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BEFORE THE WASHINGTON UTILITIES AND

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TRANSPORTATION COMMISSION

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WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)

4

Complainant,)

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vs.

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PUGET SOUND ENERGY, INC.,)

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Respondent.)

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A hearing in the above matter was held on

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February 20, 2002, at 9:30 a.m. at 1300 South Evergreen

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Park Drive Southwest, Room 206, Olympia, Washington,

12

before Administrative Law Judges THEODORA M. MACE and

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DENNIS J. MOSS and Chairwoman MARILYN SHOWALTER and

14

Commissioners RICHARD HEMSTAD and PATRICK J. OSHIE.

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The parties were present as follows:

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THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION, by ROBERT CEDARBAUM and
SHANNON SMITH, Assistant Attorneys General, 1400 South
Evergreen Park Drive Southwest, Post Office Box 40218,
Olympia, Washington 98504-0128, Telephone
(360) 664-1188, Fax (360) 586-5522, E-mail
bcedarba@wutc.wa.gov.

20

21

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

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JUDITH CEDERBLOM, CCR
Court Reporter

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

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

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

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

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

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MORNING SESSION

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9:35 a.m.

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JUDGE MACE: My name is Theo Mace. I

know that I have been introduced before, but just to reintroduce myself, I'll be presiding today with the assistance of Judge Moss and the Commissioners.

I'd like to take the short form of appearances from counsel so that the reporter can begin to -- this is a new reporter this morning -- begin to know who the personnel is. So if you would begin.

MR. QUEHRN: Good morning, Your Honor.

Mark Quehrn for Puget Sound Energy.

MS. DODGE: Kirstin Dodge for Puget

Sound Energy.

MR. VAN CLEVE: Brad Van Cleve for the

Industrial Customers of Northwest Utilities.

MR. FURUTA: Norman Furuta for the

Federal Executive Agencies.

MR. KURTZ: Mike Kurtz for the Kroger

Company.

MR. FFITCH: Simon ffitch for the Public

Counsel Section of the Washington Attorney General.

MS. SMITH: Shannon Smith for Commission

staff.

1 MR. CEDARBAUM: Robert Cedarbaum for
2 Commission staff.

3 JUDGE MACE: I just wanted to caution
4 everybody to make sure that you use your mike this
5 morning. We have a new reporter, and she hasn't had
6 the advantage of being in the room to pick up some of
7 the terminology and to get used to your voices. So if
8 you would be real careful about using your mike this
9 morning.

10 For the reporter's benefit, Chairperson
11 Marilyn Showalter, Commissioner Richard Hemstad, and
12 Commissioner Patrick Oshie.

13 I wanted to begin just to note that we
14 received responses to bench data request No. 7 and
15 bench data request No. 1, and I think the
16 Commissioners have copies of those at their places.

17 Is there anything preliminary before we
18 begin with the first witness for today, Mr. Selecky?

19 MR. CEDARBAUM: Your Honor, I have just
20 two brief comments. Robert Cedarbaum. I just wanted
21 to report on the status of our response to bench
22 request 3B where Ms. Steel was asked to rerun some of
23 her spreadsheets to give comparable numbers that
24 Mr. Gaines presented. We hope to have that prepared
25 and filed by the end of today.

1 JUDGE MACE: Thank you.

2 MR. CEDARBAUM: The second point is,
3 with respect to the company's response to bench
4 request No. 7, I would note that there was some
5 notation placed at the bottom of that page which I
6 believe is beyond the scope of the bench request. I'm
7 not suggesting it be stricken, I'm just noting that,
8 to that extent the bench request was not responsive.

9 JUDGE MACE: But you're not objecting in
10 any way, you're just noting it.

11 MR. CEDARBAUM: It is what it is. If
12 it's a characterization by the company -- I'm sorry.
13 I guess I would object because I don't know if this is
14 just a characterization of the company or a fact. So
15 I would object to the notes on bench request No. 7 and
16 ask that they be removed.

17 JUDGE MACE: Mr. Quehrn?

18 MR. QUEHRN: Your Honor, we have no
19 objection to striking those footnotes.

20 JUDGE MACE: Then we'll strike those
21 notes that appear at the bottom of bench data request
22 No. 7. Anything else?

23 MR. VAN CLEVE: Your Honor, Brad
24 Van Cleve for ICNU. We have a couple of
25 cross-examination documents that need to be marked,

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1 one of which is for Mr. Selecky so I want to take that
2 up now. That's an exhibit that is entitled "PSE Rate
3 Spread Comparison, and it has a DWS-11 in the upper
4 right-hand corner, and it has been distributed to the
5 bench and to the parties.

6 JUDGE MACE: Yes. I believe that's been
7 marked No. 322.

8 MR. VAN CLEVE: And there was another
9 exhibit for Ms. Luscier which was DWS-12 in the
10 corner.

11 JUDGE MACE: We have marked that
12 No. 208, and I believe the Commissioners all have
13 copies of those at their places this morning.

14 MS. DODGE: I'm sorry, Your Honor, I
15 didn't get that. We've marked?

16 JUDGE MACE: There's a cross exhibit for
17 Ms. Luscier that is marked Exhibit 208.

18 MS. DODGE: What is the description of
19 that?

20 JUDGE MACE: That's titled Puget Sound
21 Energy Comparison of Dollars and Percent Increase.
22 It's DWS-12 in the upper right-hand corner. I'm not
23 sure why that is, but does that help?

24 MS. DODGE: Thank you.

25 MR. VAN CLEVE: Also, Your Honor, we had

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1 two exhibits, cross exhibits, that we had distributed
2 yesterday for -- the first is for Donald Gaines, and
3 it is a company response to ICNU 8.1-I.

4 JUDGE MACE: We'll take that up later,
5 we're not quite to Mr. Gaines yet. We can deal with
6 that later on.

7 CHAIRWOMAN SHOWALTER: I have a
8 question. I want to go back to bench request No. 7
9 and the notes that were stricken. I was the one who
10 asked for this, and my interest is in having as much
11 up-to-date information as we can have. I understand
12 this is about the ratings per se.

13 Footnote No. 1, to me, is relevant to
14 this proceeding. Now, I assume maybe it's covered in
15 bench request No. 1, and so it doesn't need to be
16 here. But I'm not really interested in narrowly
17 interpreting our bench request. The general effort
18 here is to get whatever current information there is
19 relating to this company, be it strict ratings or
20 other comments -- official comments, written
21 comments -- by the rating agency. So...

22 MR. QUEHRN: Your Honor, the information
23 in the footnotes is, I believe, correct.
24 Mr. Cedarbaum just accurately pointed out to me today
25 that the question that was asked by the bench

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1 yesterday was specifically what the ratings were, not
2 what the outlook was, which is what the notes say.

3 If the bench request were to be so
4 modified, then we could revisit whether or not the
5 footnotes belong there or not.

6 CHAIRWOMAN SHOWALTER: The footnotes, to
7 me, are providing information that I find useful. But
8 it also appears to me that probably I will find the
9 same type of information in bench request No. 1, at
10 least for footnote No. 1. Is that correct?

11 MR. QUEHRN: I think you will find the
12 same information. It's just bench request No. 1 is a
13 bit voluminous --

14 CHAIRWOMAN SHOWALTER: Right.

15 MR. QUEHRN: -- and this is probably
16 more handy in that regard.

17 CHAIRWOMAN SHOWALTER: And footnote
18 No. 2 is useful to me because it explains why
19 something isn't there.

20 MR. CEDARBAUM: Chairman Showalter, my
21 concern was that if the company was asked a bench
22 request, it went beyond the scope of that bench
23 request. And I think the implication by the footnotes
24 is an additional argument of their case.

25 If you want that information there, if

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1 it's just reflective of what's bench request No. 1,
2 then I don't have any objection to that. It's your
3 bench request, obviously. My objection went to the
4 company's initiative to go beyond the bench request
5 as it was stated.

6 CHAIRWOMAN SHOWALTER: Personally, I
7 find it helpful. So I would rather leave it in there
8 simply because it provides a little bit of context for
9 the specific information that's provided above and I
10 don't take it as inaccurate.

11 That's my issue: If it's misleading in
12 some way, then we have argument on it. But if it's
13 factually correct but simply beyond what the ratings
14 per se are, then I would rather leave it because I am
15 interested in the total picture.

16 MR. CEDARBAUM: And I guess my concern
17 is I haven't cross-referenced the footnotes with bench
18 request No. 1.

19 JUDGE MACE: Maybe we could just
20 reserve -- I can hold in abeyance that earlier
21 indication that it would be stricken, and we'll just
22 wait a little bit on it and you can check if you would
23 like to.

24 MR. CEDARBAUM: I guess maybe the best
25 way to handle this is, clearly, the bench would like

1 to have whatever information is out there, and that
2 certainly is its right and prerogative, and that's a
3 good thing.

4 So maybe we can just say let's leave
5 the footnotes, but what's been provided in bench
6 request No. 1 is the controlling document; and if
7 there are inconsistencies between the footnotes and
8 bench request No. 1, bench request 1 governs.

9 CHAIRWOMAN SHOWALTER: That's a good way
10 to do it. And if you find on review there is
11 something misleading in these footnotes, I'm perfectly
12 willing to either strike it or modify it.

13 MR. CEDARBAUM: And we can always handle
14 that on brief as well.

15 JUDGE MACE: Thank you. Anything else
16 of a preliminary nature? All right. Then,
17 Mr. Furuta, I believe -- where are my notes -- I
18 believe Mr. Selecky will be the first witness.

19 MR. FURUTA: Yes, thank you, Your Honor.
20 The Federal Executive Agencies call James Selecky.

21 JUDGE MACE: Mr. Selecky, would you
22 please raise your right hand?
23 Whereupon, JAMES T. SELECKY,
24 having been first duly sworn, was called as a witness
25 herein and was examined and testified as follows:

1 JUDGE MACE: Please be seated.

2

3 DIRECT EXAMINATION

4 BY MR. FURUTA:

5 Q. Could you please state your name and
6 business address for the record, spelling your last
7 name.

8 A. Sure. My name is James Selecky, that's
9 S-E-L-E-C-K-Y. My business address is 1215 Fern Ridge
10 Parkway, St. Louis, Missouri, Suite 208, 63141.

11 Q. And by whom are you employed?

12 A. I am employed by Brubaker & Associates.

13 Q. And are your statements of qualifications
14 set forth at Pages 11 through 14 of what have been
15 marked as Exhibit 321-T?

16 A. Yes, they are.

17 Q. And you have a copy of Exhibit 321-T
18 before you?

19 A. Yes, I do.

20 Q. And for the record, that's entitled
21 Interim Testimony of James T. Selecky. Mr. Selecky,
22 do you have any corrections to make to that exhibit at
23 this time?

24 A. I do not have any corrections.

25 Q. To the extent that Exhibit 321-T sets

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1 for material factual in nature, is that true and
2 correct to the best of your knowledge?

3 A. Yes, it is.

4 Q. And to the extent that it sets forth
5 opinion, is it your best professional judgment in
6 those matters?

7 A. Yes, it is.

8 MR. FURUTA: Your Honor, we would
9 request that Exhibit 321-T be admitted at this time.

10 JUDGE MACE: Hearing no objection, I'll
11 admit that exhibit.

12 (Exhibit 321-T admitted.)

13 MR. FURUTA: And the witness is
14 available for cross-examination.

15 JUDGE MACE: Very well. I show --
16 Ms. Smith, are you going to do the cross-examination
17 of this witness?

18 MS. SMITH: We don't have any cross.

19 JUDGE MACE: All right, thank you.
20 Mr. ffitch is not here this morning, so I'm assuming
21 he doesn't have any cross.

22 CHAIRWOMAN SHOWALTER: Does anyone have
23 any messages from Mr. ffitch?

24 MS. SMITH: Mr. ffitch is here. He must
25 have just stepped out of the room for a moment.

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1 JUDGE MACE: I'll go down the list,
2 then. I'm assuming since he's not here he's not as
3 sensitive about his order in the cross. So I have,
4 then, Mr. Van Cleve.

5 MR. VAN CLEVE: Thank you, Your Honor.

6

7 CROSS-EXAMINATION

8 BY MR. VAN CLEVE:

9 Q. Mr. Selecky, do you have in front of you
10 what's been marked as Exhibit 322?

11 CHAIRWOMAN SHOWALTER: Mr. Van Cleve,
12 you need to pull the microphone to get between you and
13 the witness.

14 A. No, I do not. I need a copy.

15 BY MR. VAN CLEVE:

16 Q. Is it true, Mr. Selecky, that you
17 propose in this proceeding that any interim rate
18 relief be allocated on an equal percentage basis per
19 rate schedule?

20 A. Correct. That's an equal percentage of
21 annual revenues.

22 Q. The column on Exhibit 322 that's
23 entitled FEA, is that column a reasonable
24 representation of your rate spread proposal in this
25 case?

1 A. I'm assuming it is. I myself, though,
2 did not perform those calculations to determine what
3 is the amount for the various rate classes. It looks
4 in order from some preliminary work I've done, but I
5 did not prepare those column numbers.

6 Q. Do you have any reason to believe that
7 any of those numbers under the FEA column are
8 inaccurate?

9 A. No. I have no reason to believe that.

10 MR. VAN CLEVE: Thank you. That's all
11 the questions I have, Your Honor.

12 JUDGE MACE: Mr. ffitch?

13 MR. FFITCH: I apologize for being
14 absent, Your Honor. Frankly, we just saw this cross
15 exhibit this morning. And I'd like to reserve the
16 opportunity to respond to any of the information that
17 is in here subsequently during the proceeding, perhaps
18 through other witnesses.

19 I take it this has been offered; this
20 cross exhibit has already been offered?

21 MR. VAN CLEVE: No, it has not been
22 offered, but we do intend to use the same exhibit for
23 the cross-examination of Mr. Higgins and Ms. Luscier.

24 JUDGE MACE: If you needed a few moments
25 to examine it, I could turn to Mr. Kurtz who indicated

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1 he had some cross of this witness.

2 MR. FFITCH: That would be helpful.

3 Thank you, Your Honor.

4 JUDGE MACE: Mr. Kurtz?

5 MR. KURTZ: Sorry, I won't be that
6 helpful. Because, as it turns out, I don't have any
7 questions.

8 JUDGE MACE: Okay. We can take a few
9 minutes if that would be helpful to you. We've gone
10 through the expected cross-examination of this witness
11 fairly quickly. Or I could ask the bench if they have
12 any questions.

13 MR. FFITCH: I'm not going to have any
14 questions this morning, thank you, Your Honor.

15 JUDGE MACE: And from the Commissioners?

16 CHAIRWOMAN SHOWALTER: No, I have no
17 questions. I think the witness's testimony was clear.

18 MR. CEDARBAUM: I have no questions.

19 COMMISSIONER OSHIE: No questions.

20 JUDGE MACE: Any redirect?

21 MS. SMITH: I do have one cross, if I
22 may. This is Shannon Smith for Commission staff.

23

24 CROSS-EXAMINATION

25 BY MS. SMITH:

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1 Q. In Exhibit 322, the numbers that you
2 have accept the company's interim rate proposal; is
3 that correct?

4 A. Yes. But I just want to back up, that I
5 did not prepare this exhibit, those numbers were
6 provided. But yes, that represents the company's
7 interim rate proposal.

8 Q. And you do sponsor this rate spread, do
9 you not?

10 A. Yes, I do.

11 Q. And if you were to assume that interim
12 relief were granted at staff's recommended level,
13 would you oppose an equal cents per kilowatt hour in
14 that case?

15 A. Yes, I would. I still believe it should
16 be on an equal percent of revenue basis.

17 MS. SMITH: That's all.

18 JUDGE MACE: All right, thank you.

19 Anything else? All right. Are you offering
20 Exhibit 322?

21 MR. VAN CLEVE: No, Your Honor.

22 JUDGE MACE: All right. Mr. Furuta?

23 MR. FURUTA: We have no redirect at this
24 time.

25 JUDGE MACE: Thank you, Mr. Selecky.

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1 You are excused.

2 MR. FURUTA: And FEA would like to thank
3 the parties for allowing us to go out of order in
4 order to accommodate the witness's schedule.

5 JUDGE MACE: Very well. I show the next
6 witness to appear is Mr. Schoenbeck.

7 Whereupon, DONALD W. SCHOENBECK,
8 having been first duly sworn, was called as a witness
9 herein and was examined and testified as follows:

10 JUDGE MACE: Please be seated. I note
11 that we have received at the bench corrections to your
12 Exhibit 271 and some revised pages of testimony. Does
13 everybody have that? The first several corrections
14 need to be made manually, and then the pages of
15 testimony can be inserted as revised pages of
16 testimony.

17 MS. DODGE: Your Honor, I'd like to
18 briefly comment on these corrections, if I may.

19 JUDGE MACE: Go ahead.

20 MS. DODGE: I'm concerned, first of all,
21 to only have received these this morning just a few
22 moments ago.

23 JUDGE MACE: Can you speak up just a
24 little bit?

25 MS. DODGE: Yes. We just received these

1 a few moments ago and they appear to be -- at least
2 the substitute pages, the last couple -- beyond the
3 nature of normal correction. They include, for
4 example, additional columns that go to Puget's
5 rebuttal and appear to be surrebuttal rather than
6 corrections.

7 I can't say that I'm objecting because
8 I don't know that Puget considers itself prejudiced
9 because this goes to rate spread, but I am noting our
10 concern.

11 MR. FFITCH: Your Honor, public counsel
12 would join in that concern. We're seeing this for the
13 first time, and we'd like to reserve an opportunity to
14 present in some appropriate fashion responsive
15 testimony if necessary or evidence with regard to this
16 new material.

17 JUDGE MACE: It appears that you'll have
18 an opportunity to cross-examine. And I suppose, if
19 you need some limited time to review the testimony
20 further, that can be afforded you. But I'm assuming
21 you'll have cross in addition to cross with regard to
22 these revisions.

23 So at an appropriate time, if you need
24 some additional time to review this, we can allow you
25 that, and then he can deal with the matter of

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1 response to it as that appears appropriate.

2 MR. FFITCH: Thank you, Your Honor.

3 JUDGE MACE: So, Mr. Van Cleve, are you
4 ready to present your witness?

5 MR. VAN CLEVE: Yes, Your Honor.

6

7 DIRECT EXAMINATION

8 BY MR. VAN CLEVE:

9 Q. Mr. Schoenbeck, on whose behalf are you
10 appearing in this proceeding?

11 A. I'm appearing on behalf of the
12 Industrial Customers of Northwest Utilities.

13 Q. And have you prepared prefiled testimony
14 that's been marked as Exhibit 271?

15 A. Yes, I have.

16 Q. And did you also prepare exhibits to
17 that testimony which have been marked as Exhibits 272
18 through 280?

19 A. Yes, I did.

20 Q. Do you have any corrections to make to
21 your testimony?

22 A. Yes. There was a correction sheet that
23 was handed out. I don't know if we need to go through
24 them or not.

25 JUDGE MACE: No, I don't think we need

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1 to go through them on the record. Parties should make
2 those corrections and so all the -- and should make
3 the insertions of the testimony into their testimony
4 pages.

5 BY MR. VAN CLEVE:

6 Q. With these corrections, Mr. Schoenbeck,
7 is your testimony true and correct to the best of your
8 knowledge?

9 A. Yes it is.

10 MR. VAN CLEVE: Your Honor, we would
11 offer Exhibits 271 through 280 and make Mr. Schoenbeck
12 available for cross-examination.

13 JUDGE MACE: Hearing no objection, I'll
14 admit those exhibits.

15 (Exhibits 271-280 admitted.)

16 MR. FFITCH: Your Honor, I guess I'll
17 just state for the record, we did have that colloquy
18 earlier but perhaps this would be the place to
19 cross-reference back to our earlier objection.

20 JUDGE MACE: Correct. I didn't hear an
21 objection. What I heard was the possible need to
22 rebut these corrections. So I'll admit the exhibits
23 at this time, and we'll deal with the need for
24 additional cross or for some response as it appears
25 appropriate.

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1 MR. FFITCH: Thank you, Your Honor.

2 MS. DODGE: May I proceed?

3 JUDGE MACE: Yes.

4 MS. DODGE: I'd first like to move to
5 admit Exhibits 281 through 284, which were premarked
6 at the prehearing conference and then, subject to the
7 stipulation earlier that exhibits that were marked
8 there could be admitted without the need to go through
9 the exercise of foundation.

10 JUDGE MACE: All right. Mr. ffitch, I
11 understand you were involved in that agreement; is
12 that --

13 MR. FFITCH: I don't believe. That
14 would be...

15 MS. DODGE: It was Mr. Van Cleve.

16 JUDGE MACE: I'm sorry. Mr. Van Cleve?

17 MR. VAN CLEVE: We have no objection,
18 Your Honor.

19 JUDGE MACE: Is there any objection to
20 the receipt for admission into evidenced Exhibits 281
21 through 284? Hearing no objection, I'll admit those.

22 (Exhibits 281-284 admitted.)

23 MS. DODGE: Puget Sound Energy has no
24 questions of Mr. Schoenbeck.

25 JUDGE MACE: Ms. Smith?

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1 MS. SMITH: Yes, Your Honor.

2 CHAIRWOMAN SHOWALTER: Ms. Smith, can
3 you make sure your mouth is close to the microphone.

4 MS. SMITH: I will, thank you.

5

6 CROSS-EXAMINATION

7 BY MS. SMITH:

8 Q. Mr. Schoenbeck, have you reviewed
9 Mr. Gary Swofford's direct testimony in this case?

10 A. In the interim proceeding, yes, I did.
11 Some time ago.

12 Q. Do you have that testimony in front of
13 you?

14 A. No, I do not.

15 MS. SMITH: May I approach the witness
16 with a copy, please?

17 JUDGE MACE: Yes.

18 BY MS. SMITH:

19 Q. For the record, the direct testimony of
20 Gary Swofford has been marked as Exhibit 251-T. I'd
21 like to direct your attention to Page 3, Lines 16
22 through 18 of Mr. Swofford's testimony.

23 JUDGE MACE: Can you wait just a minute
24 till the Commissioners get though that exhibit.

25 MS. SMITH: Yes.

1 CHAIRWOMAN SHOWALTER: What page is
2 that?

3 MS. SMITH: It's Page 3, Lines 16
4 through 18. Has everyone found the place?

5 A. I have it.

6 BY MS. SMITH:

7 Q. Mr. Schoenbeck, if you were to take into
8 account the 21.69 dollar savings referenced on Line
9 16, how would that change your recommendation for
10 interim relief?

11 A. I don't believe it would. My interim
12 relief was predicated on an analysis of the power
13 costs the company provided for the months of January
14 through October of 2002. The months of
15 January-February-March are what has been known as the
16 "deferral period," and the other months have then been
17 called the "interim period," but the focus of my
18 analysis was looking at the costs that should be paid
19 for by ratepayers for that period of time.

20 I did do a more overarching analysis
21 looking at the company's general rate request which
22 was for a different test period. It was for an
23 amount of 228 million dollars. But other than what
24 I would prefer as the top-down approach at
25 recalculating the 228 million dollar request based

00698

1 on the currently authorized return on common equity,
2 coupled with illuminating the proposed risk
3 adjustment, I stopped my analysis of the company's
4 expenses at that level.

5 MS. SMITH: Thank you.

6 MR. FFITCH: Your Honor, if Ms. Smith is
7 finished...

8 JUDGE MACE: That concludes your
9 cross-examination?

10 MS. SMITH: Yes.

11 MR. FFITCH: I may have a couple of
12 questions.

13 JUDGE MACE: Go ahead.

14

15 CROSS-EXAMINATION

16 BY MR. FFITCH:

17 Q. Good morning, Mr. Schoenbeck.

18 A. Good morning, Mr. ffitch.

19 Q. I'm looking at Pages 1 and 2 of your
20 testimony. You are not recommending that the company
21 be granted interim relief here; is that correct?

22 A. Yes. If you look at the bottom of
23 Page 1, that issue would be addressed in the brief
24 with the Industrial Customers of Northwest Utilities.

25 Q. And you don't do any analysis under the

00699

1 PNB standard in this testimony?

2 A. Have to be careful about that. I do not
3 address the PNB standards in this testimony.
4 Certainly I'm well aware of them, including, in my
5 view, the overarching one which is No. 6, that the
6 Commission must regulate in the public interest.

7 Q. But you don't go through that analysis
8 in this testimony; correct?

9 A. No. Again, I do not address it, but I
10 certainly took it into account in writing the
11 testimony.

12 Q. And as I read your testimony, is it fair
13 to generally summarize it as an analysis of how much
14 of the alleged unrecovered power costs should be
15 allowed if there is to be any interim rate increase?

16 A. That's correct. Basically, I believe I
17 was trying to be responsive to the Commission order
18 that was issued in December addressing the granting of
19 the company the deferral mechanism. In that order, I
20 read the order to mean when the company would come in
21 and seek those monies in rates, people could address
22 the prudence issue. And that is, in large part, what
23 my testimony does.

24 Q. So if the Commission concludes that the
25 standards for interim relief have been met; and then

00700

1 if, secondly, the Commission grants a sum of interim
2 relief on the basis of your testimony, will the
3 Commission be approving power cost recovery for Puget
4 Sound Energy?

5 A. I certainly believe the 58 million
6 dollars would be a prudent amount that is associated
7 with increased power costs for this company.

8 Q. Well, isn't it in fact the case that if
9 the Commission allowed the 58 million dollars on the
10 basis that you've testified here, they're simply
11 allowing recovery of 58 million dollars of power costs
12 for Puget Sound Energy?

13 A. Yes, it would be. I guess my only
14 hesitation is there has been some testimony, and I'm
15 still not quite clear on it myself, with respect to if
16 that money would be subject to subsequent refund.

17 Q. And a portion of that recovery that you
18 recommended is based upon the January to March period
19 that you've taken a look at and that the company has
20 requested. Isn't that right?

21 A. Yes. That's correct. That's what's
22 critical about this in my mind, is under the company's
23 170 million dollar request, over half of it -- in
24 fact, it's closer to 60 percent of it -- 60% of a 170
25 million dollar request is actually associated with the

00701

1 deferred period of January-February-March. And under
2 the deferral order, I interpreted it to say when the
3 company sought those monies in rates, they would be
4 subject to a review and, frankly, that the company
5 would have to justify the prudence of those costs.

6 MR. FFITCH: Thank you. Your Honor, can
7 I have a moment -- and if you want to go on to other
8 cross that would be fine -- I want to have a moment to
9 confer on the matters related to the corrections in
10 the testimony, if I may.

11 And I'm not sure if I'm prepared to go
12 ahead and do any cross on that right now, but I might
13 be able to determine that with a short conference.

14 JUDGE MACE: We'll take a five-minute
15 recess and let you do that.

16 MR. FFITCH: Thank you very much.

17 (Recess was taken.)

18 (Discussion off the record.)

19 MR. FFITCH: Thank you for the brief
20 recess, Your Honor.

21 JUDGE MACE: Mr. ffitch, before you
22 commence if you have questions, I wanted to go back to
23 Mr. Van Cleve for a moment and have him indicate on
24 the record, or have the witness indicate on the
25 record, what portions of the testimony in exhibits

00702

1 remain confidential. We noted that it appears almost
2 the entirety is confidential, and -- of the exhibits
3 in any event -- so that it would be helpful if we
4 could pinpoint with greater exact attitude what's
5 confidential.

6 MR. VAN CLEVE: Mr. Schoenbeck, could
7 you please point to the portions of your direct
8 testimony, Exhibit 271, which you believe remain
9 confidential?

10 THE WITNESS: Certainly. The first site
11 would be Page 9.

12 MR. VAN CLEVE: Would be Page 9, the
13 very last sentence on that page.

14 MS. DODGE: Actually, that is not
15 confidential from the company's perspective, so that's
16 fine.

17 THE WITNESS: Okay. So that's no longer
18 confidential. The next site I would suggest would be
19 Page 11. In the table, the values in the last two
20 rows that are entitled December Estimate in Total,
21 would be confidential under the columns labeled
22 Tonasket, CTs, and Total.

23 JUDGE MACE: Thank you. Go ahead.

24 THE WITNESS: I was just going to say so
25 in other words there would be six values that would be

00704

1 confidential as marked.

2 CHAIRWOMAN SHOWALTER: Ms. Dodge, I
3 don't know if your mike is on.

4 MS. DODGE: Is that better?

5 CHAIRWOMAN SHOWALTER: I think you just
6 need to speak a little louder.

7 JUDGE MACE: Very well, thank you. I
8 appreciate that. Mr. ffitch?

9 MR. FFITCH: Thank you, Your Honor. Now
10 that we've turned a lot of pages here I need just a
11 second to make sure I'm back in the right place.

12 BY MR. FFITCH:

13 Q. Okay. Mr. Schoenbeck, could you please
14 turn to Page 23? This is revised Page 23 of your
15 direct testimony; that's the one that's been passed
16 out to everybody this morning. Do you have it?

17 A. Yes, I have it.

18 Q. And look at Line 6. And there you
19 say -- Lines 5 and 6 you say that equal cents per
20 kilowatt hour is, in your view, inequitable since it
21 leaves many classes even further away from cost?

22 A. Yes, that's correct.

23 Q. When you say "further away from cost,"
24 do you mean cost as the result of a company
25 cost-of-service study offered by Mr. Heidell that has

00705

1 been filed in the general rate case?

2 A. That's in part the answer, that's
3 certainly correct. We used Mr. Heidell's
4 cost-of-service study as a benchmark for our rate
5 spread. Certainly, there are things with respect to
6 that cost study that we don't believe are correct for
7 ascertaining a cost-based rate for the major customer
8 classes. I suspect the public counsel does not agree
9 with all of the things that were done in that cost
10 study to say it's correct either.

11 But using it as a benchmark and plus
12 noting the changes I would make, I believe an equal
13 cents per kilowatt hour rate spread approach would
14 further distort the revenue to cost responsibility
15 of PSE's major customer classes.

16 Q. Let me take the answer into two parts.
17 First of all, with regard to Mr. Heidell's testimony,
18 that is not in evidence in this proceeding at this
19 time, is it?

20 JUDGE MACE: I thought we admitted it.

21 MR. VAN CLEVE: No, it's not, Your
22 Honor. It's been marked as a cross exhibit for
23 Ms. Luscier.

24 A. So I guess, technically, it's not in the
25 proceeding at this time.

1 BY MR. FFITCH:

2 Q. All right. And it has not been fully
3 examined by the parties, no party has offered any
4 responsive testimony at this time to the Heidell
5 study; is that correct?

6 A. No, I believe I'm the only party that
7 has used it to the extent I have. So I obviously have
8 reviewed this study myself.

9 Q. And discovery is still ongoing in
10 response to the company's general rate filing,
11 including the Heidell testimony; isn't that right?

12 A. It certainly is.

13 Q. With regard to the other matters that
14 you referred to that support the statement other than
15 the Heidell cost study, do you have any
16 cost-of-service study that you've provided in support
17 of your testimony here on those other factors?

18 A. No, no. It's just from my experience in
19 reviewing PSE's cost-of-service study for several
20 years, recognizing that some of the approaches that
21 Mr. Heidell used I do not believe are correct, and
22 knowing that the results of flowing through the math
23 would further assign cost responsibility to the
24 classes that is not assigned under an equal cents per
25 kilowatt hour basis.

1 Q. Would you agree that the company's
2 cost-of-service study uses the methodology for
3 allocation of distribution plant that is different
4 than the Commission has ordered the company to use in
5 their last general rate case?

6 A. I would agree that Mr. Heidell has used
7 direct assignment methods as opposed to general
8 allocation methods to a much greater extent than what
9 was done in the last rate case. Now, I suspect there
10 will be a debate on whether that's an improvement to
11 the study or not, but certainly there are changes to
12 Mr. Heidell's study vis a vis the last the litigated
13 cost studies.

14 Q. So is that a yes, the Heidell study is
15 not consistent with the last methodology ordered by
16 the Commission?

17 A. Yes. Mr. Heidell made improvements in
18 some areas of the study.

19 Q. Or at least some may term them
20 improvements?

21 A. Some may.

22 MR. FFITCH: Thank you. I don't have
23 any further questions.

24 JUDGE MACE: Thank you. Mr. Kurtz?

25 MR. KURTZ: Yes, Your Honor.

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1

2

CROSS-EXAMINATION

3 BY MR. KURTZ:

4 Q. Good morning, Mr. Schoenbeck.

5 A. Good morning, Mr. Kurtz.

6 Q. Now, since you've filed your testimony
7 on rate spread and rate design, have you had the
8 opportunity to review the testimony of Kroger witness
9 Mr. Higgins on the same topics?

10 A. Yes, I have.

11 CHAIRWOMAN SHOWALTER: You need to be
12 using your microphone.

13 MR. KURTZ: Apologies.

14 BY MR. KURTZ:

15 Q. Mr. Schoenbeck, after having reviewed
16 the Higgins testimony, are you now ready to accept
17 what Mr. Higgins provided as the rate spread and rate
18 design?

19 A. No, I'm not.

20 Q. I didn't think so, but I just wanted to
21 make sure you hadn't confessed the errors of your ways
22 or seen the light --

23 A. No.

24 Q. -- so to speak. All right. Let me
25 start off asking you some questions about this new

1 Exhibit 322 that Mr. Van Cleve handed out.

2 Do you have that, sir?

3 A. Yes, I do.

4 Q. Did you prepare this for Mr. Van Cleve?

5 A. Yes, I did.

6 Q. Could you generally describe how you
7 prepared this exhibit?

8 A. Certainly. When we initially had done
9 our class impact calculations, we had used some
10 estimated load data we had manufactured from responses
11 to data requests. In the company's response to our
12 eighth round of data requests, I believe it was No. 7,
13 they gave their specific numbers.

14 So we used the numbers from the
15 company's response to our request to 8.7 and that
16 results directly in the first two columns of this
17 Exhibit 322. The third column is simply our numbers
18 from our direct testimony.

19 For the FEA proposal, that is based on
20 an equal percent of the annual revenues from the
21 company's response to ICNU 8.7. So, in other words,
22 while the rates would just be in effect for an
23 interim period, the allocation factor was still the
24 annual revenues because it's my understanding that
25 that's what the FEA proposal is.

00710

1 With respect to the Kroger proposal,
2 from my review of that testimony, I interpreted it
3 as basically adopting the company's rate spread, and
4 that's why I have the note on there, PSE GRC rate
5 spread approach. It is simply applying the same
6 ratio of the class increase the company has proposed
7 in the general rate case, divided by the overall
8 percentage increase they are seeking for interim
9 relief. So I did calculate those numbers based on
10 that understanding of Mr. Higgins' testimony.

11 Q. So to this extent, you and Mr. Higgins
12 both relied on the cost-of-service study from the
13 general rate case. Mr. Higgins adopted the rate
14 spread approach proposed by the company in the general
15 case and applied it to the interim case; is that
16 right?

17 A. I would couch it more in terms that he
18 adopted the company's rates, general rate case rate
19 spread proposal. I'd say I relied more heavily on the
20 parameters of the numbers I saw coming from the
21 company's cost study.

22 Q. But Mr. Higgins, as you understand, took
23 the company's rate spread from the general case and
24 applied that to the interim case?

25 A. That's correct.

00711

1 Q. And what you did is you took the
2 company's cost study and applied your own judgment and
3 experience, and came up with a different cost-based
4 rate spread?

5 A. That's correct.

6 Q. Okay. Now, why did you allocate zero
7 rate increase to rate schedules 25 and 29?

8 A. Both, for the same reason. Under the
9 company's study and in what I believe would be my
10 study, those classes should be receiving significant
11 decreases, so I thought it was inappropriate to assign
12 them an increase.

13 Q. Do you have a copy of the company's
14 cost-of-service study in front of you?

15 A. No, I do not.

16 Q. Do you have what's been marked as
17 Exhibit 207, or can Counsel provide that to you?

18 A. I have a copy that's been provided to me
19 by the company.

20 Q. Is this the same document and cost study
21 that you relied on in your testimony in this case?

22 A. It appears to be.

23 Q. Could you turn to what has been numbered
24 as Page 45 of Exhibit 207, which is the summary page
25 of the cost-of-service results?

00712

1 A. Yes. I have it in front of me.

2 Q. You have that? Now, am I understanding
3 this study properly: that if we look at the column
4 called Total Allocation, that would be the entire
5 company, all the rate schedules?

6 A. Yes, that's correct.

7 Q. And when this cost-of-service study
8 shows that there was a realized rate of return on net
9 investment, the very last line, of 5.17 percent on the
10 total company basis, is that calculated by dividing
11 the net operating income on Line 13, 137 million,
12 divided by Line 23, the net investment in plant, or
13 rate base?

14 A. Yes, it is.

15 Q. Okay. Now for rate schedule 25 that you
16 have allocated zero increase, is it correct that they
17 have an 11.8 percent return, realized return on
18 investment?

19 A. That's what's shown on this sheet.

20 Q. Is that the highest return on investment
21 of any rate schedule?

22 A. No, it is not.

23 Q. Yes, right. The retail wheeling is
24 higher, but you've excluded them from any rate
25 increase?

00713

1 A. That's correct.

2 Q. Of the schedules that are slated to get
3 a rate increase here, is that the highest realized
4 rate of return?

5 A. Yes, it is.

6 Q. Again, would it be correct to read this
7 as, Line 13, total operating income of 37 million
8 divided by a rate base of 318 million to get the 11.8
9 percent?

10 A. Yes, it would.

11 Q. One last question on this. Looking at
12 the high voltage rate schedule, third from the end?
13 Do you see that?

14 A. Yes, I do.

15 Q. Is it correct that this rate schedule
16 provides a 1.05 percent return, or, in other words,
17 343,000 dollars of return on 32 million dollars of
18 rate base?

19 A. Right. And you're pointing out one of
20 the major problem areas in the cost study.

21 Q. Okay. Would it be then accurate to say
22 that based on this cost study, that rate schedule 25
23 provides 11 times the return on investment as rate
24 schedule high voltage, which I believe is 46 and 49?

25 A. Yes.

00714

1 Q. That's based on this schedule.

2 A. Based on this page, yes.

3 Q. Now in using your judgment, and you've
4 attempted to address these perceived inequities in
5 your allocation here; is that right?

6 A. Yes, I have.

7 Q. Does the straight KWH approach
8 exacerbate this rate disparity for many rate classes?

9 A. That's what my testimony states, yes.

10 MR. KURTZ: Thank you, Your Honor.

11 JUDGE MACE: Anybody here from CCW who
12 wants -- Mr. Brookhyser is not here. All right.

13 Does the bench have any questions?

14 CHAIRWOMAN SHOWALTER: I do.

15

16 EXAMINATION

17 BY CHAIRWOMAN SHOWALTER:

18 Q. Mr. Schoenbeck, if you could turn to
19 Page 17 of your testimony, a preliminary question
20 which I think relates to your testimony back on
21 Page 1, but -- or maybe it's Page 3. But in general I
22 perceive your testimony to be taking the company's
23 theory of recovery; that is, interim rate relief based
24 on power costs and also measured by power costs, and
25 making adjustments to their calculations under their

00715

1 theory. Am I -- is that generally correct?

2 A. That's a good one-sentence summary.

3 Q. All right. Well, then on Page 17, Lines
4 8 to 10, you say that Puget is asking to have its
5 risks reduced while at the same time not lowering
6 return on capital. And I understand that point.

7 It seems to me if you had a static
8 environment and you shifted more risk to the
9 ratepayers, that, all other things being equal, you
10 would need to lower the rate of return in order to
11 compensate for that shifting of risk. Is that
12 correct?

13 A. Exactly.

14 Q. All right. But my question is, in the
15 real world today, it seems to me we have two moving
16 pieces; which is, one, the issue of potentially
17 shifting risks to the ratepayers, but also at the same
18 time a riskier environment that the company is
19 operating in. So let me ask the question this way:

20 Supposing the company were not
21 proposing to shift any risk in forms of a power cost
22 adjustment or power costs being paid, but there was a
23 riskier environment and the company said for that
24 reason, we need an increase in the rate, and so they
25 were only basing their increase in rate on this

00716

1 riskier environment.

2 Would that be permissible in sort of a
3 theoretical sense?

4 A. Yes. Certainly, in theory, if your
5 facts are correct -- and that's obviously one of the
6 stated concerns through the testimony. You've hit on
7 the first of the several reasons why I believe the
8 hedge costs should not be allowed. And the very
9 initial one is they have not come before this
10 Commission, seeking the authority to make the
11 substantial amount of financial hedge transactions
12 when in fact the rate of return had been set when all
13 the shareholders bore this risk. That's one of the
14 natural tensions, you're right. It's obviously a
15 dynamic world: each day, each hour things change.

16 But in the rate setting environment,
17 you just take a snapshot when things are closed.
18 And at that time, the shareholders bore the risk of
19 the market, they bore the risk of changes in the
20 hydro. So I find it troubling that the company is
21 now coming in, after they had entered into these
22 transactions, in seeking a hundred percent recovery
23 of them from ratepayers.

24 Q. Okay. Then if you could turn to that
25 Exhibit 322.

00717

1 A. Yes, I have it.

2 Q. If the Commission grants some kind of
3 interim relief, then isn't it necessarily the case
4 that we have to decide how, among several options?

5 A. That's correct.

6 Q. And my question is, is -- or are -- some
7 options more neutral than others, or necessarily do we
8 have to make a judgment? And, specifically, we have
9 an option of per kilowatt charge, and another option
10 is flat percentage charge, based on the whole bill.

11 Now just taking that, those two
12 options -- which I understand is not your options --
13 but just taking those two, can one say that one is
14 more neutral or more true to the prior rate spread
15 than the other?

16 A. If you're benchmarking back to say how
17 the base rates were set, I would probably agree that
18 an equal percent basis may be more appropriate.

19 When you get into people advocating a
20 different method is, again, moving off of the static
21 picture when the rates were set -- in the case of
22 Puget was 1992 or 1993 -- and you recognize the
23 additional costs that have been incurred, or the
24 changes in their cost structure. And that is one of
25 the reasons why I actually thought it was more

00718

1 appropriate using the company's current cost study,
2 given the fact that it had been almost ten years
3 since we had last seen a cost study.

4 If you want to not use the company's
5 current cost study, then of the two methods you
6 proposed, I would be more in agreement that the
7 equal percent would be more appropriate because
8 you'd be gearing more to giving each customer class
9 the same percentage increase under interim rate
10 relief, and people can generally understand that.

11 Q. And I guess my policy question is:
12 Should the Commission in an interim case try to be
13 more neutral vis a vis the existing rate design, or
14 should we try to make a preliminary judgment for the
15 temporary rate increase that is more forward-looking.

16 And I take it your answer would be the
17 latter because of your proposal.

18 A. Exactly. And also because -- let me
19 first say, because this is confusing. I don't quite
20 know if this is an interim case, if this is a prudency
21 case, or if this is a PCA case where we're at right
22 now, sitting here today.

23 But under the tenet that it was an
24 interim relief they're seeking in an interim case, I
25 think you do have to look forward a little bit, and

00719

1 that's what I was trying to do. You do have to look
2 forward because there could be a clear possibility
3 that the rates you establish in the interim case
4 could very well be higher than the final rates you
5 set for a customer class in a general rate case.

6 If we go back to my calculation, the
7 company has asked for 228 million dollars in rate
8 relief, and that's at a 14 percent rate of return.
9 If you should decide that the rate of return would
10 be lower, such as the current authorized rate of
11 return, 10.5, that's a 70 million dollar deduction
12 so you're already below their interim level.

13 Under the company's proposal in the
14 general rate case, every customer will elect if they
15 want to bear the market risk or if they want to
16 have -- in other words, have their rates change on a
17 monthly basis dependent on market prices; or if they
18 will ask the company to give them a fixed rate and
19 therefore pay for the hedging cost. So if I decide
20 to accept the market risk, that's another -- I can't
21 say the number because it's a confidential number --
22 but it's a substantial number. It's a substantial
23 number of dollars that would further lower the
24 overall rate level down to a point that's not too
25 far off what my interim proposal was.

1 So I think given the very unique
2 proceeding you have before you today that you have
3 to decide, you do have to take into account what the
4 end line is for the class rates coming out of the
5 general rate case decision. Because -- or you must
6 make it very clear -- and that's what I tried to say
7 in my testimony -- you must make it very clear that
8 if you set a rate under any methodology is what I
9 suggest you would do, if you set a rate under an
10 interim -- some interim methodology, that that rate
11 is clearly subject to refund if you ultimately set a
12 general rate below the interim level.

13 But, again, that gets into the issue
14 of -- that's the natural philosophy you would use or
15 apply in rate-making under a typical interim case
16 that's based on a general rate case revenue
17 requirement. But it gets so dicey when we're now --
18 we're now in kind of this world with 170 million
19 dollar power cost that's outside the general rate
20 case proceeding.

21 Q. And that's -- we have yet to determine
22 those costs or the prudence of them, or even the
23 theory of recovery in this case. But one concept
24 would be the "pig in the snake" issue, that there were
25 some extraordinary events going on that needed to be

00721

1 taken care of and which one would not particularly
2 expect to see permanently.

3 And that theory would be more in the
4 nature of a temporary surcharge for something, that
5 then goes away, which would mean that people might --
6 might be paying more either during the interim or for
7 some period after the general rate case, and then pay
8 less as that bubble, or pig, is paid off.

9 A. Yeah.

10 Q. Is that --

11 A. Sure.

12 Q. -- a theoretical problem, or is it more
13 of a practical problem?

14 A. Well, it's a little bit of both. But
15 I'd actually agree that if you decide this -- this
16 really isn't an interim increase. You know, let's
17 call a spade a spade; let's call it emergency rate
18 relief for the company. Then I think customers could
19 also understand that, the idea that my rates are high
20 for some period of time because there is this
21 emergency rate relief that had to be granted, and now
22 they will be going lower.

23 But that's not kind of the box, in a
24 way, that I believe the company has painted in
25 calling it an interim rate relief. Because that's

00722

1 much more synonymous with your general rate case
2 costs. And, of course, I -- you know, that's in a
3 major part of my testimony, of course, is taking
4 issue with what should have been known or should
5 have been done during this period, during this very
6 volatile market period.

7 Q. All right. But as you see it, would you
8 see that what we should be doing here is treating this
9 extraordinary period in an appropriate way and dealing
10 with it, and then dealing with the general rate case?
11 Or do you see it more as this is more appropriately
12 thought of as interim rates, pending the general?

13 A. In my mind, it's actually the former. I
14 think it's more dealing with the costs that were
15 incurred during this period, and then moving on to the
16 general rate case.

17 CHAIRWOMAN SHOWALTER: Thank you. I
18 have no further questions.

19 JUDGE MACE: Commissioner Hemstad?

20

21 EXAMINATION

22 BY COMMISSIONER HEMSTAD:

23 Q. I believe you state in your testimony
24 that the single largest factor in the company's
25 request for relief is their hedging costs. Is that

00723

1 correct?

2 A. Yes, it is.

3 Q. First, just for a little context --

4 well, is it your view that they should not have been
5 hedging, or that hedging may be appropriate, or -- and
6 that these particular hedges may or may not have been
7 prudent?

8 A. It's a little bit of all. It almost
9 sounded like three questions. First, with respect to
10 should they hedge, that may be a good practice. You
11 know, hedging may not reduce your costs, but it locks
12 in your costs. So in many instances it's good because
13 it narrows your risk, or your financial exposure.

14 Obviously, I have a concern that the
15 company is now asking the customers to pick up these
16 financial losses where I believe it should have been
17 done on their own dime, given that when their
18 general rates were set, they bore those risks.

19 Then, obviously, to the third point, I
20 definitely believe that, given the volatility of the
21 market, it was imprudent to enter into some of those
22 financial hedges, given the facts that should have
23 been known using reasoned foresight and not
24 hindsight in making those transactions.

25 Q. Well, is it your point, then, the

1 prudency of the hedging costs is irrelevant since they
2 ought to have been the risk borne by the company?

3 A. That's in part, that's correct. In my
4 testimony, I give four or five reasons why that cost
5 should not be paid for by ratepayers. And that's
6 actually -- I give both those reasons. I give the
7 reason that that is an activity that was not approved,
8 and at the time the risk was borne by the shareholders
9 and in fact that some of them just were not done
10 with --

11 Q. Is it your position that before entering
12 into hedging arrangements, the company should have
13 come to the Commission for approval? We had a very
14 volatile market during the last year and a half.
15 Should they have come here first?

16 A. I certainly believe, for the amount of
17 activity they were doing, they should have sought
18 approval. And that's why I actually state in my
19 testimony that's basically what they are doing in the
20 general rate case now, they're seeking that authority
21 for a substantial number of dollars to be included in
22 their base rate revenue requirement.

23 So they are doing it now, in the
24 general rate case. And I believe, given how
25 volatile the markets were, it would have made

1 perfect sense for the company to have come before
2 the Commission and discussed about the potential
3 rewards and risks of entering into this type of
4 activity.

5 Q. I think in your testimony you take the
6 position that the company really hasn't elaborated
7 upon or described this issue. I think you said there
8 was one sentence in their materials.

9 Was there any additional response to
10 that in their rebuttal?

11 A. Oh, well, certainly in -- Mr. Gaines has
12 provided many of the data requests to responses.

13 And maybe to clarify on the record
14 what my testimony is talking in terms of in the
15 written evidence of the written record provided by
16 the company, which did not include data requests to
17 responses but in other words just their prefiled
18 direct testimony, it was just one sentence. Now
19 what's gone on from the discovery process is there
20 are now boxes of responses, and Mr. Gaines has put a
21 substantial number of the responses, possibly all of
22 the responses associated with the gas costs, in his
23 rebuttal testimony.

24 Now, I obviously think there is a
25 little bit of a due process argument here, that we

1 cannot file surrebuttal to those assertions, and
2 that's what I addressed. I just contrasted it to
3 the Avista approach, which provided us a substantial
4 amount of evidence in their direct showing with
5 regard to their medium-term gas transactions and
6 hedging activity.

7 Q. In any event, apparently it would still
8 be your position that that response and that
9 information and the like ultimately is irrelevant
10 since they ought not to be able to recover the hedging
11 costs at all?

12 A. Yes. That's correct. It was one of the
13 several reasons I gave.

14 Q. You also go on to say in your testimony
15 that the impact of this was 150 million dollar
16 economic cost. I think that was of the hedging
17 activity. Would you elaborate on that, or am I
18 misunderstanding?

19 A. You just have to be a little bit
20 careful. I'm adding two periods of time there, so it
21 basically includes the second half of 2001 plus the
22 prudency/interim respective period.

23 But if you look at 150 million dollars
24 of cost, the after-tax net income that would produce
25 if that cost went away would be approximately 100

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1 million dollars. This company has approximately 87
2 million dollars of common stock outstanding, shares
3 of common stock outstanding. Therefore, that's why
4 I viewed this as a major part of the company's
5 problem, it only equates to about a \$1.10 per share
6 earnings.

7 Q. Okay. I think we have in front of us a
8 concern about the company's cash position and the
9 like, the hedging costs are real. How do you respond
10 to the response that if we were to ignore those costs,
11 that puts the company in jeopardy?

12 A. It's certainly my view, and I believe I
13 testified this in the Avista case, that I don't
14 believe it's your responsibility to keep this company
15 whole if the actions that were pursued that put them
16 in the situation were not in the public interest.

17 The way I look at the company's
18 transaction, it's the old phrase, it's a bet where
19 "heads I win and tails you lose," where, if the
20 company enters into these transactions and they are
21 very successful and they can profit from them, you
22 would not see them in here asking for rate relief.

23 It would be similar to, if you found
24 an investment banker that you bought stock with, and
25 you traded stock. And for any company where you had

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1 a market gain, you kept the profit; whenever there
2 was a market loss, the stockbroker ate the cost.

3 That is, in essence, what I see this
4 company asking for in this instant case. They're
5 saying, "We'll bet on these hedges. If we make a
6 profit on them, we'll make an above-authorized rate
7 of return for a substantial period of time. We will
8 not be in for rate relief. But if we lose on them,
9 we'll come in and ask for the customers to pay for
10 every dime of those transactions to make us back
11 whole again."

12 I don't believe that's your
13 responsibility to do that.

14 Q. Do you have any concern about the credit
15 ratings from Wall Street?

16 A. Well, again, I did not look at all those
17 aspects of the case.

18 I will simply note that there are
19 certainly several utilities when you include two
20 major, two of the largest utilities in the nation
21 being Southern California Edison and Pacific Gas and
22 Electric Company that are still operating in both
23 the gas and energy markets. And Avista, Avista
24 Company also obviously has a poor bond rating; they
25 are still rating in the energy markets.

1 It's not a question that they will not
2 be able to operate. It's a question of what cost
3 will they be able to operate at, and who should be
4 responsible for the cost. That's really the issue
5 in my mind.

6 Certainly, with respect to the market
7 prices for the interim period being what they
8 currently are on the West Coast, I don't believe
9 that it will come at much of a price to operate in
10 either the gas or electric markets. You have to
11 recall that why such things as creditworthiness of
12 venturing into a bilateral contract became such an
13 issue 12 months ago was because market prices were
14 at \$100 a megawatt hour, \$200 a megawatt hour, \$500
15 a megawatt hour.

16 The collateral and the line of credit
17 that a customer has to put up in a bilateral
18 transaction now that the market prices are back down
19 to \$20, \$30, is just a fraction of what it was.
20 Before, it was a real issue to operate the markets.

21 In fact, my company subleased space
22 with another small partnership that brokered trading
23 deals. They basically went out of business because
24 they could not provide the letters of credit to
25 continue their activity in that type of a market, a

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1 \$200 to \$500 market. Now that the market has gone
2 back to \$20, \$30 a megawatt hour, I haven't had an
3 issue with respect to providing a security or a line
4 of credit for a customer since about September.

5 Q. I think you said, both in response to a
6 question from the chair and also now, that -- well,
7 there were facts or elements that the company should
8 have known, or things that they -- that should have
9 been done during this critical period.

10 What do you mean by that? What should
11 they have known or should have been done differently?

12 A. Well, very specifically within the gas
13 area, there had been two complaints filed at FERC at
14 the end of the year 2000 with regard to reimposing the
15 as-built cap on firm interstate -- or released
16 interstate commission capacity. So there were
17 complaints going on.

18 In May as subsequent to that, slightly
19 later, FERC even issued an order seeking comments
20 and rule-making on should they reimpose the as-built
21 cap for capacity releases.

22 Another obviously very, very
23 significant event on the West Coast was the
24 inadequacy of gas in storage in, particularly,
25 Southern California as well as the loans SoCal Gas

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1 was making to certain non-core customers. All these
2 came to a head in the winter season that -- the 2001
3 winter season. I think reasoned foresight would
4 recommend that during this volatile period it was
5 not in the best interest to engage in forward gas
6 hedges at historically high prices.

7 With respect to almost any commodity,
8 there is generally a market price, a general market
9 price, a long term market price that people use.
10 Certainly with respect to gas, it's in the range of
11 3 to 3.50 for a commodity. Realizing what had gone
12 on in the winter of 2000, there was no reason -- I
13 don't believe there was any firm, sound reason, to
14 suspect that it would necessarily reoccur in the
15 winter of 2001.

16 Q. All right. You reference another
17 element, the nonpayment to the company for wholesale
18 market transactions a substantial amount. I think
19 that nonpayment issue is in the neighborhood of 42
20 million dollars.

21 What should the Commission do about
22 that? Ignore it? After all, the company enters into
23 transactions for the purchase or sale of the
24 commodity. In fact, it has not been paid.

25 Now, obviously, it impacts its cash

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1 flow. Are we simply to shrug at that?

2 A. You should obviously consider
3 everything. But, again, if I enter into a contract, a
4 bilateral contract, and it ends up being a bad deal I
5 don't get reimbursed for it. There's a default on
6 that contract. You or I would not have the option to
7 then turn around to a third party and ask that I
8 effectively be made whole for that transaction.

9 And, again, that's what I perceive the
10 company doing by having taken certain risks on
11 wholesale transactions, have them not play out,
12 putting them in a financial problem, potentially
13 creating a financial problem for that. I don't see
14 the answer is that the shareholders pay a hundred
15 percent of those costs to allow them to recoup their
16 loss.

17 Q. I inquired of the witness, Mr. Hill,
18 yesterday along this line. Have you read the
19 testimony of Ms. Steel for the staff?

20 A. Yes, I did, very quickly.

21 Q. I see. So you haven't analyzed her
22 Exhibit 414-C?

23 A. I actually have not.

24 COMMISSIONER HEMSTAD: Thank you.
25 That's all I have.

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1 JUDGE MACE: Commissioner Oshie?

2 CHAIRWOMAN SHOWALTER: I have some
3 follow-up.

4 JUDGE MACE: Go ahead.

5

6 EXAMINATION

7 BY CHAIRWOMAN SHOWALTER:

8 Q. On this issue of the "tails I win, heads
9 you lose," and coming in only when the company is on
10 the losing end, isn't that really the nature of
11 rate-making in general?

12 That is, a rate -- we set a rate. At
13 that point we have no-show cause authority, and the
14 company collects the revenues. And if it's doing
15 well, it is doing well, it does keep the difference.
16 And it is only at the point at which it feels it's
17 not doing well enough that it comes back to us for
18 more. Now, we have the ability to go complain
19 against the company. But isn't there something in
20 the nature of rate-making in general that is a bit of
21 the heads I win, tails you lose, in that I'll collect
22 the rate as long as it's fine, and then when it's
23 not, I'll come and ask for more?

24 A. That's exactly right, and you've
25 explained a general rate increase process and a

1 typical interim increase process.

2 Q. Right.

3 A. And that's what I believe is really not
4 before you today. I think what you have here is much
5 more within where I agreed with you earlier: it's
6 seeking some sort of an emergency rate relief. And I
7 think you have to be very, very careful under those
8 circumstances exactly how many monies you should
9 afford them, if any.

10 I think it's not -- you described
11 business as usual in the rate-making sense. "Yes,
12 we see our earnings deteriorate, so we'll come in
13 and seek a general rate increase."

14 But in my view that's not what this
15 issue is about, because what this issue is about is
16 a substantial amount of monies associated with power
17 costs that are actually, for the focus period,
18 January through March of this year. It's not a
19 normalized rate-making method at all.

20 Q. One of the things I find interesting is
21 that the company has its theory, that it needs to
22 recover all of these power costs, or 170 million, or
23 as adjusted later.

24 The staff says, "Don't look at the
25 power costs, look at the financial condition of the

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1 company. And actually it's not in such bad shape,
2 but, for cushion, we recommend 42 million." Public
3 counsel says, "They are not in bad shape, they don't
4 deserve anything."

5 What's interesting about your -- I
6 won't call it a recommendation -- but your allowance
7 is that, I take it, you would find acceptable as
8 prudently incurred, 58 million?

9 A. Yes, I would.

10 Q. And that is more than the staff is
11 recommending on a financial need basis. Which would
12 be to say if we went with your calculations, we would
13 be allowing 58 million of the deferred costs to be
14 recovered. And we would be saying, if we accepted
15 staff's recommendation, that this is not only enough,
16 it's probably more than enough to get the company over
17 the hurdle of the interim period.

18 A. Right. And the fundamental reason, the
19 core reason for that difference is -- you know, I had
20 not analyzed the numbers in the staff case or the
21 public counsel case, but I have read the testimony,
22 and I would say public counsel and staff have
23 approached this as a typical interim rate relief case,
24 that's how they have approached it.

25 They have done the financial analysis

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1 to say, what shall we give them if this were an
2 interim case. But I tried to say, I was being
3 responsive in my case more to your order granting
4 the accounting petition for the deferral, where --
5 I'm sure you know what it says, but basically it
6 says if PSE seeks recovery of these costs, there
7 will be a prudency review.

8 And that's where I was coming, from
9 because in my perspective, again, I think this is
10 much more a case of emergency rate relief as opposed
11 to a typical, interim case. So you have that
12 disconnect: different approaches were used,
13 different analysis was done by public counsel and
14 staff, looking at it more as a typical interim case
15 versus me, looking for more of a prudency/power cost
16 case.

17 Q. Just so I'm clear, is all you're saying
18 is that these costs, 58 million dollars, were
19 prudently incurred? Or are you also saying that those
20 costs fall outside the historic rate and then
21 revenues, so that therefore they should be recovered
22 in addition to current revenues?

23 A. I look at it as primarily the latter.
24 Basically, we can quibble over the specific
25 number, but under current rates the company has a

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1 certain amount of power costs built into it. We have
2 adjusted it, but the company's number is \$24.74 a
3 megawatt hour.

4 In doing my analysis that justifies
5 the 58 million, I've recognized that their current
6 power costs that I believe are prudent, are higher
7 than that. Now, under -- if this was a general rate
8 case, we'd certainly say, yes, you should increase
9 general rates to reflect a 58 million dollar
10 increase in prudent power costs.

11 Given that I'm not quite sure where we
12 are: is this an interim case or is this emergency
13 relief case, you can also say, you could call it an
14 interim surcharge, an emergency surcharge. But, in
15 my view, they certainly have had some cost pressure
16 in the power cost area that would normally reflect
17 an increase in their embedded component of that
18 element in rates.

19 Q. But if this were a general rate case,
20 wouldn't we also be looking at anything on the plus
21 side, such as lower interest rates or cost savings and
22 other things like that?

23 A. That's exactly right.

24 Q. Another question. If we went with your
25 theory and allowed the 58 million, would it be

1 appropriate or inappropriate to say we think we can
2 approve at least 58 million, but we'll defer the full
3 prudency review until the end of the rate case. So 58
4 million, but we'll see if anything more.

5 Would that be appropriate?

6 A. In my mind, I think it would actually be
7 very appropriate, simply because I think in large part
8 there is inadequate time given to prepare this filing
9 in the period before you, given the significance of
10 the issues.

11 Q. That's something similar, I think, to
12 what we did in Avista. We allowed so much out of the
13 deferred account, but -- deferred or postponed.

14 A. Right.

15 Q. -- full review till later.

16 A. What -- again, I may have misinterpreted
17 the order, but what I was relying on is the sentence
18 that says, you know, if PSE seeks to recover these
19 costs in future rates, the company will bear the
20 burden to prove that such recovery is proper, and
21 other parties will have the opportunity to contest
22 whatever proof the company offers and to offer their
23 own evidence and arguments concerning how we should
24 treat these costs for rate-making purposes.

25 And that's how I interpreted the

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1 company's proposal, that they just got this deferral
2 on December 28th for -- accounting order, accounting
3 petition to allow them the deferral. And now as of
4 March 15th, they are going to be collecting these
5 costs already that are deferred in the balance.
6 That's how I interpreted this.

7 Q. My last question is about the
8 historically high prices that you mentioned in
9 Commissioner Hemstad's questioning of you. Again, if
10 we had been operating in a more or less predictable
11 world knowing that prices are cyclical, then you might
12 not want to buy a lot at the high point and you'd wait
13 till it went down.

14 But wasn't it the case that these were
15 not historically high prices, they are were
16 historically unprecedented prices, and
17 unprecedentedly high prices, and it was very
18 difficult to know what was going to happen?

19 A. I'm sorry, what's the distinction you're
20 making between "historically high" versus
21 "unprecedented"?

22 Q. I guess if we had looked at gas prices
23 backwards but beginning prior to the year 2000, say,
24 you would have seen ups and downs but you wouldn't
25 have seen amplitude of prices, of the amplitude that

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1 occurred --

2 A. Right.

3 Q. -- in the last 18 months, or last two
4 years. So I guess the question I'm asking you is how
5 responsible anybody should have been to predict that
6 those prices were going to come down if they had gone
7 to, I think in some instances, a hundred times
8 historical values? How is one to know that they
9 weren't going to go to 200 times, or down only to 50
10 times? How was one to know that things would
11 stabilize?

12 A. You have to look at the market
13 fundamentals, you truly do. And the other thing you
14 have to realize is that every day there is a forward
15 price curve. It can be a forward price curve for
16 buying gas, or it could be a forward price curve for
17 buying electricity, based on whatever method you use
18 to request quotes from people.

19 And then you have to decide. You have
20 to decide if I need gas in December and it's April,
21 do I believe that forward price curve. And those
22 decisions are made all the time by consultants that
23 are dealing with getting gas or electric supplies,
24 by energy managers of companies. And so, in a way,
25 you're kind of betting on your gut-feel from looking

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1 at your market fundamentals versus the other guy.

2 And certainly I think in this, what we
3 tried to depict, if now I understand your question,
4 with our Chart 3 in our Exhibit 280, we tried to
5 show -- that's in part what we tried to show, is the
6 volatility that has been experienced in the gas
7 market. So, as in any kind of gut feel, you're
8 relying on what's happened in the past and what you
9 know about the conditions that caused that present,
10 substantially historically high up-tick in gas
11 prices. So then you have to make the reasoned
12 judgment.

13 But the mere fact that you have a
14 quote from anybody, a forward price quote, that six
15 months out from now, nine months out from now, they
16 are willing to sell you gas at \$9.00, you still have
17 to make the decision, is that a prudent decision to
18 buy it at \$9.00? Or do I think, because of market
19 fundamentals, that the price might actually be \$4.00
20 or \$3.50, like some of the consultants that PSE uses
21 were predicting, and buy it then on the market? Do
22 you go long and buy it that much in advance, or do
23 you think the market will go down and buy it on a
24 monthly spot basis to get over this hump?

25 CHAIRWOMAN SHOWALTER: Thank you.

1 JUDGE MACE: Anything else from the
2 bench? We'll take a recess now until 11:30 and resume
3 with some cross that you may have as a result of the
4 Commissioners' cross.

5 (Recess was taken.)

6 JUDGE MACE: We need to complete any
7 additional cross of Mr. Schoenbeck that might result
8 from the Commissioners' cross-examination.

9 The next thing I want to deal with
10 before redirect is the question of Exhibit 322. My
11 understanding is that was an exhibit marked for
12 Mr. Selecky, yet this witness has been crossed on
13 that exhibit. And I think, for the record, for the
14 most complete record, it would be good to have that
15 exhibit admitted. Perhaps we'd have to remark it,
16 but I want to give you notice that that would be
17 something I will deal with after we finish the cross
18 related to the bench's cross. Ms. Dodge?

19 MS. DODGE: Yes, just a few brief
20 questions.

21

22 CROSS-EXAMINATION

23 BY MS. DODGE:

24 Q. Mr. Schoenbeck, did you review the
25 testimony of Mr. Donald Gaines in this proceeding?

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1 A. Yes, very briefly.

2 Q. Did you have an opportunity to look at
3 Pages 9 through 11 of his direct testimony, which has
4 been marked Exhibit 21?

5 CHAIRWOMAN SHOWALTER: Ms. Dodge, is
6 your microphone on?

7 (Discussion off the record.)

8 A. I'm sorry, Ms. Dodge. I have his
9 testimony before me, so what was the page reference?

10 BY MS. DODGE:

11 Q. Pages 9 through 11.

12 A. Yes, I did read this testimony.

13 Q. Did I understand -- was it your
14 testimony that you believed that the company's interim
15 request is a request to make it whole?

16 A. With respect to 170 million dollars of
17 power costs, yes, that's correct.

18 Q. But then you weren't speaking generally
19 to the company's financial condition then, when you
20 said the company is asking to be made whole. Is that
21 correct?

22 A. I was directly talking about the 170
23 million dollars of power costs that the company is
24 seeking approval of.

25 Q. But, again, you weren't speaking to the

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1 company's general financial condition?

2 A. No, I was not.

3 MS. DODGE: Thank you, that's all.

4 MR. FFITCH: Your Honor, I had one or
5 two other questions.

6 JUDGE MACE: Go ahead.

7

8 CROSS-EXAMINATION

9 BY MR. FFITCH:

10 Q. Mr. Schoenbeck, Commissioner Showalter
11 asked you about Exhibit 322. Do you have a copy of
12 that in front of you?

13 A. Yes, I do.

14 Q. And did you prepare that exhibit?

15 A. Yes, I did.

16 Q. I have a question on the FEA column.

17 That's intended to show equal percentage annual

18 revenue option; is that correct?

19 A. Yes, it is.

20 Q. And with respect to the residential
21 customer line on that exhibit, was this calculated
22 based on residential revenues as actually paid by
23 residential customers, net of the residential exchange
24 credit, or was it based on the tariff rates before
25 application of the credit?

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1 A. That's a good question. Again, the
2 source was the response to 8.7. And, looking at the
3 value, I suspect it would not have the residential
4 exchange credit reflected in it. So I believe it
5 would be base revenue, but I would have to double
6 check.

7 Q. So that would be in effect before the
8 residential exchange credit is taken into account?

9 A. Yes, that's correct.

10 Q. In that case then, the actual percentage
11 increase to residential bills would be higher than the
12 percent, than an equal percent shown here; correct?

13 A. That would be true.

14 MR. FFITCH: Thank you. I don't have
15 any other questions, Your Honor.

16 JUDGE MACE: Did staff have anything?

17 Go ahead.

18

19 CROSS-EXAMINATION

20 BY MS. SMITH:

21 Q. Mr. Schoenbeck, did you make any
22 adjustments to PSE's claimed embedded power costs of
23 24.74 mills?

24 A. Yes, I did. I made an adjustment. If
25 you'd look on Page 21 of my prefiled testimony, I

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1 adjusted the \$24.74 of megawatt hour upward by \$2.44.

2 JUDGE MACE: Where are you on that page?

3 A. I'm sorry. I'm at the last two rows of
4 the table. Unfortunately, the table does not have
5 line numbers.

6 And what's also not shown on the table
7 is the company's base number was 24.74. So if you
8 take the base number of 24.74 and add 2.44 to it,
9 you get what I used in deriving my 58 million dollar
10 number, was 27.18.

11 Q. And that was adjusted just for risk,
12 wasn't it?

13 A. Yes, it was. For the, primarily, hydro
14 risk.

15 Q. If it were demonstrated that the
16 embedded cost is actually higher than your adjusted
17 number of 27.18, would that reduce your recommendation
18 for interim relief?

19 A. Yes, it would. The mathematics -- the
20 mathematics in deriving 170 million dollar differences
21 results from the difference between the projected cost
22 for the interim period, minus the risk adjusted tract
23 rate. So if my 27.18 would be increased, it would
24 therefore reduce the 58 million dollars.

25 MS. SMITH: That's all I have.

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1 JUDGE MACE: Mr. Kurtz?

2 MR. KURTZ: No questions, Your Honor.

3 JUDGE MACE: Let's deal with
4 Exhibit 322, what's been marked as Exhibit 322. I
5 understand the witness prepared this exhibit; is that
6 correct?

7 MR. VAN CLEVE: That's correct, Your
8 Honor. And since we have had quite a few questions
9 about it, we'd just go ahead and offer it.

10 JUDGE MACE: I wonder if it would be
11 better to mark it differently? We can leave it as
12 322. Do you offer it then?

13 MR. VAN CLEVE: Yes.

14 JUDGE MACE: Is there any objection to
15 the admission of that exhibit? Hearing no objection,
16 I'll admit the exhibit.

17 (Exhibit 322 admitted.)

18 JUDGE MACE: Do you have redirect?

19 MR. VAN CLEVE: Just a couple of brief
20 questions.

21

22 REDIRECT EXAMINATION

23 BY MR. VAN CLEVE:

24 Q. Mr. Schoenbeck, if you could turn to
25 Exhibit 275-C.

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1 A. Which?

2 Q. This is your DWS-5C, which is still a
3 confidential exhibit.

4 A. At which page? There's several pages.

5 Q. If you could first refer to Page 13.
6 And this rate agency presentation has a date of
7 April 23rd to 24th. And can you explain how this time
8 frame relates to the company's decision to enter into
9 the gas hedging transactions which you talk about in
10 your testimony?

11 JUDGE MACE: Well, I'm a little
12 concerned because we are talking about a confidential
13 exhibit here, and I don't think that that
14 confidentiality has been lifted yet. This initial
15 page --

16 MS. DODGE: That's correct.

17 JUDGE MACE: -- seems to be preliminary.

18 MS. DODGE: And even before that, I
19 would object to the question as, I don't know where
20 we're going with respect to being within the scope of
21 cross-examination. That was a pretty broad-based
22 question.

23 MR. VAN CLEVE: The questions that I
24 intend to pursue -- and I just have about three
25 questions -- have to do with the questions from both

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1 Commissioner Hemstad and the Chairwoman regarding, I
2 guess I'll call it the "heads I win, tails you lose"
3 and this concept of the company taking risk, keeping
4 the benefits, but imposing costs on the customers.

5 And I think there was quite a bit of
6 questioning around that issue.

7 JUDGE MACE: I'll allow the questions.
8 I'll overrule the objection.

9 MR. VAN CLEVE: And I will try to stay
10 away from anything confidential in this exhibit, Your
11 Honor.

12 COMMISSIONER HEMSTAD: What page are you
13 on?

14 BY MR. VAN CLEVE:

15 Q. I'm just referring to the cover page of
16 this presentation, which is Page 13 of Exhibit 275C.
17 And my question was, what was the time frame in which
18 the company entered into the gas hedge transactions.

19 CHAIRWOMAN SHOWALTER: I'm just going to
20 interject because you didn't say for the record that
21 it was April 23rd and 24th of the year 2001.

22 MR. VAN CLEVE: Okay, thank you.

23 A. The company -- there's actually a good
24 reference I could make but it's to another
25 confidential exhibit. It would be Exhibit 276C, or

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1 DWS-6C. For the CT hedges, the date is shown for when
2 the transaction was entered into.

3 It is my belief these transactions
4 were entered into in response to a directive that
5 was given around the 1st of April, 2001.

6 Q. Okay. If you could refer to Page 85 of
7 Exhibit 275C, which is your DWS-5C --

8 MS. DODGE: I'm sorry, what was the
9 page?

10 JUDGE MACE: 85.

11 MR. VAN CLEVE: 85.

12 A. Yes, I have it.

13 BY MR. VAN CLEVE:

14 Q. Okay. And if you look toward the bottom
15 of Page 85, the second line up from the bottom, it
16 says: Return on average common equity?

17 JUDGE MACE: This is in the box; is that
18 correct?

19 BY MR. VAN CLEVE:

20 Q. That's correct. Do you see that line?

21 A. Yes, I do.

22 Q. And is it your understanding that these
23 were the projections that the company had of its ROE
24 in April of 2001?

25 A. Yes, it is.

00751

1 Q. And do you know whether these exceed the
2 company's authorized rate of return?

3 A. The authorized rate of return I believe
4 is approximately 10.50.

5 Q. And to use your "heads I win, tails you
6 lose" analogy, does this indicate to you that the
7 company thought it was going to win at the time that
8 it adopted its gas hedging strategy?

9 A. The short answer is yes. I'd also refer
10 you to Page 73 of this exhibit, the right-hand column
11 of that page, about the third paragraph down that's
12 annotated with a pencil marking.

13 CHAIRWOMAN SHOWALTER: Are you in 73 of
14 the exhibit or 73 of the report?

15 THE WITNESS: Page 73 of the exhibit, so
16 it's Page 73 of 138.

17 MR. VAN CLEVE: Which is Page 59 of the
18 report.

19 CHAIRWOMAN SHOWALTER: 59 of 138? So
20 it's 59, okay.

21 JUDGE MACE: I wanted to ask the company
22 at this point since the reference is to a fairly
23 specific portion of these exhibit pages, is the
24 material on Page 73, also 59 of the report, that is
25 referred to, where the pencil marking is, does that

00752

1 remain confidential?

2 MS. DODGE: If I could have just a
3 moment.

4 JUDGE MACE: Ms. Dodge?

5 MS. DODGE: Yes.

6 JUDGE MACE: The question is raised that
7 this report is almost a year old, and perhaps the
8 whole report -- you could consider whether the whole
9 report should remain confidential.

10 MS. DODGE: Your Honor, the entire
11 report does need to remain confidential. The format
12 of this is proprietary. The company has developed it,
13 it's custom developed, it's something that others
14 could pick up and use without having to put in the
15 effort to develop it. And so, with respect to the
16 formatting itself of the report, there's a concern
17 about this being proprietary and others just
18 leapfrogging off of the company's efforts.

19 With respect to much of the information
20 in the report, it does contain forward projections
21 that go out beyond where we currently are. And that
22 raises the issues discussed yesterday with respect to
23 SEC requirements. If those forward-looking
24 projections are made public, that the company is
25 obligated to come in and update those every time

00753

1 something changes, and they are just not set up to do
2 that.

3 However, with respect to Page 73 of 138
4 the exhibit, the particular paragraph that's been
5 delineated in pencil, that in and of itself does not
6 need to remain confidential.

7 JUDGE MACE: And how about those numbers
8 that were referred to on -- I'm sorry, I've forgotten
9 the page reference.

10 MR. VAN CLEVE: 85 of 138, Your Honor.

11 JUDGE MACE: Page 85, the information in
12 the box that was referred to in the redirect?

13 MS. DODGE: Yes. These again contain
14 forward projections.

15 JUDGE MACE: So they remain
16 confidential.

17 MS. DODGE: Yes.

18 JUDGE MACE: Okay, thank you. All
19 right. Go ahead, Mr. Van Cleve.

20 BY MR. VAN CLEVE:

21 Q. Mr. Schoenbeck, the statement on Page 73
22 of 138, how does that, in your view, relate to the
23 financial projections on Page 85 of 138?

24 A. Well, it tells me the projections on 85
25 of 138 assume no rate changes.

00754

1 MR. VAN CLEVE: Thank you. That's all I
2 have.

3 JUDGE MACE: Ms. Dodge?

4 MS. DODGE: I have nothing further.

5 JUDGE MACE: Staff?

6 CHAIRWOMAN SHOWALTER: I had a follow-up
7 but I forgot it. What page did you start out on? I
8 think it was in the testimony. Or did you start with
9 Page 85 of the exhibit?

10 MR. VAN CLEVE: I started out with
11 Page 13, which was the cover page of the report.

12 CHAIRWOMAN SHOWALTER: Oh, well.

13 JUDGE MACE: Commissioner Oshie?

14

15 EXAMINATION

16 BY COMMISSIONER OSHIE:

17 Q. Mr. Schoenbeck, going back to Page 85 of
18 138 of Exhibit 275C, and the reference is made by your
19 counsel to the return on average common equity.

20 Now, do you know if that ratio that's
21 on Page 85 is based on actual equity of PE, or PSE, I
22 guess whatever would be pertinent, or is it based on
23 an imputed equity level?

24 A. For starters, I should explain. Page --
25 the financial statistics, the first series of

00755

1 financial statistics which include Page 85, are for
2 the electric and gas entity. The consolidated
3 statistics actually start on Page 86. So I
4 interpreted this to be their projected earned return
5 for their utility operations; in other words, their
6 regulated companies, or company.

7 Q. Does that answer my question on whether
8 and how they came up with the ratio, or came up with
9 the average?

10 A. Oh, I think it's a default, Commissioner.
11 You look at your projected revenues, you look at your
12 projected expenses, and what falls out is the income
13 available for common stock, of which then falls out
14 this ratio based on average equity.

15 COMMISSIONER OSHIE: Thank you.

16 JUDGE MACE: Commissioner Showalter?

17

18 EXAMINATION

19 BY CHAIRWOMAN SHOWALTER:

20 Q. I realized what my question is, and it
21 had to do with Exhibit 276. You said you believed
22 that on April 1st there was a directive. I just
23 didn't know what you meant by that.

24 A. Around April 1st. That was reflected in
25 the minutes of a risk management committee meeting on

1 instructions on going out and procuring either gas or
2 oil.

3 Q. So you mean a directive from whom?

4 A. The risk management committee in general
5 is made up of some of the most senior officers of the
6 company.

7 Q. Oh.

8 A. I can give you a better reference. If
9 you look at Page 118 of 138 of the exhibit, you would
10 see under the RMC members that were in attendance at
11 the meeting were Mr. Holly --

12 JUDGE MACE: Well, again --

13 CHAIRWOMAN SHOWALTER: I can see the
14 exhibit. Thank you.

15 JUDGE MACE: Anything further from the
16 bench? I'm not sure where we are here, but does the
17 company have any further cross of the witness?

18 MS. DODGE: No, Your Honor. Thank you.

19 JUDGE MACE: Staff?

20 MS. SMITH: No, thank you.

21 JUDGE MACE: Mr. ffitch?

22 MR. FFITCH: No.

23 JUDGE MACE: Mr. Kurtz?

24 MR. KURTZ: No.

25 JUDGE MACE: I think that that completes

00757

1 your cross-examination, Mr. Schoenbeck, thank you.

2 You're excused.

3 And I think now would be a good time to
4 take a lunch recess, and we'll resume at 1:30. Thank
5 you.

6 (Lunch recess was taken from 11:57 a.m.
7 to 1:32 p.m.)

8

9 AFTERNOON SESSION

10 JUDGE MACE: All right. Let's go back
11 on the record and resume with the presentation of
12 witnesses. I think Mr. Higgins is next.

13 MS. DODGE: Your Honor, I have one quick
14 housekeeping matter with respect to Mr. Schoenbeck.

15 JUDGE MACE: Yes.

16 MS. DODGE: I was going through the
17 exhibit list over the lunch, the revised, and noticed
18 that 285C for Mr. Schoenbeck which, actually, I was a
19 little confused. I think that's also the same exhibit
20 has been marked as 167C.

21 And this is one that I had intended to
22 ask to be admitted along with Mr. Schoenbeck as he is
23 the author of document and this is also one of the
24 documents subject to the stipulation earlier, just to
25 be simply admitted into the record. So whether we

00758

1 want to make it a 285 because it's part of the series
2 with Mr. Schoenbeck's cross, that's fine, or want to
3 keep it as 167 I think ICNU intends to use it later.

4 I just move that we admit it now and
5 make sure we're clear with the numbers.

6 JUDGE MACE: All right. Is there any
7 objection to the admission of that exhibit, then?
8 Hearing no objection, I'll admit it, 285C. It was one
9 of Mr. Schoenbeck's.

10 JUDGE MOSS: Just to make the record
11 clear, it's the ICNU response to PSE data request
12 No. 8-I.

13 (Exhibit 285C admitted.)

14 JUDGE MACE: Anything else preliminary
15 before I go ahead and swear in Mr. Higgins?
16 Whereupon, KEVIN C. HIGGINS,
17 having been first duly sworn, was called as a witness
18 herein and was examined and testified as follows:

19

20 DIRECT EXAMINATION

21 BY MR. KURTZ:

22 Q. Would you please state your name and
23 business address for the record?

24 A. My name is Kevin C. Higgins. My
25 business address is Energy Strategies, 39 Market

1 Street, Suite 200, Salt Lake City, Utah 84101.

2 Q. Mr. Higgins, do you have in front of you
3 Exhibit 301-T, which is entitled Direct Testimony of
4 Kevin C. Higgins?

5 A. Yes.

6 Q. Also attached to that, marked as
7 Exhibits 302 through 306 are exhibits to your
8 testimony?

9 A. Yes.

10 Q. Was your testimony and exhibits prepared
11 by you, or under your direct supervision?

12 A. Yes.

13 Q. Do you have any changes or corrections
14 you would like to make to your testimony at this time?

15 A. Yes. In Exhibit 306, there are two
16 typos I would like to correct. It's the last exhibit.
17 And on Line 22 in the column that says Category
18 Reference, it should read 21 times 22a.

19 And the second correction is in the
20 next line, Line 23, the Category Reference should
21 say 22 times 10.

22 Q. With those corrections, if I were to ask
23 you the same questions which are asked herein, would
24 your answers be the same?

25 A. Yes.

1 MR. KURTZ: Your Honor, I tender
2 Exhibits 301 through 306.

3 JUDGE MACE: Any objection to the
4 admission of those exhibits? Hearing no objection --

5 MR. FFITCH: I'm sorry, Your Honor, my
6 timing is bad. Simon ffitch for public counsel.

7 I just note that Exhibit 303, KCH-2, is
8 an excerpt from another exhibit that's been
9 introduced in the case for cross-examination purposes
10 only, and that's the direct testimony of James
11 Heidell. Public counsel and staff had both initially
12 entered objections to that exhibit for any other
13 purpose in this proceeding other than for
14 cross-examination purposes and had an agreement with
15 ICNU, who had tendered the full exhibit as
16 Exhibit 207, which was placed on the record earlier.

17 And I just simply wanted to make the
18 record at this point that we continue to have concern
19 about Mr. Heidell's cost study being admitted in this
20 proceeding for any other purpose other than
21 cross-examination purposes. In other words, that it
22 should not be admitted in the interim case to
23 establish anything substantively about the cost study
24 at this point.

25 And while this is only one page from

00761

1 that rather voluminous exhibit, I just wanted to
2 place that on the record.

3 JUDGE MACE: Mr. Kurtz?

4 MR. KURTZ: Well, is that an objection
5 to the admission, or is that just a --

6 JUDGE MACE: It didn't sound like an
7 objection, it sounded more like a caveat. My
8 understanding is that we have already ruled with
9 regard to this.

10 MR. KURTZ: If there is no objection --
11 would you like a response?

12 JUDGE MACE: No. I just wondered if you
13 had any input about Mr. ffitch's statement.

14 MR. KURTZ: No, I don't.

15 JUDGE MACE: It's not offered in any
16 other way but for the purpose of cross-examination.

17 MR. KURTZ: No, no, no. His exhibit is
18 a direct exhibit to his testimony.

19 JUDGE MACE: Correct.

20 MR. KURTZ: So this is part of
21 Mr. Higgins' direct testimony.

22 JUDGE MACE: But it's not offered for
23 purposes outside what was discussed in the earlier
24 ruling. Or am I unclear here?

25 CHAIRWOMAN SHOWALTER: My understanding

1 is that the Heidell testimony and exhibits were
2 admitted solely for the purpose of cross-examination;
3 is that right? And so we have a new question now
4 because here's a page that is attached to another
5 witness's testimony, but it is part of that witness's
6 testimony. So the question is, is there objection to
7 this page as a part of a witness's testimony here.

8 MR. CEDARBAUM: If I might just comment.
9 I think the staff is comfortable with the page being
10 admitted with the understanding that this witness may
11 have relied upon it in developing his testimony, but I
12 think the evidence and discussion throughout the past
13 three or four days is pretty clear that no one is
14 accepting the company's cost-of-service study for its
15 merits or demerits. That will be subject to the
16 general rate case.

17 So this witness may have relied upon
18 this page, but that doesn't mean that anything here
19 is correct. If that's where we are, staff is
20 comfortable with this.

21 JUDGE MACE: Now I'm asking Mr. Kurtz,
22 is that where you are with this exhibit?

23 MR. KURTZ: Yes. In fact, the testimony
24 itself, I can tell you chapter and verse, the
25 questioning is, are you vouching for the veracity of

00763

1 the cost-of-service study in the general case? No.
2 It's being relied on as a company-sponsored exhibit,
3 just as if it were a data request that the company
4 submitted. It's being used by Mr. Higgins to -- as a
5 guide for setting rates, but he specifically says he
6 didn't do the cost-of-service study and doesn't know
7 if it's completely accurate.

8 So that is what it is being used for,
9 and that's explicitly stated in the direct testimony.
10 So I would agree with Mr. Cedarbaum, that's the
11 status of it.

12 JUDGE MACE: Then go ahead.

13 COMMISSIONER HEMSTAD: It would seem to
14 me that this witness can proceed. He's used it.

15 The question of its ultimate
16 persuasiveness would simply go to what weight to give
17 to this witness's testimony is the parties', if any
18 party wishes to attack what he's saying.

19 JUDGE MACE: Mr. ffitch?

20 MR. FFITCH: Thank you, Your Honor. I
21 think I'm certainly comfortable going forward for
22 public counsel on the basis of the statements of
23 Mr. Cedarbaum and Mr. Kurtz.

24 JUDGE MACE: I'll admit the exhibits
25 then, 301 through 306 at this time. And let's see.

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1 (Exhibits 301-306 admitted.)

2 JUDGE MACE: Does staff have any
3 cross-examination?

4 MS. SMITH: No.

5 JUDGE MACE: Thank you. And public
6 counsel?

7 MR. FFITCH: No questions, Your Honor.

8 JUDGE MACE: And -- is that right? Yes.
9 Mr. Van Cleve?

10 MR. VAN CLEVE: Thank you, Your Honor.

11

12 CROSS-EXAMINATION

13 BY MR. VAN CLEVE:

14 Q. Mr. Higgins, do you have a copy of
15 Exhibit 322?

16 A. I do not.

17 Q. Were you here earlier today when
18 Mr. Schoenbeck described his preparation of this
19 exhibit?

20 A. Yes, I was.

21 Q. And the column on the far right is
22 entitled Kroger. If the company were to be granted
23 the full requested interim rate increase of 170
24 million, is this a reasonable representation of what
25 the impact of your rate spread proposal would be?

00765

1 A. Yes, it is.

2 MR. VAN CLEVE: Your Honor, I would
3 offer Exhibit 322. I don't think it's been admitted
4 yet.

5 JUDGE MACE: I believe I did admit it.

6 MR. VAN CLEVE: You did admit it? Okay.
7 That's all the questions I have.

8 JUDGE MACE: Any questions from the
9 bench.

10 CHAIRWOMAN SHOWALTER: Well, I don't
11 have a question, but I'm just staring at this
12 Exhibit 322, and there's nowhere that says that this
13 is in thousands. And if it is, can we just have an
14 acknowledgment of that, or do we need to have somebody
15 testify to that?

16 JUDGE MACE: Mr. Van Cleve?

17 MR. VAN CLEVE: It is in thousands.

18 CHAIRWOMAN SHOWALTER: Nobody has an
19 objection if we put in three 0s at the top?

20 JUDGE MACE: Any other questions or
21 concerns from the bench? Any redirect?

22 MR. KURTZ: No, Your Honor.

23 JUDGE MACE: Thank you, Mr. Higgins,
24 you're excused.

25 THE WITNESS: Thank you.

1 JUDGE MACE: Now I understand the next
2 witness will be Mr. William Gaines, and there were
3 some cross exhibits that were submitted to the bench
4 and we need to mark them.

5 I received from public counsel an
6 exhibit titled Exhibit of PSE Load Growth, 1982-2000,
7 that I marked 172. And then I received from staff an
8 exhibit entitled PSE's Response to WUTC Staff Data
9 Request No. 306-I, and that will be 173.

10 Mr. Van Cleve, we have two exhibits up
11 here, ICNU data request No. 8.11, and No. 8.71. Are
12 those for Mr. William Gaines or Mr. Donald Gaines?

13 MR. VAN CLEVE: 8.71 is for Ms. Luscier.
14 And 8.1 -- I'm sorry, that was 8.7-I. And 8.1-I is
15 for Donald Gaines.

16 JUDGE MACE: Mr. Gaines, would you stand
17 and raise your right hand.

18

19 Whereupon, WILLIAM A. GAINES,
20 having been first duly sworn, was called as a witness
21 herein and was examined and testified as follows:

22 JUDGE MACE: Please be seated. Go
23 ahead.

24

25 DIRECT EXAMINATION

00767

1 BY MS. DODGE:

2 Q. Good afternoon, Mr. Gaines.

3 A. Good afternoon.

4 Q. Mr. Gaines, do you have before you your
5 direct testimony and rebuttal prefiled testimony in
6 this matter, which have been identified as Exhibits
7 151-T and 155-T?

8 A. Yes, I do have.

9 Q. Do you also have before you the exhibits
10 to your testimony which have been identified as
11 Exhibits 152 through 154, and 156C through 159C?

12 A. Yes, I have them.

13 Q. Did you prepare those exhibits or -- and
14 testimony, or were they prepared at your direction and
15 under your supervision?

16 A. Yes, some of each.

17 Q. Do you have any additions or corrections
18 to make to any of that testimony at this time?

19 A. No, I don't.

20 Q. Mr. Gaines, are the answers to the
21 questions and attachments in Exhibits 151-T through
22 159C true and accurate to the best of your knowledge?

23 A. Yes.

24 Q. Would you provide the same testimony
25 today if you were asked the same questions?

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1 A. Yes, I would.

2 MS. DODGE: Your Honor, we offer
3 Exhibits 151-T through 159C into evidence.

4 JUDGE MACE: Hearing no objection, I'll
5 admit those exhibits.

6 (Exhibits 151T-159C admitted.)

7 MS. DODGE: Mr. Gaines is available for
8 cross-examination.

9 JUDGE MACE: Let me address a concern
10 raised by Mr. Stokes. He had asked to come a little
11 earlier in the order of cross, and Mr. Van Cleve
12 volunteered that he could come prior to ICNU. Is that
13 correct?

14 MR. VAN CLEVE: That's correct.

15 JUDGE MACE: Is that acceptable to the
16 parties? Okay. Then we'll go with that order.

17 MR. STOKES: Thank you.

18 JUDGE MACE: I have staff down as first
19 cross-examiner.

20 MS. SMITH: Thank you. Before we begin,
21 prior to this session I had spoke with counsel for PSE
22 with respect to admitting Exhibit 173 without any
23 foundation. I believe we had an agreement as to that,
24 so I would move the admission of Exhibit 173 at this
25 time.

00769

1 JUDGE MACE: Hearing no objection, I'll
2 admit Exhibit 173.

3 (Exhibit 173 admitted.)

4 CROSS-EXAMINATION

5 BY MS. SMITH:

6 Q. Good afternoon, Mr. Gaines.

7 A. Good afternoon.

8 Q. I'd like to draw your attention, please,
9 to Exhibit 165. Do you have that in front of you?

10 It's a cross-examination exhibit.

11 A. Yes, I do have.

12 Q. Now, is it correct that this exhibit
13 shows Puget Sound Energy's calculation of the 7 --
14 24.74 mills per kilowatt hour baseline that's included
15 in the general rates?

16 A. Yes.

17 Q. Now if you would turn to Page 2, please,
18 of this exhibit, it's the number 2 that's circled on
19 the bottom of the page. Now Line 10 represents the
20 average power supply costs as you have defined it from
21 Docket No. UE-1 -- 921262. Is that correct?

22 A. That's correct.

23 Q. And to the total cost from Docket No.
24 UE-921262, you added the amounts on Line 13 through
25 20; is that correct?

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1 A. Yes, that's right.

2 Q. And the total cost on Line 23 is then
3 determined to equal the 24.74 mills per kilowatt hour.
4 Is that correct?

5 A. On Line 26, yes.

6 Q. On Line 26?

7 A. Yes.

8 Q. And the adjustments shown on Lines 13 to
9 20 are calculated on Page 3 of Exhibit 165. Is that
10 correct?

11 A. That's right. And the rest of the
12 exhibit is some backup material to those pages.

13 Q. So, for example, when you look at the
14 Total column on Page 3, the item on Line 30 for
15 totals, the 85.2 million dollar total, supports the
16 amount on Line 13 of Page 2. Is that correct?

17 A. That's right.

18 Q. And to arrive at this 85.2 million
19 dollar amount -- or 85.2 million dollar amount, one
20 would take the production cost increases shown at the
21 top of the page -- the top of the page on Line 8 from
22 PRAM 3 of the same 85.2, and multiply it times the
23 percentage shown on Line 19. Is that correct?

24 A. That's correct for that example, yeah.

25 Q. And for this example it would be 100

00771

1 percent; is that correct?

2 JUDGE MACE: I was just going to ask you
3 to slow down just a little bit.

4 BY MS. SMITH:

5 Q. I will, thank you. And for the record,
6 Mr. Gaines, what does "PRAM" stand for?

7 A. It stood for Periodic Rate Adjustment
8 Mechanism.

9 Q. So for the PRAMs 3, 4, and 5, the
10 percentage shown on this page is 100 percent. But
11 starting with the merger increases/decreases on
12 Lines 11 through 15, that percentage is reduced to 80
13 percent?

14 A. That's correct.

15 Q. Is it correct that each of the merger
16 changes represents the rate increase or decrease, less
17 the revenue-sensitive expenses as are shown on Page 5?

18 COMMISSIONER HEMSTAD: You said Page 5?

19 BY MS. SMITH:

20 Q. Yes. I believe it's Page 5 of this
21 exhibit.

22 A. Yes. That appears to be correct.

23 Q. Is it correct that the 1997 rate
24 decrease of 47.9 million shown on Page 5, Line 52,
25 represents a combination of an increase in cost of

00772

1 2.47 percent to residential, and 1 percent, or 1.5
2 percent to everyone else, plus a large reduction
3 associated with reducing the PRAM amortizations to
4 zero?

5 A. I have no idea. I'm not sure what
6 you're referring to.

7 Q. I'm referring to the rate decrease from
8 the merger case.

9 A. Yes. I have that number, but I'm not
10 sure how you've spread it or allocated it to these
11 various rate classes.

12 Q. Okay. If I could refer you now to
13 Page 4, is this your calculation of the 80 percent
14 factor applied to the merger increases and decreases
15 on Page 3, Rows 22 through 26?

16 A. Yes. It's how we arrived at the 80
17 percent.

18 Q. And are the items shown here the
19 expenses from UE-921262 production expenses?

20 A. Yes. We took those production-related
21 expenses from that earlier rate case in 1992, and then
22 we took a subset of those expenses, only the ones that
23 are related to the power costs that we portrayed or
24 forecast in this proceeding. And that's how the 80
25 percent was arrived at.

00773

1 Q. Now, on Exhibit 4 you see some columns
2 where it says the lines are either treated as yes with
3 a value of 1, or no with a value of zero. Do you see
4 that?

5 A. Yes.

6 Q. Are the yeses the expense items that are
7 included in the company's proposed accounts to measure
8 under-recovered power costs?

9 A. Yes.

10 Q. And the total of the yeses is 79.9
11 percent. Is that correct?

12 A. Yes, that's right.

13 Q. Referring you now to Page 5, please.
14 And Line 16, the amount of 85.2 million in the Total
15 column is the amount brought forward to Page 2,
16 Line 13, entitled 1993 Increased Costs. Correct?

17 A. Correct.

18 Q. And the amounts on Lines 33 and 50 of
19 Page 5 are also brought forward to Page 2 as the 1994
20 and 1995 increases. Is that true?

21 A. Yes, that's right.

22 Q. And now if you would look at the amount
23 on Line 16 of Page 5, is it correct that this 85.2
24 million is calculated by taking the Line 8 PRAM
25 Resources Increases of 115.6 million and multiplying

00774

1 times the ratio of power supply expenses to total
2 expenses on Line 14 of 77.11 percent, and then
3 removing revenue-sensitive expenses by multiplying the
4 revenue times the conversion factor of .956540, which
5 is found on Line 15?

6 A. I believe that's right.

7 Q. Now if you could refer, please, to the
8 amount on Line 8 which is 115.6 million, does this
9 amount represent the total resource cost increases in
10 the case from PRAM 3 as shown on Lines 4 and 5?

11 A. Yes. I believe that's the sum of 4 and
12 5. Let me confirm that. It's close.

13 Q. And for the 1993 resource increases, you
14 show a resource increase on Line 4 of 86 million, plus
15 a resource deferral increase on Line 5 of 29.5
16 million. Is that correct?

17 A. Yes.

18 Q. Would you please explain what a resource
19 deferral increase represents?

20 A. I don't think I can do that.

21 Q. So you can't explain what the resource
22 PRAM 3 increase is?

23 A. No.

24 Q. If you would move now, then, to Line 22
25 which is in the PRAM 4 section of this exhibit, it

00775

1 shows another resource deferral increase of 18.9
2 million. Is that correct?

3 A. Yes.

4 Q. And just for clarification, the 18.9
5 million represents an additive to the level of revenue
6 from deferral amortization in rates from the prior
7 year. Is that true?

8 A. I didn't come prepared to discuss this
9 calculation at the level of detail that you're asking
10 about it. And so we'd be happy to go and study it
11 further and confirm some of your conclusions, but I'm
12 just not prepared to discuss it at that level of
13 detail.

14 MS. SMITH: Could we make a record
15 requisition for this, please?

16 JUDGE MACE: Sure.

17 MS. SMITH: Thank you.

18 MS. DODGE: What's the "this"?

19 MS. SMITH: I don't know what the number
20 would be for the record requisition.

21 MS. DODGE: But what's the --

22 JUDGE MACE: It would be No. 11. And
23 exactly what are you asking for here?

24 (Record Requisition No. 11.)

25 MS. SMITH: I'm asking for clarification

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1 that the 18.9 million to Line 22 in the PRAM 4 section
2 is an additive to the level of revenue from deferral
3 amortization in rates from the prior year.

4 JUDGE MACE: Does the company understand
5 what's being requested?

6 MS. DODGE: If you could repeat it more
7 slowly, please.

8 MS. SMITH: All right, I will. There's
9 an 18.9 million dollar figure that's on Line 22 in the
10 PRAM 4 section on Page 5 of Exhibit 165. We're
11 seeking clarification whether that 18.9 figure
12 represents an additive to the level of revenue from
13 deferral amortization --

14 MS. DODGE: Wait --

15 MS. SMITH: -- in rates from the prior
16 year. And the prior year would be, I believe, 1993.

17 MS. DODGE: -- wait. An additive to...

18 JUDGE MACE: Let's be off the record for
19 a minute.

20 (Discussion off the record.)

21 JUDGE MACE: Let's go back on the
22 record. In that same vein, if you have other similar
23 types of requests for information that may end up
24 being too detailed for this witness at this time,
25 maybe it would be better for you to just submit the

00777

1 requests in writing and have them respond to them.

2 MS. SMITH: I will, if one comes up
3 again.

4 JUDGE MACE: Very well.

5 MS. SMITH: I'm getting close to being
6 finished here, so with any luck, we won't have to make
7 any more requests.

8 MS. DODGE: I'm sorry, could I just read
9 that back to make sure we're all clear? The
10 clarification question is this: On Exhibit 165,
11 Page 5, Line 22, does the 18.9 million figure
12 represent an additive to the level of revenue from the
13 deferral amortization from rates from the prior year,
14 which is 1993.

15 MS. SMITH: That's it.

16 BY MS. SMITH:

17 Q. And my next question relates to the
18 three years -- the three PRAM years that we have here,
19 PRAM 3, 4, and 5, would you agree that the accumulated
20 annual resource deferrals were increased by
21 approximately 62 million over the rates that were in
22 effect prior to the PRAM 3?

23 A. Well, I think what you're doing is
24 summing up lines 5, 22, and 39 --

25 Q. That's correct.

00778

1 A. -- from this page, and I think that math
2 gives you close to 30 million. But what was the rest
3 of the question?

4 Q. Well, the rest -- the question was
5 whether or not that increase is approximately 62
6 million over the rates -- over the PRAMs 3, 4, and 5.

7 A. I Actually think we would be best served
8 if we could respond to the detailed questions around
9 this exhibit in a response to the record requisition,
10 and we could probably get a more detailed and precise
11 answer that way.

12 Q. I don't know if we need to go that far.
13 Perhaps if I were to just ask you if you would accept,
14 subject to check, that the sum of the numbers on Lines
15 5, 22, and 39 come to about 62.4?

16 A. I'll accept the math subject to check,
17 sure. Mm-hmm.

18 Q. And were the PRAM resource increases
19 spread to the rate classes on an equal cents per
20 kilowatt hour, or did lower load customers such as
21 residential receive a higher portion of the increases?

22 A. I just don't know.

23 MS. SMITH: That's all I have, thank
24 you.

25 JUDGE MACE: Mr. ffitch?

00779

1 MR. FFITCH: Your Honor, I was just
2 going to say that if the attorney for the gas users
3 wants to go ahead of me if he has a time problem,
4 that's also fine.

5 MR. STOKES: I'm fine with that, Your
6 Honor.

7 JUDGE MACE: Do you want to go ahead
8 now, or do you want to wait?

9 MR. STOKES: No, I'll wait, thank you.

10 MR. FFITCH: I don't have a lot of
11 questions. Thank you.

12

13 CROSS-EXAMINATION

14 BY MR. FFITCH:

15 Q. Good afternoon, Mr. Gaines.

16 A. Good afternoon.

17 Q. As I understand it, Puget Sound Energy's
18 under-recovered power costs are mostly related to
19 gas-fired resources; is that right?

20 A. No, that's not right.

21 Q. Okay. Why don't you tell me what your
22 view is, your position is.

23 A. Well, it's laid out in my testimony both
24 direct and rebuttal. But basically what's happened in
25 Puget Sound Energy's case is that we've had escalation

00780

1 in our underlying base power supply costs that's gone
2 on since rates were set in our last general rate case.
3 And we have been able in those intervening years to
4 mask those underlying cost increases in various ways,
5 either with favorable hydroelectric conditions, or
6 with margin from off-system sales of surplus power.

7 And so what has happened since the
8 market prices collapsed in mid-2001 is that the
9 revenues available from these off-system sales are
10 no longer sufficient to offset the underlying cost
11 increases.

12 Q. All right. Do you have in front of you
13 what's been marked As exhibit 172, I believe? It
14 should say Exhibit of PSE Load Growth, 1982 to 2000.

15 A. Yes, I have it, thank you.

16 Q. And isn't it correct that this contains
17 excerpts from Puget's annual reports and a 1992 fact
18 book showing Puget Sound Energy customer loads for the
19 period 1982 to 2000?

20 A. Yes, that's correct.

21 Q. And I'd just like to identify when
22 particular resources came on line for the company
23 during that time period of 1982 to 2000. Before 1982
24 you had colsemp plants 1 and 2, and hydroelectric
25 power. Is that right?

00781

1 A. That's right, mm-hmm.

2 Q. And then between 1982 and 1986, you
3 added colsemp plants 3 and 4?

4 A. That's right.

5 Q. And then in the period 1990 to 2000,
6 added to the resources were Encogen, Tonasket, Sumas,
7 and March Point. Correct?

8 A. That's right. Of course there were
9 other changes in the portfolio, but those are probably
10 some of the major things.

11 MR. FFITCH: All right. Thank you.
12 Your Honor, I'd like to offer Exhibit 172.

13 JUDGE MACE: Hearing no objection, I'll
14 admit 172.

15 MS. SMITH: Your Honor, I apologize.
16 After questioning the witness, I neglected to move the
17 admission of Exhibit 165. May I do that now?

18 JUDGE MACE: Let's make sure that we
19 have Exhibit 172 admitted. And then any objection to
20 the admission of 165? Hearing no objection, I'll
21 admit that exhibit.

22 (Exhibits 165 and 172 admitted.)

23 MR. FFITCH: Your Honor, I also have an
24 offer of some additional exhibits for Mr. Gaines.

25 JUDGE MACE: Go ahead and.

1 MR. FFITCH: And I just need a moment to
2 check the list.

3 JUDGE MACE: I show you have 160 through
4 164.

5 MR. FFITCH: Yes, Your Honor, those are
6 the exhibits that I was looking for. And we had
7 reached a stipulation with the company with regard to
8 offering those exhibits. I'd like to offer them now.

9 JUDGE MACE: Hearing no objection, I'll
10 admit those exhibits. That's 160 through 164.

11 (Exhibits 160-164 admitted.)

12 MR. FFITCH: Thank you, Your Honor. I
13 don't have any more questions.

14 MS. SMITH: Your Honor, I would --
15 again, I apologize. I'd like to check to see if
16 Exhibit 171 has been admitted?

17 JUDGE MACE: Not right now, as far as I
18 can tell.

19 MS. SMITH: I would move for the
20 admission of that exhibit as well.

21 JUDGE MACE: Any objection to the
22 admission of 171? Hearing no objection, I'll admit
23 that exhibit.

24 (Exhibit 171 admitted.)

25 JUDGE MACE: Go ahead, Mr. Stokes.

00783

1 MR. STOKES: Thank you.

2

3 CROSS-EXAMINATION

4 BY MR. STOKES:

5 Q. Good afternoon.

6 A. Good afternoon.

7 Q. If I can have you turn to Exhibit 151-T,
8 your prefiled testimony?

9 MR. QUEHRN: Is that the rebuttal
10 testimony? Pardon me.

11 MR. STOKES: No. No, it's not.

12 MR. QUEHRN: Direct testimony?

13 MR. STOKES: Yes.

14 BY MR. STOKES:

15 Q. On Page 1, Lines 20 to 25 and onto
16 Page 2, you state that PSE has projected to
17 under-recover its power costs by approximately 63
18 million for the two-month period of January and
19 February of 2002; and then 99 million for the
20 eight-month period March through October. Is that
21 right?

22 A. That's right.

23 Q. And just to clarify, these amounts are
24 related to power costs; correct?

25 A. That's right, mm-hmm.

00784

1 Q. Would it then be fair to say that the
2 electric side of the company has financial risks
3 related to power supply cost that are not on the
4 natural gas side?

5 A. Well, the basic recovery mechanism of
6 these costs and rates is different as between the
7 power and gas sides of the company, yes.

8 Q. So just to clarify that answer, if you
9 isolate the commodity, natural gas, and electricity,
10 because the natural gas side of the company has passed
11 through adjustments through PGAs, is the natural gas
12 side less risky?

13 A. Well, certainly with respect to
14 recovering commodity costs. Whether it's less risky
15 overall is a broader question that I'm not sure I can
16 answer, but certainly on commodity cost recovery, yes.

17 MR. STOKES: Thank you. That's all I
18 have.

19 JUDGE MACE: Thank you. Mr. Van Cleve?

20 MR. VAN CLEVE: Thank you.

21

22 CROSS-EXAMINATION

23 BY MR. VAN CLEVE:

24 Q. Mr. Gaines, can you tell us what the
25 company's load resource position is during the

00785

1 deferral period?

2 A. Probably, but could you be a little more
3 specific? It's a long period, and I'm not sure
4 exactly which subperiods that you'd be interested in.

5 Q. I guess I'd put it back to you: What
6 subperiods do you have an answer for? What I'm
7 looking for is, what are the company's projected loads
8 and resources during this interim rate period?

9 JUDGE MACE: Mr. Van Cleve, can you
10 speak directly into the microphone, please?

11 A. Are you just asking simply whether the
12 company expects to be long or short during the period?

13 BY MR. VAN CLEVE:

14 Q. Well, let's start with the answer to
15 that.

16 A. I think the company expects to be a net
17 seller over the period.

18 Q. Does that vary by month, or?

19 A. Yes, it does.

20 Q. And, I'm sorry if you've already
21 produced this, but do you know whether a forecast of
22 that has been produced in this case?

23 A. Well, yes. In fact, I think a number of
24 forecasts of that have been produced. And it's one of
25 the reasons that I'm a little hesitant because the

00786

1 company's load resource picture is changing all the
2 time, based on what's going on with its projections of
3 loads and what's going on with the underlying
4 hydroelectric resource and also with the availability
5 of the thermal resources. And so it's not a static
6 picture, and that's why I was a little bit hesitant.

7 Q. And when was the most recent forecast of
8 the load resource balance during the interim period
9 done?

10 A. The one that we put into this case was
11 done just shortly before we filed, so it would have
12 been done in December of 2001.

13 Q. Has the company prepared any updates to
14 that?

15 A. I'm sure that we have. We're updating
16 it all the time.

17 Q. Could you produce the most recent
18 version of that?

19 A. Well, I can't today, no.

20 Q. Okay.

21 JUDGE MACE: We can make --

22 MR. VAN CLEVE: Could we make that --

23 JUDGE MACE: -- that a record
24 requisition, No. 12. And what is it again that you're
25 looking for here?

1 (Record Requisition No. 12.)

2 MR. VAN CLEVE: It's the company's most
3 recent projected load resource balance during the
4 interim rate period.

5 MS. DODGE: Can I ask clarification on
6 that? Are you asking for a rerun of the Aurora model?

7 MR. VAN CLEVE: No, I don't believe so.
8 I'm just asking what the company thinks its load
9 resource position during the interim rate period is.

10 JUDGE MACE: It appears to me that
11 you're looking for an updated version of the document
12 that you were just cross-examining the witness on.

13 Am I correct in that?

14 A. I can't tell. It's part of the reason
15 for my hesitance because that could -- the question is
16 broad, and that could be one interpretation. Or it
17 could be some other more simplified or less formal
18 projection of loads and resources. So I'm just -- I'm
19 not sure.

20 MS. DODGE: I'm sorry, one of the
21 reasons I think that we're pursuing this is that in
22 order -- potentially, in order to be a comparable
23 report to what was provided in the case, it would
24 require rerunning some models which could take a week
25 or so to complete. Whereas if it's meant to be a

00788

1 more, not as -- not exactly the same thing updated,
2 but kind of a more general, then that would be a
3 different matter.

4 So we just need to know what we're
5 being asked to do.

6 BY MR. VAN CLEVE:

7 Q. I'm just looking for the company's most
8 recent projection for what its load resource position
9 will be during the interim rate period. And you
10 stated that the company would be a net seller, so if
11 you could provide something that would indicate what
12 the position is by month during the interim rate
13 period, that would be useful.

14 A. We'll do what we can.

15 Q. Thank you. Do you know by how much the
16 company will be a net seller during that period?

17 A. No. No, I don't. And I'm not even
18 certain that it will be.

19 Q. I thought you just stated that it would
20 be.

21 A. I said I thought it would be.

22 Q. Okay. If the company is in a surplus
23 position -- strike that question. Can you tell us
24 what the company's hydroelectric resources, what the
25 hydro forecast for those resources, the most recent

1 one you have for the interim rate period?

2 A. I can. As you know, the company really
3 thinks about its hydro supply in two parts. First,
4 the part on the Columbia River, the mid-Columbia
5 River. And the last forecast I saw of runoff for the
6 spring for those plants was about 95 percent of the
7 average. It is still early in the runoff season and
8 there's still quite a bit of volatility in that
9 forecast. That's the last one that I saw.

10 The most recent one I saw for the
11 company's other hydro resources that are on the west
12 slopes of the Cascades was about 100 percent of
13 average or maybe even a little bit more than that,
14 but that was several weeks ago.

15 Q. If you could refer to Exhibit 157C,
16 which is your WAG-7C at Page 5. Now, this document
17 projects some forward price curves which are taken at
18 different points in time beginning in December of 2000
19 and ending in September of 2001. Is that correct?

20 A. That's right.

21 Q. And does the company have a forward
22 price curve for the Sumas gas price for the interim
23 rate period?

24 A. Well, it does. If you turn to the next
25 page, Page 6 of this exhibit, it's a similar family of

00790

1 curves but it's for gas at the Sumas point of
2 delivery.

3 Q. Would you agree that the volatility and
4 the forward price curve for gas at Sumas has -- that
5 it became lower and flatter beginning in late 2001
6 than it was during late 2000 and the early part of
7 2001?

8 A. Well, I assume when you talk about
9 volatility you're talking about forward-looking
10 volatility. And with that assumption, yes, the
11 forward-looking volatility was less in late 2001 than
12 it was in late 2000. Not quite sure what you mean by
13 flatness, though.

14 Q. Well, I guess I'm just referring to this
15 graph on Page 6, that's basically a flatter line for
16 the forward price curve than the earlier forward price
17 curves which showed large excursions in price.

18 A. Well, that's true. And, of course, the
19 reason that we put this exhibit in was to illustrate
20 how the forward price curves had changed over time as
21 the company was making decisions about managing its
22 power supply that affect the interim period for which
23 we're requesting rate relief.

24 Q. And your current forward price curve for
25 both gas and electric prices, does it resemble more

00791

1 the flat line which is the September forecast than the
2 earlier forecasts that have large excursions in the
3 price?

4 A. Well, of course, if we were to put a
5 line in for today's forward price curve, it would only
6 begin in February of '02. So it would only be for the
7 period of February '02 going forward, and it would be
8 flat, relatively flat, during that period like these
9 other lines are.

10 Q. I'd like to address the issue that's
11 been raised about the potential of the company's
12 credit situation to impact its abilities to
13 participate in the wholesale market. And is the
14 company currently providing any credit support in any
15 of its power transactions?

16 A. Yes, I believe it is.

17 Q. And can you describe what that is.

18 A. I'm not sure that I can describe it in
19 detail, but I believe that we have been asked by at
20 least one or two counterparties to provide credit
21 support.

22 Q. And is that in the form of a letter of
23 credit?

24 A. I'm not sure what form it's taken.

25 Q. Do you know who the counterparties are?

00792

1 A. I don't, but we can find that out for
2 you.

3 Q. Now, you said that you had been
4 requested. Do you know whether there's any credit
5 support for any transactions that are currently in
6 effect?

7 A. Generally what happens as the credit
8 quality declines, first the credit exposure that the
9 counterparties allow in trading with us is ratcheted
10 down. And we've had quite a lot of that happen.
11 We've had at least three or four parties put us on
12 notice that either they would not continue to trade
13 with us, or that we would need to provide credit
14 support in order to get them to continue to trade.

15 And, you know, I just don't have the
16 names of the counterparties at the tip of my tongue.

17 Q. Now you mentioned the terms "credit
18 exposure." Can you explain that?

19 A. Sure. For example if we are buying
20 power or gas from a counterparty forward, say for a
21 period of months, you can value that by marking that
22 purchase to market, taking the difference between the
23 purchase price and the forward market value over the
24 term of the transaction. And that's the amount of
25 exposure, if you will, that the counterparty has to

00793

1 Puget Sound Energy's credit.

2 Q. I'd like to refer you to Exhibit 417.

3 And I don't have an extra copy... This was a
4 cross-examination exhibit of Ms. Steel, and it's a
5 provision from the WSPP agreement, I believe.

6 A. Yes. This looks like an excerpt from
7 the WSPP contract.

8 Q. Now is most of the physical power
9 transactions that the company does, are those
10 transactions done under the WSPP agreement?

11 A. Most of the physical is. There really
12 are three contracts that we ought to be concerned
13 about when we talk about creditworthiness. WSPP is
14 one. GISB is another one, the Gas Industry Standards
15 Board contract. That's the standard uniform contract
16 for physical gas transactions.

17 And then the other one is the ISDA
18 agreement, the International Swap Dealers
19 Association contract, which is the master agreement
20 for most financial derivative transactions in power
21 and gas, both.

22 And so when we talk about
23 creditworthiness and the rights of counterparties to
24 demand security for transactions, you really would
25 need to look at all three of those agreements.

00794

1 Q. Do all three of those agreements have --
2 do they use a similar concept of credit exposure to
3 calculate what type of credit support may be
4 necessary?

5 A. I would say that it's similar, similar.

6 Q. It's based on this mark-to-market
7 concept?

8 A. Generally, yes.

9 Q. And if you look at Exhibit 417, that
10 Section 27, creditworthiness there. Now this
11 provision is not mandatory; correct?

12 A. It's elective on the part of the
13 counterparty.

14 Q. Okay. And if you go down about eight
15 lines up from the bottom of the first page of
16 Exhibit 417, there is a sentence that begins in the
17 middle of that line that says: The second party's
18 obligations under this Section 27 shall be limited to
19 a reasonable estimate of the damages.

20 Do you see that?

21 A. I see it.

22 Q. That reasonable estimate of the damages,
23 that's -- is that also sort of this mark-to-market
24 concept? Isn't that basically the same thing?

25 A. I believe that's what it's referring to,

00795

1 yes.

2 Q. Now if you made a power sale -- or,
3 strike that. Let's take your example. You made a
4 power purchase and you paid \$25.00 per megawatt hour.
5 And it just so happened that the price of power stayed
6 at \$25.00 per megawatt hour for the whole term of that
7 purchase, then the mark-to-market on that would be
8 zero; correct?

9 A. That's right.

10 Q. And in that case, the company wouldn't
11 be required to put up any credit support; is that
12 correct?

13 A. Looking only at the mark-to-market
14 evaluation, that's right.

15 Q. Well, this does.

16 A. I'm not sure that this contract or any
17 other of the three contracts are limited just to
18 mark-to-market. I would need to study them a little
19 bit more.

20 Q. Well, are you familiar with any other
21 provisions of the WSPSP agreement that deal with
22 creditworthiness?

23 A. No. I think this is the only
24 creditworthiness provision, per se. But you can see
25 that you referred to other sections of the agreement

00796

1 to determine what the amount of the security needs to
2 be. And that's true in the other two contracts also.

3 Q. Okay. Now back to my hypothetical, if
4 you purchase power at \$25.00 per megawatt hour, and
5 the market price went up to \$50.00, you still wouldn't
6 be required to put up any credit support; is that
7 correct?

8 A. Not on a mark-to-market account, that's
9 right.

10 Q. So in that scenario, the only instance
11 where you would be required to put up credit support
12 is if the market price fell below -- or potentially be
13 required -- fell below the contract price during the
14 term of the contract. Is that right?

15 A. That's generally the idea, is to protect
16 the counterparty from losses if Puget, in this
17 example, were to default. And we could speculate
18 about what the market price might or might not do,
19 whether it might go up or down, but we can't know.

20 Q. Would you agree that the potential
21 credit concerns are a lot greater in a market where
22 there's a high volatility in the prices and big
23 swings?

24 A. I think that there is a larger risk that
25 you'll have mark-to-market exposure when prices are

00797

1 high and volatile, yes. It's a gradation, it's a
2 scale.

3 Q. And have prices -- have electric
4 wholesale prices at the Mid-C been either high or
5 volatile in, say, the last six months?

6 A. Well, I don't think it's relevant what's
7 happened in the last six months. What's relevant is
8 what might happen in the future to the prices, and we
9 can't know.

10 I've heard some speculation on this
11 stand by the witnesses that the power crisis is
12 over. It would be nice if that were true, but we
13 can't know.

14 Q. Do you know what the Mid-C price is
15 right now, approximately?

16 A. No, I don't, but I would imagine it's in
17 the range of 20 mills, or 25.

18 Q. And do you know approximately what the
19 company's forward price curve for the Mid-C price is
20 for the rest of this year?

21 A. No, I don't. Not right offhand.

22 Q. Do you know what range it's in?

23 A. I would imagine it's in about that same
24 range, but I don't think it's relevant. What's
25 relevant is what actually happens to prices going

00798

1 forward versus some price at which the company might
2 contract for power. And we can't know that. We can
3 speculate about it, but we can't know it.

4 Q. Wouldn't you agree that if the price
5 stays relatively low and relatively stable, that the
6 company's costs of providing credit support during the
7 interim period is going to be pretty small?

8 A. Less than it would have been during the
9 period of high market volatility, yes. I think I
10 agreed to that before.

11 Q. Do you think that the Commission should
12 examine the prudence of the power costs if company
13 seeks to recover in its interim case?

14 A. Well, I think I should provide a little
15 clarification on that because what the company has
16 proposed is interim rate relief based on its financial
17 condition. And, of course, the reason that it's
18 presented power costs in this proceeding is that they
19 are one of the major drivers of the financial
20 condition.

21 Q. If you could refer to your Exhibit
22 WAG-3, which I believe is Exhibit 153. In its direct
23 case the company asks for 170 million dollars in
24 interim rate relief. Is that correct?

25 A. Right.

00799

1 Q. And the 170 million dollar amount is
2 based on calculations in this spreadsheet; is that
3 correct?

4 JUDGE MACE: Which spreadsheet are you
5 talking about?

6 BY MR. VAN CLEVE:

7 Q. I'm sorry. Exhibit WAG-3, and I'm on
8 Page 1, which is Part 2 of 3.

9 A. Well, in presenting its requests for
10 relief the company prepared a projection of its power
11 costs, and that's what we have here. But you need to
12 take the case in its entirety, and you need to look at
13 the testimony of the financial witness as well. And
14 when you do you'll see that the company is looking at
15 an overall snapshot of its financial condition.

16 Q. But you are seeking to recover 170
17 million dollars; correct?

18 A. That is correct.

19 Q. And 170 million dollars was calculated
20 based on a comparison of the company's projected power
21 costs versus what it claims is embedded in current
22 rates. Is that correct?

23 A. That's correct too.

24 Q. And this spreadsheet A, Part 2 of 3, is
25 where that calculation is made; is that correct?

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1 A. Yes, mm-hmm.

2 Q. Now, is there anything in this
3 spreadsheet that's designed to determine the amount of
4 money necessary to maintain any financial ratios?

5 A. That's -- no. That's presented in the
6 financial testimony of the company.

7 Q. Okay. I'd like to -- if you can help me
8 understand this spreadsheet A, Line 36, this is the --
9 I want you to explain what Line 36 is.

10 A. Line 36 is a calculation that looks at
11 the difference between the company's projection of its
12 power costs during the interim period and the amount
13 of power cost recovery that is embedded in present
14 rates. And we look at that on a monthly basis in this
15 exhibit.

16 Q. And the reason that this subtotal
17 January-February column, the third column, is in there
18 is? That's because the company had proposed a
19 two-month deferral and it was later changed to three?

20 A. That's right.

21 Q. Okay. The majority, or more than half
22 of the 170 million dollars in power costs are
23 attributable to costs in January, February, and
24 March of 2002. Is that correct?

25 A. Yes. More than half in those three

00801

1 months.

2 Q. Okay. My sort of first question when I
3 went down this line of questioning was, should the
4 Commission look at the prudence of these costs before
5 allowing their recovery?

6 A. That's not what the company's proposing.
7 The company is proposing that there could be a later
8 look at prudence.

9 Q. And is it your position that the
10 Commission should do a later look at prudence?

11 A. That's what we've proposed.

12 Q. And when should that be done?

13 A. I think we've proposed that it be done
14 either at the end of this interim period or shortly
15 thereafter.

16 Q. And would that be a separate prudence
17 proceeding?

18 A. I don't know what it would be,
19 procedurally.

20 Q. Can you explain what the risk management
21 committee is?

22 A. Yes. It is an internal committee at the
23 company that oversees the company's hedging activities
24 related to its energy supply and portfolios.

25 CHAIRWOMAN SHOWALTER: I'm sorry, did

00802

1 you refer to an exhibit?

2 MR. VAN CLEVE: Not yet.

3 BY MR. VAN CLEVE:

4 Q. Are you on the risk management
5 committee?

6 A. I am.

7 Q. And -- well, I think I'd like to refer
8 you to one of Mr. Schoenbeck's exhibits. It's 275C.

9 And if you could refer to Page 118 of
10 138 in that exhibit, this appears to be the meetings
11 of a risk management committee meeting in April of
12 2001. Is that correct?

13 A. Yes, that's right.

14 Q. And under the Roman numeral II, if you
15 look at the second two bullets, can you explain
16 what -- in the second and third bullets, what the
17 hedge strategy that the risk management committee was
18 approving at this meeting, what it was?

19 A. Yes, I can. And I think I should
20 because I think there's been some confusion around
21 this, which we hopefully cleared up with
22 Mr. Schoenbeck and his associates. But let me go at
23 it again here, just for clarity on the record.

24 In April, the company looked forward,
25 its load and resource situation for the balance of

00803

1 2001 and into the early months of 2002, and because
2 of high power prices and poor hydro conditions
3 recognized that it would need to run gas-fired
4 generation to meet its customer loads during that
5 period, and made some decisions in April to begin
6 acquiring the gas that it would need to serve its
7 customer loads. And that's what Roman II in these
8 minutes is about.

9 And so we began to acquire that gas
10 and did that over the period of approximately
11 April through June of 2001.

12 Q. Did the risk management committee
13 approve a hedging strategy for acquiring oil or CTs
14 that could run on oil?

15 A. It did initially, and I think that's
16 where the confusion has cropped up. It -- at the time
17 of this risk committee meeting, believe it or not, the
18 price of oil was actually lower than the price of gas.
19 And so we approved some hedging with oil, we also
20 approved some hedging with gas.

21 As we proceeded through time, the
22 relative prices of oil and gas reversed or flipped.
23 Gas got to be cheaper than oil. And for a variety
24 of reasons, we moved away from the oil hedging
25 strategy and towards one based on gas.

1 There were, of course, economic issues
2 around that because the gas had become cheaper and
3 there were environmental and permitting issues and
4 logistical issues. And for a number of reasons, it
5 became practical, both economically and otherwise,
6 to purchase gas rather than oil.

7 Q. Do you know if the gas that the company
8 purchased was higher on equivalent basis to the dollar
9 per gallon price per oil that's noted in these
10 minutes?

11 A. Well, I think some of it was. And I
12 think, again, the reason for that was environmental.
13 We have some combustion turbines where we had obtained
14 permit waivers from air pollution agencies that
15 allowed us to run the turbines longer than we would
16 normally be allowed to do. And the conditions of
17 those permits included a commitment on our part to buy
18 what's known as ultra low sulfur oil.

19 And, of course, the cost of that oil
20 is higher than the cost of the standard .5 percent
21 sulfur oil that trades in the market. In fact, I
22 think that oil cost was more like \$1.24 per gallon.
23 And so you need to equilibrate that to the gas
24 prices that the company paid during this time.

25 Q. On Page 133 -- and you don't necessarily

00805

1 have to refer to it -- of this exhibit, there's some
2 minutes from the September 6th meeting of the risk
3 management committee. And do you know whether the
4 risk management committee met between April 2nd and
5 September 6th?

6 A. Oh, I'm fairly certain that it did.

7 Q. Do you know whether there were any
8 minutes from those meetings?

9 A. Normally, there are. If I can find 133.
10 I think -- I'm not exactly sure what the source of
11 this data request for exhibit was. But I think what
12 we did in responding to this is we supplied minutes
13 from the risk committee meetings that had to do with
14 gas hedging decisions.

15 Q. Well, let's move over to those
16 materials. I think you're referring to your
17 Exhibit 9C?

18 JUDGE MACE: Is that 159C?

19 MR. VAN CLEVE: Yes, it is, Your Honor.

20 JUDGE MACE: Can you wait just a minute
21 can you wait until the Commissioners... All right, go
22 ahead.

23 BY MR. VAN CLEVE:

24 Q. If you could refer to Page 19 of
25 Exhibit 159C.

00806

1 MR. VAN CLEVE: And, Your Honor, I
2 have -- at least on my copy, these graphs are
3 extremely hard to read. And we received the same
4 graphs I believe in response to a data response, and I
5 would just like to hand it out. I believe it's a
6 clearer version of the same page.

7 JUDGE MACE: Very well.

8 BY MR. VAN CLEVE:

9 Q. Mr. Gaines, can you verify that what
10 you've been handed is a more legible version of the
11 same charts?

12 A. Yes. It looks like it is.

13 Q. Can you tell us who CERA is?

14 A. I believe it's Cambridge Energy Research
15 Associates.

16 Q. And what about PIRA?

17 A. I'm not sure what that acronym stands
18 for.

19 Q. Is CERA a gas market forecasting entity?

20 A. Among other things, yes.

21 Q. And you don't know whether PIRA is also
22 a gas market forecasting entity?

23 A. Well, I believe they started out
24 forecasting oil prices, but I believe they are now
25 also forecasting gas and power prices.

00807

1 Q. Are these entities that the company pays
2 to receive forecasts from?

3 A. We're been subscribing to their service,
4 yes.

5 Q. Okay. Looking at the first graph on
6 Page 15 of Exhibit 159C, you see the three lines in
7 the graph?

8 A. Yes. I see those.

9 Q. And can you explain what these are?

10 A. Sure. I think one is a PIRA forecast at
11 some point in time of the future gas price. One is a
12 CERA forecast of the same thing. And I think one is
13 the actual forward price of gas in the market as of
14 some point in time.

15 Q. Well, is that the company's forward
16 price curve, the top line?

17 A. No. That's what the market was trading
18 for at that point in time.

19 Q. If you can turn back to Page 15 of this
20 exhibit, which is -- has a Page 1 down in the bottom
21 right-hand corner, which this graph is an attachment
22 to this document.

23 And just to give this context, maybe we
24 should go back to Page 11. So are Pages 11 through
25 19 part of a data response to ICNU request 4.1-I that

00808

1 you prepared?

2 A. Yes. I believe that's right.

3 Q. And beginning on Page 15, this is an
4 energy market outlook that was presented at the April
5 risk management committee meeting; is that correct?

6 A. This was something that was, I believe
7 produced internally and was a summary of some of the
8 staff's thoughts. I don't recall it being presented
9 at the meeting, but it may have been.

10 Q. I was just looking at the data response,
11 and in the second paragraph it indicates that it was
12 an energy market outlook that was presented at the
13 risk management committee meeting. Is that correct?

14 A. Are we back to Page 11 now?

15 Q. Yes. In the second paragraph of your
16 response?

17 A. Yes, that's right.

18 Q. Referring to Page 15 again, the energy
19 market outlook, if you look at the second to last
20 sentence in the first paragraph, it says: Our view is
21 that the Sumas basin is much more bullish and volatile
22 than the way CERA and PIRA represent it.

23 JUDGE MACE: Mr. Van Cleve, I'd like to
24 ask you to repeat that because I could hardly hear it.

25 BY MR. VAN CLEVE:

00809

1 Q. Okay. It says: Our view is that the
2 Sumas basis is much more bullish and volatile than the
3 way CERA and PIRA represent it.

4 A. I see that sentence.

5 Q. And does this mean that the company
6 basically felt that gas prices were going to be higher
7 than what these forecasting entities were projecting?

8 A. I think that's what that says, although
9 I think the more compelling evidence is what the
10 market was saying at the time.

11 You had us previously looking at
12 Page 19, and as I mentioned, the top curve on the
13 top graph is the actual forward market price of gas
14 at the time that these decisions were being made.
15 And while it's interesting, I suppose, what CERA or
16 PIRA or even the Puget staff might have thought was
17 happening or might happen, what really matters is
18 what the actual market price was.

19 The company determined that it needed
20 gas to run its resources to supply its loads, and
21 proceeded to procure that gas over the period of a
22 couple months. Forecasts are interesting, but the
23 market governs prices you actually pay.

24 Q. You would agree, wouldn't you, that the
25 CERA and PIRA forecasts turned out to be more accurate

00810

1 than this forward price curve?

2 A. No, I wouldn't agree with that. I think
3 the CERA and PIRA forecasts show prices at \$4.00. I
4 don't think the price turned out to be \$4.00 anymore
5 than it turned out to be \$6.00. And I think if you
6 look backward at the CERA and PIRA forecasts that were
7 on the street before this period, they didn't predict
8 the price run-up that you see in the top curve either.

9 But as I say, we do subscribe to their
10 service and we use it as a guide, but it's not the
11 determining factor in our decisions to hedge or even
12 when to hedge.

13 Q. Can you tell us when the company
14 realized that the blip that you described in this
15 graph, when it determined that that wasn't going to
16 happen?

17 A. It did happen. So...

18 Q. You mean that we had \$10.00 prices in
19 January of '02?

20 A. At the time that we were looking at
21 this, and I believe we're in the April '01 time frame,
22 that blip was the market price of gas for those
23 periods.

24 Q. Right. But the blip didn't actually
25 occur during these months; correct?

00812

1 techniques in our risk management activities aren't
2 about betting on the market. They are about taking
3 out cost volatility and insuring that we have
4 adequate fuel power supply to meet our loads. And
5 that's what we were doing during this period.

6 Q. So you're not sure at what point in time
7 you decided that there wasn't going to be a large
8 run-up in gas prices this winter?

9 A. We don't try to explicitly forecast the
10 price. And so I'm not sure there was ever a point in
11 time that the company decided that winter gas prices
12 would or wouldn't be high.

13 Q. You've testified that the company's
14 basic power supply costs have increased since your
15 last rate case; is that right?

16 A. That's right.

17 Q. And can you tell us what categories of
18 costs these are?

19 A. We put a data response in; I don't
20 remember the number. But the largest increases are in
21 the categories related to our PURPA contracts, our
22 gas-fired co-generation contracts, which have long
23 term escalating prices associated with them. I think
24 we could point you to that data response.

25 JUDGE MACE: Mr. Van Cleve, we have been

00813

1 at this for some time, and I'm thinking it might be an
2 appropriate time for an afternoon break. But I want
3 to consult with the parties and see where you are in
4 your cross. If you have two minutes I guess we could
5 stick with you, but...

6 MR. VAN CLEVE: I could use a brief
7 break.

8 JUDGE MACE: Let's take a fifteen-minute
9 recess, then.

10 (Recess was taken at 3:00 p.m.)

11 JUDGE MACE: All right, let's go back on
12 the record. Mr. Van Cleve?

13 BY MR. VAN CLEVE:

14 Q. Mr. Gaines, could you please refer to
15 Exhibit 166, which is your response to public counsel
16 data request No. 58.

17 A. Yes, I have it.

18 Q. Is this the data response that you were
19 referring to before the break, dealing with the PURPA
20 contracts?

21 A. Yes, it is.

22 JUDGE MACE: Which number were you
23 referring to?

24 BY MR. VAN CLEVE:

25 Q. It's 166. And in the first paragraph of

00814

1 your response to this data request, you indicate that
2 PURPA costs have increased by about 110 million. Is
3 that right?

4 A. Yes, that's right.

5 Q. And that is for PURPA contracts which
6 exist both in the '96 time frame and the 2001;
7 correct?

8 A. Right. We did it that way so it would
9 be an apples and apples comparison.

10 Q. If you turn to the next page of
11 Exhibit 166. And there's basically four quadrants on
12 this page, it's a table. If you look in the quadrant
13 in the upper left-hand corner it says PURPA Contracts,
14 and you go down to the final line, subtotal PURPA in
15 both periods, there's a 307.7 million dollar figure
16 there; correct?

17 A. Right.

18 Q. And then if you just follow that line
19 over to the far right of the page, there's a 197
20 figure; is that right?

21 A. That's correct.

22 Q. And if you subtract the 197 from the
23 307, that's where you got the 110?

24 A. Yes.

25 Q. All right. Now if you move up one line,

00815

1 this line is the total, all PURPA contracts in both
2 periods; is that correct?

3 A. Right. That line, at least in our view,
4 ends up being not apples and apples because various
5 contracts are included or excluded during the two
6 periods.

7 Q. Okay. Would you agree, subject to
8 check, that if you subtracted the 262 million in the
9 earlier period from the 309, approximately, in the
10 2001 period, that the difference would be 47.8
11 million?

12 A. Yes.

13 Q. And would you also agree that in that
14 line that the kilowatt hour energy volumes for the
15 total PURPA contracts in the 2001 versus the 1996 is
16 roughly similar?

17 A. They are closer, yes.

18 MR. VAN CLEVE: Your Honor, I did want
19 to offer 166 and 169. Our Exhibit 167C, I believe,
20 has already been admitted as 285, and we'll withdraw
21 Exhibit 170.

22 JUDGE MACE: So we're dealing here with
23 your Exhibit 166 and your Exhibit 169?

24 MR. VAN CLEVE: That's correct.

25 JUDGE MACE: Is there any objection?

00816

1 Hearing no objection, I'll admit those two exhibits.

2 (Exhibits 166 and 169 admitted.)

3 And let me make sure that I have this
4 correct. 167C has been admitted as 285, and you're
5 withdrawing 170.

6 MR. VAN CLEVE: That's correct.

7 CHAIRWOMAN SHOWALTER: And 285C.

8 JUDGE MACE: 285C, thank you. I believe
9 it's already been admitted.

10 JUDGE MOSS: That's correct, yes.

11 MR. VAN CLEVE: Your Honor, that's all
12 the questions I have for Mr. Gaines.

13 JUDGE MACE: Mr. Kurtz?

14 MR. KURTZ: Thank you, Your Honor.

15

16 CROSS-EXAMINATION

17 BY MR. KURTZ:

18 Q. Mr. Gaines, could I refer you to Page 6
19 of your direct testimony? Just one very brief
20 statement on Line 13 and 14 I want to ask you about.

21 You say that during the period since
22 the company's last --

23 JUDGE MACE: I'm sorry, you're on
24 Page 6?

25 MR. KURTZ: Page 6 of the direct

00817

1 testimony --

2 JUDGE MACE: Okay, thank you.

3 MR. KURTZ: -- lines 13 and 14?

4 A. Yes.

5 BY MR. KURTZ:

6 Q. You make the very brief statement that
7 during the period since the company's last general
8 rate case, the power and natural gas markets have
9 become much more developed. Do you see that?

10 A. Yes.

11 Q. I just want to ask you a few of the
12 developments in the electric market. Back in 1992
13 when your last rate case was, that was before the FERC
14 order 888 and the open access transmission tariffs?

15 A. And before the NEPA '92 Act, yes.

16 Q. The Energy Policy Act of 1992?

17 A. Right.

18 Q. So before your last rate case, there was
19 still in the wholesale market a cost-based FERC
20 regime?

21 A. Absolutely. At least a cost-based cap
22 on wholesale power rates, yes.

23 Q. And since then, of course, we've moved
24 to a market-based pricing scheme.

25 A. That's right.

00818

1 Q. So since the -- since your last rate
2 case, has the volume of your wholesale purchases and
3 sales on the -- on the trading market increased?

4 A. Our volume has risen, yes. Mm-hmm. For
5 a variety of reasons.

6 Q. Back in '92 it was utility to utility
7 primarily. And now of course there's FERC-certified
8 power marketers as well as utilities?

9 A. That's exactly right.

10 Q. And has the price volatility increased
11 during that time period also?

12 A. Well, I would say as a general matter,
13 yes. And the removal of the FERC cost-based price
14 caps, of course, was a big factor in allowing that to
15 happen.

16 Q. Now as a general matter in the wholesale
17 market, are on-peak prices higher than off-peak
18 prices?

19 A. Well, as a general matter. But probably
20 less so in this region than anywhere else because of
21 the predominance of hydroelectricity.

22 Q. What would be a typical on-peak,
23 off-peak differential? I guess I should specify.
24 Let's say an off-peak hour of an off-peak month versus
25 an on-peak hour of an on-peak month.

00819

1 A. I'm not certain I could tell you that
2 number. We could look it up. If you just look within
3 a day, if you look at the period before the price
4 escalation in 2001, that difference was probably 2 to
5 4 mills a kilowatt hour on a typical day.

6 Q. One last thing about the difference. In
7 the old regime, typically the energy charge and the
8 demand charge were explicitly identified and stated so
9 FERC could rule on the cost justification for both?

10 A. At least in the Western US, prices were
11 made more on a per kilowatt hour basis and were capped
12 at cost on a per kilowatt hour basis. At least for
13 wholesale trading type tariffs.

14 Q. Within that per megawatt hour cost would
15 be included the energy and capacity costs?

16 A. Yes.

17 Q. Would they -- but they would not be
18 specifically identified as such, you're saying?

19 A. Typically not so much for the Western
20 utilities that I'm familiar with.

21 Q. Now under the current regime, they are
22 completely unidentified. And as a general matter, you
23 don't know when you pay \$40.00 a megawatt hour what
24 the energy cost and the demand cost of the supplier
25 is?

00820

1 A. They were totally decoupled from cost,
2 at least theoretically, in a rate-making sense.

3 Q. So you don't know how much profit the
4 seller would be making or not making?

5 A. That's right. There's no real way to
6 know.

7 Q. Now on Page 8 of your direct testimony,
8 you discuss at Lines 9 through 12 some generating
9 projects in the company's portfolio which are owned by
10 other parties and sell to you under long term
11 contracts. Are these the PURPA projects you were
12 referring to?

13 A. Those are the ones that I had in mind
14 when I wrote this answer. Also the Mid-Columbia
15 contracts are a similar kind of arrangement.

16 Q. Do your PURPA contracts explicitly set
17 forth an avoided energy and an avoided capacity
18 component?

19 A. No. Our contracts, at least the major
20 ones, are all done on a per kilowatt hour basis so as
21 to incent the co-gen operator to have a high level of
22 availability.

23 Q. Are these PURPA contracts based on the
24 company's avoided costs at the time the contracts were
25 entered into?

00821

1 A. No. In this state, there was a
2 competitive bidding rule implemented, so they are the
3 result of a competitive bid that the company conducted
4 in the late 1980s.

5 Q. When you were discussing with
6 Mr. Van Cleve Exhibit 166, you identified that 110
7 million dollar increase in your PURPA contracts?

8 A. Right.

9 Q. From what period to what period?

10 A. That was from the period 1995-96 through
11 I believe 2000-2001.

12 Q. Is this 110 million dollar increase in
13 your PURPA contracts a component of the 170 million
14 dollar net power cost under-recovery?

15 A. Yeah.

16 Q. Is it, dollar for dollar, a component
17 that this -- 110 million out of 170?

18 A. I am not sure if it's exactly dollar for
19 dollar. Because, keep in mind, we allowed for some of
20 the rate increases that occurred between '95 and now,
21 we allowed that they were to recover power supply
22 costs. So I'm not sure that you could equate those
23 things exactly.

24 Q. How close are they? Out of the 110, how
25 much is attributable into the 170?

00822

1 A. I'd have to go do a little math. I
2 don't think I could tell you right off the cuff.

3 Q. Do you have any type of reasonable
4 estimate of what that amount is?

5 A. No, I don't.

6 Q. You say in this data request that part
7 of it is -- part of the 110 is energy-related and part
8 of it is capacity-related. Is that right?

9 A. Well, I suppose you could think of it
10 that way. I mean, they are really just schedules of
11 per kilowatt hour prices that are built into these
12 contracts, and presumably all of the costs of the
13 developer and owner of the project are reflected in
14 those prices.

15 Q. In fact, for those developers to be able
16 to finance these projects, they have to recover more
17 than just their variable costs, they have to recover a
18 return of their capital investment as a fixed cost?

19 A. Exactly.

20 Q. You say, in general -- this is on 166 if
21 you want to take a look at it, or I can just read you
22 the sentence.

23 A. I have it here.

24 Q. The second to last paragraph: In
25 general, contract prices have increased due to

00823

1 contract escalation clauses in either demand charges
2 variable charges, or both. Okay.

3 When I said -- I might have said
4 capacity charges, but it's the same as demand
5 charges. How much of the 110 is attributable to
6 increases in demand charges?

7 A. I don't know. We didn't break it down
8 that way. I just don't know.

9 Q. But part of it is; you just don't know
10 how much?

11 A. Right.

12 Q. Let me ask you, if I could, for you to
13 turn to Exhibit WAG-3. I don't know how it's been
14 marked. It's the exhibit where you calculate the
15 170,700,000 dollar net power cost differential.

16 A. Right. I have that one.

17 Q. It's Exhibit 153. Are you there?

18 A. Yes, it's my WAG-3 exhibit.

19 Q. Right. What I want to do is look at, to
20 keep things a little manageable, three different
21 months -- excuse me, two different groupings of three
22 different months, January-February-March, versus
23 April-May-June. I think you'll be able to follow me.

24 The Line 4, your first line here, coal,
25 and this is in dollars, isn't it?

00824

1 A. Yes.

2 Q. And the coal prices are three million
3 two point seven, three million two point nine, two
4 point two, and two point four; relatively constant?

5 A. That's right. That reflects that these
6 are generally based on plants, and that the coal
7 assumption is uniform across the year.

8 Q. So These units are pretty much always
9 running --

10 A. Yes.

11 Q. -- to the extent they're available.

12 Next is natural gas.

13 A. Yes.

14 Q. The next is natural gas: January, 19.2;
15 February, 19.3; March, 17.7. And then it falls off
16 dramatically: April, 3.3; May, 3.1; and June, 3.8?

17 A. Mm-hmm.

18 Q. Now why does that natural gas dollar
19 cost drop off so dramatically?

20 A. Well, there's a couple reasons for that,
21 at least a couple primary ones. One is the expiration
22 of some of the fixed-price gas purchases that we were
23 discussing earlier.

24 But probably the larger underlying
25 reason is the fact that the in the second quarter,

00825

1 the March -- or, pardon me, the April through June
2 period, that's when the hydroelectric runoff occurs
3 in this region. And so, typically, there's a
4 surplus, or an abundance anyway, of hydroelectric
5 generation, and the higher-cost thermal plants get
6 displaced during that time.

7 Q. Now let's drop down to Lines 28 and 29,
8 delivered load and -- excuse me, 27 and 28, load and
9 delivered load. Is the difference, line losses,
10 generation versus metered sales?

11 A. I believe that's right.

12 Q. If we look at 28, delivered load, in
13 January, 1.995; February 1.688; March 1.735. And then
14 it again drops off: 1.485, 1.438, and 1.343.

15 What is the nature of -- why is the
16 load dropping off in that period?

17 A. Well, this is a winter-peaking region
18 for the electric utilities because of the saturation
19 of space heating. And so our system load follows
20 space heating and water heating requirements and is
21 higher in the winter because of that.

22 Q. Of the on-peak usage, the space heating
23 and the water heating, is that primarily a residential
24 usage?

25 A. I'm not sure about that.

00826

1 Q. There's an exhibit -- do you have
2 Exhibit 279, Mr. Gaines?

3 A. I don't think I do.

4 Q. Do you have this exhibit from
5 Mr. Schoenbeck's testimony?

6 A. Yes.

7 Q. Do you interpret this to mean that the
8 residential load reaches its -- is the greatest
9 proportion of your overall load in the January and
10 February period, your on-peak period?

11 A. Yes.

12 Q. So would it be fair to conclude that in
13 the January-February on-peak time period when the bulk
14 of these costs are incurred, the residential load is
15 at its highest?

16 A. I think that statement is accurate as
17 far as it goes, yes.

18 Q. Now on Line 31, is the baseline from
19 your '92 rate case 24.74?

20 CHAIRWOMAN SHOWALTER: Are you back on
21 Exhibit 153?

22 MR. KURTZ: Yes. Yes, I'm sorry.

23 A. At Line 35, you say?

24 BY MR. KURTZ:

25 Q. Line 31. The baseline from your --

00827

1 A. Yes.

2 Q. -- '92 rate case. And you've shown a
3 constant baseline for every month of the year, the
4 same dollar amount?

5 A. That's right.

6 Q. Now, the last I want to look at, Line
7 36, total increase needed. This is where you
8 calculate the 170.7 million?

9 A. (Indicated affirmatively.)

10 Q. Okay. In January, the increase needed
11 is 32.8 million; in February, 33.5 million. Is that
12 right?

13 A. That's right.

14 Q. March, again, a pretty big number, 27
15 million?

16 A. Yes.

17 Q. I think Mr. Van Cleve actually
18 calculated the percent of those three months out of
19 your total 170. Do you remember what that percent
20 was?

21 A. Well, I think he got me to agree that it
22 was more than half. I don't think I have the
23 percentage.

24 Q. Let's just go to April. Total increase
25 needed is 4.3 million.

00828

1 A. Okay.

2 Q. Then in May, 778,000; and then June,
3 17.6 million. These are considerably lower-cost
4 months; is that right?

5 A. Well, that's right. But it's to some
6 degree an artifact of the way this calculation was
7 done. Because, as you pointed out, Line 31 is
8 computed on a uniform monthly basis, whereas the
9 projected power costs are done on a varying basis,
10 month by month.

11 And this exhibit, of course, wasn't so
12 much about determining what the recovery ought to be
13 month by month as it was over this whole deferral
14 and interim period.

15 Q. Should Line 31 have been something
16 different instead of a straight chart?

17 A. In a perfect world, it probably could
18 have been, but I don't believe that we had the data
19 available to compute it month by month.

20 Q. Are you now throwing into question the
21 whole accuracy of this table?

22 A. No. Not at all --

23 MS. DODGE: Objection to the
24 characterization of this testimony.

25 A. -- no.

00829

1 JUDGE MACE: Just a moment. I'm sorry,
2 Ms. Dodge. I didn't hear the objection.

3 MS. DODGE: I objected as to the
4 characterization of Mr. Gaines' testimony in that
5 question.

6 MR. KURTZ: I'll withdraw the question
7 and rephrase it.

8 JUDGE MACE: Very well.

9 BY MR. KURTZ:

10 Q. It's your position that the dollar
11 calculation is still accurate, even though the Line 31
12 does not reflect the actual month-by-month cost of
13 your power cost from the '92 rate case?

14 A. Yeah. As I indicated a minute ago, what
15 we were trying to do was determine the under-recovery
16 for the entirety of this period, not necessarily to
17 compute it with great precision month by month.

18 Q. Even if we don't look at the delta, or
19 the difference between the projected 2002 versus the
20 1992 historic, you would agree that on a gross dollar
21 basis that the costs are still highest in
22 January-February-March, the on-peak months?

23 A. Yes. The costs generally follow the
24 load pattern and the hydroelectric pattern in the
25 area.

00830

1 Q. And, of course, your method of cost
2 recovery is a flat kilowatt hour charge that doesn't
3 take into account any of these on-peak, off-peak
4 monthly variation or any differential at all; is that
5 right?

6 A. That's right.

7 Q. Now, do you know, of the \$170,727,000
8 that you're seeking recovery for here, how much of
9 that is related to fixed costs and how much is related
10 to variable costs?

11 A. No, I don't know.

12 MR. KURTZ: Thank you. Your Honor,
13 those are all my questions.

14 JUDGE MACE: Any questions from the
15 bench?

16 CHAIRWOMAN SHOWALTER: I have some.

17

18 EXAMINATION

19 BY CHAIRWOMAN SHOWALTER:

20 Q. Mr. Gaines, I possibly could be
21 repeating a question asked or at least asking you for
22 an answer you've already said, and I apologize if
23 that's the case. And also it's possible that I'll ask
24 you a question that was answered by Mr. Donald Gaines,
25 but just let me know.

00831

1 A. All right.

2 Q. If you would turn to Page 8 of your
3 testimony.

4 A. The direct testimony?

5 Q. Yes, your direct testimony. Lines 4 and
6 5, you said you have had to provide credit
7 enhancement. Can you tell me what type of enhancement
8 you have provided and to whom, if you know it; or at
9 least the type of entity with some specificity, if you
10 know. If this was the answer to your question to
11 Mr. Van Cleve, that's fine.

12 A. No, we didn't. Unfortunately, I didn't
13 have the specifics at the time, but I was able to
14 gather a few of them during the break. And as far as
15 who we've actually provided credit support to, it was
16 one of the marketing entities -- actually, Enron,
17 before it got itself in financial trouble we posted a
18 letter of credit as a form of security so that we
19 could continue doing transactions with Enron.

20 We've had --

21 Q. And when was that?

22 A. Oh, it was in the fourth quarter of last
23 year.

24 Q. So is this a case of -- well, first, let
25 me ask you, was the contract that you had with Enron a

00832

1 WSPP type contract?

2 A. Well, of course before its collapse,
3 Enron was one of the major market-makers, in power and
4 gas both, in the Western US, and so it was hard not to
5 have transactions of all sorts with Enron.

6 So, yes, we had WSPP transactions, we
7 had GISB gas transactions and also ISDA financial
8 derivative type transactions with Enron. They were
9 a major market-maker, and so it was necessary to
10 continue to trade with them.

11 Q. Well, then is this the case of the
12 seller, in this case Enron, either under WSPP or
13 another contract, electing or deciding that Puget was
14 not creditworthy and therefore it wanted to ask for
15 credit enhancement?

16 A. Yes.

17 Q. All right. Any other cases that have
18 occurred thus far?

19 A. There are a number of counterparties who
20 have either made inquiries about Puget's credit or
21 have reduced the amount of credit exposure that they
22 will allow their traders to have with the company, or
23 both of those things.

24 Q. All right. Was that when you answered
25 there were four such entities?

00833

1 A. Well, there are at least four. There's
2 PowerX, Pacific Gas and Electric trading arm. The
3 most recent was Engaged Energy, which is one of the
4 major gas trading partners for the company and, again,
5 one of the major market-makers here in the Pacific
6 Northwest, at least in natural gas.

7 Q. All right. And you said they had
8 inquired or reduced their credit exposure, or both.
9 But of these, how many have reduced credit exposure?

10 A. That I'll have to investigate to be
11 certain.

12 Q. I'd like to know that if you can tell us
13 tomorrow.

14 JUDGE MACE: We will make that a bench
15 request, bench request No. 8.

16 JUDGE MOSS: I think it will 9. We've
17 used 8.

18 (Bench Request No. 9.)

19 BY CHAIRWOMAN SHOWALTER:

20 Q. On Line 14 you used the term "credit
21 support," and on Line 4 "credit enhancement." Is
22 there any difference in those terms?

23 A. I little bit. I was trying to get at
24 two different points here. The point on Line 14 is
25 that a number of our -- now, these are a longer term

1 power suppliers such as the co-generation contract
2 counterparties -- Tonasket, Encogen and so forth, they
3 have project-financed their generators. And so the
4 quality of their debt relies on the quality of Puget's
5 ability to pay.

6 And so when Puget began experiencing
7 credit downgrades as an example, the credit of the
8 Tonasket subsidiary that owns the Tonasket plant in
9 Whatcom County was similar to downgrades because it
10 relies on the Puget credit for payments.

11 Q. Okay. But then in looking at Line 14?

12 A. Line 14 was more -- was intended to be
13 more forward-looking. So that if the company were to
14 seek to engage in new, long term supply arrangements,
15 say, with IPT or QF developers who would, again, need
16 to look to the company for security of payments, it
17 would be become more difficult for those developers to
18 finance their projects because the quality of the
19 utility's promises to pay would be reduced.

20 Q. By "it would be more difficult," meaning
21 if you don't get the relief that you've requested?

22 A. Right.

23 Q. Now if you could turn to Exhibit 417,
24 that's the excerpt from a WSPP contract. It's an a
25 exhibit to Lisa Steel's testimony.

00835

1 A. Yes, I have it now.

2 Q. Mr. Van Cleve asked you some questions
3 about this exhibit and how it would be implemented,
4 particularly in talking about the mark-to-market
5 concept. And he gave the example of forward power
6 purchased at \$25.00 a megawatt hour, and the
7 subsequent price, month to month, did not change.

8 A. Right.

9 Q. And I was confused by the question and
10 answer there, because it sounded as if that means that
11 no payment had to be made. But as I read this
12 contract, once the seller determines, reasonably, that
13 the buyer is not creditworthy, that then the seller
14 can demand certain instruments that guarantee that
15 payment --

16 A. That's right.

17 Q. -- am I right?

18 A. No, that's right. And it's the reason
19 why I was a little hesitant when I was answering
20 Mr. Van Cleve's question.

21 Because we're clear on how the
22 mark-to-market part works, but it's true that in
23 each of these maser contracts, WSPP, GISB, and ISDA,
24 that there's slightly different treatment of the
25 credits forward requirements for the underlying

00836

1 payment, the payment for the energy price that
2 you've agreed to itself, and I didn't want to cause
3 confusion. I was trying to generalize across the
4 three contracts, and I didn't want to have to dive
5 down into the specifics of each one.

6 Q. But, in general, the cost to the company
7 of the execution of these paragraphs isn't the direct
8 payment of the mark-to-market difference, it's the
9 letter of credit that you have to buy to guarantee it;
10 is that correct?

11 A. It's really a matter of degree. It's as
12 the utility's credit quality begins to slip, the cost
13 of a letter of credit increases. And, presumably, you
14 get to a point where the letter of credit is not
15 available at all from any third party credit support
16 entity.

17 And so at that point the cash
18 collateral has to be advanced, so it's a matter of
19 degree how far the credit quality has slipped.

20 Q. Okay. If I'm the seller and I think
21 that you are uncreditworthy, then isn't what I get is
22 some kind of assurance that I will be paid the
23 difference, and I get that well before any difference
24 has occurred. Is that correct?

25 A. Yes. You try to look forward, and you

00837

1 try to get a market measurement of what the difference
2 will be. And then you get credit support for at least
3 that difference and perhaps for the underlying price
4 as well.

5 Q. Well, okay. If I'm the seller and you
6 were the buyer, and I think you are uncreditworthy, my
7 question is, if the price turns out to remain a flat
8 \$25.00 an hour, is that cost free to you? Or is there
9 something that you have to pay for at the outset of
10 when I make this demand that is either a letter of
11 credit or posting of some collateral or something,
12 some kind of liability on your part?

13 A. It's the part of the question that I was
14 a little bit hesitant about answering without looking
15 at the three contracts in more detail.

16 Because my recollection is that the
17 ability of the seller in this case to request credit
18 support is not necessarily limited to the
19 mark-to-market value in each case. I believe that
20 there are at least one or more of the contracts
21 where the seller can also require the posting of
22 security for the underlying energy price, the 20
23 mills or so that I agreed on day one to pay for the
24 power. And I would just need a little more time to
25 research the contracts to confirm that.

00838

1 Q. Then I was also a little confused when
2 you were talking about Exhibit 159C, Page 19. And
3 what I want to know is, if I look at April '01 and it
4 is April of '01, is the black line the actual cost if
5 I decide to buy in April '01 some power for
6 December of '01 and it's up over \$10.00?

7 A. Yes, exactly.

8 Q. Okay. But then for the forecast, the
9 CERA and PIRA forecasts, when were those forecasts
10 made?

11 A. Well, I -- I don't --

12 Q. Because you would think if they were
13 made in April of '01, of course, they would know what
14 the power was?

15 A. It looks like they were made maybe in
16 mid-March, but that's only an assumption. If you look
17 down at the legend below for 3/16 and 3/26 probably
18 are the dates of those forecasts.

19 Q. I see. So CERA on March 26th forecasted
20 that to buy power in December, right then, would be --
21 that is, on March 26th -- would be something about
22 \$4.50 or \$5.00?

23 A. Well, of course, what they are
24 forecasting here is what they think the actual price
25 of power might be, or gas in this case, when we got to

00839

1 December. They are not saying that as of April 1 we
2 could have bought power or gas for December at \$4.50.
3 Obviously, we couldn't have.

4 Q. All right. So the CERA and PIRA lines
5 are forecasts of spot market prices, but the solid
6 line is an actual of forward prices?

7 A. I think that's the way I would think
8 about these, yes.

9 Q. All right. I think I understand. Do
10 you have the comparable page, or could you produce a
11 comparable page to this very page that, instead of
12 running from April '01 to August '02, ran from
13 April '00 to August 01? In other words, one year
14 earlier, what were people saying about the forward
15 prices?

16 A. I believe we can. I'll have to confirm
17 that we were -- I believe we can.

18 JUDGE MACE: Do you want to make that
19 bench request No. 10?

20 CHAIRWOMAN SHOWALTER: Okay. Did you
21 say it was bench request No. 10?

22 JUDGE MACE: Yes.

23 (Bench Request No. 10.)

24 MS. DODGE: Just to clarify, it will
25 depend on whether the company subscribed to these

00840

1 services at the time, but we'll see.

2 A. That's what I was going to say, although
3 I think we can find a way to do this.

4 EXAMINATION

5 BY CHAIRWOMAN SHOWALTER:

6 Q. All right. Then I think you began some
7 of your testimony today saying that you were, in
8 general, able to offset your increase in costs for
9 some period of time by selling into the market and
10 applying that profit backwards to your overall costs,
11 but that more recently you're not able to do that
12 because of the drop in the market?

13 A. That's right.

14 Q. And I understand that concept. But if
15 you take the deficit that you are in right now on
16 power costs, why does that equate to your need? If
17 you were just in your own world of power costs, and I
18 understand that's your world, you would see that need.

19 But at the point at which you leap from
20 the cause of your distress over to what is required
21 to remedy it, why is there a direct link, or why
22 should there be a direct link?

23 A. Well, again, the reason that we made a
24 power cost presentation in this proceeding is because
25 we knew, it became evident I think to everyone, that

00841

1 power costs were the major driver of the financial
2 need. And so that's what I've done in my testimony
3 and presentation.

4 But I think your question about how
5 and why that relates to the financial need is
6 probably better asked of Don Gaines.

7 Q. Okay. I thought it might be.

8 A. Yeah.

9 CHAIRWOMAN SHOWALTER: I think that's
10 all my questions. Thank you.

11 THE WITNESS: Thank you.

12 JUDGE MACE: Anyone else?

13

14 EXAMINATION

15 BY COMMISSIONER HEMSTAD:

16 Q. From your comments here today and
17 perhaps from your testimony, it would appear it is the
18 company's position that it is the -- its core power
19 costs are the PURPA contracts that are the driver of
20 your current distress?

21 A. Well, it's the -- we have escalation in
22 our underlying costs, and our PURPA contracts are the
23 largest component of that, yes.

24 Q. Would that have been the case also in,
25 say, the spring of the year 2000 before the rapid

00842

1 increase in market prices?

2 A. It would have been. The escalation has
3 been continuing, you know, over the terms of these
4 contracts, which of course were entered into back in
5 the early '90s. But there have been a number of
6 things that have offset or masked those underlying
7 costs. For example, in 1999 we had an abundant
8 hydroelectric condition and surplus power sales into
9 the market. Even though prices weren't high in '99,
10 the volume of sales was higher than average because of
11 the water conditions.

12 And then as we moved into 2000, even
13 though 2000 was approximately an average
14 hydroelectric year, the price escalation in the last
15 half of 2000 increased the margins from off-system
16 sales and similarly offset the underlying cost
17 escalation.

18 Same story in early '01. Even though
19 it was a horrible hydroelectric condition, the
20 second worst on record, still the margins that were
21 available from sales of combustion turbine
22 generation into the market were sufficient to offset
23 the underlying cost escalation. And it was only
24 then when the market prices collapsed in the middle
25 of '01 that this offset was no longer available.

00843

1 Q. So in contrast to various of the other
2 utilities in the West which I have a general
3 understanding were distressed because they had to buy
4 into the escalating market --

5 A. Yeah.

6 Q. -- in a certain sense, other than the
7 opportunity to make money in that rising market, I
8 suppose it's your position that the spike in the
9 market is largely irrelevant to your dilemma?

10 A. Well, it's relevant to the extent it
11 went away, because the surplus sales margins have gone
12 away.

13 Q. But let me pose it this way. Had there
14 not been a spike in the market in the last 18 months,
15 and prices had stayed fairly consistently, say, around
16 \$20.00 a megawatt in a wholesale market, you would be
17 here today anyway?

18 A. Or perhaps we would need to -- have
19 needed to be here even earlier.

20 Q. And/or you would have been here sooner.

21 A. Mm-hmm. But you're right. If you look
22 at what has happened to the utilities in the area, the
23 shorts, if you will, the people who were net
24 purchasers and exposed to the market prices, did the
25 rate increases on the rise of the market; and the

00845

1 agreement for the purchase of energy, then you may be
2 asked by a counterparty for some indicia of
3 creditworthiness should your credit rating drop below
4 a certain threshold --

5 A. Yes.

6 Q. -- is that right?

7 A. Yes. And perhaps in some of the
8 contracts doesn't even require that much of a
9 triggering event. You might just need determination
10 by a counterparty that it needs assurance of
11 performance of some kind.

12 Q. And then I think this goes back to the
13 mark-to-market, that should the market drop, that
14 counterparty may request enhanced credit support?

15 A. Yes.

16 Q. And so it's an ongoing process --

17 A. It's very much --

18 Q. -- to the term of the agreement?

19 A. Yes. It's much akin to posting margin
20 on securities transactions, much akin to that.

21 Q. Okay. Now you -- let me just ask you
22 specifically about some of your counterparties and try
23 to get a feel for where this really goes. Because
24 there are, of course, some utilities in the West that
25 have credit ratings by Rody's or S&P's that are below

00846

1 the investment grade.

2 Let's take Avista for example because
3 they are a Washington utility as well as you are, and
4 I assume there is some trading that goes on between
5 PSE and Avista?

6 A. Yes.

7 Q. Now, what credit supports or indicia of
8 creditworthiness do you require? And I would imagine
9 it's somewhat based on what kind of arrangement. In
10 other words, what your risk is, your exposure to their
11 financial situation?

12 A. Yes.

13 Q. Maybe you can give me an example of a
14 contract that -- both a short term or a longer term
15 contract that you may have in place with Avista where
16 you have asked for additional credit support.

17 A. Yes. Well, we have done that with
18 Avista and with a number of other counterparties.

19 Puget itself monitors the credit
20 quality of its counterparties and it uses a number
21 of methods to do that. And when we become concerned
22 about the creditworthiness of the counterparty, we
23 will begin to ratchet down the amount of credit
24 exposure that we will allow our trading group to
25 have with that counterparty.

1 And Avista is a good example of that.
2 Their credit quality began to deteriorate quite some
3 time ago, and so we ratcheted down our credit
4 exposure limits, and, ultimately, I recall we had to
5 ask for credit support enhancement from Avista. And
6 I believe they provided it in the form of cash, I
7 don't remember the number, the amount, right
8 offhand.

9 But it works for us as well, of
10 course, because we wouldn't want to have a loss to
11 some trading counterparty that had credit problems
12 and have to come here and have to ask for recovery
13 of that loss. The Commission I'm sure is as
14 interested as we are in ensuring that we have high
15 credit standards with the counterparties to whom we
16 sell.

17 Q. I guess, trying to put some parameters
18 around your situation with Avista, do you remember
19 what their -- are we talking about a long term
20 agreement that you have with them?

21 A. We have a long term agreement with them
22 where they are the seller, and so they have credit
23 exposure to us in that way with respect to the long
24 term contract. But we also, as you surmised, have a
25 number of short term transactions that we're doing

00848

1 with Avista --

2 Q. And the time that expires --

3 A. -- where we would be the sellers.

4 Q. -- you're the sellers.

5 A. So then the credit exposure is ours and

6 we then have to evaluate the amount of credit that

7 we're willing to extend to Avista. And, as I have

8 indicated, that has been ratcheted down significantly

9 in the last year or so.

10 Q. Okay. Do you do any trading with PG&E?

11 A. We do. But, again, because of their

12 credit quality situation -- I'm not sure that we're

13 doing any trading anymore. But before their

14 bankruptcy we were, yes. I believe our credit limit

15 with them now is zero.

16 Q. Can you give me a little bit of a

17 background on the situation I think that

18 Mr. Schoenbeck raised about your, what I guess the

19 obligation owed the company by the California

20 independent system operator?

21 A. I can. I can't recall whether that's

22 still under the confidential treatment.

23 MS. DODGE: I understand that the total

24 amount is not confidential but the components of the

25 reserve still are. But he didn't have the components

00849

1 in his actual testimony.

2 A. Maybe I could deal with it in general
3 terms.

4 BY COMMISSIONER OSHIE:

5 Q. First of all, what are the components in
6 reserve? What are we talking about?

7 A. Let me deal with it in general terms,
8 and if we need to do numbers we could step into that
9 secondarily.

10 You know basically what happened, as
11 with most other entities in the Pacific Northwest,
12 we had been during the latter part of the year 2000
13 selling surplus power to California because of their
14 need, and we had accounts receivable from the
15 California ISO when the utility, one of the
16 utilities that supports the creditor of the ISO went
17 bankrupt, PG&E.

18 And so, as a result, the ISO defaulted
19 on a significant portion of the payments, the
20 accounts receivable, that it had outstanding with
21 entities in the Pacific Northwest. So we are owed
22 money by the ISO and, in turn, the ISO's credit was
23 supported by Pacific Gas and the other
24 investor-owned utilities in California. So we have
25 a receivable from them and we've taken an accounting

00850

1 reserve against at least a portion of that
2 receivable. That's the situation that we have, and
3 it's not unlike the situation that other power
4 sellers in the Pacific Northwest have.

5 There are also FERC proceedings going
6 on around refunds of amounts in connection with
7 those sales, and that's the situation.

8 Q. All right. Is there any expectation of
9 recovery of the 42 and a half million?

10 A. There is, but the timing and the amounts
11 of that recovery aren't known now. And won't be known
12 for some time.

13 COMMISSIONER OSHIE: Thank you.

14

15 EXAMINATION

16 BY CHAIRWOMAN SHOWALTER:

17 Q. I have just a follow-up. Following up
18 on that question, just in my very lay mind, what the
19 company has done is either bet that it won't recover
20 the full amount or any amount any time soon; or has it
21 done something less than that, just guard against the
22 possibility that it doesn't.

23 Can you just tell me more what you have
24 done?

25 A. Sure. The company made an estimate at

00851

1 the end of the year 2000, as it was closing its books
2 on year 2000, about how much of the receivable it
3 might ultimately collect and how much was at risk.
4 And the amount that was at risk, the company set up an
5 accounting reserve on its books for that amount.

6 Q. All right. But what does that mean, to
7 set up a reserve for that amount?

8 A. It means that in the company's reported
9 financial results for the year 2000, there was some
10 portion of that accounts receivable that we did not
11 recognize as revenue and did not recognize as
12 earnings --

13 Q. Okay.

14 A. -- because of the risk that it might
15 ultimately not be recovered.

16 Q. And then what, if anything, did staff do
17 about that particular element, if you know?

18 A. I'm not aware of any treatment of that
19 by staff.

20 Q. Okay. Thanks.

21 A. But I might be wrong, but I am not aware
22 of any.

23

24 EXAMINATION

25 BY COMMISSIONER HEMSTAD:

1 Q. I have one additional question. In
2 Mr. Schoenbeck's Exhibit 275C, Page 85?

3 A. Is this the 5C exhibit of Schoenbeck's?

4 Q. Yes.

5 A. I'm sorry, I have it.

6 JUDGE MACE: It's Page 85.

7 Q. I realize this page is confidential, but
8 there was testimony with regard to this, and -- in the
9 box at the bottom and the reference there to return on
10 average common equity, 2000 actual, and then the
11 others are projected.

12 Would it follow from your testimony
13 that those, what would appear -- anyway, returns on
14 common equity substantially above the authorized rate
15 of return, were they based on the assumption of your
16 ability to sell into the market?

17 A. Well, I think that they probably were.
18 They were probably based on a projection of power
19 costs that included sales into the market, given the
20 time that this was done.

21 Q. And you would be making those
22 projections of those kind of very high prices through,
23 up through 2005?

24 A. Well, I'm not familiar right now with
25 the studies, the power cost studies, that underlie

00853

1 this. So I would need to go do some research about
2 what the assumptions were because I didn't look at
3 those.

4 Q. But I'm trying to get a handle on the --
5 the premise of your case is that it was, it's the
6 underlying power costs and then your ability to
7 ameliorate that --

8 A. Right.

9 Q. -- during the power spike period.

10 A. Right. And I just don't know what
11 assumptions were made about the market prices in the
12 later years of this forecast. I just don't know. I
13 assume that they were thought that they might continue
14 high, but I just don't know.

15 COMMISSIONER HEMSTAD: All right. I
16 guess I can't pursue that any further. Thank you.

17 JUDGE MACE: Any further
18 cross-examination generated as a result of the bench
19 questions?

20 MR. VAN CLEVE: Yes, Your Honor, I have
21 a couple of questions.

22 JUDGE MACE: Well, I should perhaps turn
23 to Ms. Smith first.

24 MS. SMITH: Thank you, Your Honor.

25

1

CROSS-EXAMINATION

2

(GAINES-CROSS BY SMITH)

3

BY MS. SMITH:

4

Q. I had a question, follow-up from one of

5

the other counsel. I just have one question.

6

Mr. Gaines, you testified in response

7

to a cross-examination question from counsel that PSE

8

operates under a PGA for its gas operations. And do

9

you recall that testimony?

10

A. Yes.

11

Q. Okay. And for its gas operations prior

12

to September of 2001, did PSE purchase gas for its

13

core customers subject to the PGA by either futures

14

purchase or hedging the price?

15

A. I don't believe so.

16

MS. SMITH: Thank you.

17

JUDGE MACE: Mr. ffitch?

18

MR. FFITCH: No questions, Your Honor.

19

JUDGE MACE: Go ahead, Mr. Van Cleve.

20

MR. VAN CLEVE: Thank you, Your Honor.

21

22

CROSS-EXAMINATION

23

BY MR. VAN CLEVE:

24

Q. Mr. Gaines, you mentioned a letter of

25

credit with Enron that you had to provide. Do you

00855

1 know when that was provided?

2 A. I didn't get the date.

3 Q. Could we make a records request for that
4 letter of credit?

5 JUDGE MACE: That will be No. 13, and
6 that's the letter of credit related to the Enron
7 transaction.

8 (Record Requisition No. 13.)

9 BY MR. VAN CLEVE:

10 Q. Other than the Enron letter of credit,
11 do you recall specifically any other credit
12 enhancement that the company has had to provide?

13 A. I don't. And as we were trying to
14 research there at the break, I had a little difficulty
15 because two of our credit people are out of the office
16 today. So I don't have any others for you.

17 Q. Would you agree, Mr. Gaines, that under
18 these three major agreements that you trade under that
19 sometimes if the mark-to-market credit exposure of a
20 party gets above certain limits, they may be required
21 to provide some credit support even though they still
22 have an investment grade bond rating?

23 A. That can happen, particularly under the
24 ISDA agreements. But the amount that you're obligated
25 to post is a direct function of your credit rating.

00856

1 So as the credit rating goes up your obligation to
2 post is reduced.

3 Q. Now, you referred to the type of credit
4 support that we've been talking about which is related
5 to the mark-to-market amount. But you said that
6 perhaps credit support would be needed for the
7 underlying obligation?

8 A. Right.

9 Q. And I would like to make a records
10 request for any -- if you could identify any portion
11 of those three agreements that requires credit support
12 for something other than the mark-to-market amount.

13 MS. DODGE: Your Honor, I -- to the
14 degree you're talking about identifying portions of
15 these exhibits, we're starting to -- or these
16 agreements, we're starting to stray into legal
17 analysis of the agreements.

18 One option would be to make the records
19 request simply that we provide all three agreements
20 in their entirety, and then the bench would have
21 them, and the parties would have them. And it may be
22 that counsel, then, on brief that that's more a
23 matter for argument, potentially.

24 MR. VAN CLEVE: Your Honor, I think some
25 of these agreements may be quite voluminous and, given

00857

1 that we have just a week, that would be fine if they
2 want to provide the whole agreement, but it might be
3 helpful if they could indicate what parts of the
4 agreements they think support this proposition.

5 JUDGE MACE: It would seem that the
6 agreements would be couched in such a way that would
7 be certain provisions that would lead to the need for
8 credit support pretty obviously, and so those could be
9 extracted.

10 MS. DODGE: So those sections of the
11 agreements that would be relevant, and then the
12 cross-references.

13 JUDGE MACE: So provide us with the
14 whole agreement, but then a reference to those
15 portions that would be in response to Mr. Van Cleve's
16 concern. Mr. Van Cleve?

17 MR. VAN CLEVE: Thank you.

18 JUDGE MACE: Does that satisfy what you
19 were looking for here?

20 MR. VAN CLEVE: Yes. And I just have
21 one other question.

22 JUDGE MACE: That will be No. 14.

23 (Record Requisition No. 14.)

24 BY MR. VAN CLEVE:

25 Q. There were some questions about Avista,

00858

1 and you testified that Puget Sound Energy was still
2 transacting with Avista. Is that correct?

3 A. I'm not certain about that.

4 Q. And you also mentioned that Avista was
5 required to put up cash related to a transaction?

6 A. That's right.

7 Q. Do you know if the amount of cash that
8 they put up was based on a mark-to-market calculation?

9 A. I don't recall.

10 Q. And is this --

11 A. I don't believe so.

12 Q. What was it based on; do you recall?

13 A. I think it was just an amount that was
14 agreed on between the organizations.

15 JUDGE MACE: It was just a what?

16 A. Just an amount.

17 BY MR. VAN CLEVE:

18 Q. Is the amount equal to the company's
19 current credit exposure to Avista?

20 A. I believe it was based on an estimate of
21 how much credit exposure we might have to them for
22 some period of time, yes.

23 Q. And is that cash deposit still in place?

24 A. I don't recall.

25 Q. You stated that the company's credit

00859

1 exposure limit to PG&E was zero?

2 A. I believe that's right presently, yes.

3 Q. What is the company's credit exposure to
4 Avista?

5 A. I don't recall. I don't recall whether
6 it's zero or some small amount.

7 Q. Or whether it's even small or not?

8 A. Well, it's not large, I can tell you
9 that. But it's either some small amount or zero.

10 MR. VAN CLEVE: Okay. Thank you.

11 JUDGE MACE: Mr. Kurtz?

12 MR. KURTZ: Your Honor, I do have just a
13 couple of questions.

14 (BEGINNING OF CONFIDENTIAL PORTION)

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(BEGINNING OF CONFIDENTIAL PORTION)

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(END OF CONFIDENTIAL PORTION)

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1 (END OF CONFIDENTIAL PORTION)

2 MS. DODGE: Excuse me, I do need to
3 interrupt now. I believe a mistake was made on
4 confidentiality. And while the room has not been
5 cleared, most of the people in here have signed
6 confidentiality agreements. But for purposes of the
7 transcript, I thought we were going to be talking
8 about the reserve amount which is not a confidential
9 amount, but the total owed is something that is
10 confidential.

11 CHAIRWOMAN SHOWALTER: We also -- there
12 may be people listening on the line.

13 JUDGE MACE: Is there anyone --

14 CHAIRWOMAN SHOWALTER: Let's ask. Is
15 there anyone on the line listening.

16 UNIDENTIFIED SPEAKER: Yes.

17 JUDGE MACE: And who is that?

18 MR. HILL: This is Steve Hill.

19 MS. DODGE: Mr. Hill has signed a
20 confidentiality agreement.

21 JUDGE MACE: All right. Anyone else on
22 the line? Those sole.

23 MR. POPOFF: Yes. This is Phil Popoff.

24 MS. DODGE: Mr. Popoff is with the
25 company and has signed a confidentiality agreement.

00862

1 JUDGE MACE: All right. Anyone else on
2 the line?

3 MR. ENGLERT: This is Eric Englert of
4 Puget Sound Energy, who has also signed a
5 confidentiality agreement.

6 JUDGE MACE: Okay. Is there anyone else
7 on the line?

8 UNIDENTIFIED SPEAKER: (Hang-up sound.)

9 CHAIRWOMAN SHOWALTER: Well, someone
10 probably heard that amount.

11 UNIDENTIFIED SPEAKER: (Hang-up sound.)

12 CHAIRWOMAN SHOWALTER: Is there anyone
13 else on the line who has not identified themselves?

14 JUDGE MACE: How about in the hearing
15 room? Is there anyone that's not privy to the
16 confidentiality agreement?

17 (Discussion off the record.)

18 JUDGE MACE: I understand we can have
19 the reporter mark the page of the transcript where
20 this reference was as confidential. It was the
21 reference to the total amount that you were concerned
22 about?

23 MS. DODGE: Yes.

24 JUDGE MACE: All right. I'll ask the
25 reporter to mark the page, or pages, of the transcript

00863

1 that refer to that amount as confidential.

2 (Page 188 above marked Confidential.)

3 MS. DODGE: Apologize for the
4 inconvenience.

5 BY MR. KURTZ:

6 Q. I apologize for raising the question.
7 But if you get back the amount of the money that is
8 owed to you from the California ISO, are you going to
9 refund that to ratepayers?

10 A. I think that's a matter you're going to
11 have to take up with Don Gaines because it goes to the
12 overall financial condition of the company.

13 Q. One last question. Under the PURPA
14 regulations, the utility is allowed to own 50 percent
15 of a QF project. Does PSE or Puget Energy have any
16 direct or indirect -- or any affiliate -- have any
17 direct or indirect ownership in any of the PURPA
18 projects that sell power to PSE, the utility?

19 A. No, it doesn't.

20 MR. KURTZ: Thank you.

21

22 EXAMINATION

23 BY CHAIRWOMAN SHOWALTER:

24 Q. I have one question to ask, which is
25 very elementary. I wish our counsel for gas users

00864

1 were here. But how -- when you make a purchase of gas
2 as you did in April, how is it determined that you are
3 buying for the electric side versus for the gas side?

4 A. Well, we keep separate books for the gas
5 operation and the power operation and, really, as
6 we're required to do under the merger order.

7 Q. And is that kept contemporaneously?
8 That is, when you make a purchase in April is it clear
9 at the date of purchase that that is for the electric
10 system, not the gas system?

11 A. Yes, absolutely.

12 CHAIRWOMAN SHOWALTER: Thank you.

13 JUDGE MACE: It looks like we're at the
14 place for redirect.

15 MS. DODGE: Thank you, Your Honor. Just
16 a few questions.

17

18 REDIRECT EXAMINATION

19 BY MS. DODGE:

20 Q. Mr. Gaines, Mr. Van Cleve asked some
21 questions early on that seemed to question why Puget
22 hedged with gas rather than oil back in the time
23 period he was talking about.

24 And I recall that you mentioned
25 environmental, economic, and logistical reasons. And

00865

1 you went on to describe some environmental
2 considerations, but I wondered if you would also
3 describe what were logistical or what economic
4 considerations may have been at issue as well?

5 A. Certainly. The economic ones, of
6 course, were the primary ones.

7 We had a situation where, when the
8 risk committee looked at the need to purchase fuel,
9 either gas or oil, at that point in time oil was
10 actually less costly. A few weeks later the
11 relationship had flipped. Gas was less costly than
12 the oil we would have otherwise purchased. So it
13 was a clear economic benefit to do this hedging with
14 gas rather than oil, so that's the basic economic
15 driver.

16 As you said, we talked earlier about
17 the environmental considerations. The oil that we
18 would have had to purchase was low sulfur oil which
19 was more expensive, and, in turn, drove the economic
20 equation.

21 And then just logistically for at
22 least one of our generating facilities, we would
23 have had to truck this oil in. And the quantities
24 of oil that would have been required to run these
25 generators were so large that we would have had a

00866

1 continuous caravan of trucks bringing the oil in.

2 It was just logistically not practical.

3 Q. Are these turbines designed to run
4 primarily on oil?

5 A. Well, they are designed to run on both,
6 but they're really primarily on gas. The turbines
7 have higher sulfur emissions when they are run on oil,
8 and oil is a generally dirtier fuel. So it results in
9 higher OM costs on the machines over time.

10 Q. You were also asked by staff about
11 certain costs associated with PRAM. And I wondered if
12 you know whether PRAM passed through certain power
13 costs to customers?

14 A. Well, it did, certainly.

15 Q. And are you familiar with how that
16 worked?

17 A. Well, I was at the time, but we wound up
18 PRAM in I believe about 1995, and so I really haven't
19 revisited many of the details of it since then.

20 Q. Was the PRAM pass-through less risky to
21 the customer than the absence of -- or, I'm sorry,
22 less risk for the company than in the absence of PRAM?

23 A. Well, generally, as far as commodity
24 costs were concerned. And if you look at the sequence
25 of events, you know the last time that the companies'

00867

1 return on equity was set, it was, I believe in '92
2 when PRAM was in effect.

3 So the amount of risk that the company
4 was absorbing and on which the 10-5 ROE was set was
5 in an environment when it had a power cost tracker.
6 And so the idea that somehow now the company's ROE
7 should be reduced when the power cost tracker is
8 reintroduced is a little disingenuous, given the
9 sequence of events.

10 MS. DODGE: That's all I have.

11 JUDGE MACE: Ms. Smith?

12 MS. SMITH: No.

13 JUDGE MACE: Mr. ffitch?

14 MR. FFITCH: No.

15 JUDGE MACE: Mr. Van Cleve?

16 MR. VAN CLEVE: (Indicating negatively.)

17 JUDGE MACE: Mr. Kurtz?

18 MR. KURTZ: No, Your Honor. Thank you.

19 MR. QUEHRN: Your Honor, excuse me for
20 interruption, but before this witness steps down, I
21 was handed a note from behind indicating that we may
22 need to make a minor correction. And I can't tell
23 from the note what the correction is, and I would
24 appreciate it if I could have a two-minute break so we
25 can -- if something was misstated, we can clarify

00868

1 that, please.

2 JUDGE MACE: Certainly.

3 MR. QUEHRN: Thank you.

4 (Recess was taken at 4:35 p.m.)

5 JUDGE MACE: So was anything missed?

6 MS. DODGE: Yes, Your Honor. There is a
7 concern with detail on a question from Mr. Kurtz on
8 the ISO we'd certainly like to permit Mr. William
9 Gaines to correct it. It's also a matter that could
10 be addressed by Mr. Donald Gaines.

11 JUDGE MACE: I'll let him correct it.
12 Is it something that relates to this confidentiality
13 issue, or?

14 MS. DODGE: I think that the correction
15 itself is not confidential.

16 JUDGE MACE: Very well. Why don't you
17 go ahead.

18 THE WITNESS: I think the concern was
19 that maybe through Mr. Kurtz's question there was some
20 misunderstanding about the amount of the receivable
21 that the company has on its books for revenues from
22 the ISO. And so what we have on our books as an
23 amount yet to be received from the ISO is 26 million
24 dollars, and that was recognized as revenue during the
25 year 2000.

1 JUDGE MACE: With that clarification,
2 Mr. Kurtz, was there anything that you wanted to ask
3 further about this?

4 MR. KURTZ: No.

5 JUDGE MACE: Do you have another?

6 COMMISSIONER HEMSTAD: I was interested
7 in your response to the question about the
8 relationship between the PRAM and the company's rate
9 of return in the 1993 case. And I sat on that case,
10 and in -- my memory is vague at this point, but my
11 recollection is that the PRAM was in process of being
12 phased out.

13 So are you certain that the current
14 rate of return reflects the PRAM, or is that a
15 question that would need to be further identified?

16 THE WITNESS: Well, my memory of the
17 exact sequence of events is vague also. And it was
18 really just an observation that there was a '92 case,
19 there was an ROE set, PRAM was in effect at the time
20 and continued at least until 1995.

21 COMMISSIONER HEMSTAD: Fine. The record
22 will be what it is, and I'm sure that can be pursued.

23 JUDGE MACE: Thank you. You're excused.

24 THE WITNESS: Thank you.

25 JUDGE MACE: All right. Now I would

00870

1 like to go ahead with the next witness on our list,
2 Ms. Luscier.

3 Whereupon, BARBARA A. LUSCIER,
4 having been first duly sworn, was called as a witness
5 herein and was examined and testified as follows:

6 JUDGE MACE: All right, please be
7 seated. Go ahead.

8 MR. QUEHRN: Thank you, Your Honor.
9 Your Honor, before we begin, I would
10 just note to my records here that we have had some
11 cross-examination exhibits distributed for
12 Ms. Luscier that have not been even marked yet, and
13 I'm wondering if we should mark those now so we can
14 refer to them at the appropriate time when it comes
15 to admissions?

16 JUDGE MACE: Thank you. I have had
17 handed to me right now a package of exhibits that
18 appear to be PSE's response to WUTC staff data
19 requests, and I will mark them --

20 MS. SMITH: Your Honor, if I can
21 interrupt you on this point.

22 JUDGE MACE: Certainly.

23 MS. SMITH: There are four of them on
24 the list --

25 JUDGE MACE: Correct.

00871

1 MS. SMITH: -- and we intend to offer
2 only three of them. So the one on the bottom of the
3 list should be disregarded. And that would be the PSE
4 response to WUTC staff data request No. 305-I.

5 JUDGE MACE: Thank you.

6 MS. SMITH: I apologize for the
7 oversight.

8 JUDGE MACE: The response to staff
9 request 302-I will be 209.

10 MR. QUEHRN: What was 209?

11 JUDGE MACE: The response to WUTC staff
12 data request No. 302-I is 209, as I already said.

13 WUTC staff data request No. 303-I, the
14 response to that is 210. And the response to staff
15 request 304-I is 211. And the ICNU data request
16 No. 8.7-I will be 212.

17 MR. QUEHRN: Excuse me, Your Honor. I'm
18 not sure I have the copy of the exhibit that we just
19 marked 212.

20 JUDGE MACE: Mr. Van Cleve, do you have
21 an extra copy?

22 MR. QUEHRN: I have one now, my
23 apologies. I have them all now, thank you.

24 MR. FFITCH: Your Honor, may I inquire
25 what Exhibit 208 is?

00872

1 JUDGE MACE: 208 is a comparison
2 exhibit. I think that that is -- I don't have that
3 one in front of me. It's an exhibit that's entitled
4 Puget Sound Energy Comparison of Dollars and Percent
5 Increase. It's also marked DWS-12.

6 MR. FFITCH: Thank you, Your Honor. I
7 have that.

8 JUDGE MACE: Is everybody on track with
9 the exhibits that have been handed out? Go ahead,
10 Mr. Quehrn.

11 (Exhibits 209-212 marked.)

12 MR. QUEHRN: Thank you, Your Honor.

13

14 DIRECT EXAMINATION

15 BY MR. QUEHRN:

16 Q. Good afternoon, Ms. Luscier.

17 A. Good afternoon.

18 Q. Ms. Luscier, do you have before you the
19 direct testimony that you prepared and that was
20 prefiled in this proceeding as Exhibit 201?

21 A. Yes, I do.

22 Q. Do you also have before you the rebuttal
23 testimony that was prepared and was prefiled in this
24 proceeding as Exhibit 204?

25 A. Yes, I do.

00873

1 Q. Do you have any changes to your
2 testimony?

3 A. No, I do not.

4 Q. Do you have before you, and did you
5 prepare or oversee the preparation of Exhibits 202 and
6 203 to your direct testimony?

7 A. Yes, I did.

8 Q. And Exhibits 205 through 206 to your
9 rebuttal testimony?

10 A. Yes, I did.

11 Q. Do you have any changes to the exhibits?

12 A. No, I do not.

13 Q. If I were to ask you the same questions
14 today that are posed in your prefiled testimony, would
15 your answers be the same?

16 A. Yes, they would.

17 MR. QUEHRN: I would like to now offer
18 into evidence Exhibits 201 through 206.

19 JUDGE MACE: Hearing no objection, I'll
20 admit Exhibits 201 through 206.

21 (Exhibits 201-206 admitted.)

22 JUDGE MACE: Let's see, here.

23 Ms. Smith, or Mr. Cedarbaum?

24 MS. SMITH: It's me, thank you, Your
25 Honor. Before I begin the cross-examination of the

00874

1 witnesses, I had a conversation with counsel for PSE
2 with respect to Exhibits 209, 210, and 211, I believe,
3 the staff exhibits that were just marked. And we had
4 an agreement that these exhibits could be admitted
5 without any further foundation from the witness.

6 If that's counsels' understanding, then
7 I'd like to move for the admission of those
8 documents.

9 MR. QUEHRN: And that is counsels'
10 understanding.

11 JUDGE MACE: Hearing no objection, I'll
12 admit 209, 210, and 211.

13 (Exhibits 209-211 admitted.)

14

15 CROSS-EXAMINATION

16 BY MS. SMITH:

17 Q. Ms. Luscier, I have a couple of
18 questions regarding Puget Sound's petition, and I
19 don't think you need to have the petition in front of
20 you because these are just background questions. But
21 the first question relates to the deferral period in
22 the interim case, and that period is January 1, 2002
23 through February 28th, 2002. Is that correct?

24 A. In the petition, that's correct.

25 Q. Are they --

1 JUDGE MACE: Ms. Luscier, would you
2 speak directly into the microphone? You can move it
3 closer to you, if you would.

4 A. Yes, that is correct. In the petition.

5 BY MS. SMITH:

6 Q. And are there changes to that?

7 A. The deferral order allowed us to defer
8 through March.

9 Q. And is it also correct that the deferral
10 period occurred subsequent to the expiration of the
11 rate plan period established in the merger order?

12 A. That is correct.

13 Q. Now, again, according to the petition,
14 the company is seeking a surcharge to recover the
15 deferrals plus unrecovered power costs incurred during
16 the period March 1 through October 1?

17 A. That's correct.

18 Q. Now would it be correct to say that the
19 surcharge proposal is intended to recover
20 undercollections of power supply costs between
21 January 1st and October 31st of 2002?

22 A. Can you repeat the question, please?

23 Q. Yes. Would it be correct to say that
24 the surcharge proposal is intended to recover
25 undercollections of power supply costs between

00876

1 January 1 and October 31 of 2002?

2 A. I don't know that it's necessarily that
3 it's to recover those -- the shortfall in power costs.
4 That is the main contributor to the company's
5 financial position. But I believe Don Gaines has a
6 detailed documentation of what has caused --
7 specifically, why the company has come in for relief.

8 Q. So you said power supply costs were one
9 component. What other components do you know of
10 that --

11 A. I'm not familiar with all of the details
12 of Don's testimony in detail. And, in fact, he is the
13 expert there, and so he'd be the best person to ask.

14 Q. Would it be correct that the costs that
15 the company is intending to recover through the
16 surcharge proposal are only those costs incurred after
17 the rate plan period was established in the merger
18 case, which was to end on December 31st of 2002?

19 A. That's correct.

20 Q. And why does the company specifically
21 identify the deferrals as starting after the rate plan
22 period?

23 A. I'm not quite sure. I think that that's
24 more of a policy issue than an accounting issue.

25 Q. Could you tell me whether or not it's

00877

1 correct that the company's interim rate proposal is
2 not intended to recover costs incurred prior to
3 January 1, 2002?

4 A. Could you repeat that?

5 Q. Yes. Is it correct that the company's
6 interim rate proposal is not intended to recover costs
7 incurred prior to January 1, 2002?

8 A. It is my understanding that that is the
9 case.

10 Q. If I could refer you, please, to your
11 rebuttal testimony, and specifically Page 3.

12 And, I apologize, for everyone that's
13 Exhibit 204-T. I'm sorry.

14 And your testimony at Lines 3 through
15 7, you talk about -- you state that a refund of
16 excess recovery based on rate of return for the 12
17 months ending October 31, 2002 will be refunded to
18 customers. Do you see that part in your testimony?

19 A. Yes, I do.

20 Q. And you also state that the rate of
21 return is 8.99 percent. Is that correct?

22 A. That's correct.

23 Q. Is it also true that the 8.99 percent
24 represents a weighted average of Puget Sound Power and
25 Light at 8.94 percent and Washington Natural Gas at

00878

1 9.15 percent prior to the merger?

2 A. That's correct.

3 Q. To arrive at that weighted average,

4 Puget would have had to have been weighted at

5 approximately 76 percent. Is that correct?

6 A. That's correct.

7 Q. And Puget's return, or its authorized

8 rate of return, would have been determined in its last

9 general rate case. Is that true?

10 A. That's true.

11 Q. And that docket was Docket

12 No. UE-921262; is that correct?

13 A. That's correct.

14 Q. Now, would you accept, subject to your

15 check, that in that last rate case, the 921262, that

16 the Commission set Puget's overall return at 8.94

17 percent with an equity ratio of 8.94 -- I'm sorry.

18 Overall return at 8.94 percent with an equity ratio of

19 8.94 percent and an equity cost at 10.5 percent?

20 A. An equity ratio of 8.94 percent?

21 MR. QUEHRN: I'm sorry, Your Honor. I

22 lost that. Could you please repeat the question?

23 MS. SMITH: Yes. I'll --

24 JUDGE MACE: Yes. Would you repeat the

25 question.

00879

1 MS. SMITH: -- repeat the question.

2 Your Honor, if I could just have one moment, please?

3 (Brief off-record pause.)

4 BY MS. SMITH:

5 Q. I've got some clarification on this
6 question, thank you. Would you agree, subject to your
7 check, that in the company, in Puget's last rate case,
8 that the Commission set the company's overall return
9 at 8.94 percent?

10 A. That's correct.

11 Q. And would you also agree that, subject
12 to your check, that there was an equity ratio of 45
13 percent?

14 A. That's correct.

15 Q. Now would you also accept subject to
16 your check that in that docket the Commission
17 established other cost rates, including 7.91 percent
18 for long term debt at 43 percent of the capital
19 structure?

20 A. Subject to check, I'll accept that.

21 Q. And also subject to your check, would
22 you agree that the Commission established the cost
23 rate of 4 percent -- at 4 percent of the structure for
24 short term debt?

25 MR. QUEHRN: Your Honor, excuse me. If

00880

1 it would be helpful, I would suggest that we could put
2 the prior rate order into the record and it could
3 speak for itself.

4 JUDGE MACE: We can just refer to it.

5 MR. QUEHRN: Or just refer to it.

6 MS. SMITH: Well, we have a line of
7 questions based on it. I don't have too many more of
8 these.

9 MR. QUEHRN: Rather than having all
10 these checks, can we just refer to the rate order?

11 MS. SMITH: I think this is one of the
12 last questions I have with --

13 JUDGE MACE: In the interests of time,
14 if it's not very lengthy, why don't you just go ahead.

15 BY MS. SMITH:

16 Q. I'll repeat the last part of the
17 question. There was another cost rate established in
18 that docket, which was 4 percent, at 4 percent or
19 short term debt?

20 A. Subject to check, I'll accept that.

21 Q. And, finally, subject to your check, the
22 cost rate of 8.1 percent for 8 percent of the capital
23 structure for preferred equity?

24 A. I accept that, subject to check.

25 Q. And in the pending rate case, the

00881

1 general rate case, the company is proposing the cost
2 of long term debt at 7.4 percent?

3 A. That's correct.

4 Q. And you propose a true-up only if the
5 rate of return exceeds the authorized rate of return;
6 correct?

7 A. That's correct.

8 Q. What has a greater impact on the bottom
9 line for the company's shareholders, rate of return or
10 return on equity?

11 A. Return on equity.

12 Q. If I can refer you now to Page 2 of your
13 rebuttal testimony, and the paragraph starting at
14 Line 10?

15 A. Mm-hmm. Okay.

16 Q. Is one of the changes you propose in
17 your rebuttal testimony a continuation of the deferral
18 of unrecovered power costs through October 31st of
19 2002?

20 MR. QUEHRN: Objection, Your Honor.
21 Miss Luscier's testimony doesn't propose that change,
22 that's proposed in Mr. Gaines' testimony, Mr. Donald
23 Gaines' testimony. This is just accounting testimony
24 in terms of how it's implemented.

25 JUDGE MACE: Ms. Smith?

00882

1 MS. SMITH: I do see this information in
2 Ms. Luscier's testimony. I guess I can rephrase the
3 question.

4 BY MS. SMITH:

5 Q. Does the company propose a continuation
6 of the deferral of unrecovered power costs through
7 October 31 of 2002?

8 A. That's correct.

9 Q. And does the company then propose an
10 adjustment be made in November of 2002 and May of
11 2003?

12 A. That's correct.

13 Q. And those changes are intended to either
14 reduce or increase the rate, depending on whether
15 deferrals are being recovered as estimated. Is that
16 correct?

17 A. That's correct.

18 Q. Now, if power supply costs for some
19 reason increase above the estimates, your adjustment
20 in November, the company's adjustment in November,
21 would result in a further increase in rates, all else
22 being equal. Is that correct?

23 A. That's correct.

24 Q. So, in essence, the company could be
25 recovering more than the 170 million it requests in

00883

1 its petition, or in the interim case, even if the load
2 is identical to the one that's projected?

3 A. All the... We have built into this,
4 the -- that paragraph when we were discussing if the
5 company achieves a return over the melded return per
6 the merger, then we would refund that to customers.
7 So in the case that we accumulate an amount in excess
8 of the 170, if that results in the company
9 overearning, then we would refund it to the customer.

10 Q. So if the company didn't achieve that
11 rate of return, would it recover more than the 170
12 million, or could it recover more than the 170
13 million?

14 A. There is a potential under the mechanism
15 that we have stated here for that.

16 Q. Could you expand on that a little bit
17 and explain what that potential is? Give me, perhaps,
18 an example of what the scenario would be that would
19 lead the company to collect more than the 170 million?

20 A. I think you've stated that in your
21 example.

22 Q. Okay. Again, on Page 2 of your
23 testimony and beginning on page -- or, I'm sorry, on
24 Line 22, you refer to the testimony of Donald Gaines
25 at Pages 8 and 9. And there is a statement there

00884

1 that: If the Commission chooses to grant less than
2 the full recovery requested by the company, there
3 would be no reason to adjust the amount of interim
4 relief by a true-up to actual power supply costs.

5 A. That's correct.

6 Q. Do you see that?

7 A. Yes.

8 Q. And other than this statement in your
9 testimony that refers back to Donald Gaines'
10 testimony, do you, in your testimony anywhere else,
11 address the issue of how a true-up should be
12 constructed if the Commission grants the company only
13 a portion of the interim rate it's requesting?

14 A. The company proposes that if something
15 other than the full amount be allowed that there be no
16 true-up.

17 Q. And where would I find that testimony in
18 the company's case?

19 A. Clearly stated in Donald Gaines'
20 testimony. Also is referred to in my testimony where
21 you've stated.

22 Q. So you've referred to Donald Gaines's
23 testimony in yours, and I just want to know if there's
24 any other place in your testimony -- not your
25 reference to Donald Gaines's testimony -- but if

1 there's any other place in your testimony where you
2 address that; and, if so, could you point that out?

3 A. I believe that paragraph beginning on
4 Line 22 gives some detail of the -- should an amount
5 other than the full amount be allowed.

6 Q. And I know that you referred also to
7 Donald Gaines's testimony at Pages 8 and 9. Are you
8 familiar with his testimony, or do you have it in
9 front of you?

10 A. To a certain -- and as it relates to
11 that, yes.

12 Q. And could you say whether or not that
13 bit of testimony on Pages 8 and 9 in Mr. Gaines'
14 rebuttal testimony is contained in a footnote?

15 A. I would just refer you to Mr. Gaines,
16 and you can take that up with him.

17 Q. Okay. And my final question on this
18 point, your paragraph beginning on Line 22 of Page 2
19 and the testimony that you've referred to from Donald
20 Gaines at Pages 8 and 9, are those the only places in
21 the company's case where you refer to this issue of
22 not -- of not having a true-up if the full amount
23 isn't granted?

24 MR. QUEHRN: Your Honor, the question
25 has been asked and answered.

00886

1 MS. SMITH: I know that she's directed
2 me to the portion in her testimony, I know she's
3 directed me to the portion in Donald Gaines's
4 testimony. My final question is --

5 JUDGE MACE: She can answer it if she
6 knows the answer. She may not know beyond her own
7 testimony in this bit about Mr. Gaines. But if you
8 can answer, answer the question.

9 A. As Mark said, I believe I've answered
10 that question.

11 JUDGE MACE: No. The question is, do
12 you know of any other place in the company's testimony
13 where the --

14 A. Those are the places that I'm aware of
15 where we've referred to an allowance other than the
16 full amount.

17 BY MS. SMITH:

18 Q. Okay. Now again on Page 2, you state
19 it's the company's proposal to continue the deferral
20 process through October. That's correct?

21 A. That's correct.

22 Q. And you recover these amounts that you
23 propose -- and to recover the amounts you propose,
24 that the deferral will be spread over two periods;
25 correct?

00887

1 A. Will you repeat the question?

2 Q. Gladly. To recover the amounts that the
3 company intends to recover, the company proposes that
4 the deferral be spread over two periods; is that
5 correct?

6 A. No, that's not correct.

7 Q. So how many periods --

8 A. The recovery will be over two periods.
9 The deferral will be over the interim period.

10 Q. Okay. What is the initial period?

11 A. The interim period is March 15th through
12 October 31st, 2002.

13 Q. Now, your proposed rate is 1.25 cents
14 per kilowatt hour as shown in your Exhibit BAL-5,
15 which is marked in this proceeding as 205; and
16 calculated in your Exhibit BAL-6, which is marked as
17 Exhibit 206 in this proceeding. Is that correct?

18 A. That's correct.

19 Q. Now if I may turn your attention to your
20 Exhibit BAL-6, which is marked as Exhibit 206, and in
21 this exhibit you calculate the anticipated rate for
22 the year commencing November 1, 2002 and going through
23 October 31st, 2003. Is that correct?

24 A. That's correct.

25 Q. Now looking at Column D in this exhibit,

00888

1 it can be seen that you calculate the revenue
2 required, that the total revenue you estimate here in
3 this column -- strike that.

4 All right. When you look at Column D,
5 you have a total sort of in both halves of that
6 column that's approximately 170.6 million?

7 A. That's correct.

8 Q. Now is this essentially the same total
9 revenue that Mr. William Gaines calculated in his
10 exhibits?

11 A. This surcharge is based on recovering
12 the approximate amount of the company's need for the
13 interim period.

14 Q. So if I were to look at William Gaines's
15 exhibit, which has been marked as 153 in this
16 proceeding --

17 A. Mm-hmm.

18 Q. -- he would calculate the total revenue
19 at 170.7 million, and yours is calculated at about
20 170.6 million. Would you attribute -- how would you
21 attribute that difference in the two numbers, the
22 small difference? Would it be to rounding?

23 A. Can you repeat the question, please?

24 JUDGE MACE: I wonder if it would be
25 helpful for her to refer to that exhibit.

00889

1 A. I know that exhibit.

2 JUDGE MACE: You know the exhibit. Very
3 well.

4 BY MS. SMITH:

5 Q. I see a bit of difference, comparing
6 your exhibit to his exhibit.

7 A. If there's a difference between mine and
8 WAG-3, it's a rounding difference.

9 Q. Thank you.

10 A. And -- never mind.

11 Q. Now in your calculation, the 170 million
12 is planned recovery of 163 million of unrecovered
13 costs. Is that correct?

14 A. It represents the need of the company in
15 the interim period. And, initially, when we filed for
16 interim relief, we used the underrecovered power costs
17 as -- as a measurement to -- and a way to determine
18 what the main contributor to the shortfall would be.
19 And therefore when we determined our surcharge we used
20 that as a guide.

21 And so even though we're intending to
22 recover things other than power costs, we set our
23 surcharge in relation to the exhibit provided by
24 Mr. Gaines.

25 MR. QUEHRN: Your Honor, I would like to

00890

1 object to this line of questioning.

2 This witness is an accounting witness.

3 This witness has not testified to the need for
4 relief. This witness has testified only to the
5 mechanism for calculating the relief if our proposal,
6 proposed relief is granted. And many of the
7 questions are going as to why the company is asking,
8 what the financial -- she just can't testify to this.

9 MS. SMITH: And that's not my question.

10 My question -- I'm not asking about the need for
11 relief, that was the witness's answer.

12 My question is whether or not the \$163
13 million is intended to recover unrecovered power
14 costs. That doesn't go to the need of the company.

15 JUDGE MACE: Well, I think it goes to
16 the issues that are covered in Mr. Gaines' testimony
17 more than it is Ms. Luscier's testimony. I view her
18 testimony as accounting testimony and calculating the
19 surcharge, and I think you're getting into policy
20 questions that would be better addressed to another
21 witness.

22 MS. SMITH: I appreciate your ruling but
23 that's not the intent of my inquiry of this witness.

24 JUDGE MACE: I'm going to sustain the
25 objection. I'd like you to go on to another topic,

00891

1 please.

2 BY MS. SMITH:

3 Q. With respect to the costs that you have
4 on your Exhibit BAL-6, are these the same costs that
5 Mr. William Gaines included in his Exhibit 3?

6 A. Yes.

7 Q. Now do you know whether the costs
8 identified in Mr. Gaines' Exhibit WAG-3 are the only
9 costs that PSE intends to recover through interim
10 relief?

11 A. I do not know.

12 Q. If I can turn your attention back to
13 Page 2 of your rebuttal testimony and, again, you say
14 on Page 2 that the company recommends to continue the
15 deferrals through October of 2002. Is that correct?

16 JUDGE MACE: I'm sorry, what line are
17 you on?

18 MS. SMITH: I'm just going back to the
19 page. I could find a line here. I think it would be
20 around Line 13.

21 MR. QUEHRN: Could you repeat the
22 question, please?

23 MS. SMITH: I'm essentially just
24 referring her to the page and to the deferral period
25 of October 2002.

00892

1 JUDGE MACE: And the question?

2 BY MS. SMITH:

3 Q. The question is coming. Here's the
4 question. Does Puget Sound Energy intend to continue
5 the deferrals consistent with the Commission order in
6 Docket No. UE-011600?

7 A. Continue through when? And I believe
8 you had asked me this same question when we started.

9 Q. I guess I -- I'll rephrase my question.
10 Does the company intend to recover the deferral
11 amounts in a manner consistent with the Commission's
12 order in docket UE-011600?

13 A. Are you specifying a period?

14 Q. No. I'm going to strike the question.
15 Are you familiar with the company's
16 petition for an accounting order associated with this
17 interim relief?

18 A. Yes, I am.

19 Q. Would you accept, subject to your check,
20 that Attachment A --

21 MR. QUEHRN: Objection, Your Honor. The
22 petition speaks for itself. If you have a copy of the
23 petition, maybe we could look at it and answer the
24 question that way.

25 MS. SMITH: Rather than asking her to

00893

1 accept it subject to check, I have two sentences.
2 Perhaps it would be easier if I were to just read
3 those into the record.

4 MR. QUEHRN: Are they in the petition?

5 MS. SMITH: They are. Attachment A,
6 Page 3.

7 JUDGE MACE: Go ahead.

8 BY MS. SMITH:

9 Q. That reads: For accounting purposes,
10 the deferral would be recorded on a monthly basis in
11 FERC account 182.3, Other Regulatory Assets. Interest
12 would be accrued on any deferred balance at the
13 interest rate applicable to customer deposits.

14 And my question relating to this
15 information that I read from the petition is, where
16 in your exhibits, or in the exhibits provided by the
17 company measuring the unrecovered power costs or
18 calculating the rate, do you or any other company
19 witness include interest in the calculation of costs
20 to be recovered?

21 A. We have not included it in the
22 calculation for simplicity purposes.

23 At the time that we begin to -- well,
24 as we defer, we will calculate the interest on those
25 amounts. It was just for simplicity purposes that

1 we did not include those in our exhibits in this
2 filing.

3 Q. Now assuming that all else remains the
4 same -- and by "all else" I mean loads and costs and
5 other items -- remain as Puget Sound Energy originally
6 proposed, including the implementation of the rate on
7 March 1st and full recovery by October 31st as
8 originally proposed, as opposed to the two-step
9 approach in the rebuttal, if Puget Sound Energy were
10 to recover the interest, would that recovery be in
11 addition to the requested 170 million dollars?

12 A. Well, can you repeat the question,
13 please?

14 Q. Yes. Assuming all else is equal, or
15 assuming all else remains as originally proposed by
16 Puget Sound Energy -- and by that I think I mean costs
17 and loads and other items -- and if the implementation
18 of the rates on March 1 and full recovery by
19 October 31st as originally proposed by the company;
20 assuming that, and not the two-step approach that's in
21 the rebuttal testimony, if PSE were to recover the
22 interest, would that recovery be in addition to the
23 requested 170 million dollars?

24 A. I'm not sure.

25 MS. SMITH: That's all I have. Thank

00895

1 you?

2 JUDGE MACE: Mr. ffitch?

3 MR. FFITCH: Just one or two questions.

4

5 CROSS-EXAMINATION

6 BY MR. FFITCH:

7 Q. Good evening, Ms. Luscier.

8 A. Good evening.

9 Q. Can I direct you to your rebuttal
10 testimony, 204-T, on page -- Page 3, Line 4. I think
11 you've also used this term in some of your answers.

12 You've referred to the interim period as March 15th,
13 2002 through October 31st, 2002. Is that correct?

14 A. Excuse me, can you repeat the question,
15 or the statement?

16 Q. Sure. I'm directing you to your
17 testimony --

18 A. Mm-hmm.

19 Q. -- your rebuttal testimony, Page 3?

20 A. Okay.

21 Q. And then Line 4. And there you define
22 the interim period as March 15, 2002 through
23 October 31st, 2002?

24 A. That's correct.

25 Q. And now I'd like to take you to your

00896

1 Exhibit 206, BAL-6?

2 A. Mm-hmm.

3 Q. And -- are you there?

4 A. Yes, I am.

5 Q. And as I look at that exhibit, Lines 1
6 through 9 correspond to what you've termed the interim
7 period?

8 A. That's correct.

9 Q. And in the interim period the company is
10 asking here to recover only 136 million dollars. Is
11 that right?

12 A. That's correct.

13 Q. And so there is a second period shown on
14 this exhibit, Lines 13 through 27, and in that second
15 period there's a proposed recovery of 34 million;
16 correct?

17 A. Correct.

18 Q. And I take it that that is not the
19 interim period; is that correct?

20 A. That's correct.

21 Q. Then at the top of the exhibit the Title
22 that says Interim Relief, so I take it that the
23 interim relief shown on this chart is only 136 million
24 because that occurs during the interim period?

25 A. It's interim relief for the period from

1 January 1st, through November 1st, 2003. It's for the
2 interim period from the time the stability period
3 ended and the rate year begins.

4 Q. So even though the bottom part of this
5 exhibit --

6 A. It's a misnomer, if you will, the title,
7 if you're getting hung up on the title.

8 You could consider it to be -- it is
9 interim relief. It's relief from the time that the
10 rate stability period ends to the time the rate year
11 begins.

12 Q. So in essence this exhibit shows
13 recovery of interim relief outside of the interim
14 period?

15 A. What we've attempted to do is to
16 levelize the company's need in the period between the
17 time that the stability period is over and the time
18 that the rates will be in effect over a longer period
19 of time so that the impact on the customer is lessened
20 and is levelized in that time, so that there is not a
21 great change between the interim period and when the
22 new rates go into effect.

23 Q. But the answer to my question is, you
24 are collecting interim relief, as you've defined it,
25 outside of the interim period. Is that correct?

00898

1 A. No, that's not correct.

2 Q. So is your testimony, then, that the
3 interim period extends from March --

4 A. Oh, I see what you're saying.

5 Q. -- through October --

6 A. The recovery. We're going through --

7 Q. -- '03?

8 A. Right. The interim -- we will be
9 deferring in the interim period and recovering outside
10 of the interim period. I apologize.

11 Q. All right. And you show a rate
12 impact -- this is on the same exhibit -- of, not \$1.25
13 but --

14 A. 1.25 cents. Per kilowatt hour.

15 Q. 1.25 cents per kilowatt hour -- thank
16 you -- for the interim period. And then for the
17 subsequent period you show a rate impact of 18 cents
18 per kilowatt hour. First of all, can you provide a
19 percentage -- well, let me try to rephrase that.

20 What percentage increase is represented
21 by the 1.25 cents over the current residential rate?

22 A. I have that. I just don't have it
23 handy. I believe it's about an 18 percent increase in
24 the interim period.

25 Q. If the witness would like to calculate

00899

1 that, perhaps just have that provided before the end
2 of the hearing, that would be fine with me. I don't
3 mean to put you on the spot. That's difficult to
4 calculate right now.

5 A. I do have it here. Hold on. It's an 18
6 percent increase.

7 Q. Thank you. And then in the subsequent
8 period where there is an 18-cent per kilowatt hour
9 increase, that would be in addition to any general
10 rate increase allowed by the Commission; is that
11 correct?

12 A. That's correct.

13 Q. Do you know what percent increase 18
14 cents is over the current rate?

15 A. Yes. It's about 2 percent. Oh, over
16 the current rate? Yes, I apologize. It's 2 percent.

17 Q. All right. And what would happen under
18 this scenario is that the -- this surcharge would --
19 it's not cumulative: you don't add one and a quarter
20 cents to point one eight cents if it drops from 1.25
21 to .18; correct?

22 A. Correct.

23 Q. You used the term "stability period."
24 Is that a term that defined or explained in your
25 testimony anywhere?

00900

1 A. No.

2 Q. Is that defined or explained in anyone
3 else's testimony that's offered by the company?

4 A. I'm not sure.

5 MR. FFITCH: Okay, thanks. I don't have
6 any further questions.

7 (Discussion off the record.)

8 JUDGE MACE: Mr. Van Cleve?

9 CHAIRWOMAN SHOWALTER: Let's see how
10 many people -- how long do you think you'll be with
11 the witness?

12 MR. VAN CLEVE: Five minutes.

13 MR. KURTZ: Fifteen.

14 THE WITNESS: Let's keep going.

15 MR. KURTZ: I will try to make it as
16 short as possible. I understand the hour.

17 CHAIRWOMAN SHOWALTER: Let's keep going.

18 JUDGE MACE: All right, let's keep
19 going.

20

21 CROSS-EXAMINATION

22 BY MR. VAN CLEVE:

23 Q. Referring to your rebuttal testimony,
24 Exhibit 204, on Page 2 at Line 10, you were asked a
25 couple of questions about this statement, and I just

00901

1 wanted to clarify. You state that the deferral will
2 go through October 31st consistent with the
3 Commission's order on the accounting petition, but
4 isn't it true that the Commission's order ended the
5 deferral on March 31st?

6 A. I guess our statement in regard to
7 "consistent" is that we would continue it in the same
8 manner.

9 Q. And have you --

10 A. And that's the difference between the
11 actual and what is embedded in rates would be
12 deferred.

13 Q. I see. Has the company filed a deferred
14 accounting petition, or some type of petition to
15 extend the deferral period beyond March 31st?

16 A. I believe that the petition filed
17 subsequent to the deferral petition addresses that,
18 the continuance of the deferral.

19 Q. If you could please take a look at
20 Exhibit 212, what's marked as Exhibit 212. And this
21 is your response to ICNU data request 8.7-I .

22 JUDGE MACE: Do you have that exhibit?

23 A. In fact I have it right here.

24 BY MR. VAN CLEVE:

25 Q. Is this a data response that you

00902

1 prepared?

2 A. It was prepared under my supervision.

3 Q. And the second and third pages, are
4 these intended to depict the rate impact by rate
5 schedule of the increase, the interim increase
6 proposed in the company's rebuttal case?

7 A. That's correct.

8 Q. So the second page of this exhibit is --
9 covers the rate increase for the period from
10 March 15th to October 31st, 2002. Is that correct?

11 A. That's correct.

12 Q. And then the third page covers the rate
13 increase by rate schedule for the period November 1,
14 2002 through October 31st --

15 A. That's correct.

16 Q. -- 2003? If you could now refer to
17 what's marked as Exhibit 208, which is an exhibit that
18 Mr. Schoenbeck prepared?

19 A. Mm-hmm.

20 MR. QUEHRN: Excuse me, Your Honor.
21 Neither the prior exhibit that Mr. Van Cleve was
22 referring to nor 208 I believe has been admitted yet.
23 The prior exhibit, 212. Has 212 been admitted?

24 JUDGE MACE: Yes, it has.

25 MR. QUEHRN: It has?

00903

1 JUDGE MACE: I thought I admitted that.
2 Sorry, I may be mistaken. I admitted up to 211. I
3 have not admitted the ICNU request yet.

4 MR. QUEHRN: Actually, what I was going
5 to say was, we would stipulate to the admission of
6 212.

7 JUDGE MACE: I'll admit it.

8 MR. CEDARBAUM: The next exhibit has not
9 been admitted yet either, and I just would like a
10 little foundation on that, please, because I'm not
11 sure exactly where it comes from. I think maybe
12 Mr. Van Cleve was maybe about to do that.

13 (Exhibit 212 admitted.)

14 BY MR. VAN CLEVE:

15 Q. Would you accept subject to check that
16 the numbers in the first column on Exhibit 208 are the
17 same numbers from the second page of Exhibit 212 which
18 you prepared, except that schedules 26 and 29 and 46
19 and 49 have been combined?

20 A. Yes, I would.

21 Q. And would you also accept subject to
22 check that the percentages in the first column
23 represent the percentage rate increase that the
24 company is proposing during the March 15th to
25 October 31st period by rate schedule?

00904

1 A. Yes, I would.

2 Q. And referring to the second column --

3 A. In fact, I had verified those. So I
4 don't need to check those, either of the last two
5 questions.

6 Q. Okay. Have you verified the second
7 column also?

8 A. Yes.

9 Q. And it's correct?

10 A. Yes.

11 Q. And have you verified the third column?

12 A. The GRC column?

13 Q. Yes.

14 A. To that particular exhibit, yes.

15 Q. And are those numbers correct?

16 A. Yes.

17 Q. And have you verified the final column,
18 the total effective increase?

19 A. No. But subject to check I would agree
20 to --

21 MR. QUEHRN: Excuse me, just a question.

22 Do you have the basis to do the check on this?

23 A. Isn't it a simple math calculation?

24 MR. QUEHRN: (Gesturing.)

25 THE WITNESS: Mr. Van Cleve?

00905

1 A. I think he's just combining the interim
2 that's going into the rate year with the increase
3 requested per the general rate case --

4 Q. Right.

5 A. -- so the sum of those two.

6 Q. Would you accept subject to check that
7 the sum of the second column and the third column is
8 indicated in the fourth column?

9 A. Yes, I would.

10 Q. And would you agree that the amounts
11 that are in bold in the first column, when compared to
12 the amounts that are in bold in the third column, show
13 that certain rate schedules, the ones in bold, will
14 have a greater rate increase during the interim period
15 than they would under the general rate case?

16 A. That's correct. Certain of the ones in
17 the interim will have a greater increase.

18 Q. I'd like to offer 208.

19 JUDGE MACE: Hearing no objection --

20 MR. QUEHRN: Your Honor, I have no
21 objection but I just would like to make a
22 clarification. I believe our witness has already
23 confirmed her comfort with the numbers in the first
24 three columns, and the fourth column was offered
25 purely just to do the math, subject to check.

00906

1 JUDGE MACE: Very well.

2 MR. QUEHRN: Thank you.

3 JUDGE MACE: I will admit it on that
4 basis.

5 (Exhibit 208 admitted.)

6 BY MR. VAN CLEVE:

7 Q. I'd like to refer to Page 4 of your
8 rebuttal testimony. And you offer some reasons here
9 in some bullets for rejecting the rate spread
10 proposals that are offered by several of the
11 intervenors. Is that correct?

12 A. That's correct.

13 Q. And with respect to the second bullet
14 beginning at Line 10, or actually beginning at Line
15 12, you state that the company's cost-of-service has
16 not been fully examined in the context of the
17 company's current general rate case.

18 Are you referring to the
19 cost-of-service study prepared by Mr. Heidell?

20 A. That's correct.

21 Q. And have you reviewed that
22 cost-of-service study?

23 A. I've reviewed his testimony but not the
24 details of the cost-of-service study. I am not a
25 cost-of-service expert.

00907

1 Q. I'd like to focus on the next three
2 bullets which talk about ease of verification,
3 administrative burden, and the last one relates to the
4 simplicity of the calculation.

5 Are you aware that the Avista surcharge
6 was implemented on an equal percentage basis?

7 A. No, I was not.

8 Q. And were you aware that the Avista
9 surcharge was then converted to a kilowatt hour
10 charge?

11 A. No, I was not.

12 Q. Would it be possible for Puget Sound
13 Energy to calculate the interim rate increase on an
14 equal percentage basis and then create -- then turn
15 that into a kilowatt hour charge for each rate
16 schedule?

17 A. Our proposal is what it is, and we
18 didn't consider other options.

19 We considered this particular one
20 because it was consistent with the way that we had
21 allocated power costs, which is the main contributor
22 of the request for relief on an equal cents per
23 kilowatt hour basis.

24 Q. And do you believe that you could make
25 the calculation the way Avista did?

00908

1 A. I'm not sure. I haven't seen their
2 calculation, and I don't know whether it would be
3 appropriate in our circumstances.

4 Q. Could you spread the rate on an equal
5 percentage basis and turn it into a kilowatt hour
6 charge per rate schedule?

7 A. The calculation could be performed.
8 Whether it's appropriate or not, I can't comment
9 today.

10 Q. Would it be burdensome to do that?

11 A. I'm not sure.

12 MR. VAN CLEVE: Thank you. That's all I
13 have.

14 JUDGE MACE: Mr. Kurtz?

15 CHAIRWOMAN SHOWALTER: Mr. Van Cleve,
16 you were longer than five minutes.

17 JUDGE MACE: Mr. Kurtz, if your 15
18 minutes is proportionately as long as the five minutes
19 of Mr. Van Cleve...

20 MR. KURTZ: It will be the full 15, but
21 I will try to expedite.

22

23 CROSS-EXAMINATION

24 BY MR. KURTZ:

25 Q. Ms. Luscier, good evening.

00909

1 A. Good evening.

2 JUDGE MACE: Keep it in mind that
3 Ms. Luscier is an accounting witness and not a policy
4 witness.

5 BY MR. KURTZ:

6 Q. In response to Ms. Smith, you gave the
7 capitalization percentages and cost rates from the '92
8 rate case. Do you recall that?

9 A. Yes.

10 Q. And you also gave the long term debt
11 rate of 7.4 percent in the current case. Do you
12 recall that?

13 A. Yes.

14 Q. Could you fill in the blanks for me and
15 give me the percentages and the cost rates for the
16 various capitalizations?

17 A. Certainly.

18 Q. And this is for the currently pending
19 rate case?

20 A. Oh. For the currently pending rate
21 case?

22 Q. Yes. I have it for the old rate case.
23 You gave all those.

24 A. Okay, hang on. I have that too. Hold
25 on one minute, I'm sorry. I've got those.

00910

1 Q. We know the equity percent request is 14
2 percent.

3 A. One second. Okay. Equity 14, right.
4 So we've given you the equity portion, and you want
5 the other components?

6 Q. The percentage of the capitalization of
7 equity is?

8 A. Mm-hmm. 45 percent.

9 Q. 45 percent is what you're proposing?

10 A. Yes.

11 Q. Okay. Long term debt?

12 A. 45.66.

13 Q. Okay. And it's at 7.4 percent?

14 A. That's correct.

15 Q. Okay. The short term debt?

16 A. Short term debt is rolled in with the
17 long term.

18 Q. Okay. And preferred?

19 A. 2.26.

20 Q. 2.26 percent?

21 A. Percent.

22 Q. And the return?

23 A. Is 7.78. And we have trust preferred,
24 which is at 7.08 percent, and the return is 8.58.

25 Q. Give me those again.

00911

1 A. 7.08 ratio, and a 8.58 return.

2 MR. QUEHRN: Excuse me, Your Honor. The
3 general case is also prefiled. If there are data that
4 needs to be collected, I believe it's in the record of
5 this proceeding.

6 JUDGE MACE: Yes, I'm aware of that.
7 But, for purposes of this cross-examination and to try
8 to expedite, hopefully we can just go through with the
9 questions.

10 BY MR. KURTZ:

11 Q. I'll try to be very quick. One last
12 question on this. Does the 45 percent equity ratio
13 reflect the actual equity portion of the utility's
14 balance sheet?

15 A. No.

16 Q. What is the actual equity percentage?

17 A. I'm not quite sure. You will have to
18 talk to -- or you'll have to ask Don Gaines that
19 question.

20 Q. On your direct testimony, and you can
21 avoid referring to it, I saw one sentence where you
22 dealt with the allocation on a straight KWH basis. Is
23 there more than one sentence in your testimony?

24 A. No.

25 Q. Is the method of collecting a rate

00912

1 increase generally considered to be a policy question
2 or an accounting question?

3 A. Can you repeat that question, please?

4 Q. The method of collecting
5 170-million-dollar rate increase from your 940,000
6 electric customers, would you agree that's an
7 important question?

8 A. Certainly.

9 Q. Is that generally a policy question or
10 an accounting question?

11 A. I would say it's a policy question.

12 Q. Why is an accounting witness testifying
13 to that?

14 A. I'm testifying to the accounting.

15 Q. Okay. Would you turn to your rebuttal,
16 please. Page -- you've answered a number of questions
17 on this, I'll try to be brief.

18 Page 2, Lines 22 through 25 where you
19 essentially say if you don't get the full 170.7
20 million, you're not going to keep track of the power
21 costs and therefore issue a refund. Is that right?

22 A. That's correct.

23 Q. And the Gaines testimony that you rely
24 on for that is footnote No. 1 to his rebuttal?

25 A. That's correct.

00913

1 Q. He says -- I can just read it to you:

2 If the Commission --

3 MR. QUEHRN: Excuse me, Your Honor. I

4 believe this is a question that perhaps should be

5 asked of Mr. Gaines if it refers to his testimony.

6 MR. KURTZ: I'll do that. She refers to

7 his testimony, and that's why I am questioning her on

8 it, but...

9 JUDGE MACE: Why don't you question him

10 on this.

11 BY MR. KURTZ:

12 Q. The refund portion of your testimony,

13 Page 3, Lines 3 through 7. You say that if you earn

14 more than 8.99 percent during the 12-month period

15 ending October 31, '02, you'll give back the excess?

16 A. That's correct.

17 Q. Okay. Now is this proposition good

18 under your two-step approach where you only collect

19 136 million in '02, or is it a valid offer if the

20 Commission gives you 170 million in the '02 period?

21 A. That's correct. And in fact the

22 testimony states that regardless of the level.

23 Q. Either way?

24 A. Yes.

25 Q. Now, you chose 8.99 percent because that

00914

1 was?

2 A. It was the melded rate of return from
3 the merger, the two authorized rates of return from
4 each of the company's last general rate case.

5 Q. Does this melded rate of return reflect
6 the actual percentages of equity in your capital
7 structure --

8 A. No.

9 Q. -- at the time?

10 A. At time of the?

11 Q. At the time that the 8.99 --

12 A. It's the authorized rate of return.

13 Q. Was it actual at the time, do you know?

14 A. I'm not sure.

15 Q. Now, who made the policy decision to
16 exclude the gas customers from any rate increase?

17 A. That's something that you would have to
18 discuss with Mr. Gaines.

19 Q. Now, do you agree -- I think you have
20 said that you view the power costs as the driving
21 force, but that the 170.7 million is an overall
22 financial integrity relief to the company?

23 A. That's correct.

24 Q. Overall financial integrity to the gas
25 and the electric company?

00915

1 A. I believe you'll have to take that issue
2 up with Mr. Gaines.

3 Q. Your rebuttal testimony, Page 4, where
4 you list five points why you have rejected the three
5 intervenor approaches on the cost allocation?

6 A. Yes.

7 Q. Are you answering this based on your
8 accounting expertise? Is this testimony based on your
9 accounting expertise?

10 A. To the extent that I -- have prepared
11 the recovery for the interim period, it would be based
12 on my familiarity with types of deferrals in
13 recoveries such as this.

14 Q. Let's go through the bullet points
15 quickly. First sentence, you say the equal cents per
16 kilowatt hour is appropriate, considering the increase
17 was primarily power costs. Is that right?

18 A. That's correct.

19 Q. Are you aware that the power cost
20 expert, Mr. William Gaines --

21 A. Perhaps I'm stepping a little out of my
22 area of expertise in testifying.

23 CHAIRWOMAN SHOWALTER: I need to caution
24 the witness that you need to wait until someone is
25 finished talking. Otherwise, the record will look

00916

1 very jumbled.

2 THE WITNESS: Okay. I apologize.

3 CHAIRWOMAN SHOWALTER: So wait for them
4 to finish. And then wait -- or if somebody objects,
5 then wait.

6 BY MR. KURTZ:

7 Q. How much of the 170.7 is related to
8 power costs? Do you have a precise amount?

9 A. I do not know that amount.

10 Q. Of the amount of power costs within the
11 170.7 million, do you know how much is related to
12 fixed power costs and how much is related to variable
13 power costs?

14 MR. QUEHRN: Objection, Your Honor.
15 This witness is not testifying as to her knowledge of
16 power costs.

17 MR. KURTZ: I am questioning her on her
18 rationale for adopting a straight KWH variable cost
19 approach. If she doesn't know, I guess --

20 A. I had selected that approach because
21 I --

22 JUDGE MACE: Just a moment. And let's
23 deal with the objection; okay?

24 You know, my sense of these questions
25 is that they are related to testimony that Mr. Gaines

00917

1 has proffered, and that you're asking a witness who
2 is not knowledgeable about them. And we're taking up
3 some time doing it when you could get your best
4 information from Mr. Gaines.

5 MR. KURTZ: Well, actually no one from
6 the company knows the answer to this question.

7 Mr. William Gaines testified that he
8 didn't know how much was fixed and variable, and he
9 didn't know how much of the 170 was related to power
10 costs. So I guess no one knows.

11 JUDGE MACE: All right. I'll allow the
12 questions to keep going, but let's be vigilant about
13 what this witness can do and what she can't.

14 MR. KURTZ: Yes, Your Honor.

15 BY MR. KURTZ:

16 Q. The second sentence under your first
17 bullet point, you say the power costs in the company's
18 last rate case were allocated primarily on a flat KWH.
19 Therefore, it's appropriate to do it here in the same
20 manner.

21 When you used the word "primarily," how
22 much in the last rate case was allocated on KWH and
23 how much on demand?

24 A. I'm not sure, exactly. But it would be
25 a significant portion.

00918

1 Q. Here you're proposing a hundred percent
2 on energy, which is not the same manner as the prior
3 rate case?

4 A. Effectively, yes it is.

5 Q. Do you know how much? You just
6 testified you --

7 A. Specifically, I don't know.

8 JUDGE MACE: See, again, we're getting
9 into the same situation that the Chairperson talked to
10 you about, which is you need to wait till he finishes
11 his question and then give your response.

12 BY MR. KURTZ:

13 Q. If you don't know how much of the power
14 cost was allocated on an energy versus a demand basis
15 in the last rate case, and you're allocating a hundred
16 percent on energy on this interim case, that's not the
17 same method, is it?

18 A. No.

19 Q. Second bullet point, you criticize the
20 intervenors for relying on the cost-of-service in the
21 general case because it has not been fully examined
22 and would be premature for this purpose. Is that
23 right?

24 A. That's correct.

25 Q. Do you have any reason to disagree with

00919

1 the company's testimony on cost-of-service in the
2 general case?

3 A. Can you repeat that question, please?

4 Q. Do you have any basis to doubt that the
5 testimony that the company filed in the general case,
6 its correctness?

7 A. Whether it be correct or not, it has not
8 been reviewed. And that is the reasoning behind not
9 using the cost-of-service as -- in -- for the creating
10 the surcharge.

11 Q. My question was, do you have any reason
12 to doubt it?

13 A. No.

14 Q. Do you know if any aspect of the
15 company's power costs have been fully reviewed in the
16 two months' expedited process that have been the
17 subject of this interim case?

18 A. Can you repeat that question, please?

19 Q. Yes. Do you know if any aspects of the
20 company's power costs have been fully reviewed in this
21 expedited two-month interim case?

22 A. No.

23 Q. If the Commission were to accept your
24 standard, that unless things have been fully reviewed
25 they cannot be used in the interim case, you would get

00920

1 no interim increase, would you?

2 MR. QUEHRN: Your Honor, I object. The
3 questions are argumentative.

4 JUDGE MACE: I'm going to sustain the
5 objection.

6 BY MR. KURTZ:

7 Q. All right. Your third bullet point,
8 administratively burdensome. Are you familiar with
9 Mr. Higgins' proposal?

10 A. No.

11 Q. How do you know it would be
12 administratively burdensome?

13 A. Well, I'm familiar with the other
14 proposals but not his, specifically. If you told me
15 what it was I would, you know, say I'm familiar with
16 it or not.

17 Q. He was the --

18 A. I've read the testimony of the other --

19 JUDGE MACE: Again, let me. I know it's
20 drawing late. Mr. Kurtz seems to be a little hot
21 right now --

22 MR. KURTZ: I'm trying to quickly --

23 CHAIRWOMAN SHOWALTER: No. Go ahead,
24 Mr. Kurtz.

25 MR. KURTZ: Thank you, Your Honor.

00921

1 Would you like me to just describe this proposal?

2 CHAIRWOMAN SHOWALTER: I think that
3 she's not familiar with the name of the witness, so
4 why don't you just say on a flat percentage basis.

5 MR. KURTZ: That's actually
6 Mr. Selecky's for --

7 CHAIRWOMAN SHOWALTER: Describe the
8 issue rather than the name of this person.

9 BY MR. KURTZ:

10 Q. He would take the percentage increase to
11 the various rate classes that the company proposes in
12 the general case, get a bucket of dollars. Then he
13 would use the company's billing determinants and
14 spread that on an equal percentage base over all the
15 billing determinants.

16 A. Okay. I think Mr. Van Cleve covered
17 that particular scenario, or method of recovery.

18 Q. Similar. He was talking about spreading
19 it to the rate classes on an equal percent basis and
20 recovering it on a KWH?

21 A. Sure.

22 Q. This is spreading it based on the
23 cost-of-service basis proposal of the company, and
24 collecting it on an equal percentage.

25 A. Okay.

00922

1 Q. How long would it take for you to figure
2 out what the rates would be?

3 A. As I had stated to Mr. Van Cleve, and as
4 I have stated to you earlier, we prepared the
5 calculation for the recovery of the power costs based
6 on the methodology that we felt was most appropriate,
7 which is using the last cost-of-service which the
8 power costs were primarily allocated based on a cents
9 per kilowatt hour basis.

10 And we could provide you -- when we
11 say "primarily," we can provide that number so that
12 we can tell you exactly what percentage was
13 allocated so that we can substantiate our -- the
14 fact that it was a significant amount that was
15 allocated on that basis.

16 And that is our only basis, and that
17 is our preferred method to recover the costs. And
18 we've considered the others, but that is the one
19 that the company has proposed. And you can make
20 your case for your methodology.

21 Q. Thank you. I'm asking you about your
22 fourth point where you said it would be
23 administratively burdensome. And -- the third point,
24 administratively burdensome -- and my question still
25 remains. How long would it take you to implement the

00923

1 federal government's approach; Mr. Higgins', the
2 Kroger approach; or Mr. --

3 A. It would be something longer than it
4 would take to perform it in the method that we have
5 chosen.

6 CHAIRWOMAN SHOWALTER: You need to
7 answer the question as best you can.

8 What he is trying to get at is, of the
9 other methods, is it difficult operationally, or not?
10 Or does it involve taking certain amounts, allocating
11 them in a certain way, and dividing them out in
12 another way.

13 THE WITNESS: To be more specific, is
14 what you're saying?

15 CHAIRWOMAN SHOWALTER: You need to
16 answer his question. He's asking you questions about
17 your testimony, and so you can't put the burden back
18 on him to make a case.

19 If the question is permitted and not
20 objected to, you need to try to listen to his
21 question and then answer it.

22 A. I thought I was answering his question.

23 But to be more specific, then, it's
24 just much more difficult to track those other types
25 of recovery methodologies. There's a lot of system

00924

1 programming that has to take place. There's a lot
2 of other administrative paper-shuffling type
3 responsibilities that would be increased as a result
4 of implementing one of the other recovery
5 methodologies.

6 BY MR. KURTZ:

7 Q. Do you agree that 170 million dollars is
8 a lot of money?

9 A. This is not the primary reason. It's an
10 add-er, it's one of those incremental things.

11 Q. Do you agree that 170 million dollars
12 should be allocated properly?

13 A. Our proposed method is allocating those
14 costs appropriately. And, in fact, reduces the
15 administrative burden as I just specified.

16 JUDGE MACE: Again, let's go back to
17 answering the question.

18 BY MR. KURTZ:

19 Q. I'll ask you one last question on this
20 bullet point. When considering the administrative
21 burden of doing the rates versus the appropriateness
22 of collecting -- of how 170 million dollars is
23 collected from 940,000 customers, how much weight
24 should the Commission give to the paperwork shuffling,
25 as you called it?

00925

1 MR. QUEHRN: I object, Your Honor.

2 BY MR. KURTZ:

3 Q. I'll withdraw the question. Your fourth
4 point is you say you could you more easily track on a
5 KWH basis. Is that right?

6 A. That's correct.

7 Q. You're only going to track if the
8 Commission gives you \$170,700,000, a hundred percent
9 of your request; isn't that right?

10 A. That's correct.

11 Q. If they give you a dollar less, you're
12 not going to track; is that correct?

13 A. That's correct.

14 MR. KURTZ: No more questions, Your
15 Honor.

16 JUDGE MACE: Are there further questions
17 from the bench?

18 CHAIRWOMAN SHOWALTER: No.

19 COMMISSIONER HEMSTAD: No.

20 COMMISSIONER OSHIE: No.

21 JUDGE MACE: Is there redirect?

22 MR. QUEHRN: Yes, Your Honor. A few
23 questions.

24

25 REDIRECT EXAMINATION

1 BY MR. QUEHRN:

2 Q. Ms. Luscier, your testimony that you
3 provided in this proceeding addresses accounting of
4 and -- the mechanism and the accounting for that
5 mechanism -- for the amount of interim relief
6 requested by the company. Is that correct?

7 A. That's correct.

8 Q. Do you have any expertise to offer the
9 Commission other than accounting expertise?

10 A. No, I do not.

11 Q. Do you have any expertise in the field
12 of power costs or any of the financial matters
13 addressed in Mr. Donald Gaines' testimony?

14 A. No, I do not.

15 Q. Do you purport to offer testimony as to
16 any of those matters?

17 A. No, I do not.

18 Q. Ms. Luscier, when Mr. ffitch was asking
19 you some questions, he was drilling down into some
20 definitions that you had used in the accounting
21 methodology that your testimony discusses in terms of
22 implementing the mechanism.

23 Do those definitions, to your
24 understanding, were they used just exclusively in the
25 context of presenting your accounting methodology?

00927

1 A. Yes.

2 Q. Do you understand your use of those
3 definitions to somehow modify the company's proposal
4 for interim relief in any way in terms of how it's
5 stated in the petition or in the testimony of the
6 other witnesses?

7 A. Certainly not.

8 Q. I would once again like to refer you
9 back to Page 2 of your rebuttal testimony, please, and
10 once again to Line 10. And the terminology
11 "consistent with the Commission's order issued under
12 Docket UE-011600," basically the accounting petition.

13 Does "consistency" as it's used in this
14 context refer to the fact that the accounting
15 petition required a -- excuse me, the accounting
16 order that was issued requires a true-up of the
17 forecast to actuals? The order that the Commission
18 actually entered.

19 Let me ask the question again, I'm
20 sorry. It is getting late.

21 The accounting order that was issued
22 requires a true-up of the forecast to actuals. Is
23 that the consistency that you're referring to here?

24 A. Yes.

25 Q. Such that the true-up that you

00928

1 subsequently talk about is for purposes of being
2 consistent with that accounting order. Is that
3 correct?

4 A. That's correct.

5 MR. QUEHRN: I have no further
6 questions.

7 JUDGE MACE: Ms. Smith?

8 MS. SMITH: No.

9 JUDGE MACE: Mr. ffitch?

10 MR. FFITCH: No, Your Honor.

11 JUDGE MACE: Mr. Van Cleve?

12 MR. VAN CLEVE: No, Your Honor.

13 JUDGE MACE: Mr. Kurtz?

14 MR. KURTZ: No, Your Honor.

15 JUDGE MACE: Anything further from the
16 bench? Thank you, Ms. Luscier, you're excused.

17 We'll resume at 9:30 with Mr. Donald
18 Gaines. Is there anything we need to address before
19 we go off the record for the evening?

20 All right, we're off the record.

21 (Proceedings adjourned at 6:10 p.m.)

