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

2 JUDGE MOSS: All right, well, we'll go ahead,  
3 it would appear to me that counsel are about ready and  
4 the Bench will be fully assembled here in a moment, but  
5 we may as well go ahead and begin our preliminaries, and  
6 the first order of business will be to take appearances,  
7 and I will start in the hearing room, and I will start  
8 with the company.

9 MS. DODGE: Thank you, Your Honor, Kirstin  
10 Dodge with Perkins Coie for Puget Sound Energy, and I'm  
11 here with Jason Kuzma as well.

12 MR. STOKES: Morning, my name is Chad Stokes  
13 from the law firm Cable Huston, I represent the  
14 Northwest Industrial Gas Users.

15 MR. VAN CLEVE: Brad Van Cleve with Davison  
16 Van Cleve for the Industrial Customers of Northwest  
17 Utilities.

18 MR. FFITCH: Assistant Attorney General Simon  
19 ffitch with the Public Counsel section of the Washington  
20 AG.

21 MR. CEDARBAUM: Robert Cedarbaum, Assistant  
22 Attorney General appearing for Staff.

23 JUDGE MOSS: And Mr. Roseman.

24 MR. ROSEMAN: Ronald Roseman, Attorney at  
25 Law, appearing for the Energy Project and A W.I.S.H.

0121

1 MS. DIXON: Danielle Dixon, Senior Policy  
2 Associate for the Northwest Energy Coalition.

3 MS. SPENCER: Elaine Spencer from Graham &  
4 Dunn on behalf of Seattle Steam Company.

5 JUDGE MOSS: Mr. Furuta.

6 MR. FURUTA: And Norman Furuta from the  
7 Department of the Navy on behalf of the consumer  
8 interests of the Federal Executive Agencies.

9 JUDGE MOSS: And I believe that completes our  
10 appearances in the hearing room, and I know I have  
11 Mr. Kurtz on the line, so we will take your appearance,  
12 Mr. Kurtz.

13 MR. KURTZ: Thank you, Your Honor, Mike  
14 Kurtz, Boehm, Kurtz & Lowry, for the Kroger Company  
15 doing business as Quality Food Centers and Fred Meyer.

16 JUDGE MOSS: All right.

17 And do we have others on the bridge line who  
18 wish to enter an appearance?

19 All right, good. As I previously, several  
20 parties I should say have indicated to me that in light  
21 of the partial settlement that is to say of the rate  
22 spread and rate design issues, they have decided that  
23 they will not actively participate in this phase of the  
24 process, and specifically I can think of Mr. Cameron has  
25 informed me in that regard. For separate reasons I had



0122

1 a note from Mr. O'Rourke that the Citizens Utility  
2 Alliance would not be participating in the evidentiary  
3 phase of our proceeding.

4           And I believe with those two notations and  
5 the appearances we have had this morning that completes  
6 our list of parties in terms of their status for  
7 purposes of our evidentiary proceeding in this docket,  
8 WUTC against PSE, Docket Numbers UG-040640 and others, a  
9 general rate proceeding and consolidated with a couple  
10 of other matters that everyone is well familiar with at  
11 this point. So let me ask if there are any, well, I  
12 guess there are some preliminary matters that I have  
13 listed on my agenda.

14           One is that I have pending PSE's motion for  
15 leave to file revised testimony and exhibits, it would  
16 be my intention to act on that orally this morning. Is  
17 there any objection to the revisions that have been  
18 filed by Puget Sound Energy?

19           Hearing no objection, then that motion will  
20 be granted.

21           Staff also filed some revised testimony not  
22 accompanied by a motion, but I would ask similarly if  
23 there is any objection to the revisions that have been  
24 submitted, everybody has had those for several days now?

25           And again hearing no objection, then those

0123

1 will be accepted as part of our record or at least part  
2 of the tentative record I suppose.

3 Now I have mentioned before that there is a  
4 partial settlement in the proceeding on rate spread and  
5 rate design, my understanding is that is either  
6 unanimously supported or there is at least no  
7 opposition. Am I correct in that belief, Ms. Dodge?

8 MS. DODGE: That's my understanding, Your  
9 Honor.

10 MR. CEDARBAUM: That's correct, Your Honor.

11 JUDGE MOSS: That's consistent with my  
12 understanding. So I have, of course, distributed an  
13 exhibit list to everyone electronically, and I have  
14 marked the settlement document an the accompanying  
15 testimony as Exhibit Numbers 1 and 2, and I have marked  
16 those as admitted by stipulation. I have also marked  
17 certain other exhibits as being admitted by stipulation,  
18 and those include those exhibits of witnesses whose  
19 testimony relates solely to the issues of rate spread  
20 and rate design or is offered only in connection with  
21 those issues, and I have marked those in accordance with  
22 a document I received concerning witnesses as  
23 stipulated, admitted by stipulation. So if there are  
24 any errors in this regard, I'm sure someone will bring  
25 them to my attention.

0124

1                   Yes, sir, Mr. Cedarbaum is going to do that  
2 now.

3                   MR. CEDARBAUM: Just quickly, Your Honor, I  
4 would note that Joelle Steward's testimony and exhibits  
5 that were prefiled in September have not been marked on  
6 your list as admitted by stipulation.

7                   JUDGE MOSS: And they should be?

8                   MR. CEDARBAUM: That's correct, thank you.

9                   JUDGE MOSS: Okay, I will do that.

10                  And have I missed any others?

11                  Apparently not.

12                  MR. CEDARBAUM: Mr. Kuzma, I can't recall  
13 whether Mr. Higgins' testimony has been designated as  
14 admitted by stipulation, but Mr. Kuzma may want to  
15 comment on that if it's not, but I would --

16                  JUDGE MOSS: Okay, I will just check quickly,  
17 and I think it was.

18                  Yes, that's been marked as admitted by  
19 stipulation.

20                  (Exhibits 1, 2, 341 - 348, 388, 389, 401 -  
21 419, and 491 - 500 were admitted by  
22 stipulation.)

23                  JUDGE MOSS: Now as we go forward here it can  
24 be a time saving device if with respect to witnesses who  
25 are going to stand cross-examination if the parties can

0125

1 agree between themselves to simply admit the exhibits by  
2 stipulation, sometimes that can save a few minutes. I'm  
3 not going to break things up to do that now, but as we  
4 proceed, you might want to get together at a lunch break  
5 or something and see if going forward we can just have a  
6 stipulation about various witnesses' exhibits, and it  
7 may save some time. Now, of course, you can do that for  
8 example if the witness has 15 exhibits, you could  
9 stipulate to 14 and perhaps reserve an objection with  
10 respect to 1. So this will save a little time if you  
11 choose to proceed in that way, or we can take them up  
12 individually with each witness.

13                   And I have also reserved Exhibit Number 10,  
14 Mr. ffitch, I'm not sure I communicated that to you, for  
15 the public comments.

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

17                   JUDGE MOSS: Okay, fine, so we'll take those  
18 at the end I think.

19                   All right, I believe that concludes the  
20 preliminary business that I wish to share with you, and  
21 so if there's no other preliminary business from the  
22 parties, or is there?

23                   MR. CEDARBAUM: I just have one  
24 clarification, Your Honor, and I discussed this with  
25 Ms. Dodge this morning, what's been marked for

0126

1 identification as Exhibits 56 and 57, which were Staff  
2 cross exhibits of Mr. Reynolds.

3 JUDGE MOSS: Yes.

4 MR. CEDARBAUM: Exhibit 56 is an exhibit that  
5 actually Staff will be proposing for Mr. Story and  
6 Exhibit 57 through Mr. Gaines, and so I don't know if  
7 you want to renumber them or just keep the numbers that  
8 are already designated for them. It doesn't matter to  
9 Staff.

10 JUDGE MOSS: We will probably leave them the  
11 way they are, because if memory serves we have a  
12 continuous numbering for Mr. Gaines to the witness that  
13 follows Mr. Gaines and so that would make it out of  
14 sequence in any event. There's a 20 some odd page  
15 exhibit list here, let me just take a look. Yes, that's  
16 correct, so let's just leave them with the existing  
17 numbers.

18 All right, anything else?

19 Well, with that then, I believe we are ready  
20 for our first witness, Ms. Dodge.

21 MS. DODGE: Thank you, Your Honor, Puget  
22 Sound Energy calls Mr. Stephen Reynolds.

23 JUDGE MOSS: If you will remain standing,  
24 please raise your right hand.

25 (Witness Stephen P. Reynolds was sworn.)

0127

1 JUDGE MOSS: Thank you, please be seated.

2 As we move forward this morning with our  
3 examination I will remind everyone to please speak  
4 slowly and deliberately so that we don't overtax our  
5 court reporter, and I will endeavor to do that myself,  
6 being usually the one who is most guilty of speaking too  
7 rapidly, and also of course please remember to turn your  
8 microphones on and to as you see you have to sit forward  
9 to speak into them as I am doing, and the switch needs  
10 to be up for the microphones to be on.

11 All right, so with that, Ms. Dodge, if you  
12 will put Mr. Reynolds on.

13 MS. DODGE: Thank you, Your Honor.

14

15 Whereupon,

16 STEPHEN P. REYNOLDS,  
17 having been first duly sworn, was called as a witness  
18 herein and was examined and testified as follows:

19

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

21 BY MS. DODGE:

22 Q. Mr. Reynolds, do you have before you your  
23 direct and rebuttal testimony in this matter as well as  
24 the exhibits to your testimony, which have been  
25 identified as Exhibits 51 through 53?

0128

1 A. Yes.

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

4 A. I believe the answer is yes.

5 Q. Looking at page 6, line 10, of Exhibit 53,  
6 which is your rebuttal testimony, is the correct  
7 percentage 7.1% rather than 7.3%?

8 A. Yes, that's correct.

9 Q. With that correction, are the answers to the  
10 questions in Exhibits 51 through 53 true and accurate to  
11 the best of your knowledge?

12 A. Yes, they are.

13 MS. DODGE: Your Honor, we offer Exhibits 51  
14 through 53 into evidence.

15 JUDGE MOSS: Hearing no objection, those will  
16 be admitted as marked.

17 MS. DODGE: Your Honor, we offer Mr. Reynolds  
18 for cross-examination.

19 JUDGE MOSS: All right.

20 And does Staff prefer to go last or first,  
21 any preference, Mr. Cedarbaum?

22 MR. CEDARBAUM: I have no preference.

23 JUDGE MOSS: No preference.

24 Does anybody have a preference?

25 Well, then why don't we proceed with you,

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1 Mr. Cedarbaum, and then we will work our way around the  
2 room.

3 MR. CEDARBAUM: Thank you.

4

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

6 BY MR. CEDARBAUM:

7 Q. Hello, Mr. Reynolds.

8 A. Good morning.

9 Q. I wanted to start off with some preliminary  
10 questions about the initial tariff filing that the  
11 company filed in this case in April. Is it correct that  
12 this past April the company filed tariff revisions to  
13 effect an increase on the electric side of \$81.6  
14 Million?

15 A. I believe my numbers are \$81.4 Million.

16 Q. I'm not sure it matters that much, but I'm  
17 looking at the advice letter that was filed on April  
18 5th, 2004, from Kimberly Harris, and on page 2 of 7 it  
19 states, and would you accept this subject to your check,  
20 that the purpose of this filing is increased rates to  
21 recover increased electric and gas revenue requirements  
22 of \$81.6 Million and \$47.2 Million respectively?

23 A. I would accept that subject to check.

24 Q. And the tariff filings that were made in  
25 April were suspended by order of this Commission; is



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1 that right?

2 A. I believe so, yes.

3 Q. Is it correct that the company posted the  
4 tariff revisions at its business offices in compliance  
5 with Commission rule, to your knowledge?

6 A. Yes.

7 Q. Did the company also send out direct mailings  
8 to its customers indicating that it was seeking rate  
9 relief for the \$81.6 Million on the electric side?

10 A. Yes.

11 Q. Now in Mr. Story's rebuttal testimony plus  
12 the revisions that were filed last week, he testifies,  
13 and this is in Exhibit 237C at page 1, that the  
14 company's increased revenue requirement is now \$99.8  
15 Million. Do you recall that?

16 MS. DODGE: Do you have the exhibit to hand  
17 the witness?

18 MR. CEDARBAUM: I don't, but if you could do  
19 that, that would be helpful, thank you. And it's  
20 Exhibit 237C for identification, page 1.

21 A. Yes, that's correct.

22 BY MR. CEDARBAUM:

23 Q. Has the company filed revised tariff sheets  
24 reflecting that \$99.8 Million? Let me strike that  
25 first, let me ask another question first.

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1                   Is the company asking the Commission to  
2   increase its revenues by the \$81.6 Million figure that  
3   was initially filed on the electric side or the \$99.8  
4   Million figure that Mr. Story references?

5           A.     The company is asking for the numbers that  
6   are referenced in Mr. Story's testimony.  And as I think  
7   is obvious, these reflect updates primarily to fuel  
8   expense, and I'm sure this is an issue that the  
9   respective attorneys will brief.

10          Q.     My question is a factual one, has the company  
11   filed revisions to the tariffs that were under  
12   suspension in this case?

13          A.     I don't know.

14          Q.     Would you accept subject to check that it has  
15   not?

16                 MS. DODGE:  Your Honor, I object to that  
17   question, that's not an appropriate subject to check.

18                 JUDGE MOSS:  Well, I think Mr. Reynolds can  
19   ascertain whether the company has made such a filing or  
20   not, so it is appropriate for check, or perhaps you can  
21   simply tell us on behalf of the company whether there  
22   has been a subsequent filing.

23                 MS. DODGE:  I would be happy to state that.

24                 JUDGE MOSS:  Why don't we stipulate this.

25                 MS. DODGE:  Which is that substitute tariff

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1 sheets have not been filed with the Commission.

2 JUDGE MOSS: All right, is that satisfactory,  
3 Mr. Cedarbaum, to have that information in that way?

4 MR. CEDARBAUM: Yes, it is, thank you, Your  
5 Honor.

6 JUDGE MOSS: All right.

7 MR. CEDARBAUM: And I will withdraw that  
8 subject to check.

9 BY MR. CEDARBAUM:

10 Q. Do you know, Mr. Reynolds, has the company  
11 posted any new or additional notice at its business  
12 offices in comparison with the first one that was  
13 posted?

14 A. I don't know.

15 Q. Do you know if the company has sent out  
16 direct mailings to its customers reflecting the \$99.8  
17 Million figure rather than the \$81.6 Million figure?

18 A. I don't know.

19 MR. CEDARBAUM: Your Honor, I guess I'm not  
20 quite sure how to be able to ascertain that information.  
21 If Ms. Dodge has that information and wants to present  
22 it on the record, that's fine. I could ask a record  
23 requisition, but then I'm not quite sure how that  
24 becomes part of the record since this is a one time  
25 hearing where all witnesses are testifying.

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1           JUDGE MOSS: All right, well, it strikes me  
2 as the simplest thing will be if Ms. Dodge can simply  
3 confirm that the company has or has not made any  
4 subsequent filing with respect to the revised numbers  
5 that have been presented through Mr. Story's testimony.

6           MS. DODGE: That's correct, Your Honor, we  
7 have revised the evidence that's in front of the  
8 Commission in this adjudicative proceeding, and the  
9 mailings that went out were the mailings that were  
10 agreed between the parties, as agreed at that time, and  
11 additional mailings have not been sent.

12           JUDGE MOSS: So there has been no additional  
13 customer notice, I think that was the question.

14           MS. DODGE: Well, I would disagree with that.

15           JUDGE MOSS: There has been customer notice  
16 posted in the company's offices and sent out to the  
17 customers, that was the question?

18           MS. DODGE: The mailings that went out have  
19 not been -- no additional mailings have gone out, and I  
20 do not believe that additional postings have been made  
21 in company offices. However, the conclusion that  
22 customers have not had notice is a different matter.

23           MR. CEDARBAUM: I'm sorry, I was just looking  
24 for the factual information on that.

25           JUDGE MOSS: Sure.

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1 MR. CEDARBAUM: I think I've gotten that.

2 JUDGE MOSS: Good, I think that's  
3 satisfactory then.

4 BY MR. CEDARBAUM:

5 Q. Turning to your rebuttal testimony, Mr.  
6 Reynolds, at page 6, this is Exhibit 53, you state at  
7 lines 18 to 19 that the company's proposal is designed  
8 in part to continue the company's efforts to rebuild the  
9 company's financial health. Do you see that? Again,  
10 this is on page 6, lines 18 and 19.

11 A. Yes, I do.

12 Q. So in your opinion this case is about the  
13 overall financial health of Puget Sound Energy?

14 A. That's correct.

15 Q. If you could turn to Exhibit 54, and I would  
16 like to just run down some of the general information,  
17 some general information on the corporate structure of  
18 PSE. Do you recognize Exhibit 54 as selected pages of  
19 the company's, excuse me, not the company, but Puget  
20 Energy's 2003 annual report?

21 A. Yes.

22 Q. And I guess I should clarify for the record  
23 that when I refer to the company I mean Puget Sound  
24 Energy, and I will try to distinguish that from Puget  
25 Energy as I go.

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1                   Looking at page 2 of the exhibit, and my page  
2 designations are the handwritten ones on the bottom  
3 right, it shows Puget Energy at the top third of the  
4 page; is that right?

5           A.       That's correct.

6           Q.       And Puget Energy is a non-regulated holding  
7 company?

8           A.       That's correct.

9           Q.       It also shows in the center third of the page  
10 Puget Sound Energy; do you see that?

11          A.       Yes, I do.

12          Q.       And Puget Sound Energy is a wholly owned  
13 subsidiary of Puget Energy?

14          A.       That's correct.

15          Q.       So if you look at the top, the Puget Energy  
16 section, the summary of results that is shown there  
17 would include the summary of results that is shown for  
18 Puget Sound Energy?

19          A.       That's correct.

20          Q.       Puget Sound Energy itself has subsidiary  
21 operations; is that right?

22          A.       That's correct.

23          Q.       And those are unregulated companies?

24          A.       Those are unregulated companies, those are  
25 companies whose financial performance is reflected in

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1 the Puget Sound Energy totals here, but they are  
2 excluded from consideration for rate making purposes.

3 Q. Can you just list the unregulated  
4 subsidiaries of Puget Sound Energy that you're  
5 referencing?

6 A. That would be a question I would suggest you  
7 defer to Mr. Gaines or Mr. Story.

8 Q. Let me list them and just see if they ring a  
9 bell. They would be Puget Western, Hydro Energy  
10 Development Corporation, WNG CAPI, and Rainier  
11 Receivables. Is that right to your knowledge?

12 A. That may be some of them. There are a number  
13 of them. These reflect a number of subsidiaries that  
14 have a long history that in essence we're in the process  
15 of trying to close down, other than Puget Western which  
16 continues to be a real estate, an ongoing real estate  
17 development organization.

18 Q. Well, let me ask you then to look at Exhibit  
19 55, which is do you recognize this as the company's  
20 response to Staff Data Request 291?

21 A. Yes.

22 Q. And it shows you at the bottom of the page of  
23 page 1 as the witness knowledgeable about the response.

24 A. That's correct.

25 Q. Now in part A of the data request we asked

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1 the company to provide the balance sheets for each PSE  
2 subsidiary and the consolidated balance sheet for PSE;  
3 is that right?

4 A. That's correct.

5 Q. And is it correct that the only PSE  
6 subsidiaries that we received responses on in this data  
7 request response are Puget Western, Hydro Energy  
8 Development Corporation, WNG CAPI, and Rainier  
9 Receivables? Is that right?

10 A. That's correct.

11 Q. If you could turn back to Exhibit 54, the  
12 annual report pages, is it correct that the financial  
13 results of the unregulated subsidiaries of Puget Sound  
14 Energy are reflected in the summary of results that are  
15 shown on page 2, that middle third of the page under  
16 Puget Sound Energy?

17 A. I believe that's correct, but as I said  
18 earlier, I would suggest that for detail documentation  
19 you refer to Mr. Gaines or Mr. Story.

20 Q. Page 2 of Exhibit 54 also shows at the bottom  
21 InfrastruX Group; do you see that?

22 A. Yes, I do.

23 Q. And that's a subsidiary of Puget Energy?

24 A. That's correct.

25 Q. Is that the primary unregulated business of



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1 Puget Energy?

2 A. That's the exclusive unregulated business of  
3 Puget Energy.

4 Q. Okay. Now this shows Puget Energy's, this  
5 page, I'm referring again to page 2, it shows Puget  
6 Energy's return on average common equity in 2003 of 7.3%  
7 and the comparable number for Puget Sound Energy is  
8 7.7%; is that right?

9 A. That's correct.

10 Q. If any of the witnesses, other witnesses for  
11 Puget Sound Energy in this case, were to report in their  
12 testimony a different number for Puget Sound Energy's  
13 return on average common equity in 2003 other than 7.7%,  
14 would their testimony be inaccurate?

15 A. Not necessarily. Again, as I said, I believe  
16 a substantial portion of the material before this  
17 Commission deals with the regulated utility portion of  
18 Puget Sound Energy, which does not include any of the  
19 unregulated subsidiaries, so there may well be  
20 situations where Puget Sound Energy is aggregated as an  
21 entity here as is shown in the annual report, which is  
22 different from what's in front of this Commission in the  
23 rate making proceeding for strictly the regulated  
24 utility, Puget Sound Energy.

25 Q. Well, let me ask you an example, and this is

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1 just to try to clear up I guess our confusion then, but  
2 in his rebuttal testimony, Exhibit 206C of  
3 Dr. Cicchetti, if the witness can be provided that, I'm  
4 looking at page 1.

5 MS. DODGE: Your Honor, I would like to  
6 object, now you're asking Mr. Reynolds to speak to other  
7 witnesses' testimonies.

8 JUDGE MOSS: The objection is overruled.

9 BY MR. CEDARBAUM:

10 Q. Again, this is Exhibit 206C, page 1, line 18,  
11 do you have that in front of you?

12 A. I do.

13 Q. Okay. Dr. Cicchetti says that PSE's actual  
14 earned return on equity in 2003 was 7.3%, while the  
15 annual report information that we were just discussing  
16 shows 7.7%. Are you saying that he's, and just to your  
17 knowledge, that his reference is just to the regulated  
18 operations of PSE when he testifies there?

19 A. That would be my interpretation. I believe  
20 that the numbers represented by our witnesses have been  
21 strictly oriented towards the regulated utility, Puget  
22 Sound Energy. I would just add that Puget Western for  
23 instance in 2003 had a reasonably good year as it rolled  
24 up. That in fact advantages all of Puget Sound Energy,  
25 and I'm sure that's a large part of why the reflected

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1 number for 2003 is higher.

2 Q. If I gather from that answer then, you're  
3 saying that at least with respect to Puget Western its  
4 return on equity in 2003 was higher than Puget Sound  
5 Energy, the regulated company's return on equity?

6 A. That would -- that's what I'm implying.

7 Q. On the page that I'm looking at, the annual  
8 report shows InfrastruX's return on equity in 2003 as  
9 1.6%; is that right?

10 A. That's correct.

11 Q. The next series of questions -- well, let me  
12 ask you this. Is it your testimony that the combined  
13 return on equity for Puget Sound Energy's unregulated  
14 subs in 2003 was higher than just the regulated  
15 operations of Puget Sound Energy?

16 A. I don't know the answer to that. That would  
17 be a great question for Mr. Gaines.

18 Q. Well, I'm going to be asking you some  
19 questions with respect to Exhibit 55, which is your  
20 response to Staff Data Request 291, that shows you as  
21 the witness knowledgeable about the response.

22 JUDGE MOSS: Let me just interrupt for half a  
23 second here, Mr. Cedarbaum. I notice that a portion of  
24 my copy of Exhibit 55 is on yellow paper and is marked  
25 confidential, so is this in fact Exhibit 55C, is this a

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1 confidential exhibit?

2 MR. CEDARBAUM: I believe it should be.

3 JUDGE MOSS: All right, well, let's remark it  
4 as 55C, and of course both the witness and counsel are  
5 all cautioned to be diligent about not disclosing  
6 confidential information.

7 MR. CEDARBAUM: Your Honor, I guess what I  
8 would like to do, because I don't know to what extent my  
9 questions might require the witness to reveal  
10 confidential information, if numbers off those yellow  
11 sheets have to remain confidential, then my questions  
12 may go into that area, so -- and I have other questions  
13 on Exhibit 55, so if it would be preferable, I could  
14 finish asking questions on other subjects that do not  
15 have confidential information, and then perhaps we  
16 should go into a confidential session for all of those  
17 questions on Exhibit 291.

18 JUDGE MOSS: Let's first see if we can do it  
19 this way, and I note that the individual numbers are not  
20 highlighted on the nominally confidential pages so we  
21 don't know what is or what might or might not be  
22 confidential.

23 But, Ms. Dodge, is this something as to which  
24 the company feels a need to continue to assert  
25 confidentiality, and if so, to what extent?

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1 MS. DODGE: Yes, it is, Your Honor, and this  
2 is one of those rare exhibits where the entire -- all of  
3 the information essentially is confidential other than I  
4 suppose date headings. We have tried to be very  
5 diligent about minimizing the amount of confidential  
6 material and being specific as to the numbers, but these  
7 of course are balance sheets, so they have a lot of  
8 financial detail in them, and even the categories can be  
9 sensitive information.

10 JUDGE MOSS: All right, well, proceed with  
11 your other questions, Mr. Cedarbaum, and we'll consider  
12 when we come back to this whether we need to move into a  
13 confidential session or whether we can handle it in some  
14 other way. I notice that there are not line numbers,  
15 and so that would make it difficult to examine the  
16 witness with respect to these exhibits without reference  
17 at least to the labels, so go ahead with your other  
18 questions.

19 MR. CEDARBAUM: Let me just ask Mr. Reynolds  
20 some questions about the exhibit, and then he can say  
21 that he can't reveal the numbers or not.

22 BY MR. CEDARBAUM:

23 Q. Mr. Reynolds, what I was going to ask you  
24 about Exhibit 55 was to go through the exhibit for each  
25 of the unregulated subsidiaries of Puget Sound Energy

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1 and pinpoint on the page each of those company's equity,  
2 the amount of their equity. And if you could do that,  
3 if those numbers are confidential, then I will come back  
4 to them later. If they're not, I can ask my questions.

5 A. Simply put, I can not do that, and that would  
6 be a question better posed to Mr. Gaines or Mr. Story.

7 Q. So if I were to ask you on page 7 of Exhibit  
8 55, and don't say the number, just say if you can answer  
9 the question, to tell me what the total equity is for  
10 Puget Western Incorporated for the period ended  
11 12-31-03, you could not do that?

12 A. I could not myself right now, no, but I'm  
13 sure Mr. Gaines or Mr. Story could, and I think it would  
14 be far more productive to address those questions to  
15 either of them.

16 Q. I guess I'm not sure why since the company  
17 designated you as the person knowledgeable for this  
18 response and not Mr. Gaines or Mr. Story, but you're  
19 telling me you can't answer questions about the balance  
20 sheets in this exhibit?

21 A. Not with regard to the historic nature of  
22 some of these small subsidiaries, which are in my view  
23 largely irrelevant to the rate case in front of us right  
24 now.

25 Q. It's your opinion that those subsidiaries'

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1 operations are irrelevant to the return on equity of  
2 Puget Sound Energy?

3 A. I believe they're relevant to the  
4 consolidated Puget Sound Energy, which includes those  
5 subsidiaries, but I don't believe that they're entirely  
6 relevant to the regulated Puget Sound Energy with its  
7 cost of service that's the subject matter of the case in  
8 front of us today. In other words, those subsidiaries  
9 are excluded from Puget Sound Energy utility for rate  
10 making purposes.

11 Q. Okay, let's go back to Exhibit 54 on page 3  
12 of the exhibit. Again, my reference is to the  
13 handwritten numbers. In the upper right-hand corner of  
14 the exhibit it gives ratings for Puget Energy and Puget  
15 Sound Energy as of March 8, 2004, and this shows that  
16 Puget Sound Energy's rating from Standard & Poor's for  
17 senior secured debt is Triple B; is that right?

18 A. That's correct.

19 Q. And that refers to the company's credit  
20 rating with respect to mortgageable bonds; is that  
21 right?

22 A. Again, the senior secured debt is what is  
23 referred to here, that can be mortgageable bonds.  
24 Again, if you want to understand in depth, there's an  
25 elegant description of how these are broken down in the

0145

1 testimony of Mr. Gaines.

2 Q. Looking across the page under the restrictive  
3 covenants section, it says that the company, and this is  
4 the last sentence of that first paragraph, under the  
5 most restrictive tests as of the end of 2003, PSE could  
6 issue approximately \$928 Million of additional first  
7 mortgage bonds; do you see that?

8 A. Yes, I do.

9 Q. If you could turn to page 4 of the exhibit,  
10 just above the middle of the page it shows investing  
11 activities, construction and capital expenditures  
12 excluding equity, AFUDC, and then figures for 2003,  
13 2002, and 2001; do you see that?

14 A. No, could you point it out to me again?

15 Q. Sure, I'm on page 4, Exhibit 54, there is a  
16 section in the middle of the page titled investing  
17 activities, and then right underneath that as one of the  
18 investing activities it designates construction and  
19 capital expenditures.

20 A. Yes.

21 Q. And then there are numbers across the page  
22 for 2003, 2002, and 2001, correct?

23 A. Correct.

24 Q. And right above each of those numbers there's  
25 another number labeled net cash provided by operating



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1 activities; do you see that?

2 A. Yes.

3 Q. So Puget Energy had net cash provided by  
4 operating activities in excess of the amount shown for  
5 construction and capital expenditures in each of those  
6 years; is that correct?

7 A. That's correct.

8 MR. CEDARBAUM: Your Honor, I would offer  
9 Exhibit 54.

10 JUDGE MOSS: Hearing no objection, it will be  
11 admitted as marked.

12 BY MR. CEDARBAUM:

13 Q. Just for clarification, Mr. Reynolds, you  
14 feel that if I wanted to ask you specific questions  
15 about the information shown in Exhibit 55, those are  
16 better addressed by other witnesses?

17 A. That's correct.

18 Q. Do you know how much, well, currently what is  
19 the company's equity ratio percentage?

20 A. Currently?

21 Q. Yes.

22 A. As of today?

23 Q. Today or close to today.

24 A. I believe for Puget Energy our equity ratio  
25 is approximately, again subject to verification by Don

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1     Gaines when he is on the stand, about 39.9%.

2           Q.     And for rate making purposes, the company is  
3     asking the Commission to set rates based on a 45% equity  
4     ratio; is that right?

5           A.     That's correct.

6           Q.     Do you know how much equity capitalization  
7     Puget Sound Energy has to increase over the about 40%  
8     that you just referenced to reach that 45%?

9           A.     I don't know the precise amount.  It's  
10    something that we believe is required for us to meet our  
11    utility capital expenditure requirements over the course  
12    of the next year, and we think it's doable within the  
13    rate year, and I would suggest that that would be a  
14    great line of questions for Mr. Gaines, Mr. Markell,  
15    Mr. Valdman.

16          Q.     I guess I'm asking you as the company's CEO  
17    whether you know how much additional equity  
18    capitalization the company requires to go from the  
19    current 40% to the proposed rate making 45%?

20          A.     And I believe I said that I have a general  
21    sense in terms of what it will take to do that.  I think  
22    it's consistent with the capital spending requirements  
23    that we have indicated publicly that we are committed to  
24    doing on behalf of our customers.

25          Q.     And what is your general understanding of

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1 that amount?

2 A. Over the course of the next three plus years  
3 we are looking at commitments of capital spending of  
4 well in excess of \$1 Billion.

5 Q. I guess my question is, you're asking the  
6 Commission to set rates based on a 45% equity ratio to  
7 be used during the rate year, which is February '05,  
8 March '05 to February '06; is that right?

9 A. That's correct.

10 Q. And my question is, what's the additional  
11 equity capitalization that the company needs to reach  
12 that 45%?

13 A. And as I suggested, that's a great question  
14 for Mr. Gaines. I believe he discusses that in detail  
15 in his testimony.

16 Q. You don't know the answer to that question?

17 A. Not specifically, no.

18 Q. The last question I have for you is in your  
19 rebuttal testimony at page 9.

20 JUDGE MOSS: I only have 7 pages.

21 MR. CEDARBAUM: So do I.

22 JUDGE MOSS: Exhibit 53, right?

23 MR. CEDARBAUM: Yes. If I could just double  
24 check, I think I -- I'm sure I have a typo just in my  
25 notes, but if I could have a minute to find the correct

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1 citation.

2 I'm sorry it's because we're --

3 BY MR. CEDARBAUM:

4 Q. I should have directed you, Mr. Reynolds, to  
5 your direct testimony, I apologize, that's Exhibit 51 at  
6 line 9. Let me know when you're at that spot.

7 Are you there?

8 A. Yes.

9 Q. Okay. You refer to returns expected from  
10 peer utilities, and my only question is when you say  
11 that, are you referring to the same group of comparable  
12 companies that Dr. Cicchetti analyzed or something else?

13 A. I'm speaking generically with regard to what  
14 my characterization from my knowledge and from my  
15 experience in the industry would be given circumstances,  
16 given the regulatory and financial circumstances that  
17 are confronting Puget Sound Energy right now and the  
18 peers that I deal with. I think you will see  
19 reinforcing that the testimony of Dr. Cicchetti as well  
20 as Mr. Valdman and Mr. Gaines.

21 Q. Dr. Cicchetti looked at a group of comparable  
22 companies in his DCF analysis; is that right?

23 A. Again, I think Dr. Cicchetti can best speak  
24 to what he did in his testimony.

25 Q. But when you reference peer utilities then,

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1 you weren't speaking to his group of comparable?

2 A. As I said, I think that my reference there  
3 assumes and subsumes what Dr. Cicchetti has done but  
4 also speaks to my knowledge, my expertise of having  
5 dealt with utilities clear across the nation, both gas,  
6 electric, and combination, in a variety of different  
7 capacities for well over 30 years, including current  
8 circumstances related to transitions taking place in the  
9 industry, the financial hardships that have happened in  
10 the industry post Enron, and what the degree of  
11 difficulty there is in obtaining financing for a  
12 vertically integrated utility as we proceed forward.  
13 That's the bases of my statement.

14 Q. I will have to -- there was one question I  
15 forgot with respect to Exhibit 54, the annual report,  
16 and the questions I had for you on page 3 when we were  
17 discussing the Triple B senior secured debt rating. Is  
18 that a rating that has prevailed for Puget Sound Energy  
19 for the past few years, say five years?

20 A. I can't speak to that, I have only been with  
21 Puget Energy for a little over -- for almost three  
22 years, so I can't speak to the history, but that would  
23 be a great question for Mr. Gaines.

24 Q. How about for the time period that you have  
25 been with the company?

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1           A.     For the time period that I have been with the  
2 company we have been at virtually a Triple B minus for  
3 -- I will check to see whether I'm looking at the  
4 specific line that you're referring to there.

5           Q.     Yeah, why don't we make sure that you are.  
6 Again, I'm on Exhibit 54, page 3, in the upper  
7 right-hand corner. We were discussing the Triple B  
8 rating that S&P has given Puget Sound Energy for senior  
9 secured debt, and my question is how long, has that  
10 rating prevailed for Puget Sound Energy for the period  
11 of time you have been with the company?

12          A.     I can't speak to the senior secured debt  
13 number. That number should -- you should -- that  
14 question you should address to Mr. Gaines.

15                   MR. CEDARBAUM: Okay, thank you,  
16 Mr. Reynolds, those are all my questions.

17                   JUDGE MOSS: Thank you, Mr. Cedarbaum.

18                   MR. CEDARBAUM: Oh, Your Honor, I guess I  
19 should offer Exhibit 55.

20                   JUDGE MOSS: All right, no objection, then  
21 that will be 55C, that will be admitted as remarked.

22                   All right, Mr. ffitch, you indicated you had  
23 some cross-examination for Mr. Reynolds.

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

25

0152

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

2 BY MR. FFITCH:

3 Q. Good morning, Mr. Reynolds.

4 A. Good morning, Mr. ffitch.

5 Q. I would like to just refer to your testimony,  
6 your rebuttal testimony, which has been marked as  
7 Exhibit 53, and first of all at page 2 of that testimony  
8 at line 5 you state the company's reaction to the  
9 rebuttal testimony, or excuse me, the response testimony  
10 in this case, which would include Public Counsel's  
11 testimony, is disappointment, correct?

12 A. That's correct.

13 Q. Okay. And then if we go to page 7 of your  
14 testimony at lines 2 and 3, you state that all of us  
15 must step up to the plate and we must all contribute,  
16 correct?

17 A. That's correct.

18 Q. And you're essentially referring there to  
19 contribute to the financial health of a utility company,  
20 correct?

21 A. That's correct.

22 Q. And later on in that paragraph, lines 8 and  
23 9, you refer to shared responsibility or shared  
24 responsibilities exclude to be more accurate; isn't that  
25 right?

0153

1 A. That's correct.

2 Q. Now you were and I think you just testified  
3 you were a CEO of Puget Sound Energy at the time of the  
4 last general rate case, correct?

5 A. That's correct.

6 Q. And that I think as we recall resulted in a  
7 comprehensive multiparty settlement, did it not?

8 A. Yes, it did.

9 Q. And as part of that settlement, the customers  
10 of the company agreed to a rate increase, did they not?

11 A. Yes, they did.

12 Q. And in addition the customers in that case  
13 also agreed to a power cost adjustment, a PCA, correct?

14 A. That's correct.

15 Q. And part of the PCA was a component known as  
16 a power cost only rate case, which generated a wonderful  
17 new acronym, PCORC, correct?

18 A. That's correct.

19 Q. Now both the PCORC and the PCA also result in  
20 customer rate increases, do they not?

21 A. The PCORC did. I don't believe that the PCA  
22 has had occasion to have any customer rate increase  
23 during its existence to date.

24 Q. Okay. But it can have that potential,  
25 correct?



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1           A.     It can, though I would just point out that to  
2     date the impact of the PCA has included upwards to \$40  
3     Million of shareholder loss under the PCA under the  
4     sharing mechanism.

5           Q.     And as you have just stated, the PCA is a  
6     method of sharing power costs between the company, the  
7     company shareholders, and the rate payers, correct?

8           A.     That's correct, but let's also look at the  
9     actual implementation of that mechanism and what has  
10    occurred since then, which is essentially no rate  
11    increase to customers and during that duration a fairly  
12    significant impact to shareholders.

13          Q.     But that's what the company agreed to in that  
14    mechanism, correct?

15          A.     That's correct.

16          Q.     And you would agree, would you not, that both  
17    the PCA and its component, the PCORC, are examples of  
18    customer participation in the financial health of the  
19    company, correct?

20          A.     That's correct.

21          Q.     And if we look back a little bit further into  
22    the history of the 2002 rate case, there was something  
23    called the equity tracker settlement, correct?

24          A.     That's correct.

25          Q.     And you would agree also, wouldn't you, that

0155

1 the equity tracker arrangement that customers agreed to  
2 in that 2002 settlement is an example of customer  
3 participation in the financial health of the company?

4 A. Absolutely, and I believe that I have  
5 referred to that in my testimony.

6 Q. And you're aware, are you not, that the  
7 Public Counsel recommendation in this case does result  
8 in a rate increase for Puget Sound Energy, not as much  
9 as the company has asked for, but the result is that  
10 there would be under our testimony some rate increase  
11 for the company, correct?

12 A. That's correct, and I would also say,  
13 Mr. Ffitch, that I continue to be astonished that the  
14 Public Counsel's position on things such as return on  
15 equity is more positive and helpful than the Staff's.

16 Q. Now in addition to the mechanisms I have  
17 already mentioned which arise out of the 2002 rate case  
18 settlement, Puget Sound Energy like other companies has  
19 available to it a purchased gas adjustment, correct?

20 A. That's correct.

21 Q. And the purchased gas adjustment just  
22 recently for example this fall resulted in approximately  
23 an 18% rate increase for gas customers, correct?

24 A. Yes, that's correct.

25 Q. Now do you know, Mr. Reynolds, what the

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1 cumulative effect as of the time of this hearing today  
2 of the gas trackers, the PCORC, the PCA, and the 2002  
3 general rate case is on an average or a typical Puget  
4 Sound Energy residential customer that also uses gas and  
5 electricity?

6 A. Might you let me know what you think the  
7 starting point would be for that calculation?

8 Q. Well, I'm just asking you if you know in your  
9 own mind today sitting here as a witness for the company  
10 what the cumulative effect of those changes in those  
11 mechanisms is from the customers' perspective?

12 A. Again, let me, I'm not trying to be  
13 nonresponsive, but again, the particularly the gas side  
14 has been so up and down because of gas price volatility  
15 over the course of the last five years that it's hard to  
16 know what the benchmark starting point might be. We saw  
17 a period of time where gas costs dropped tremendously in  
18 2003.

19 Q. Excuse me, I see your --

20 A. So I'm struggling with what the effective  
21 rate is that you're looking for. If you look at for  
22 instance the electric rates today, I would posit that  
23 since probably 1999 I don't believe electric rates are  
24 up, including this, the application here, much more than  
25 10%.

0157

1 Q. Well, perhaps my question could have been  
2 clearer. I was asking for the cumulative impact since  
3 the 2002 rate settlement.

4 A. And I don't specifically know the answer to  
5 that question. I think there's some references included  
6 in my testimony to the amounts that we were seeking  
7 based upon this case alone.

8 Q. Do you know the cumulative impact in terms of  
9 additional revenue to the company of those mechanisms  
10 and rate increases since the 2002 rate case  
11 implementation?

12 A. I don't, but that would be a great question  
13 for Mr. Story.

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

16 JUDGE MOSS: Thank you, Mr. ffitich.

17 Mr. Roseman, you had indicated you might have  
18 five minutes for this witness, but you were not certain  
19 about that.

20 MR. ROSEMAN: Mr. ffitich has asked my  
21 questions, thank you, I have nothing further.

22 JUDGE MOSS: All right, no one else indicated  
23 a desire to cross examine Mr. Reynolds, has that changed  
24 this morning?

25 All right, apparently not, so that brings us

0158

1 to questions from the Bench.

2

3

E X A M I N A T I O N

4 BY CHAIRWOMAN SHOWALTER:

5 Q. Good morning, Mr. Reynolds.

6 A. Good morning.

7 Q. I have one question, and I'm mainly  
8 interested in getting the right person to answer my  
9 question, so if you are not --

10 A. So would I.

11 Q. If that's not you or if you want to give your  
12 level of answer and defer a more detailed answer, that's  
13 fine. My question is around the 45% equity figure that  
14 the company is asking for, and it strikes me that there  
15 are two aspects to it. One is what's the appropriate  
16 number, and then the other, another aspect is whether  
17 the company will actually get to that level in some  
18 period of time. And on the second question I noticed in  
19 the last settlement, in the last rate case which was  
20 settled, the parties agreed to incentive mechanisms to  
21 ensure that the company actually reached equity levels  
22 that it had not reached at the time of the settlement,  
23 and in fact the company did reach ahead of time. And  
24 there doesn't seem to be any suggestion here on the part  
25 of the company or anyone else, unless I have missed

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1 something which is entirely possible, of some assurance  
2 that the company would achieve the 45%. I did read  
3 Mr. Story's testimony in which he pledges to do that  
4 through certain mechanisms, but are you open to that  
5 idea? This is all based on the assumption that the 45%  
6 number is the correct one.

7 A. Well, let me just say Mr. ffitch alluded to  
8 it in his line of questions. We were a utility that was  
9 very, very weak in 2002, and through the help of a  
10 number of parties, including this Commission, Staff,  
11 Public Counsel, six other parties, we came up with a  
12 what I would characterize as a grand settlement which  
13 this Commission approved. And that, really the whole  
14 nature of that settlement, which was why we were so  
15 interested in it, was somehow in a deliberate thoughtful  
16 process to financially raise ourselves up so that we  
17 could accomplish some things, and that's what we did.  
18 Yes, there were equity targets, but we established a  
19 return which was hypothetical, we established a equity  
20 target which was hypothetical, we established a PCA and  
21 a PCORC mechanism, all of which envisioned proceeding to  
22 put the utility into a healthier position.

23 All we are trying to do in this case is  
24 continue the process that was started at that point in  
25 time, which to me does not necessarily mean that the end

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1 game is 45% equity. But what we believe very, very  
2 firmly is that we can and will get there, we need to on  
3 behalf of our customers to get the type of balance sheet  
4 that we need. It may not be 45%. When I was in other  
5 utilities I have had 48% or 47%. Part of that really  
6 depends on the time and what's happening, and we are  
7 embarking upon a course of action I believe in this  
8 state and with this utility which will require massive  
9 amounts of capital investment over the course of the  
10 next several years for generation, for transmission and  
11 distribution, for credit support, and all of those  
12 things I think just speak to let's keep that, let's keep  
13 going with what we started before, and let's continue to  
14 move towards, as we have said in our testimony, a target  
15 credit rating of Triple B plus, which we think it's not  
16 -- I don't think we need to go beyond that, and I don't  
17 know that we need to go beyond 45% equity either, but we  
18 do believe we have to be further along than where we  
19 are.

20           And we also believe and hope that we have  
21 developed a bit of trust that says, you know, we're  
22 going to -- we're going to get there, we have beaten the  
23 benchmarks already in terms of the equity, and if we  
24 think we can -- we say we think we can get there, I  
25 think that we hope that there's enough credibility in

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1 the audience and amongst our customers and investors  
2 that they will give credence to it.

3           So that's a longwinded answer to your  
4 question, but I, you know, I'm very absolutely  
5 passionate about our need to do what we believe is right  
6 for our customers over the longer term. There's nobody  
7 else jumping for joy over the notion of investing large  
8 amounts of money into the regulated utility business.  
9 In order to do that, we need to -- we need to attract  
10 capital, we need to have a credit position, and that's  
11 really the thrust of this rate case.

12       Q.     So I mean part of your answer there I think  
13 has to do with why it ought to be set at 45 as  
14 distinguished from why we can expect that you will get  
15 to the 45. And when I think about it, a settlement is a  
16 different situation because you also know what the rate  
17 and the revenue is on the other side of the equation, so  
18 it makes it easier to pledge to get there. I guess what  
19 you are saying is that you think that you need to get to  
20 45 in fact in order to be in a position to engage in all  
21 these capital projects?

22       A.     Absolutely not, I don't believe I have to get  
23 to 45 at all. I do believe that if we are to continue  
24 on our trek to achieve a Triple B plus credit rating, we  
25 need a -- we need an infusion of cash into our business



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1 to help us pass some of the thresholds that our other  
2 witnesses will talk about at great length. We believe  
3 that that's a positive thing. 45% is the number that we  
4 used in this filing because we believed it continued the  
5 trend that had been started before. We were at 31%  
6 equity at the start of that rate case. We are at 40% at  
7 the end of 2003, and we're hovering around right there  
8 right now. That was I believe a very significant  
9 accomplishment well ahead of the goals that were  
10 established in the settlement. So part of this is we  
11 believe we need to continue.

12           Is 45 the absolute right number? I don't  
13 know. Again, as I said earlier, I believe that over the  
14 longer term a vertically integrated utility probably  
15 needs even a thicker equity than 45, but it's really a  
16 combination of the two. It's the combination of at this  
17 stage for us to improve our coverage ratios, we need  
18 cash infusion that can be done through a combination of  
19 increased equity recognized in rates, or it can be done  
20 through the return on equity, there's a variety of  
21 different tools that are available to the Commission to  
22 get there. And that's why again I applaud the parties  
23 who helped us in the last rate case, and I think all  
24 we're asking here is that let's continue that. With a  
25 capital intensive business like us with a commitment to

0163

1 continued capital spending, we are going to be back in  
2 front of this Commission on a very regular bases year in  
3 and year out for the next -- for the long-term  
4 foreseeable future. There is every opportunity to  
5 continue to revisit this issue over time.

6 Q. I guess one of the things that I was thinking  
7 about is we have had in the past companies with an  
8 actual equity ratio that was very different from the  
9 hypothetical that we're asking for, and so it amounted  
10 to a request to provide a return on equity that didn't  
11 -- wasn't really there. And it seemed to me that the  
12 settlement in Puget was a little bit like that but with  
13 these targets to actually get there. Now the difference  
14 between 40 and 45 isn't as large as some of these other  
15 cases I'm talking about, but really that was my question  
16 of why should we give a return on equity that's not  
17 there unless there's kind of a expectation that it will  
18 be there?

19 A. And I --

20 Q. At a reasonable point in time, which the  
21 settlement earlier did quite successfully, but there  
22 isn't -- there is not a comparable mechanism in front of  
23 us I assume because there's really no settlement, so  
24 it's hard to give a promise.

25 A. Though I would just suggest if you look at

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1 announcements we have made publicly over the course of  
2 the last even several weeks, we have announced two WIN  
3 projects, cumulatively they will -- they will cost over  
4 the course of the next two plus years possibly as much  
5 as \$500 Million. We have got -- we have just settled  
6 our Baker River relicensing, and again over time that  
7 will -- we expect that that will add capital costs to  
8 our business of a fairly substantial amount. Each one  
9 of these increments, the manner by which we finance them  
10 will create the opportunity to thicken our equity and do  
11 it in a way that is we think timed to get the maximum  
12 benefit for our customers and minimize the dilution to  
13 our shareholders. So there is some distinct  
14 opportunities that are fairly clearly in front of you in  
15 terms of being able to get there. Mr. Gaines' testimony  
16 is quite specific with regard to the timing of our  
17 ability to get to even a 45% equity target.

18 CHAIRWOMAN SHOWALTER: Okay, thank you.

19 COMMISSIONER HEMSTAD: I don't have any  
20 questions.

21 COMMISSIONER OSHIE: And I don't have any  
22 questions, thank you.

23 JUDGE MOSS: All right.

24 Before we turn to redirect, I will ask if  
25 questions from the Bench require any follow up from

0165

1 counsel?

2                   Apparently not.

3                   How much redirect?

4                   MS. DODGE: Just a couple questions, Your

5 Honor.

6                   JUDGE MOSS: All right, well, we'll have that

7 then, and then we'll take our morning recess.

8

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

10 BY MS. DODGE:

11           Q.     Mr. Reynolds, the settlement targets from the  
12 last rate case that were the subject of some discussion  
13 here this morning, those targets anticipated reaching  
14 actual equity levels much farther out than the rate case  
15 or the rate year for that rate case; is that right?

16           A.     That's correct.

17           Q.     And if the company were to agree to or if  
18 somehow similar targets were to be imposed in this case  
19 in a much more compressed time frame than several years  
20 out from the rate year, would you have any timing  
21 concerns with respect to the market?

22           A.     Again, I think that as Mr. Valdman points out  
23 in his testimony, the market, the amount of equity that  
24 we need and the timing associated with it is something  
25 that does need to be thoughtfully handled, and the

0166

1 specific detailed set of targets is not necessarily  
2 conducive to doing we think the best planning with  
3 regard to how to achieve the objectives. The market is  
4 pretty sensitive to and fairly astute with regard to  
5 regulatory actions and/or equity issuances. And so to  
6 do a prudent thoughtful rebuild of your balance sheet,  
7 you know, it's useful to have the type of approach we  
8 have had in the settlement that had a long, long,  
9 lengthy time to allow you to get there that did not  
10 indicate a specific time frame in which certain equity  
11 objectives would be achieved. And again, as an example,  
12 equity associated with a major power plant acquisition,  
13 pipeline project, things of that sort, is clearly  
14 something that the market will understand.

15 MS. DODGE: That's all I have.

16 JUDGE MOSS: All right, thank you.

17 All right, I believe that completes our  
18 examination of you, Mr. Reynolds, and we appreciate you  
19 being here and testifying.

20 THE WITNESS: Thank you very much, Your  
21 Honor.

22 JUDGE MOSS: And with that, we will take our  
23 morning recess, and we will resume at 11:00 by the wall  
24 clock.

25 (Recess taken.)

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1                   JUDGE MOSS: Mr. Valdman, if you will please  
2 rise and raise your right hand.

3                   (Witness Bertrand A. Valdman was sworn.)

4                   JUDGE MOSS: Thank you, please be seated.

5                   Ms. Dodge.

6                   MS. DODGE: Thank you, Your Honor.

7

8                   Whereupon,

9                                   BERTRAND A. VALDMAN,

10                   having been first duly sworn, was called as a witness

11                   herein and was examined and testified as follows:

12

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

14                   BY MS. DODGE

15                   Q.     Mr. Valdman, do you have before you your  
16 direct testimony and rebuttal testimony in this matter  
17 as well as exhibits to your testimony which have been  
18 identified as Exhibits 151 through 154?

19                   A.     Yes, I do.

20                   Q.     Were your testimony and exhibits prepared by  
21 you or under your direction?

22                   A.     Yes, they were.

23                   Q.     Do you have any additions or corrections to  
24 make at this time?

25                   A.     No, I don't.

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1 Q. Are the answers to the questions in Exhibits  
2 151 through 154 true and accurate to the best of your  
3 knowledge?

4 A. Yes, they are.

5 CHAIRWOMAN SHOWALTER: Ms. Dodge, have you  
6 got the mike on or could you speak up just a little bit.

7 MS. DODGE: Your Honor, we offer Exhibits 151  
8 through 154 into evidence and present Mr. Valdman for  
9 cross-examination.

10 JUDGE MOSS: All right, hearing no objection,  
11 those will be admitted as marked.

12 At this time we have Public Counsel has  
13 indicated 60 minutes and Staff 20, I wonder if we should  
14 have Public Counsel first. Mr. Cedarbaum, do you have a  
15 preference?

16 MR. CEDARBAUM: I don't have a preference,  
17 but I would also defer to Mr. ffitch if he would like to  
18 go first.

19 JUDGE MOSS: Mr. ffitch.

20 MR. FFITCH: No preference.

21 JUDGE MOSS: All right, why don't you go  
22 first, and perhaps you will cover some territory that  
23 Mr. Cedarbaum might otherwise cover.

24 MR. FFITCH: Thank you, Your Honor.

25

0169

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

2 BY MR. FFITCH:

3 Q. Good morning, Mr. Valdman.

4 A. Good morning Mr. ffitch.

5 Q. Are you familiar with the Standard & Poor's  
6 report entitled New Business Profile Scores Assigned for  
7 U.S. Utility and Power Companies Financial Guidelines  
8 Revised; it's a document that's contained in Jim Lazar's  
9 Exhibit 345?

10 A. I can see the --

11 Q. I am just hoping that perhaps or would  
12 request that perhaps you could be provided a copy of  
13 that. I won't continue until you have something in  
14 front of you.

15 Is that in general a document you have heard  
16 of?

17 A. In general it is a document that I heard of,  
18 yes.

19 Q. And it's my understanding you were  
20 responsible for providing that to Mr. Lazar, correct?

21 MS. DODGE: Your Honor, could I ask that a  
22 data request reference be provided or something.

23 JUDGE MOSS: Was there a data request,  
24 Mr. ffitch, that you have in mind?

25 MR. FFITCH: I don't, Your Honor, I'm not



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1 aware if this was produced pursuant to a data request.  
2 It may have been, I don't have a number.

3 JUDGE MOSS: All right, well, if the witness  
4 remembers, he can respond.

5 A. Mr. ffitch, I don't recall giving this  
6 document to Mr. Lazar.

7 Q. Okay.

8 A. But I'm aware of the material in this  
9 document more or less generally, I just don't know  
10 whether I was the one who gave it to Mr. Lazar or not.

11 MS. DODGE: Your Honor.

12 JUDGE MOSS: Yes.

13 MS. DODGE: I have to confess I'm a little  
14 lost too, I don't know, I understood there was a  
15 reference to -- that this is an exhibit from Mr. Lazar's  
16 testimony.

17 JUDGE MOSS: That's right, that's in the  
18 record as a stipulated exhibit, Exhibit Number 345, and  
19 we do allow counsel to inquire about exhibits in the  
20 case that are not sponsored by the witness on the stand  
21 if the witness is familiar with the material, and he has  
22 acknowledged that he is.

23 MR. FFITCH: Your Honor, it's not critical to  
24 my questions whether this was actually provided by  
25 Mr. Valdman to Mr. Lazar. That was my understanding,

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1     apparently there's some confusion on that point.

2     BY MR. FFITCH:

3             Q.     But let's proceed, Mr. Valdman, with a couple  
4     of questions about this document.

5             A.     Sure.

6             Q.     Would you agree that this report basically  
7     concludes that the distribution part of a utility  
8     business has a lower risk profile than the production  
9     part of the utility?

10            A.     As a general rule that is correct.  However,  
11     there are some pretty important distinctions in terms of  
12     distribution businesses.  For example, in what  
13     geographic area those distributions exist, what the  
14     capital requirements are of those distribution  
15     businesses.  So generally that is a correct statement,  
16     but you really need to look at specifics for it to be --  
17     for it to have any relevance.

18            Q.     All right.  And this report assigns business  
19     profile ratings to many different utility businesses  
20     ranging from a low risk 1 rating to a high risk 9; am I  
21     right?

22            A.     That's not correct, I see 10 on this page  
23     here.

24            Q.     So the high risk number would be 10?

25            A.     Yes, according to this document and my brief

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1 perusal of it, yes.

2 Q. Okay. And in general the companies that are  
3 strictly in the distribution business such as the New  
4 England utilities where restructuring has taken the  
5 power supply function away from the distribution  
6 utilities, those are rated as the lowest risk, correct?

7 A. I would have to read the report. Again, I  
8 think there's some pretty important distinctions to be  
9 made among the distribution companies based on the  
10 status of their infrastructure.

11 Q. Well, would you accept subject to check that  
12 the report shows that for these, for New England  
13 utilities where restructuring has removed the power  
14 supply function, that they're rated as the lowest risk  
15 in that report?

16 MS. DODGE: Your Honor, I would suggest the  
17 report speaks for itself if it, in fact, is in the  
18 report.

19 JUDGE MOSS: Well, and, Mr. ffitch, too, I'm  
20 not going to let you go too far down this path, because  
21 the witness is being presented with this exhibit for the  
22 first time today, it was not identified for him to  
23 prepare for his cross-examination. So to the extent he  
24 is familiar with it and can answer without further  
25 study, that's fine, but I'm not going to ask him to sit

0173

1 there and study it on the stand and try to respond. So  
2 let's be -- if this is not productive, then let's please  
3 move on to another area.

4 MR. FFITCH: Thank you, Your Honor, that's  
5 fine, we can proceed in that fashion. I will just look  
6 at my questions here and try to edit as I go so that we  
7 don't get into that problem.

8 BY MR. FFITCH:

9 Q. Puget is engaged in electric distribution,  
10 gas distribution, and electric production, but not in  
11 gas production; is that correct?

12 A. That is correct, if gas production is  
13 exploration and production, yes, that's correct.

14 Q. And you may not know this, but, and if you  
15 don't know this just say so, but as such, the company  
16 falls into the category in this report of integrated  
17 electric, gas, and combination companies?

18 A. Again, if you say so. I haven't had the  
19 chance to read the report, but that certainly would be  
20 consistent with what our business strategy is. We are a  
21 vertically integrated combined electric and gas company.

22 Q. In effect then Puget has a mid range risk  
23 profile because it has some low risk elements of its  
24 business and some higher risk elements; would you agree?

25 A. I would agree with that statement.

0174

1 Q. And in effect the presence of distribution  
2 facilities brings down the cost of borrowing for  
3 production investments, or alternatively the presence of  
4 production investments drives up the cost of borrowing  
5 for distribution investments in effect; isn't that what  
6 this document basically tells us?

7 A. No, it doesn't. I think you're jumping to a  
8 number of conclusions about the funding costs of an  
9 integrated business, and, you know, Puget Energy is a  
10 rather complex entity.

11 CHAIRWOMAN SHOWALTER: Can you get a little  
12 closer to the mike.

13 THE WITNESS: I'm sorry, Commissioner.

14 A. Puget energy is a complex entity, and at the  
15 end of the day when credit rating agencies assign these  
16 ratings they look at the individual risks of the  
17 companies. Individual risks extend well beyond whether  
18 a company is transmission or distribution or whether it  
19 is a true generator. You need to look at the specifics  
20 of the company. To what extent can you recover for  
21 variations in weather, to what extent does the company  
22 own its assets or contract for its assets. I can go on  
23 but, you know, there is a -- there is no one formula  
24 that S&P and Moody's apply just based on whether  
25 companies are pure distribution or a generating company.

0175

1 BY MR. FFITCH:

2 Q. But you have agreed that in general they  
3 assign a higher risk to one than to the other in your  
4 earlier testimony with the caveats that you have  
5 provided?

6 A. I provided a pretty significant caveat, and  
7 that is you need to look at the individual company.

8 Q. And you have also -- you do agree that Puget  
9 has a mid range risk profile because it has some low  
10 risk and some high risk elements, correct?

11 A. The rating agencies have assigned us, yes, a  
12 mid range risk profile in terms of business risk based  
13 on the regulated nature of some of our activities.

14 Q. Are you aware of situations where electric  
15 utilities have suffered multimillion dollar  
16 disallowances for generated facilities or purchased  
17 power or fuel costs that are found to be imprudent or  
18 otherwise not appropriate for inclusion in rates?

19 A. You know, I'm aware of what happened to us  
20 that I can speak to. I, you know, I wouldn't really  
21 want to speak to more generally what happened to other  
22 utilities. I would love to know the circumstances.

23 Q. Well, it's a question about your general  
24 awareness of disallowances that have happened in the  
25 utility industry for those reasons that I stated; do you

0176

1 have any awareness of that?

2 A. You know, I would direct you to  
3 Dr. Cicchetti, who has a much better overview of the  
4 specifics of regulation and disallowances than I do.  
5 You know, my main vocation prior to coming to Puget  
6 Energy was to raise capital and to provide financial  
7 advice, so I didn't really touch on a number of the  
8 reasons for disallowances.

9 Q. You have testified this morning about the  
10 existence of a risk differential between production  
11 investment and distribution investment; is Puget taking  
12 this differential into account in its planning for  
13 future power supply and for its financing requirements?

14 A. The market when it examines and it assesses  
15 the risk of Puget Energy assesses it as an integrated  
16 company, as one company. Today we don't go out and  
17 independently fund a generation business or a  
18 transmission and distribution business, we go out and  
19 fund a vertically integrated utility. So I'm not quite  
20 sure I understand the nature of your question, sir.

21 Q. Well, conceptually do you have a problem with  
22 recognizing that there's a risk differential between  
23 generation and distribution for an electric utility?

24 A. Conceptually I don't, no, but again it  
25 depends on the circumstances of the transmission and

0177

1 distribution.

2 Q. And conceptually do you have a problem  
3 recognizing that the gas distribution business has a  
4 lower risk profile than the electric production side of  
5 the business?

6 A. I don't agree with that, I think it's very  
7 situation specific. Again, you're speaking in  
8 generalities, and financial markets are very  
9 sophisticated, because it has been acknowledged by  
10 Mr. Hill the financial markets are very good about  
11 taking very specific information, assimilating it, and  
12 then assigning risk to it, so.

13 Q. But Puget hasn't separately calculated the  
14 cost of capital in this case to fund its electric  
15 distribution service or gas distribution or electric  
16 production business in this case, has it?

17 A. Subject to check, not to my knowledge.

18 MS. DODGE: Your Honor, I would like to  
19 object at this point to this line of questions, because  
20 Mr. Lazar raised some issues in this line in his rate  
21 design and rate spread materials going to cost of  
22 service and the rate spread and rate design  
23 implications, so I'm wondering given that that aspect of  
24 the case has settled where this is headed.

25 JUDGE MOSS: I would be interested to hear



0178

1 your answer, Mr. ffitch.

2 MR. FFITCH: Well, Your Honor, actually that  
3 was the end of my line of questioning, so.

4 JUDGE MOSS: So we will await your brief to  
5 -- all right, go ahead with your next line then.

6 BY MR. FFITCH:

7 Q. Do you agree that one of the key issues in  
8 this proceeding is capital structure?

9 A. Yes, absolutely.

10 Q. So if someone were to say that capital  
11 structure doesn't matter in a regulated rate setting  
12 context, what would you say to them?

13 A. I would ask for more specifics for support on  
14 that statement.

15 Q. Would you agree that capital structure  
16 doesn't matter, well, if you didn't have more specifics?

17 A. You know, my approach in life is really to  
18 understand what drives questions, so I would like to  
19 know what drove that question before I answer it.

20 Q. Can you think of any circumstances where  
21 capital structure doesn't matter?

22 A. Capital structure is pretty fundamental.

23 Q. In this case Puget requests a 45% common  
24 equity ratio, Staff recommends about 42%, and the Public  
25 Counsel Office recommends 40% common equity, correct?

0179

1 A. Correct.

2 Q. And I would like to ask you to look now at  
3 one of our cross exhibits that has been marked as 163,  
4 and this is also our Data Request 174. I'm jumping  
5 around a little bit in our packet here, I'm not going  
6 through sequentially. And in that, we asked you to  
7 provide -- I'm sorry, do you have that?

8 A. I do.

9 Q. And in part C of that data request, we asked  
10 you to provide Puget Energy's bond rating over the past  
11 five years, and you referred us to the company's  
12 response to Exhibit PC, excuse me, to PC-217, which is  
13 the next cross exhibit, Exhibit 164, and if you could  
14 turn to Exhibit 164.

15 MS. DODGE: Your Honor, I just object here  
16 that Exhibit 164 is a data request in which Mr. Gaines  
17 is the sponsoring witness.

18 JUDGE MOSS: Well, let's let him explore  
19 this. As we learned with Mr. Reynolds, sometimes a  
20 witness identified is not the best witness for a  
21 particular data response.

22 MR. FFITCH: And, Your Honor, we can, if  
23 Mr. Valdman wants to direct us on if we're running into  
24 a dead end, we can ask Mr. Gaines.

25 JUDGE MOSS: Sure.

0180

1 BY MR. FFITCH:

2 Q. If we turn to page 3 of Exhibit 164,  
3 Mr. Valdman, that document shows Puget Energy's capital  
4 structure in two ways. The first at the top of the page  
5 is including imputed debt, and then the second part of  
6 the page is excluding imputed debt, correct?

7 A. That's correct.

8 Q. And the same exhibit also shows on page 3 the  
9 corporate bond rating for Puget over that time period,  
10 correct?

11 A. Correct.

12 Q. That's across the bottom of the page. And at  
13 no time was the company's corporate bond rating below  
14 investment grade, correct?

15 A. That's correct.

16 Q. And it's true also, isn't it, Mr. Valdman,  
17 that Puget Sound Energy's first mortgage bonds, its  
18 senior secured debt, have a bond rating one notch higher  
19 than Puget Energy's corporate bond rating?

20 A. I can go through the ratings, our shelf  
21 senior secure debt is rated Triple B.

22 Q. So the answer is yes?

23 A. So the answer is yes.

24 Q. Thank you.

25 Now if we focus in the same exhibit on the

0181

1 capital structure that excludes imputed debt, which is  
2 the lower grouping of numbers, we see that Puget's  
3 common equity ratio started out in 1999 with the  
4 left-hand column at about 34% and then fell to a low of  
5 30% in 2001 and improved to 38.9% by 2003; that's true,  
6 correct?

7 A. That is true.

8 Q. Now isn't it true that Public Counsel's  
9 common equity ratio recommendation of 40% and Staff's  
10 recommendation of 42% is higher than any of these  
11 historical common equity ratios?

12 A. That statement is correct, but I would urge  
13 you to consider that as we anticipate what our future  
14 needs are, which is really the basis on which rating  
15 agencies and the financial markets value us, they  
16 consider what our future capital structure should be and  
17 frankly what our current capital structure is, and both  
18 equity ratios current are in excess of this number on  
19 the page, and certainly what we need in the future is  
20 well in excess of 38.3%.

21 Q. But at least during this time period that's  
22 shown on this exhibit with these equity ratios, Puget  
23 had investment grade bond ratings?

24 A. That's correct, but again you're showing me  
25 historic periods, and financial markets operate in the

0182

1 here and now and in the future.

2 Q. I understand your answer, thank you.

3 Now I'm going to ask you to look at Exhibit  
4 167, which is the last exhibit in our stack, the Value  
5 Line.

6 A. Yes.

7 Q. And do you have that?

8 A. I have it in front of me.

9 Q. Okay. And that's dated November 12, 2004,  
10 right, in the bottom right-hand corner of the exhibit?

11 A. Correct.

12 Q. And that report indicates that in 2001, 2002,  
13 and 2003 the return on common equity for Puget Energy  
14 was respectively 7.7%, 7.2%, and 7.0%, and that's  
15 approximately in the middle of the page just to the  
16 right of the center is somewhat of a welter of numbers  
17 in small boxes that --

18 A. It is, and I confess that I'm too vain to  
19 wear reading glasses, so give me a chance here to find  
20 these numbers.

21 Q. Maybe the easiest way is to look at the years  
22 and then track down.

23 A. Right, return on common equity 2001 of 7.7%,  
24 is that -- it's at the very bottom of the box, the next  
25 to the last box on the page?

0183

1 Q. Correct.

2 A. And that's for Puget Energy.

3 Q. For Puget Energy.

4 A. Not for Puget Sound Energy.

5 Q. I believe I said Puget Energy, but you're  
6 correct, that's what I'm asking.

7 A. It says for the holding company Puget Energy.

8 Q. Correct. And then you have 7.2% for 2002 and  
9 7.0 or 0% for 2003, correct?

10 A. Correct.

11 Q. Do you have any reason to disagree with those  
12 figures?

13 A. I haven't calculated them to check their  
14 accuracy, but generally Value Line is pretty accurate  
15 with the data they put forth. But again, I haven't  
16 personally checked these numbers, and sometimes there  
17 are mistakes in these types of reports. So subject to  
18 check, yes.

19 Q. Okay. It sounds about right to you, does it  
20 sound about right?

21 A. Yes, it sounds about right.

22 Q. Okay. Now can we go back to Exhibit 164,  
23 this was our Data Request 217, to I guess we're going to  
24 page 3 again. And again this is, just to repeat, we saw  
25 that in 2001, 2002, and 2003 the common equity ratio

0184

1 ranging from 30.3% to 30.89% and equity returns in the  
2 7.5% range, Puget was able to maintain investment grade  
3 bond ratings, correct?

4 A. Well, you're mixing two things. The ROE's  
5 that you refer to and the Value Line study were Puget  
6 Energy. These numbers are Puget Sound Energy, the  
7 utility. So I'm not quite sure how to answer.

8 Q. Okay, I will move on.

9 In addition to the fact that both Staff and  
10 Public Counsel recommend common equity ratios higher  
11 than those actually utilized by the company in  
12 2001-2003, these parties also recommend common equity  
13 returns of 9.0% for Staff, 9.75% for Public Counsel, and  
14 both are much higher than the return on equity you  
15 actually realized during the 2001-2003 period, correct?

16 A. Correct.

17 Q. And although you have maintained an  
18 investment grade bond rating in 2001 through 2003 with  
19 an average equity ratio of 35% and an average return on  
20 equity of 7.5%, it's your testimony that your bond  
21 rating will be in jeopardy if rates are set with a  
22 higher common equity ratio and a higher return on  
23 equity; isn't that true?

24 A. That's true. But, counselor, I have to say I  
25 disagree with the premise of your questions. Because in

0185

1 the 2003 period we had an allowed return of 11% that we  
2 didn't earn for a whole series of reasons. So again,  
3 you know, I'm not -- part of the reason we were able to  
4 maintain that rating was because it was the market  
5 expectation that we would actually earn 11% and we  
6 didn't, and we have consistently not earned, which is a  
7 fundamental challenge that I face as the one responsible  
8 for raising capital in financial markets, the financial  
9 markets say so why can't you earn that 11%. So I  
10 understand I think where you're going, but I don't think  
11 it's relevant to the matter we are considering here. I  
12 don't understand on what basis you can recommend a  
13 single digit rate of return for this company given our  
14 risk profile and what we have been asked to undertake in  
15 terms of infrastructure.

16 Q. Well, I understand that's the company's  
17 position.

18 A. That is.

19 Q. Let me ask you now to turn to Exhibit 163,  
20 response to Data Request 174 but the Exhibit is 163.

21 A. Mm-hm.

22 Q. And there in part you state, and this is in  
23 your response, that rating agencies have factored in the  
24 purchase power as debt-like responsibilities for utility  
25 companies since 1990.



0186

1 A. I'm sorry, I pulled up the wrong exhibit.

2 Q. Okay.

3 A. Okay, I have the proper exhibit in front of  
4 me.

5 Q. Okay, well, I'm just asking you to confirm  
6 your answer to subpart A.

7 A. Yes.

8 Q. The rating agencies have factored in purchase  
9 power as debt-like responsibilities for utility  
10 companies since 1990.

11 A. Yes, to my knowledge.

12 Q. Now let's go back to Exhibit 164 to page 3  
13 again. So during the five year period that is shown on  
14 page 3 of Exhibit 164, the bond rating agencies have  
15 factored in Puget's purchase power obligations in  
16 determining its bond rating, haven't they?

17 A. Could you repeat the question.

18 Q. During the five year period that we're  
19 looking at in Exhibit 164, page 3, the bond rating  
20 agencies have, in fact, factored in Puget's purchase  
21 power obligations in determining Puget's bond rating,  
22 correct?

23 A. Yes, along with a number of other factors.

24 Q. Looking at the upper series of data, again  
25 which include imputed debt, we see that the company's

0187

1 common equity ratio has ranged from 28.6% in 2001 to  
2 36.1% in 2003, correct?

3 A. Correct.

4 Q. And as we have already noted, the company has  
5 maintained its investment grade bond rating during that  
6 period, right?

7 A. Correct.

8 Q. Now let's stay focused on that upper array of  
9 numbers, which include imputed debt, consideration of  
10 imputed debt from purchase power, and if we add  
11 preferred stock to common equity, the total equity ratio  
12 over the 2001 to 2003 period ranged from 31.1% to 36.1%  
13 over the period of 2001 to 2003, correct; would you  
14 accept that subject to check? I'm adding some numbers  
15 here.

16 A. You said something that troubles me a little  
17 bit, and that is you used preferred stock as equity.  
18 You know, they're two very different instruments, and  
19 during this time period the rating agencies, and this is  
20 well documented, have taken a quite severe view of  
21 hybrid instruments. So again, I'm not quite sure how to  
22 answer your question. The fact of the matter is there  
23 is only one form of equity, equity is equity, there's  
24 nothing quite like it, and preferred stock gets a number  
25 of different treatments, so.

0188

1 Q. So you prefer to consider that as a form of  
2 debt, the preferred stock as a form of debt?

3 A. It's a hybrid, so depending on its structure  
4 it could be either. It could be viewed as part equity,  
5 part debt, but again, it's very instrument specific.  
6 And that -- that's a challenge that we have faced in the  
7 industry and especially as rating agencies have taken a  
8 more severe look at the sector, they have taken a more  
9 severe view of what preferred stock really is and its  
10 equity treatment. That's well documented both by S&P's  
11 and Moody's.

12 Q. All right, I understand you have testified  
13 that you're viewing this as a hybrid instrument. If you  
14 view it as -- if you view preferred stock as equity,  
15 however, this means that during the 2001-2003 period,  
16 the total debt to total capital ratio ranged from 65.9%  
17 to 68.9%, correct?

18 A. I just -- I don't view it as equity though,  
19 so I can't answer that question.

20 Q. Well, if you add it to debt, then those  
21 ratios would actually be higher, correct?

22 MS. DODGE: Your Honor, this exhibit has all  
23 of the figures I believe that one would need to add them  
24 and brief them if that were one's intent.

25 JUDGE MOSS: It seems that we have exhausted

0189

1 this, Mr. ffitch.

2 MR. FFITCH: All right, I will move on, Your  
3 Honor.

4 BY MR. FFITCH:

5 Q. You are aware, Mr. Valdman, aren't you, that  
6 with a business position of 5 on the Standard & Poor's  
7 bond rating, benchmarks indicate that a company with a  
8 debt to capital ratio above 65% would have a bond rating  
9 of Double B minus or below, would you agree with that?

10 A. Subject to check. I have no reason to  
11 disagree with you. Again, I don't have the benchmarks  
12 in front of me, so, and I don't know them by heart. I  
13 guess the other thing I would add, Mr. ffitch, is that  
14 the debt capitalization ratios you cited are but one  
15 matric. The more relevant matric, and I think you can  
16 have most any S&P or Moody's analyst confirm this, is  
17 the cash flow and interest rate coverage matric.

18 Q. There are a number of matrix --

19 A. And this is just the financial matrix, there  
20 are a whole series of qualitative matrix that come into  
21 play as well, so just by isolating this one matric, and  
22 again I have no reason to doubt you, I have to confirm  
23 it, but I don't -- I don't thing it's very relevant.

24 Q. Right.

25 A. In my view.

0190

1 Q. The first point I guess is that I'm only  
2 capable of asking about one matrix at a time, so bear  
3 with me.

4 A. Okay, I will bear with you.

5 Q. The other, the second point is that in order  
6 to check the specific question I asked you about,  
7 Standard & Poor's benchmarks, those are shown in the  
8 Lazar exhibit that we were discussing.

9 A. Right, and I haven't had an opportunity. I  
10 would have loved to have reviewed it, but it wasn't  
11 listed as one of my exhibits, so I really can't speak to  
12 it on the stand, I'm sorry.

13 Q. All right, well, just for your assistance,  
14 I'm telling you that the guidelines in that exhibit if  
15 you want to check things so that we can get that --

16 A. I would prefer not checking it on the stand  
17 if that's okay.

18 Q. Okay, I'm going to ask you just to look at  
19 your rebuttal testimony, which is Exhibit 156, at page 4  
20 just briefly.

21 JUDGE MOSS: Mr. Ffitch, I have the rebuttal  
22 testimony as Exhibit 154.

23 MR. FFITCH: Okay, I stand corrected, Your  
24 Honor.

25 JUDGE MOSS: And what page?

0191

1 MR. FFITCH: Page 4.

2 BY MR. FFITCH:

3 Q. My notes have steered me wrong there, Exhibit  
4 154 it is and page 4, lines 7 and 8.

5 A. Yes.

6 Q. Do you have that, Mr. Valdman?

7 A. Yes, would you like me to read it just to  
8 make sure we're on the same page.

9 Q. Read it slowly, please.

10 A. (Reading.)

11 While PSE's corporate credit facility  
12 was increased this year from \$250  
13 Million to \$350 Million and the term  
14 extended from 364 days to 3 years.

15 Should I go on?

16 PSE's bank borrowing capacity is dwarfed  
17 by future infrastructure capital  
18 requirements and by collateralization  
19 requirements of energy price risk  
20 management efforts.

21 Q. Okay, well, first I'm going to ask you a bit  
22 about the first sentence, and then we'll come back to  
23 the second sentence.

24 A. Sure.

25 JUDGE MOSS: It's all one sentence, so are we

0192

1 looking at the first clause there, Mr. ffitch?

2 MR. FFITCH: First clause, yes, Your Honor.

3 JUDGE MOSS: All right.

4 MR. FFITCH: My markup of the testimony has  
5 obliterated the punctuation, I apologize.

6 JUDGE MOSS: I understand. I guess now  
7 though there are actually three clauses there separated  
8 by commas, so are you just focused on the dollar  
9 amounts?

10 MR. FFITCH: I'm focused, Your Honor, on the  
11 first two lines.

12 JUDGE MOSS: All right.

13 MR. FFITCH: Which is what I initially  
14 directed the witness to, and the phrase that ends three  
15 years.

16 BY MR. FFITCH:

17 Q. And we then asked you, Mr. Valdman, in our  
18 follow-up data request, Exhibit 156, if those changes  
19 were an indication of improving financial risk for  
20 Puget, and your answer was no, correct?

21 A. That's correct.

22 Q. And you attributed that improvement in  
23 financial position to an improvement in the banking  
24 market, not in Puget's financial position, right?

25 A. That's correct.

0193

1 Q. So are you telling the Commission that there  
2 are factors beyond the control of the regulator that  
3 affect the financial risk of the regulated company?

4 A. Yes, there's a lot beyond the control of the  
5 regulator.

6 Q. All right.

7 A. Weather, financial conditions, macroeconomic  
8 factors, gosh, we could go on all day, there are a  
9 number of them.

10 Q. Let's go to the next clause of the sentence  
11 that you just read. Again now we're starting on line 8  
12 and going to line 10 of the page 4 of your rebuttal just  
13 for the record. And do you see that quote? And in that  
14 portion of the statement you state that Puget's  
15 short-term debt borrowing capacity is dwarfed by its  
16 future infrastructure needs.

17 A. No, that's incorrect, I say PSE's bank  
18 borrowing capacity, it's not short-term. You know, a  
19 short-term can mean many things to many people, but  
20 three years I wouldn't say is short-term, medium-term.

21 Q. All right.

22 A. Short-term is generally a year and under just  
23 so we have our definitions straight.

24 Q. Now in Exhibit 157, which was DR-162, I will  
25 ask you to turn to that. Do you have that?



0194

1 A. I do.

2 Q. And we asked you in that, in part A of that  
3 request, we asked you, during what period of time has  
4 Puget's future infrastructure capital requirements not  
5 been larger than its short-term debt borrowing needs;  
6 that was the question, right?

7 A. It was the question.

8 Q. And you responded that the premise to our  
9 question was misleading and that Puget didn't finance  
10 capital additions solely through short-term debt; is  
11 that correct?

12 A. Not on a permanent basis, that's correct.

13 Q. You would agree, wouldn't you, that it's not  
14 unusual, in fact it's quite normal that a utility's  
15 future capital additions are larger than its short-term  
16 borrowing capacity?

17 A. I would agree in general that that's true,  
18 yes.

19 Q. Thank you. Now I'm going to ask you to turn  
20 to page 16 of your rebuttal, again that's Exhibit 154.

21 A. I'm sorry, what page?

22 Q. Page 16, and go to lines 21 through 24.

23 A. Yes, should I read it again?

24 Q. Sure, just read to the end of line 24, if you  
25 would.

0195

1 A. (Reading.)

2 It is no surprise then that Puget Energy  
3 is widely covered and has ten firms that  
4 publish equity research, which is the  
5 same as the average number of analysts  
6 covering the companies in the S&P  
7 utility index. Currently only three of  
8 the ten firms have a buy recommendation  
9 for Puget Energy.

10 Q. Now in response to a data request following  
11 up on that statement, you provided copies of all those  
12 reports and also indicated that the seven investor  
13 services that did not recommend their clients buy Puget  
14 instead recommend that their clients hold Puget,  
15 correct? And I'm referring to Exhibit 160. You can  
16 find that exhibit if you want, I have a question or two  
17 about it.

18 A. I will say one thing, and that is hold is a  
19 little bit of a term of art. Every brokerage house has  
20 a different term for -- you have a for buy, for sell,  
21 for hold. So again, I could flip through each of them  
22 of the overall basis of the recommendation was a hold.  
23 I don't know whether those were the words they used.

24 Q. Okay.

25 A. Do you accept that?

0196

1 Q. Well, you have answered the question, so.

2 A. Thank you.

3 Q. Let's ask you to turn to 160, Exhibit 160,  
4 and these are -- I'm sorry, I will let you get there.

5 A. Okay, I'm there.

6 Q. Okay, these are the current versions of the  
7 ten equity research documents that you were referring to  
8 in your testimony, right?

9 A. Yes.

10 Q. And if you could turn to page 43 of the  
11 exhibit, that's the Morgan Stanley report, it's actually  
12 also shown as the original pagination is page 7 but it's  
13 page 43 of this exhibit.

14 A. Right, Puget Energy balance sheet.

15 Q. Correct. And we see at the bottom of the  
16 page a projected capital structure for 2005 and 2006?

17 A. Yes.

18 Q. And isn't it true that Morgan Stanley  
19 projects common equity ratio for Puget of 41.9% and then  
20 43% of total capital in 2005 and 2006?

21 A. It's true, but that really doesn't bear any  
22 linkage to what we plan to do for reasons that I think  
23 should be obvious, and that is we're under Rule FD  
24 limited the amount of disclosure we could give rating  
25 agencies. So whether they say 41, 38, 43 doesn't really

0197

1 matter, it doesn't necessarily have anything to do with  
2 what we plan to do. Again, the last thing I would like  
3 -- I want to do is telegraph to the financial markets  
4 that we plan to issue equity, because that would imply  
5 that there's future dilution, and that could trigger a  
6 short selling, so. And that is exactly what happened  
7 about a year and a half ago when a number of firms were  
8 forced to go to the equity capital markets to strengthen  
9 the balance sheet in the sector. So again, these  
10 numbers don't bear any resemblance to the reality of our  
11 financial plan.

12 Q. Well, that's essentially a paraphrase of your  
13 testimony, right, that you're projecting a higher ROE  
14 and a higher capital structure as a basis for your  
15 request in this case?

16 A. I am -- the paraphrase is that we believe  
17 that 45% is something that would be appropriate given  
18 the nature of our financial plan. We haven't stated  
19 when we would get there. We have stated that we would  
20 get there in the rate year, but we didn't state how or  
21 when or during what time period. So it is something  
22 that we would rather, I don't know, I don't want to use  
23 the word mask, but we would rather be very careful about  
24 the disclosure of that type of information so we  
25 wouldn't precipitate short selling, which in the end

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1 increases our cost of equity and frankly increases which  
2 is not good for rate payers.

3 Q. But the company has publicly said in its  
4 testimony in this case that it will be attempting to get  
5 to a 45% equity ratio within that 12 month rate year,  
6 which is a very imminent near-term defined period,  
7 correct?

8 A. Correct.

9 Q. And the numbers that we have just looked at  
10 on the bottom of page 43 are what Morgan Stanley is  
11 telling its clients, correct, its investors?

12 MS. DODGE: Could I ask for a brief  
13 confidential session? I think we need to stop for a  
14 minute and review confidentiality before we go any  
15 further.

16 JUDGE MOSS: Well, what's your specific  
17 point?

18 MS. DODGE: Can we go off the record or off  
19 the bridge?

20 JUDGE MOSS: Well, I think you can discuss it  
21 generally without us going into confidential session.  
22 I'm going to ask you to try to do that. What is the  
23 problem, what is the issue that you're dealing with?  
24 We're dealing with a confidential issue?

25 MS. DODGE: Can we have a sidebar, please?

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1 JUDGE MOSS: Yeah, sure, come up.

2 (Sidebar discussion.)

3 JUDGE MOSS: All right, let's go back on the  
4 record, and we have had some discussion off the record  
5 there's no need to go into on the record. I will just  
6 say that Mr. ffitch has indicated he is going to move to  
7 another area.

8 MR. FFITCH: I'm moving away, Your Honor,  
9 from the Morgan Stanley report, I'm still in this  
10 exhibit, and I believe that it's another area.

11 CHAIRWOMAN SHOWALTER: Which exhibit?

12 MR. FFITCH: We're still in Exhibit 160, and  
13 I'm going to page 3 of that exhibit now.

14 JUDGE MOSS: I'm going to pause here just for  
15 a moment and be off the record.

16 (Discussion off the record.)

17 BY MR. FFITCH:

18 Q. Mr. Valdman, if you could turn to page 3 of  
19 Exhibit 160, which is the Davidson & Company report. Do  
20 you have that?

21 A. I do.

22 Q. If you look in the box on the left entitled  
23 valuation data, about a third of the way down the page  
24 on the left just above the graph we see a long-term  
25 growth rate of 5%.

0200

1 A. Yes.

2 Q. And a dividend yield of 4.4%, correct?

3 A. That's correct.

4 Q. If for some reason someone felt a need to add  
5 the dividend yield of 4.4% to the long-term growth  
6 expectation of 5%, what would be the result of that  
7 addition?

8 A. It would be 9.4%.

9 Q. Thank you.

10 A. That math I can do on the stand.

11 Q. Well, I was going to feed you the answer and  
12 get you to confirm it, and then I thought, no, he can  
13 probably --

14 A. That I can do.

15 Q. -- do that on the stand.

16 Please turn to page 24 of your testimony, of  
17 your rebuttal testimony, and it's lines 6 through 11,  
18 page 24 of the rebuttal. Now I will just paraphrase the  
19 paragraph, but you can correct me if I'm wrong, but  
20 essentially here you state that a utility's dividend  
21 indicates, excuse me, an increase in the dividend  
22 indicates an increase in the cost of equity capital,  
23 correct?

24 MS. DODGE: I would object that that just  
25 doesn't reflect the testimony, and perhaps it should be

0201

1 read in.

2 Q. Well, let's go to line 6, and you state there  
3 that an increase in dividend yields suggests one of two  
4 things, correct?

5 A. Correct.

6 Q. And then you describe what those two things  
7 are.

8 A. Correct, payout levels and potentially  
9 decreasing of stock price.

10 Q. Okay.

11 A. Which is just a, you know, these are  
12 mathematical relationships.

13 Q. All right. And then at lines 10 and 11 you  
14 finish by saying, under either scenario the cost of  
15 capital is higher, correct?

16 A. Correct.

17 Q. Now if you could look at the latest Value  
18 Line, again that's 167 that we were just looking at,  
19 Exhibit 167, and find the average dividend yield for the  
20 years 2001 through 2003, and do you see that the numbers  
21 are 7.9%, 5.7%, and 4.5% for those three years  
22 respectively?

23 A. Correct.

24 Q. Now the current dividend for the company in  
25 the upper right-hand corner is 4.3%; do you see that



0202

1 figure?

2 A. As of November 12th, yes.

3 Q. All right. So according to your logic then,  
4 Puget's cost of equity has fallen 3.6% from 2001 to the  
5 present time, correct?

6 A. Based on that, yeah, on that equation. And  
7 again I would suggest that Dr. Cicchetti, who is much  
8 more well versed in the workings of these types of  
9 formulas than I, but yes, based on that I would agree.

10 MR. FFITCH: Thank you, Mr. Valdman.

11 Your Honor, no more questions.

12 JUDGE MOSS: All right.

13 MR. FFITCH: I'm sorry, Your Honor, I wanted  
14 to make sure to offer our exhibits.

15 JUDGE MOSS: Okay, go ahead.

16 MR. FFITCH: Your Honor, I would like to  
17 offer Public Counsel Cross-Exhibits 155 through 167. I  
18 understand that we did not conduct examination on all of  
19 these. I have not had a chance to confer with Ms. Dodge  
20 ahead of time about stipulating in the data responses  
21 that were not discussed, but that would be our wish.

22 MS. DODGE: Just a moment.

23 It was 155 through 167?

24 JUDGE MOSS: That's correct.

25 MS. DODGE: No objection.

0203

1                   JUDGE MOSS: All right, those will be  
2 admitted as marked.

3                   MR. FFITCH: Thank you, Your Honor.

4                   JUDGE MOSS: All right, Mr. Cedarbaum, you  
5 have indicated about 20 minutes, and given the fact that  
6 there's other business to be conducted at the noon hour,  
7 I think it would be best to go ahead and take our recess  
8 and let you pick up after lunch.

9                   MR. CEDARBAUM: That's fine. Mr. ffitch did  
10 cover some of my areas, but I think I have more than  
11 three minutes of cross.

12                   JUDGE MOSS: All right, we'll need to break  
13 until 1:30, so -- yes, Ms. Spencer.

14                   MS. SPENCER: Before we break, Seattle Steam  
15 has indicated that it will be participating in the  
16 testimony and the hearing related to the settlement but  
17 not in the cost of capital portion, and accordingly I  
18 would ask to be excused until that portion of testimony.

19                   JUDGE MOSS: All right, and you might check  
20 back and we'll try to schedule that based on how we  
21 progress.

22                   MS. SPENCER: Terrific, thank you.

23                   JUDGE MOSS: Thank you.

24                   All right, with that then I think we'll --  
25 sorry, go ahead.

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1 MR. STOKES: Your Honor, Northwest Industrial  
2 Gas Users also have the same plan, so I would also ask  
3 to be excused at this point.

4 JUDGE MOSS: That's fine, and I will just  
5 make that a general, if people are just participating in  
6 that piece, they can be excused from the balance without  
7 risk of penalty.

8 MR. STOKES: Thank you, Your Honor.

9 JUDGE MOSS: Thank you.

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

11

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

13 (1:40: p.m.)

14

15 JUDGE MOSS: I trust everyone had a pleasant  
16 lunch.

17 Mr. Cedarbaum, I believe we are to your  
18 questions for Mr. Valdman, and he appears to be ready.

19

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

21 BY MR. CEDARBAUM:

22 Q. Hello, Mr. Valdman.

23 A. Hello, Mr. Cedarbaum.

24 Q. My first line of questions concerns page 9 of  
25 your Exhibit 154, that's your rebuttal testimony. At

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1 the bottom of that page and on to page 10 you criticize  
2 Dr. Wilson's use of a 90-day U.S. treasury security as a  
3 proxy for the risk for your rate; do you see that?

4 A. Yes, I do.

5 Q. Are you familiar with the term interest rate  
6 risk?

7 A. Very much so.

8 Q. Is it correct that if an investor buys a  
9 long-term bond there's a risk that interest rates will  
10 rise or fall, and that impacts the value of that  
11 long-term bond?

12 A. That is correct.

13 Q. Is it also correct that as the interest rate  
14 risk increases, the farther out the yield curve you go?

15 A. The farther out the yield curve you go, the  
16 more chance that the projections are incorrect. There's  
17 a tremendous amount of volatility at the back end of the  
18 yield curve, correct.

19 Q. Would you agree that a short term, that  
20 short-term debt doesn't have the same interest rate risk  
21 as long-term debt?

22 A. By definition that's true, but I think what I  
23 would add is the reason I objected and I continue to  
24 object to the use of the 90-day treasury security --

25 Q. Mr. Valdman, I'm sorry, I asked you a simple

0206

1 question for a yes or no answer, I don't think that  
2 required an explanation.

3 A. Okay. Could you restate the question?

4 Q. I asked you if you would agree that  
5 short-term debt doesn't have the same interest rate risk  
6 as long-term debt?

7 A. That's correct.

8 Q. Have you ever heard of T-bills referred to as  
9 risk free?

10 A. I have heard of that, yes.

11 Q. If I could direct your attention to Exhibit  
12 168. Do you have that?

13 A. I do.

14 Q. Have you -- this is a cross-examination  
15 exhibit that was provided to you last Wednesday; is that  
16 right?

17 A. Yes.

18 Q. And have you had a chance to examine it?

19 A. Extensively, yes.

20 Q. Does this contain some of the references that  
21 you just agreed exist with respect to calling T-bills  
22 risk free?

23 A. Yes, but it ignores one important point, and  
24 I would appreciate the opportunity to comment on it.

25 Q. Okay.

0207

1           A.     In most of these definitions that for the  
2 record were pulled off the Internet, they all refer --  
3 there are really two points that remain. One is that  
4 the treasury securities are risk free rates, and here in  
5 most instances you're referring to treasury bills, which  
6 indeed are a short-term 90-day securities. However, you  
7 will note that in most of these definitions you  
8 reference stock options. Counselor, do you know what  
9 the average duration of a market listed stock option is?  
10 The average duration is eight months. It would follow  
11 very logically that you use a 90-day treasury bill when  
12 -- as an investor in your analysis of a security that  
13 expires in eight months.

14                     For this particular case we're talking about  
15 investments that you can argue, whether they're into  
16 perpetuity or whether they're 30 years, have a much  
17 longer duration. And so what I would offer for your  
18 consideration since I was hoping I would have the  
19 opportunity to comment on this, is I'm going to read  
20 from two sources. One is really the foundation text of  
21 corporate finance, and I don't think anyone would  
22 disagree, and that is Brealey and Myers, and it is a  
23 very short sentence and I think you'll see it's  
24 relevant. It says:

25                     The ultimate test of any model is

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1                   whether it fits the facts.

2                   So really the facts in the definitions that  
3 you provided as your exhibit are that treasury bills are  
4 appropriate for the use of -- in short-term analysis for  
5 securities such as stock options.

6                   I will now direct you to another pretty  
7 fundamental text, it's called Valuation, Measuring and  
8 Managing the Value of Companies. It's published by  
9 McKinsey, McKinsey of course being an entity that  
10 practically applies corporate finance theory. And it  
11 does a pretty good job of explaining the deficiencies in  
12 using a short-term treasury bill when you do the type of  
13 analysis that we're doing here, and I will read for you,  
14 and it says first -- and it goes through the three  
15 alternatives that you might want to consider in the  
16 government securities, and it says the rate for treasury  
17 bills, the rate for 10-year treasury bonds, and the rate  
18 for 30-year treasury bonds, and I will just quote:

19                   First, it is a long-term rate that  
20                   usually comes close to matching the  
21                   duration of the cash flow of the company  
22                   being valued.

23                   So again I would offer this, and it goes on  
24 and on, and it supports the use of the 10-year security,  
25 so that is the basis of my objection.

0209

1                   If you want to go rate shopping and find the  
2 absolute lowest risk free rate, then my advice is go to  
3 the 90-day treasury security. If you're trying to find  
4 the appropriate rate for this type of a situation, then  
5 it's either 30-year, and I think I discussed why the  
6 30-year to the point that you correctly made and that is  
7 there's a tremendous amount of volatility in a 30-year,  
8 you might want to go to a 10-year security which really  
9 gives you the best balance of a longer term maturity  
10 with the lowest amount of interest rate.

11           Q.       Neither of the texts that you just read were  
12 recited or referenced in your testimony, were they?

13           A.       That's correct.

14                   MS. DODGE: Your Honor, we could offer those  
15 as rebuttal exhibits, they are directly rebutting  
16 Staff's cross exhibit, which is a new document in the  
17 case.

18                   JUDGE MOSS: I think we have the testimony of  
19 the witness, and we won't have any supplemental rebuttal  
20 at this time.

21                   COMMISSIONER HEMSTAD: I'm not sure the  
22 witness gave the page references.

23                   THE WITNESS: Oh, sure, we would be happy to.  
24 For Brealey and Myers, and this is the chapter on the  
25 capital asset pricing model, it's page 161, and the



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1 edition is it's the Third Edition of Principles of  
2 Corporate Finance. And for the specific McKinsey book,  
3 it's Valuation Measuring and Managing the Value of  
4 Companies, and it's page 192 where it addresses what the  
5 appropriate treasury security use is for risk free rate.

6 CHAIRWOMAN SHOWALTER: What's the copywrite  
7 date or some other --

8 THE WITNESS: Let me dig that up for you.  
9 You know, I don't have it, but I will -- I just have the  
10 -- I could give you the front page, sorry, Commissioner.

11 (Discussion on the Bench.)

12 JUDGE MOSS: It appears the Bench would find  
13 it useful to have the excerpts, so if the excerpts could  
14 be provided, and we will give you, Mr. Cedarbaum, a  
15 chance to look at that and see if there's supplemental  
16 material in those texts that you wish to offer in  
17 conjunction.

18 MR. CEDARBAUM: I would appreciate that, Your  
19 Honor, and it would be helpful if after I'm done with my  
20 questioning of Mr. Valdman if I could have a five minute  
21 break to do that and consult with the Staff.

22 JUDGE MOSS: That's fine.

23 MR. KUZMA: Your Honor, should I distribute  
24 those?

25 JUDGE MOSS: Oh, you have those?

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1 MR. KUZMA: Yes.

2 JUDGE MOSS: How convenient. Yes, go ahead,  
3 and you need to give to counsel as well.

4 MS. DODGE: For the record it appears the  
5 copywrite is 1988 on the Brealey and Myers.

6 JUDGE MOSS: I suppose we need to give these  
7 numbers, and conveniently we have two numbers, 169 and  
8 170. I will mark the Brealey and Myers piece as Exhibit  
9 Number 169, and I will mark the Copeland Koller Murrin  
10 piece as Exhibit 170, and to the extent you have  
11 anything you wish to offer in conjunction with those,  
12 Mr. Cedarbaum, they will just become part of those same  
13 exhibits.

14 MR. CEDARBAUM: Your Honor, I would move the  
15 admission of Exhibit 168, and if we could hold off on  
16 Exhibit 169 and 170 until we have had a chance to look  
17 at them.

18 JUDGE MOSS: Sure. 168, no objection, and it  
19 is marked.

20 Does that complete your cross-examination?

21 MR. CEDARBAUM: No, I just have questions on  
22 page 19 of the rebuttal.

23 BY MR. CEDARBAUM:

24 Q. At the bottom of the page, lines 21 and 22,  
25 you state that two thirds of PSE's power supply is

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1 secured through long-term contracts; is that right?

2 A. That's correct.

3 Q. Is it your testimony that investors view  
4 wholesale purchases as more risky than generation plant  
5 ownership?

6 A. Yes.

7 Q. Well, isn't it -- Puget Sound Energy has a  
8 PCA and a PCORC process; is that right?

9 A. That's correct.

10 Q. Doesn't that reduce the risk for a utility  
11 with wholesale purchases?

12 A. It reduces the risk, but the risk still  
13 exists especially since the cap on the PCA expires in  
14 2006 mid year, and as I mentioned before, the PCA cap  
15 expires mid year 2006. And so starting sometime in the  
16 first quarter of 2005 the financial market will value  
17 Puget Energy based on 2006 earnings and will take into  
18 consideration the expiration of that \$40 Million cap.  
19 So to your point, Mr. Cedarbaum, yes, the existence of  
20 the cap in the PCA does reduce the volatility, it  
21 doesn't eliminate it, and that volatility will be much  
22 greater starting for my purposes if I have to go to the  
23 market in 2005 it will be factored in 2005 stock price  
24 more likely than not.

25 Q. Does it also minimize the risk to have a

0213

1 utility that purchases power from low cost hydro  
2 facilities?

3 A. It reduces the risk, but I will also point  
4 out that those low cost hydro facilities are owned by  
5 entities that have a Double A credit rating, so we  
6 encounter some of the issues that we have that we will  
7 encounter by contracting in the wholesale markets  
8 potentially.

9 Q. If you could turn to page 23, please. At  
10 line 8 you refer to the potential repeal of recently  
11 enacted favorable dividend tax legislation.

12 A. That's correct.

13 Q. Can you -- did the recent election change  
14 that opinion, change your testimony on that?

15 A. No, it didn't. And I think as Dr. Cicchetti  
16 points out, the favorable tax legislation is set to  
17 expire, so it's not something that's permanent. And  
18 given the increasing fiscal deficit, I think you could  
19 be reasonable to ask whether it's -- this is actually  
20 sustainable.

21 Q. Well, I guess there is a difference between  
22 something expiring and something being repealed.

23 A. Correct.

24 Q. When you mean repealed, were you talking  
25 about the expiration in its normal course or repealing

0214

1 sooner than that?

2 A. Fair point. I was talking about a change of  
3 administration that would not support that type of  
4 legislation.

5 MR. CEDARBAUM: Okay, thank you, those are  
6 all my questions subject to being able to examine those  
7 new exhibits.

8 JUDGE MOSS: Okay, very good. And I believe  
9 those were the only two counsel who had indicated  
10 questions for this witness, and so that will bring us to  
11 the Bench.

12 CHAIRWOMAN SHOWALTER: Would it be easier to  
13 just take a five minute pause in case there's some  
14 follow up or not?

15 MR. CEDARBAUM: Whatever your preference is,  
16 we can do that.

17 CHAIRWOMAN SHOWALTER: Why don't we do that.

18 JUDGE MOSS: Mr. ffitch, you had something  
19 you wanted to say before we break for five minutes?

20 MR. FFITCH: Well, yes, Your Honor, we had,  
21 due in light of the reference to the Brealey and Meyers,  
22 we had a question about the Brealey and Myers text that  
23 the company has referred to, so I thought perhaps we  
24 would get to that before the Bench.

25 JUDGE MOSS: We will give Mr. Cedarbaum a

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1 chance to look at that material and see if he has any  
2 follow up, and we'll take your question at the same  
3 time, so we will be off the record for five minutes.

4 (Recess taken.)

5 JUDGE MOSS: Mr. ffitch I believe is going to  
6 provide us with another page.

7 MR. FFITCH: Yes, Your Honor. In fact, I  
8 have a question that goes along with it, and Mr. Hill is  
9 kindly going to pass out the -- give a page to the  
10 witness and then to the Bench, and then I will ask my  
11 question.

12 MS. DODGE: Your Honor, while this is being  
13 handed out, could I just state for the record that there  
14 are some markings on the copies that we made, and that  
15 is due to the fact that this was a college textbook of  
16 one of PSE's financial people, and so it has nothing to  
17 do with the case necessarily. They just happened to  
18 have been notes made by a student reading the text.

19 JUDGE MOSS: It will no doubt help us with  
20 the final exam.

21 THE WITNESS: And I should add that that's  
22 also true of the McKinsey text as well.

23 JUDGE MOSS: All right, we have the page, and  
24 I should mention too while we're in the midst of this,  
25 I'm going to need an extra copy for each of these, so

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1 when we break for the next witness if those could be  
2 provided to me just at the next break.

3 Okay, go ahead, Mr. ffitch.

4 MR. FFITCH: Thank you, Your Honor.

5

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

7 BY MR. FFITCH:

8 Q. Mr. Valdman, you have been handed a single  
9 sheet, a copy of a page from the I believe it's Brealey  
10 and Myers text that you referred to, and a portion of  
11 that text has already been marked as an exhibit.

12 MR. FFITCH: I believe it's 169, Your Honor.

13 JUDGE MOSS: That's correct.

14 BY MR. FFITCH:

15 Q. And the page that I have handed you is page  
16 139 from that same text, correct?

17 A. If it's -- is it -- yeah, I guess so. Yes,  
18 it looks like the same text, yes.

19 Q. And if you want to examine --

20 A. No, no, that's fine.

21 Q. -- the textbook, we've got it right here.

22 A. Correct.

23 Q. And I just want to draw your attention to the  
24 portion of the text that starts in the lower half of the  
25 page, and here's my question and I will let you take a

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1 look at it then. The question is, do Brealey and Myers  
2 use treasury bills as the risk free rate when  
3 calculating a cost of equity capital using the CAPM?

4 A. I confess to you it's been a while since I  
5 read Brealey and Myers from cover to cover. I would  
6 venture, I would speculate that the answer is yes, but  
7 again it's to what purpose they use it.

8 Q. Well, let's take a look at the text here. In  
9 the next to the last full paragraph on this page, it  
10 starts out, in order to figure out the returns that  
11 investors are inspecting, excuse me, expecting from  
12 particular stocks, we need three numbers, and that those  
13 numbers are the risk free rate, the market risk premium,  
14 and beta is the first sentence of the paragraph,  
15 correct?

16 A. Correct.

17 Q. And then in the next sentence the authors  
18 state, in April 1987 the interest rate on treasury  
19 bills, the risk free rate, was 5.6%. So they're using  
20 the treasury bill there as the risk free rate in this  
21 discussion, correct?

22 A. Correct. But again, I would like to point  
23 out that they're talking about investments. The concept  
24 here is the duration of the investments, and as stated  
25 in the McKinsey you need to match duration with the



0218

1 appropriate treasury security.

2 Q. But it doesn't say that in this text, does  
3 it?

4 A. It does not say that in this text. In this  
5 text it says you need to step back and explore the  
6 facts. And the second text I gave you is more  
7 prescriptive in terms of what treasury to use. But it  
8 would seem to me logical that if you apply the facts to  
9 the situation that we currently face that you're looking  
10 at investments that aren't short-term investments,  
11 they're investments that last decades. In fact, I  
12 direct you to the testimony of my colleague, Sue McLain,  
13 some of the infrastructure we have in place has been  
14 around since 1917, so much longer than short term  
15 however you define short term.

16 Q. But this text does not discuss the duration  
17 of the treasury bill that they're using for risk?

18 A. No, this text points out the infirmities,  
19 it's sticking slavishly to a mathematical model, and it  
20 basically says, and I'm interpreting, use judgment,  
21 examine the facts, use judgment, come up with the  
22 appropriate methodology.

23 MR. FFITCH: Your Honor, we would like to  
24 offer this page to be added to exhibit I believe it's  
25 169.

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1                   JUDGE MOSS:  Yes, it's 169, yes, and I think  
2 that will be just fine.

3                   All right, if that completes the questions  
4 from counsel, then we are to the Bench.

5                   (Discussion on the Bench.)

6                   JUDGE MOSS:  Before we have questions from  
7 the Bench I'm going to identify a Bench exhibit, and I'm  
8 going to distribute it, and we'll see where we go from  
9 there.

10                  CHAIRWOMAN SHOWALTER:  Shall I explain it?

11                  JUDGE MOSS:  Oh, of course.

12                  CHAIRWOMAN SHOWALTER:  At the lunch hour I  
13 had lunch and opened up Public Utilities Fortnightly,  
14 the latest issue, and the article I opened up to was so  
15 directly related to the discussion we had just been  
16 having that it seems to me that it's appropriate to put  
17 it in the record.  We read all kinds of general  
18 information that we need not put in the record, but this  
19 article is very closely tied, so I felt it would be fair  
20 since I had just read it to put it in the record.  And  
21 people are free to make of it whatever they want  
22 including ask questions about it.

23                  JUDGE MOSS:  And I'm going to mark this as  
24 Exhibit Number 3, it will be a Bench exhibit admitted on  
25 the motion of the Bench.

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1                   And I will just mention as we distribute this  
2 and the previous couple of exhibits we have had that  
3 parties can and do refer to learned treatises in briefs,  
4 and that is something that is appropriate and proper in  
5 our highly technical field, and so I want everybody to  
6 understand that that is admitted. We frequently have  
7 references to Bonbright or Goodman or one of those texts  
8 for example.

9                   All right, Chairwoman Showalter.

10

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

12 BY CHAIRWOMAN SHOWALTER:

13           Q.       Yes, I have a couple of questions. You  
14 caught my attention by making this distinction between  
15 looking backward and looking forward, and I have to  
16 admit that much of the time I'm about three steps behind  
17 in trying to absorb the testimony here, and I think that  
18 things that are very obvious to you aren't always  
19 obvious to me. I have the sense of lots of dots being  
20 put out there, and you and perhaps counsel can connect  
21 them very easily, and I'm not always connecting them, so  
22 I want to make sure I understand the import of what your  
23 testimony is.

24                   But there was a point in time when  
25 Mr. Cedarbaum, or was it Mr. ffitch, I can't remember

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1 now, was having you examine some past figures, it may  
2 have been Exhibit 167. There was a point at which you  
3 said, well, our allowed return was, and I'm not sure you  
4 stated what it was but I believe it is 11%, and had that  
5 not been, there would have been a different story here I  
6 think you meant to say, and I'm trying to understand  
7 what you did mean. That is, were you implying that had  
8 the allowed return been 9% or something but closer to  
9 what is being proposed here that the history would have  
10 played out differently?

11 A. My purpose in raising that was to really  
12 state that there -- we have not been able to earn our  
13 allowed ROE of 11%, and so when you go to the financial  
14 market, they say, gee, Puget, we don't understand why  
15 that is, doesn't every utility, isn't every utility  
16 positioned to actually earn on what it should earn. And  
17 we haven't, and we have missed it by a pretty wide mark  
18 over the last few years.

19 And it's interesting to explore why that is,  
20 and if you go back in time some of it is warm weather,  
21 some of it is absorbing the first \$40 Million of the  
22 PCA. Frankly, some of it, and this is very important  
23 when you look forward, has to do with a company like  
24 ours making significant infrastructure investments, so  
25 there is regulatory lag. We recover on a historic year,

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1 so that's backward looking, yet we're making investment  
2 decisions that really look forward. And just to follow  
3 that through, the more you invest, the more of that lag  
4 you're going to capture, and so the more of the gap that  
5 gets created in what you actually earn and what you're  
6 allowed to earn.

7 So those are the types of questions that I  
8 get from the financial markets, and they say, what are  
9 you doing as a management team to try to do a better job  
10 earning your ROE, and that's what drove my comment  
11 there.

12 Q. All right. But then I took the import of the  
13 question to be, well, if you actually only really earned  
14 9%, well, I'm not sure what the average here is, if it's  
15 9% or --

16 A. It's probably closer to 7 1/2%.

17 Q. 7 1/2%, well, if you actually only earned a  
18 lower amount and were still investment grade, what's the  
19 problem --

20 A. Yes.

21 Q. -- going forward. And I understand these  
22 general arguments, well, the problem going forward is we  
23 are going to need to build a lot and take on a lot, but  
24 let's say -- let's suppose -- supposing those plans were  
25 not on the table. I'm just trying to get a sense of all

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1 other things being equal.

2 A. Right.

3 Q. Does it --

4 A. It would have -- what would happen is that we  
5 would continue to have the same amount of underearning  
6 for the same reasons that I referenced, PCA, weather,  
7 but it would just be on a lower allowed ROE. So what I  
8 would put forward is that if we were allowed to earn a  
9 9%, subtract 3 percentage points from that, and then we  
10 would actually be earning on 6, so it would be  
11 devastating.

12 Q. And why would that be though? I can  
13 understand that if your allowed ROE is 11% and various  
14 things contrive or conspire that you don't get it, then  
15 is the reason -- I suppose the reason is if you then at  
16 a regulatory level lower it from 11 to 9, then you're  
17 getting less revenue?

18 A. Unless there are mechanisms in place to solve  
19 the problems.

20 Q. Right.

21 A. But all things being equal, without those  
22 mechanisms you will just have the same problem on a  
23 lower earnings base. So that would lower cash flow, and  
24 it would have a downward spiral on our financial results  
25 on some of the key ratios that rating agencies look at

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1 and investors look at.

2 Q. I also wanted to ask you about the going  
3 forward exhibits, and I believe it was the Morgan  
4 Stanley one I think. I think it was, here, it was  
5 Exhibit 160 on page 43, handwritten page 43. Do you  
6 have that?

7 A. I do, yes.

8 Q. To the extent that these are projections by  
9 Morgan Stanley of Puget, aren't they projecting or  
10 incorporating into their projections a number of things  
11 including this rate case, don't they?

12 A. Absolutely.

13 Q. And so there's sort of a doppelganger effect  
14 of I'm not sure what I'm supposed to do with this,  
15 inevitably we either exceed or fail to come up to their  
16 expectations. But it has always been a question in my  
17 mind what we're supposed to do with Wall Street's  
18 expectations. I recognize they have real effects. On  
19 the other hand, to the extent they're already  
20 incorporating what we might do, I don't know what I can  
21 do with them.

22 A. The best thing to do with them is to look at  
23 them and don't let Wall Street run your business. In  
24 other words, what are the things that we need to do to  
25 serve our customers reliably and get the lowest possible

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1 cost, access to capital, and then go from there. I mean  
2 I think what -- if you line up -- and it's interesting,  
3 you know, I was asked a question earlier by I believe  
4 Public Counsel, they cited the Davidson report, and on  
5 long-term growth, well, every analyst is going to have a  
6 different perspective, they're going to be using  
7 different information, and so the particular long-term  
8 growth rate that was -- that I quoted back was 5%  
9 growth. Well, if you go through the stack, you will  
10 find a whole number of different assumptions. If you  
11 think about it, given \$1 Billion of infrastructure just  
12 T&D infrastructure over the next two years and \$1/2  
13 Billion in new resources, there's a tremendous amount of  
14 potential growth for rate base, yet some analysts will  
15 factor it in differently.

16           So you just have to take a look at the facts  
17 at hand and just make your own judgments and not really  
18 get blinded by their projections, which just assume a  
19 number of things. I think most of the Street is  
20 assuming an outcome to this rate case that will support  
21 our strategic plan, and they take a look at what other  
22 jurisdictions have done in a similar situation, they  
23 look at comparables. And whether you look at  
24 comparables for vertically integrated utilities, which  
25 are Indiana, Iowa, Wisconsin, or you take a look at the



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1 comparables that are vertically integrated and that have  
2 high levels of capital expenditure needs, South  
3 Carolina, Georgia, that is the basis on which they will  
4 judge whether this outcome was a satisfactory one or  
5 not. So there are a number of factors.

6 Q. All right.

7 A. Did I answer your question? It was a little  
8 bit long winded.

9 Q. You did.

10 Could you turn to page 20 of your rebuttal  
11 testimony, Exhibit 154, on lines 9 to 11 you say:

12 Because of this gap in credit quality  
13 between PSE and its counterparties, it  
14 is more likely than not that PSE will  
15 have to make some form of concession in  
16 the future.

17 Could you, well, I didn't know what that  
18 meant, what types of concessions might you need to make?

19 A. The posting of collateral. I think the  
20 context of this quote was really in the context of risk  
21 management, and the parties that provide risk management  
22 products and services have changed rather dramatically  
23 in the last two to three years since the demise of  
24 Enron. Most of the firms are financial firms, and  
25 financial firms will take a very disciplined approach to

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1 the granting of credit. And if you are a bank and you  
2 are a Double A bank and you enter into a contract with a  
3 utility like Puget Energy that is a Triple B minus  
4 utility, and the reason I use Triple B minus is because  
5 it's our corporate credit rating, so for financial  
6 institutions that is the reference rating, that is  
7 really the only relevant rating that they use when they  
8 think about their counterparty risk. And so what those  
9 concessions are is that we would actually have to post  
10 cash to be able to transact with them. That's one  
11 example. Another concession would be a number of these  
12 parties give free credit, so they give us a credit that  
13 we don't pay for. The stronger the credit rating, the  
14 more free credit we get. So as a Triple B minus, we  
15 just won't get a lot, we would have to pay for more.

16 Q. Actually, that last area of questioning I  
17 have was about the distinction between the corporate  
18 credit rating and these other types of categories, and I  
19 understand the answer you just gave that sometimes  
20 people will simply look at only one, and but what is the  
21 significance of say the senior, I can't even remember  
22 the --

23 A. That's okay, senior secured.

24 Q. Right. Why is that, when is that relevant  
25 and when isn't it, and why is it the little notch

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1 higher?

2 A. It's a little notch higher because you might  
3 say it's closer to the boiler room in terms of cash  
4 flows, and so but the relevant rating is the corporate  
5 rating. Because when you go out to the financial  
6 markets, we go out as one firm, and that one firm's  
7 rating is Triple B minus. There might be certain  
8 circumstances where we go raise capital and people might  
9 look at the senior secured. But, you know, when they  
10 think about pricing and when they think about risk, it  
11 is the corporate credit rating.

12 Q. When is someone thinking about only the  
13 senior secured?

14 A. When you're entering into some type of  
15 agreement that is unique to a certain financing. So in  
16 other words, if you enter into a financing where you  
17 secure it with assets and you do things to enhance their  
18 Triple B minus rating, then it might be relevant. But  
19 in most of the day to day, it just, you know, it doesn't  
20 really get factored in as much.

21 Q. But what about in projects that Puget will  
22 likely be undertaking?

23 A. Triple B minus would be the rating, because  
24 people will look at the corporation. Because  
25 essentially it's the obligation, they're stepping and

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1 entering into an obligation with the corporation, that's  
2 how they view it.

3 Q. So you're saying in your view the corporate  
4 rating is in many more instances or more generally the  
5 one that matters?

6 A. Yes.

7 Q. And the others matter in some specific  
8 situations?

9 A. Correct. I will tell you as a banker when I  
10 went to present credits or when I went to the bond desk  
11 to talk about bond pricing, it was largely driven off of  
12 the corporate credit rating. When, at J.P. Morgan when  
13 we determined how much credit exposure to take to a  
14 party, it was the corporate credit rating.

15 Q. Is there a difference in long-term contracts  
16 for generation versus the company owning and building  
17 itself in this respect on which rating matters?

18 A. No, the main difference in that regard is  
19 that the rating agencies when you enter into a long-term  
20 contract it's essentially implying a fixed charge  
21 obligation, so that then raises the issue that we have  
22 referenced, and in fact it's in Don Gaines's testimony,  
23 imputed debt, but that's how I would draw the primary  
24 distinction.

25 Q. But in both those cases you think it's the

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1 corporate credit rating that matters most?

2 A. Yes.

3 Q. Or almost dominantly?

4 A. Dominantly, I would say that, and Eric  
5 Markell can go into more detail, but, you know, on our  
6 side, you know, we have looked at opportunities for  
7 long-term contracts, and the first thing that I look at  
8 as CFO is the corporate credit rating of that  
9 counterparty. And if it's something that is Triple B  
10 minus, that implies a certain potential for default that  
11 I want to protect us on.

12 Q. That reminds me of another question. If you  
13 are dealing with somebody else who say is Triple B  
14 minus, does it matter then if you are Triple B minus  
15 versus Triple B plus?

16 A. It doesn't. In other words, it's the  
17 principle of matching. If we were Triple B plus and the  
18 other party was Triple B minus, I would sure want some  
19 protection. Because essentially what that implies is  
20 that if we enter into a ten year agreement, I might get  
21 hung out there as the Triple B plus company. If you're  
22 both Triple B minus, all things being equal, you assume  
23 that the risk is equally weighted on both sides.

24 CHAIRWOMAN SHOWALTER: Thank you.

25 COMMISSIONER HEMSTAD: I don't have any

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1 questions.

2 COMMISSIONER OSHIE: Just one.

3

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

5 BY COMMISSIONER OSHIE:

6 Q. Just a clarification, Mr. Valdman, would you  
7 define maybe some parameters around the term imputed  
8 debt I mean as used in the testimony. Are we only  
9 talking about, you know, purchase power agreements here?

10 A. In the testimony, yes.

11 COMMISSIONER OSHIE: All right, thank you  
12 very much, no further questions.

13 JUDGE MOSS: I just have a couple,  
14 Mr. Valdman.

15 THE WITNESS: Sure.

16

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

18 BY JUDGE MOSS:

19 Q. On page 8 of your direct testimony, Exhibit  
20 151.

21 A. Let me just grab that, yes, page 8.

22 Q. Down around line 10 there you make a -- you  
23 draw a comparison essentially between the actual  
24 reported return on equity in 2002, 2003, and the  
25 authorized return. Can you make that comparison sitting

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1 there today on the basis of overall return as well, your  
2 authorized overall return and what the results were; do  
3 you know?

4 A. As a corporation, in other words as a company  
5 or --

6 Q. Well, are you talking about PSE here, I  
7 gather?

8 A. Right.

9 Q. So there's, you know, part of the capital  
10 structure is debt, part of it is equity, here you're  
11 making the equity comparison. If the debt was in at a  
12 rate higher than what you actually had to pay as a  
13 result of restructuring or something like that, that  
14 might affect these ratios, and that's what I'm asking  
15 about.

16 A. Yes. In other words, the ROE is essentially  
17 what it all -- it's the bottom line number. And if you  
18 pay more with debt, that's something that you -- you  
19 wear that burden for as long as that debt is on your  
20 balance sheet.

21 Q. I'm looking at the overall capital structure  
22 and the overall return, it can be similarly far from the  
23 authorized overall return?

24 A. Yes.

25 Q. Or it could be closer?

0233

1 A. Yes.

2 Q. Or it could be farther away, and my question  
3 simply is which of those three is it, if you know?

4 A. If you're referring to the overall return, I  
5 would suggest that it essentially picks up the lag in  
6 the equity.

7 Q. That was really my question, I didn't ask it  
8 very well.

9 A. Sorry.

10 Q. That's all right, it's my inarticulate  
11 question I'm sure.

12 Looking at page 16 of that same exhibit at  
13 line 7, you use the word peers there, and we had some  
14 discussion earlier this morning with Mr. Reynolds  
15 regarding the definition of peers, what he meant by it  
16 in connection with some of his testimony. I just want  
17 to ask what you mean here by the company's peers, what  
18 group are you referring to?

19 A. I would say vertically integrated utilities  
20 and that have large infrastructure requirements.

21 Q. And would there be any -- would that group  
22 include both such companies in states that have  
23 maintained the form of regulation that we have in this  
24 state as well as those in states that have so-called  
25 restructured?



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1           A.     Largely similar states.  There might be a  
2     couple exceptions if, you know, the circumstances were  
3     very similar, for example if you had a company where a  
4     large percent of the power was contracted, but largely  
5     it's for jurisdictions like ours.

6           Q.     Okay, so it's similar to what Mr. Cicchetti  
7     uses for his peer group?

8           A.     Correct.

9           Q.     Okay.

10          A.     And I would just say that Mr. Cicchetti went  
11     through a very methodical process in picking the peers.  
12     Peers again is something where a lot of judgment is  
13     required.  It's more of an art than a science.

14          Q.     Sure, that's why I wanted to clarify the  
15     point as to what you meant exactly by it.

16                    JUDGE MOSS:  All right, I think that's all I  
17     have, did counsel who cross examined have any follow up  
18     to the Bench?

19                    Mr. ffitch apparently does.

20                    MR. FFITCH:  I just have one question.

21

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

23     BY MR. FFITCH:

24           Q.     Mr. Valdman, looking at Exhibit 167, it's the  
25     Value Line report.

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1 A. Okay.

2 Q. The actual return on equity in the year 2000  
3 was 13%, correct?

4 A. Where do you see that number?

5 Q. Year 2000.

6 A. Yes, return on common equity of 13%.

7 Q. And what was the authorized level of return  
8 on equity at that time?

9 A. I don't know.

10 Q. But the actual -- the authorized has never  
11 been at 13% though, has it?

12 A. I have no idea. I was in New York City in  
13 2000, and I didn't follow the company.

14 Q. But you would accept that subject to check,  
15 that in 2000 the authorized level for the company was  
16 not 13%?

17 MS. DODGE: Your Honor, I would object, this  
18 is not an appropriate subject to check.

19 JUDGE MOSS: All right, we'll just ask the  
20 company to furnish that for the record then, I will make  
21 that Bench Request Number 1.

22 MS. DODGE: I would suggest that Don Gaines  
23 was at the company at the time.

24 JUDGE MOSS: Do you think he can answer that  
25 question?

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1 MS. DODGE: I believe he can.

2 JUDGE MOSS: All right.

3 Mr. ffitch, why don't you put that question  
4 to him, and if you don't get a satisfactory answer then  
5 I will renew my Bench request.

6 MR. FFITCH: All right, thank you, Your  
7 Honor.

8 That's all I have, thank you.

9 JUDGE MOSS: All right, any redirect?

10 MS. DODGE: Yes, Your Honor, briefly.

11

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

13 BY MS. DODGE:

14 Q. Mr. Valdman, you were asked with respect to  
15 page 24 of your rebuttal testimony, you were pointed to  
16 that section of your rebuttal testimony and asked to do  
17 a calculation where you added dividend yield and  
18 long-term growth rate from another exhibit. Was the  
19 purpose of that section of your testimony to present a  
20 DCF analysis?

21 A. No, it wasn't. I will refer to the testimony  
22 of Dr. Cicchetti for the DCF analysis. What I was  
23 pointing out was really the linkages, and I think in  
24 whether it was Mr. Hill or Mr. Wilson in their testimony  
25 emphasized the importance of macroeconomic factors. I

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1 agreed that that's important, and so I was really just  
2 tracing a historic relationship that in an environment  
3 of increasing interest rates, and I think as Chairman  
4 Greenspan has put us on notice that we're more likely  
5 than not to see increasing interest rates especially  
6 given where we are with the lowest levels in decades,  
7 that when interest rates increase as utilities being  
8 bond proxies, unless utilities are able to increase  
9 their yields, there will be downward pressure on stock  
10 prices, which will increase the cost of raising capital,  
11 especially for companies like ours that have to go out  
12 and raise public equity to support infrastructure. So  
13 it was really just tracing the linkages between where we  
14 are in the interest rate cycle and the pressures that  
15 the industry faces. I could say that a number of  
16 utilities that are in much better cash flow and credit  
17 position have increased their dividends, their payout  
18 ratios. Obviously that's not something that we're in  
19 any position to do, so that's just an area of  
20 vulnerability for the company, especially as we go out  
21 and raise new equity.

22 Q. And then turning to Exhibit 160, page 3, here  
23 you were asked to add the 4.4% dividend yield and the 5%  
24 long-term growth rate for the total of 9.4% that was  
25 discussed. Now the 5% long-term growth rate that's

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1 shown here on page 3 of Exhibit 160, that is the D.A.  
2 Davidson Company projection of long-term growth rate; is  
3 that right?

4 A. That's correct.

5 Q. And do all analysts have the same long-term  
6 growth rate projection for the company?

7 A. No. In fact, in my response to Chairwoman  
8 Showalter's question, every analyst is going to have  
9 their own view. Interestingly, this is I think the  
10 lowest view of the stack, so if you wanted to go  
11 shopping for the lowest number you found it. What the  
12 financial market will do, it will go to the average, and  
13 the average of all the equity research is probably a  
14 better proxy for growth rates, and that's available.  
15 And, in fact, if you go to Yahoo Finance, the average is  
16 6.5%. And as the average would suggest, if it's 6.5%  
17 there are a couple of analysts that are out there with  
18 higher growth rates. And if you step back and consider  
19 what's being addressed here, if you have a company  
20 that's going to add a tremendous amount of  
21 infrastructure and potentially earn on it in the future,  
22 it would naturally follow that you have high growth  
23 rates. So I think the 6.5% given that fact pattern is a  
24 more appropriate rate to use.

25 Q. And if you were then to add the 6.5% to the

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1 4.4% dividend yield, what would be the result?

2 A. It would be 10.8%.

3 Q. Do you want to check your addition?

4 A. Did I say 6.5%, sorry.

5 Q. 6.5% plus 4.4%.

6 A. I'm sorry, I thought it was 4.3%. You see, I  
7 can't add on the stand. It would be 10.9%.

8 JUDGE MOSS: Does that complete your  
9 redirect?

10 MS. DODGE: Yes, thank you.

11 JUDGE MOSS: Thank you.

12 MR. FFITCH: Your Honor, we would like an  
13 opportunity to review the Yahoo Finance report that  
14 Mr. Valdman was just quoting from.

15 MS. DODGE: Your Honor, I actually have a  
16 printout here if people want to look.

17 JUDGE MOSS: Sure, let's make it an exhibit.  
18 I will need two. I need another copy, Mr. Kuzma, thank  
19 you.

20 All right, I'm going to mark this as Exhibit  
21 501 out of sequence because I have run out of numbers  
22 for Mr. Valdman.

23 MS. DODGE: Your Honor, if it would be  
24 helpful I can ask a question just to locate for the  
25 record the reference number.

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1 JUDGE MOSS: Sure.

2 BY MS. DODGE:

3 Q. Mr. Valdman, do you have what's been marked  
4 Exhibit 501 in front of you?

5 A. Yes.

6 Q. And the 6.5% number that you referred to as  
7 the combined average long-term growth rate projections,  
8 where is that found in this exhibit?

9 A. It's the source exhibit, and it's in response  
10 to -- it's Exhibit 160.

11 Q. Is the 6.5% growth rate projection you were  
12 referring to near the bottom?

13 A. Yes, it is.

14 Q. Or at the bottom of that exhibit?

15 A. Yes, it is.

16 Q. Exhibit 501?

17 A. Yes, okay.

18 JUDGE MOSS: Did you have a question  
19 concerning this, Mr. ffitch?

20 MR. FFITCH: Well, I guess I would like a  
21 moment, Your Honor. We have just been handed this,  
22 could we have just a moment to review it?

23 JUDGE MOSS: Sure.

24 While Mr. ffitch is looking, Mr. Kuzma, could  
25 you furnish me with another copy of 169 and 170, please.

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1 MR. KUZMA: (Complies.)

2 JUDGE MOSS: Thank you.

3 MR. FFITCH: We're ready, Your Honor.

4 JUDGE MOSS: Go ahead.

5

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

7 BY MR. FFITCH:

8 Q. Mr. Valdman, in looking at Exhibit 501, and  
9 I'm looking at the bottom of the page, the 6.5% number  
10 that has been discussed here earlier, do you know how  
11 many analysts' reports are included in that number?

12 A. I believe if you turn the page under the  
13 paragraph that says price target summary the number of  
14 brokers is ten.

15 Q. Isn't that a reference to the price target  
16 summary?

17 A. It would suggest though that ten of the  
18 analysts were called. I guess the answer is I don't  
19 precisely know how many, but generally how this works is  
20 that these organizations call each analyst.

21 Q. Isn't it possible that if we look back at the  
22 top of page 501 in the first section where it says  
23 earnings estimates --

24 A. Oh, yes, there it is, number of analysts six.  
25 Again, I don't know whether that means that this is



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1 based on six analysts. Generally what you do is you --  
2 they call, they throw out the high and the low, and they  
3 end with up with something that is the average, but I  
4 can't attest to the methodology that Yahoo used.

5 Q. And that's just for the first quarter of  
6 December, excuse me, the first quarter or for one  
7 quarter, the current quarter, correct?

8 A. That's as of the date that this was pulled  
9 off. Again, what we did is we try to get a  
10 representative average as opposed to one data point.

11 Q. And there's a different number of analysts  
12 for revenue estimates, there's a different number of  
13 analysts for virtually every component of this set of  
14 estimates, correct, if we look across the tables in the  
15 first --

16 A. Yes.

17 Q. I'm sorry, go ahead.

18 A. No, I was looking across the same tables.  
19 Again, I guess the way I would answer that is in general  
20 these are put together by canvassing the population that  
21 covers the company and coming up with an average. And  
22 it's the, you know, it's at the discretion of whoever  
23 does it to come up with, but it's something that the  
24 market commonly refers to on the assumption that most  
25 all analysts have --

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1 Q. You don't know which analysts were talked to  
2 in these?

3 A. I don't know.

4 Q. All right.

5 A. But I do know that D.A. Davidson, the 5%, was  
6 the lowest of the group I believe.

7 Q. And you haven't actually examined any of the  
8 analytical reports that were --

9 A. I have flipped through them.

10 Q. -- that were used to generate this number?

11 A. This number, no.

12 Q. As compared with --

13 A. But if you --

14 Q. -- the reports in Exhibit 160, which were  
15 provided in discovery to us that were used as the basis  
16 for your testimony and have been used as the basis for  
17 cross in this case?

18 A. I could answer it this way, I would be  
19 surprised if you took a look at the analysts' reports  
20 and you did the average that you would come up with  
21 something different than 6.5%.

22 Q. But you haven't done that?

23 JUDGE MOSS: Let me caution you, we have to  
24 have one person speaking at a time or the court  
25 reporter's job is made impossible, so please take a deep

0244

1 breath.

2 MR. FFITCH: I apologize.

3 A. I have not done that.

4 BY MR. FFITCH:

5 Q. All right, and those reports obviously have  
6 not been produced to Public Counsel or any party in this  
7 case for their own analysis or preparation for this  
8 hearing, have they?

9 A. I think the reason I'm hesitating is I can't  
10 imagine that they were very different from the reports  
11 that were filed as part of my testimony, but I can not  
12 state precisely what date the reports were published  
13 that drove the 6 1/2%. What I can state is that this is  
14 a pretty representative sampling of the investor and  
15 analyst community that follows our company, much more so  
16 than one simple D.A. Davidson research report.

17 Q. But you don't know who made these reports?

18 A. The parties that -- it's the reports that  
19 have been published that are --

20 Q. Can you please just answer the question yes  
21 or no, you don't know which analysts were included?

22 A. I do not know, no.

23 MR. FFITCH: Okay, thank you, those are all  
24 the questions I have.

25 Your Honor, we would actually object to the

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1 admission of Exhibit 501.

2 JUDGE MOSS: Well, we have had so much  
3 discussion about it I think we need to have it as an  
4 exhibit, Mr. ffitch, and I think you have thoroughly  
5 covered the points you wish to make with respect to the  
6 weight we should afford it, so I'm going to leave it in  
7 the record.

8 And I have another question from the Bench.

9

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

11 BY CHAIRWOMAN SHOWALTER:

12 Q. Mr. Valdman, I forgot to ask you just a  
13 couple questions on your background. In Exhibit 52,  
14 lines 15 and 16, when did you get your Ph.D. from  
15 Stanford, and what was it in?

16 A. My Ph.D. I got in 1987, and it was in French  
17 Medieval Studies.

18 Q. Okay. And what about your BA from  
19 Northwestern?

20 A. It was in 1984.

21 Q. And what was your major?

22 A. History.

23 CHAIRWOMAN SHOWALTER: Thank you.

24 JUDGE MOSS: All right, I believe that  
25 completes our questions for you, Mr. Valdman, or I

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1 should say Dr. Valdman I suppose.

2 MS. DODGE: Your Honor, I do have one small  
3 matter of redirect.

4 JUDGE MOSS: I'm sorry, I apologize.

5

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

7 BY MS. DODGE:

8 Q. Mr. Valdman, in Mr. ffitch's questions under  
9 the first page of Exhibit 501 he went to the first  
10 category on earnings estimations and referenced the  
11 column that says current quarter December '04, and there  
12 may be -- the record may be unclear, but it sounded like  
13 the reference to the current quarter was then a  
14 connection was drawn to the 6.5% number that you  
15 referenced which is at the bottom of Exhibit 501. Now  
16 the 6.5% is not an earnings growth estimate for the  
17 current quarter, is it?

18 A. No, it's not, and in fact if you read it says  
19 next five years per annum, so it's a forward growth  
20 estimate.

21 MS. DODGE: That's all.

22 JUDGE MOSS: All right, now my statement is  
23 apparently correct. Mr. Valdman, thank you very much  
24 for your testimony.

25 THE WITNESS: Thank you.

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1 JUDGE MOSS: You can step down.

2 THE WITNESS: Thank you.

3 JUDGE MOSS: Why don't you call your next  
4 witness.

5 MS. DODGE: Dr. Charles Cicchetti.

6 MR. CEDARBAUM: Your Honor.

7 JUDGE MOSS: I'm sorry, disembodied voice  
8 there for a moment, Mr. Cedarbaum.

9 MR. CEDARBAUM: PA system I hope.

10 JUDGE MOSS: Yes.

11 MR. CEDARBAUM: While the next witness is  
12 taking the stand, I would like to raise just one  
13 procedural matter.

14 JUDGE MOSS: All right.

15 MR. CEDARBAUM: It seems to me that all the  
16 parties predistributed their cross-examination exhibits  
17 last Wednesday, and we have had a number of occasions  
18 today where the company on redirect has produced  
19 documents to be used as exhibits as well, and that has  
20 placed parties that have predistributed cross exhibits I  
21 think at a disadvantage unfairly. So I would propose  
22 that for the remainder of the case that parties have  
23 redirect exhibits, that those be predistributed ahead of  
24 time. It just seems to me to make the playing field  
25 level with respect to non -- with respect to all of the

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1 evidence that's going to come in that's not already been  
2 prefiled in the direct testimony of all the various  
3 parties.

4 JUDGE MOSS: I think that's a useful  
5 suggestion. To the extent counsel have the exhibits  
6 that they reasonably anticipate will be used during the  
7 course of examination, if they can exchange those, they  
8 should exchange those in advance just as we exchanged  
9 the cross exhibits. And so I would ask that that be  
10 done, and it will save us time in the hearing so that we  
11 don't have to have these long pauses while counsel study  
12 things.

13 MS. DODGE: Your Honor, if I may just speak  
14 to that for a moment, with respect for example to the  
15 Yahoo.com, we had no idea that Mr. Valdman would be  
16 walked through a calculation on the stand unrelated to  
17 his testimony. We happened to have the good luck to  
18 have the printout of Yahoo.com in someone's notebook and  
19 over lunch determined that that would be useful.

20 JUDGE MOSS: Sure, my comment and  
21 Mr. Cedarbaum's suggestion is not meant to imply  
22 criticism or to suggest that there is any nefarious  
23 activity going, simply that to accommodate everyone and  
24 to move the hearing along, to the extent as I said you  
25 reasonably anticipate using something, then go ahead and

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1 share it. That's all, no criticism meant.

2 MR. CEDARBAUM: And that was my point, Your  
3 Honor, I wasn't claiming that there was any hiding the  
4 ball here.

5 JUDGE MOSS: I appreciate that,  
6 Mr. Cedarbaum, and I think everyone now understands  
7 that, okay.

8 CHAIRWOMAN SHOWALTER: I will just add and if  
9 you know you're going to be cross examining a witness on  
10 some document that is in the record but they may not be  
11 aware you're going to do it, it may be helpful to let  
12 them know that too so that everybody is prepared on  
13 every document.

14 JUDGE MOSS: Sure, some are disappointed that  
15 we have eliminated the element of surprise from the  
16 hearings, but that is something we have striven to do  
17 over the years and will continue to strive to do.

18 Mr. Cicchetti, if you would rise and raise  
19 your right hand.

20 (Witness Charles J. Cicchetti was sworn.)

21 JUDGE MOSS: Thank you, please be seated.

22

23

24

25



0250

1 Whereupon,

2 CHARLES J. CICCHETTI,

3 having been first duly sworn, was called as a witness

4 herein and was examined and testified as follows:

5

6 DIRECT EXAMINATION

7 BY MS. DODGE:

8 Q. Good afternoon, Dr. Cicchetti.

9 A. Good afternoon.

10 Q. Do you have before you your direct testimony  
11 and rebuttal testimony in this matter?

12 A. I do.

13 Q. As well as exhibits all of which have been  
14 marked Exhibits 201 through 209?

15 A. I do.

16 Q. Were your testimony and exhibits prepared by  
17 you or under your direction?

18 A. They were.

19 Q. And earlier today are you aware we  
20 distributed an errata to your testimony with some  
21 typographical corrections?

22 A. I am.

23 Q. With those changes, are the answers to the  
24 questions in Exhibits 201 through 209 true and accurate  
25 to the best of your knowledge?

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1 A. Yes, they are.

2 MS. DODGE: Your Honor, we offer Exhibits 201  
3 through 209 into evidence and present Dr. Cicchetti for  
4 cross-examination.

5 JUDGE MOSS: All right, and there apparently  
6 is no objection, so we will admit those as marked.

7 Just one point, the errata was to the  
8 rebuttal testimony, wasn't it?

9 MS. DODGE: Yes, Your Honor.

10 JUDGE MOSS: Okay, I just wanted the record  
11 to be clear on that, and I think everybody has that.

12 All right, now I'm sort of following the  
13 convention here of whoever has designated the longest  
14 period for cross-examination, I'm asking them to go  
15 first unless counsel have a strong preference to the  
16 contrary. In this instance Public Counsel has indicated  
17 90 minutes and Staff 40, so I will ask unless there is  
18 reason for a different order we will have Mr. ffitch go  
19 first again.

20 MR. FFITCH: Thank you, Your Honor.

21

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

23 BY MR. FFITCH:

24 Q. Good afternoon, Dr. Cicchetti.

25 A. Good afternoon.

0252

1 Q. Dr. Cicchetti, is that correct?

2 A. Cicchetti, yeah.

3 Q. Cicchetti, thank you, I want to make sure I'm  
4 getting the pronunciation right as we go forward.

5 MR. FFITCH: Your Honor, if I can just beg  
6 your indulgence, I actually hadn't switched out my  
7 testimony books yet, I wasn't expecting to be starting  
8 immediately, so I need to get the testimony out for this  
9 witness.

10 BY MR. FFITCH:

11 Q. I will ask you to turn to your rebuttal  
12 testimony, that's Exhibit 206C, lines 15 to 17.

13 CHAIRWOMAN SHOWALTER: What page?

14 Q. That would be page 5.

15 A. I have it.

16 Q. Do you have that? Thank you. And there you  
17 estimate a yield differential between Triple B plus and  
18 Triple B minus rated debt to be 40 basis points,  
19 correct?

20 A. Said to be about 40 basis points, yes.

21 Q. Okay. And I have a couple of questions about  
22 that. First, it's true, is it not, that Puget Sound  
23 Energy's first mortgage debt, their secured bonds, have  
24 a Triple B rating, and the corporate rating is Triple B  
25 minus, correct?

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1 A. That's correct.

2 Q. So if the company's secured debt rating is  
3 improved from Triple B to Triple B plus, that's an  
4 improvement of 1 ratings notch, right?

5 A. That would be true.

6 Q. But it appears that in your estimate of the  
7 bond yield differential, you consider a move of 2  
8 notches, i.e., from Triple B minus to Triple B plus,  
9 correct?

10 A. That's correct.

11 Q. Now can I ask you to look at what's been  
12 marked as Exhibit 210. That's one of our Public Counsel  
13 cross exhibits. Do you have that?

14 A. Is it the Reuters Corporate Spreads for  
15 Utilities?

16 Q. This is the response to Public Counsel Data  
17 Request Number 179.

18 A. Yes, I have that.

19 Q. And we asked you in that data request to  
20 provide support for your 40 basis point assumption, and  
21 you referenced your rebuttal workpapers. Now we have  
22 not been able to find any support for that 40 basis  
23 point assumption in your workpapers, so my question for  
24 you is if you could tell us where that number came from,  
25 Dr. Cicchetti?

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1           A.     I believe my workpapers have a diagram with  
2     them which show the spreads or the -- in terms of basis  
3     points for Triple B plus, Triple B, and Triple B minus,  
4     and the phrase I used on this page was about a 40 basis  
5     point differential, and I got that by essentially  
6     looking at those charts that we had in front of us or we  
7     have before us. I also relied upon the Reuters  
8     Corporate Spread for Utilities which shows for a 30-year  
9     bond a 2-year spread, I'm sorry, a 2 spread differential  
10    between Triple B plus and Triple B minus of 25 basis  
11    points, and for a 10-year spread it shows that spread to  
12    be 37 basis points. So when I was looking at this, I  
13    was looking at the 10 and 30 year bonds, I had hard  
14    evidence about 25 and 37, I had the visual evidence that  
15    suggested numbers much greater than that differential in  
16    the recent past as well as what I think they will be  
17    going forward as I explained in my testimony, so I said  
18    I estimate, not that I find, I estimate about 40 basis  
19    points. So it's my rounded off projected estimate based  
20    upon current numbers, past numbers, and what I think the  
21    future numbers will be.

22           Q.     Now in his analysis of costs and benefits of  
23    raising the company's bond rating, Mr. Gaines does not  
24    rely on your 40 basis point cost rate differential,  
25    correct?

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1           A.     I think you better ask him what he relied on.  
2 I kind of remembered him using 25 basis points or 18  
3 basis points or something like that.

4           Q.     Okay, thank you.

5                     I'm going to ask you to turn to Exhibit 228,  
6 that is the Reuters Corporate Spread document. Do you  
7 have that?

8           A.     I have two versions of it. I think the  
9 numbers are the same on both versions I have in front of  
10 me.

11          Q.     The one that I have in front of me has a date  
12 of December 7th on it, December 7th, 2004; do you have  
13 that one?

14          A.     I'm sure I don't.

15          Q.     Exhibit 228.

16          A.     Okay, I've got one.

17          Q.     Okay. Again, this is the Bonds Online  
18 document, and the title is Reuters Corporate Spreads for  
19 Utilities. And if we average the difference between  
20 Triple B plus and Triple B minus bonds across all the  
21 durations, we get a current yield differential of 25  
22 basis points; would you agree subject to check?

23          A.     I take that subject to check. I should point  
24 out two things, however. First, the Reuters Corporate  
25 Spreads that I used and that I think I turned over to

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1 you with my workpapers have a different date, and the  
2 numbers are somewhat different but not terribly so. And  
3 second but more importantly, I concentrated on the 10  
4 and 30-year bonds, not as this chart does and as you  
5 have just asked me to accept subject to check the  
6 ratings for 1, 2, 3, 5, 7, 10, and 30. I just looked at  
7 10 and 30, but I will take your math subject to check.

8 Q. All right. Now let's turn now to page 6 of  
9 your rebuttal, again Exhibit 206C, and I will note by  
10 the way that these pages are yellow, on yellow paper.  
11 There is no highlighting or other indication other than  
12 the yellow that this is confidential, so I'm going to  
13 ask about lines --

14 MS. DODGE: Can I just point out for the  
15 record and for other parties' assistance that you may  
16 have an uncollated set as far as the redacted and the  
17 confidential, and anything that is confidential in  
18 Dr. Cicchetti's testimony has been highlighted with  
19 shading. So if there is no shading on the page, then in  
20 fact it's a non-confidential page.

21 MR. FFITCH: Thank you. And I'm going to ask  
22 about lines 15 and 16, and those don't appear to be  
23 shaded, so.

24 JUDGE MOSS: We're on page 10?

25 MR. FFITCH: Page 6.

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1 JUDGE MOSS: Oh, I'm sorry.

2 MR. FFITCH: Of the rebuttal.

3 JUDGE MOSS: Thank you.

4 BY MR. FFITCH:

5 Q. And there, Dr. Cicchetti, you are comparing  
6 Mr. Hill's sample group to Puget, and at lines 15 and 16  
7 you state that Puget has higher capital spending per  
8 share than Mr. Hill's companies, correct?

9 A. I do, but that's not correct. I mean it is  
10 correct that I said that, but I think I explained or I  
11 will explain that it's Puget's projected capital  
12 spending that pulls it up over the top.

13 Q. Well, let's keep going with this, and maybe  
14 that will clarify.

15 A. Okay.

16 Q. If we look at page 7 in your table 2 in the  
17 third column which is headed capital spending per share,  
18 and again this does not appear to be confidential,  
19 Puget's capital spending, the number shown at the very  
20 bottom of the column is lower than Mr. Hill's group  
21 average; isn't that correct?

22 A. It is, and there are two reasons for it. One  
23 is that this is -- these are the current numbers, I have  
24 an analysis I do later on to show the projections and  
25 the relationships. And secondly and most importantly,



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1 Pinnacle West is included in the data on table 2.  
2 Pinnacle West is an A minus rated utility that's outside  
3 the bond ratings that Mr. Hill said he was using to set  
4 his peer group. And if we take the \$7.60 of capital  
5 spending per share for Pinnacle West out of the average,  
6 then my statement is correct. And the error I made when  
7 I drafted the rebuttal was I had taken Pinnacle West out  
8 because in my opinion it did not belong in Mr. Hill's  
9 peer group, and when I did that then I had both in this  
10 part of my testimony as well as later on the correct  
11 conclusion that Puget's capital spending per share is  
12 above these peer companies if we remove Pinnacle West.

13 Q. And that correction was not included in your  
14 errata sheet that was just distributed, correct?

15 A. No, it wasn't an error in typing, it was an  
16 error in explanation.

17 Q. I would like you to turn to page 11 of your  
18 rebuttal, please. And at lines 6 through 9, do you have  
19 that?

20 A. I do.

21 Q. You are discussing what you believe to be the  
22 benefits of an improved capital structure for Puget, and  
23 you state that assuming a 50% equity ratio the company  
24 would achieve an after tax reduction in return on equity  
25 of 50 basis points. Has any party in this proceeding

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1 recommended the use of a 50% common equity ratio?

2 A. I think that in my direct testimony I talked  
3 about the days of --

4 Q. I'm sorry to interrupt, Dr. Cicchetti,  
5 perhaps you can just answer the question.

6 A. I was trying to, I was about to say I think I  
7 might have. Not recommended for this rate case, but  
8 recommended it as a goal of traditional regulation for a  
9 company that has to go into the market to the extent  
10 that this company will to generate new debt to meet the  
11 infrastructure and generating resource requirements that  
12 this company is on the path towards doing. And I made  
13 the observation that the last time regulatory  
14 commissions were looking at companies that are like  
15 Puget is today, 50% equity was pretty standard for  
16 regulators to shoot as the goal to set the debt and  
17 equity. But for that, I don't think anybody is  
18 recommending 50 basis points today. I simply put 50  
19 basis points in this part of my testimony to keep the  
20 math simple because I was trying to make an important  
21 point, which was to show how the benefits to consumers  
22 over 30 years can dwarf any near term effect on ROE that  
23 Mr. Hill was talking about. So this is in response to  
24 Mr. Hill's purported benefit cost comparison.

25 Q. Now you may have misspoken, Dr. Cicchetti, I

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1 think you said that no party in the proceeding has  
2 recommended the use of 50 basis points, and I think what  
3 you meant to say was 50% common equity ratio.

4 A. Thank you for catching that, that is what I  
5 meant to say.

6 Q. All right, let's take a look at your response  
7 to Public Counsel Data Request 185A, and that is Exhibit  
8 212.

9 A. I have it.

10 Q. And in that question we asked you to provide  
11 any analyses that shows a reduction in ROE of 50 basis  
12 points attributable to an equity ratio of 50%. Could  
13 you please read your response to part A of that data  
14 request?

15 A. (Reading.)

16 Dr. Cicchetti did not perform any such  
17 analysis.

18 Q. And if we now look at part B of that data  
19 request, we asked you to provide copies of any testimony  
20 you had filed that recommended a 50 basis point  
21 reduction in ROE attributable to a 50% common equity  
22 ratio, and could you please read your response to part B  
23 of that data request.

24 A. (Reading.)

25 Dr. Cicchetti has not filed any such

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1 testimony to the best of his  
2 recollection.

3 Q. Thank you.

4 Now let's turn to page 17 of your rebuttal  
5 testimony, if you would. And at lines 10 and 11 you  
6 state that Mr. Hill's discussion of the direction of a  
7 Single A utility bond, excuse me, his discussion of the  
8 direction of Single A utility bond yields is not  
9 relevant to Puget because Puget's bonds are Triple --  
10 are rated Triple B. And in regard to that statement, we  
11 asked in Exhibit 214, and if you would like you can turn  
12 to that.

13 A. Before we do, I'm not so certain that you  
14 read what I said on those pages correctly.

15 Q. Well, if you would like to just read the  
16 first two sentences of lines 10 and 11, you can do that  
17 if I misparaphrased them.

18 A. (Reading.)  
19 No, PSE has an unsecured Triple B minus  
20 rating, therefore Mr. Hill's discussion  
21 of a 2004 bond yield of 5.92% for A  
22 rated utilities is not relevant for PSE.

23 Q. Right.

24 A. (Reading.)  
25 PSE's corporate bonds are rated Triple B

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1                   minus, and its senior secured bonds are  
2                   rated Triple B by Standard & Poor's.

3           Q.       Okay, thank you.

4                   Now in Exhibit 214 we asked whether or not  
5 you believed that the trend in interest rates is  
6 relevant to the costs of common equity, and I will give  
7 you a chance to find that.

8           A.       I'm sorry, what I have for -- did you say  
9 214?

10          Q.       Yeah, Exhibit 214, not Data Request 214, it's  
11 Data Request 188.

12          A.       Okay.

13          Q.       And there we asked you again whether or not  
14 you believed that the trend in interest rates is  
15 relevant to the cost of common equity, and you  
16 reiterated your position that Single A bond yields are  
17 not relevant, and then you stated, regardless,  
18 Dr. Cicchetti thinks that many factors are relevant for  
19 determining a just and reasonable ROE. Interest rates  
20 are one of those factors, correct?

21          A.       That's what I state, and that's what I  
22 believe.

23          Q.       Okay, thank you.

24                   Please turn to page 30 of your rebuttal, and  
25 look at lines 6 and 7. There you state, commenting on

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1 Mr. Hill's discussion of affiliate debt, you state that:

2 This Commission isolates utility related  
3 finances.

4 Isn't that right?

5 A. That's correct.

6 Q. Now please turn to Exhibit 216, that's Data  
7 Request 195, and in part A of that request we asked you  
8 about that statement in your testimony, and you  
9 indicated that this Commission, this is answer A:

10 This Commission will not permit utility  
11 customers to subsidize non-utility  
12 activities undertaken by the PSE's  
13 parent company.

14 That was your answer, correct?

15 A. Yes.

16 Q. Now isn't that precisely the reason that an  
17 investigation of off balance sheet debt secured by the  
18 assets of Puget Sound Energy is a reasonable course of  
19 action?

20 A. I don't think I was addressing the  
21 reasonableness of how this Commission goes about  
22 ensuring that subsidiaries of the parent don't get any  
23 benefit from, or at least I think I didn't say any  
24 benefit, but don't get any cross-subsidiaries from  
25 utility rate payers, and I also understand that there

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1 are subsidiaries under the utility, and again this  
2 Commission when it puts together a rate case leaves out  
3 the costs and financing of those subsidiaries that are  
4 under the utility. However, when those entities make  
5 money, they pay dividends up to the utility, and this  
6 Commission can recognize those benefits in one direction  
7 when those utilities' subsidiaries turn income. But I  
8 wasn't really commenting on how the Commission goes  
9 about making these assurances or in fact protecting  
10 consumers from cross-subsidizing shareholders or  
11 activities that are done outside the utility, I was  
12 criticizing Mr. Hill for I think speculating in his  
13 testimony rather than pointing his finger at any  
14 particular problem.

15 Q. You're not suggesting that no such  
16 investigation should be undertaken or that that's not  
17 part of an appropriate analysis, are you?

18 A. No, I'm suggesting you should do the  
19 investigation before you throw out the speculation that  
20 I was reading into Mr. Hill's testimony.

21 Q. Does Rainier Receivables pay dividends to  
22 Puget?

23 A. I don't know, I was speaking conceptually, I  
24 haven't done the analysis.

25 Q. We also asked if you were aware of prior

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1 decisions in which this Commission has considered parent  
2 company capitalization and financial cross-subsidization  
3 in determining an appropriate capital structure for  
4 utility rate making, and you were -- and this is in the  
5 same exhibit in part B.

6 A. Yes, my answer was no, it's still no.

7 Q. And would you accept subject to check that  
8 this Commission's order in the U.S. West Communications  
9 rate case, 950200, cites Mr. Hill's capital structure  
10 position regarding financial cross-subsidization?

11 MS. DODGE: Objection, this is not an  
12 appropriate subject to check for this witness.

13 JUDGE MOSS: I'm inclined to agree.  
14 Mr. ffitch, the order speaks for itself in that regard,  
15 and you can certainly cite to it on brief.

16 MR. FFITCH: All right, Your Honor, I have a  
17 copy of the order here, relevant language that I can  
18 show the witness, but in view of your ruling, if you  
19 would like me to move on, I can do that.

20 JUDGE MOSS: Yes, please.

21 MR. FFITCH: Just one moment, Your Honor.

22 BY MR. FFITCH:

23 Q. Now would you please turn to page 49 of your  
24 rebuttal, Dr. Cicchetti, at lines 14 to 15.

25 A. Yes.



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1 Q. You discuss a multistage DCF analysis at that  
2 point, do you not?

3 A. I do.

4 Q. Now Exhibit 220, if you could turn to that,  
5 that's the response to Data Request 202, you stated in  
6 that response that you did not perform a multistage DCF  
7 in either your direct testimony or your rebuttal  
8 testimony, correct?

9 I'm looking at the response in A, then we'll  
10 move on to the rest of it. Do you have that in front of  
11 you?

12 A. You asked the question about in my direct or  
13 my rebuttal, and I'm checking to see if I did indeed do  
14 a multistage calculation in my rebuttal, because I  
15 recall that I did a multistage analysis to show the  
16 effect of leaving out the multistage if in fact the  
17 multistage was relevant.

18 Q. Well, excuse me, Dr. Cicchetti, let's maybe  
19 take this one step at a time. I'm right now working  
20 with the response to our data request.

21 A. Right.

22 Q. And let's just take part A.

23 A. But the point is your data request didn't say  
24 anything about my rebuttal testimony, it was asking had  
25 I done one earlier. At least that's how I read it.

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1 Q. Well, let's just take a look at what it says  
2 and what you answered, and then maybe we'll see where we  
3 are at that point. Part A of the question asks, did you  
4 perform a multistage DCF in your direct testimony, and  
5 your answer in A is, no, see response to B below,  
6 correct?

7 A. That's what it says.

8 Q. And then let's take a look at B. The  
9 question is, did you perform a multistage DCF in your  
10 rebuttal testimony. The answer to B is, no, then you  
11 explain why.

12 CHAIRWOMAN SHOWALTER: Counsel, this is  
13 getting to be a confusing conversation, because you're  
14 leaving out something in the answer here, that is the  
15 question related to Mr. Cicchetti's direct, but the  
16 response says, we presume you're referring to the  
17 rebuttal, if you look at that, the first part of the  
18 answer.

19 MR. FFITCH: Okay.

20 CHAIRWOMAN SHOWALTER: And so it's --  
21 Mr. Cicchetti may have meant one or the other.

22 MR. FFITCH: I think, I appreciate that, Your  
23 Honor, and I think I skipped over that because I think  
24 we all had -- in candor I believe the company was on the  
25 same page with Public Counsel, but I apologize, I

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1 realize that the other folks reading this for the first  
2 time had not understood that.

3 CHAIRWOMAN SHOWALTER: But I'm not sure  
4 Mr. Cicchetti was. He seemed to be responding about his  
5 direct just now.

6 MR. FFITCH: Well, with all due respect --

7 CHAIRWOMAN SHOWALTER: So maybe you could  
8 just clarify that.

9 THE WITNESS: I could clarify if you would  
10 like.

11 MR. FFITCH: Well, with all due respect,  
12 these questions are in plain English, and they asked  
13 Dr. Cicchetti whether he performed a multistage DCF in  
14 his direct testimony, and the answer written here on  
15 this page is no.

16 BY MR. FFITCH:

17 Q. And I will just ask you again entirely  
18 separate from this document, Dr. Cicchetti, did you  
19 perform a DCF multistage analysis in your direct  
20 testimony regardless of what it says on this page?

21 A. I did not perform a multistage DCF in my  
22 direct testimony.

23 Q. Okay. And now question B, did you perform a  
24 multistage DCF in your rebuttal testimony?

25 A. And the answer is, yes, I did.

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1 Q. So the answer that you provided in this data  
2 request, the data response to Public Counsel, is  
3 incorrect; is that right?

4 A. The no I guess is incorrect, although quite  
5 frankly when I had no in my mind I was still thinking  
6 about what it says at the top in bold letters, reference  
7 Cicchetti direct at page 50, so I was answering the  
8 question thinking about my direct testimony, so the no  
9 comes in there. The words in B are suggesting or  
10 talking about rebuttal testimony, and I answered it,  
11 after I said no in reference to direct, I then go on to  
12 say what I did do in terms of my rebuttal testimony.

13 And I have an illustration to show that if  
14 you did a three-stage DCF and you started out initially  
15 at 12% without a multistage DCF, the effect would be to  
16 raise that 12% to 12.68% or 68 basis points. And it was  
17 an illustration, not a proposal to actually do it in  
18 this case, to produce a number that was particular to  
19 Puget, it was to show what the effect of this adjustment  
20 would be, that's why I did the analysis.

21 And so my no was related to the direct  
22 testimony that's in bold, and also it's no am I actually  
23 doing it as part of my testimony in this case as opposed  
24 to my rebuttal testimony where I'm trying to explain why  
25 it is that I think that Mr. Hill and Dr. Wilson's

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1 analysis comes up too short, because they didn't include  
2 the possibility of exceptional growth on the part of  
3 Puget over the next several years as it adds its rate  
4 base to build out infrastructure and add additional  
5 generation resources. So it was an illustration, it was  
6 a calculation, an illustration, but not something I have  
7 done with Puget numbers. It was done to be illustrative  
8 of what the effect would be if you took into account  
9 exceptional growth for a short period of time.

10 Q. Okay, well, we'll get into that a bit more,  
11 but just to sort of clarify this business about the bold  
12 lettering and so on, I will just state for the record  
13 that it's clear that Public Counsel inadvertently  
14 referenced only the direct in the text of the data  
15 request. However, if we look at the Puget Sound Energy  
16 response, Puget Sound Energy has corrected that mistake  
17 and stated that the answer assumes that we meant  
18 rebuttal, which is what we did mean. They understood  
19 that, and when we got this response back it states,  
20 Puget Sound Energy presumes that the request refers to  
21 rebuttal testimony, so the clarification and the  
22 correction was already made in your answer,  
23 Dr. Cicchetti, and you still responded no, did you not?

24 A. I wrote this page. I didn't write whatever  
25 you're referring to about presuming it's rebuttal or

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1 direct.

2 Q. Well, I'm just reading off the page,  
3 Dr. Cicchetti. I'm not making things up. Look at the  
4 wording under the heading response, we inadvertently  
5 referred only to direct, you corrected that answer and  
6 corrected the response, and then, or excuse me,  
7 corrected our request, and then we moved -- then you  
8 moved to an answer.

9 A. Okay, I'm sorry if I have added to the  
10 confusion. I'm looking at the sheets that I prepared  
11 and sent to the company. Maybe the company has a  
12 different version and you're looking at that different  
13 version. Can you show me what the company's version  
14 looks like?

15 Yeah, let me apologize to everybody. The  
16 phrase you're reading, Puget Sound Energy presumes, is  
17 not on the sheet that I have and that I prepared. Under  
18 the word response on my prepared response the first  
19 thing that you see is, A, no, see response B below. I  
20 don't have that paragraph. That's why I was being  
21 difficult, not on purpose to be difficult but because I  
22 don't have that disclosure or that disclaimer at the  
23 top.

24 Q. Well, the plot thickens.

25 JUDGE MOSS: Well, do we really need to

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1 pursue this, Mr. ffitch? I mean we have the witness's  
2 testimony. Apparently he did perform such an analysis.  
3 It says here he didn't, and you can make out of that  
4 what you will, but do we need to pursue who knew what  
5 when?

6 MR. FFITCH: Perhaps not, Your Honor, perhaps  
7 what we can do is maybe we will have a break here where  
8 we can sort this out and see if we need to pursue it.

9 JUDGE MOSS: Maybe this would be a good time  
10 to have our afternoon recess and give an opportunity to  
11 do that as well as give us all a breather, and so let's  
12 come back at 20 before the hour.

13 (Recess taken)

14 JUDGE MOSS: And, Mr. ffitch, we can resume  
15 with your questions, are you ready?

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

17 BY MR. FFITCH:

18 Q. We're staying with Exhibit 220,  
19 Dr. Cicchetti, which is the response to Data Request  
20 202, and I think we have all had the chance to look at  
21 this on the break, and again perhaps we can just walk  
22 through this and we can clarify where we are.

23 A. I appreciate that.

24 Q. The first question, question A, did you  
25 perform a multistage DCF in your direct testimony, and

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1 your answer was as stated?

2 A. No.

3 Q. Thank you. And then with regard to question  
4 B, did you perform a multistage DCF in your rebuttal  
5 testimony, the answer below is no; is that the correct  
6 answer, Dr. Cicchetti?

7 A. That's the correct answer.

8 Q. Okay, thank you.

9 Now you also go on to explain in B some  
10 further explanation of your answer, and there you seem  
11 to be saying that you did not use a multistage DCF  
12 because your DCF result was already adequate. But if  
13 one applied a multistage DCF to Hill's and Wilson's  
14 companies, their results would have been higher. In  
15 other words, aren't you saying there that if your  
16 analysis is resulting in a low ROE, then if you want to  
17 get a higher one you go ahead and apply a multistage  
18 DCF; is that what you're saying here?

19 A. No, you could read something like that I  
20 guess into it, but that's not what I'm saying here.  
21 What I'm saying here is that I came up with what I  
22 thought would be a just and reasonable rate of return  
23 for a company like Puget that was undertaking a major  
24 amount of investment under traditional regulation. Both  
25 Staff and Public Counsel's witnesses would have proposed



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1 to reduce current ROE, authorized ROE, significantly,  
2 and what I'm saying here is that if the Commission were  
3 to use where they're at as a starting point, then issues  
4 like flotation costs, issues like exceptional growth for  
5 a brief period of time should be taken into  
6 consideration, but as multistaged kinds of comparisons  
7 of growth, should be taken into consideration to raise  
8 the rate of return that I think is being set too low by  
9 both Staff and Public counsel witnesses and  
10 unrealistically, so.

11           So I'm saying that if you start with a number  
12 that's too low and it's unrealistic, then you need to  
13 put in additional factors that would be relevant to the  
14 circumstances at hand. But if you come in with a number  
15 that builds in those factors in the analysis to begin  
16 with, which is what I tried to do, then I don't think  
17 that you need to double count in a sense and add this on  
18 to it as well. Because if you recall, the main part of  
19 my testimony was to look at states like Washington for  
20 utilities that are adding infrastructure and are  
21 accepting and embracing traditional regulation and not  
22 restructuring. In that group's states, the numbers in  
23 the 11% to 12% range, which is what I recommended, would  
24 apply. But if you're going to use 9% or 9.75%, then I  
25 think you need to bring into account these other

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1 factors, one of which I'm discussing here.

2 Q. All right.

3 Please turn to page 52 of your rebuttal at  
4 lines 13 to 15 of the bullet points, and there you  
5 provide three measures of long-term growth or the little  
6 G term that's used in the DCF model, correct?

7 A. Yes.

8 Q. Now could you look at Exhibit 221, please,  
9 which is the next cross exhibit for us, it's also Data  
10 Request 203. Now there we asked you to provide support  
11 from the literature of regulatory finance that the three  
12 growth rates are reliable measures of growth to be used  
13 in DCF analysis. And if we look at this data response,  
14 we see that there are no documents attached to the  
15 response, correct?

16 A. That's correct.

17 Q. And in response B, bottom of the page, you  
18 state that you have never used these three growth rate  
19 measures in any of your prior testimony; is that  
20 correct? I guess --

21 A. That's correct.

22 Q. Okay.

23 A. No, I'm just reading it.

24 Q. All right. Please turn to page 58 of your  
25 rebuttal, and we have -- I just want to make sure I'm

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1 referring to the correct page here because this is an  
2 area where you submitted a revised page. I'm looking at  
3 page 58, lines 18 to 19.

4 A. Did you include flotation costs?

5 Q. Right, and that's actually lines 20 to 21 on  
6 the revised page, but the question is the same. And  
7 there you state that you did not include a flotation  
8 cost in your ROE estimate, correct?

9 A. That's correct.

10 Q. And you're not recommending one either in  
11 your direct or your rebuttal, right; is that right?

12 A. Well, let me be specific here. I'm not  
13 recommending one if my proposed ROE of 11.75% is  
14 accepted by this Commission. But if the Commission were  
15 to start with Mr. Hill at 9.75% or Dr. Wilson at 9%,  
16 then I would recommend that flotation costs should be  
17 added so as to increase their recommendations. Because  
18 I think as they stand they are too low and would hurt  
19 consumers.

20 Q. All right. So I take it this is comparable  
21 to your discussion of the multistage DCF, the Commission  
22 only need consider such an adjustment if the cost of  
23 equity is not otherwise high enough, correct?

24 A. I wouldn't say the issue is high enough, it's  
25 adequate enough. And my standard of adequacy is

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1 consumer benefits and the effect on consumers, and  
2 therefore the word I would use is, is it adequate to  
3 ensure that the consumers will get the needed  
4 investments at the lowest reasonable cost over a 30 year  
5 period. That's what I mean by adequate, so high doesn't  
6 enter into my vocabulary, but adequate does as I have  
7 just defined it.

8 Q. Let's turn back a couple pages to, I'm sorry,  
9 again I want to make sure I've got this right, all  
10 right, this is the revised page 58. Pardon me for one  
11 moment. All right, well, on page 58 you estimate the  
12 cost of equity impact of capital structure differences  
13 on beta, correct, and you have two sets of calculations  
14 on that page?

15 A. Yes.

16 Q. And there are you measuring the difference  
17 between a 50% common equity ratio of Mr. Hill's sample  
18 companies and the 40% common equity ratio he recommends;  
19 that's what you're doing there?

20 A. I'm not speaking to Mr. Hill, I'm speaking to  
21 the issue of adjusting for differences in debt. And I'm  
22 using a 50% debt and a 60% debt in my example, but I'm  
23 not assigning those numbers to anybody.

24 Q. All right. But the numbers that I used were  
25 correct in the question, you're measuring the difference

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1 between a 50% common equity ratio and a 40% common  
2 equity ratio, correct?

3 A. That's correct, but I state it in terms of  
4 debt, but yes.

5 Q. Okay. And then I have a couple questions  
6 about this area. First, the average common equity ratio  
7 of Mr. Hill's sample companies is about 43%, not 50%,  
8 correct?

9 A. That may or may not be correct. It's not  
10 something that I was referring to here. I wasn't  
11 discussing Mr. Hill's numbers, I was showing simply the  
12 effect of leveraging and unlevering beta.

13 Q. All right. Do you know what the average  
14 common equity ratio of Mr. Hill's sample companies is?

15 A. I don't remember it. I may have looked at it  
16 once.

17 Q. All right.

18 A. Again, I think though that I had difficulty  
19 with including some of the peers in his company because  
20 I don't think they followed the criteria he set out for  
21 himself as peers. But if I take his companies as given,  
22 I think I once did the calculation that you're  
23 suggesting, I just don't recall it.

24 Q. All right.

25 Second point, it is true that if the cost of

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1 equity impact of the difference between a 50% equity  
2 ratio and a 40% equity ratio is about 100 basis points,  
3 the impact of the difference between a 43% equity ratio  
4 and a 40% equity ratio would be lower; isn't that true?

5 A. Yes.

6 Q. Also you have used book value capital  
7 structures, not market value capital structures in these  
8 calculations; isn't that correct?

9 A. I have no idea, because I made these numbers  
10 up. They could be whichever one you wanted them to be,  
11 although in the context here I would be using the market  
12 value numbers because that would be what the formula  
13 would require, but I -- these are just made up numbers,  
14 this is a hypothetical calculation.

15 Q. So your testimony is they ought to be market  
16 values?

17 A. The percentages you're using should be based  
18 upon market values.

19 Q. Thank you.

20 A. To calculate a beta.

21 Q. We're going to come back to this page, but  
22 could you please turn to page 64 of your rebuttal.

23 MS. DODGE: Sorry, which page?

24 Q. Page 64, and on page 64 you're again  
25 performing an estimate of the difference between a 50%

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1 common equity ratio and a 40% common equity ratio,  
2 correct?

3 A. Correct.

4 Q. Here the mathematical formulas are different,  
5 and you get a very different result for the adjusted  
6 beta, correct?

7 A. Do you mind if I just take a look at what I  
8 did here?

9 Q. That would be fine.

10 A. (Reading.)

11 Q. There's two questions.

12 A. Yes, here I'm making the point that the way I  
13 read Mr. Hill's testimony --

14 Q. I'm sorry, Dr. Cicchetti, before you -- I  
15 sense you want to make an explanation, but let's get the  
16 answer to my question first.

17 A. I'm sorry, I thought you wanted me to explain  
18 what was going on here.

19 Q. Let's take it a step at a time. The  
20 mathematical formulas on page 64 are different than  
21 those on page 58, are they not?

22 A. Yes.

23 Q. And you get a different result for the  
24 adjusted beta on those two pages, do you not?

25 A. Yes.

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1 Q. So which set of equations is correct, which  
2 is incorrect, or why are these two formulas different?

3 A. Well, 58 was discussing a hypothetical, and I  
4 didn't intend for it to be the same numbers on that  
5 page, this was a hypothetical, as the point I was making  
6 on page 64. And on page 64 what I'm doing is to try to  
7 show what the effect would be if Mr. Hill had practiced  
8 the art of unlevering and then relevering the beta that  
9 he used in his calculation of a CAPM, which he reports  
10 at a 10.15. And I suggest that if we had done -- if he  
11 had done the relevering, it would have been 10.7 for his  
12 numbers, therefore his number would come closer to the  
13 current 11% ROE, not as it is now at 10.15% closer to  
14 his 9.75% recommendation.

15 Q. Why do you need to use different formulas in  
16 order to perform that analysis?

17 A. As I said, one is an illustration and one is  
18 starting off -- one is intending to come up with an  
19 analysis that uses his calculation at 10.15% and then  
20 shows the effect of a formula on his 10.15 to raise it  
21 to 10 -- which would have the effect of raising it to  
22 10.7 if you made this correction.

23 Q. Isn't the theoretical support for the  
24 formulas the same; if that's true, why are they  
25 different mathematically?



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1           A.     I don't know that they are different  
2 mathematically.  They are different -- the way they're  
3 presented, one is presented as algebra and the other one  
4 is presented with the effects of that algebra taken into  
5 account, and it's they're simply not an apples to apples  
6 comparison.

7                   MR. FFITCH:  May I have a moment, Your Honor?

8                   JUDGE MOSS:  Yes.

9  BY MR. FFITCH:

10           Q.     Dr. Cicchetti, did you use market value in  
11 both of the capital structures here, page 64?

12           A.     What's difficult here is there are multiple  
13 variables shown in this arithmetic.  The .760, the beta,  
14 that's a market estimate, meaning that it's an estimate  
15 that has been produced in the market.  The .5 debt and  
16 the .6 debt, those are different hypothetical levels  
17 that one might assign to the amount of debt that's  
18 carried by any company, including Puget.  So I'm looking  
19 at the comparison of a .6 debt, meaning 60% debt, and a  
20 company that would be 50% debt, and I'm showing what the  
21 effect would be for this particular beta on the  
22 calculation that we had come up with, and it's no more  
23 complicated than that.  And I'm also using the long-term  
24 debt of 5.4, which I think at the time was Mr. Hill's  
25 calculation of the market long-term debt, and I'm using

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1 the spread between debt and equity of 6.6, which is also  
2 a market number. It's an average spread over a number  
3 of years, I forget how many.

4 Q. Okay, I'm going to direct your attention to  
5 the top of page 64, line 2, and I'm going to ask the  
6 question again. You reference there a 50% debt for  
7 average utilities and 60% debt, are those references  
8 based on market?

9 A. The 60 --

10 Q. Market value, pardon me.

11 A. The 60-40 is based upon the book value of  
12 Puget's debt.

13 Q. Okay, thank you.

14 Please turn to page 70 of your rebuttal. And  
15 line 19 is a question which you then respond to.  
16 Subsequently you respond to Mr. Hill's criticism that  
17 you used the CAPM in this proceeding but elected not to  
18 do so in a prior testimony on behalf of Western  
19 Resources, correct, that's what this answer is  
20 addressing?

21 A. Yes.

22 Q. And Mr. Hill points out in his direct  
23 testimony at page 49 the issues you listed in your  
24 Western Resources testimony as reasons for not using a  
25 CAPM analysis also exist currently with Puget, and you

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1 respond here on page 71, lines 1 through 3, this is the  
2 next page now, that prior to your Western Resources  
3 testimony the CAPM had become controversial, correct?

4 A. In Kansas.

5 Q. That's yes, correct?

6 A. I just want to make it clear that it was a  
7 long drawn out hearing, meaning it was my statement that  
8 it was controversial was controversial in the context of  
9 Kansas. I didn't mean to say that it was controversial  
10 in the other 49 states that might have considered it or  
11 at the present time.

12 Q. All right. The problem is, Dr. Cicchetti,  
13 the explanation that you provide here is related to your  
14 Western Resources testimony in 1996. The reference of  
15 Mr. Hill's reference is to your testimony for that  
16 company in 2001, correct?

17 A. I don't remember. I know there was some  
18 confusion, and I have looked at both cases recently, but  
19 I don't know which one he had in mind when he was making  
20 the statement. And I think you asked some questions  
21 about -- in data requests that added further to my  
22 confusion. So I think that we have to break this into  
23 pieces if we're going to avoid our problems.

24 Q. Let's do that, let's go to Exhibit 224, and  
25 that's a response to Data Request 208.

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1 A. Okay.

2 Q. Now do you have in front of you the data  
3 request in the form that was provided to Public Counsel  
4 by Puget Sound Energy?

5 A. I do.

6 Q. And let's just get this out of the way right  
7 at the outset. The question inadvertently refers only  
8 to your direct testimony in the bold heading, but Puget  
9 Sound Energy has corrected that and answered with  
10 reference to your rebuttal testimony lower down,  
11 correct? This is something actually that popped up in a  
12 few of the DR's, a series of these questions  
13 inadvertently referred to the direct, but Puget Sound  
14 Energy corrected that, and you responded with respect to  
15 your rebuttal testimony, correct?

16 A. Right, and I wrote -- I wrote the answers,  
17 but I didn't put that disclaimer in, but it's on the  
18 copy I have in front of me.

19 Q. Okay, so there's no confusion that you know  
20 and we know and your attorneys know that we're all  
21 talking about your rebuttal testimony?

22 A. That's correct.

23 Q. Now here we asked about that response that we  
24 have just been discussing or that testimony that we have  
25 just been discussing about the CAPM analysis in the

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1 Western Resources case, and in this question when we  
2 asked about that, you indicate that you did use a CAPM  
3 in 1996 but did not use one in 2001, and you can look at  
4 your answer to part A.

5 A. That's what it says.

6 Q. So is that a correct response?

7 A. I think so, yes.

8 Q. So your rebuttal testimony here that we have  
9 just referred to on page 71 is incorrect as written,  
10 because you indicate that you did not use a CAPM in  
11 1996, but now you say you did?

12 A. That's correct.

13 Q. And one question I have in that regard is  
14 when you state at page 71, line 2, that there had been  
15 proceedings that predated that hearing where the CAPM  
16 analysis had become extremely controversial, were you  
17 referring to something prior to 1996 or prior to 2001?

18 A. Prior to 2001.

19 Q. So in your rebuttal you were referring to the  
20 wrong case in the wrong year, correct?

21 MS. DODGE: Objection, Your Honor, this has  
22 been gone through, it's obviously an errata that's been  
23 overlooked.

24 JUDGE MOSS: Well, it's not obvious to me, I  
25 think we'll allow the question.

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1 MR. FFITCH: Thank you, Your Honor.

2 BY MR. FFITCH:

3 Q. So the testimony was erroneous, correct, with  
4 regard to the year?

5 A. The question was incorrect. I didn't correct  
6 it on the errata because I thought I answered or fixed  
7 it with the data request, but perhaps I should have done  
8 both. But yes, the year is 2001.

9 Q. Right. And, in fact, the data request  
10 focuses you on the 2001 testimony, does it not? If we  
11 look at the first paragraph of the Public Counsel  
12 request, isn't that correct that the Public Counsel  
13 request focuses you on your 2001 testimony?

14 A. Yes.

15 Q. And in this data request, having been focused  
16 on the 2001 testimony, your response to Mr. Hill's  
17 rebuttal did not change, correct?

18 A. I don't know what you mean by that question.  
19 The question that you put to me in the data request  
20 mentions both '96 and '01 and -- but I'm answering as  
21 best I can about '96 and '01 saying that I did a CAPM in  
22 '96 but I didn't do one in '01, and the reason I didn't  
23 was that in a sense I was told that CAPM has become so  
24 controversial in Kansas that we don't want you to do a  
25 CAPM.

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1 Q. So I guess the question, Dr. Cicchetti, is  
2 notwithstanding that error in your testimony here,  
3 you're making no change in your rebuttal to Dr. Hill's  
4 testimony even though there's a mistake here in your  
5 testimony, you have made no errata, you have made no  
6 attempt to change that testimony, and there's no change  
7 in your data request response?

8 MS. DODGE: Objection, this is now  
9 argumentative. I think we have covered this. If we  
10 need to offer up an errata on line 21 of page 7, we will  
11 do so. I think the answers have been quite clear that  
12 that was obviously an erroneous citation to 1996 instead  
13 of 2001, but the substance is correct.

14 JUDGE MOSS: Dr. Cicchetti did testify that  
15 he believed the question miscited the 1996 proceeding,  
16 so doesn't that cover it?

17 MR. FFITCH: I can move on, Your Honor, thank  
18 you.

19 JUDGE MOSS: Okay.

20 BY MR. FFITCH:

21 Q. Dr. Cicchetti, we have obtained copies of  
22 your testimony in the 2001 Western Resources case from  
23 the Kansas Commission web site, and it's true, is it  
24 not, that in that case, just as in this case, both the  
25 cost of common equity and the capital structure were

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1 important issues about which you testified?

2 A. They were both issues, yes.

3 Q. And do you recall that while that rate case  
4 was in process, Western Resources was preparing to spin  
5 off its unregulated operations and leave its regulated  
6 utility operations with essentially no common equity  
7 capital?

8 A. Yes.

9 Q. And you testified in that 2001 case that the  
10 spinoff and the resulting all debt utility capital  
11 structure was a reasonable course of action, did you  
12 not?

13 A. I don't know that I ever reached a conclusion  
14 about reasonableness. If you can see where I said that,  
15 I have the testimony in front of me and the list of the  
16 things that I said I was covering, I don't think that  
17 reasonableness of the spinoff was one of them.

18 Q. Did you ever testify before the Kansas  
19 Commission that the spinoff was reasonable?

20 A. I don't believe I did.

21 Q. Can I have you to turn to page, excuse me, to  
22 Exhibit 227, and if you could look at page 21. This is  
23 an excerpt, I will represent that this is an excerpt of  
24 your rebuttal testimony in the 2001 case we have been  
25 discussing; is that a fair statement? I will let you



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1 find it, Exhibit 227.

2 A. It's a fair statement that this is an excerpt  
3 from page 21 and 22 and 23 of my prefiled testimony in  
4 that case.

5 Q. And the question and answer beginning at  
6 page, excuse me, at line 5 of page 2 of the exhibit  
7 essentially explains why a capital structure doesn't  
8 matter; isn't that correct?

9 A. No, I think it explains when a capital  
10 structure would not matter, which is quite a different  
11 concept. Because it says clearly there that you have to  
12 have perfect capital markets and no taxes, and, no, it  
13 doesn't say there but it goes on in my testimony to  
14 explain it, that you also need to have no concern with  
15 bankruptcy. So if you're willing to make those  
16 assumptions and saying under those assumptions the value  
17 of firm, which is based upon free cash flow, is  
18 unaffected by its source of capital or capital  
19 structure.

20 Q. And you said that that, in your answer below  
21 at line 19, you have characterized that as a central  
22 concept for this proceeding, correct?

23 A. It is a -- it was a central concept for that  
24 proceeding, yes, which was quite a different situation  
25 because they were changing the company. And the

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1 question was, does it make a difference where the debt  
2 and equity go when you -- when the physical plant that  
3 generated the electricity and the wires that connected  
4 generation to customers stayed under the Kansas  
5 Commission. And I'm saying that's what matters, what  
6 matters is where the physical assets lie and the way in  
7 which the Commission sets the prices for those assets,  
8 not the ownership of those assets in terms of debt and  
9 equity. That's what that case was about. Quite  
10 different than anything we're talking about here.

11 MR. FFITCH: All right, can I have a moment,  
12 Your Honor?

13 JUDGE MOSS: Yes.

14 MR. FFITCH: May I approach the witness, Your  
15 Honor?

16 JUDGE MOSS: For what purpose, Mr. ffitch?

17 MR. FFITCH: Your Honor, to present the  
18 witness with a copy of his testimony to the Kansas  
19 Corporation Commission.

20 JUDGE MOSS: I think he said he had it.

21 Do you have it?

22 THE WITNESS: I have it.

23 MR. FFITCH: This is in the subsequent  
24 investigation. The witness has testified that he made a  
25 statement about his testimony on the spinoff issue in

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1 that case, and I wanted to give him an opportunity to  
2 review.

3 JUDGE MOSS: Well, let him look at it and see  
4 if he has it.

5 Do you have a copy for counsel?

6 MR. FFITCH: I do, Your Honor.

7 JUDGE MOSS: Thank you.

8 Are we going to need to make this an exhibit,  
9 or what's the plan here?

10 MR. FFITCH: Perhaps I could examine the  
11 witness and then we could decide, Your Honor.

12 JUDGE MOSS: All right.

13 MR. FFITCH: I have no objection to making it  
14 -- we could make copies if you prefer.

15 BY MR. FFITCH:

16 Q. Dr. Cicchetti, I have handed you a copy of  
17 your direct testimony in Docket Number 01-WSRE949GIE,  
18 and that is the follow-up investigation of the rate  
19 case, 2001 rate case we were just discussing, correct,  
20 involving the spinoff?

21 A. It was definitely a follow up. I don't know  
22 whether it was the follow up, but it was a follow up.

23 Q. Involving the spinoff?

24 A. Involving the spinoff.

25 Q. And you testified just a moment ago that you

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1 did not provide any testimony to the Kansas Commission  
2 regarding the reasonableness of that spinoff, correct?

3 A. That's correct.

4 Q. Please turn to page 21 of the direct  
5 testimony to line 11, and please read the first three  
6 sentences. Well, you can read the question and then the  
7 first three sentences, please.

8 A. The first three sentences are:

9 I have reviewed the documents that  
10 define the rates offering, the splitoff,  
11 and the transaction with PNM, that  
12 stands for Public Service New Mexico, I  
13 am convinced that these agreements are  
14 not by any means extraordinary. These  
15 agreements offer the best solution to  
16 resolving WR's current financial  
17 situation and ensuring continued  
18 superior utilities service in Kansas.

19 Q. Thank you. And that responds to the  
20 question, please summarize your conclusions, correct?

21 A. That's correct. And now that I have read  
22 that sentence, I am now aware that this testimony was  
23 dealing not with the spinoff but the spinoff and merger  
24 of the remaining utility with another utility, Public  
25 Service of New Mexico.

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1 Q. Thank you. Well, the Kansas Corporation  
2 Commission disagreed with you and ultimately ordered  
3 Western Resources to unwind its unregulated spinoff, did  
4 it not?

5 A. Quite frankly I don't know exactly what they  
6 did. I do know that the merger with PNM, Public  
7 Services New Mexico, did not occur, and I'm generally  
8 aware that some of the spinoff was stopped. I don't  
9 know exactly how the final resolution was made, but  
10 certainly it wasn't my proposal that they do a spinoff.  
11 I was testifying first in a rate case of what the  
12 consequences of the spinoff might or might not be in  
13 terms of the ability of the Kansas Commission to  
14 regulate the remaining assets, and the case that you  
15 have in front of me, the latest thing you gave me, there  
16 I was talking about how the situation in terms of  
17 regulation could in fact improve by getting the merger  
18 or synergy benefits from the PNM case and using those  
19 savings to essentially thicken the equity of the then  
20 remaining Western Resources Utilities.

21 Q. And your recommendation in that testimony was  
22 in support of the spinoff and merger, was it not?

23 A. It was only partially can I say yes to that,  
24 because if you read immediately above what you had me  
25 quote, I explain that a just and reasonable rate case

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1 decision means that this commission would effectively  
2 assure that Kansas consumers would have efficient and  
3 sufficient service at relatively inexpensive prices. So  
4 my criteria was what is the effect on consumers if in  
5 fact all the pieces fell in place including the merger,  
6 including the spinoff, and including the rate deal that  
7 would effectively freeze rates and capture benefits to  
8 the consumers that would rethicken the equity that would  
9 transpire. So it was a package, not just one part, and  
10 it wasn't just testimony that I gave in support of what  
11 the company wanted for the shareholders but what this  
12 package would mean for Kansas consumers.

13 Q. You don't know the resolution of that case?

14 A. No.

15 Q. In front of the Kansas Commission, you're not  
16 aware of the results of the case that you testified in?

17 A. I'm not aware of the results of the case, of  
18 this particular case other than what I read in the  
19 newspaper.

20 Q. Okay. And are you aware that the CEO and CFO  
21 of Western Resources are currently under indictment for  
22 criminal activity stemming from their actions at Western  
23 Resources?

24 A. I am aware of the indictment of the CEO for a  
25 whole host of activities, planes, houses, apartments in

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1 two places that were paid for by rate payers. I don't  
2 know that it is correct to imply that he was under  
3 indictment for proposing a merger or a spinoff. That's  
4 the part that I testified on, and then I only testified  
5 on the part that I have been describing, which is how  
6 can the regulatory commission in Kansas continue to get  
7 just and reasonable rates for consumers under the  
8 spinoff and/or merger.

9 MR. FFITCH: Can I have a moment, Your Honor?

10 JUDGE MOSS: All right, we do need to move  
11 along, Mr. ffitch.

12 MR. FFITCH: That's the purpose of asking for  
13 a moment to see if I can cut out some questions.

14 Just one or two more questions, Your Honor.

15 JUDGE MOSS: Thank you.

16 BY MR. FFITCH:

17 Q. Dr. Cicchetti, what is your hourly fee for  
18 testifying on behalf of Puget Sound Energy in this case?

19 A. I think it's \$475 an hour.

20 Q. Could you please state the amount of your  
21 billings to Puget Sound Energy for this case to date?

22 A. I have to ask you a question. Do you want my  
23 billings, my firm's billings, some combination of both  
24 of them? It's not as simple as it might be, because  
25 there are effectively the work that I have done in this

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1 case and am sponsoring, and then there is the work of a  
2 partner of mine in this case, Dr. Dubin, and that he is  
3 sponsoring. I don't know what the total is for both of  
4 us, and I can only estimate what the part that I have  
5 been involved in has been. I don't know exactly what  
6 that number is. I could find it out and get it to you,  
7 but I don't know what it is.

8 Q. Well, why don't you estimate what your  
9 personal portion of the firm's billings are to date?

10 A. I would estimate that for both the direct and  
11 rebuttal it would be somewhere between \$100,000 and  
12 \$150,000. I could be high, but that's sort of what I  
13 think it is.

14 Q. Can I ask you to take a look at Exhibit 249C,  
15 please, and ask your counsel to provide you with that if  
16 you don't have it. This is an ICNU cross-examination  
17 exhibit. This is a confidential exhibit. Do you have  
18 that?

19 A. I do.

20 MR. FFITCH: Your Honor, I will state for the  
21 record that Public Counsel objects to the  
22 confidentiality designation of this information, however  
23 we wouldn't want to take that up at the present time,  
24 take it up at a later time.

25 BY MR. FFITCH:



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1 Q. Dr. Cicchetti, that sheet of paper shows your  
2 billings through October of 2004 for cost of capital  
3 testimony, does it not?

4 A. No, this shows my firm's billings. I was  
5 answering what I thought my billings were. I'm not the  
6 only person who works on the cost of capital case for my  
7 firm.

8 Q. All right. So this shows the total billings  
9 of your firm for cost of capital in this case, correct?

10 A. Yes.

11 Q. And you are the only witness from your firm  
12 for cost of capital in this case, correct?

13 A. That's correct, but I'm not the only person  
14 who has worked on this case for Pacific Economics Group.

15 Q. That's fine.

16 And then the total billings for your firm are  
17 shown down below, which also include Mr. Dubin's or  
18 Dr. Dubin's testimony, correct?

19 A. That's correct.

20 Q. And these numbers are correct as far as you  
21 know, you don't have any reason to doubt these numbers?

22 A. No, I have never seen them, but they seem to  
23 probably be about right. Looking at them I would say my  
24 personal billings are probably closer to the \$150,000  
25 than the \$100,000 that I estimated.

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

3                   JUDGE MOSS: All right, Mr. Cedarbaum, you  
4 had indicated that you had some cross for this witness.

5                   MR. CEDARBAUM: I do, Your Honor, but it's  
6 been shortened considerably.

7                   JUDGE MOSS: That's always good news.

8                   MR. FFITCH: I'm sorry to interject, but I  
9 should offer the Public Counsel cross-examination  
10 exhibits if I may, Your Honor.

11                   JUDGE MOSS: All right.

12                   MR. FFITCH: Before we get too far down the  
13 road.

14                   MS. DODGE: Well, we need to probably take up  
15 then the 227 as well as for the additional testimony,  
16 whether that ought to be included to make the exhibit  
17 complete, and I would prefer to have an opportunity to  
18 confer with my witness before we make any such request.

19                   JUDGE MOSS: So with respect to Exhibit 227,  
20 you're suggesting there might be some additional  
21 testimony you would like to be made part of that  
22 exhibit?

23                   MS. DODGE: Yes.

24                   JUDGE MOSS: Okay, well, I think we will have  
25 to leave that one open then to have that opportunity.

0300

1           So you will be moving what, 210 through 226?

2           MR. FFITCH: Yes, and 228, Your Honor.

3           JUDGE MOSS: And 228. Any objections?

4           MS. DODGE: I'm sorry, just a moment.

5           No objections other than the 227.

6           JUDGE MOSS: All right well we're reserving  
7 on 227, and the rest of them will be admitted as marked.

8           MR. FFITCH: Your Honor, the only other issue  
9 would be whether, as you had inquired, whether the  
10 additional direct testimony in the investigation which  
11 was shown to the witness needed to be made an exhibit.

12           JUDGE MOSS: I don't see that it does.

13           MS. DODGE: Well, there's also a question of  
14 the completeness of the rebuttal testimony excerpt  
15 that's been provided.

16           JUDGE MOSS: I'm sorry, what testimony are  
17 you referring to?

18           MS. DODGE: Exhibit 227.

19           JUDGE MOSS: Right, 227, we've got the  
20 reservation on that, he's talking now about the direct  
21 testimony in the follow-up proceeding that he provided  
22 the witness during his questioning. I don't see any  
23 reason to make it an exhibit, the questioning was  
24 sufficiently brief and clear, so it's not being offered  
25 and I'm not requesting it.

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1                   So we'll hear from you later on 227,  
2 Ms. Dodge.

3                   All right, with that then, I think we're  
4 ready for Mr. Cedarbaum.

5

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

7 BY MR. CEDARBAUM:

8           Q.     Dr. Cicchetti, I guess counsel can assist me,  
9 I will be asking him a couple questions on Exhibit 167,  
10 which was the Value Line page that was discussed with  
11 Mr. Valdman this morning, perhaps this afternoon.

12                   MR. KUZMA: 167.

13           Q.     And if you could also turn to page 45 of your  
14 rebuttal testimony, Exhibit 206C.

15                   JUDGE MOSS: I'm sorry, Mr. Cedarbaum, I lost  
16 the page number.

17                   MR. CEDARBAUM: 45.

18                   JUDGE MOSS: Thank you.

19 BY MR. CEDARBAUM:

20           Q.     At line 14 of that page you state that PSE  
21 has negative dividend growth; do you see that?

22           A.     Yes.

23           Q.     And looking at Exhibit 167, there's a line,  
24 all the numbers kind of in the middle of the page, the  
25 fourth row down that's labeled dividend declared per

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1 share; do you see that line?

2 A. Are we looking at --

3 Q. I'm on Exhibit 167 if you look at the -- all  
4 the numbers that are in that larger, I guess there are a  
5 number of boxes but the numbers that are in the center  
6 of the page, the fourth line down from the -- of those  
7 numbers below the date columns.

8 A. Yes, I see it.

9 Q. Dividend declared per share, so are we at the  
10 same spot?

11 A. Yes, I have it now.

12 Q. When you referred to negative dividend  
13 growth, were you referring to the drop from 2001 of  
14 \$1.84 to \$1 in 2005?

15 A. Yes.

16 Q. Is it correct that Value Line projects a  
17 dividend growth for the years 2007 to 2009, and that  
18 would be the \$1.12 in the final column of that line?

19 A. It's correct that that's what they're  
20 projecting, yes.

21 Q. If you could, you can set aside Exhibit 167,  
22 I wanted to compare some of your testimony on pages 65  
23 and 66. There's a formula on page 65, line 15, and then  
24 a formula on page 66, line 6, and is it correct that  
25 what you did here was you substituted into Dr. Wilson's

0303

1 CAPM long-term bonds for his use of T-bills; is that  
2 right?

3 A. Yes.

4 Q. But you kept the same 7% spread when you did  
5 that substitution?

6 A. I did.

7 Q. Is it your testimony that the equity returns  
8 for long-term bonds and T-bills are the same, had the  
9 same spread?

10 A. No, I did that here, but they don't.

11 Q. So the spread for bonds should be less than  
12 T-bills; is that right?

13 A. Correct.

14 MR. CEDARBAUM: Thank you, those are all my  
15 questions.

16 JUDGE MOSS: Thank you, Mr. Cedarbaum.

17 Mr. Van Cleve.

18 MR. VAN CLEVE: Your Honor, since Mr. ffitich  
19 asked a question about my cross-examination Exhibit  
20 249C, I was a little confused by Dr. Cicchetti's answer,  
21 so if I could ask a few brief questions, I might be able  
22 to clear that up.

23 JUDGE MOSS: I think that would be  
24 appropriate.

25 MS. DODGE: I am at a little disadvantage

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1 because that's Mr. Story's exhibit, and he comes at the  
2 end of the proceeding, I don't happen to have my exhibit  
3 with me if I could try to get my hands on it to look at  
4 it.

5 JUDGE MOSS: Do you have a spare copy,  
6 Mr. Van Cleve?

7 MR. VAN CLEVE: Yes, Your Honor, I believe I  
8 do, and I would also like to refer the witness to one  
9 page in Exhibit 247C also.

10 MR. VAN CLEVE: Dr. Cicchetti, do you have  
11 what's been marked as Exhibits 247 --

12 MS. DODGE: I'm sorry, I still don't have  
13 both exhibits.

14 MR. VAN CLEVE: Okay.

15

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

17 BY MR. VAN CLEVE:

18 Q. 247 and 249C, do you have those?

19 A. I have 247 and 249, 247C and 249, yes.

20 Q. Okay, if you could refer to 249 --

21 JUDGE MOSS: Let me interject here because we  
22 do have this marked I think as 249C, and I just wanted  
23 to point out it is a confidential exhibit.

24 MR. VAN CLEVE: Yes.

25 BY MR. VAN CLEVE:

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1 Q. If you could refer to Exhibit 249C, and under  
2 the heading Pacific Economics Group cost of capital for  
3 the month of March; do you see that?

4 A. Yes.

5 Q. And if you can refer now to Exhibit 247C and  
6 turn to page 8 of that exhibit.

7 A. Yes.

8 Q. And if you look -- first let me ask you, is  
9 this document your billing statement for the month of  
10 March 2004?

11 A. Yes.

12 Q. And if you look at toward the bottom where it  
13 says fees and expenses for March 2004, and do you see  
14 that that number corresponds to Exhibit 249C for the  
15 month of March under the heading cost of capital?

16 A. Yes.

17 Q. And the people listed on this billing  
18 statement, can you tell me what role they had in the  
19 preparation of the case?

20 A. Yes. I was the person who was overall  
21 responsible for directing the work as well as conducting  
22 some of the analysis. Dr. Dubin in addition to working  
23 on the hydro and natural gas related issues in this case  
24 assisted me in some of the econometric work that I was  
25 doing as part of the various analyses that I undertook



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1 of calculating DCF and peer group CAPM's and those kinds  
2 of things in my direct testimony. Mr. Long coordinated  
3 the case in terms of documents, working with the  
4 company, getting information, generally assisting me in  
5 collecting all the basic data that I used and  
6 information that I used. Dr. Coffman and Dr. Ruita were  
7 involved in collecting information related to the  
8 regulatory environment and treatments in various states  
9 around the country that were engaged in various types of  
10 restructuring or versus traditional regulation, and they  
11 were involved in doing that work at this stage.

12 Mr. Lynn was my research assistant, so he did some of  
13 the data entry and number crunching that had to be done  
14 under my supervision. And Ms. Bracket was involved in  
15 preparing exhibits, cleaning up workpapers that we had  
16 that needed to be put in the form that ultimately would  
17 become testimony exhibits as opposed to the kind of  
18 rough and ready documents that we were keeping around.

19 Q. So in other words, all of the work that's  
20 documented on this page 8 was undertaken to prepare your  
21 cost of capital testimony?

22 A. Yes.

23 MS. DODGE: Objection, well, that's fine.

24 Q. And if you can look at page 9, would you  
25 agree that the number toward the bottom of the page for

0307

1 fees and expenses for March 2004 corresponds to the  
2 number for March 2004 listed under hydro in Exhibit  
3 249C?

4 A. Yes.

5 Q. And do you know whether your company has sent  
6 a billing statement for work performed during November  
7 2004?

8 A. I don't know. I suspect we did but --  
9 because I think that there were some data requests and  
10 things that we're probably involved in, but I don't  
11 remember.

12 MR. VAN CLEVE: Your Honor, we would make a  
13 record requisition request if such a billing statement  
14 has been provided, and that would be the Pacific  
15 Economics Group billing statement for November 2004  
16 work.

17 JUDGE MOSS: Well, before we do that, you  
18 have a data request I gather that has sought this  
19 information.

20 MR. VAN CLEVE: That's correct.

21 JUDGE MOSS: So the data request requirements  
22 are that those be updated as new information becomes  
23 available, so I don't think we should make a separate  
24 records requisition request. You should speak to  
25 counsel about that exhibit if it needs updated.

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1 MR. VAN CLEVE: Okay, I will do so, Your  
2 Honor.

3 That's all the questions I have.

4 JUDGE MOSS: All right, I believe then that  
5 will bring us to any questions from the Bench.

6

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

8 BY CHAIRWOMAN SHOWALTER:

9 Q. Dr. Cicchetti, at this hour after we have  
10 been in the weeds it's very hard to have a clear head,  
11 if I had one to begin with. But I think I'm trying to  
12 think conceptually probably more than technically here,  
13 and I generally follow your testimony on return on  
14 equity and using peer companies and the judgment that's  
15 involved in picking peers. But when it gets to DCF and  
16 CAPM, the terms start to become formulas or technical  
17 terms to me, and I have a hard time following it, but, I  
18 don't know if I want to know why CAPM was controversial  
19 in Kansas, but am I right that CAPM requires giving  
20 values to certain variables, that is maybe three  
21 variables that require exercise of judgment, and DCF  
22 requires really only one? My sense of these two  
23 approaches is that DCF is a little easier to calculate  
24 objectively within limits, and CAPM requires more  
25 judgments to be made; is that generally correct?

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1           A.     I think, Your Honor, the way I would explain  
2 it is that there are three variables in CAPM and  
3 therefore three opportunities to either make a mistake  
4 or slip your mistakes and get more or less the right  
5 number. In DCF there's only one number, the growth  
6 rate. The dividend yield is simply what's the current  
7 dividend, what's the current price, so you can't make a  
8 mistake there.

9                     What makes the DCF, however, controversial in  
10 its own right is the fact that there are competing  
11 concepts that could be used to come up with the growth  
12 rate. So it's only one number, but should it be the  
13 growth rate in dividends, should it be the growth rate  
14 in earnings, should it be the growth rate in the overall  
15 cash flow or some other performance factor of the  
16 company, or should it be the growth rate even of the  
17 capital gains or price component of an investor's  
18 holding in a particular company. So you have four  
19 potential definitions of growth, and the reason why  
20 experts argue about DCF is because you have four  
21 different approaches that might qualify for the growth  
22 rate in a DCF.

23                     My approach to this case has been, while I  
24 have got into the minutia and then some of the  
25 calculations in the formulas, is to urge this Commission

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1 to think about this case on a conceptual level, to think  
2 about the fact that you want the company to be making  
3 these infrastructure improvements, you want the company  
4 to be moving away from purchasing energy and moving  
5 towards investing in resources, particularly renewable  
6 resources such as wind and continuing to relicense the  
7 hydro. And when you want the company to be doing those  
8 things, you have to look at how is it going to finance  
9 them, where is the cash flow going to come from. And I  
10 look at all the things the company has to do, and I say  
11 if you want to get the best deal for consumers over the  
12 next 30 years, a bump in ROE is what's required. If on  
13 the other hand do you listen to the witnesses who are  
14 saying they could get by with less, they have been not  
15 even hitting their authorized rate of return and they  
16 are keeping their bond ratings, lower their ROE, then I  
17 think you're going to be threatening a further downgrade  
18 of the company's financing and making completing these  
19 investments all that more difficult.

20           So I have urged the Commission, and this is  
21 the main part of my testimony, to think conceptually  
22 about this case rather than getting caught up in the  
23 numbers. However, I'm probably more guilty than anybody  
24 of putting numbers into this case and then some just to  
25 try to in a sense explain numbers but at least

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1 implicitly to debunk the reliance on the numbers and to  
2 get the Commission to look at what other regulators are  
3 doing and to look at what's needed to get the best  
4 long-term deal for consumers, which I think all comes  
5 fundamentally down to what needs to be done to protect  
6 bond ratings or to enhance bond ratings.

7 Q. Well, and I can understand conceptually that  
8 the higher the ROE and the greater the equity ratio, the  
9 more attractive the company is to investors, and  
10 therefore the easier it would be to embark on capital  
11 projects. But then that sense of direction doesn't tell  
12 you where to stop in terms of how far to go. Now with  
13 the ROE, again I think I understand conceptually the  
14 concept of looking at comparable utilities, because  
15 those would be an indication of what investors have  
16 found to be adequate assuming -- as measured by the  
17 ratings. But, well, let's take with respect to the  
18 equity ratio. In general, people are talking about 40%  
19 or 45%, and you mentioned 50% as a kind of a historical  
20 standard. Now there, how are -- conceptually how are we  
21 to determine what is enough? I understand what your  
22 point is, it's got to be enough such that the rate  
23 payers get the most economical, affordable, sufficient  
24 service, including capital construction, so I understand  
25 that concept, but I don't quite understand how we are

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1 supposed to draw the line other than if it's simply to  
2 rely on experts looking at the market and one says one  
3 and one says another.

4 A. I think, Your Honor, the way I would offer my  
5 opinion on how to sort this out is to ask you to focus  
6 on cash. The company is making massive investments in  
7 infrastructure and commitments for generation resources,  
8 all of which requires a major amount of cash. With the  
9 current earnings of the company and the current dividend  
10 payout of the company, some cash will be retained to  
11 make that investment, and that will thicken the equity.

12 Some additional equity at the right time will  
13 probably be sold to the outside public. And I say at  
14 the right time because as Mr. Valdman pointed out  
15 accurately and correctly this morning, if you go to the  
16 market too soon, you're going to dilute and you're going  
17 to push the price down. You can only go to the market  
18 when the market is reasonably confident that the rate  
19 base is about to grow and you're also to the point where  
20 you're going to therefore get earnings to cover the  
21 increased number of shares that are out there. So  
22 timing is everything, but a second way to get cash is to  
23 go out and sell additional stock. I think the company's  
24 plan is to retain earnings, expand the amount of shares  
25 that are out in the investing public by issuing

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1 additional stocks at some point in the near future, and  
2 I don't mean next week but somewhere in the next two to  
3 three year time frame, and to borrow significant amounts  
4 of new dollars to finance this needed infrastructure,  
5 this needed resource additions in the state of  
6 Washington.

7           And I think this case fundamentally comes  
8 down to what can you do, if anything, as a regulator to  
9 get the cost of that borrowing to be as low as you can  
10 reasonably get it. Now going up to a Double A rating or  
11 a Triple A rating or even an A rating would probably be  
12 going too far, but maintaining the current rating or  
13 trying to enhance that rating, recognizing that the  
14 coupon rate, the rate of interest on that debt will be  
15 around for 30 years, and that means that customers will  
16 be paying that differential for a 30 year period of  
17 time, it's that tradeoff understanding where -- what  
18 your level of willingness to tolerate that 30 year  
19 benefits of reduced debt versus higher costs today of  
20 either improved ROE or maintaining current ROE or taking  
21 current 40 or so percent equity, which is an  
22 improvement, they hit their target, at least keep it at  
23 40, or enhancing it up to 45 as the company has  
24 proposed. Those are two ways of getting more cash from  
25 equity, because the company is not going to increase its



0314

1 dividends, it will just be getting more retained  
2 earnings kept from it.

3           That equity that will come in won't go out  
4 and be paid to shareholders in dividends, it will  
5 instead be used to help make attractive the debt  
6 financing, which is the engine which will drive what  
7 might be as much as \$1 1/2 Billion of new investment  
8 that the company will be making over the next two or  
9 three years. And that is very different than most other  
10 companies around the country. Because even the states  
11 that are like Washington are staying with traditional  
12 regulations. It's very difficult to find any other  
13 utility in the country that is also making this major  
14 expansion in rate base from roughly \$3.6 Billion today  
15 to what could easily be \$5 Billion in the next three or  
16 four years. And that kind of increase in requirements  
17 is where the challenge comes in.

18           So you have a tough time sorting all this  
19 out, but I think the best way I could give you my  
20 insight on how to sort that out is to think about how  
21 you will accomplish the objective of getting that debt  
22 to be reasonable. Because if the company goes forward  
23 as I think it will with financing with a lower debt  
24 rating, the interest costs will be much higher over the  
25 next 30 years than it will be if it does it at a better

0315

1 rating, and I think that's the criteria. And there's no  
2 one answer, nobody has a mathematical formula to say set  
3 it right here. But the idea is to try to get it right,  
4 which is to understand that this is probably not the  
5 time to lower the ROE, and it probably isn't the time to  
6 impose too rigid a target on the capital structure or  
7 the equity component, but it probably is the time to  
8 recognize that that has to get better.

9           And the last thing I should say, because I  
10 haven't heard anybody say it, is while I have talked  
11 about a 50% equity in the old days, Value Line is  
12 projecting out in the next four or five years that the  
13 amount of retained earning that Puget is likely to  
14 undertake by freezing its dividend, even though it has a  
15 slight increase in dividend projected, will push it up  
16 to 48% equity by 2009 or so. So the long-term  
17 projection is to thicken that equity even more, meaning  
18 that more internally generated financing will be  
19 retained to finance this incredible growth that Puget  
20 has undertaken.

21           Q.     All right, that was helpful.

22           One follow up, when you said it's difficult  
23 to find other companies that are in a similar situation  
24 to Puget, I guess I thought that is more or less what  
25 you tried to do in finding the peer companies and that

0316

1 Mr. Valdman said the same, that is vertically integrated  
2 utilities, maybe combined gas and electric, that have  
3 plans to expand their infrastructure.

4 A. That's indeed what I tried to do, but I'm not  
5 claiming that my peer group is perfect by any means.  
6 It's at best as close as I could come up with, because I  
7 truly believe that if you were to look at some of the  
8 places that he listed, I think he listed Wisconsin, I  
9 know it very well.

10 Q. You mean --

11 A. Indiana --

12 Q. Who is he here?

13 A. Mr. Valdman. He listed Georgia and South  
14 Carolina. I don't think any of those jurisdictions are  
15 adding a combination of gas infrastructure, which is I  
16 think you're one of the most unique in the country in  
17 terms of repairing that old infrastructure on the gas  
18 side. I don't think any of them are growing their  
19 system on the electric side and adding reliability to  
20 the extent you are. And most of them, and I know the  
21 companies in these locations pretty well, generate most  
22 of their own electricity and sell their surplus from  
23 their own generation into the market, and I think what  
24 we see here is that the volatility in the long-term  
25 power market and the uncertainty in the weather make it

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1 prudent and reasonable for Puget to get more heavily  
2 into the ownership of generation, particularly non-gas  
3 dependent generation, and that's another thing that  
4 makes Puget different than the utilities in these other  
5 states.

6           So these other states are adding to their  
7 rate base, and they are financing it and are being  
8 regulated under traditional cost of service regulation,  
9 but I think your burden or challenge is even greater,  
10 because you have taken on more to benefit the consumers  
11 in Washington to bring not only the traditional  
12 regulation to be maintained but to get the ownership of  
13 resources and the upgrading of reliability of those  
14 resources to be enhanced at a very rapid fashion, and  
15 that really makes this situation I wouldn't call it  
16 totally unique but pretty unique in terms of comparison  
17 to other places.

18           CHAIRWOMAN SHOWALTER: Thank you.

19

20           E X A M I N A T I O N

21 BY COMMISSIONER HEMSTAD:

22           Q. Well, you're recommending a Triple B plus as  
23 a target and on the theory that that lowers interest  
24 rates. Well, then why wouldn't you be recommending a  
25 higher rating, a Double A or Triple A, to further lower

0318

1 interest rates?

2 A. Well, I think that it's too early in the  
3 cycle to go all the way. I do note that when we look at  
4 the last downgrade, the secured debt of Puget was A  
5 minus, so what I think -- what I'm recommending is to  
6 try to add one improvement from Triple B to Triple B  
7 plus. I think that if the company continues to meet its  
8 objectives, at the time of the next rate case you will  
9 have to decide whether in fact the benefits are there to  
10 continue to make progress to move to A minus. But at  
11 this point, I think that Triple B plus is the minimum  
12 that needs to be done in terms of making the  
13 recommendation.

14 Also I think this company is mindful I think  
15 of the fact that there's some good will, because I have  
16 actually proposed that the company should go further  
17 than they have requested, and they think they have  
18 purchased that good will by keeping their rate increases  
19 to a modest level, rate increases being the regulated  
20 rate that is going to be 7% or 8% on the electric side  
21 and 6% or so on the gas side, they wanted to keep it at  
22 a single digit level because they felt that to go  
23 further than that would diminish the good will they  
24 think they have with both this Commission and with the  
25 consumers and other participants in the regulatory

0319

1 process in the state of Washington.

2           So I think the argument to go further is  
3 sound, but the company pushed back on that argument  
4 saying, we understand the economics, we understand the  
5 finance, but we don't think it's the right thing to do,  
6 we want to try to get by with the improvement kept  
7 modest, therefore go to 45 on equity, go to 11.75 on  
8 ROE, but don't go further than that even if we think  
9 it's justified, because we think the bite would be too  
10 much.

11       Q.     So to characterize the reason in answer to my  
12 first question is it's a small political judgment on the  
13 one hand as against a Wall Street judgment on the other?

14       A.     I think that's not how I would characterize  
15 it and I don't think the company would, I can't speak  
16 for the company, would exactly agree with it, but that's  
17 pretty much what I heard them say.

18       Q.     I believe in your rebuttal testimony  
19 reference was made to the statement there that Puget has  
20 had a negative dividend growth rate; do you see that  
21 going forward?

22       A.     No, I think that the company wants to keep  
23 its dividend at \$1. I think that as long as they come  
24 out of this proceeding with maintaining their ROE in  
25 double digits and as long as they continue to keep their

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1 equity at or around where their current target of 40%  
2 that they have already achieved is, they probably won't  
3 have to cut their dividends, but they will pay a lot  
4 more for debt. But I think they will be able to  
5 struggle through and generate cash flow sufficient to  
6 meet their dividend obligation and to finance some of  
7 their expansion and thickening of equity from internally  
8 generated cash flow, but not as much as would be the  
9 case if there is an improvement in ROE and an  
10 improvement in the equity percentage to 45%. Then more  
11 of the financing can come from internally generated  
12 funds.

13 I don't think that the company will raise its  
14 dividend even though Value Line is projecting it. I  
15 think they will freeze it at \$1 knowing how important it  
16 is to generate as much of this financing from internal  
17 funds. They will then borrow less money, and they will  
18 also use less new stock to provide cash on the equity  
19 side, and I think they will do all this in the context  
20 of maintaining that dividend at \$1. So I don't think  
21 the company has any plans or intentions or even is  
22 entertaining the possibility of raising that dividend,  
23 and I think that they're not likely to have to lower it  
24 either as long as they keep in the double digit range on  
25 ROE and in the 40's on percent equity.

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1                   Now if those numbers slide below 40 on equity  
2 percentage, 9 or 9.75 as some are proposing on ROE, then  
3 I think the company's dividend could indeed be put under  
4 pressure to be cut. Because the company even today has  
5 negative free cash flow, and that negative free cash  
6 flow means there's pressure on that dividend without  
7 rate relief, and I think that's part of what they're  
8 trying to accomplish here. And if they slide further as  
9 opposed to move forward, then I think there's a problem.

10           Q.       In a different area, and this perhaps is  
11 somewhat off the mark in the direct sense of what this  
12 case is about, but I think your testimony makes  
13 reference to those states where vertically integrated  
14 utilities continue to be the norm and those states where  
15 we now have just aggregated vertically integrated  
16 utilities. In a state where you have a distribution of  
17 the company only, in other words where the utility has  
18 sold off its generation as typical I think in the Hoover  
19 Dam area, but there continues to be an application of  
20 service, would that kind of utility be more risky or  
21 less risky than a vertically integrated utility that  
22 continues to have its own production?

23           A.       I think that it's certainly more risky for  
24 the consumers in the state, because they have to deal  
25 with the volatility and uncertainty of what the price in



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1 the market for generation will be. That's not a new  
2 idea for Washington because you had, even as a  
3 vertically integrated industry, you have had wholesale  
4 purchases, although they happen to be under some  
5 long-term agreements for low cost hydro, they have been  
6 situations where you could buy from other utilities and  
7 sell to other utilities in a way that you can manage  
8 your portfolio. But I think that the states that have  
9 completely exited the generation ownership or long-term  
10 contracting, there I think that the vertically  
11 integrated delivered price of electricity is more risky.  
12 The wires component, the delivery system and the return  
13 on it is probably less risky. In Washington you have --

14 Q. But how about, as I think is typically the  
15 case, that wire distribution company still has an  
16 obligation to serve?

17 A. That's right, and that's what I was about to  
18 say. In Washington you have a different type of risk  
19 when it comes to the distribution wires, and that is a  
20 need to go out and finance the upgrading and expansion  
21 of those wires and pipes for natural gas. And most  
22 states that have made the exit function and have left  
23 the vertically integrated piece are finding that the  
24 distribution systems that remain are generally  
25 undervalued and underinvested in and undermaintained

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1 because the company is moving away from that  
2 responsibility. I think here you're not doing that  
3 obviously, and I think rightly so.

4           And you're also making the commitment to  
5 upgrade that infrastructure, and that upgrading of that  
6 infrastructure, which is important for both the economic  
7 growth of the system as well as reliability of the  
8 system, there's a component of risk associated with that  
9 upgrade, and that component of risk is more about the  
10 financial risk, how can you do it, at what price, under  
11 what terms and conditions. And simultaneously in that  
12 you're doing that, you're also recognizing the need to  
13 get long-term commitment on the resources side to  
14 replace some of the hydro that's out there and to get  
15 off of the dependence on electric prices index to  
16 natural gas that seems extraordinary expensive and  
17 volatile. And all of that says you're taking on a big  
18 burden right now, and that makes Washington somewhat  
19 unique in terms of both the scope of what you're trying  
20 to do, the inherent risk of what you're trying to do,  
21 and the need to try to get an adequate balance between  
22 short-term effects on consumers and long-term costs on  
23 consumers.

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

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1                   CHAIRWOMAN SHOWALTER: Follow-up on  
2 Commissioner Hemstad's question.

3                   COMMISSIONER OSHIE: Sure.

4

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

6 BY CHAIRWOMAN SHOWALTER:

7           Q.     I think he was getting at that in a  
8 restructured state on the generation side, not the  
9 distribution side, if a former vertically integrated  
10 utility still has -- is the default supplier and has to  
11 get the electricity to people somehow, that then when  
12 they don't choose or there's not enough suppliers  
13 around, they as the default supplier are "stuck", and I  
14 guess my follow-up question would be, doesn't the risk  
15 that they face depend entirely on what the rules are for  
16 the default supplier, that is whether there are periodic  
17 auctions or whether they have to be the default supplier  
18 or somebody else is? In other words, it goes off into  
19 the realm of what does a restructured state do when  
20 there's no market, but whatever the risk is, it's  
21 dependent on the state construct that happens to exist  
22 there, and I suppose whatever the market looks like as  
23 well?

24           A.     I think it depends upon three things. The  
25 supplier of last resort risk is something that is

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1 addressed in all of the restructuring that's occurred in  
2 the electric and gas industries all over the world, and  
3 there are rules, and depending upon the rules there's  
4 assignment of risk, and depending upon the assignment of  
5 risk and responsibility there is often built into those  
6 rules some notion of return commensurate with whatever  
7 risk is involved.

8           That said, what we saw in California are that  
9 there are two kinds of risk that those rules don't  
10 necessarily resolve or consider. First risk is what  
11 happens if the market gets so dysfunctional that prices  
12 get so out of line with what anybody contemplated at the  
13 time the rules were designed that new rules are assigned  
14 and the incumbent supplier of last resort is put through  
15 a particular set of burdens that weren't contemplated at  
16 the time even to the point of, as we saw in the case of  
17 Pacific Gas and Electric bankruptcy, in the case of  
18 Southern California Edison near bankruptcy.

19           Then the second consideration is that at  
20 least in the United States we have the uncertainty of  
21 what the Federal Energy Regulatory Commission will do  
22 where even when the commission stays with the same  
23 members, they will say up to the last minute before they  
24 change their mind that there won't be any Westernwide  
25 caps. And utilities like Puget and other utilities in

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1 your state and other utilities in the Northwest believe  
2 what they hear, and they sign contracts, and they enter  
3 into agreements that are predicated on that 100%  
4 assurance that FERC won't have Westernwide price caps,  
5 only to find out that there's Westernwide price caps.  
6 And contracts that were perfectly prudent and sensible  
7 under the rules that were guaranteed all of a sudden get  
8 changed by a federal regulatory commission.

9           So you have on the one hand you have the  
10 political risk, supplier of last resort, I think now  
11 understand that incumbent utilities in restructured  
12 states can't rely only on the deal they thought they  
13 signed. There's an element of political risk at the  
14 state level if things get very bad. And second, the  
15 Federal Energy Regulatory Commission doesn't have much  
16 credibility I think around the country when it comes to  
17 saying we're going to just establish the rules and  
18 referee them, but once the rules are in place, they're  
19 in place, because they have shown that they're willing  
20 to change the rules and sometimes in a way that's  
21 totally inconsistent with the way in which they were  
22 guaranteeing that they wouldn't move.

23           All of that in my mind contributes to the  
24 fact that now Washington, which has avoided going down  
25 this path, is finding that a lot of states are now

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1 returning to the kind of regulatory environment that you  
2 never abandoned and recognizing the value of not  
3 restructuring and instead looking for ways perhaps of  
4 improving things in some sense by looking at competitive  
5 bids and new ownership structures for new generation,  
6 but fundamentally saying the incumbent utility has the  
7 responsibility to have the generation contract for the  
8 generation, or at most the amount that we'll see in the  
9 market to be freely traded will be limited to a  
10 relatively small percentage of the total market so that  
11 everything isn't put at risk if in fact we have  
12 anomalies or major stress on the market itself.

13           So I think California proved that you can't  
14 put everything in the spot market, and it also proved  
15 that the supplier of last resort agreement wouldn't hold  
16 up at the state level and certainly wasn't followed in a  
17 way that gave market stability at least in terms of  
18 dealing with the people who believed what FERC was  
19 saying during that period.

20           Q.     And we're very familiar with everything in  
21 your answer just now, but, and following up on  
22 Commissioner Hemstad's question, doesn't it mean in a  
23 general way that these other environments are flat out  
24 riskier probably for both consumers and the company  
25 because of the uncertainty, and so that, to get back to

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1 this case, investors should recognize that we in the  
2 state of Washington, Puget, is not as risky as those  
3 situations in a general way with the caveat that it may  
4 depend on what some state or maybe FERC or an RTO has  
5 arranged?

6 A. I think that the general answer is yes, but  
7 I'm already seeing the investing community start to say,  
8 now we realize there are states that are not interested  
9 in restructuring, that are not going to restructure, and  
10 we're looking now at them as though there might be two  
11 groups, the group that is recognizing that cost of  
12 service traditional regulation requires a balancing of  
13 consumer and shareholder interest in a way that will get  
14 the cash needed to make the investments without trying  
15 to deny the imperative of cash when it comes to making  
16 investments, and then there are some that are not going  
17 to restructure but they don't seem to be looking for  
18 anything but an opportunity to lower rate of return in  
19 this current world of very low interest rates, and  
20 they're listening to people who will give them a reason  
21 to lower their rate of return. And the investing  
22 community is already saying, we're going to start to  
23 look at these states that are not restructuring and  
24 seeing if they are going down path A or path B, and so  
25 the regulatory community is in a sense being reviewed,

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1 and information upon the actual outcome is being written  
2 about and shared about by the investing community.

3           And I think that in a fundamental way, and I  
4 didn't like this when I first discovered it when I was a  
5 commissioner myself, I didn't like the fact that I  
6 thought I was the regulator and I found out that  
7 somebody was regulating me or at least reporting what I  
8 was doing. But I think indeed now that I have gotten on  
9 the other side of that wall, I understand that it goes  
10 on, and I think that's part of what needs to be  
11 considered is what message you want to send to that  
12 regulatory review institution and information sharing  
13 that's out there.

14           CHAIRWOMAN SHOWALTER: Thank you.

15

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

17 BY COMMISSIONER OSHIE:

18           Q.     Dr. Cicchetti, exploring in maybe some more  
19 detail the comparable utilities used in your DCF  
20 analysis, and I'm just curious as to whether or not  
21 those utilities that you looked at had in place in their  
22 regulatory structure something that we call purchase gas  
23 adjustment which allows for some mitigation of the  
24 volatility that exists in the natural gas market,  
25 effectively spreading some risk between the shareholders



0330

1 and the customers. I'm assuming that something, a  
2 similar regulatory mechanism is in play in the  
3 jurisdictions in which those companies reside, but I  
4 thought I would check with you to see.

5 A. No, generally speaking the answer is that  
6 something like what you have is in play, and what I  
7 understand what you have is a mechanism where on the one  
8 hand there's a flow through of market changes in the  
9 price of natural gas, and on the other hand there is an  
10 incentive mechanism so as to encourage the company and  
11 the customers to align their interests in terms of  
12 keeping prices what I call at their best level, which is  
13 a combination of the lowest possible price,  
14 understanding that there's variance and risk and least  
15 cost isn't the answer, but best cost, balancing  
16 volatility mitigation and price levels is what you  
17 should be seeking. So I think that for the most part  
18 the system that you have is quite similar.

19 The third component of your system, which is  
20 also around, is a prudence review, some kind of  
21 "procedure" where it's not simply a pass through and a  
22 pass through with incentives that hopes to align the  
23 interests, but a periodic review of the numbers to see  
24 what's going on. And it's not as common place to have  
25 that prudence review as a component of the formulas that

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1 pass through costs and have sharing mechanisms and  
2 incentives, but they do exist as well. And the way I  
3 view Washington is you've got all three components, you  
4 have it right. The only thing that hasn't been answered  
5 in my mind is what happens when the current cap expires.

6 Q. Now I think we may have been -- you expanded  
7 the answer, maybe I can ask it then in a different way.  
8 We have a power cost adjustment mechanism, perhaps  
9 that's what you're really talking about there, we have a  
10 purchased gas adjustment on the natural gas side, which  
11 mitigates the risk to the utility, and we also have the  
12 power cost only rate case mechanism, which does the  
13 same. Now do those three mechanisms exist in all the  
14 jurisdictions that are in your DCF analysis?

15 A. The power cost only rate case in my  
16 experience doesn't exist, but the other components,  
17 particularly the component that has --

18 Q. The bands?

19 A. -- the bands as well as a review at the end  
20 of the band or particular times, those exist.

21 Q. And how did that, the fact that there's no  
22 PCORC as we call it here that exists in the other  
23 jurisdictions, how is that taken into consideration in  
24 your analysis? I mean does it figure in at all, or is  
25 that a tool that doesn't in Wall Street's mind mitigate

0332

1 the risk to the utility?

2 A. Well, I think that it's a negative effect in  
3 Washington for the following reason. And I say that in  
4 the following way. It's positive that you deal with it,  
5 that's good, I don't want to make it sound like there's  
6 anything negative about that. But the fact that you  
7 have to deal with it because of the weather uncertainty,  
8 the hydro conditions uncertainty, issues that come up  
9 and when you try to sort out how to set prices and how  
10 to adjust for prices and how to get everything right, in  
11 effect what happens is because Washington is purchasing  
12 a disproportionate amount of the power it delivers and  
13 because a good part of what the company is able to do is  
14 restricted by its credit rating, those things become  
15 negative factors which in my testimony I called earnings  
16 drag in one sense. And Mr. Valdman also explained and  
17 other witnesses for the company explained that there's a  
18 difficulty finding counterparties for some of these  
19 hedging agreements that would otherwise be available to  
20 the company and produce lower prices.

21 The fact that you adjust and effect all these  
22 kinds of balancing is very good, and the market views it  
23 that way. But the fact that it's so complicated and  
24 it's so potentially uncontrolled by things like the  
25 credit rating is viewed as negative because it adds a

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1 degree of uncertainty that everybody wished wasn't  
2 there, but everybody here recognizes why it's there and  
3 that it is there, and so does the market.

4 Q. So you think in a perfect world that if you  
5 were in control I suppose that if the Wall Street viewed  
6 that particular mechanism as negative it should be  
7 abandoned?

8 A. No, I don't think they view it as -- they  
9 don't view the mechanism as negative, they view the need  
10 for the mechanism as negative. And you were asking I  
11 think about other states, and in other states it's not  
12 so difficult to predict weather, it's not so difficult  
13 to predict revenue and purchase power requirements, and  
14 entering into contracts can be done with somewhat  
15 greater ease because of the credit worthiness of the  
16 contracting party that would be the utility. So what  
17 you have is that it's the challenges that are unique,  
18 it's the facts that are viewed as negative. Your  
19 mechanism and what you have done about it are viewed as  
20 very positive, it's the fact that you have to deal with  
21 it. And I don't see a solution, and I'm not  
22 recommending anything to replace what you're doing. I  
23 think the fact that you have to deal with it, that's  
24 where there's extra risk here. You have ameliorated  
25 some of that risk, you have balanced some of the

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1 relationship between customers and shareholders, but  
2 it's still there, it's still a reality that has to be  
3 considered.

4 COMMISSIONER OSHIE: Okay, thank you, no more  
5 questions.

6 JUDGE MOSS: I have just one.

7

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

9 BY JUDGE MOSS:

10 Q. Looking at page 64 of your rebuttal  
11 testimony, Exhibit 206, there are a couple of formulas  
12 there, but in mine the first formula is at line 6 of the  
13 copy I have, there's a beta sub u equals. Is that  
14 formula exactly correct, or do we need some additional  
15 parentheses in there somewhere?

16 A. I think the parentheses is in the wrong  
17 place, I think it should be 1 plus .5 should be in  
18 parentheses times .65.

19 JUDGE MOSS: Thank you.

20 Anything further as a result of the Bench's  
21 questions?

22 THE WITNESS: I think the same thing occurs  
23 in the next -- on line 8, the parentheses is in the  
24 wrong place. That should come after the .6 rather than  
25 before.

0335

1 JUDGE MOSS: Okay.

2 So it appears there's nothing further from  
3 counsel.

4 MR. CEDARBAUM: I'm sorry, I have just a  
5 couple questions.

6 JUDGE MOSS: All right, go ahead.

7

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

9 BY MR. CEDARBAUM:

10 Q. Dr. Cicchetti, just following up on  
11 Commissioner Oshie's question, and I guess I have to  
12 confess I got a little confused when you were discussing  
13 PGA's, PCA's, and PCORC and where you were or were not  
14 drawing the line between those discussions, but just  
15 when you were finishing up your questioning from him,  
16 your answer to him, you were discussing the PCA  
17 mechanism; is that right?

18 A. Quite frankly, I know a fair amount about the  
19 PCA mechanism, don't know very much about the PGA.

20 Q. What about the PCORC, the power cost rate  
21 only rate case?

22 A. I don't know that mechanism. I know it  
23 exists, I know how it's used, but I don't know the  
24 details of it the way I do the PCA.

25 Q. Are you aware that earlier this year the

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1 company through a PCORC filing was allowed to recover  
2 the costs of its Frederickson acquisition on an  
3 expedited basis?

4 A. Yes.

5 Q. Do you believe that investors view that  
6 positively?

7 A. Yes.

8 MR. CEDARBAUM: Thank you, those are my  
9 questions.

10 JUDGE MOSS: All right.

11 Any redirect?

12 MS. DODGE: Yes, Your Honor.

13

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

15 BY MS. DODGE:

16 Q. Dr. Cicchetti, I think there may have been a  
17 little confusion on some of the discussion around  
18 disaggregation of distribution and generation in other  
19 states. Now is it correct that in most states where  
20 distribution has been disaggregated from generation that  
21 those distribution companies are able to pass through  
22 the power costs?

23 A. Generally speaking they either pass them  
24 through or the customer opts out and buys them on their  
25 own in the market.

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1 Q. Okay. And so as I understood Commissioner  
2 Hemstad's question, he was trying to get at the  
3 riskiness of being the provider of last resort, but if  
4 you have power that's unavailable and costs rise, can  
5 you nevertheless buy power and then pass through costs  
6 in these places?

7 A. You can except that the regulatory deals, and  
8 that's where it gets complicated, is often that for a  
9 period of time there is a rate freeze so that the risk  
10 of passing them through is born by the supplier of last  
11 resort. And when that happens it's fine if prices stay  
12 soft, but if prices are driven up either by gas prices  
13 or the weather or by shortages of capacity or whatever,  
14 then the supplier of last resort has the risk of eating  
15 any difference between a price cap and what the market  
16 price is. And it's viewed as more risky in that sense  
17 in total, not that the wire part's more risky, but the  
18 total system that's in place becomes more risky either  
19 for the shareholders or the customers or both.

20 Q. Mr. Cedarbaum asked you about the difference  
21 in beta and the formulas you used on your pages 65 and  
22 66 of your rebuttal testimony.

23 A. Yes.

24 Q. Could you explain the difference in beta  
25 using those formulas?



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1           A.     I think he didn't ask me about the  
2 differences in beta, he asked me whether the spread  
3 would change from one page to the next, and I said yes.  
4 He said, did you do it, and I said, no. But what I  
5 wanted to explain or I think needs to be explained is  
6 that if you use the long-term debt to determine the beta  
7 in a CAPM, you get a different beta than you would get  
8 if you used the treasury bill to determine the spread,  
9 and therefore you can measure the beta in a CAPM. And  
10 while it's true that I didn't change the spread when I  
11 went from one page to the next discussing the effect of  
12 Mr. Wilson using T-bill versus a long-term government  
13 bond, if I were doing it de novo or from scratch I would  
14 reestimate beta in both cases as well as remeasure the  
15 spread in both cases. And when I have done that, and I  
16 have done it often, I generally find a product of those  
17 two things is more or less the same, and what you're  
18 finding is the real difference between one case and the  
19 other is simply the intercept being either the T-bill or  
20 the long-term treasury bond.

21                   MS. DODGE: That's all.

22                   JUDGE MOSS: Okay, it looks like there's  
23 nothing further for Dr. Cicchetti, and I appreciate your  
24 being here to testify, you may step down.

25                   I believe with that, unless there are any

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1 concluding matters we need to take up, we will --

2 MS. DODGE: Your Honor, housekeeping matter,  
3 were 169 and 170 admitted?

4 JUDGE MOSS: Actually, I don't have them  
5 marked, but let's do that, we'll admit those exhibits,  
6 those were the excerpts from the learned treatises.

7 And, Mr. Cedarbaum, did you move 168?

8 MR. CEDARBAUM: I believe I did.

9 JUDGE MOSS: All right, well, I will mark it  
10 as admitted.

11 I haven't heard any objections to any of  
12 these exhibits.

13 MR. FFITCH: Your Honor, on 169 just as a  
14 reminder we had submitted the additional page.

15 JUDGE MOSS: That's part of it.

16 MR. FFITCH: Thank you.

17 JUDGE MOSS: Very well, we will be in recess  
18 until 9:30 tomorrow morning, see you then.

19 (Hearing adjourned at 5:30 p.m.)

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21

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24

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1 56 Staff - PSE Response to Staff DR 303  
2 57 Staff - PSE Response to Staff DR 275  
3  
4 ERIC M. MARKELL  
5 61C Eric M. Markell - EMM-1CT: Prefiled Direct  
6 Testimony  
7 62 Eric M. Markell - EMM-2: Professional  
8 Qualifications  
9 63 Eric M. Markell - EMM-3: Adjusted Cumulative  
10 Need for New Energy Resources  
11 64 Eric M. Markell - EMM-4: PSE Gas  
12 Customer--Gross Demand and Gas Supply  
13 Requirements  
14 65 Eric M. Markell - EMM-5: PSE's Power Supply  
15 Portfolio  
16 66C Eric M. Markell - EMM-6CT: Prefiled Rebuttal  
17 Testimony  
18 67C Eric M. Markell - EMM-7C: 2004 All-Source RFP  
19 Short Listed Proposals  
20 68C Eric M. Markell - EMM-8C: Potential Range of  
21 Monthly Capital Costs Associated with Resource  
22 Acquisitions  
23  
24  
25

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1 JULIA M. RYAN

2 71 Julia M. Ryan - JMR-1T: Prefiled Direct  
3 Testimony

4 72 Julia M. Ryan - JMR-2: Professional  
5 Qualifications

6 73 Julia M. Ryan - JMR-3: PSE's Energy Risk  
7 Management Strategies

8 74C Julia M. Ryan - JMR-4C: PSE Credit Approved  
9 Power Counterparties

10 75 Julia M. Ryan - JMR-5: Counterparties below  
11 investment grade and/or filed for bankruptcy

12 76C Julia M. Ryan - JMR-6C: Power Suppliers Credit  
13 Ratings

14 77C Julia M. Ryan - JMR-7C: Financial  
15 Counterparties with and without ratings  
16 triggers

17 78HC Julia M. Ryan - JMR-8HC: Physical Credit  
18 Limits Extended to PSE by Counterparty Gas  
19 Credit Increase

20 79 Julia M. Ryan - JMR-9: Summary Description of  
21 the Aurora Model and Modifications Specific to  
22 PSE

23 80 Julia M. Ryan - JMR-10: GRC Power Cost  
24 Projections Rate Year AURORA + Non-AURORA  
25 Power Costs

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1 81 Julia M. Ryan - JMR-11: GRC Power cost  
2 projections vs PCORC power cost projections  
3 82C Julia M. Ryan - JMR-12CT: Prefiled Rebuttal  
4 Testimony  
5 83C Julia M. Ryan - JMR-13C: PSE Response to  
6 Staff DR 173  
7 84C Julia M. Ryan - JMR-14C: Analysis of Hedging  
8 Benefits  
9 85HC Julia M. Ryan - JMR-15HC: Physical Credit  
10 Limits Extended to PSE by Counterparty Gas  
11 Credit Increase  
12 86C Julia M. Ryan - JMR-16C: PSE Hedging  
13 Scenarios  
14 87 Julia M. Ryan - JMR-17: S&P Publication:  
15 Analyzing the Liquidity Adequacy of U.S.  
16 Energy Marketing and Trading Operations  
17 88C Julia M. Ryan - JMR-18C: November 1, 2004  
18 Estimates of Price Risk Management  
19 89C Julia M. Ryan - JMR-19C: Credit Approved  
20 Power Counterparties Physical  
21 90C Julia M. Ryan - JMR-20C: Power Suppliers  
22 Credit Ratings  
23 91C Julia M. Ryan - JMR-21C: Financial  
24 Counterparties w/ and w/o Ratings Triggers  
25

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1 92 Julia M. Ryan - JMR-22: GRC Power Cost  
2 Projections Rate Year AURORA + Non-AURORA  
3 Power Costs  
4 93 Julia M. Ryan - JMR-23: GRC Power Cost  
5 Projections Reconciliations Rate Year AURORA +  
6 Non-AURORA Power Costs  
7 94C Julia M. Ryan - JMR-24C: Winter 05/06 Peaking  
8 Capacity Costs  
9 95C Julia M. Ryan - JMR-25C: Update on Winter  
10 Peaking Capacity Purchases  
11 96C Julia M. Ryan - JMR-26C: Winter  
12 2004-2005: Transmission Assessment for  
13 Extreme Peak Planning  
14 107 Julia M. Ryan - JMR-27: Supplemental Exhibit:  
15 BPA Settlement Proposal  
16 Cross-Examination Exhibits  
17 97C ICNU - PSE Response to ICNU DR 9.01  
18 98C ICNU - PSE First Revised Response to ICNU DR  
19 9.01  
20 99 ICNU - PSE Response to ICNU DR 9.02  
21 100 ICNU - PSE First Revised Response to ICNU DR  
22 9.02  
23 101 ICNU - Workpaper, Julia M. Ryan, p. 006  
24 102C ICNU - Workpaper, Julia M. Ryan, p. 080  
25 103C ICNU - Spreadsheet regarding CT Oil Burn

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1 104 Staff - PSE Response to Staff Data Request No.  
2 215  
3 105 Staff - PSE Response to Staff Data Request No.  
4 220  
5 106 Staff - PSE Response to Staff Data Request No.  
6 222  
7  
8 JEFFREY A. DUBIN  
9 111 Jeffrey A. Dubin - JAD-1T: Prefiled Direct  
10 Testimony  
11 112 Jeffrey A. Dubin - JAD-2: Curriculum Vitae  
12 113 Jeffrey A. Dubin - JAD-3: Puget's Average  
13 Hourly Generation in Mid-Columbia and Westside  
14 (60 Years)  
15 114 Jeffrey A. Dubin - JAD-4: Puget's Average  
16 Hourly Generation in Mid-Columbia and Westside  
17 (40 Years)  
18 115 Jeffrey A. Dubin - JAD-5: Columbia River Basin  
19 Map  
20 116 Jeffrey A. Dubin - JAD-6: Time Plots of Total  
21 Generation and Grand Coulee Flow  
22 117 Jeffrey A. Dubin - JAD-7: Frequency  
23 Distribution for Puget Generation (60 Years)  
24 118 Jeffrey A. Dubin - JAD-8: 70-Year Data of  
25 Grand Coulee Flows



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1 119 Jeffrey A. Dubin - JAD-9: Generation  
2 Forecasts: Constant (60 Years)  
3 120 Jeffrey A. Dubin - JAD-10: Generation  
4 Forecasts: ARIMA 100 (60 years)  
5 121 Jeffrey A. Dubin - JAD-11: Generation  
6 Forecasts: ARIMA 202 (60 years)  
7 122 Jeffrey A. Dubin - JAD-12: Generation  
8 Forecasts: ARIMA 100 Shift (60 years)  
9 123 Jeffrey A. Dubin - JAD-13: Generation  
10 Forecasts: ARIMA 202 Shift (60 years)  
11 124 Jeffrey A. Dubin - JAD-14: Estimated Cost  
12 Difference Based on ARIMA Models and 60 Year  
13 Period  
14 125 Jeffrey A. Dubin - JAD-15T: Prefiled Rebuttal  
15 Testimony  
16 126 Jeffrey A. Dubin - JAD-16: Regressions of  
17 Henry Hub Spot Prices on Individual Average  
18 Forward Strips  
19 127 Jeffrey A. Dubin - JAD-17: Regressions of  
20 Henry Hub Spot Prices on Individual Average  
21 Forward Strips (Excluding Intercept)  
22 Cross-Examination Exhibits  
23 128 Staff - PSE Response to Staff DR 293 with  
24 Attachment, "The Efficiency of Natural Gas  
25 Futures Markets"

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1 129 Staff - Staff Response to PSE DR 43  
2  
3 SUSAN MCLAIN  
4 131C Susan McLain - SML-1CT: Prefiled Direct  
5 Testimony  
6 132 Susan McLain - SML-2: Professional  
7 Qualifications  
8 133 Susan McLain - SML-3: SQI#8 - Customer  
9 Satisfaction with Gas Field Services  
10 134 Susan McLain - SML-4: SQI#7 - Average Gas  
11 Emergency Response Time  
12 135 Susan McLain - SML-5: SQI#\$ - Non-Storm  
13 Electric Outage Frequency (SAIFI)  
14 136 Susan McLain - SML-6: T&D Capital Expenditures  
15 by Energy, by Category  
16 137 Susan McLain - SML-7: Repaired Leaks on PSE's  
17 Cast Iron Main System  
18 138 Susan McLain - SML-8: Treewatch Program Report  
19 May 1, 2003  
20 139 Susan McLain - SML-9T: Prefiled Rebuttal  
21 Testimony  
22 140 Susan McLain - SML-10: Staff Response to PSE  
23 DR 58  
24 141 Susan McLain - SML-11: Comparison of Storm  
25 Cost Deferral Methodologies

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1 Cross-Examination Exhibits  
2 142 Staff - Attachment to Staff Response to PSE DR  
3 58  
4  
5 BERTRAND A. VALDMAN  
6 151 Bertrand A. Valdman - BAV-1T: Prefiled Direct  
7 Testimony  
8 152 Bertrand A. Valdman - BAV-2: Professional  
9 Qualifications  
10 153 Bertrand A. Valdman - BAV-3: Composite Exhibit  
11 including multiple statistical and financial  
12 reports by third parties  
13 154 Bertrand A. Valdman - BAV-4: Prefiled  
14 Rebuttal Testimony  
15 Cross-Examination Exhibits  
16 155 Public Counsel - PSE Response to Public  
17 Counsel DR No. 54  
18 156 Public Counsel - PSE Response to Public  
19 Counsel DR No. 161  
20 157 Public Counsel - PSE Response to Public  
21 Counsel DR No. 162  
22 158 Public Counsel - PSE Response to Public  
23 Counsel DR No. 164  
24 159 Public Counsel - PSE Response to Public  
25 Counsel DR No. 167

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1 160 Public Counsel - PSE Response to Public  
2 Counsel DR No. 169  
3 161 Public Counsel - PSE Response to Public  
4 Counsel DR No. 170  
5 162 Public Counsel - PSE Response to Public  
6 Counsel DR No. 172  
7 163 Public Counsel - PSE Response to Public  
8 Counsel DR No. 174  
9 164 Public Counsel - PSE Response to Public  
10 Counsel DR No. 217  
11 165 Public Counsel - PSE Response to Public  
12 Counsel DR No. 175  
13 166 Public Counsel - PSE Response to Public  
14 Counsel DR No. 177  
15 167 Public Counsel - PSE Value Line, November 12,  
16 2004  
17 168 Staff - US Treasury Bill Financial Literature  
18  
19 DONALD E. GAINES  
20 171C Donald E. Gaines - DEG-1CT: Prefiled Direct  
21 Testimony  
22 172 Donald E. Gaines - DEG-2: Professional  
23 Qualifications  
24  
25

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1 173 Donald E. Gaines - DEG-3: Standard & Poor's  
2 "Buy Versus Build": Debt Aspects of  
3 Purchased-Power Agreements (May 8, 2003)  
4 174 Donald E. Gaines - DEG-4: Summary of Rate  
5 Cases Decided Between 01/01/2003 and  
6 02/23/2004  
7 175 Donald E. Gaines - DEG-5: Standard & Poor's  
8 Corporate Ratings Criteria  
9 176 Donald E. Gaines - DEG-6: Roger A. Morin,  
10 Regulatory Finance: Utilities' Cost of Capital  
11 (1994)  
12 177C Donald E. Gaines - DEG-7: Financial Targets  
13 178C Donald E. Gaines - DEG-8C: Utility Capital  
14 Structure Proposed Cost of Capital and Rate of  
15 Return  
16 179C Donald E. Gaines - DEG-9CT: Prefiled Rebuttal  
17 Testimony  
18 180 Donald E. Gaines - DEG-10: Public Counsel  
19 Response to PSEDR 77  
20 181C Donald E. Gaines - DEG-11C: Utility Capital  
21 Structure Cost of Capital and Rate of Return  
22 as of February 28, 2006  
23 182 Donald E. Gaines - DEG-12: Summary of Rate  
24 Cases Decided Between 1/1/2003 and 6/30/2004  
25

0351

1 183 Donald E. Gaines - DEG-13: Decision Cited by  
2 Stephen G. Hill in Exhibit No. \_\_\_\_(SGH-1T) at  
3 5 n.1

4 184 Donald E. Gaines - DEG-14: PSE Response to  
5 Staff DR 223

6 185 Donald E. Gaines - DEG-15: Cost & Benefit of  
7 Improved Credit Rating

8 186 Donald E. Gaines - DEG-16: Issuer and/or Bond  
9 Ratings

10 187 Donald E. Gaines - DEG-17: PSE Form 10K for  
11 fiscal year ended December 31, 2003

12 Cross-Examination Exhibits

13 188 Public Counsel - PSE Response to Public  
14 Counsel DR No. 03

15 189 Public Counsel - PSE Response to Public  
16 Counsel DR Nos. 07 and 63

17 190 Public Counsel - PSE Response to Public  
18 Counsel DR No. 35

19 191 Public Counsel - PSE Response to Public  
20 Counsel DR No. 36

21 192C Public Counsel - PSE Response to Public  
22 Counsel DR No. 44 (excerpt)

23 193 Public Counsel - PSE Response to Public  
24 Counsel DR No. 62

25

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1 194 Public Counsel - PSE Response to Public  
2 Counsel DR No. 71  
3 195 Public Counsel - PSE Response to Public  
4 Counsel DR No. 220  
5 196 Public Counsel - PSE Response to Public  
6 Counsel DR No. 221  
7 197 Public Counsel - PSE Response to Public  
8 Counsel DR No. 227  
9 198 Staff - PSE Response to Staff Data Request No.  
10 217  
11 199 Staff - PSE Response to Staff Data Request No.  
12 218  
13 200 Staff - PSE Response to Staff Data Request No.  
14 221  
15  
16 CHARLES J. CICHETTI  
17 201 Charles J. Cicchetti - CJC-1T: Prefiled Direct  
18 Testimony  
19 202 Charles J. Cicchetti - CJC-2: Curriculum Vitae  
20 203 Charles J. Cicchetti - CJC-3: Current Standard  
21 & Poor's Credit Ratings for Utilities (March  
22 2004)  
23 204 Charles J. Cicchetti - CJC-4: Monthly Average  
24 Stock Prices for Puget Sound Energy  
25 205 Charles J. Cicchetti - CJC-5: DCF Analysis

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1 206C Charles J. Cicchetti - CJC-6CT: Prefiled  
2 Rebuttal Testimony  
3 207 Charles J. Cicchetti - CJC-7: Capital  
4 Spending and Cost "Drivers" for PSE and U.S.  
5 Gas Distribution Industry: Growth Rates  
6 208 Charles J. Cicchetti - CJC-8: Total Electric  
7 Capital Spending and Cost "Drivers" for PSE  
8 and U.S. Power Industry: Growth Rates  
9 209 Charles J. Cicchetti - CJC-9: Public  
10 Utilities Fortnightly, The FERC's Discounted  
11 Cash Flow: A Compromise in the Wrong  
12 Direction  
13 Cross-Examination Exhibits  
14 210 Public Counsel - PSE Response to Public  
15 Counsel DR No. 179  
16 211 Public Counsel - PSE Response to Public  
17 Counsel DR No. 181  
18 212 Public Counsel - PSE Response to Public  
19 Counsel DR No. 185  
20 213 Public Counsel - PSE Response to Public  
21 Counsel DR No. 186  
22 214 Public Counsel - PSE Response to Public  
23 Counsel DR No. 188  
24 215 Public Counsel - PSE Response to Public  
25 Counsel DR No. 192



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1 216 Public Counsel - PSE Response to Public  
2 Counsel DR No. 195  
3 217 Public Counsel - PSE Response to Public  
4 Counsel DR No. 197  
5 218 Public Counsel - PSE Response to Public  
6 Counsel DR No. 199  
7 219 Public Counsel - PSE Response to Public  
8 Counsel DR No. 201  
9 220 Public Counsel - PSE Response to Public  
10 Counsel DR No. 202  
11 221 Public Counsel - PSE Response to Public  
12 Counsel DR No. 203  
13 222 Public Counsel - PSE Response to Public  
14 Counsel DR No. 204  
15 223 Public Counsel - PSE Response to Public  
16 Counsel DR No. 206  
17 224 Public Counsel - PSE Response to Public  
18 Counsel Data Request No. 208  
19 225 Public Counsel - PSE Response to Public  
20 Counsel Data Request No. 209  
21 226 Public Counsel - PSE Response to Public  
22 Counsel Data Request No. 214  
23  
24  
25

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1 227 Public Counsel - Rebuttal Testimony of Charles  
2 J. Cicchetti, Ph.D, Kansas Corporation  
3 Commission Docket No. 01-WSRE-436-RTS,  
4 excerpt, pp. 21-24  
5 228 Public Counsel - Bonds Online, Reuters  
6 Investment Service, December 6  
7  
8 JOHN H. STORY  
9 231 John H. Story - JHS-1T: Prefiled Direct  
10 Testimony  
11 232 John H. Story - JHS-2: Professional  
12 Qualifications  
13 233C John H. Story - JHS-E3C: PSE-Electric Results  
14 of Operations for the 12 months ended  
15 September 30, 2003  
16 234 John H. Story - JHS-4: Exhibit A-1 Power Cost  
17 Rate  
18 235 John H. Story - JHS-5: PSE General Rate Case  
19 Docket Nos. UE-011570 and UG-011571 -  
20 Settlement Terms for the Power Cost Adjustment  
21 Mechanism  
22 236 John H. Story - JHS-6T: Supplemental Direct  
23 Testimony  
24 237C John H. Story - JHS-7CT: Prefiled Rebuttal  
25 Testimony

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1 238C John H. Story - JHS-8C: Results of Operations  
2 for the 12 Months Ended 9/30/2003  
3 239 John H. Story - JHS-9: Electric General Rate  
4 Increase-Electric  
5 240C John H. Story - JHS-10C: PSE Response to ICNU  
6 DR 06.12  
7 241C John H. Story - JHS-11C: Exhibit A-1 Power  
8 Cost Rate  
9 Cross-Examination Exhibits  
10 242 ICNU - PSE Response to ICNU DR 2.18  
11 243 ICNU - PSE Response to ICNU DR 2.19  
12 244 ICNU - PSE Response to ICNU DR 2.20  
13 245 ICNU - PSE Response to ICNU DR 2.21  
14 246C ICNU - PSE Response to ICNU DR 5.01  
15 247C ICNU - PSE Response to ICNU DR 5.02  
16 248C ICNU - PSE Response to ICNU DR 6.12 (excerpt)  
17 249C ICNU - PSE - Outside Services Summary  
18 250 Staff - Order No. 01 in Docket No. UE-041846  
19 (CanWest Accounting Order)  
20 251 Staff - PSE Response to Staff DR 314  
21  
22 BARBARA A. LUSCIER  
23 261 Barbara A. Luscier - BAL-1T: Prefiled Direct  
24 Testimony  
25

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1 262 Barbara A. Luscier - BAL-2: Professional  
2 Qualifications  
3 263 Barbara A. Luscier - BAL-G3: PSE-Gas Results  
4 of Operations For the 12 Months Ended  
5 September 30, 2003  
6 264 Barbara A. Luscier - BAL-4T: Prefiled  
7 Rebuttal Testimony  
8 265 Barbara A. Luscier - BAL-G5: Statement of  
9 Operating Income and Adjustments for the 12  
10 Months Ended 9/30/2003 Restating and Pro Forma  
11 Adjustments  
12 266 Barbara A. Luscier - BAL-G6: General Rate  
13 Increase-Gas  
14 Cross-Examination Exhibits  
15 267 Staff - Rebuttal Workpaper Pages 22 and 24.1  
16 (Gas Wage Adjustment 2.13)  
17  
18 JAMES A. HEIDELL  
19 271 James A. Heidell - JAH-1T: Prefiled Direct  
20 Testimony  
21 272 James A. Heidell - JAH-2: Curriculum Vitae  
22 273 James A. Heidell - JAH-3: Effect of  
23 Temperature Normalization  
24 274 James A. Heidell - JAH-4: PSE Proforma and  
25 Proposed Revenue 12 Months Ended 9/30/ 2003

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1 275 James A. Heidell - JAH-5: Tariff Sheets  
2 276 James A. Heidell - JAH-6: Current Design  
3 Electric Schedule 7  
4 277 James A. Heidell - JAH-7: Declining  
5 Residential Consumption  
6 278 James A. Heidell - JAH-8: PSE - Gas Rate  
7 Spread and Rate Design 12 Months Ended 9/30/  
8 2003  
9 279 James A. Heidell - JAH-9: Tariff Sheets  
10 280 James A. Heidell - JAH-10: Current Design Gas  
11 Schedule 23  
12 281 James A. Heidell - JAH-11T: Supplemental  
13 Prefiled Direct Testimony  
14 282 James A. Heidell - JAH-12: PSE Proforma and  
15 Proposed Revenue 12 Months Ended September 30,  
16 2003 [taking PCORC order no. 14 into account  
17 (Docket No. UE-031725)]  
18 283 James A. Heidell - JAH-13: Tariffed Rate  
19 Components Revised to Reflect PCORC Order No.  
20 14 (Docket No. UE-031725)  
21 284 James A. Heidell - JAH-14: Prefiled Rebuttal  
22 Testimony  
23 285 James A. Heidell - JAH-15: Use Per Customer  
24 per Public Counsel Assertions  
25

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1 286 James A. Heidell - JAH-16: Least Cost Plan  
2 April 30, 2003  
3 287 James A. Heidell - JAH-17: Electric  
4 Consumption for New Customers  
5 288 James A. Heidell - JAH-18: A look at  
6 Residential Energy Consumption in 1997  
7 289 James A. Heidell - JAH-19: Rate Spread  
8 Summary  
9 290 James A. Heidell - JAH-20: Rate Spread  
10 Modified Parity Increase  
11 291 James A. Heidell - JAH-21: Declining  
12 Residential Consumption  
13 292 James A. Heidell - JAH-22: Comparison of  
14 Schedule 25 Rate Proposals  
15 293 James A. Heidell - JAH-23: Pro Forma and  
16 Proposed Revenue Summary  
17 294 James A. Heidell - JAH-24: Revised Natural  
18 Gas Rate Spread Proposal  
19 295 James A. Heidell - JAH-25: Revised Natural  
20 Gas Rate Design  
21 296 James A. Heidell - JAH-26: Gas Rate 57 and 87  
22 Customer Impacts  
23 297 James A. Heidell - JAH-27: Public Counsel  
24 Response to PSE DR 12  
25

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1 298 James A. Heidell - JAH-28: Public Counsel  
2 Response to PSE DR 4  
3 299 James A. Heidell - JAH-29T: Prefiled  
4 Testimony Adopting the Prefiled Testimonies of  
5 Colleen E. Paulson (Exhibit No.\_\_(CEP-1T)  
6 and Exhibit No.\_\_(CEP-11T)) and all  
7 supporting exhibits (Exhibit No.\_\_(CEP-3)  
8 through and Exhibit No.\_\_(CEP-10) and Exhibit  
9 No.\_\_(CEP-12) through Exhibit No.\_\_(CEP-15))  
10 as Mr. Heidell's own  
11 301 Colleen E. Paulson adopted by Heidell -  
12 CEP-1T: Prefiled Direct Testimony  
13 302 Colleen E. Paulson adopted by Heidell -  
14 CEP-2: Professional Qualifications  
15 303 Colleen E. Paulson adopted by Heidell -  
16 CEP-3: PSE Summary Results of Gas Operations  
17 Excludes Revenue Deficiency and Includes Gas  
18 Costs  
19 304 Colleen E. Paulson adopted by Heidell -  
20 CEP-4: PSE Allocation of Gas Operating Revenue  
21 (includes Revenue Deficiency and Excludes Gas  
22 Costs)  
23 305 Colleen E. Paulson adopted by Heidell -  
24 CEP-5: PSE Gas Load Characteristics 12 Months  
25 Ended September 30, 2003

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1 306 Colleen E. Paulson adopted by Heidell -  
2 CEP-6: PSE - Gas Reconciliation of Total  
3 Booked Revenues 12 Months Ended September 30,  
4 2003

5 307 Colleen E. Paulson adopted by Heidell -  
6 CEP-7: PSE - Gas Summary of Present and Pro  
7 Forma Revenues by Rate Schedule 12 Months  
8 Ended September 30, 2003

9 308 Colleen E. Paulson adopted by Heidell -  
10 CEP-8: PSE Electric Cost of Service Company  
11 Proposed Summary of Operations

12 309 Colleen E. Paulson adopted by Heidell -  
13 CEP-9: PSE Electric Cost of Service Commission  
14 Basis Summary Results of Operations

15 310 Colleen E. Paulson adopted by Heidell -  
16 CEP-10: PSE Electric Cost of Service  
17 Derivation of Peak Credit

18 311 Colleen E. Paulson adopted by Heidell -  
19 CEP-11T: Prefiled Rebuttal Testimony

20 312 Colleen E. Paulson adopted by Heidell -  
21 CEP-12: Electric Cost of Service Derivation  
22 of Peak Credit

23 313 Colleen E. Paulson adopted by Heidell -  
24 CEP-13: Electric Cost of Service Company  
25 Proposed Summary of Operations



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1 314 Colleen E. Paulson adopted by Heidell -  
2 CEP-14: Summary Results of Gas Operations  
3 (Excludes Revenue Deficiency and Includes Gas  
4 Costs)

5 315 Colleen E. Paulson adopted by Heidell -  
6 CEP-15: Allocation of Gas Operating Revenue  
7 (Includes Revenue Deficiency and Excludes Gas  
8 Costs)

9

10 KARL KARZMAR

11 321 Karl Karzmar - KRK-1T: Prefiled Rebuttal  
12 Testimony

13 322 Karl Karzmar - KRK-2: Witness Qualifications

14 323 Karl Karzmar - KRK-3: Docket Nos. UE-011570  
15 and UG-011571--Joint Testimony of R.J. Amen,  
16 M. Lott, J. Lazar, D. Schoenbeck in Support of  
17 Natural Gas Rate Spread and Rate Design  
18 Settlement

19 324 Karl Karzmar - KRK-4: PSE's Response to Staff  
20 DR 193

21

22 THOMAS HUNT

23 331 Thomas Hunt - TH-1T: Prefiled Testimony  
24 Adopting the Prefiled Rebuttal Testimony of  
25 Michelle N. Clements (Exhibit No.\_\_\_\_(MNC-1T))

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1 all supporting exhibits (Exhibit No.\_\_\_\_(MNC-3)  
2 and Exhibit No.\_\_\_\_(MNC-4)) as Mr. Hunt's own  
3 332 Thomas Hunt - TH-2: Witness Qualifications  
4 333 Michelle N. Clements adopted by Thomas Hunt -  
5 MNC-1T: Prefiled Rebuttal Testimony  
6 334 Michelle N. Clements adopted by Thomas Hunt -  
7 MNC-2: Witness Qualifications  
8 335 Michelle N. Clements adopted by Thomas Hunt -  
9 MNC-3: 2004 Goals & Incentive Plan  
10 336 Michelle N. Clements adopted by Thomas Hunt -  
11 MNC-4: Summary of Forecast Salary Increase  
12 for 2005

13 Cross-Examination Exhibits

14 337 Staff - Workpaper Page 2 (Electric  
15 Miscellaneous Operating Expense Adjustment  
16 2.10)

17

18 PUBLIC COUNSEL, ENERGY PROJECT, and A.W.I.S.H.

19 JIM LAZAR

20 341 Jim Lazar - JL-1T: Prefiled Response Testimony

21 342 Jim Lazar - JL-2: Professional

22 Qualifications

23

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1 343 Jim Lazar - JL-3: Cost of Service Analysis  
2 for the Electric and Natural Gas  
3 Industries--Historical Review of WUTC  
4 Decisions 1978-2004  
5 344 Jim Lazar - JL-4a: Unbundling the Cost of  
6 Capital  
7 345 Jim Lazar - JL-4b: Standard and Poor's  
8 6/2/2004 Research Report: New Business  
9 Profile Scores Assigned for U.S. Utility and  
10 Power Companies; Financial Guidelines Revised  
11 346 Jim Lazar - JL-5: Electric COS: Adjust  
12 Revenue to Cost Ratios  
13 347 Jim Lazar - JL-6: Electric Rate Design  
14 (Residential)  
15 348 Jim Lazar - JL-7: Gas COS: Adjust Revenue to  
16 Cost Ratios  
17  
18 STEPHEN G. HILL  
19 351 Stephen G. Hill - SGH-1T: Prefiled Response  
20 Testimony  
21 352 Stephen G. Hill - SGH-2: Professional  
22 Qualifications  
23 353 Stephen G. Hill - SGH-3: Determinants of  
24 Long-Term Sustainable Growth  
25

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1 354 Stephen G. Hill - SGH-4: Sample Company  
2 Growth Rate Analysis  
3 355 Stephen G. Hill - SGH-5: Corroborative Equity  
4 Capital Cost Estimation Methods  
5 356 Stephen G. Hill - SGH-6: Graph Moody's  
6 A-Rated Utility Bond Yields  
7 357 Stephen G. Hill - SGH-7: Recent Historical  
8 Capital Structure  
9 358 Stephen G. Hill - SGH-8: Electric Utility  
10 Sample Group Selection  
11 359 Stephen G. Hill - SGH-9: DCF Growth Rate  
12 Parameters  
13 360 Stephen G. Hill - SGH-10: DCF Growth Rates  
14 361 Stephen G. Hill - SGH-11: Stock Price,  
15 Dividends, Yields  
16 362 Stephen G. Hill - SGH-12: DCF Cost of Equity  
17 Capital  
18 363 Stephen G. Hill - SGH-13: CAPM Cost of Equity  
19 Capital  
20 364 Stephen G. Hill - SGH-14: Proof  
21 365 Stephen G. Hill - SGH-15: Modified  
22 Earnings-Price Ratio Analysis  
23 366 Stephen G. Hill - SGH-16: Market-to-Book  
24 Ratio Analysis  
25

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1 367 Stephen G. Hill - SGH-17: Leverage/Beta  
2 Adjustment to Company's Cost of Capital  
3 368 Stephen G. Hill - SGH-18: Overall Cost of  
4 Capital  
5 Cross-Examination Exhibits  
6 369 PSE - SGH-1X: PSE DR No. 49 to Public Counsel  
7 370 PSE - SGH-2X: PSE DR No. 76 to Public Counsel  
8  
9 ICNU (and separately for NWIGU and CMS)  
10 DONALD W. SCHOENBECK  
11 371HC Donald W. Schoenbeck - DWS-1HCT: Prefiled  
12 Response Testimony on Behalf of ICNU  
13 372 Donald W. Schoenbeck - DWS-2: Witness  
14 Qualifications  
15 373 Donald W. Schoenbeck - DWS-3: Nymex Henry Hub  
16 and Sumas Market Gas Prices  
17 374C Donald W. Schoenbeck - DWS-4C: PSE Response  
18 to ICNU DR 4.01  
19 375C Donald W. Schoenbeck - DWS-5C: PSE Response  
20 to Staff DR 173  
21 376 Donald W. Schoenbeck - DWS-6: PSE Response to  
22 Staff DR 220  
23 377C Donald W. Schoenbeck - DWS-7C: PSE Peaking  
24 Cost Calculation  
25

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1 378C Donald W. Schoenbeck - DWS-8C: PSE Response  
2 to ICNU DR 3.13  
3 379C Donald W. Schoenbeck - DWS-9C: May 1, 2003  
4 Risk Management Committee Presentation  
5 380C Donald W. Schoenbeck - DWS-10C: May 1, 2003  
6 Risk Management Committee Meeting Minutes  
7 381C Donald W. Schoenbeck - DWS-11C: PSE Backward  
8 Looking Assessment of Winter 2003-2004  
9 382C Donald W. Schoenbeck - DWS-12C: PSE Response  
10 to ICNU DRs 6.07, 6.05, and 6.03  
11 383 Donald W. Schoenbeck - DWS-13: PSE  
12 Supplemental Response to ICNU DR 1.03  
13 384C Donald W. Schoenbeck - DWS-14C: Attachment F  
14 to PSE Response to ICNU DR 6.12  
15 385 Donald W. Schoenbeck - DWS-15: Staff Open  
16 Meeting Memo Re PCORC Regulatory Expense in  
17 WUTC Docket No. UE-031471  
18 386 Donald W. Schoenbeck - DWS-16: Proposed  
19 Schedule 40 Tariff Sheets  
20 387 Donald W. Schoenbeck - DWS-17: Cross  
21 Answering Testimony  
22 388 Donald W. Schoenbeck - DWS-1T[sic]: Prefiled  
23 Response Testimony on Behalf of NWIGU and Cost  
24 Management Services Inc.

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1 389 Donald W. Schoenbeck - DWS-1T[sic]:  
2 Cross-Answering Testimony on Behalf of NWIGU  
3 and Cost Management Services Inc.  
4 Cross-Examination Exhibits  
5 390 PSE - DWS-1X: ICNU's Response to PSE's DR No.  
6 7  
7 391 PSE - DWS-2X: ICNU's Response to PSE's DR No.  
8 8  
9 392 PSE - DWS-3X: Bonneville Power  
10 Administration's 2006-07 Transmission Rate  
11 Case Settlement Agreement dated Dec. 6, 2004  
12  
13 NWIGU  
14 THOMAS S. YARBOROUGH  
15 401 Thomas S. Yarborough - TSY-1T: Prefiled  
16 Response Testimony  
17 402 Thomas S. Yarborough - TSY-2: Professional  
18 Qualifications  
19  
20 CMS  
21 THEODORE S. LEHMANN  
22 403 Theodore S. Lehmann - TL-1T: Prefiled  
23 Response Testimony  
24 404 Theodore S. Lehmann - TL-2: Professional  
25 Qualifications

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1 405 Theodore S. Lehmann - TL-3: PSE's Standard  
2 Form of Service Agreement  
3 406 Theodore S. Lehmann - TL-4: Schedule T to  
4 Northwest Natural Gas Co. Tariff WN U-6  
5  
6 NW ENERGY COALITION  
7 STEVEN D. WEISS  
8 407 Steven D. Weiss - SDW-1T: Prefiled Response  
9 Testimony  
10 408 Steven D. Weiss - SDW-2: Correspondence dated  
11 June 11, 1992, from Paul Curl, Secretary, WUTC  
12 to Mr. Julian Ajello, California PUC  
13 409 Steven D. Weiss - SDW-3: Excerpt from Weston,  
14 Fredrick, et al., Charging for Distribution  
15 Utility Services: Issues in Rate Design,  
16 12/2000  
17  
18 SEATTLE STEAM COMPANY  
19 JAMES G. YOUNG  
20 410 James G. Young - JGY-1T: Prefiled Response  
21 Testimony  
22 411 James G. Young - JGY-2: Current Parity Ratios  
23 and Proposed Revenue to Revenue Requirement  
24 Ratios  
25



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1 412 James G. Young - JGY-3T: Cross-Answering  
2 Testimony  
3  
4 KROGER COMPANY  
5 KEVIN C. HIGGINS  
6 413 Kevin C. Higgins - KCH-1T: Prefiled Response  
7 Testimony  
8 414 Kevin C. Higgins - KCH-2: Calculation of Peak  
9 Credit Using 100% of CT Capital and Fixed O&M  
10 Costs  
11 415 Kevin C. Higgins - KCH-3: Cost of Service  
12 Results Using 21% Peak Credit Applied to PSE  
13 Proposed Revenue Requirement  
14 416 Kevin C. Higgins - KCH-4: Comparison of  
15 Demand & Energy Related Costs versus  
16 Demand-Related Revenues (for Schedules 25 &  
17 26)  
18 417 Kevin C. Higgins - KCH-5: Kroger Proposal for  
19 Rate Schedule 25 Design  
20 418 Kevin C. Higgins - KCH-6T: Cross-Answering  
21 Testimony  
22 419 Kevin C. Higgins - KCH-7: PSE Response to  
23 Staff DR 259  
24  
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1 COMMISSION STAFF  
2 JAMES M. RUSSELL  
3 421 James M. Russell - JMR-1T: Prefiled Response  
4 Testimony  
5 422 James M. Russell - JMR-2: Summary Results of  
6 Operations and Revenue Requirement--Electric  
7 423C James M. Russell - JMR-3C: Restating and Pro  
8 Forma Adjustment Calculations  
9 424 James M. Russell - JMR-4: UE-032043 White  
10 River Accounting Petition  
11 425 James M. Russell - JMR-5: UE-031471 PCORC  
12 Accounting Petition  
13 426 James M. Russell - JMR-6: PCA Baseline Rate  
14 427 James M. Russell - JMR-7: Gas Cost of Service  
15 Cross-Examination Exhibits  
16 428 PSE - JMR-1X: PSE DR No. 58 to WUTC Staff  
17 429 PSE - JMR-2X: Excerpts from Fifth Supp.  
18 Order, WUTC v. PSE, U-80-10  
19 430 PSE - JMR-3X: Excerpts from Eleventh Supp.  
20 Order, WUTC v. PSE, UE-921262  
21 431 PSE - JMR-4X: Excerpts from Testimony of WUTC  
22 Staff Witness Thomas E. Schooley in UE-921262  
23 432 PSE - JMR-5X: Excerpts from Third Supp.  
24 Order, WUTC v. PSE, U-89-2688-T  
25

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1 433 PSE - JMR-6X: Excerpts from WUTC Staff Brief  
2 in U-89-2688-T

3 434 PSE - JMR-7X: Excerpts from Rebuttal  
4 Testimony of PSE Witness John Story in  
5 U-89-2688-T

6 435 PSE - JMR-8X: Excerpts from Direct Testimony  
7 of PSE Witness John Story in U-89-2688-T

8

9 MICHAEL P. PARVINEN

10 441 Michael P. Parvinen - MPP-1T: Prefiled  
11 Response Testimony

12 442 Michael P. Parvinen - MPP-2: Summary Results  
13 of Operations and Revenue Requirement--Gas

14 443 Michael P. Parvinen - MPP-3: Restating and  
15 Pro Forma Adjustments

16 444 Michael P. Parvinen - MPP-4: Allowance for  
17 Working Capital

18

19 YOHANNES K.G. MARIAM

20 451 Yohannes K.G. Mariam - YKGM-1T: Prefiled  
21 Response Testimony

22 452 Yohannes K.G. Mariam - YKGM-2: Net Power Cost  
23 Adjustment with 50-year Streamflow Only

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1 453 Yohannes K.G. Mariam - YKGM-3: Staff Electric  
2 Weather Normalization Recommendations (Docket  
3 No. UE-031725)  
4 454 Yohannes K.G. Mariam - YKGM-4: Streamflow  
5 Statistical Analyses  
6 455 Yohannes K.G. Mariam - YKGM-5: Streamflow  
7 Publications  
8 456 Yohannes K.G. Mariam - YKGM-6: Natural Gas  
9 Forward Price Statistical Analyses  
10 457 Yohannes K.G. Mariam - YKGM-7: Three-Month  
11 Rolling Average Natural Gas Price  
12 458 Yohannes K.G. Mariam - YKGM-8: EIA Natural  
13 Gas Price Forecast (2005-2006)  
14 459 Yohannes K.G. Mariam - YKGM-9: Net Power Cost  
15 Adjustment with Natural Gas Price and 50-year  
16 Streamflow  
17 460 Yohannes K.G. Mariam - YKGM-10: Net Power  
18 Cost Adjustment with Natural Gas and Coal  
19 Price and 50-Year Streamflow  
20 461 Yohannes K.G. Mariam - YKGM-11: PSE Proposed  
21 Wheeling Charge Increase  
22 462 Yohannes K.G. Mariam - YKGM-12: Net Power  
23 Cost Adjustment with Natural Gas and Coal  
24 Prices, and 50-year Streamflow, and Wheeling  
25 Discharge Allowance

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1 463 Yohannes K.G. Mariam - YKGM-13: Natural Gas  
2 Weather Normalization

3

4 DOUGLAS KILPATRICK

5 471 Douglas Kilpatrick - DEK-1T: Prefiled  
6 Response Testimony

7 472 Douglas Kilpatrick - DEK-2: PSE Storm and  
8 Catastrophic Storm Days vs. IEEE Major Event  
9 Days

10 473 Douglas Kilpatrick - DEK-3: PSE Company-wide  
11 SAIDI Considering all storm events and with  
12 MED's removed

13 474 Douglas Kilpatrick - DEK-4: PSE Company-wide  
14 SAIDI -- Current vs. IEEE methods

15

16 JOHN L. WILSON

17 481 John L. Wilson - JLW-1T: Prefiled Response  
18 Testimony

19 482 John L. Wilson - JLW-2: Interest Rates

20 483 John L. Wilson - JLW-3: The Discounted Cash  
21 Flow Model

22 484 John L. Wilson - JLW-4: DCF Cost of Equity  
23 Indications

24 485 John L. Wilson - JLW-5: Fundamental DCF  
25 Indications

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1 486 John L. Wilson - JLW-6: Capital Asset Pricing  
2 Model  
3 487 John L. Wilson - JLW-7: Comparative Risk  
4 Indications  
5 488 John L. Wilson - JLW-8: Comparable Expected  
6 Market Earnings Rates  
7 489 John L. Wilson - JLW-9: Summary of Cost of  
8 Common Equity Return Indications  
9 490 John L. Wilson - JLW-10: PSE Recommended  
10 Capital Structure and Rate of Return Analysis  
11  
12 JOELLE R. STEWARD  
13 491 Joelle R. Steward - JRS-1T: Prefiled Response  
14 Testimony  
15 492 Joelle R. Steward - JRS-2: Electric Customer  
16 Class Parity  
17 493 Joelle R. Steward - JRS-3: Electric Rate  
18 Spread  
19 494 Joelle R. Steward - JRS-4: PSE Response to  
20 Public Counsel DR 114  
21 495 Joelle R. Steward - JRS-5: Calculation of  
22 Electric Residential Rate Block Differential  
23 496 Joelle R. Steward - JRS-6: Electric  
24 Residential Rate Design  
25

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1 497 Joelle R. Steward - JRS-7: Natural Gas Rate  
2 Spread  
3 498 Joelle R. Steward - JRS-8T: Cross-Answering  
4 Testimony  
5 499 Joelle R. Steward - JRS-9:  
6 Electric-Derivation of Peak Credit-Staff  
7 Corrections to Exhibit No. \_\_\_\_ (CEP)-10  
8 500 Joelle R. Steward - JRS-10: Demand Related  
9 Revenues to Costs

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