BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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In the Matter of the Application of )
)
WASHINGTON WATER POWER COMPANY ) DOCKET NO.
) UE-941053
for an Order Authorizing a Merger with )
SIERRA PACIFIC POWER COMPANY, SIERRA )
PACIFIC RESOURCES, and RESOURCES WEST )
ENERGY CORPORATION, Nevada corporations, )
into RESOURCES WEST ENERGY CORPORATION )

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In the Matter of the Application of )
)
WASHINGTON WATER POWER COMPANY ) DOCKET NO.
) UE-941054
for an Order Authorizing Issuance of ) VOLUME 6
Securities, Assumption of Obligations, ) Pages 700-845
and Adoption of Tariffs )

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A joint hearing in the above matter was held on August 30, 1995, at 1:00 p.m. at Sleater-Kinney Road, Suite Q, Lacey, Washington, via simultaneous video-telecast, before Administrative Law Judge Marjorie Schaer, Commissioner William R. Gillis, Commissioner Richard Hemstad, and Chairman Sharon L. Nelson; appearing in Carson City, Nevada, Commissioner/Presiding Officer Judy Sheldrew and Commissioner Galen Denio.

The parties were present as follows:

WASHINGTON WATER POWER COMPANY, by DAVID MEYER, Attorney at Law, 1200 Washington Trust Building, Spokane, Washington, 98203.

Jennifer M. Hicok, CSR
Court Reporter

NORTHWEST ALLOYS, INCORPORATED, by PAULA E. PYRON, Attorney at Law, 101 Southwest Main, Suite 1100, Portland, Oregon.

WASHINGTON ATTORNEY GENERAL'S OFFICE-PUBLIC COUNSEL, by DONALD T. TROTTER, Assistant Attorney General, 900 Fourth Avenue, Suite 2000, Seattle, Washington 98164.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF, by SALLY G. JOHNSTON, Assistant Attorney General, 1400 South Evergreen Park Drive Southwest, Olympia, Washington 98501.

The parties appearing in Nevada were as follows:

PUBLIC SERVICE COMMISSION OF NEVADA, Carson City, Nevada, by COMMISSIONER/PRESIDING OFFICER JUDY SHELDREW and COMMISSIONER GALEN DENIO.

PUBLIC SERVICE COMMISSIONS OF NEVADA, by KELLY JACKSON, Attorney at Law, 727 Fairview Drive, Carson City, Nevada 89710.

OFFICE OF THE CONSUMER ADVOCATE, by FRED SCHMIDT, Attorney at Law, 1802 North Carson Street, Suite 234, Carson City Nevada 98710.

UTILITY SHAREHOLDERS ASSOCIATION OF NEVADA, by ROBERT CROWELL, Attorney at Law, PO Box 1000, Carson City, Nevada 89702.

NEVADA ALTERNATIVE POWER SOURCE & COALITION, INDEPENDENCE MINING COMPANY, BARRICK GOLDSTRIKE MINES, NEWMONT GOLD COMPANY, by ROBERT MARSHALL, Attorney at Law, 333 Holcomb Avenue, Suite 300, Reno, Nevada 89505.

SIERRA PACIFIC POWER COMPANY, by DAVID NORRIS, Attorney at Law, 6100 Neil Road, PO Box 10100, Reno, Nevada 89502.

P R O C E E D I N G S

JUDGE SCHAER: This is Marjorie Schaer in Lacey, we will be starting the hearing in five minutes. Commissioner Sheldrew, in Carson City, will be convening the hearing at that time.

We are going to go off the record for five minutes for some initial discussion and then we will be back on at 1:00.

(Discussion off the record.)

COMMISSIONER SHELDREW: Good afternoon.

The joint hearing between the Public Service Commission of Nevada and the Washington Utilities and Transportation Commission will come to order.

The record will reflect that this is the time and place set before the Public Service Commission of Nevada regarding the joint application filed by Sierra Pacific Power Company, Sierra Pacific Resources, the Washington Water Power Company, and Resources West Energy Corporation, requesting an order authorizing the merger of those companies and authorizing the transfer of certificates of public convenience and necessity, the issuance of securities, the assumption of obligations, and the adoption of tariffs. This matter is more fully described in the filing designated by the Nevada Commission as Docket No. 94-8024.

The record will also reflect that this is a joint hearing, it's being video-conferenced to the Washington Interactive Television offices in Lacey, Washington, where members of the Washington Utilities and Transportation Commission are present with its Staff counsel, public counsel, intervenors counsel and representatives from the joint applicants.

Before the joint hearing begins, I would like to take a moment to briefly explain the procedure that we intend to follow in this proceeding. We'll begin with introductions of those who are present here in Carson City, and then introductions of those that are present in Washington.

After the introductions, the Washington parties will question the witness panel in Washington, the Washington Commissioners will then ask questions, the parties in Nevada will then be given an opportunity to ask questions of the witness panel in Washington, the Nevada Commissioners will then ask any follow-up questions.

At that time, the hearing will shift back to Carson City and I will ask questions which were set forth in the amended notice of joint hearing. All parties in Nevada will be given a chance to respond to those questions, and an opportunity to ask any follow-up questions of the witness panel in Nevada.

The Commission and parties in Washington will then be given a chance to ask questions of the witness panel in Nevada, and the Nevada Commissioners will then ask their questions of the Nevada witness panel. Upon conclusion of the Commission's questions, the joint hearing will be adjourned.

Also, I would ask to assist the court reporters that anyone that's speaking, please identify themselves before they make any statements on the record.

Appearing in Carson City today for the Nevada Public Service Commission are myself, Judy Sheldrew, Commissioner and Presiding Officer, to my right, Commissioner Galen Denio, and to my left, Ann Wilkenson, my Administrative Attorney.

For Sierra Pacific Power and Washington Water Power?

MR. NORRIS: Sierra Pacific Power Company, David Norris, attorney; to my immediate right is Jon Eliasson, Chief Financial Officer of Washington Water Power; to his immediate right Lester Bryan, Vice-President of Rates and Resources; to his immediate right is Walter Higgins, Chief Executive Officer of Sierra Pacific; and to his right is Steven Oldham, Vice-president of Rates and Regulations.

COMMISSIONER SHELDREW: For the Commission's Regulatory Operations Staff?

JUDGE SCHAER: Thank you.

Kelly Jackson, Staff counsel is with me today, Mr. Terry Daitch is on my right with the Regulatory Operations, and Mr. Phil Williamson, the manager of our audit division, is on my left. Thank you.

COMMISSIONER SHELDREW: The Office of the Advocate for Customers of Public Utilities?

MR. SCHMIDT: Fred Schmidt for the Consumer Advocate.

COMMISSIONER SHELDREW: For the Utilities Shareholders of Nevada?

MR. CROWELL: Robert L. Crowell.

COMMISSIONER SHELDREW: For the Nevada Alternative Power Source and Coalition and Independence Mining Company?

MR. MARSHALL: Robert Marshall.

COMMISSIONER SHELDREW: For Barrick Goldstrike Mines?

MR. MARSHALL: Robert Marshall, Nevada counsel.

COMMISSIONER SHELDREW: And Newmont Gold

Company?

MR. MARSHALL: Robert Marshall, Nevada counsel.

COMMISSIONER SHELDREW: I would note for the record that the Regulatory Operations Staff of the Idaho Public Utilities Commission is also monitoring these proceedings by telephone.

Are there any other individuals that wish to enter an appearance at this joint hearing?

The record will reflect that there were no responses.

The Commission has in its files affidavits of publication regarding notice of this joint hearing. Do any of the parties wish to examine the affidavits on file?

Hearing no request, the Commission deems that this matter has been properly noticed for a joint hearing with the Washington Utilities and Transportation Commission at this time and place.

At this -- are there any preliminary matters that the parties wish to bring to the attention of the Commission before we proceed?

At this time, Ms. Schaer, I'll turn the hearing over to you who will be conducting the hearing in Washington.

JUDGE SCHAER: Thank you.

A couple of preliminary notes. We're picking up sounds from a phone hookup, will the parties that are listening in by phone hookup please mute your phones if you're able to do so, and if you're unable to do so, please ensure that there is no sound at your end of your transmission.

Also I need to let the people know in this hearing room that there is no voice amplification for you speaking in this room, so that you need to speak loudly and clearly enough that the court reporter will be able to record you.

In addition to the Idaho Staff, we also have listening in by telephone a reporter from the Spokesmen Review newspaper in Spokane, Washington, and certain Staff of the Washington Water Power Company.

I am Marjorie R. Schaer, Administrative Law Judge, with the Washington Utilities and Transportation Commission. Presiding today are Chairman Sharon L. Nelson, Commissioner Richard Hemstad and Commissioner William R. Gillis.

Counsel present are David Meyer for the applicants, Sally Johnston for the Commission Staff, Donald Trotter for Public Counsel, and Paula Pyron from Northwest Alloys.

Mr. Meyer, would you please introduce your witnesses?

MR. MEYER: I'll be happy to do so. I'll ask each of my witnesses to state their name and their position and so members of the Washington Commission who may not be familiar with two of our panel members, ask that Mr. Canning and Mr. Malquist briefly summarize their work responsibilities.

MR. REDMOND: I'm Paul Redmond, chairman and CEO of Washington Water Power Company.

MR. BUERGEL: John Buergel, Controller with Washington Water Power Company.

MR. CANNING: My name is Gerald Canning, I'm Vice-President of the wholesale equity business for Sierra Pacific Power Company, predominantly responsible for the operation of generating plants, operation of our control center and for the --

COMMISSIONER SHELDREW: Ms. Schaer? Excuse me.

JUDGE SCHAER: Yes?

COMMISSIONER SHELDREW: Could everybody try and speak up a little bit? We really are having trouble hearing you here.

JUDGE SCHAER: Thank you for letting us know.

Mr. Canning, could you please speak a little louder?

MR. CANNING: Yes.

I am also responsible for the acquisition of fuels and purchase power.

JUDGE SCHAER: Thank you.

MR. MALQUIST: And my name is Malyn Malquist, I'm the Senior Vice-President and the Chief Financial Officer of Sierra Pacific. I have responsibility for finance accounting, regulatory shareholder relations and human resources of the company.

JUDGE SCHAER: Okay. I would like to take formal notices of appearance at this time, please, starting with the company, Mr. Meyer.

MR. MEYER: Thank you.

On behalf of joint applicants, David Meyer, and also appearing on behalf of the applicant, Connie Weistat.

JUDGE SCHAER: And for the Commission's Staff, please?

MS. JOHNSTON: For Commission Staff, Sally G. Johnston, Assistant Attorney General.

JUDGE SCHAER: Public Counsel?

MR. TROTTER: I'm Donald T. Trotter,

Assistant Attorney General for the Public Counsel Section of the Attorney General's office.

JUDGE SCHAER: And for the intervenor, please?

MS. PYRON: Paula Pyron of Ball, Janik & Novack.

COMMISSIONER SHELDREW: Could we have that last name repeated, please?

CHAIRMAN NELSON: You have to shout.

MS. PYRON: Paula Pyron --

COMMISSIONER SHELDREW: Yeah.

MS. PYRON: Paula Pyron of Ball, Janik & Novack, representing Northwest Alloys.

JUDGE SCHAER: Before we went on the record, we discussed several documents that are going to be introduced as exhibits at this time, and I would like to go through now and number them and handle any matters and get them into the record.

The first document that we would like to have read into the record -- or that we would like to marked at this time is a one-page letter and a multi-page document entitled, Proposed Allocation -- excuse me. The first document is the company's response to Bench Request No. 3, the response consists of the stipulation in the Nevada merger proceeding, the press releases related to the stipulation, and the Public Service Commission of Nevada order vacating their August 7th hearing date, and I am going to mark that as Exhibit 136.

The next document is a one-page letter and a multi-page document entitled, Proposed Allocations and Transfer Pricing for Resources West Energy Corporation, preliminary first draft, July 28th, 1995. This document was provided in accordance with the Washington stipulation filed by the parties to this proceeding on August 2nd, I have marked it Exhibit 137.

Exhibit 138 is a seven-page document, which is the Idaho stipulation regarding the proposed merger.

Exhibit 139 is a ten-page document which is the Oregon stipulation regarding the proposed merger.

Exhibit 140 is a 13-page document, which is the California settlement agreement.

Exhibit 141 is a 12-page document dated July 5th, 1995, which is the Nevada stipulation regarding the proposed merger.

Exhibit 142 is a two-page document, which is a summary comparison of stipulations with original filings.

Exhibit 143 is a 15-page detailed comparison of stipulations.

Exhibit 144 is a five-page order approving the merger by the Oregon Commission attaching a ten-page stipulation.

Exhibit 145 is a seven-page order approving the merger by the Montana Commission.

Documents that have been marked as 138 through 145 were pre-filed with the Commission on August 16th, 1995, in response to the Commission's notice of hearing.

Exhibit 146 is the response to Staff Data Request 167.

Exhibit 147 is an Amended Procedural Order of the Nevada Public Service Commission, dated August 3rd, 1995, with an attached press release.

Exhibit 148 is a letter from Washington Water Power Company, dated August 22nd, 1995, including the following attachments; comments of joint applicants, comments of the Public Service Commission of Nevada's Regulatory Operations Staff, comments of the Office of Consumer Advocate, and comments of the Utilities Shareholders Association of Nevada.

It's my understanding that the parties have stipulated to the entry of these documents.

Is there any objection to their entry?

(Marked Deposition Exhibits 136 through

148.)

MR. MEYER: There is none.

JUDGE SCHAER: Hearing none, they are admitted.

(Admitted Exhibits 146-148.)

JUDGE SCHAER: Ms. Sheldrew, do you have copies of all of those documents available to you? Are there any that you would like us to show on the document camera?

COMMISSIONER SHELDREW: Ms. Schaer, we have them all. Thank you.

JUDGE SCHAER: All right.

Next, I would propose to swear in the witnesses in Washington, and, Mr. Meyer, would you please call your witnesses?

MR. MEYER: I would ask that the following witnesses appear to be sworn, Mr. Redmond, Mr. Buergel, Mr. Canning and Mr. Malquist.

JUDGE SCHAER: Okay. I believe that all of you but Mr. Malquist were previously sworn in this proceeding; is that correct?

MR. MEYER: That is correct.

JUDGE SCHAER: Mr. Malquist, will you raise your right hand, please?

Whereupon,

MALYN MALQUIST,

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

Whereupon,

JERRY CANNING, JOHN BUERGEL, PAUL REDMOND,

having been previously duly sworn, were recalled as witnesses herein and were examined and testified as follows:

JUDGE SCHAER: Thank you.

I would remind the rest of you gentlemen that you remained under oath.

COMMISSIONER SHELDREW: Ms. Schaer?

JUDGE SCHAER: Yes?

COMMISSIONER SHELDREW: We're picking up some -- we're picking up some interference right now that sounds like another line or another meeting nearby.

JUDGE SCHAER: We are again having trouble with sound through the phone bridge. We need to have the members of the Idaho Staff who are listening in, mute your phone, if you have not done so. The members of the Washington Water Power Staff who are listening in, mute your phone, if you have not done so.

CHAIRMAN NELSON: Or get off the line.

JUDGE SCHAER: And the reporter from the Spokane Review, mute your phone, if you have not done so, or please get off the line because you are interfering with the hearing.

CHAIRMAN NELSON: Maybe we should have -- do you want to go out and call them?

JUDGE SCHAER: We are going to have a call placed to all of the entities that are on the phone bridge because that is where our interference is coming from, and see if we can get that cleared up.

COMMISSIONER SHELDREW: Okay. We'll -- we can continue on, and we'll just let you know if the interference gets to the point where we cannot hear the proceeding.

At this point, Ms. Schaer, would you like us to swear those witnesses that have not yet been sworn in?

JUDGE SCHAER: I think that would be appropriate if you want to have the witnesses called and sworn there, please.

Whereupon,

WALTER HIGGINS,

having previously been first duly sworn, was recalled as a witness herein and was examined and testified as follows:

Whereupon,

LES BRYAN, STEVE OLDHAM, JON ELIASSON,

having all been first duly sworn, were called as witnesses herein and were examined and testified as follows:

COMMISSIONER SHELDREW:  Ms. Schaer, we have now sworn Mr. Bryan, Mr. Oldham and Mr. Eliasson; Mr. Higgins was previously sworn.

JUDGE SCHAER:  Thank you.

(Discussion off the record.)

JUDGE SCHAER:  It's my understanding at this point, Mr. Redmond, you wish to make some preliminary remarks; is that correct?

MR. REDMOND:  Yes.  Thank you, Ms. Schaer, I would like to.

You might recall that it was January of 1994 when Mr. Higgins and I began discussing the possibility of a merger, and in January or February -- I'm sorry, June of 1994 we made the announcement to the world and to all of the Commissions in all of the states that we were indeed planning to merge our two companies.

Beginning at that time we began the regulatory process starting with SEC and then the FERC and then the individual state jurisdictions.  Our employees since that time have had a lot of decisions to make, those decisions have involved two different severance plans and an early retirement option, and because of that there has been a lot of anxiety in both companies in the past year. However, I am pleased to tell you that with the approval appearing only weeks away of this merger and the employees are now beginning a feeling of enthusiasm, a feeling of excitement about the start of this new company.

So we are looking forward to the start of a new company and to implement the procedures that have been outlined for us and developed by our employees during these past few years.

We also welcome this opportunity to meet with both Commissions and to answer any questions that may be left on the table regarding the merger and the procedures as we move forward.

Now, there are certain prerequisites that were common to all of the states, and I am not sure on our procedures if it's appropriate --

MR. MEYER: It's okay.

MR. REDMOND: -- but I think Mr. Higgins would like to address those principles that we have been tied to and dedicated to in all of the different jurisdictions.

MR. HIGGINS: Thank you, Mr. Redmond.

Commissioners in both states, as you are well aware, because you have received the results of that work, a number of people, including your own Staff, the Consumer Advocate or the (interference).

JUDGE SCHAER: Excuse me. Excuse me, Mr. Higgins, we aren't able to hear at this point. We are having pretty bad interference from the phone link, and we are going to now have to tell those of you who are listening by phone link that we're cutting you off because we cannot hear over the interference. So --

COMMISSIONER SHELDREW: You can see that that got them him all upset.

MR. HIGGINS: Let me test my voice with that and see if it's working satisfactorily.

JUDGE SCHAER: I can hear you better. If you could speak up a bit more, it would be helpful.

MR. HIGGINS: Is this microphone on? I'm speaking right into a mike so maybe we have a little mike problem here.

JUDGE SCHAER: Well, we can hear you just fine --

MR. HIGGINS: One moment, please.

JUDGE SCHAER: -- fine now. Thank you.

MR. HIGGINS: Testing, 1, 2, 3, 4, 5.

JUDGE SCHAER: You're fine now, please go ahead.

MR. HIGGINS: Thank you. I'll start over just in case.

Beginning in the spring of this year, members of the Staffs of each of the Commissions in each state, other than Montana, in which we serve customers, members of the Consumer Advocate or the Red Pair Advocate, the Consumer Counsel, and members of the Staffs of the companies began an earnest working to try to find a way with the intervenors who had entered themselves into the case to see if there might be ways to find stipulated settlements that could be presented to the Commissions in each state.

I'm pleased to say, and the Commissions are all aware, that the result of that work was that in each of the states in which we operate or propose to operate that there were stipulated settlements reached. Those settlements were reached and look different from each other for a variety of reasons, largely because the states are different. There are different customer makeups, there are different laws that govern how the thing works, there are different rules that the Commissions have in place, there are different resources that are in place, there are different customer sets in place, there are different future plans that exist for both companies. And as a result, the stipulations didn't necessarily come to each Commission looking identical among the states, but they did represent what we believe, and I -- you would have to ask the other parties as well, the best possible answer to how to do this if it were to be done, it could be reached by all of the parties in each jurisdiction.

For the companies underlying that negotiation which we felt was an important thing to try to do if possible, were three fundamental principles that we tried very hard to follow and that really lie under all of the negotiation that we have done and, in fact, underline the merger in a very real sense.

The first of those is that our customers must be no worse off as a result of the merger than they were or would have been on a stand-alone basis. In fact, we believe, although it certainly is not something that's a principle, but it's our goal that the customers ought to be better off as result of the merger.

Secondly, we had a principle that the resources which are in a jurisdiction today should remain allocated to that jurisdiction, the jurisdiction of origination for those resources, or jurisdictions as the case may be.

And finally our principle was that

shareholders couldn't be worse off for having merged than they would have been on a stand-alone basis.

And so as we go through the day, we may occasionally refer back to those principles in response to questions about why things were a certain way or why they weren't a certain way, but we believe those principles are important principles for the companies to have adopted, and that they were principles which underlay our negotiations and, in fact, in very large part underlay much of why the merger exists.

We appreciate the opportunity, both Washington Water Power and Sierra Pacific representing Resources West Energy, to appear before the Commissions today, and to echo Mr. Redmond's comments, to answer any further questions that may exist in the minds of Commissioners at this time.

Thank you very much.

COMMISSIONER SHELDREW: Ms. Schaer?

JUDGE SCHAER: Thank you, Commissioner Sheldrew.

We will now take cross-examination of the panel, beginning with Commission's Staff. Ms. Johnston.

MS. JOHNSTON: Thank you, Your Honor.

This is Sally Johnston, Assistant Attorney

General for the Commission Staff.

My first question pertains to the August 3rd, 1995, amended procedural order in Nevada's merger docket, Item 10E, on Page 6, refers to an upcoming September 6th hearing for the purpose of further commission inquiry regarding, among other things, the possibility of a modified stipulation in Nevada.

Now, based on the language contained in the order, are further negotiations or modifications to the stipulation contemplated by the parties, or is it a final agreement as between the parties in Nevada?

MR. REDMOND: As far as the companies are concerned, I can tell you that the stipulation that we have in Nevada now is final. And it is our -- it is our final agreement in terms of the company, and I believe that that was also stated by the other parties involved in putting together that stipulation.

So we do not anticipate that there would be any changes to that stipulation. As a matter of fact, from company, and that's Resource West Energy's perspective, we would be very concerned about any changes to the current stipulation in Nevada.

MS. JOHNSTON: Okay. Could you please turn now to the proposed Nevada stipulation?

MR. REDMOND: Yes.

MS. JOHNSTON: If I could direct your attention to Item 3, on Page 2. Can you comment on or explain the significance of Item 3 in the stipulation? Specifically, the agreement among the parties that the Nevada Commission not explicitly or implicitly endorse the lines of business organizational structure?

MR. REDMOND: I can give you my perception of that -- of that Item No. 3, and that is that Mr. Higgins and I put together an organization structured for the new company, Resources West Energy. We have the opportunity to share that structure somewhat in the Washington jurisdiction and the Idaho jurisdiction, we have not had that opportunity to do so in Nevada jurisdiction. So I think that's one of the issues that are addressed in this Item No. 3.

There are also some -- some other concerns that since the line of business appears to be a different approach in the utility makeup and organization structure, that there may be some variances between different traditional cost information that would be available, and we can assure all parties that there -- that the traditional cost information that has always been available from the utility will continue to be available even though we have separated it out in lines of businesses.

So -- and I think others may be able to elaborate on that, but that's -- that's my impression of that. Just to be sure that the allocation and the costs are -- follow traditional lines and they're not different because we call them lines of businesses.

MS. JOHNSTON: Okay. I will like to move on to Item 4, absent this particular provision in the stipulation, could you comment on what access Staff and OCA would have had to complete books and records of RWE and its ability? Why is this provision in here, I guess is my question?

MR. REDMOND: Well, it really is in there because we wanted to make it perfectly clear that it has always been the practice of the Washington Water Power Company to have its books open and its records open to examination by Commission Staff and -- and particularly Commission Staff, and that we wanted to ensure all parties, particularly in those jurisdictions that were not familiar with the way we operate that that practice will continue into the future. And this Item No. 4 does that, it says that specifically, and I think Washington and Idaho and Oregon can recognize that's not any different than what we have done in the past, but it makes it very clear in the Nevada jurisdiction that that will continue.

MR. HIGGINS: I might, if I could add briefly, my -- this is Walter Higgins -- my own experience has always been one of attempting to cooperate with all requests for access to company records wherever I have worked, and it is my policy at Sierra Pacific that the company will fully cooperate with access to books and records, and in a going forward basis, I offer my commitment, as well as Mr. Redmond's that that is the way that Resources West Energy will operate.

MS. JOHNSTON: Okay. I would like to move on to Item 7 in the RWE stipulation of Nevada, that item reads, "It is expressly understood that the investment and cost to the Alturas, Pinion Pine and Tuscarora Projects shall be directly assigned to the southern operating division and that benefits and savings from these projects shall accrue to southern operating division ratepayers from any surplus energy sales, wheeling, avoided capacity requirements, diversity or other transactions which produce benefits and savings."

My question pertains to the phrase, benefits and savings from these projects shall accrue to southern operating division ratepayers, can the company comment further on that language? And in particular explain how the company proposes to assign benefits when resources from both operational divisions are utilized? For example, I would like to give you a hypothetical question, the Water Power division arranges for a 100 megawatt wholesale power sale to Southern California Edison with a point of delivery at the northern end of Alturas, if Sierra Pacific operating division provides wheeling services to support the sale and delivery to Alturas, at the point-to-point wheeling rate under the RWE open access tariff filed FERC, based on the language in Item 7, who would receive the benefits of this wholesale power sale?

MR. BUERGEL: This is John Buergel.

The wholesale sale itself, if it's made out of the northern division, or Washington Water Power Resources, would be directly assigned to the Water Power division. If Alturas is used as a path to move the power from the north to the south, then there would be a credit that would go back to the southern division for the use of those facilities which are directly assigned to the southern division.

MS. JOHNSTON: With regard to the Alturas, Pinion Pine and Tuscarora Projects, the applicants stated that, "100 percent of the estimated costs in benefits of these assets are being assigned to the southern division."

Now, to the extent that the investment in these projects provides a need for external financing, and to the extent that this additional financing impacts RWE's capital structure and cost, how do you propose to reconcile RWE's capital structure and cost between operating divisions to ensure that these projects have no impact on Washington ratepayers?

MR. MALQUIST: This is Malyn Malquist, perhaps I could answer that question.

First let me start by saying that we believe that the combined company, Resources West, will be stronger financially than either company can be independently. So there is a potential benefit to both sets of customers as a direct result of that strengthening and less risk associated with the investment for the company.

But if you look at the individual capital structures of Washington Water Power and Sierra, as well as Resources West, and the intended capital structure, they are almost identical. If you look at the embedded costs, they are very close to being the same. And we believe that -- that both companies need to continue to do some financing on an ongoing basis over the next couple of years such that whether the company is financed as one or two separately, neither set of customers or shareholders, for that matter, will be negatively impacted by the new financing that takes place.

MS. JOHNSTON: Well, I guess my question is: How do you propose to ensure that there are no adverse or negative impacts?

MR. MALQUIST: Well, I -- I think the insurance that you had is that the rates are frozen for the next five years. We're taking the risk that we can finance those projects and build those projects to the budgets that have been laid out, as well as -- as be able to earn an appropriate rate of return on the projects. We're willing to accept that risk because we have confidence that we, in fact, can produce those projects at the estimated cost and that the financing will not have a negative impact on -- on what essentially is the bottom line for the next five years.

MS. JOHNSTON: Commissioner Sheldrew in her amended procedural order at Page 4 asked the parties to the Nevada proceeding to respond to the question: Are the benefits and savings from the Alturas, Pinion Pine and Tuscarora Projects to be passed on to the ratepayers in their entirety regardless of whether Sierra's return on equity exceeded 12 percent. Do you recall that question?

MR. MALQUIST: Yes, I do.

MS. JOHNSTON: The conflicting answers to that question indicate that there is substantial disagreement among the parties, for example, OCA and USAN answered yes, and the applicants and Staff answer no. Have the parties reached an agreement on that issue?

MR. MALQUIST: I think I should defer this question to Mr. Oldham who was in the negotiations with -- specifically with the OCA and the Staff.

MR. OLDHAM: This is Steve Oldham.

I think everybody in the negotiated settlement -- or stipulation as we had had a different vision for arriving at agreement on any one provision, and that's certainly the case here. However, with regard to Alturas and Pinion, those facilities will be going in to service our customers, and -- over $230 million of additional capital without having a rate increase imposed on those customers to support that capital. And we feel, the company feels that that is a benefit that is directly flowing to the customers, the use of those facilities without having to cause a rate increase for the facilities to be financed, and that will flow immediately as soon as those facilities come on line. The other parties may have had a different view when they arrived at their conclusions.

MS. JOHNSTON: So you don't know the answer to the question?

MR. OLDHAM: That's the company's answer to the question.

MS. JOHNSTON: Well, let me -- let me put it this way, have the parties in Nevada met to negotiate following the filing of the answers to the questions issued in the amended procedural order to discuss this?

MR. OLDHAM: No.

MR. BUERGEL: Well, I -- this is John Buergel.

I think we are still all in agreement as to how the cap and the sharing would work, and in taking into account the cap and whether there is any sharing you will take into account the full cost of service in the state of Nevada, which would include any benefits or expenses associated with these projects.

So to whatever extent our total return in Nevada exceeds 12 percent, then there would be some sharing.

MR. SCHMIDT: Commissioner Sheldrew, may I address the question?

COMMISSIONER SHELDREW: I think,

Mr. Schmidt, if you'd hold off until they get through with all of their questions in Washington, and then you can -- I think that's a question that everybody here should ask -- answer, and we'll have you do that. So I have got it marked down.

MS. JOHNSTON: Well, Commissioner Sheldrew, we have no opposition to hearing from Mr. Schmidt now if it's more convenient.

COMMISSIONER SHELDREW: It's not more convenient for me. So if you just go ahead and then we'll -- we'll come back to those questions that people want to respond to. I'm trying to not get everybody going one way and then another, so that we can kind of track the discussion.

MS. JOHNSTON: That's fine.

COMMISSIONER SHELDREW: I promise we'll get back to that. Thank you.

MS. JOHNSTON: I would like to direct your attention now to item 8 of the Nevada stipulation. The first sentence of Item 8 explains that, "Natural gas load factor savings allocated to Sierra shall not be less than those which currently exist." Now this statement seems to provide a floor for the current statement without considering that market conditions or resource additions could negatively affect the southern operating division's natural gas load factor relative to its current level.

In addition, this first sentence seems inconsistent in that the second sentence, which explains that, "The allocation of the savings shall expressly recognize the impact which Sierra's electric operations has and will have on current and futural natural gasoline factors." This Section 8 provides that Sierra shall receive at least the current load factor of benefits even if its natural gas load factor declines but receive additional savings if its load factor improves.

Now, considering that other jurisdictions may not agree with such a guaranteed savings floor, has RWE considered how to fund any differences in future costs and benefit allocations in other jurisdictions that could arise as a result of this accident agreement?

MR. BUERGEL: Again, this is John Buergel.

I don't see this as a guarantee of any savings to Nevada. What it's intended to do is say that Nevada in the current load factor that they presently enjoy with their eclectic generation down there, will be no worse off as a result of the merger.

Now, there could be other things that might affect that; but as a result of the merger itself, their

-- their load factor would not be affected. And if this creates any allocation problems, we fully intend to work with all of the Staffs to resolve any allocation issues.

MS. JOHNSTON: Please turn to Item 9, that item provides that interdivisional energy and capacity transactions shall only be authorized until January 1, 1997, later it provides that if after January 1, 1998, the Commission finds the actual or proposed interdivisional energy and/or capacity transactions are not in the interest of the Nevada ratepayers, the Commission may determine under what conditions interdivisional transactions may be made to ensure that Nevada ratepayers are not harmed by the proposed divisional pricing.

Is it the intent of this provision to address at some time in the future all terms and conditions of interdivisional transactions or solely the transfer pricing mechanisms relating to these transactions?

MR. BUERGEL: It's -- John Buergel; it's intended to address the transfer pricing mechanism.

MS. JOHNSTON: Can you reconcile these conditions which appear on face to potentially restrict interdivisional transactions with the provisions in the Washington stipulation, mainly Items 1 through 6, in

Section 4, sub part E, regarding allocations?

MR. BUERGEL: Well, it -- it has always been the company's intent that any transfers that occurred between divisions on the electric side would be done at market. And this provision in the Nevada stipulation was put in there to give us, the companies -- the company, Resources West, an opportunity to make the Nevada Staff, NOCA, comfortable with the market pricing mechanism. It's a new mechanism. We want -- we want to give all parties an opportunity to look at it, be comfortable, if there is a way to identify accurately what market pricing would be. And -- and so that's the reason that this provision was put in there.

MR. REDMOND: And I might add -- this is Paul Redmond, I might add that this provision also addresses that principle that Mr. Higgins mentioned in his opening statement, and that is that all of the ratepayers in all of the states would be no worse off due to the merger. And so that's really what this addresses in both -- in all jurisdictions, in Nevada and the northern jurisdictions, California, et cetera.

MS. JOHNSTON: And what if Nevada isn't satisfied with the transfer pricing mechanisms but all others jurisdictions are?

MR. BUERGEL: If -- if Nevada is not

satisfied with the transfer mechanism, then those transactions would not occur. And if the northern division had surplus energy, then it would be sold on the market at a market price to another utility. So the northern division would be no worse off for not having that sale available then to the southern division.

And I might also point out that in terms of the total benefits that were identified in the merger, the $450 million in benefits, there were no benefits, no dollar amount identified associated with these transactions.

MR. REDMOND: And I guess -- this is Paul Redmond again, just -- you know, we are confident that -- that it -- it will be possible to determine what market price is in that time frame, and so that's certainly why we have agreed to it.

MS. JOHNSTON: Item 10 of the Nevada stipulation provides that, "RWE agrees that all retail transactions in Nevada will only be made in accordance with appropriate tariffs or contracts pre-approved by the Commission."

Please explain your understanding of the purpose of this term in the stipulation.

MR. BUERGEL: This item in the stipulation refers to retail transactions, and what it says here is that any retail transaction that occurs in the State of Nevada will be made under whatever the appropriate tariffs or contracts or whatever provisions exist at that time in Nevada law or in the Nevada jurisdiction. It's not intended to restrict our ability to sell power, but merely that it will be done in accordance with whatever rules or regulations exist at that point in time.

MS. JOHNSTON: So you don't believe that this provision is intended to limit the northern division from coming in to offer retail services at all?

MR. BUERGEL: No, I don't believe it is.

MR. REDMOND: I think -- this is Paul Redmond again. I think along -- in answer to that question we must recognize that we are going to be one company, and when we refer to northern and southern division, you know, it's going to be Resources West Energy. So it would be Resources West Energy that would be making the appropriate retail transactions in Nevada that are in accordance with the tariffs and contracts pre-approved by the Nevada Commission, just as they would be doing in all of the other jurisdictions that Resources West operates in.

MS. JOHNSTON: If retail wheeling were to be allowed in Nevada, would this term, in your opinion, subject RWE to different conditions in the competitive market place, or would future legislation allowing retail wheeling supersede this condition, or do you know?

MR. REDMOND: Well, you would have to make a lot of suppositions on that; but if retail wheeling were to be legalized in any jurisdiction that we operate in, then we have the opportunity, if you will, to make contracts or to retain our current customers and not allow them to -- or somehow to encourage them to stay on our system versus somebody else's. And so we would be doing that within the, as it says here, appropriate tariffs and contracts that are pre-approved by the Commissions. You know, that -- that's part of the future that's coming. That's one of the reasons why this merger is proposed to make us more competitive in that retail wheeling arena.

We would hope that we would be able to retain our current customers given the rates that we can offer them and the services that we can offer them. So it -- you know, it -- retail wheeling would -- would more occur by somebody else outside of Resources West Energy offering our existing customers some kind of a better proposal that we think will be very difficult given what -- the benefits the merger will have for those customers.

MS. JOHNSTON: But you would agree, would you not, that if the northern operating division were precluded for all time from wheeling the retail services in the state of Nevada, that a northern operating division would be severely harmed if this were a condition of the merger?

MR. REDMOND: Well, I think that that's true, but I'm not sure that that's what this says. As a matter of fact, to me, that's not what this says. Again, it gets back to the fact that we're not a northern and a southern division, we're one company. And so as one company we would -- we would make every attempt to secure those customers on our system.

MS. JOHNSON: Well, I just have one other clarifying question then. When you say that you don't believe that that's what this says, are you referring to the reference to time, that the northern operating division wouldn't be barred for all time, or that's how you interpret this particular language of the stipulation? You don't think it precludes the northern operating division from entering retail services?

MR. REDMOND: Well, see, I think, Ms. Johnston, we're -- we're maybe tangling with semantics. But to me the -- what we're talking about is

Resource West Energy. Resource West Energy is one company. If -- if -- if our customers in the southern division can benefit in -- in a competitive arena from that combination of the resources in the north and resource in the south, and they were -- then I think they should have that opportunity to do that in a competitive arena.

So it's not like there are two companies, Water Power and Sierra and that Water Power is -- is in Sierra's territory offering different rates than what Resources West Energy would offer. I mean, we have to understand that here we are talking about one company and not two different divisions of that company.

MS. JOHNSTON: Well, I think the focus of my question is not on arguing as a whole, but that if you consider Water Power on a stand-alone basis, Water Power would be precluded from competing, would it not?

MR. REDMOND: But -- but this stipulation -- that's not what this stipulation says. No. 10 doesn't talk about Water Power and Sierra, it talks about Resources West Energy, and I guess that's my point.

MS. JOHNSON: But you --

MR. REDMOND: Now, if you want to talk about outside this stipulation and in the future and there is no merger, then I guess that's a different question.

Is that what you're asking?

MS. JOHNSTON: Yes; and is the answer to my question yes then, Water Power taken alone on a stand-alone basis?

MR. REDMOND: Absent no merger, absent no agreement in Nevada, I'm not sure that -- what that has to do with this particular -- this particular merger and this particular stipulation.

MR. BUERGEL: But even -- even Water Power on the stand-alone basis if we were making retail sales in the state of Nevada, we would be doing that in accordance with whatever rules existed at that point in time. So we would -- we would be doing it on appropriate tariffs or contracts.

MR. MEYER: I -- I think the thrust of your initial question, if I understand it, to which Mr. Buergel responded had to do with whether or not this provision of the stipulation would preclude RWE from doing business on a retail basis anywhere else in Nevada, was that at least part of your initial question?

MS. JOHNSTON: No --

MR. MEYER: Okay. Then --

MS. JOHNSTON: -- but I think I have got a satisfactory answer --

MR. MEYER: Okay. Very good.

MS. JOHNSTON: -- to my question --

MR. MEYER: Very good.

MS. JOHNSTON: -- and I'm willing to move on.

Referring now to Nevada Stipulation Item No. 11, is it the company's intent under this provision to only restrict changes in natural gas transfer pricing methodology as it relates to the southern division?

MR. BUERGEL: No. This Provision No. 11 addresses a specific allocation problem that exists in Nevada, and that's transfer pricing between their electric and natural gas departments, and it's intended only as a -- to address that specific and rather narrow issue, and was not an attempt to address any kind of transfer pricing between the northern division or the southern division.

MS. JOHNSTON: Okay. If you refer now to Item 13, can you provide a brief explanation of the provisions contained in the stipulation in the docket numbers referenced there and explain just what the conditions referenced in the stipulation language which form the basis for the one-time refunds to Nevada's jurisdictional electrical gas customers?

MR. MALQUIST: This is Malyn Malquist, I

would like to address that question, if I might. And it's a -- the second part of the question is -- is somewhat of a difficult one to answer, because again we're dealing with a negotiated settlement where there was give and take in terms of where did the $13 million come from.

I think if you ask that to the negotiating parties, you'd probably get three very different answers on what makes up the 13 million. But the refund itself relates back and is unique to Sierra because it relates back to the 1994 general rate case, which the company filed in the spring of 1994. We reached a settlement agreement with the various parties in the case in June of 1994, shortly before the merger was announced. And in -- in the settlement we received a -- a water increase immediately, an electric base rate increase of 6 and a half million dollars effective in March of 1995, and at the same time we suspended the fuel balancing accounts for both the electric and the gas department until 1997.

Now, a couple of things have happened in the interim, and -- and I should -- I should just say one other thing about the settlement itself. In the settlement we told the Staff and the Consumer Advocate's office that something potentially was on the horizon that could impact the settlement and could impact the company's positioning in 1995, 199 -- and 1996, the period of the settlement, that being the merger, but we couldn't get specific, and so we put a clause in that said that -- that the proceeding could be reopened if there were significant savings that could be had as a result of this pending event.

Now, several things have happened over the period of the last year. One is, I think you all know, purchase power costs and gas prices have decreased significantly.

Secondly is a part of the review of the merger and how we do work at Sierra, we found that there were productivity improvements that could be had that we have started on immediately to try to capture. The Staff at the Nevada Commission knew all of these things, the Consumer Advocate's office knew these things, and because of the merger and the tag that -- that we gave to that rate settlement that we could come back in and reexamine some of these things, we concluded that all -- together that we would give a refund of 13 million, and it results from productivity improvements, it results from fuel and purchase power savings, and a -- and a number of things like that.

Again, I would reiterate, however, the

source of the 13 million, probably you would get a different answer from all three parties.

MS. JOHNSTON: With regard to the one-time $27 million rate increase included in the original rate plan, the applicants have stated that Page 3 of their comments to the Nevada Commission that both Pinion and Alturas have received whole resource planning approval NRS-704110, Sub Part 8, deems an investment made in the utilities facility accepted in a resource plan to be a prudent investment and remits recovery of all full and reasonable costs.

Now, does this statement mean that the applicants believe that $27 million rate increase would likely have been approved by the Nevada Commission in 1997?

MR. MALQUIST: Malyn Malquist again. We do believe that -- that we would have been allowed to have full recovery in rates of those particular projects. The projects themselves, the -- the base rate increase required to support the Pinion Pine Power Project and the Alturas Transmission Line is greater than 27 million. However, like we're doing in some of the other jurisdictions, we have used some of the merger savings to offset some of the necessary increases for the Nevada jurisdiction of Alturas and Pinion. They're offsetting other savings, obviously, in Washington and Idaho and California. So the answer is, yes, we do believe we would have had full rate base treatment of those. There are fuel expense offsets that result from the plants also, I -- I should indicate.

MS. JOHNSON: In your view, which do you believe is more likely, that RWE would, a) receive a full $27 million rate increase in 1997, or b) achieve 27 million in gas cost savings in each of the years 1997, 1998 and 1998?

MR. MALQUIST: Well, we have as part of the stipulation concluded that we could absorb the $27 million of required rate increase that we had initially filed as part of the merger docket, and a couple of things have -- that contribute to that. Part of that is, as you referenced, there are fuel savings associated with bringing those projects on line, and we had assumed in the filing that -- that we would continue to operate under a deferred energy clause and that those savings would flow back to the customers automatically. By suspending the deferred energy clause through the -- the stipulation period, that allows that decrease to offset part of the increase that otherwise would be needed.

There are a couple of other items that help us offset the 27 million. For example, when we filed the case, at the time we filed the case we did not know for certain that we would get a 6 and a half million dollar base rate increase. Now that we have that, we no longer need as high a revenue requirement as was indicated in the merger filing.

And finally I would indicate with -- with the suspension of the deferred fuel account, what's happened with the gas price market -- gas markets, as well as purchase power, we feel confident that we can offset the remainder of the necessary increase for Alturas and Pinion because of the improvements that we have seen in the fuel markets recently.

So we're -- we're taking the risk that we can do that, obviously, but we feel comfortable that -- that we can absorb those cost increases as a result of all of the things that I have mentioned.

MS. JOHNSTON: Please turn now to Item 21. Is it the parties' intent of this provision to dictate which will be included for cost recovery in rates for all jurisdictions, or is this statement meant to address some particular concerns in the Nevada Commission?

MR. BUERGEL: This is John Buergel. Actually, it was the company -- companies that asked that this statement be included in the stipulation, and it was asked to be included merely as a statement of principle as to how we would handle costs. And it's very consistent with the way our direct case was put on. That is, that costs would first be directly assigned to the respective operating divisions and then any common costs would be allocated between divisions.

So I think this statement is consistent with the way we will approach cost allocations.

MS. JOHNSTON: The applicants have agreed in Nevada to forego a forecast of $35 million revenue increase in 1997, among other refunds. Is it true that Sierra Pacific would not have been in a position to forego such an increase absent a merger with Water Power?

MR. MALQUIST: This is Malyn Malquist again. And the answer is, yes, we would have needed some -- some sort of an increase. As I mentioned, some of those -- a portion of the increase is -- has potentially been offset by a lowering of fuel expenses and -- but if you're looking strictly at base rates, there would have needed to be a base rate increase associated with those two major projects that we're bringing on line in 1997 -- excuse me, 1996.

MS. JOHNSTON: And you would agree, would you not, that this foregone increase should be viewed as a merger wheeling to benefit to Nevada ratepayers?

MR. MALQUIST: No. I think I would not totally agree with that. As I indicated, we were able to offset about 8 million of the 35 million from some -- some merger-related savings; however, the majority of the remaining 27 million is being offset by fuel savings as a direct result of bringing the Pinion Pine and Alturas Projects on line, as well as the lowering of fuel expenses, and our willingness to accept the risk that we can manage those lower fuel expenses over the next several years, and I -- that is not related to the merger.

MS. JOHNSTON: So it's largely fuel savings --

MR. MALQUIST: Well, I --

MS. JOHNSTON: It's largely fuel savings that enable the company to forego the $27 million rate increase?

MR. MALQUIST: It is largely fuel savings, a portion of which are directly attributable to those two units or those two assets that we're bringing on line, and a portion of which is -- is the company's willingness to accept of the risk that the current fuel -- low fuel prices will stay in existence in 1997, '98 and '98.

MS. JOHNSTON: And these fuel savings,

though, would otherwise have been kept by Sierra absent the merger?

MR. MALQUIST: They would have flowed, starting 1997, I'm assuming we'd back on the deferred energy accounting and have a fuel balancing account and they would have flowed to the customers of Sierra Pacific at that time, yes.

MS. JOHNSTON: What action is Sierra taking to lock in enough fuel savings relative to the current fuel rate to cover the $35 million increase which was intended to cover Pinion and Alturas Projects?

MR. MALQUIST: Malyn Malquist again. We have locked in a majority of our natural gas through the winter of 1997, and at a meeting we had yesterday we approved locking in potentially as much as 50 percent of our natural gas through the stipulation period so that we could take advantage of today's lower gas prices.

Our coal prices are -- are essentially locked in already, because we have long-term coal contracts in existence and there is not much we can do to lock in purchase power prices, but on the natural gas we are taking steps to lock in a -- a portion of that at least so that we are sure that -- we have some assurity that we can accomplish those savings. We're still taking some risk, we haven't locked it all in, but we are attempting to lock in a portion of the savings.

MS. JOHNSTON: Now, with regard to these fuel savings, there is no similar pass through of those savings appearing in the Washington stipulation; is that correct?

MR. MALQUIST: I believe in the Washington stipulation that -- that Washington continues to have a purchase gas adjustment clause, and so there is -- there is a significant difference there from the stipulation that we have reached with the parties in Nevada.

MR. BUERGEL: In Washington -- this is John Buergel. In Washington we have the purchase gas adjustment clause on the gas side, on -- obviously on the electric side there is no pass-through clause presently existing.

MS. JOHNSTON: Is it true that it is not the intent of the merged companies to pass through benefits to one division at the expense of the other? By that I mean that one division's benefit is not to be subsidized by the other; is that correct?

MR. BUERGEL: That is correct. We're -- we're hoping that we put in place allocations that properly allocate the benefits to both divisions.

MS. JOHNSTON: And the applicants remain committed to a fair and equitable sharing of merger-related benefits; is that correct?

MR. BUERGEL: That's correct.

MR. REDMOND: Yes.

MS. JOHNSTON: In fact, an explicit provision in the Washington stipulation is that merger savings and benefits should be shared 50/50 with an additional allowance in recognition of the more favorable contributions in efficiencies of the northern division, and those of the northern division brings to this merger; is that correct?

MR. BUERGEL: That is a language in the Washington stipulation, and what that language does is creates an audit trigger. If the allocation is somewhat different than that, and not only the company, but I'm sure both the Nevada and Washington Staffs would want to look at why those allocations might be different than that.

MS. JOHNSTON: Would you agree that relieving Nevada ratepayers of the $35 million rate increase with no corresponding benefits to the ratepayers in the northern division would nowhere approach the 50/50 range?

MR. MALQUIST: I disagree with the way you have characterized that; because the 35 million, as I have mentioned, only 8 million of that is essentially coming from merger savings.  Washington Water Power had forecast two rate increases, I believe, over the next five years that they would be seeking, and those are being entirely offset by merger savings.

Sierra is committed to offsetting any other necessary increases that result from inflation or customer growth.  We have tried to -- I mean, each -- each stipulation, as we said earlier, is very unique, but I think the concept is that -- that customers in each jurisdiction would be treated equitably and fairly based on the assets that are serving them, and I think we have accomplished that.  I don't think -- I definitely do not agree with the characterization that Nevada customers are getting something that Washington customers aren't.

MR. REDMOND:  I think that is -- this is Paul Redmond again.  I think that's right.

The stipulations have to be taken in their entirety.  The stipulation was agreed to in its totality and not each piece.  So as you examine each piece and you say, well, what if we were to change this, you change the entire stipulation then when you do that. And you can look at the Washington stipulation, as Mr. Malquist indicated, we are deferring what we anticipated would be rate increases because of the merger. Because of the merger, it gives us the opportunity to extend to Washington customers 14 years of no rate increase. I don't know any utility in the United States that can point to that, because we have had, except for small adjustments since 1986, 14 years of no rate increases if we go through the year 2000. So -- and we also, as you recall in the Washington stipulation, talk about demand side management and what we're going to do with that and those costs and they're significant too.

So each stipulation has its own special criteria, but the principles that were reiterated by Mr. Higgins at the beginning, the three principles are common to all of them.

MS. JOHNSTON: That's all I have.

Thank you.

JUDGE SCHAER: Before we go ahead with questioning by public counsel, I have been informed by our site operator that we have reconnected the Idaho Staff and I believe the Water Power Staff in Spokane, and we'd like to take just a moment to test the lines and make sure that they're being able to hear and to praise them for being quiet, and then we'll continue.

Can you hear me in Idaho?

A VOICE: Yes, we can.

JUDGE SCHAER: Thank you. Can you hear me in Spokane?

A VOICE: Yes, we can.

JUDGE SCHAER: All right. Thank you. We'll proceed.

Mr. Trotter, do you have questions?

MR. TROTTER: I just have a few.

The first was for Mr. Redmond, but I can wait a second.

Mr. Redmond, just in your last answer you indicated there were no rate increases in the last 14 years for Water Power, or just minor ones, and certainly you would consider the tariff rider increase of October of '94 to be a rate increase, wouldn't you?

MR. REDMOND: And I would consider that to be a minor one.

MR. TROTTER: And with respect to purchase gas adjustments over the last 14 years, there have been several of those, have there not?

MR. REDMOND: There -- absolutely, and I was referring more to the electric side, of course, rates have been frozen on the electric side, as you know, since 1986, but not on the natural gas side, yes.

MR. TROTTER: And by frozen, again you would not include the rider in that characterization, would you?

MR. REDMOND: No. As I say, there are -- there have been minor adjustments; but certainly if you look at the 14 years and inflationary factors, those increases would be considered to be minor in anybody's evaluation.

MR. TROTTER: Are you suggesting that electric rates traditionally have or should follow a consumer price index?

MR. REDMOND: No, sir. I'm suggesting that in the case of the Washington Water Power, unlike any other utility that is regulated by this or any other jurisdiction in the western United States has been able to stabilize its rates since 1986, and we point to that in pride.

MR. TROTTER: And your load growth projections for the next year is approximately nine/tenths of one percent; is that correct?

MR. REDMOND: No, sir, that's been revised, and I believe it's 1.8 percent now.

MR. TROTTER: With respect to the questions from the Commissioner in Nevada, this was touched on by Commission Staff, I want to also focus on Question A for single I, are the benefits and savings from the Alturas, Pinion Pine and Tuscarora Projects to be passed on to ratepayers in their entirety regardless of whether Sierra's return on equity exceeded 12 percent, and the Consumer Advocate in Nevada answered that question yes, and the Staff in Nevada and I believe the company in Nevada answered no; and I guess we'll hear from Mr. Schmidt later, but my question to this panel is based on your reading of the answers, is there, in fact, a discrepancy in the responses? And if your answer is yes to that, how will that discrepancy be resolved?

MR. BUERGEL: This is John Buergel. I -- I guess I go back to my earlier answer, I -- and I will have to let Mr. Schmidt speak for the OCA, but I still believe that the cap that is put in place and the sharing mechanism will dictate to what extent any amounts are refunded to customers over that rate freeze period.

The investment and the benefits of Alturas and Pinion Pine and Tuscarora will be directly assigned to the Nevada -- or I should say the southern division, and to whatever extent there are benefits that accrue from those projects, those will be 100 percent figured in the calculation of whether there is any sharing between customers and shareholders.

MR. TROTTER: So do I take it from your answer that this appears to -- until we hear from

Mr. Schmidt we won't know, and we won't hear that for a while, but it sounds to me like it's a -- as far as you're concerned there's not a dispute?

MR. BUERGEL: Well, I'm comfortable with the answer that we gave and feel it's consistent with the stipulation that was signed.

MR. TROTTER: Okay. A question first to Mr. Malquist I think, you referenced a 6.5 percent base rate increase; is that right -- or was that million?

MR. MALQUIST: That's $6.5 million base rate increase.

MR. TROTTER: What percentage was that?

MR. MALQUIST: I -- I don't have that figure in mind, it's a fairly small --

MR. TROTTER: Under 3 percent? Under 3 percent?

MR. MALQUIST: Mr. Oldham, do you know the answer to that?

MR. OLDHAM: This is Steve Oldham, it's a little under 3 percent, yeah.

MR. MALQUIST: A little under three percent.

MR. TROTTER: And do I take it correctly that that -- the rates that resulted from that increase are the rates that are now frozen under the Nevada stipulation?

MR. MALQUIST: That the rates had been frozen since March, since the rate change that took place. Actually, that -- it was effective later in the spring but it was calculated retroactive to about mid-March time frame.

MR. TROTTER: So frozen rates include that increase?

MR. MALQUIST: Yes.

MR. OLDHAM: This is Steve Oldham again --

MR. TROTTER: And what --

MR. MALQUIST: If I might, let me -- let me just -- just clarify.

There was a base rate increase at that point in time, but that also corresponded with the suspension of the deferred fuel account, which -- at which time was in an over-collecting position, it was an over-collecting rate of about $17 million that was in effect at that point in time. So the net change to the customer was a decrease of about $11 million effective when that -- when that took place. So there was a -- a negative fuel adjustment rate of about 17 million, there was a positive base rate increase of about 6 and a half million that were netted.

MR. TROTTER: But the fuel adjustment would have been to track actual fuel costs?

MR. MALQUIST: It -- it occurred at the time that the balance -- in the balancing account crossed zero. And we said at that point in time we would suspend the deferred account, bring the rate to -- bring the balancing rate to zero, there is still a fuel rate, obviously, in effect, and the company would accept the exposure or the risk in deviations of fuel prices from that point until 1-1-97.

MR. TROTTER: And with respect to the $27 million increase that was initially anticipated, what percentage did that amount represent?

MR. MALQUIST: Mr. Oldham, I would defer that to you also.

MR. OLDHAM: About 7 and a half percent or so.

MR. TROTTER: And with respect to the refunds, the 9 million and $4 million, do I take it those do not change base rates, they are just a one-time credit to customers?

MR. MALQUIST: They are a one-time credit to the customer's bill, yes.

MR. TROTTER: Now, if the -- just a couple of more questions.

If the $27 million was offset by fuel savings, how would you have proposed to prove your case in Nevada given that fact?

MR. MALQUIST: Well, I -- I think the case would have been a base rate increase that strictly would have dealt with the need to put those assets and whatever the total capital associated with them and the O and M expenses associated with maintaining them into the base rates. The deferred mechanism which was scheduled to start again 1-1-97 would have accommodated and would have assured that fuel savings associated with those two projects would have flowed back to the customers. We would have had to initiate the base rate increase through a general rate filing that we would have made in 1996. The fuel offset would have -- would have just flowed to the customers.

But -- but let -- let me -- let me say that -- I mean, the reason that the projects were approved were two reasons. One was that we were able to prove to the Commission in part of the resource plan the need for the project and that they were the most cost effective projects. So that the Commission has examined the savings or the fuel costs associated with those projects in approving them in the resource plan.

MR. TROTTER: I understand that. But I guess my question was: Would you have been entitled to a $27 million base rate increase if there were offsetting fuel savings of the same amount?

MR. MALQUIST: Well, we -- we would have had to prove the case that the $27 million was appropriate; but the answer is, yes, there would have been a normal, assuming we could make that -- present that proof, there would have been a base rate increase associated with putting those assets in place.

Now, at the same time, the Commission -- it would be part of the general rate case, and so the Commission would look at other expenses and there might have been other O and M type expenses, savings, some of the productivity enhancements that we're putting in place today perhaps would have offset some of those. I -- I can't tell you where we would have been given the changes that have occurred over the last year or two. But at the time we filed the case, we were projecting the need for a $35 million base rate increase at the time we filed the merger, that's what -- that was our projection, which was offset about $8 million which was offset by merger savings.

MR. TROTTER: Those are all of my questions. Thank you.

JUDGE SCHAER: Thank you.

Ms. Pyron, do you have questions?

MS. PYRON: Yes, I do. Thank you. Paula

Pyron for Northwest Alloys.

I think the discussion would probably be directed to Mr. Malquist, going back to their earlier questions on Paragraph 13 on the refund, is the $13 million credit that you -- you used that term -- a new number different from the number that was in the stipulation in Docket 94-6020? Was there a different number provided for as a refund in that earlier stipulation?

MR. MALQUIST: There was no number calculated in the earlier stipulation. There was an avenue for the Staff or the OCA to make a case that some adjustment in rates might be warranted as a result of this unknown event occurring. The $13 million is something that was negotiated and arrived at by the parties just a couple of months ago.

MS. PYRON: Does the company have a specific time estimate for when its next PGA filing will be made in Washington at this point in time? Do you have that date in mind?

MR. BUERGEL: John Buergel. No, we do not have a specific date, but we are still anticipating that that will occur approximately 1 November.

MS. PYRON: I have no further questions at this time.

Thank you.

JUDGE SCHAER: Thank you.

Commissioners, do you have any questions?

CHAIRMAN NELSON: I'll ask one.

Paragraph 21 --

MR. REDMOND: Of the --

CHAIRMAN NELSON: -- of the Nevada stipulation, Page 9, the principle reflected there, will that principle apply to any future stranded costs?

MR. BUERGEL: Well -- John Buergel -- I would hope that when we're -- I'm not sure what you're referring to when you talk about stranded costs. I would hope that as a result of the merger, a direct result of the merger there are no stranded costs, that the allocation of costs north and south and in by jurisdiction that the company is able to recover its full cost of service. This paragraph was specifically talking about common costs as a result of the merger.

CHAIRMAN NELSON: Well, let me ask the question then another way.

Moody's recently issued a study of potentially strandable costs by a company, it's in the public domain, it's not in our record, but I believe it indicated that at least from Moody's consideration Water Power had zero potentially strandable costs, whereas

Sierra had quite a potential for strandable costs. I guess my question is: Is this going to be a Nevada problem, or will it be a problem for the jurisdictions of the merged company?

MR. BUERGEL: Well, I am --

MR. HIGGINS: This is Walt Higgins. Do you mind if I take a shot at that?

CHAIRMAN NELSON: Okay. No.

MR. HIGGINS: Commissioner?

CHAIRMAN NELSON: No. No.

MR. HIGGINS: I think it's fair to say that the companies in negotiating the stipulation were not attempting to negotiate any stranded cost issues that might ever arise, and I think it's certainly fair to say that one of the reasons why both companies are merging, as Mr. Redmond said at the outset, is to put the companies, regardless of whether the stranded costs exist today or might arise in the future for events as yet unknown, should problems come to mind for some jurisdictions, are trying very hard to create the competitive position to avoid there ever arising stranded costs because they would only arise if you lose customers, and we don't want to ever lose a customer, just as Mr. Redmond said.

So -- so we're doing what we think we need to do to prevent stranded costs whether currently apparently in existence or futurely potentially in existence from ever having to be dealt with if at all possible by these companies. The idea, however, that I think underlies your question is one that, you know, it certainly has to be talked about at some point in the future but it was not a part of the stipulation.

CHAIRMAN NELSON: Okay. Thank you. That's all I have.

JUDGE SCHAER: Anything else, Commissioners?

COMMISSIONER HEMSTAD: Well, I guess I would like to pursue that answer.

One of the objectives of the merger is to, paraphrasing your answer, minimize the risk of a strandable cost. Well, what if there are some, how will those stranded costs burdens be allocated?

MR. HIGGINS: This is strictly my opinion, Commissioner -- Walter Higgins -- I don't think that we have an answer to that question. I think there is a great deal of debate, both nationally and in each state that is going to have to go on about the recoverability of any stranded costs that might ever exist, and, you know, I think there are -- there are very important public policy questions to be discussed and the companies and the Staffs and the Commissions and all of the customers are going to have to discuss this together to decide when and how any stranded costs that might ever exist might be dealt with.

It seems that our -- the right thing to do for the company seems to be to me first to try to eliminate the possibility of stranded costs by improving our operations, getting our costs lower. And in Water Power's case, Moody's I think is correct, there probably aren't any stranded costs in the short term, but none of us know what the world holds in the future, and stranded costs can arise in the future from things that we don't even expect today, just as most people when they invested in various things that they invested in that are not considered stranded costs didn't think they were doing that. But it's certainly possible to imagine if there were stranded costs that are deemed assignable to a jurisdiction, that those stranded costs following the principle in Question 21 ought to remain with that jurisdiction and not be pushed to another jurisdiction, but that's not a part of what the merger stipulation attempted to negotiate. And I'm only speaking philosophically on that point, not with any attempt to make policy because I think we have not worked through that.

MR. REDMOND: And I think -- this is Paul Redmond -- what Walt said is exactly right, that, you know, it's our intention that we would never have any stranded costs, but given that there could be some we have to go back to the principles that we talked about earlier that ratepayers, customers, if you will, in every jurisdiction will be no worse off than they otherwise would have been without the merger. So that says that, as Walt just expressed, that if you do have stranded costs in, say, Nevada, then those stranded costs would remain with the Nevada jurisdiction.

COMMISSIONER HEMSTAD: That's all I have.

JUDGE SCHAER: At this point in the hearing we would like to transfer the hearing back to Commissioner Sheldrew in Nevada and let her preside over the questioning of this panel by the Nevada Commissioners and counsel.

COMMISSIONER SHELDREW: Thank you, Ms. Schaer.

We'll begin by asking if any of the parties have any questions or clarifications relative to any of the discussions that have been held before the Washington Commission? I know, Mr. Schmidt, you wanted to add something relative to your response to a question in our amended procedural order, so if you would like to start off.

MR. SCHMIDT: I would like to add some clarity to the apparent discrepancy that I don't think is really a discrepancy in the answers to the Commission's notice Question 4 Sub I.

The question to me starts with the premise in reference to a press release my office issued through the Attorney General's office. The sentence that's referred to place the Alturas and Pinion Pine Projects and Tuscarora Projects indicates that the -- they benefit and savings expected from those projects would be attributed entirely to Nevada ratepayers. And the purpose of that sentence was to reflect that portion of the Nevada stipulation which was already discussed which distinguishes between those ratepayers and ratepayers of the newly merged company in the northern division as contrasted to the way the question under Sub I references those savings and refers or reflects the 12 percent return on equity threshold, which is another element of the stipulation.

In the release that my office issued the 12 percent threshold was acknowledged as a triggering point at which time 50 percent of earnings in excess of that would be shared between ratepayers and shareholders. When my office answered the Commissioners, the Nevada

Commission's question related to those two statements, we answered the question yes, because the purpose of the quotation that was referred to as a premise of the question was to reference the attribution of those savings and benefits to Nevada's ratepayers.

We are not in disagreement with the way in which other parties answered that question which focused on the 12 percent equity that the manner in which the threshold applies and begins to share savings between shareholders and ratepayers works in the way in which they described it. And I think the fact that some of us answered so quickly yes or no is that we both interpreted the questions somewhat differently in terms of what its intent -- or what was being requested. But I don't think that there was any disagreement between Sierra Pacific, Washington Water Power, my office, or the PSC Staff as to how the mechanism works, and more importantly, which we believe is the thrust or the reference to those projects, how those allocations are going to be made in regard to those projects as they affect Nevada ratepayers. And I hope that clarifies what otherwise appears to be contradictory answers, because I wasn't bothered by them but I could see how others might be just reading them just immediately on their face.

COMMISSIONER SHELDREW: Do any of the other parties in Nevada wish to comment on that particular issue?

MR. CROWELL: Since the Shareholders Association --

COMMISSIONER SHELDREW: Mr. Crowell?

MR. CROWELL: Since the Shareholders Association apparently answered the question or questions in the same manner that the Consumer Advocate did, I would once again call to the parties' attention that it is unusual that shareholders agree with the Advocate, but not only did we agree in our response to the answer, but I'm tempted to agree and do agree with Mr. Schmidt's analysis, and I would like to explain why we answered the way we did. And I think in order to do that it's important that the parties, and the Commission both in this state and in Washington, realize the purpose of why I put in a preliminary matter in my answer, and it read that, and this appears on Page 2 of my comments, it says, second, the Commission's request that the parties comment on the press release of one party is difficult, at best. A press release is neither argument of counsel nor testimony under oath. The only person or entity who knows what any particular phrase or statement in a press release was intended to convey is the person making the statement, in this instance the OCA. The comments submitted hereafter necessarily make an assumption as to what the author might have intended and what the Commission wants to jointly address.

I looked at the questions that the Commission asked me to address, and I looked at Mr. Schmidt's press release. Mr. Schmidt's press release, the end of it states, benefits and savings expected from Alturas, Pinion Pine and Tuscarora Projects will be attributable entirely to Nevada ratepayers. I believe that was an accurate paraphrase of what is found in the stipulation; however, I read that in conjunction with what Mr. Schmidt's press release further stated on the previous page, which stated that the company will be required to file annual earnings reports during the rate cap period and earnings above 12 percent return equity will be shared equally by the ratepayers and shareholders. Ratepayers will receive their share of any such earnings in the form of annual refunds beginning in 1998.

Accordingly, I understood the -- the question with respect to the pass-along of benefits and savings with Alturas not to be linked to any particular 50/50 sharing, because I figured that was already covered in Mr. Schmidt's press release regarding the sharing provision earlier in his press release.

So to that extent, I apologize if I may have misled the parties, but I believe that my answers are consistent with that presented by the company and explained by Mr. Schmidt, and I would be happy to answer any questions regarding my interpretation regarding what I intended to say.

COMMISSIONER SHELDREW: Mr. Crowell, thank you for your clarification. I must admit that I am disappointed that we don't have a forging of a new alliance between USAN and the Office of Consumer Advocate. I thought indeed we were already reaping the benefits of a new competitive environment, and I am -- I am sorry to say that that isn't exactly the case, but I'm sure that there will be other opportunities.

MR. CROWELL: We're working on it.

COMMISSIONER SHELDREW: Good. Good. I'm glad to hear that.

Does anybody else care to comment on that particular issue?

Then what I will do at this point is go around the table and ask if anybody wishes, any of the parties in Nevada wish to ask any questions or make clarifying statements about any of the questions that came about. We'll start first of all -- oh, okay.

Commissioner Denio?

COMMISSIONER DENIO: I would just like to make an observation, from what Mr. Crowell and Mr. Schmidt just said it's apparent to me that Paragraph 7 is entirely consistent with what is contained in Paragraph 15, and that's the earnings mechanism, sharing mechanism; is that correct?

MR. CROWELL: This is Mr. Crowell, that's what I understand.

COMMISSIONER DENIO: Okay.

MR. SCHMIDT: It's intended to be consistent, yes.

COMMISSIONER DENIO: Okay. Thank you.

COMMISSIONER SHELDREW: Okay. We'll start with the Office of Consumer Advocate, Mr. Schmidt, did you have any questions of any of the parties in Washington?

MR. SCHMIDT: No, I do not, Commissioner. I don't have questions of the other parties. I find their answers in response to your notice and questions to be consistent with generally and in all instances consistent with the agreement that we have reached, and still would like the Commission to support the approval.

COMMISSIONER SHELDREW: Thank you,

Mr. Schmidt.

Staff, Mr. Jackson?

MR. JACKSON: Yes, this is Kelly Jackson, Staff Counsel. I do have two or three clarifying questions. I had actually intended to reserve these for the Nevada panel, but given the way that these issues were raised in Washington I think it might be worthwhile to just try to get through them here.

I would like to address a couple of questions to Mr. Buergel. Ms. Johnston had posited a question that asked what the companies' plans for -- what the companies' plans might be in the event that there were any shortfalls, black holes, that might be developed as different state jurisdictions address allocations or other issues, and I believe that Mr. Buergel indicated that it was their intention to try to make sure that that didn't happen by working out mutually acceptable agreements between the joint applicants and the individual states, but I would like -- I do have some clarifying questions in that particular regard.

Mr. Buergel, do you remember that line of questioning from Ms. Johnston?

MR. BUERGEL: Yes, I do.

MR. JACKSON: Okay. Mr. Buergel, would

you agree that at least the stipulations in Nevada and Washington, if not the stipulations in all states, include provisions that make it clear that each individual state is retaining the flexibility and authority to adopt those allocation methodologies which it deems reasonable and prudent in light of the stipulation?

MR. BUERGEL: Yes. I -- I would agree with that. There is also provisions in all of the stipulations that parties will work in good faith to resolve allocation issues, and I believe it's -- it's that statement that gives me comfort that commitment on the companies' part and the various state Staffs' part we can resolve all allocation issues.

MR. JACKSON: But would you agree -- or is it your understanding that notwithstanding the best efforts that might be made between the individual Commissions or the individual Staffs and other parties in individual states and the companies, that if there is a dispute about the allocation methodology that would be applied in Nevada or in Washington, that it's the Nevada or Washington Commissions respectively that would ultimately resolve that -- those allocation issues or disputes?

MR. BUERGEL: Well, ultimately that -- that probably would be true; but, again, I feel very confident that those allocation issues can be resolved.

MR. JACKSON: And I want to acknowledge that, you know, Staff is not asking these questions because we assume they won't be resolved, but we think it's important, Mr. Buergel, for there to be a record as to what the parties' understandings of the stipulations are if they aren't mutually resolved. In the latter circumstance do you agree that in the question that I previously asked you that it would be the Nevada Commission making decisions regarding allocations in Nevada and the Washington Commission making decisions regarding allocations in Nevada where the -- regarding allocations Washington is where the ultimate responsibility would lie?

MR. BUERGEL: Yes, I would agree with that. Ultimately each jurisdiction, each state Commission has the responsibility to determine what allocations apply in that jurisdiction.

MR. REDMOND: This is Paul Redmond, maybe I can just add something here, and I think it's very important that we have agreed, like Mr. Buergel said, that all parties would cooperate and operate in good faith in trying to determine those allocations. That's very important based upon the third principle that was -- that was explained at the beginning of this meeting, and that is that there are shareholders out there, and we haven't talked much about them, but any black holes or anything that's left on the table and not -- not included in any of the jurisdictions is going to be picked up by the shareholders, and that's very important to us. And I think that if there is any jurisdiction that feels right now that -- that proper allocations cannot be agreed to, going forward in this -- in this merger, they should speak forth. And I think I heard you say, Mr. Kelly, that -- Mr. Jackson, that Nevada is not saying that, and I appreciate that. I think it's very important that we understand that there would be good-faith negotiations and there would be great attempts to make sure there are no black holes because the shareholders have to come out on this too, otherwise it can't be done.

MR. JACKSON: Thank you, Mr. Redmond.

Mr. Buergel, if I could direct your attention to Paragraph C3 of the Washington stipulation, and maybe we can discuss this issue of the contacts of that provision.

MR. BUERGEL: Can you repeat that provision again?

MR. JACKSON: It's Provision C3, it's under the hold -- it's the third paragraph under the hold harmless sentence.

MR. BUERGEL: Yes, I have it.

JUDGE SCHAER: What page, please?

MR. TROTTER: Six.

MR. BUERGEL: Page six.

JUDGE SCHAER: Thank you.

MR. JACKSON: Is it your understanding at this juncture, Mr. Buergel, that the Nevada Staff agrees that a 50/50 split of merger benefits would necessarily be fair and equitable between the states -- or between the northern division and the southern division?

MR. BUERGEL: Well, let me clarify that this paragraph is not intended to say that 50/50 is, in fact, the proper allocator for allocating benefits between north and south. All this paragraph is intended to do, and I think I mentioned that earlier, was to create an audit trigger, and this 50/50 is pretty consistent with the way we showed in our pre-filed case that benefits would ultimately be allocated between north and south.

MR. JACKSON: Well, would you acknowledge that in the pre-filed case that the Nevada Commission -- that the Nevada Staff presented to the Nevada Commission that we took issue with that, with the allocation percentages that the company had utilized?

MR. BUERGEL: The Nevada Staff had a different way of allocating benefits in their direct case.

MR. JACKSON: And hypothetically, in the event the Washington Commission ultimately concluded that 50/50 was the right split of benefits for purposes of rate setting in its jurisdiction, would that preclude the Nevada Commission from adopting some other split?

MR. BUERGEL: No, it does not preclude any jurisdiction from adopting a different way of allocating costs. But I think, again, I would get back to what Mr. Redmond said a few minutes ago, we certainly hope and anticipate that we can resolve all allocation issues so there ultimately is no stranded costs between any of the jurisdictions.

MR. JACKSON: But ultimately isn't that one of the risks that shareholders are taking in this transaction given the multiple state nature of it?

MR. BUERGEL: Ultimately that's the risk that shareholders take any time they operate in more than one jurisdiction.

MR. JACKSON: Thank you, Mr. Buergel.

I do have a couple of questions to Mr. Malquist.

Mr. Malquist, you were asked a series of questions regarding whether or not the company was foregoing a 35 and/or a $27 million rate increase in the state of Nevada. Do you recollect those questions and your answers?

MR. MALQUIST: Yes, Mr. Jackson, I do.

MR. JACKSON: Mr. Malquist, would you agree that there has not been any case filed in the Nevada jurisdiction that has been subject to procedural review and analysis that supports either a 27 million or a $35 million increase in 1997?

MR. MALQUIST: We have not filed the normal general rate case that would be required to receive those increases in 1997, that's correct.

MR. JACKSON: And wouldn't you agree that at this juncture whether and to what extent the company could justify any increase is speculative?

MR. MALQUIST: I think there are a number of factors beyond just the two assets that we're talking about here that would enter into the revenue calculation, and so I -- I agree that -- that the potential dollar amount and the ultimate conclusion that the Commission might reach in terms of the appropriate level of revenue requirement is not known at this time.

MR. JACKSON: Thank you. Staff has no further questions.

COMMISSIONER SHELDREW: Thank you, Mr. Jackson.

Mr. Marshall?

MR. MARSHALL: Thank you, Commissioner Sheldrew.

I direct this question I believe to Mr. Redmond, if I recall, it has to do with the Paragraph 10 of the stipulation.

Mr. Redmond, you received some questions regarding, and I don't mean to mischaracterize them, but I perceived the questions to be generally whether or not you felt that the provisions of Paragraph 10 of the Nevada stipulation would preclude the company from engaging in contracting with parties should retail wheeling come about, I suppose in the state of Nevada. And I -- it seems to me that, if I recall your answer was that you did not view this paragraph as precluding the Resources West from being able to participate in retail wheeling along with everybody else should it come about. Is that -- did I understand your answers correct?

MR. REDMOND: I think that -- I think what the -- what the paragraph says is that no matter what happens in Nevada relative to the law, and no matter what happens relative to the merger, whether we are two separate companies or one company, Resources West Energy, we would follow the laws in the State of Nevada relative to retail wheeling. And our first objective as Resource West Energy would be to retain our customers as our customers versus somebody else's customers, unless it wasn't possible. But in all cases, as Mr. Buergel indicated when we were discussing that issue, the law would be followed, and I think that's basically what this paragraph says.

MR. MARSHALL: So would it be a fair characterization of your understanding of this paragraph insofar as it might relate to retail wheeling that so long as Resources West complies with whatever Nevada law provisions might be, that you do not see this paragraph as restricting Resources West in participating in retail wheeling?

MR. REDMOND: No, I don't think that's the intent of the -- of the paragraph at all. The intent of the paragraph just says that whatever we do would be in accordance with the current laws and provisions in the State of Nevada, or any other state for that matter.

MR. MARSHALL: Thank you. I have no further questions.

COMMISSIONER SHELDREW: Mr. Crowell?

MR. CROWELL: I have no questions, and I

thank you, Commissioner, for the opportunity to ask them, but I have none.

COMMISSIONER SHELDREW: Thank you, Mr. Crowell.

Mr. Higgins, do you or anybody here have any clarifications of any of the comments that were made?

MR. HIGGINS: No.

COMMISSIONER SHELDREW: Okay. Commissioner Denio, questions?

COMMISSIONER DENIO: Commissioner, just so --

(Discussion off the record.)

COMMISSIONER SHELDREW: Pardon me? I think we have to take a break. The court reporter would like to take a break. So at this point we'll take a ten-minute break and then be back.

Thank you.

(Short recess taken.)

COMMISSIONER SHELDREW: We'll go back on the record. Thank you for indulging us. I know we have got some time constraints so we'll try and move quickly here.

I believe we're at the point of Commission questions. Commissioner Denio?

MR. JACKSON: This is Kelly Jackson, before

Commissioner Denio, I just wanted to note for the record that we didn't want silence to be deemed as assent regarding the interpretation we have heard of Paragraph 10 from other parties to -- up to this point in time. Thank you.

Thank you.

COMMISSIONER SHELDREW: Thank you, Mr. Jackson; and, in fact, I have some questions about the interpretations of that heard today on Paragraph 10 myself.

Commissioner Denio?

COMMISSIONER DENIO: Thank you, Commissioner Sheldrew.

The comments of the joint applicants indicate at Page 19 FERC does not have jurisdiction over internal cost allocations in non-holding companies. Given that, is that -- is it also true that FERC does not have the authority over interstate transactions between different jurisdictions? That does not just apply to within divisions within a company in a state?

MR. OLDHAM: I believe -- this is Steve Oldham speaking. I believe that FERC would have a jurisdiction on the transmission prices that is -- that is charged to a company that a company charges itself, and it's a theory of comparability, and that we must, in fact, enjoy the same costs that we would charge any other user of the transmission system. That's the philosophy that's coming out of FERC right now. So to that extent the transmission interconnection will be influenced by FERC -- the FERC's order on transmission pricing.

COMMISSIONER DENIO: Pricing of the resource is not FERC jurisdiction, is it? Does the company have a cite for that?

MR. OLDHAM: I don't have one available.

MR. HIGGINS: Commissioner, we can get one if you would like one.

COMMISSIONER DENIO: I think that might be helpful.

Could single-system pricing be a condition of the approval by FERC of the merger?

MR. HIGGINS: Let me defer that to Mr. Oldham, if I can.

MR. OLDHAM: Single-system pricing could, in fact, for the transmission component of FERC rates could be a condition of the merger.

COMMISSIONER DENIO: At Page 18 of the joint applicants' comments, the applicants indicate the transactions to which transfer pricing apply are only those involving native resource of one division being transferred to the other. These transactions represent a small part of the total need of each system. Do the companies know approximately what is the -- what they mean by a small part, what percent of the total capacity?

MR. OLDHAM: This is Steve Oldham again. I would ask that maybe Mr. Canning or Buergel respond also; but I believe it's about the interconnection only provides about 8 percent of the total system needed that's being proposed. So presumably it wouldn't be more than that, and Mr. Buergel -- or pardon me, Mr. Canning or Mr. Bryan may want to respond to that, too.

MR. BRYAN: Would Mr. Canning have a response?

MR. CANNING: This is Jerry Canning. I believe within the last couple of years the actual transfers from Water Power to Sierra Pacific have been under about 2 percent of our requirements. It's been a -- been a very small portion of where we have gone for -- for energy.

COMMISSIONER DENIO: Would that be reflective of the transfer -- of the transactions to which transfer pricing might apply?

MR. CANNING: Yes, those would have been the transactions transfer pricing would have applied to.

COMMISSIONER DENIO: And then with the changes with Alturas and any other transmission constraints improved, would -- would that tend to increase? And if so, can you tell me by how much?

MR. CANNING: I think it's a good possibility it would tend to increase, but I -- it -- it would not surprise me that -- that those transactions would probably never get more than about 5 or 10 percent primarily because there -- there are other sources that then don't have transmission or have cheaper transmission costs, for example, Idaho and some of the other people we purchase power from that on a market basis are cheaper than buying from Water Power surplus energies.

MR. BRYAN: Commissioner Denio, my name is Les Bryan, and I'm with the Washington Water Power Company; not wanting to lead you astray, one of the reasons that our sales is so low to Sierra Pacific is because Idaho Power generally captures that market at the same time that we're either delivering out of our own system or buying surplus from other utilities. So Idaho Power has been a much larger supplier of non-firm energy to Sierra than the Washington Water Power Company or other Northwest utilities because of their direct interconnection.

Once the merger is completed and we do have our transmission path directly to Sierra through the Idaho Power Company system, we will probably increase above that 2 percent level, but I couldn't speculate at what amount that would be.

COMMISSIONER DENIO: Thank you, Mr. Bryan.

Commissioner, those are all of the questions I have.

COMMISSIONER SHELDREW: All right. Let me ask a follow-up to Commissioner Denio's question relative to what percentage of power would be coming from Water Power either now or in the future.

Is that not -- it's my understanding, is that not the only way that Sierra Pacific Power could enjoy the benefits of cheap clean hydro power that I have heard a lot about relative to this merger, would be through that, the transfer of surplus power from your jurisdiction, from the norther division to the southern division?

MR. BRYAN: Commissioner Sheldrew, this is Les Bryan responding to your question. There is a lot of talk about cheap Northwest hydro and basically what we do in the Northwest is we stack our resource by cost and we serve our native load with the lowest cost resources, and then at the top of our resource stack we have thermal and other high priced contracts, some contract purchases we have are in the three and a half to five cent range and they stick on the top of our resource stack.

When we have good hydro conditions or when the northwest is in what we call the fish flush mode, that's generally in April, May and June when we're increasing the flows in the Columbia River to assist downstream migration of salmon, steelhead, during that period hydro levels increase and what that does is push high costs -- higher cost thermal and contracts outside of the resource stack and we take that out into the marketplace and we sell those resources to the extent their incremental cost is less than the market.

So generally what we are taking out to the marketplace, and I am speaking on behalf of the Washington Water Power Company, and our sales normally occur in the months of April, May, June and the first half of July, we are normally selling output from our Colstrip generating plant, and that normally is operating during that period somewhere between 100 and 200 average megawatts, and then we also have our Raftom Project, which is a combustion turbine, was just put into service January of last year that we have sold at times during 1995.

So low cost hydro is going to serve mainly load and we are selling our coal fired thermal Colstrip sometimes to Centralia steam plant into the northwest marketplace.

MR. CANNING: Commissioner Sheldrew?

MR. BRYAN: And into -- and into Sierra system.

MR. CANNING: Commissioner Sheldrew, this is Jerry Canning. It's probably important to note also that in the merger savings there is -- there were no benefits quantified for surplus energy transactions. All of the production benefits of the merger were related to really to two things. One was reserve sharing, and the other one was the fact that the Quinson Peak demands in both systems occur at different times, so there was some ability to reduce the total capacity of the combined system over what was required for the two independent systems, but because we're both members of the intercompany pool and we have schedulers or buyers effectively that physically sit in the same room along with other utilities in the physical Northwest where we have effectively had a trading for, we believe that the benefits of the transactions that could be made between the two utilities on a non-firm basis that made sense in the market are already being captured. So there were no merger benefits associated with non-firm transactions.

COMMISSIONER SHELDREW: I appreciate that. I think that there is a general misconception that there may be some benefits to be achieved as a result of surplus hydro sales into the Sierra Pacific market, and I think you both have clarified that was not -- that that is not physically how it's been working and you don't anticipate any significant increase with the exception of some increase that might be allowed by that Idaho Power transmission connection? Is that right, Mr. Bryan?

MR. BRYAN: That's correct. There is a misconception of low cost hydro...

JUDGE SCHAER: I'm sorry, our court reporter can't hear, Mr. Bryan.

MR. BRYAN: Can you hear me now?

JUDGE SCHAER: Yes. Thank you.

MR. BRYAN: Again, I think there is a misconception relative to the availability of Northwest hydro for export outside of the Northwest, and maybe we can kind of shed some light on that with this testimony. And when I did indicate that we will probably see an increase in transfers from the northern division to the southern division as a result of the merger, it will be because we have a zero -- basically a zero incremental cost transmission path through the Idaho Power Company as a result of already acquiring that path as a firm path and we will not have to pay that incremental cost as we currently have to do before the merger.

COMMISSIONER SHELDREW: Thank you, that is very helpful.

MR. BRYAN: But those deliveries would come from in most cases either purchases from other utilities or from surplus thermal generation on the northern division system.

COMMISSIONER SHELDREW: Thank you.

I believe Mr. Buergel in response to a hypothetical from the Commission's Staff responded or attempted to explain his understanding of the benefits and savings that will accrue as identified in Paragraph 7 of the Nevada stipulation to Alturas, Pinion Pine and Tuscarora. And if I understand the hypothetical as it was phrased, Water Power arranges the sale to Southern Cal Edison and Sierra Pacific wheels that sale over the transmission lines. Do you remember that, Mr. Buergel?

MR. BUERGEL: Yes, I do.

COMMISSIONER SHELDREW: And I think you -- I would appreciate a clarification of your explanation of how the benefits would be -- would -- would be determined as your understanding of Paragraph 7 of -- is, but let me ask you, first of all, would the sale that was described in that hypothetical be possible without the Alturas transmission line?

MR. BUERGEL: It would be my understanding that the sale certainly would be possible, you could probably move it over maybe several different routes. Mr. Bryan or Mr. Canning could probably give a better answer than I; but I'm assuming that if we had a market someplace in the south, that we would be able to move that power over probably several different transmission routes and pay wheeling costs to move the power to whomever the buyer might be.

COMMISSIONER SHELDREW: Would it be your understanding, Mr. Buergel, that if you had to move it over several different routes it would be more expensive?

MR. BUERGEL: Not -- not being really familiar with what wheeling costs are out there, I don't know that I could answer that question. We would obviously pay whatever the market price would be for moving that power.

COMMISSIONER SHELDREW: Well, maybe Mr. Bryan or Mr. Canning can help me out with this, not being an engineer, I don't know exactly what I'm asking.

So ...

MR. BUERGEL: And unfortunately you have got an accountant trying to answer on this end.

COMMISSIONER SHELDREW: We're going to get this pretty screwed up, aren't we?

MR. BUERGEL: Yeah.

MR. BRYAN: Right now the path that the northern division has to move power into the California market is primarily through the transmission system of the Bonneville Power Administration. We pay a transmission rate for Northwest grid costs and then we pay an intertie rate. I believe those costs are in the range of 5 mills of kilowatt hour.

If we were to deliver to a California utility, let's say Pacific S and Electric, through the Alturas interconnection, what we would need to do is to credit the Sierra division for the use of their transmission system including Alturas. And what Mr. Buergel indicated, if the resource was a resource that was on the Water Power system, let's talk -- let's say it came from Colstrip, then once we compensated the Sierra division for transmission, then any remaining margin would be allocated to the northern division. I think that's the way Mr. Buergel represented that.

Now, a second hypothetical would be that we would not purchase it or deliver it from our own system, but we would buy it from another Northwest utility, bring it into Water Power system, move it over Sierra's, the southern division system to Pacific S Electric, a little more complex.

My thought there is that Water Power would be -- the northern division would be entitled to a transmission charge, and the southern division would be entitled to a transmission charge and then any remaining margin that was left over then we would discuss how that was -- we need to work out how that would be allocated between the north and the south.

COMMISSIONER SHELDREW: And you think that that's in compliance with your reading of Paragraph 7 of the Nevada stipulation?

MR. BRYAN: Yes, I do, relative to Alturas. To the extent that we use Alturas as a transmission path to a California market, bringing a resource from the north into that California market, Alturas should be entitled to receive a credit for the use of that facility.

COMMISSIONER SHELDREW: And, Mr. Bryan, would it be less costly to RWE if Alturas were used as opposed to Bonneville?

MR. BRYAN: It may be. Well, of course,

initially the cost is zero until we do the credit, because Alturas is a part of the Resources West Energy. So then we would need to determine what level of credit we provide Alturas. One credit would be to credit at the alternative market that the northern division would have had for transmission services to get it into that same California utility service territory.

COMMISSIONER SHELDREW: And could you do that credit if it were in excess of whatever the comparability access tariff is for RWE? Does that have anything to do with it at all?

MR. BRYAN: That might. I haven't thought about that. I would have to give that some thought, Commissioner Sheldrew.

MR. OLDHAM: I believe the pricing would be affected by the -- this is Steve Oldham again -- the pricing would be affected by the comparability standards, the exact accounting or the sharing may not be between the divisions.

COMMISSIONER SHELDREW: So what you're saying, Mr. Oldham, is the pricing would be possibly affected by the tariff but that any overage, let's say, assuming Bonneville was more expensive and you decided that that's how you were going to price it, would be determined by this allocation method that is yet to be determined? Is that what you're saying?

MR. OLDHAM: I would rather say the latter part, that we haven't determined exactly that hypothetical how that -- how that pricing would be shared. Generally speaking, the rule is if the asset of one division is used to cause a transaction, they get a credit for the use of that asset, if the asset of both divisions -- or separate assets of both divisions are used to cause a transaction, both divisions would get a credit rate reflecting the use of those assets. That's the general rule that we have been trying to follow.

COMMISSIONER SHELDREW: And you think, Mr. Oldham, that's the gist of the Paragraph 7 of the Nevada stipulation?

MR. OLDHAM: Yes, I do.

COMMISSIONER SHELDREW: On Paragraph 9 there was some questions I think again by Commission Staff on whether, and I believe, Mr. Buergel, it was again to you, whether the interdivisional energy and capacity transactions that were being identified they were really terms and conditions or solely the transfer pricing mechanisms, and I think you responded that transfer pricing mechanisms only; is that correct?

MR. BUERGEL: Yes, that's how I responded.

COMMISSIONER SHELDREW: Do you -- do you --

Line 11, on Page 4, if you would read that particular sentence, it says, the terms and conditions related thereto, the last of -- the last of the -- that sentence on Line 15, not later than July 1, the parties shall submit written comments to the Commission addressing their joint or individual concerns or recommendations regarding whether interdivisional transactions should continue to be authorized and the terms and conditions thereto.

MR. BUERGEL: Yes.

COMMISSIONER SHELDREW: So you still think that this paragraph only deals with pricing?

MR. BUERGEL: What -- what we were specifically talking about was how we would price, transfer price those transactions north to south, and this paragraph in the Nevada stipulation specifically addressed that.

MR. OLDHAM: This is Steve Oldham speaking again, if I might add to that answer.

The terms and conditions related thereto may be things, safeguards that are put in place that we would agree to in this report. I simply point out that perhaps we notify the Commission each time a transaction like this takes place, or we have some reporting requirements to assure that those transactions are very visible to the parties who would do audit procedures on them. Those are the sorts of terms and conditions I believe we were referring to.

COMMISSIONER SHELDREW: Mr. Oldham, terms and conditions is sort of a term of art, isn't it? That sort of means something in the regulatory world?

MR. OLDHAM: It may be. Perhaps --

COMMISSIONER SHELDREW: Maybe we're thinking of something different.

MR. OLDHAM: We may be thinking of something different, yes.

COMMISSIONER SHELDREW: Well, I think I would like to have the parties to the Nevada stipulation at least consider that so that you all can clarify for me what you all think the terms and conditions means, it's on Line 15.

Then, Mr. Buergel, further on in that, did I understand your comment to say that if you weren't satisfied with, let's say, a pricing that was determined for this interdivisional energy or capacity transactions, that RWE, the company, or the northern division simply would not sell to Nevada?

MR. BUERGEL: That is --

COMMISSIONER SHELDREW: Is that what I understood?

MR. BUERGEL: Yes. That is certainly one of the outcomes that could occur. If -- if the Nevada Staff or OCA or any party in Nevada was not satisfied that we had the proper transfer pricing mechanism in place, then one of the outcomes could be that these transactions would not occur between the northern division and the southern division.

COMMISSIONER SHELDREW: So the last part of that paragraph where the Commission may determine under what conditions interdivisional transactions may be made to ensure that Nevada ratepayers are not harmed by the proposed divisional pricing is subject, in your mind, to the northern division possibly saying, well, we're just simply not going to sell any of this power to the southern division if you aren't -- if you don't accept it?

MR. BUERGEL: Well, certainly our concern is with the provisions that exist in all of the stipulations, the hold harmless provisions and the direct assignment of facilities, generation and transmission facilities, between the north and the south, and if these transfers are made at something besides market, then we could be in violation of those stipulations or those provisions in the Washington stipulation or one of the other stipulations in one of the other jurisdictions.

MR. BRYAN: Commissioner --

MR. REDMOND: And this is Paul Redmond. John, don't we get to the point again where one of the Principles in all jurisdictions is that the customers be no worse off. So if it were to result in customers of any jurisdiction being worse off, then it simply would not be possible.

MR. BRYAN: Commissioner Sheldrew, this is Les Bryan again.

The market pricing approach really is a protection on both sides. It's a protection to the northern division that any resources that are being sold hold those northern division customers harmless, and it's also a protection of the southern division that they are not purchasing costs in excess of market.

We feel pretty confident that we're going to be able to develop some type of mechanism where both the northern division Commissioners that regulate us and those in the southern division will say that this methodology is okay. We have daily load sheets that every hour show the prices of which we buy energy and which we sell energy, and we think that from that dated information we will be able to develop an approach that will be acceptable by both Washington, Idaho and the

Nevada Commissions, but we're going to have to sit down and work through that and educate. But I just want to make sure that it is a protection both ways that, one, the Nevada Commission and the Commission Staff, OCA, feel comfortable that the transfer price does indeed recognize what the southern division can do on its own and that's also the protection for the northern division.

COMMISSIONER SHELDREW: Thank you, Mr. Bryan, and I appreciate that. I guess I'm a little -- a little concerned about what role you all see the Commission, that is the Nevada Commission, playing in its concern about interdivisional transactions as it's outlined in the last sentence on Paragraph 9, but we can talk about that further.

Paragraph 10 has been a subject of I think some explanations and that -- that I guess I have some further questions on. It was my recollection of the record that that particular paragraph was indeed put in there to discuss concerns that came up during some of the -- the discussions that we had about the potential for the northern division retail wheeling into the southern division's service territory and how that would comport with one of the other principles that you have outlined, that is generational resources being assigned to the jurisdiction in which they're allocated. And I think we got some -- we got kind of concerned and maybe confused and mixed up about retail wheeling and what -- what everybody's intention was. I think some people said there was an intention and others said that there was not an intention to retail wheel given that scenario.

Now, and maybe Mr. Oldham, I know that you have participated in discussing that, can you give me your explanation what Paragraph 10 means as it pertains to retail wheeling, particularly from the northern division into the southern division service territory?

MR. OLDHAM: There was a question that came up during the hearings here in -- this is Steve Oldham again -- that came up in the hearings here in Nevada where there was a hypothetical that, could the northern division make a sale from assets in the north to a retail customer in the southern division. And I think as Mr. Redmond has clarified today, and we tried to clarify a few weeks ago on the record, that would be an RWE transaction. And if the transaction took place at all, it would simply be a pricing phenomenon, it wouldn't be retail wheeling. Resources West Energy simply would have made a price available to a particular customer in the south and it may be a unit price or whatever. And presumably if that were to take place, which we don't anticipate, but if it were to take place, it would be under the tariffs and rules of the Nevada Commission where the retail transaction took place.

So we don't anticipate that retail wheeling can take place between divisions, that's -- that's not something we anticipate.

Presumably if the rules and practices change in the State of Nevada and other states, retail wheeling could take place outside of RWE service territory or presumably competitors could do it inside of service territory. But this paragraph was there to assure all that if retail -- that we would not have retail wheeling between divisions, although retail wheeling could take place inside the state presumably in the future, and that RWE would follow whatever rules were in place when retail -- the advent of retail wheeling came about.

COMMISSIONER SHELDREW: I'll reserve an opportunity for the other parties to the Nevada stipulation to comment on that, if they feel they want to later. I won't take up the time that we're going on. Thank you.

One final question on the C3 paragraph in the Washington stipulation of 50/50, let me -- and I'm sorry I -- maybe, Mr. Buergel, it was you again that responded to the 50/50, and I guess to be redundant, let me see if I understand specifically what you're saying the 50/50 means. The 50/50 does not mean 50 percent to Water Power and 50 percent to Sierra Pacific, but it's the point at which if there is a deviation on either side of things there is an audit, that it would trigger some kind of an audit to verify the costs, so it's some kind of a guideline? Is that what you're saying?

MR. BUERGEL: Yes. I think you have got that correct. It -- it was not intended to say that costs would be allocated 50 percent to the north and 50 percent to the south. We'll work through allocation methodologies with all of the Staffs and develop proper allocation methodologies based on cost causation principles, and then after the fact take a look at how those benefits fall out between north and south. And if there is a significant deviation, then this provision would simply raise that alert, and I'm sure the company and probably the respective Staffs would want to take a look at why that result occurred.

COMMISSIONER SHELDREW: What -- going a little further on that, what -- what is the significance of recognizing Water Power's higher contribution relative to Sierra's contribution and the relative efficiency of the two companies going into the merger? What was meant by that?

MR. BUERGEL: The discussion regarding the higher contributions is simply a reference to the equity contributions that were made by each company as they came into the merger, and that's approximately 55 percent for Water Power and 45 percent for Sierra, and it -- and that's all that reference was meant to do.

When they're talking about efficiencies, we're really talking about efficiencies that both companies have. I think both companies have strived over recent years to try and control costs and obtain efficiencies in how they operate, and to whatever extent Sierra has efficiencies in certain areas or Water Power has efficiencies in certain areas, we were intending that that be recognized in how costs are allocated.

COMMISSIONER SHELDREW: Thank you, Mr. Buergel, that's all of my questions.

Ms. Schaer?

JUDGE SCHAER: Thank you.

Mr. Meyer, do you have any redirect of the witnesses?

MR. MEYER: No, I do not. Thank you.

JUDGE SCHAER: Is there any recross?

MS. JOHNSTON: I have none.

JUDGE SCHAER: All right. Any further Commissioner questions?

CHAIRMAN NELSON: No.

COMMISSIONER GILLIS: No.

COMMISSIONER HEMSTAD: No.

JUDGE SCHAER: At this point, then I'll again transfer the hearing back to Commissioner Sheldrew for questions of the Nevada witness panel.

COMMISSIONER SHELDREW: Thank you, Ms. Schaer.

Before we go into this portion of the joint hearing, I would want to introduce some of the Washington exhibits into the Nevada record.

The allocation and transfer pricing report will be marked into the Nevada record as Exhibit No. 26. The California stipulation will be marked into the Nevada record as Exhibit 27. The Montana order approving the merger will be marked into the Nevada record as Exhibit 30. The two-page summary comparison will be marked into the Nevada record as Exhibit 28, and a 15-page detailed summary stipulation comparison will be marked into the Nevada record as Exhibit No. 29.

I believe other than that we have all of the other exhibits that you entered into your record today already in our record.

At this point, I would like to begin asking the questions that were set out in the amended notice of the joint hearing, and to expedite things, instead of reading those particular questions specifically, I think I'd just like to refer everybody to the amended notice and we'll take them by sections.

Does everybody have a copy?

What we'll do is begin by having each one of the parties provide their response to the questions that are answered, and we'll go by section, and then we'll have another round where you can ask questions or clarify questions of -- based on the comments of each one of the parties.

The first section is Section 1, FERC Approval, Questions A through D.

Mr. Norris?

MR. NORRIS: Commissioner, one of the four witnesses will answer the Question D, the order in which it was entered.

COMMISSIONER SHELDREW: That's great. If they would just identify themselves for the record.

MR. HIGGINS: Let me start, Walter Higgins speaking, Commissioner.

FERC approval of the merger but with the condition that changes the proposal that the companies made that there be zonal rates would cause us, as would any condition that is different from that which we have proposed in our joint applications or the stipulations or our FERC proceeding, to have to take a look at what's been proposed. Because as Mr. Redmond said, we have come to a point where we have proposed what we believe to be something that represents a good balance among all of the parties' interests, and if it had to move because of a particular agency, such as FERC said, this is something that has to be done, then we would have to look at what the effect of whatever they said would be in order to determine it. So one cannot categorically say that any certain thing would cause there to be a problem.

It is fair to say that if FERC simply imposed on us that for wheeling transactions there needs to be a single-system rate in effect, we have done some calculations of what the effect of that might be, they're relatively small; and in our view, the benefits of the merger outweigh such an order from FERC. But again, we would have to look and see exactly what FERC said to make a decision, and I would hate to prejudge or lead you to believe that we can kind of just say now what it is.

On the other hand, if either FERC or any of the Commissions were to say that we had to adopt within the rates that we charge for full-service customers in the future or for our respective jurisdictions to retail, the -- the -- a single-system rate some of sort, several of the principles that we have espoused early in this docket today would be violated.  We could not, for example, ask customers in one area where there is the transmission rates might be lower today because of the nature of the system that exists to be subsidized by another set of customers or to be -- have costs moved in their direction as a result of some FERC order that might cause us to have to change transmission pricing within our retail rates.  And so such an order would be intolerable to us, and -- especially since we believe that no Commission would accept such a transfer of cost, no state jurisdiction, and therefore it would be expected that if we were to merge that the shareholders would have to adopt those costs, and that is not an acceptable outcome.

And so kind of at the other end of the spectrum, from a simple system system rate or a single-system rate or for wheeling is -- and you have to input into your residential or your retail rates, I'm sorry, transmission rates that are uniform across the system. That's an intolerable outcome. We could not merge if that were to happen. Somewhere in between we would -- we have to look and see what the FERC has said and of course all of the Commissions would want to look at that and see what FERC has said and how it affected their view of whether the merger would be in the best interest of the customers.

I think I have kind of covered A through D in one answer, and I apologize if that --

COMMISSIONER SHELDREW: That's what I'm checking here.

Have you quantified how a single-system pricing would affect ratepayers in Washington and Nevada?

MR. HIGGINS: I'll let Mr. Oldham address the qualification.

MR. OLDHAM: Well, we did an estimate of those effects and prior to Alturas going on line as it only applied to wholesale transmission it would be about a half million dollars a year; and if it applied after Alturas, it would be about $800,000 a year.

At the retail level, if it were to apply at the retail level for transmission Alturas's only, it would be about $25 million.

Those are our estimates, and that would be a shift in revenue from the south to the north in that particular instance.

COMMISSIONER DENIO: A revenue requirement?

MR. OLDHAM: Yes, a revenue requirement.

COMMISSIONER SHELDREW: Okay. I don't believe any of the other parties care to comment? If you do, jump in, I won't ask you specifically. No help from that quarter. Okay.

Benefit distribution, Questions A through F.

MR. HIGGINS: Commissioner, I think many of the questions addressed in A through F have been addressed by both Mr. Buergel, Mr. Oldham and Mr. Redmond and Mr. Malquist, Mr. Bryan and Mr. Canning in various ways. Perhaps a summary statement from Mr. Buergel and Mr. Oldham might suffice A through F, if that's suitable for you?

COMMISSIONER SHELDREW: I think that's fine.

Mr. Buergel?

MR. BUERGEL: As Mr. Higgins said, I think a lot of these questions have been answered, maybe what I would try to do is pick off a few of them that maybe have not been answered.

The B part to that, how does this compare to what the applicants have agreed to in the Nevada stipulation? I believe in the Nevada stipulation we have a number of provisions that specifically address allocation issues. And one of the -- the big items is Paragraph 6, which talks about directly assigning generation and transmission facilities, and then Paragraphs 20 and 21, which talk about how common costs will be allocated, and 20 talks about the report that we will prepare and file in the State of Nevada prior to January 1, 1997. Paragraph -- in this question paragraph -- or Question E, how do the applicants anticipate resolving the disputes? We have talked a lot about that today. If there are disputes between or -- or concerns or unresolved issues between the jurisdictions, again I would anticipate that what we would do is convene a joint committee to work through and resolve those issues.

The final question is F, should the applicants form a joint committee? And I think the answer there is, yes, we would anticipate doing that if there are unresolved concerns as a result of our final report and work with the various state Commission Staffs.

MR. REDMOND: And this is Paul Redmond, I guess I feel obliged to express a concern along these allocation lines with the line of questioning by Mr. Jackson earlier relative to the potential of not being able to reach agreement on allocation procedures between jurisdictions. I may be misinterpreting Mr. Jackson's questioning and his reasons for that questioning, but I feel obliged to repeat that if there is any jurisdiction involved in this proceeding that does not believe an equitable allocation is possible, then we need to know that now. Because I can assure you, and please don't misinterpret this, this is not a threat, it is simply a statement of fact, that if there is a feeling of any jurisdiction, and particularly in the Nevada Staff feeling that there cannot be an equitable jurisdiction made, then this merger is over.

COMMISSIONER SHELDREW: Thank you, Mr. Redmond.

Mr. Jackson?

MR. JACKSON: Thank you.

Staff would like to comment briefly on Items 2E and F, and I guess take this rather than a later opportunity to respond to Mr. Redmond's past and just repeated comments.

In terms of looking at the stipulation, it's Staff's understanding that the Nevada Commission will have the ultimate responsibility and authority to resolve disputes regarding, to the extent that they exist, regarding the allocation of merger savings and transfer pricing and the other -- the other issues that are discussed in Section 2. We think that is consistent with the stipulations that these companies have come to in other states that none of the individual state jurisdictions have agreed to either individually or collectively advocate the responsibility that they have to ultimately make the final decisions to the extent that there are contested issues. And so we would anticipate that that would be the forum for dispute resolution in this state if we got to that juncture.

As it relates to Paragraph 2F, certainly the possibility -- or certainly the procedural mechanism of establishing some sort of multi-state group to look at allocation issues and to determine to what extent consensus can be arrived at, at either a Staff level or a Commission level is certainly -- Staff would view that as a useful tool.

Now, we understand that that's a tool that's been used in other times and other places and that that tool hasn't resulted in all of the states agreeing. And to the extent that all of the states didn't agree, we would see in that circumstance as well each individual state being left in the position to resolve those non-consensus issues in the way that it believes is consistent with the statutory mandate.

In response to the continuing comments of Mr. Redmond, I guess we would just respond generally that we, like the company, assure that there's an equitable resolution of the issue, we're not sure that we will agree with the company about what the equitable resolution is, which is, you know, one of the reasons that you end up with proceedings. You know, we assume, as I hope he assumes, that all parties in each jurisdiction would be working in good faith to try to resolve the allocation issues that we have been discussing.

We recognize however that for Nevada at least we're plowing some new ground, we're looking at a much more significant multi-state type of situation then we have been confronted in the past from an allocation perspective. We recognize that that situation includes not only the allocation of common costs, but also the one identification and quantification of benefits relating to reserved margin reductions, capacity reductions related to disparity in peak requirements that might be required and to numerous other situations where there may be transactions taking place between the north and the south.

Now, we are perceiving those as relatively complex issues and with any complex issue we think that well-intended reasoned people may disagree on what the equitable solution is. We have not gone out and attempted to calculate or to propose a plan for the allocation of costs at this juncture. So at this juncture we are just talking hypothetically that it's important that we think for the Commission to understand who is going to resolve the disputes, if there are any, and for the joint applicants to recognize that Staff hasn't attempted to do an end-all allocation study. We're not coming here saying that we particularly agree or disagree with what's in the July 28 draft allocation report; but, I mean, if Mr. Redmond is looking for a hold harmless at this juncture, we certainly haven't done the type of work to give him the hold harmless. We will give him the representation that we gave in the stipulation, which is that we'll work in good faith, as we assume they will work in good faith, but recognizing that good-faith work doesn't always result in absolute consensus.

COMMISSIONER SHELDREW: Thank you.

MR. REDMOND: And this is Paul Redmond again. And I guess what my reference is really to is an attitude. I think that if all of the jurisdictions approach this from the standpoint that there are all of the issues that are outlined by Mr. Jackson, but when it is approached on a very positive note saying that, you know, we can reach a solution versus a negative note saying there probably isn't going to be a solution. So there is -- that's the purpose of the good-faith clause in all of the stipulations and I think that I read by Mr. Jackson's response that -- or -- I understood by Mr. Jackson's response that they would indeed approach this on a positive basis on the basis that we can find a solution, and that's all I was looking for.

Thank you, very much.

MR. JACKSON: The only other thing that I would note, Commissioner, and had I intimated in the question to Mr. Buergel, I think we have given at least on one issue, the allocation of labor costs of the joint applicants, the benefit of our initial round of thinking there which may be different from their thinking on how you might allocate -- how you might reasonably allocate costs, labor costs.

Thank you.

COMMISSIONER SHELDREW: Thank you, Mr. Jackson.

And I would add for Mr. Redmond also, later on I have a few questions about some of the allocation points that were discussed in the informational filing of August 17th or the first draft 7-28-95, I'll be glad to highlight just some questions that I have. If you're looking for concerns, I certainly would hope that no one misunderstands that -- that the allocation issues are very important to the State of Nevada since that really is I think critical to whatever savings are going to be achieved and subsequently either used to defer the capital acquisitions or to perhaps a greater extent to provide for savings to either the shareholders or the ratepayers it's critical to the State of Nevada. So I think perhaps you may be mistaking some of our tenacity on this issue as something other than what it is, and it's just genuine concern at this point, and I don't want you to misunderstand that. But there are some concerns, Staff has pointed out some, perhaps some of the other parties will point out some, and I have some questions myself just based on the preliminary first draft that was presented in Washington that may -- may at least generate some discussion among all of the groups.

Mr. Schmidt?

MR. SCHMIDT: In response to your question on the parties' reaction to your questions under the benefit distribution category of your amended notice, rather than respond to each of the subparts, I guess I would like to respond generally to the questions, referring to one specifically and the others more generally.

It's my belief that this is a cart before the horse problem, and the parties have agreed that we can't resolve these before the merger takes place. If the Commission here or even in Washington thinks that is important to accomplish, you know, we could make more significant efforts, but those efforts have not been made because of the understanding of the parties that that could be worked out after the fact. And I think the reason our office was comfortable with that approach is that approach has been followed in prior cases. The concept of cost allocation is not unique either to these utilities or the regulatory Staffs in either states. We currently do multi-state allocations for our major gas companies in the state, for nearly all of our major telephone companies, and they are as or more complicated than what Resources West will be.

With regard to these utilities, we currently do cost allocations with regard to Nevada versus California jurisdictional allocations for Sierra Pacific, and similarly, I assume, although I have not been involved in it, that Washington must do that same type of work with regard to the jurisdictional activities, Idaho, and Montana and Oregon with regard to

Washington Water Power's activities. So I am not concerned in the least bit that those things can't be pursued and worked out on a reasonable basis.

On the other hand, to try and do it or have exhibits that attempt to do it now does and should cause some concern, because the two utilities were required to submit a proposed allocation and transfer of pricing report we have now got a document in this record which really has neither been reviewed nor examined in any detail to be a basis for I think concluding that we could reach agreement or not reach agreement, although it may serve to raise a lot of early questions. But I note in that regard that what's been marked in Nevada's Exhibit 26 is a draft in part by the applicants that we received less than two weeks ago. So obviously there's not been adequate opportunity or time to review it, and it would be premature to try and draw any conclusions from that document, although we don't think there is any problem in having questions regarding statements made in the document.

We are not prepared today, nor would we be by the September 6th date to go into detail on that document, and that's because our agreement reflected in the stipulation is that that type of review and allocation determination would take more time than the next few weeks or several months to work out. Although I think it can be done, there is some complexity that requires careful analysis and I think substantial discussion, and that's why we entered into Paragraph 20 of our stipulation along with the other parties to reflect that we'll do that.

Now, in the Commission's notice the question's asked, should the applicants form a joint committee? That's -- I think that's a good suggestion maybe, but I guess if the Commission has concerns, we would suggest that the Commission impose a requirement that we have a committee and schedule meetings and issue reports or results of those meetings to give the Commission comfort that we're reaching progress with regard to the allocation issues.

We have, although it's not reflected in the stipulation, orally agreed with the applicants to participate in a meeting in the near future for that purpose, but if the Commission has concerns as reflected in the notice, then I think the Commission could take more specific actions. But I would hope the Commission would not try and pursue and resolve all of those things today unless it gave direction back to the parties that those issues have to be resolved before the merger is approved. We don't think that's necessary, given my earlier statements on a comfort level that, you know, we are familiar with this type of process and we have done it many times before for other utilities, as well as even for these utilities. But if the Commission feels differently, our office would be happy to participate and address and attempt to determine what the resolution of those issues that might arise in trying to set allocations between jurisdictions. It is an important part of this merger, but I think that it's not something that we're not -- we're incapable of doing.

COMMISSIONER SHELDREW: Mr. Crowell?

MR. CROWELL: For our part of the negotiations of the stipulation to the Commission, we feel comfortable with respect to the representations made by the joint applicants and the other parties regarding their commitment to enter into good-faith negotiations regarding the appropriate allocation of investments, costs, savings between jurisdictions. As I pointed out in my comments, the allocation process is simply -- in simple terms it's complex, but in simple terms it's merely an attempt to allocate a whole pie.

We do feel comfortable, and my guess from Nevada's standpoint and Nevada's stockholders' standpoint, we feel comfortable with every other state that was a participant in this regulatory process and approval process, have statutory guidelines, such as NRS-704.001, which requires jurisdictions to balance the ratepayers and stockholders alike.

We think that even that type of statutory enactment, the good-faith efforts of the Commissions to become effective to tie us back to allow us the comfort factor that's been (inaudible) be absorbed by the stockholders or customers.

COMMISSIONER SHELDREW: Mr. Marshall?

MR. MARSHALL: Thank you, Commissioner Sheldrew.

In working through the stipulation process it became readily apparent to me at least to resolve allocation issues that determine how it's going to be done prior to the stipulation or prior to the merger being approved would be an almost impossible task. It's obviously going to take studies to be done and a great deal of thought and examination to go into that. I found comfort in -- in I guess it was a provision of the revised stipulation, which was done at the behest of the Commission that in the final analysis the Commission really does have the final word insofar as it affects the allocation, as far as it affects Nevada. And we all understand that everybody is going to work in good faith and we are going to try to resolve these things and all of that sort of thing, but so far as the state of Nevada is concerned, and I was satisfied with the stipulation that Nevada does have control over these matters and the final analysis, and consequently had -- had faith in the Commission that if the parties fail to agree to come up with a solution that would benefit Nevada. And so I felt that -- that to that extent on this particular issue the Nevada ratepayers were protected by the stipulation and really had no qualms at all signing the stipulation on above of my clients with respect to this particular issue. And I would urge the Commission that at least insofar as this issue is concerned, it should, at least in my judgment, it is not a problem for the state of Nevada. And I have got to say that we're indebted to the Commission I think for making us go back to the drawing board and put some of those things in, which we did. I think it was beneficial, and the Commission performed a very good service for the ratepayers in that regard.

COMMISSIONER SHELDREW: Okay. The next issue is divisional cost allocations, and there is really only one question, I don't know, Mr. Higgins, are you going to answer that one?

MR. HIGGINS: I think I would like to defer that question to the team of Mr. Buergel and

Mr. Oldham. It has been addressed in some large part with the Commission.

MR. BUERGEL: This is John Buergel, I -- the divisional cost allocation paragraph specifically talks about the report that was filed on July 31st and I want to make one or two comments about that report.

First of all, it is a draft report, it's a work in progress and it represents our thinking at that point in time. It is not our final proposal, and we would hope that not only Nevada and Washington Staffs, but any of the Staffs that we sent that report to would give us our -- their concerns or their questions or any revisions that they see to that report so that we can factor that into our thinking as we move towards a final proposal.

The question specifically says, what assurance will the applicants provide that the common costs of Resources West would be allocated to the two divisions? In Nevada the stipulation itself again addresses the allocation of common cost in several of the paragraphs, and probably more specific in Paragraph 20 where it talks about the final report that we will submit to the Nevada Commission by January 1, 1997. And would the common costs also be allocated to the unregulated subsidiaries of Resources West? To whatever extent common costs provides some benefit or are used in the unregulated subsidiaries of Resources West, there would be either a direct assignment of those costs or a proper allocation of those costs.

COMMISSIONER SHELDREW: Mr. Oldham, any --

MR. OLDHAM: I would just like to add that the bulk of the costs that are going to be incurred by both divisions over the years to come will be directly assignable. We will be able to identify where those costs were incurred and how they should be assigned directly, and I think they wouldn't be disputed. It's a fairly small number, perhaps only 10 percent that's allocated using principles of allocation, it's -- that we will all have to discuss and debate, but the vast majority of our costs will be directly assignable I think and apparent to all that that's where the costs should be recovered, which division.

COMMISSIONER SHELDREW: Do any of the other parties have a comment on CA?

Okay. Seeing none, then we'll go to jurisdictional costs, allocations, 4A through D.

MR. HIGGINS: Same report, Commissioner, if that's all right with you?

COMMISSIONER SHELDREW: That's fine.

MR. BUERGEL: And this is John Buergel again. Do all states use the same jurisdictional allocation method? I think that the same type or -- or similar methodologies are used by Sierra Pacific currently to allocate costs between California and Nevada, and by Water Power to allocate common costs between our Oregon, Idaho and Washington jurisdictions. They're -- they're very similar in nature, but I think it's important to remember that what we're talking about when we talk about allocation of costs is the allocation of common costs between the two operating divisions. And once we have agreed on how those costs would be allocated between the two operating divisions, then it is our proposal or our intent to continue to use whatever jurisdictional allocation methodology presently exists to allocate those costs between the respective jurisdictions.

COMMISSIONER SHELDREW: Is that it, Mr. Buergel?

MR. BUERGEL: Yes, unless Mr. Oldham has something he would like to add.

MR. OLDHAM: No, I think that was fine. Thank you.

COMMISSIONER SHELDREW: Well, one of the -- so you do not anticipate going toward a consistent allocation methodology, you're going to stick with whatever it is if I heard you correctly, stick with whatever the existing allocation method is?

MR. BUERGEL: Well, we -- we have jurisdictional allocation methodologies that are presently used and presently approved in the case of Sierra Pacific between California and Nevada, and it's not our intent to redo how those costs are currently allocated.

COMMISSIONER SHELDREW: Okay.

MR. BUERGEL: And the same thing would be true for the northern division.

COMMISSIONER SHELDREW: Okay. I think that that's the conclusion of the questions that were in the notice. So at this point, do any of the parties wish to provide comments on anybody else's comments that were offered on Items 1 through 4?

Ms. Schaer, I'll turn the hearing back to you to see if any of your parties or Commissioners have questions in Washington.

JUDGE SCHAER: Do any of the parties have questions regarding what has just occurred?

MS. JOHNSTON: No.

JUDGE SCHAER: The Commissioners, questions?

COMMISSIONER HEMSTAD: No.

COMMISSIONER GILLIS: No

JUDGE SCHAER: We have none. Thank you.

COMMISSIONER SHELDREW: Commissioner Denio?

COMMISSIONER DENIO: I have no questions.

COMMISSIONER SHELDREW: I have a few other questions that I would like to -- and this talks about some of the issues that we have just touched upon, and I guess it's just an issue that will have to be considered because obviously you do not have the answer now, but it's about how costs are going to be -- between the various lines of business are going to shared or allocated within each division, and I don't know whether that is part of your discussion. I think somebody earlier today said that we hadn't gotten the 25 cent explanation, we only got the nickel explanation of your line of business proposal here in Nevada. So maybe you weren't as comfortable as you should be with it. Was that what you said, Mr. Higgins?

MR. HIGGINS: Commissioner, I think Mr. Redmond was referring to the fact that during one of his regular briefings of the Idaho and Washington Commissions he had had a chance to share a document, which you have received and we talked briefly about, called Division for Resources West Energy, which had been talked about during those briefings, the idea of lines of business. Lines of business are a way for the company to organize itself internally in order to focus on satisfying customers and doing what it is that needs to be done in order to be a good, efficient functioning utility. They are not an attempt to reallocate costs in some strange way. And in some sense, although this is, you know, not the way the world is likely to work in the future, a line of business could have been drawn along the lines of electricity, gas and water, but -- and to the extent water probably will remain a different kind of service that we provide, you know, one way of allocating things would be as we traditionally do today during our regulatory proceedings, to allocate costs among electric, gas and water, and that same sort of thing is what would be necessary slightly -- a slight variation on it, but the same sort of thing as we look at the line of business idea. And the line of business thing was set up to reflect the fact that markets are going to work differently in the future. Water may, in fact, be a very similar situation to its present situation, but more and more with the advent of retail wheeling somewhere down the road with much healthier and robust wholesale markets clearly in our future with open access transmission we felt it was important to begin to organize the company along the lines of how it's going to have to operate to be effective in those markets. And so we said we need to organize ourselves and think of our customers the way our customers are going to think, and that includes some customers who think like very large customers, Mr. Marshall represents them, who think differently about how they buy their product, and how some perhaps residential and small commercial customers think about it and what they might be exercising as choices in the future.

A line of business was simply an attempt to get ourselves organized around how customers are going to make decisions as opposed to just a traditional electric, gas, water way of looking at things, which might not reflect a reality in the future. And so clearly much as the -- this Commission, the Washington Commission and Staffs have had to work to allocate costs among electric, gas and water in the past there would be similar work, which I think we all feel quite comfortable that we're able to work on to allocate costs, if even necessary, because first we do have to allocate among electric, gas and water between large customers and small, but we do that already in trying to set rates. So there is no magic intended in this, simply an internal management focus and how we approach the markets as customers change the way they buy and look at our products implicit in the line of business idea.  It's not intended to be a cost allocation or reallocation formula.  It's intended to be a way to make sure that we're being responsible to what customers need and to get ourselves as efficient as possible and as effective as possible in delivering the services to those customers.

COMMISSIONER SHELDREW:  But are you going to allocate or share costs between the various lines of business within each division?  Is that what your intent is?

MR. HIGGINS:  Let's just say, for example, we have a human resources department in the company --

COMMISSIONER SHELDREW:  Uh-huh.

MR. HIGGINS:  -- and the human resources department is going to have costs that are sort of generally incurred, and there will need to be allocations between -- on some equitable basis, maybe for human resources, it's people, head count, north and south, depending on where people are, and Mr. Oldham pointed out, most costs are directly assignable to a north/south based on this person serves the south and therefore.  And then once you within the company allocated the cost to a particular direction north or south, internally for management recording purposes we'll be allocating the costs so that we can hold managers accountable for getting the kind of results they're supposed to get. But it might be, in my view, invisible outside the company about how we do that. Outside the company there would still be all the normal jurisdictional oversight relative to how we price our products when our tariffs are set. And so that would be along the lines of how you set the rates for each class of customer and what the cost allocation formulas are that -- or cost allocation formulas and methodologies to set those costs, and we intend to follow in all jurisdictions, unless we all learn and agree there is a better way to do it, the way that it's currently done; because in, you know, in the jurisdictional oversight that's what the customer sees. The line of business is yet better at delivering the product to the customers, both in terms of the effectiveness and efficiency, it's not a new way to price the product, it's not a new way to allocate costs. It's an internal management method to focus on customers.

COMMISSIONER SHELDREW: And would the lines of --

MR. REDMOND: And -- I'm sorry, just to add and reemphasize what Mr. Higgins said, as he has just pointed out, the traditional reports that the Commission is used to seeing in our businesses today would be the same reports that the Commission would get in the future.

COMMISSIONER SHELDREW:  Well, that -- that's fine.  My concern is as you design a new company with various lines of business, there are going to be some that -- some lines of business that have, shall we say, less regulation than others.  Now, my concern is how the common costs are going to get allocated so that those that are working with the people that have no alternative to go anywhere don't bear a disproportionate share of the common costs.  And that's why I keep asking about this line of business thing, and it is very vague, and that's why I'm groping with it.

MR. HIGGINS:  All of our lines of business as we start out in the utility part of the business are intended to be and will be fully regulated under the existing forms of regulation that they currently enjoy. For all services that are sold at retail, there is jurisdiction from each of the states on how the costs are allocated, and we do not have any specific plans at this point to offer non-regulated services or less regulated services to any of those lines of -- to any of those kinds of customers.

There is a recognition in the setting up of the energy services business that the world is likely to change sometime in the future.  Until it changes we will operate, in terms of how costs are allocated, exactly as we have always operated, but we need to get ready to satisfy customers, such as that which Ms. Pyron represents, those which Mr. Marshall represents so that we, as Mr. Redmond said very well earlier, retain those customers because they want to stay us with as the world changes.

Now, as the world changes I think Mr. Jackson has made clear and others have that there will have to be some discussions if we begin to offer less regulated or non-regulated products about how to fairly allocate costs to all of those jurisdictions, all of those -- excuse me, all of those ways of doing business, some of which will probably be jurisdictional, and some of which might not in the future.

The company is committed to doing that in a fair and equitable way to making sure that costs are allocated fairly.  Most of the principles that are in place today and in use in the Commission would work in the future as we try to allocate costs based on what are the cost drivers.  If you have a person, then there is a human resource cost, so you divide them maybe that way. Whatever. If you have office space, maybe that's another way you divide certain costs. All of those principles work quite well whether it's regulated or unregulated, and the companies are committed to make sure that that continues even if we have non-regulated activities that we must by virtue of market pressure begin to offer in the future, or as the industry changes and we have to be in those businesses because we have been told by law we have to be.

I'm sorry if that's a long convoluted answer. I am attempting to respond to the vagueness which we have apparently created in your mind, and I'm sorry about that.

COMMISSIONER SHELDREW: Well, that's okay, Mr. Higgins, we'll keep going long past 5:00 here so -- until I understand it, and I appreciate your attempt.

In the report that Mr. Schmidt has indicated is simply preliminary and not to be taken too seriously also at this point I have concern, if you would turn to the divisional allocators that are shown in Attachment A of the O and M payroll and it shows Sierra payroll being higher than Water Power.

MR. MEYER: Where are you again, please?

COMMISSIONER SHELDREW: I'm sorry. Resources

West Energy Divisional Allocators, Attachment A, Page 2 of your preliminary first draft proposed allocation and transfer pricing, and it shows the O and M payroll being larger for Sierra than Water Power, and I guess I have gotten the impression that Water Power was larger than Sierra. Is that a misimpression of mine?

MR. BUERGEL: The -- this is John Buergel. The payroll numbers that are shown here are ones that were actually extracted out of Form 1, and the reason that Sierra shows a higher payroll than Water Power is because of their involvement involving in fact that that payroll shows up directly as a payroll expense in Sierra's books of records. We're in joint projects, Centralia and Colstrip, but those payments to the operators specific in Montana do not show up as payroll expense in our books of record.

COMMISSIONER SHELDREW: Where do they show up, Mr. Buergel?

MR. BUERGEL: They would show up as an accounts payable, and that's the reason that you see the O and M number which excludes payroll going the opposite way.

COMMISSIONER SHELDREW: Okay. Do you think because of that particular situation that numbers of employees would be a better allocator? You don't have to answer it. I mean, I just am throwing it out. I don't want to -- contrary to what some of you may think, I don't want to answer all of these questions before we go forward with this, but I think that there are some questions that I have, given what the first blush of allocation is that we have seen here.

MR. BUERGEL: Certainly, you know, we can -- we can look at a number of different ways of allocating A and G costs. This is a more traditional approach and we may have to -- we may have to modify it to take into account the peculiarities of how we book costs both north and south, but I think we can work through this and resolve it again so there's a fair allocation.

COMMISSIONER SHELDREW: Okay. And then another one, just an observation again, I'm not asking for any commitment one way or the other, the gross plant allocator I think would tend to allocate more common costs to the division that has the most expensive generating resource, and I'm not sure what the correlation is between costs of generating resources and common costs, and conversely since Sierra buys a lot of power it may not get picked up there. I do not know whether that's something that you may want to look at, but I have some concerns about that allocator.

MR. OLDHAM: This is Steve Oldham speaking.

Those are exactly the sort of things in questions this documents was supposed to flag in for all of the parties to look at to make sure that these allocators are applicable in the Resources West environment. They are very similar to what we do in California, between California and Nevada today, but that's in the company that owns all the assets that serve all of the customers. So it is appropriate to call -- to ask those questions and to review them.

COMMISSIONER SHELDREW: And then a further question on the -- on the allocation regarding transmission services. Are you intending to use the electronic bulletin board rates, or are the actual tariff rates when thre is a difference between the actual rates charged and what is posted on the EBB, and I'm specifically referencing on Page -- Page 23 of your draft, Sub 4, I just don't understand what relationship the EBB rates have to actual tariff rates.

Again, you don't have to answer it, maybe you can just clarify that for me at some point, maybe on the hearing on the 6th.

A question on the FERC open access tariff, is the open access tariff that you filed with FERC for RWE as a company, or has it got a provisional component?

MR. OLDHAM: This is Steve Oldham speaking. We have asked for zone rates such as the rates set for open access tariffs on this transmission system on the south would be at the level for the assets in the south and the one at the north set at the levels to recognize the assets of the north.

COMMISSIONER SHELDREW: So the company itself doesn't have one, it's a two-part rate depending which zone you're in?

MR. OLDHAM: Yes.

COMMISSIONER SHELDREW: Are we switching from divisions to zones now, guys? You have been calling it northern division --

MR. OLDHAM: On the southern division --

COMMISSIONER SHELDREW: -- now you're going to northern zone and southern zone?

MR. OLDHAM: I should have said division, southern division.

COMMISSIONER SHELDREW: You get me confused. Okay.

One of the requirements of the -- of the Washington stipulation is the report regarding RTG participation, and as you all know, this Commission probably is unique in that we have not embraced our participation in RTG's. What would be the effect of a jurisdictional disagreement regarding RTG participation, for example, Washington wanted you to do something to the RTG and Nevada told you that we didn't feel that that was appropriate?  Do you see that as any kind of a problem?

MR. HIGGINS:  This is Walter Higgins, Commissioner.

Clearly any time two Commissions, especially the two predominant Commissions, disagree on an issue it's a problem for the company.

One thing about RTG's is that it's just possible they're overtaken by events and will never come to pass anyway.  The railroad train of open access is moving very fast toward pooled transmission assets and some form of change in the way transmission operates, and it's very hard for anybody to predict what that might be.

RTG's more and more are coming to be thought of as probably something that was a good idea but isn't such a great idea anymore, not because they're a bad idea in concept, but they may not do all that -- it's sort of this national vision that seems to be emerging about how the electric industry ought to operate that needs to be done.

So I think my answer to that would be we need to work very closely with both Commissions to try to have a common understanding of what the benefits might be and what the risks might be to all of our ratepayers participation in RTG.

With zonal rates, as we have proposed, and that's the word of art that FERC uses, that's why we have used it, it might be possible for us to participate in an RTG in one zone and not participate in an RTG in another zone. So that's a possible outcome, and it's certainly well within the ranges of what we think is likely to come out of FERC in terms of its order. But beyond that I think we have a challenge if the Commissions don't agree, and I think we would then have to begin to work hard to find out why there is a disagreement not just between the Commissions but why the company would not sense that it couldn't bring everybody to a common understanding of what's good for the customers and what is good for the companies and what meets the needs of the states.

Now I'm confident that -- that we haven't seen the last of the changes on this matter, and that as things evolve we'll all be more and more comfortable that transmission is going to be -- look more like a common carrier with less control by the utilities over it all the time.

COMMISSIONER SHELDREW: Thank you.

That's all of my questions, believe it or not.

Do any of the parties have any questions or observations or statements you want to make before we conclude here in Nevada?

Mr. Jackson? Mr. Schmidt? Mr. Crowell? Mr. Marshall?

You are through for the day?

Ms. Schaer, does anybody have any comments in Washington?

Is anybody still there?

JUDGE SCHAER: We're here. We're awake. I just was moving to the next page of my notes.

Chairman Nelson wanted me to tell you that she had to leave a few minutes ago for an emergency meeting regarding the Bonneville Power Administration, but she wanted me to extend to the Nevada Commissioners and to the witnesses there and all parties our thanks for this opportunity to jointly explore some of the issues that are before each Commission and to start talking about some of the things that we will be working together on through the future if this merger is approved.

So we -- I don't think there is anything further to come before us, let me just confirm that with counsel.

Is there anything further to come before this hearing?

MS. JOHNSTON: No.

JUDGE SCHAER: Anything further from the company? Anything from the Commissioners?

COMMISSIONER GILLIS: No.

COMMISSIONER HEMSTAD: No.

JUDGE SCHAER: So I think with our thanks we're ready to close at this end.

COMMISSIONER SHELDREW: Well, thank you very much, Ms. Schaer, and certainly extend to Sharon Nelson and the other two Commissioners my appreciation for this. I think it's been very helpful from our standpoint, and maybe we're on a cutting edge here with this video telecasting. We can all become TV stars, but I do thank you very much.

Just a reminder to the Nevada folks, the Nevada proceedings will resume on September 6th at 10:00 a.m. here.

JUDGE SCHAER: Is there anything further to come before the Washington Commission?

Hearing nothing, we will stand adjourned.

(Hearing adjourned at 4:40 p.m.)