22 Q. And let me refer you then back to page 5,
23 line 21. You say that company management has continued
24 to invest significant amounts of common equity capital
25 into Infrastrux at the same time it's before this

00619

1 Commission. Can you give me the date of when those
2 subsequent investments of common equity occurred?

3 A. No, I can't.

4 Q. Mr. Gaines also testifies in his rebuttal
5 testimony, again Exhibit 25, at page 25 in this
6 instance, line 7 through 10, that:

7 All subsequent acquisitions by
8 Infrastrux were made by drawing upon
9 this initial \$86 Million equity
10 investment, Infrastrux stock, or its
11 line of credit.

12 Do you disagree with that statement?

13 A. No, I don't, but I would refer you to the
14 section of my testimony where I talk about that the
15 security for PE, the parent company, essentially arises
16 from the regulated subsidiary. And even though PE may
17 have a line of credit, it's effectively secured by the
18 cash flows of the regulated subsidiary. So while you
19 may draw an accounting division between those moneys, at
20 the very least it's, in my view, it's politically
21 untoward to spend money in the unregulated sector at the
22 same time you're claiming a cash emergency in the
23 regulated sector. I think that's the point I'm making.

24 Q. But to be clear then, you're not aware of any
25 subsequent acquisitions that were made -- I'm sorry,

00620

1 strike the question, you answered the question.

2 Referring to the line of credit, do you know
3 the value of the assets of other unregulated

4 subsidiaries that back the Infrastrux line of credit?

5 A. Are you talking about Puget Sound Energy's
6 unregulated subsidiaries, or are you talking about Puget
7 Energy's unregulated subsidiaries?

8 Q. Let me speak first to -- let me ask the
9 question more broadly. Do you know the value of the
10 assets of all unregulated subsidiaries either of the
11 parent or of Infrastrux that back the line of credit?
12 Do you know the value of the assets?

13 A. I do not.

14 Q. Okay. Have you had the opportunity to review
15 and it's referred to in Mr. Gaines' testimony as the
16 holding company order, it was an order issued by this
17 Commission in docket UE-991779?

18 A. I have not.

19 Q. I would like to now refer to hopefully this
20 time it is page 6 of your testimony. This would be at
21 line 24, and the text I'm referring to, if I may just
22 again read it:

23 Both of the major bond rating agencies
24 have made it quite clear in their
25 published statements that absent a

00621

1 positive regulatory response to the
2 company's interim rate request (read)
3 some interim rate relief, Puget's bond
4 rating could be lowered.
5 Is that your testimony; is that correct?
6 A. You read it correctly.
7 Q. Thank you. Are S&P and Moody's the two major
8 bond agencies that you're referring to?
9 A. Yes, they are.
10 Q. Do you happen to know how many companies
11 subscribe to S&P and Moody's for the rating service?
12 A. I do not know that number.
13 Q. I don't either. Do you think it's more than
14 100?
15 A. How many companies, are you talking about --
16 Q. How many companies subscribe --
17 A. -- are regulated by them?
18 Q. Subscribe to the rating service, yes.
19 A. Okay, you mean -- there are people that
20 subscribe to the rating service that get their rating
21 reports for investment purposes. And then there are
22 companies that are rated by them. Which do you mean,
23 which group of --
24 Q. How many subscribe to the rating service?
25 A. Companies that are rated by Standard & Poor's

00622

1 and Moody's?

2 Q. Yeah.

3 A. Well, I would guess it would be in the
4 thousands.

5 Q. Do you know whether these companies pay a fee
6 for being rated by these agencies?

7 A. Yes, they do.

8 Q. Do you think that paying a fee for this
9 service results in a bias on the part of the rating
10 agencies?

11 A. I think it results in a client relationship
12 which is developed often over several years in which the
13 rated entity -- let me be more direct about what I'm
14 saying. I think the utilities present their projections
15 to the rating agencies on a regular basis. They know
16 each other. They're friends. And the rating agencies
17 if they can will help out the utilities in a regulatory
18 situation. As I said in my testimony, and I -- and they
19 can do that without biasing their responses.

20 For example, we talked about earlier today a
21 recent report by Standard & Poor's where they classified
22 the Staff's recommendation in this proceeding as, I
23 forget the word, unhelpful or their word was -- it was
24 not -- it wasn't supportive, that was the word,
25 unsupportive, because it wasn't the full \$170 Million

00623

1 amount. Well, they can say that without changing their
2 basic opinion about the rating.

3 They haven't put the company on ratings
4 watch, they haven't changed their basic opinion which
5 was set out last October that they were lowering the
6 ratings from single A minus to triple B in expectation
7 that the company would get no money until the rate case.
8 I think that clearly that's still their position even
9 though they said recently they think that the Staff's
10 recommendation in this case is not enough. So there
11 they have helped the company. They have put additional
12 pressure on the Commission. They haven't changed their
13 rating. So they're not being untruthful, but I do
14 believe there is a relationship developed between,
15 especially over time, between the companies that are
16 rated and the bond rating agency.

17 Q. And if I may just to complete my thought, I
18 understand your answer, and I guess I also understand
19 you to say that you don't think that relationship rises
20 to the level of bias; is that correct?

21 A. I think -- I think the rating agencies have
22 to be very careful about that. I think they have a
23 responsibility to be as truthful as they can. However,
24 we all are wordsmiths here, and we know that we can say
25 certain things in certain ways to have influence without

00624

1 changing the gist of what we're saying.

2 Q. Thank you. I would like now to refer to page
3 10 of your testimony. And first, I would like to refer
4 to a statement I think that begins right at the bottom
5 of the page, and it's the maintenance of, carrying over
6 to the top of the next page, an investment grade rating
7 is important, and actions which would jeopardize the
8 ratings should be carefully considered by the
9 regulators. Is that your testimony?

10 A. Yes, it is.

11 Q. And I believe then in a subsequent point,
12 line 3 on page 11, you go on to say:

13 However, that is not to say that
14 investment grade ratings are to be
15 maintained regardless of the
16 circumstances.

17 A. That's correct.

18 Q. Do you think that the effect of a downgrade,
19 and let's say a downgrade to below investment grade
20 status of PSE's corporate credit rating, might have an
21 effect on PSE's access to wholesale energy markets?

22 A. It might. I think that a downgrade of PSE's
23 first mortgage bonds would more probably have an impact.

24 Q. If, however, downgrade did have an impact on
25 PSE's access to wholesale markets, is that one of the

00625

1 circumstances that you think should be considered in
2 evaluating the consequence of such a downgrade?

3 A. Yes, I would not argue with that. I think
4 that it would be expected that if you're selling power
5 or buying power from somebody or doing or trading with
6 somebody for any reason and you find out that their
7 credit rating has been reduced, then you have questions
8 about your ability to get paid, and at some point you
9 may want to have some more assurance of that. That
10 doesn't mean that you can't participate in the wholesale
11 market. It doesn't mean that you can't borrow money.
12 It just means that there are other strictures that may
13 come into play.

14 Q. Is the effect of a downgrade on the company's
15 corporate credit rating a circumstance that you
16 considered and addressed in your testimony?

17 A. Yes. And again, I want to correct, when you
18 say corporate credit rating, I think we need to
19 understand, we have talked about this a couple times,
20 the corporate credit rating looks at the whole
21 corporation, okay, not at specific debt issues.

22 Let's look at Puget Energy, for example.
23 That's a diversified company that has Infrastrux and
24 PSE. That corporate credit rating because of that
25 higher risk of operation, i.e., Infrastrux, the

00626

1 corporate credit rating of PE is going to be lower than
2 the first mortgage bond rating of PSE, because those
3 first mortgage bonds are secured by actual concrete and
4 steel, which will have value if -- in the case of a
5 bankruptcy. So that's a more secure debt than the
6 corporate credit rating.

7 So I just wanted the Commission to, you know,
8 be sure that it understands that we have used that term
9 corporate credit rating, and it's kind of an all
10 inclusive thing. You look at the whole ball of wax, if
11 you will.

12 When you talk about first mortgage bond
13 rating, you're talking about the company's most secure
14 debt. And to me, that is -- that's the most important
15 thing you need to look at in terms of what might get
16 downgraded and what might not. If first mortgage debt
17 gets downgraded below investment grade, that creates
18 more of a problem than if the corporate credit rating is
19 below investment grade.

20 Q. Mr. Hill, I would like to call your attention
21 now to Exhibit 364, which is a response to PSE Data
22 Request 10-I. Do you have that available?

23 A. I don't have it in front of me. If you give
24 me a copy of it -- these are my responses to your
25 questions?

00627

1 Q. Yes.

2 A. Okay. I reviewed them earlier. If you have
3 a question, I would be happy to answer. I believe it's
4 pretty straightforward.

5 Q. Do you now have a copy of Exhibit 364 in
6 front of you, Mr. Hill?

7 A. Yes, I do.

8 Q. The question is:

9 Please provide all analysis and
10 documentation in your possession or
11 control that Mr. Hill has prepared or
12 reviewed to address the ability of the
13 utility to purchase wholesale power
14 under the WSPP agreement if it is rated
15 below investment grade.

16 Is that your understanding; is that the
17 question?

18 A. Yes, you read it correctly.

19 Q. Okay, thank you. And I understand your
20 response is that you had not reviewed any documents
21 regarding the ability of a utility to purchase wholesale
22 power under the WSPP agreement. Is that still the case?

23 A. That's still the case.

24 Q. Okay. I would like then to refer you to the
25 next exhibit that we have identified for

00628

1 cross-examination, that's Exhibit 356.

2 A. All right.

3 Q. 365?

4 A. No 365 is the next exhibit.

5 MR. QUEHRN: Thank you. And actually, Your
6 Honor, I need to stop at this point. I have just been
7 reminded, I believe Mr. ffitch and I had an
8 understanding similar to one we had with Staff about
9 stipulation to the admissibility of these exhibits for
10 cross-examination, and I neglected to mention that
11 before I referred to the first one, 364, and perhaps I
12 can now move to admit 364 and then 365 through 369.

13 JUDGE MOSS: Mr. ffitch.

14 MR. FFITCH: Your Honor, Public Counsel would
15 have no objection based on the understanding between
16 myself and Puget Sound Energy counsel that Puget has no
17 objection to the introduction of any of the cross or any
18 of the exhibits identified by Public Counsel for Puget
19 Sound Energy in this proceeding at the pre-hearing
20 conference.

21 JUDGE MOSS: That's the understanding?

22 MR. QUEHRN: That's the correct
23 understanding, yes.

24 JUDGE MOSS: Okay. And let me say in this
25 connection then, Mr. Quehrn, that there's no reason to

00629

1 go through these and have the witness read them into the
2 record. They speak for themselves. If you have
3 questions about them, go ahead.

4 BY MR. QUEHRN:

5 Q. Referring then to 365, that again speaks to
6 the company's access to wholesale markets; is that
7 correct?

8 A. Yes, and the fact that I elected not to
9 review documents related to that.

10 Q. Thank you. Now a moment or two ago, you
11 suggested that you actually had taken into consideration
12 the company's access to, or pardon me, the effect of a
13 downgrade of the company's corporate credit rating on
14 access to the wholesale markets. Could you point me
15 where in your testimony that you make that point?

16 A. I don't discuss it in my testimony. However,
17 I have experience working with companies that are rated
18 below investment grade, and I know that they are able to
19 both borrow money short term and long term and also buy
20 and sell power. So it was not my expectation that that
21 would be a prohibitive factor. If indeed the company's
22 bonds were to be downgraded, which I do not expect to be
23 the case, and the rebuttal testimony of Mr. William
24 Gaines points out that very fact, that while he claims
25 that there might be problems with, not problems, but

00630

1 requirements that a letter of credit or downpayment
2 might be required to the company, he doesn't ever say
3 that the company would be prohibited from participating
4 in the purchase power market.

5 Q. So is it fair to say then your consideration
6 of this circumstance is based upon your past general
7 experience and testimony that has been provided in this
8 case by the company?

9 A. More the former than the latter, but yes.

10 Q. Okay. I would like now to refer to page 25
11 of your testimony, please.

12 A. I'm there.

13 MR. FFITCH: I'm sorry, counsel, could you
14 repeat where you are.

15 MR. QUEHRN: Page 25 of Mr. Hill's testimony.

16 MR. FFITCH: Thank you.

17 BY MR. QUEHRN:

18 Q. And I will give you the line reference in a
19 minute, but for some reason all of my line references
20 seem to be about one off. Yes, I think beginning at
21 line 21, your testimony makes reference to credit
22 protection measures for the years 1998, 1999, and 2000;
23 is that correct?

24 A. Yeah, it's line 22 in my copy.

25 Q. Okay.

00631

1 A. But yes.

2 Q. Now for the years in question, your Schedule
3 C, and we will get the reference to that here, I believe
4 this is Schedule 3.

5 MR. QUEHRN: And that would be Exhibit 353C,
6 although there is no confidential information, Your
7 Honor, that we are concerned about on this.

8 JUDGE MOSS: All right, so as to 353, it's a
9 non-confidential exhibit.

10 MR. QUEHRN: Right.

11 BY MR. QUEHRN:

12 Q. Now this the schedule shows S&P A rated
13 benchmarks essentially for the same three years,
14 correct, 1998, 1999, and 2000; is that correct?

15 A. Well, not exactly, it shows S&P A rating
16 benchmarks, and it shows Puget's calculations of those
17 benchmarks for those three years.

18 Q. Right, so the comparison there is the
19 comparison to A rated benchmarks?

20 A. Well, no, not really. The comparison there
21 is to show that the parameters, the bond rating
22 parameters for Puget under the assumption of the
23 company's projections, no interim rate relief, aren't
24 really much different than they have been over the past
25 three to four years. That's the comparison.

00632

1 Q. Do you know how long PSE was able to
2 maintains its A minus bond rating?

3 A. I don't know how long it was rated A minus
4 prior to the time it was reduced last fall, no. It was
5 my understanding it was rated A minus during the time
6 that these measures were in effect.

7 Q. I believe if we return back to page 25 of
8 your testimony for a minute.

9 A. All right, I'm there.

10 Q. I'm not. I believe at page, I'm sorry, at
11 line 10 on page 25, you note that PSE maintained its A
12 minus bond rating until the Commission's previous
13 decision not to allow an increase of rates prior to a
14 full investigation of the company's financing. I make
15 that date to be about October of 2001; is that correct?

16 A. I think that's about right.

17 Q. Now if we can go back to your schedule again
18 when you were drawing the comparisons, which I think
19 was --

20 JUDGE MOSS: 353.

21 MR. QUEHRN: Thank you, Your Honor.

22 BY MR. QUEHRN:

23 Q. For the years 1998, 1999, and 2000 that
24 you're using for comparison, did the company
25 underrecover its power costs during those years?

00633

1 A. I have no idea.

2 Q. Do you know if the credit rating agencies are
3 concerned about the financial impact of the
4 underrecovery of power costs?

5 A. I don't think there's any question about
6 that. You mean now?

7 Q. Yes, correct.

8 A. Yes, they have said as much in their reports,
9 and reports are a part of the record.

10 Q. Let's just make an assumption then, if we
11 may. If you assume that the company wasn't
12 significantly underrecovering its power costs for those
13 prior periods as compared to the current situation it's
14 facing now, would it be reasonable to infer that if
15 credit rating agencies are concerned about the magnitude
16 of PSE's underrecovery power costs that they may be also
17 more inclined to downgrade PSE just as a financial
18 factor to carry through in your comparisons?

19 A. Well, I think we have evidence from Standard
20 & Poor's that they elected to downgrade Puget two
21 notches essentially. The first mortgage bonds went from
22 A minus to triple B because of that very reason. So I
23 think that's pretty obvious. That they realized that
24 the company's -- that the power cost situation that the
25 company was undergoing was going to be problematic.

00634

1 They also didn't expect any rate changes for the company
2 through until October. And on that basis, they
3 downgraded the company's debt, which indicates to me,
4 (a), that they took those factors into account, and (b),
5 there's unlikely to be any further changes regardless of
6 what happens in this proceeding.

7 It's not the case with Moody's. Moody's
8 rated the company's first mortgage debt as B double A 1,
9 which is the same thing as S&P's triple B plus. It's
10 the top of the B range. It's one notch below where
11 Standard & Poor's had it. They on the other hand
12 elected not to move with the Commission's orders in the
13 fall. However, they did say that if the Commission
14 doesn't order any interim relief, bond rating reductions
15 would be in the offing. And so they're higher now, but
16 I would expect Moody's, if the Commission follows my
17 recommendation and gives no interim rate relief, I would
18 expect Moody's to lower the company's bond ratings as
19 well. They may well go to the middle B status or the
20 Baa status, or they may go to the lower rung, but I
21 don't -- it's my expectation they would go below that.
22 So what you have is -- I'm sorry, this is a long answer
23 to your question.

24 Q. Actually, it's not responsive to my question.

25 A. I was trying to say yes and to show you that

00635

1 it's already happened in fact with one of the ratings
2 agencies, but the other one hasn't yet responded.

3 Q. And I believe all of that is in your direct
4 testimony, and I will get to that in a minute. I just
5 was actually trying to understand if it's your opinion
6 that the concern with the company's underrecovery of
7 power costs might exacerbate a future downgrade if it
8 were to occur?

9 A. A future downgrade, I wouldn't agree with
10 that. I think it already has impacted Standard & Poor's
11 bond ratings, which I think looking at the data on
12 Schedule 3, Exhibit 353, was clearly too high to begin
13 with. The company in its presentations to the bond
14 rating agencies always had a plan, a story to tell about
15 what they intended to do in the future about getting
16 their balance sheet back in order. Well, I think
17 Standard & Poor's realized that once they had this power
18 cost problem, that was not in the offing, so they
19 decided to move down on the rating scale for Puget where
20 they probably should have been anyway.

21 Q. Let's go back to page 25 for a minute.

22 A. I'm there.

23 Q. I think this is part of the testimony you
24 were just referring to where essentially you predict
25 that if no interim relief is granted, the company, and I

00636

1 think in this instance you're referring to its senior
2 securities bond rating, will not be downgraded to below
3 investment grade; is that correct?

4 A. Can you give me a line, I'm sorry.

5 Q. Actually, this is the gist of the answer to
6 that entire question.

7 A. Yes, essentially.

8 Q. Okay. If this prediction is wrong and PSE is
9 downgraded to junk status, you testify at pages 16 to
10 17, I believe, that from the standpoint of cost for
11 debt, you believe that this consequence is cost
12 justified and presents no hardship to customers. Let me
13 go back and find the page.

14 A. I don't believe I used cost justified.

15 Q. I'm sorry, I think you do a cost benefit
16 analysis.

17 A. You could call it that.

18 Q. Okay.

19 MR. FFITCH: Your Honor, could we have the
20 direction to a page number?

21 JUDGE MOSS: I think Mr. Quehrn is looking
22 for that now, Mr. ffitch.

23 MR. FFITCH: Thank you.

24 MR. QUEHRN: Page 16.

25 THE WITNESS: I'm there.

00637

1 JUDGE MOSS: I have it at line 20, I believe.

2 MR. QUEHRN: Correct.

3 BY MR. QUEHRN:

4 Q. Now applying this cost benefit analysis, it
5 appears to me that you have looked primarily at just
6 interest costs associated with incurring debt at below
7 investment grade; is that correct?

8 A. Well, I think I know what you're talking
9 about. I don't think it's on page 16, but I will say
10 yes to your question.

11 Q. Okay. Did you consider any other
12 consequences of a downgrade to junk status when you made
13 this cost benefit analysis?

14 A. I didn't quantify anything else except
15 interest cost increases. But as I said before, because
16 of my experience in past cases with companies that are
17 "junk rated", I was aware of difficulties having to do
18 with trade credit, that sort of thing.

19 Q. Can you now turn to page 8, please.

20 A. I'm there.

21 Q. And we want to refer to lines 13 through 17
22 where the statement is that the power costs not only
23 experienced by the company was due to a confluence of
24 events unlikely to be repeated in the future.

25 A. I believe it's lines 17 and 18 in my copy,

00638

1 but I see the quote.

2 MR. QUEHRN: And I must apologize to the
3 Bench, for some reason the copy that I'm referring to is
4 not jiving, and it's going to take me a little bit
5 longer to get those line references, and I do apologize.

6 JUDGE MOSS: I think they're reasonably close
7 and we're able to follow along, so if we have a problem,
8 we will let you know, but I think it's probably just a
9 printer fluke or something seems to happen.

10 BY MR. QUEHRN:

11 Q. Should I infer from this general statement
12 that you expect the net power costs that the company is
13 going to experience during the interim period to be
14 substantially less than forecasted?

15 A. No, I'm not talking about the details of the
16 power costs, although that's been testimony we have
17 heard today, that's not --

18 Q. So you're not talking about power costs
19 during the interim period in this regard?

20 A. No, I'm talking about the fact that the whole
21 Western power market sort of blew up in 2000/2001.
22 That's what I'm talking about.

23 Q. Let's refer to page 10, please. And I
24 believe this is the other place where you look at
25 marginal debt cost and in this instance relate them to

00639

1 the PNB standard. Beginning at line 5 and through line
2 19 I think are the reference lines of the text, your
3 testimony at this point assumes a marginal debt cost of
4 300 basis points if PSE were downgraded to junk status;
5 is that correct?

6 A. Yes, it does, and that's a very conservative
7 assumption. That's a high number.

8 Q. You then compare this increased interest cost
9 of borrowing to the amount of the proposed rate
10 increase; is that correct?

11 A. That's right.

12 Q. Is it a fair summary of your conclusion that
13 the cost of debt, basically borrowing the \$163 Million
14 at a junk or below investment grade status, is less than
15 the cost of the proposed rate increase? Is that the
16 general point you're making?

17 A. Yes, and I'm trying to make a conservative
18 assumption by using a very high number of 300 basis
19 points. I say even if it were extremely high, the cost
20 to customers would be much, much higher or current rate
21 increase of 170 versus paying the interest on the rate
22 differentials.

23 Q. And if PSE borrowed this money as opposed to
24 getting a rate increase, do you suppose it would have to
25 repay the principal?

00640

1 A. Well, any time you borrow, you have to repay
2 the principal, except this -- there's several reasons
3 why that analogy doesn't really apply here. First of
4 all, and I think Ms. Steel said it very well earlier
5 this morning, when a corporation needs capital, they go
6 to investors, not to the customers. To the extent that
7 you have earnings that you're not paying out in
8 dividends, you can use those earnings to supply capital
9 and repay debt.

10 Also, there are issues with the capital
11 structure that you now have, which is far more leveraged
12 than the capital structure that's in place in your
13 rates. So that additional short-term debt is actually
14 being paid for by rate payers as if it were common
15 equity, because you have moved way past the 55% debt
16 ratio that's assumed in rates. So, you know, those
17 analogies don't really hold.

18 Finally, you know, even if you accept your
19 premise that -- and look at it like, well, don't you
20 eventually have to pay this money back, think about
21 buying a car. Who in the room pays cash for a car. I
22 don't know many people that do that. You would rather
23 finance it, wouldn't you. The answer is yes.

24 Q. Is it not true in this case that if we
25 increase our debt, that will further erode the balance

00641

1 between debt and equity in the company's capital
2 structure?

3 A. Well, I'm heartened to hear that the company
4 is now concerned about increased debt in the capital
5 structure.

6 Q. I'm actually asking for your view now.

7 A. I was about to say yes. If you use more
8 short-term debt to finance your needs, it will in effect
9 increase debt in the capital structure. But I'm
10 concerned about that debt level being too high. It's
11 been too high for several years. At this point though,
12 the company does have remedies to prevent that, one of
13 which is not paying out all their earnings in dividends.

14 Q. One more question with respect to this
15 analysis here. I understand your answer with respect to
16 repayment of the principal. Does your analysis address
17 the availability of sufficient revenues to pay the
18 principal short of borrowing more money?

19 A. You're going to have to explain to me when
20 you say principal, what are you talking about?

21 Q. The principal amount of the debt. As we
22 clarified before, if you borrow money, you've got to pay
23 it back.

24 A. We're talking in the abstract, if you borrow
25 money, you got to pay it back?

00642

1 Q. No, I'm actually referring not so much in the
2 abstract, but to your analysis on lines 5 through 19 on
3 page 10.

4 A. Okay, we're assuming that the company is
5 borrowing \$163 Million instead of getting it from rate
6 payers; that's your assumption?

7 Q. I believe that was part of your analysis.

8 A. And your question is what?

9 Q. Does your analysis here in terms of your cost
10 benefit analysis address the availability of sufficient
11 revenues to repay the principal and interest costs, or
12 does it just assume you can go out and get the
13 financing?

14 A. No, my analysis looks at and is focused on
15 the company's financial viability. It's my belief based
16 on my analysis of the company's projections and as in my
17 experience working with companies in this industry for
18 the past 20 years that no interim increase is necessary.
19 The company has the financial wherewithal to be able to
20 withstand the financial pressures it feels during this
21 interim period.

22 You have a rate case ongoing, and I feel
23 certain, having worked with this Commission before, that
24 your rates will be fair and just and reasonable as a
25 result of that case on an ongoing basis. So you have a

00643

1 rate case in progress. That's the statutory
2 requirement, that the Commission looks at your rates
3 when you bring them a rate case, balances your costs,
4 and provides rates on that basis. So it's my
5 expectation, and I mentioned that in my testimony, that
6 the company will be treated fairly by the Commission at
7 that time but does not at this time need interim rates.

8 Q. I would like to move to page 16 of your
9 testimony, please, and I want to refer in this instance
10 to lines 4 through 6, and I would note that this is
11 carryover of an answer to a question where you're
12 starting to address factors of the PNB test.

13 A. Yes.

14 Q. Specifically I would like to refer to your
15 testimony that begins on line 4 that says:

16 The company will continue to be able to
17 meet its financial obligations, albeit
18 it at a higher margin of cost for debt
19 capital, but that does not constitute a
20 gross hardship in my view.

21 Is it your view, is it your testimony the
22 company must be unable to meet its financial obligations
23 for there to be a gross hardship?

24 A. No, I think that that would be a clear
25 indication that there's gross hardship. I think if

00644

1 there were a reasonable chance that the company might
2 not meet its interest payments or might not meet payroll
3 or some other crucial factor in its operations, then I
4 would consider that to be financial hardship. In the
5 situation where the company has the financial means to
6 meet its obligations, the only difference being that the
7 cost may be slightly more, that doesn't to me indicate
8 financial hardship.

9 Q. You appear to get to this I think also a
10 couple of pages later, and this would be page 18, lines
11 4 through 6. We're now referring to the fifth factor of
12 the PNB test. In your testimony at line 4:

13 In my view, a disaster would be imminent
14 if a utility were unable to continue
15 operations, pay creditors, or meet
16 payroll.

17 Is it your testimony that the PNB standard
18 requires a showing that the utility is unable to
19 continue operations?

20 A. Well, the PNB standards are open to
21 interpretation. Let me say that. They don't define any
22 kind of hard numbers. And I think that's -- that's a
23 good thing. I think it leaves it up to the Commission's
24 good judgment about what to do in cases like that. I
25 think it would be a clear indication, as I said a moment

00645

1 ago, of financial hardship if the company were unable to
2 continue operations. That's clearly something you do
3 not want to happen.

4 Q. Does it have to go that far to meet the test?

5 A. Probably not.

6 Q. You go on to testify that it would meet the
7 PNB test standard, criteria number 5, upon a showing
8 that the utility can not pay its creditors. And again,
9 I would agree that that would meet standard 5. Anything
10 less than not paying its creditors?

11 A. A high probability of not being able to pay
12 its creditors I would say would be pretty close.

13 Q. So right on the brink?

14 A. Well, it's difficult to say without a, you
15 know, in the abstract to say what an actual cut off
16 number would be. I would be concerned if the company
17 were on the brink, as you say, with regard to paying its
18 creditors. I don't think Puget is anywhere close to
19 that situation.

20 Q. Finally, just along this same line of
21 inquiry, you say unable to meet payroll, and I would
22 assume that perhaps your answer is similar there, that
23 the utility doesn't have to be unable to meet its
24 payroll?

25 A. No, I think I'm sensitive to that issue,

00646

1 because I happen to be on the board of directors of a
2 women's health care clinic back home, and, you know,
3 that's always a problem when we have board meetings, and
4 that organization from time to time faces that issue,
5 and that certainly is a point where you have to stop
6 operations if you can't pay the people that are working
7 for you.

8 Q. Okay. Moving on, let's go to 9, or excuse
9 me, page 19 of your testimony. And here I would like to
10 refer to lines 1 through 4. And here your testimony
11 calculates a current market to book ratio for the
12 company's stock; is that correct?

13 A. That's correct, as of January 14.

14 Q. And that calculation is made just with
15 respect to a single date; is that correct?

16 A. That's correct.

17 Q. All right, thank you.

18 A. It's lower than that now.

19 Q. Presumably it's different every day using
20 that methodology; is that correct?

21 A. Yes, it would be.

22 Q. All right.

23 A. And every single day the price changes and
24 the book value doesn't, the ratio would be different.

25 Q. Now I would like to go to Exhibit 354, which

00647

1 I think was initially identified as your Schedule 4.
2 A. I'm there.
3 Q. Now I think I can save us a few questions
4 here. If I look at the 29.312 in the bottom, that is a
5 number that you have adjusted; is that correct?
6 A. That's right.
7 Q. And that number is now correctly 30.1?
8 A. Yeah, 30.145.
9 Q. I'm sorry, 30.145.
10 A. And I believe I provided a revised version of
11 this in response to one of your data requests, which you
12 have listed as a hearing exhibit.
13 Q. Excuse me just a minute.
14 MR. QUEHRN: If I could just confer with
15 Mr. Gaines for a minute as to some testimony that's
16 going to relate to confidential information.
17 JUDGE MOSS: Go ahead.
18 MR. QUEHRN: Your Honor, for the Bench, I
19 would like to clarify that there are confidential
20 numbers appearing on Exhibit 354C. We have made
21 reference just to the cumulative shortfall number that
22 Mr. Hill has referred to, and if we refer to that number
23 only rather than how it was calculated, which I will try
24 to limit my questions accordingly, we should have no
25 reason to worry about the questions or the answers that

00648

1 I anticipate as far as confidentiality is concerned.

2 JUDGE MOSS: All right, well, it's your claim
3 of confidentiality that's probably the one at issue
4 here, Mr. Quehrn.

5 MR. QUEHRN: Right.

6 JUDGE MOSS: So I will rely on you to protect
7 your client accordingly, and others can be on caution
8 that this is a confidential exhibit.

9 MR. FFITCH: I'm sorry, Mr. Quehrn, Your
10 Honor, if I could just interject two things, one to
11 clarify the record, the witness referred to the
12 corrected number as 30.145.

13 JUDGE MOSS: Yes.

14 MR. FFITCH: I think perhaps we all
15 understood that from looking at the text in the errata
16 sheet, but for the benefit of the transcript, that
17 number is 30,145.

18 JUDGE MOSS: Yeah, I think we all have that,
19 so thank you, Mr. ffitch.

20 MR. FFITCH: And the second point is that
21 while the questions, there may be an attempt to limit
22 the questions to the non-confidential number, there may
23 be an issue that arises where the witness wants to talk
24 about specific numbers that are in this exhibit that are
25 confidential, and I don't know if that's the case, but

00649

1 we may have to deal with that perhaps on redirect.

2 We'll have to cross that bridge.

3 JUDGE MOSS: All right, well, let's cross it
4 if we have to.

5 COMMISSIONER HEMSTAD: Judge Moss.

6 Just for my understanding, why is this
7 exhibit confidential?

8 THE WITNESS: You're asking me, sir?

9 JUDGE MOSS: That would be to Mr. Quehrn.

10 MR. QUEHRN: Excuse me, Commissioner, let me
11 turn back to that exhibit. I believe that the numbers
12 that appear in the front part of that exhibit have
13 information concerning earnings that have not yet been
14 disclosed to -- I'm sorry, we're trying to be careful
15 with this. Let me just again confer with Mr. Gaines.

16 JUDGE MOSS: We're just looking at the one
17 page.

18 MR. QUEHRN: I agree.

19 JUDGE MOSS: Schedule 4.

20 MR. QUEHRN: But I believe Commissioner
21 Hemstad's question goes to the data above the numbers,
22 is that correct, why is that confidential, is that your
23 question?

24 COMMISSIONER HEMSTAD: Well, I'm looking at
25 the whole page. All the numbers have been, at least as

00650

1 I understand how the confidentiality reference is used,
2 all of the numbers are classified as confidential, and
3 I'm trying to get a handle on the issue of basis for
4 claiming confidentiality of lots and lots of numbers in
5 this proceeding. I don't understand.

6 MR. QUEHRN: Question understood, one moment,
7 please.

8 Answering Commissioner Hemstad's question
9 first, the projection of income are matters that are
10 confidential because of at this point publicly
11 disclosing these numbers before they were disclosed to
12 the SEC, at which point it's my understanding the
13 company doesn't disclose projections, it gives actuals,
14 it's not in the business of projecting its income, it's
15 in the utility business, that it puts the company in the
16 position where it may violate the federal security laws,
17 and that's why we're very cautious about those numbers.

18 And I will be very candid, the details of the
19 federal security laws that we're talking about, I am not
20 all that well versed in, and if that is something that
21 you would like us to address at more detail in some
22 point, I would be happy to.

23 COMMISSIONER HEMSTAD: I will accept your
24 explanation.

25 MR. QUEHRN: All right, thank you.

00651

1 BY MR. QUEHRN:

2 Q. Just a minute, Mr. Hill.

3 A. Okay.

4 Q. I think, Mr. Hill, the easiest way to deal
5 with this might actually be if I could ask you to be
6 kind enough to refer to Mr. Donald Gaines's testimony,
7 which is non-confidential, where he runs through this
8 analysis that you have done to come up with your
9 recommendation with respect to first mortgage bond
10 coverages, and I will tell you that that is his rebuttal
11 testimony.

12 JUDGE MOSS: It's Exhibit 25.

13 Q. Exhibit 25.

14 A. DEG-7?

15 Q. Yes.

16 A. Okay, I have it.

17 Q. I think what we want to do is to look at the
18 text on page 11 beginning at line 12.

19 A. We're back at my testimony now?

20 Q. No, we're talking about Mr. Gaines'
21 testimony.

22 A. Oh, okay, hang on a sec. Page 11?

23 Q. Yes.

24 A. I have it.

25 Q. Mr. Gaines if you go through his testimony

00652

1 notes a couple of errors, and I believe we have adjusted
2 for the one, and actually the number has been adjusted
3 further today. The other error that he points out is a
4 failure on your part to adjust your recommended relief
5 for revenue sensitive items. Is that an adjustment that
6 you agreed with or you disagreed with?

7 A. Where, can you direct me to a line, I'm
8 sorry, are we looking at this Table 4?

9 Q. I'm sorry, we're on page 11 looking at lines
10 now 19 through 23.

11 A. With respect to Ms. Steel's calculations?
12 I'm sorry, I'm having difficulty locating what you're
13 talking about.

14 Q. It's the paragraph that begins at line 12,
15 Mr. Hill's calculation of recommended interim relief,
16 Mr. Gaines notes a couple --

17 A. Let me stop you. I think we have another
18 situation where Microsoft Word has failed us.

19 Okay, now I have a copy, the same copy that
20 you have. Let's go again.

21 Q. And again, I think one of the adjustments
22 that we have pointed to here has been addressed in your
23 errata sheet. I would point out that his calculation
24 also points to an adjustment that needs to be made for
25 revenue sensitive items essentially to gross the number

00653

1 up for taxes. Is that a number that you agree with or
2 disagree with?

3 A. I'm sorry, direct me to the line again,
4 please.

5 Q. Let's just take it from line 16.

6 A. Okay.

7 Q. Through the end of the paragraph.

8 A. Okay.

9 No, I don't agree with that, the \$70.5
10 Million.

11 Q. And specifically, you do not believe that
12 this number should be adjusted for revenue, basically
13 grossed up for taxes; is that correct?

14 A. He has a tax gross up using a figure of .95
15 for a gross up on his Exhibit 25. I don't have a
16 problem with that number, with the .95 gross up.

17 Let me tell you how I came to this, my
18 Exhibit 354, and maybe that will answer your question.
19 My primary recommendation in this case is based on my
20 review of the PNB standards, the company doesn't need
21 interim rate relief.

22 Q. Pardon me, actually I really would just like
23 to focus on the adjustments, and then I'm done with
24 this. I think you make it quite clear in your testimony
25 why you think what you think. I would just like to

00654

1 understand if you agree with this adjustment or not.

2 A. I disagree with the adjustment, and I'm
3 trying to tell you why. If you're happy with the fact I
4 just disagree, that's fine.

5 Q. What you're going to say pertains to whether
6 or not it should be grossed up by the .955 factor that's
7 my question?

8 A. Yes.

9 Q. Why it should or should not?

10 A. Yes.

11 Q. Okay, thank you.

12 A. Can I go ahead?

13 Q. You sure can.

14 A. Okay, thanks. As I was about to say, I
15 really don't have a problem with the .95 gross up if
16 that's -- if the Commission feels that's proper, fine.
17 The way I came to this -- my Schedule 354, which is the
18 \$30.1 Million, is that my primary recommendation based
19 on my review of the PNB standards is the company does
20 not need a financial interim rate relief. I recognize,
21 however, that the Commission may either disagree with me
22 or have other issues in mind that are beyond my scope of
23 my analysis in this case and may want to grant the
24 company something for whatever reason. So I sought then
25 to offer an alternative recommendation, not because I

00655

1 believe the company needs it financially, I think
2 they're going to be fine financially until you come out
3 with a rate order.

4 And I used this matrix, if you will, of the
5 company's first mortgage bond interest coverage and
6 figured a ratio that was based on the period in
7 question, not looking back 12 months. That's why I did
8 a monthly basis and then got the cumulative number. I
9 just used this to come up with an alternative
10 recommendation for the Commission if the Commission felt
11 like, yeah, yeah, they don't need money, but we feel
12 like we got to give them something, and that's
13 essentially what I did.

14 So I wanted to explain that, that this is not
15 I think a hard and fast scientific, if you will,
16 financial analysis of the company's needs. I think this
17 is an alternative recommendation, and that's how I
18 intend to present it to the Commission.

19 Q. Getting back to the question that was asked
20 and the appropriateness of grossing it up, I understand
21 your dollar amount that you recommend to pertain to the
22 amount necessary to meet the coverage test for first
23 mortgage bonds?

24 A. No, I'm using the coverage test for first
25 mortgage bonds in order to be able to generate a

00656

1 secondary recommendation with the Commission. I
2 recognize, and I say so in my testimony, that this
3 amount of money here is not going to allow the company
4 to meet its two times coverage. I realize that. But I
5 used that calculation to come up with my number.

6 Q. So what number do you think would allow the
7 company to meet its first mortgage bond coverage test?

8 A. That's in my testimony. I can find it for
9 you. It's \$60 something Million, and that's in
10 Mr. Hawley's projections month by month show that for a
11 trailing 12 month period, I believe it occurs in March
12 2002 is the most critical month, the company would need
13 an increase of \$68 Million in order to be able to meet
14 its two times coverage. And that's the largest amount
15 for any 12 month period, so therefore it stands to
16 reason that you would be able to meet the two times
17 coverage with that amount of money in any of those
18 periods, and I believe Ms. Steel independently came up
19 with a similar number.

20 MR. QUEHRN: Your Honor, I have no further
21 questions.

22 JUDGE MOSS: Thank you, Mr. Quehrn.

23 Let's see, for this witness we had indicated
24 I guess Mr. Kurtz you had a few questions for Kroger,
25 five minutes worth I believe you said.

00657

1 MR. KURTZ: Yes, sir.

2

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

4 BY MR. KURTZ:

5 Q. Good afternoon, Mr. Hill.

6 A. Mr. Kurtz, how are you doing.

7 Q. Fine. You are Public Counsel's only witness?

8 A. Afraid so.

9 Q. And you have not testified at all on the rate
10 spread or rate design of any interim rate increase that
11 the Commission might award; is that right?

12 A. That's correct.

13 MR. KURTZ: Your Honor, those are all my
14 questions.

15 JUDGE MOSS: Thank you, Mr. Kurtz.

16 And, Mr. Cedarbaum, sorry, I overlooked the
17 fact that Staff was supposed to go after the company,
18 but I don't imagine that interfered unduly with the flow
19 of things. You had about 15 minutes, I believe you
20 said.

21 MR. CEDARBAUM: And I won't have that many
22 questions. I just have questions in one short area.

23 JUDGE MOSS: Great.

24

25

00658

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

2 BY MR. CEDARBAUM:

3 Q. Mr. Hill, you referred to the two times
4 interest coverage test. Are you aware that that's for
5 electric mortgage bonds?

6 A. Yes.

7 Q. Are you aware of any gas mortgage bonds that
8 would be different?

9 A. No, I'm not aware of any.

10 Q. Would you accept subject to check that the
11 company does have gas utility mortgage bonds at a 1.75
12 times test?

13 A. I would accept that.

14 Q. Would that affect the calculation of the
15 amount that you have put in your testimony at all?

16 A. Well, if you used 1.75 instead of 2, it
17 certainly would. It's just a mathematical truism. I
18 think we're trying to focus here on the electric
19 operations. That's why I used the 2.0.

20 MR. CEDARBAUM: Thank you, that's all.

21 JUDGE MOSS: Does the Bench have any
22 questions for Mr. Hill?

23

24

25

E X A M I N A T I O N

1

2 BY CHAIRWOMAN SHOWALTER:

3

4 Q. Following up on the last point, your last
5 question with Mr. Quehrn as well, I'm a little confused
6 on the two times coverage. It sounded to me as if you
7 said yes to you had used that as a basis for a secondary
8 recommendation, but that you recognized that that
9 coverage ratio still would not be met with your
10 recommendation, you would have to go to \$68 Million to
11 meet that; is that correct?

11

A. That's correct.

12

13 Q. Okay. And can you, you may have covered this
14 in your testimony, and you can just point me to it if
15 you want, but tell me again why you don't think it's
16 necessary to reach the two times coverage ratio?

16

17 A. First of all, the primary reason is the
18 company has no intention of issuing first mortgage debt.
19 It doesn't need to issue medium term notes during the
20 interim period. They can finance their operations with
21 their revolving credit agreement as it stands.
22 Ms. Steel showed very clearly that their financing needs
23 would be below the \$375 Million level with her
24 adjustments to the company's number, so it's not
25 necessary.

25

Q. Thank you, that's sufficient. Could you turn

00660

1 to page 7 of your testimony.

2 A. I'm there.

3 Q. On footnote 4, you cite a Standard & Poor's
4 general article about a general negative trend for U.S.
5 utilities, and it's dated October 5th, 2001. Do you
6 know of any update to this kind of report?

7 A. Yes, I believe you got one either today or
8 yesterday that was just handed out. It's the same --
9 it's the same -- written by the same person. It's a
10 continuation of the same report.

11 Q. Okay, thank you.

12 MR. CEDARBAUM: It's Bench Exhibit 2.

13 CHAIRWOMAN SHOWALTER: Thank you.

14 BY CHAIRWOMAN SHOWALTER:

15 Q. And then on page 4 of your testimony.

16 A. Yes, ma'am.

17 Q. Are you there?

18 A. I'm there.

19 Q. You talk of your experience with other
20 utilities. My question to you is, when did you have
21 this experience, is it within the last 18 months?

22 A. Yes, ma'am, I'm having it now. I'm still
23 involved in the Western Resources hearing that's
24 ongoing. And if you're not aware of that, I would like
25 to be able to tell you a little bit about it as a

00661

1 cautionary tale if you're interested to hear.

2 Q. Well, I think I will just stick with my
3 questions right now, thank you.

4 A. All right.

5 Q. Do you have experience currently with
6 utilities who are engaging in power purchase contracts,
7 that is, does your role have anything to do with those
8 contracts?

9 A. No, ma'am, I do testify about financial
10 issues, primarily cost of equity, that's my primary
11 expertise, but financial issues are always on the table
12 in rate cases, and purchase power is a part of the
13 standard portfolio of power supply.

14 Q. In an exhibit to Ms. Steel's testimony, I
15 can't remember the exhibit number, but there is a
16 excerpt from the standard contract that allows sellers
17 to increase their security if they become, I forget what
18 the term is, but dissatisfied with the credit, with the
19 credit worthiness of the buyer. And it appears to me to
20 give the seller quite a bit of discretion there. Do you
21 have any experience currently with companies who are
22 either on the buying or selling end?

23 A. I haven't dealt specifically with power
24 purchase contracts in rate cases that I have been
25 involved in. As I said, you know, power purchasing is a

00662

1 pretty standard part of portfolio of, you know, power
2 supply. And even in the cases I'm involved in with
3 companies that are in fragile financial condition, for
4 example, Western Resources currently, and in the past
5 Tucson Electric Power, which is now Unisource Energy, I
6 have been aware of those companies being able to
7 continue their power purchase contracts and arrangements
8 with other buyers and sellers even in a frail financial
9 condition.

10 Q. In the last year?

11 A. Western Resources, yes. Unisource Energy was
12 several years ago.

13 Q. What is Western Resources' corporate bond
14 rating or first mortgage bond rating?

15 A. Double B.

16 Q. Could you turn to page 11.

17 A. There.

18 Q. And in your paragraph beginning on line 15,
19 particularly the sentence beginning on line 17, I'm
20 perceiving a policy recommendation there, and I just
21 want to see if I'm correct. It appears to me that you
22 are saying, yes, the Commission should determine
23 financial need, so that is one constraint, a company
24 should not get more than it needs. But that a second
25 constraint, which may be below the first, is what's

00663

1 regular, what's fair from a regulatory practices
2 standpoint. Is that what you're saying here?

3 A. Yes, I think a review of the company's
4 financial condition is part A, but part B is I think
5 it's necessary, although the company would disagree,
6 that you study how they got here.

7 Q. So, for example, I think you may have given
8 the example, but if a company landed in a predicament
9 transparently wholly of its own imprudent making, you
10 would say that even though it was in a predicament, if
11 it was quite clear that the amounts were imprudently
12 incurred that we should not provide relief because it
13 couldn't be justified in a regulatory sense?

14 A. That's exactly what I'm saying.

15 Q. And then on the other hand, if a company
16 landed in some kind of predicament wholly not of its own
17 making, we still could not go beyond what was generally
18 at least on a preliminary basis justified in a
19 regulatory sense. For example, supposing the entire
20 company were in a predicament, but more than half of its
21 revenues come from unregulated activities, for example?

22 A. Right.

23 Q. It wouldn't matter what kind of shape the
24 company was in, it would not be justified for the
25 regulatory side to go too far in bailing out the other

00664

1 side?

2 A. Exactly.

3 Q. So that really don't we have a double, I
4 almost said the word double standard and that's a
5 misleading term, double constraints, we need to
6 determine need but also what's justified?

7 A. Yes, ma'am, and I think that standard number
8 6 about the public interest standard is where the what's
9 justified comes into the situation.

10 Q. And in terms of determining what is
11 justified, don't we have at issue essentially all of the
12 elements of a rate, all of the large elements of a rate
13 case, but we don't have time to finally determine them,
14 but don't we necessarily have to make some preliminary
15 judgments about them, them meaning --

16 A. All those elements.

17 Q. -- prudence and jurisdiction and legitimate
18 costs that go into a regulated utility?

19 A. Yes, and I think that's why the PNB standards
20 are set to prevent a disaster kind of situation. You
21 obviously don't -- you can't let that happen, because
22 it's too important that the company be able to fulfill
23 its public service obligations. But at the same time,
24 you can't make rates that are fair without knowing the
25 facts and its -- and you have to make judgments.

00665

1 In this case, one of the issues that has been
2 talked about quite a bit is the company's forward gas
3 contracts. Short term they're very expensive. Did they
4 enter those contracts for the purpose of selling off
5 systems. Was that prudent. There's no way to know that
6 within a couple of months of analysis. You may not even
7 know the real answer by the time you get to October.
8 But you have to look at those kind of things in order to
9 justify what's reasonable in this case. And
10 particularly in this situation, I feel that the
11 company's use of debt leverage prior to the fall of this
12 past year exacerbates the problems that they're in now.
13 Absent a 30% equity ratio, we may not even be sitting
14 here right now.

15 Q. Do you have any experience with the company's
16 you consult with in making presentations to Moody's or
17 Standard & Poor's?

18 A. I have read a lot of them.

19 Q. But have you ever participated --

20 A. No, ma'am.

21 Q. -- in a meeting?

22 A. Have not.

23 CHAIRWOMAN SHOWALTER: Thank you, I have no
24 further questions.

25

00666

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

2 BY COMMISSIONER HEMSTAD:

3 Q. Mr. Hill, have you reviewed Ms. Steel's
4 testimony?

5 A. Yes, sir.

6 Q. Have you looked at her Exhibit 414C?

7 A. Yes, sir, I have.

8 Q. Do you generally agree or do you have
9 disagreements with her adjustments that is reflected in
10 page 1 of 414C?

11 MR. FFITCH: Excuse me, Your Honor, I would
12 like to be able to provide the witness a copy of that if
13 there are going to be some questions to or let him find
14 it there.

15 THE WITNESS: I do have one.

16 JUDGE MOSS: All right, we'll give him a
17 chance to get that in front of him.

18 A. Here it is, yes, sir, I have it. Certainly I
19 would think that line 4 is reasonable, because that
20 represents debt redemption which are elective and which
21 the company included in its initial filing as part of
22 its emergency request. So clearly those should not be
23 included. The company has the option not to call that
24 debt. They can certainly put that off. I didn't mean
25 call that debt, I meant, well, you understand what I'm

00667

1 saying. That's an optional redemption. That's the
2 right word. So that should not be included.

3 Her discussion this morning of excess working
4 capital at the end of the year seems very reasonable to
5 me. The company is claiming that doesn't have anything
6 to do with regulated operations. Ms. Steel showed very
7 clearly that that money is on the PSE side of the
8 balance sheet and is available to the company. The
9 company offers that security to borrow that money, and
10 they should have access to it, especially in a
11 "emergency" situation.

12 Number 8 is also not arguable. I talked to
13 Mr. Hawley myself on the phone, they definitely did
14 issue that \$40 Million of debt, that was not included in
15 their original projections.

16 And I have, to be honest with you, I haven't
17 done -- those are straightforward on their face and
18 require no analysis, and I haven't done the analysis
19 necessary to confirm the other numbers in the detail.
20 But generally I agree with what she has to say, and this
21 shows very clearly that the company will be able to make
22 it through the interim period without broaching their
23 \$375 Million revolving credit limit. It's my opinion
24 that they could go beyond that. They might have to
25 scramble to do it and make another arrangement with

00668

1 another group of banks. It can be done. But I think
2 Ms. Steel's 414 shows that they don't even have to do
3 that with no interim relief.

4 COMMISSIONER HEMSTAD: Thank you, that's all
5 I have.

6 COMMISSIONER OSHIE: No questions.

7 JUDGE MOSS: Okay, before we go any further,
8 we had hoped to finish by about 5:30, but on the other
9 hand, if we can get the witness off the stand in a
10 reasonably short period of time, I suspect I can prevail
11 upon everyone to stay a few more minutes. Let me ask
12 first of all whether the questions from the Bench caused
13 anyone to have any further cross before we hear the
14 redirect.

15 MR. QUEHRN: I have one question.

16 JUDGE MOSS: One question doesn't seem like
17 too much.

18 Anybody else?

19 How much redirect do you think, Mr. ffitch?

20 MR. FFITCH: I need a minute to look through
21 my notes, Your Honor, I may have some.

22 JUDGE MOSS: All right, go ahead with your
23 question then.

24 MR. QUEHRN: Thank you, Your Honor.
25

00669

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

2 BY MR. QUEHRN:

3 Q. And fortunately this just refers to the last
4 question that was asked by Commissioner Hemstad. I
5 would like to refer you back to 414C.

6 A. I have it.

7 Q. And you indicated with respect to line 5, and
8 I listened carefully to your testimony, but I don't want
9 to -- I want to paraphrase it that you thought it was
10 clear that the entire amount shown there, the \$62
11 Million, was did I understand you to say PSE dollars?

12 A. No, I didn't say PSE dollars, but I believe
13 the company's rebuttal to Ms. Steel was that she
14 couldn't count that cash working capital as money
15 available to the utility because it was on the balance
16 sheet of unregulated operations. So she showed today in
17 response that the unregulated operations to which the
18 company referred in their rebuttal were under the
19 heading, if you will, or the corporate structure of PSE,
20 not PE. So they're part of PSE, PSE provides the
21 security for financing those companies and in an
22 emergency situation should be counted on as being able
23 to have access to those funds.

24 Q. Not meaning to understate Ms. Steel's
25 persuasiveness of her testimony, just as a factual

00670

1 matter, the reference to the \$62 Million is drawn from a
2 consolidated balance sheet that would include cash of
3 the utility and cash of the subsidiaries. Is it your
4 understanding that you can just look at that number on a
5 consolidated balance sheet and automatically tell which
6 part of it is subsidiary dollars and which part of it is
7 not subsidiary dollars?

8 A. No.

9 MR. QUEHRN: Thank you.

10 JUDGE MOSS: What do you think, Mr. ffitch,
11 less than 10 or 15 minutes?

12 MR. FFITCH: Your Honor, I don't have any
13 questions on redirect.

14 JUDGE MOSS: Then that would clearly be an
15 affirmative. All right, then I believe that completes
16 our examination of Mr. Hill, and we appreciate your
17 patience sitting here, a little behind schedule getting
18 you on the stand, thank you very much.

19 THE WITNESS: Thank you, sir.

20 JUDGE MOSS: Hope you had a pleasant stay in
21 the Pacific Northwest.

22 I believe, well, let me just ask if there's
23 any further brief business?

24 Mr. Furuta.

25 MR. FURUTA: Your Honor, during a break,

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1 Ms. Davison graciously offered to allow my witness to
2 take the stand before her witness, Mr. Schoenbeck, in
3 order to -- partly because my witness is out of town to
4 get him on and off tomorrow.

5 JUDGE MOSS: That's Mr. Selecky?

6 MR. FURUTA: That's correct, and I just
7 wanted to ask the parties if anyone had a problem if we
8 did decide to take her up on that and come up for cross
9 first thing tomorrow.

10 JUDGE MOSS: Mr. Kurtz, you and Mr. ffitch
11 and Staff had indicated a preference to cross examine
12 Selecky, would that prejudice any of you?

13 It does not appear that it would. Why don't
14 we go ahead and reorder the witnesses so that
15 Mr. Selecky will appear first thing in the morning
16 followed by Mr. Schoenbeck.

17 MR. FURUTA: That would be fine, thank you.

18 JUDGE MOSS: You're welcome.

19 Anything else we need to take up before we
20 recess for the evening?

21 All right, we will resume at 9:30 tomorrow
22 morning, see you then.

23 (Hearing adjourned at 5:40 p.m.)

24

25

