

0125

1

BEFORE THE WASHINGTON

2

UTILITIES AND TRANSPORTATION COMMISSION

3

4

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)

6

Complainant,)

DOCKETS UE-140188 and
UG-140189

7

v.)

(Consolidated)

8

AVISTA CORPORATION, d/b/a)
AVISTA UTILITIES,)

9

Respondent.)

10

11

SETTLEMENT HEARING, VOLUME IV

12

Pages 125 - 276

13

ADMINISTRATIVE LAW JUDGE MARGUERITE E. FRIEDLANDER

14

15

10:15 A.M.

16

SEPTEMBER 23, 2014

17

Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive Southwest

18

Olympia, Washington 98504-7250

19

20

REPORTED BY: SHERRILYN SMITH, CCR# 2097

21

Buell Realtime Reporting, LLC

22

1411 Fourth Avenue

Suite 820

23

Seattle, Washington 98101

206.287.9066 | Seattle

360.534.9066 | Olympia

24

800.846.6989 | National

25

www.buellrealtime.com

0126

1

A P P E A R A N C E S

2

ADMINISTRATIVE LAW JUDGE:

3

MARGUERITE E. FRIEDLANDER
Washington Utilities and
Transportation Commission
1300 South Evergreen Park Drive SW
P.O. Box 47250
Olympia, Washington 98504

4

5

6

360.664.1136

7

COMMISSIONERS:

8

DAVID DANNER, CHAIRMAN
PHILIP B. JONES, COMMISSIONER
JEFF GOLTZ, COMMISSIONER

9

10

11

FOR AVISTA CORPORATION:

12

DAVID J. MEYER
AVISTA CORPORATION
P.O. Box 3727
1411 East Mission Avenue, MSC-27
Spokane, Washington 99220-3727
509.495.4316

13

14

15

david.meyer@avistacorp.com

16

FOR INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES:

17

JOSHUA D. WEBER
Davison Van Cleve
333 Southwest Taylor Street
Suite 400
Portland, Oregon 97204
503.241.7242
jdw@dvclaw.com

18

19

20

21

22

23

24

25

0127

1

A P P E A R A N C E S (Continued)

2

FOR NORTHWEST INDUSTRIAL GAS USERS:

3

CHAD M. STOKES
Cable Huston
1001 Southwest Fifth Avenue
Suite 2000
Portland, Oregon 97204
503.224.3092
cstokes@cablehuston.com

7

8

FOR THE ENERGY PROJECT:

9

RONALD L. ROSEMAN
Attorney at Law
2011 Fourteenth Avenue East
Seattle, Washington 98112
206.324.8792
ronaldroseman@comcast.net

10

11

12

13

FOR COMMISSION STAFF:

14

BRETT P. SHEARER
PATRICK J. OSHIE
Assistant Attorney General
1400 South Evergreen Park Drive SW
P.O. Box 40128
Olympia, Washington 98504-0128
360.664.1187
bshearer@utc.wa.gov

15

16

17

18

poshie@utc.wa.gov

19

FOR PUBLIC COUNSEL:

20

LISA W. GAFKEN
Assistant Attorney General
Public Counsel Section
Office of Attorney General
800 Fifth Avenue
Suite 2000
Seattle, Washington 98104-3188
206.464.6595

21

22

23

24

lisa.gafken@atg.wa.gov

25

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

INDEX OF EXHIBITS (Continued)

EXHIBIT:	OFD:	AD:	DESCRIPTION:
SLM-3	--	157	Avista's Electronic and Natural Gas Service Areas Map (1 pg.)(02/04/14)
KON-1T	--	157	AVISTA: KELLY O. NORWOOD Prefiled Direct Testimony of Kelly O. Norwood (20pp.) (02/04/14)
MTT-1T	--	157	AVISTA: MARK T. THIES Prefiled Direct Testimony of Mark T. Thies (24 pp.) (02/04/14)
MTT-2C	--	157	***CONFIDENTIAL*** Tables entitled Long-term Securities Credit Ratings, Proposed Cost of Capital and Embedded Cost of Capital, Cost of Debt Detail - Washington, Cost of Short-Term Debt Detail, Cost of Long-Term Variable Rate Debt Detail, and Capital Structure Reconciliation (6 pp.)(02/04/14)
MTT-3	--	157	***CONFIDENTIAL*** Avista's Interest Rate Risk Management Plan, dated August 1, 2013 (8pp.)(02/04/14)
MTT-4	--	157	Table entitled Weighted Cost of Equity (1 pg.)(02/04/14)
MTT-5C	--	157	***CONFIDENTIAL*** Table entitled Forecasted Capital Expenditures and Long-Term Debt Issuances by Year (1 pg.)(02/04/14)

0130

1

INDEX OF EXHIBITS (Continued)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3			
4	AMM-1T	--	FINCAP, INC.: ADRIEN M. MCKENZIE Prefiled Direct Testimony of Adrien M. McKenzie
5			
6	AAM-2	--	(47 pp.)(02/04/14) Professional Qualifications of Adrien M. McKenzie (5pp.) (02/04/14)
7			
8	AAM-3	--	Description of Quantitative Analyses (54 pp.)(02/04/14)
9			
10	AAM-4	--	ROE Analyses - Summary of
11			
12	AAM-5	--	Results (2 pp.)(02/04/14) Capital Structure (1 pg.) (02/04/14)
13			
14	AAM-6	--	Constant Growth DCF Model - Utility Group (3 pp.) (02/04/14)
15			
16	AAM-7	--	Sustainable Growth Rate - Utility Group (2 pp.) (02/04/14)
17			
18	AAM-8	--	Empirical Capital Asset Pricing Model (2pp.) (02/04/14)
19			
20	AMM-9	--	Electric Utility Risk
21	AMM-10	--	Premium (4 pp.)(02/04/14) Capital Asset Pricing Model (2 pp.)(02/04/14)
22			
23	AMM-11	--	Expected Earnings Approach (1 pg.) (02/04/14)
24			
25			

25

0131

1

INDEX OF EXHIBITS (Continued)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3 AMM-12	--	157	Constant Growth DCF Model - Non-Utility Group

4

(3 pp.)(02/04/14)

5

6 SJK-1T	--	157	AVISTA: SCOTT J. KINNEY Prefiled Direct Testimony of Scott J. Kinney
----------	----	-----	--

7

(26 pp.)(02/04/14)

8

SJK-2	--	157	Avista's 2013 Electric Integrated Resource Plan and Appendices (CD) (02/04/14)
-------	----	-----	---

9

10

SJK-3	--	157	Table entitled Load & Resources Annual Summary (3 pp.)(02/04/14)
-------	----	-----	--

11

12

SJK-4	--	157	***CONFIDENTIAL*** Avista's Energy Resources Risk Policy (33 pp.)
-------	----	-----	---

13

14

(02/04/14)

15

16 CGK-1T	--	157	AVISTA: CLINT G. KALICH Prefiled Direct Testimony of Clint G. Kalich
-----------	----	-----	--

17

(11 pp.)(02/04/14)

18

CGK-2C	--	157	***CONFIDENTIAL*** Summary Output for the Dispatch Model (3 pp.) (02/04/14)
--------	----	-----	--

19

20

21 WGJ-1T	--	157	AVISTA: WILLIAM G. JOHNSON Prefiled Direct Testimony of William G. Johnson (18 pp.)(02/04/14)
-----------	----	-----	--

22

23

24

25

0132

1

INDEX OF EXHIBITS (Continued)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:	
3	WGJ-2	--	157	Table entitled Power Supply Pro Forma - Washington Jurisdiction, System Numbers - July 2012 - June 2013 Actual and 2015 Pro forma, July 12 - June 13 Weather Normalized Load (2 pp.)
4				
5				
6				
7				(02/04/14)
8	WGJ-3	--	157	Brief Description of Power Supply Adjustments
9				(6 pp.)(02/04/14)
10	WGJ-4	--	157	Table entitled Market Purchases and Sales, Plant Generation and Fuel Cost Summary, Washington Normalized January 2015 - December 2015 (1 pg.)
11				
12				
13				(02/04/14)
14	WGJ-5	--	157	REC Revenue Rebate Mechanism (1 pg.)
15				
16	WGJ-6	--	157	REC Revenue Rebate Calculation, REC Revenue and Expenses, 2012 through June 2016, Washington Allocation (1 pg.)(02/04/14)
17				
18				
19	WGJ-7	--	157	Table entitled Pro Forma January 2015 - December 2015, ERM Authorized Expenses and Retail Sales, July 2012 - June 2013 Historic Normalized Loads (1 pg.)(02/04/14)
20				
21				
22				
23				
24				
25				

25

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

INDEX OF EXHIBITS (Continued)

EXHIBIT:	OFD:	AD:	DESCRIPTION:
SAH-1T	--	AVISTA: 157	STEPHEN A. HARPER Prefiled Direct Testimony of Stephen A. Harper (11 pp.)(02/04/14)
SAH-2	--	157	Avista's 2012 Natural Gas Integrated Resource Plan (CD)(02/04/14)
DFK-1T	--	AVISTA: 157	DON F. KOPCZYNSKI Prefiled Direct Testimony of Don F. Kopczynski (21 pp.)(02/04/14)
DFK-2	--	157	Table entitled Customer Usage, State of Washington - Electric & Gas, As of December 31, 2013 (1 pg.)(02/04/14)
DFK-3	--	157	Avista Utilities Asset Management, Protocol for Managing Select Aldyl A Pipe in Avista Utilities' Natural Gas System, dated May 2013 (35 pp.) (02/04/14)
DFK-4	--	157	Avista Utilities, Two-Year Plan for Managing Select Pipe Replacement in Avista Utilities' Natural Gas System, Docket UG-120715, dated May 31, 2013
HLR-1T	--	AVISTA: 157	HEATHER L. ROSENTRATER Prefiled Direct Testimony of Heather L. Rosentrater (35 pp.) (02/04/14)

0134

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3 HLR-2	--	157	Table entitled Avista Corporation, Energy Deliver, Pro Forma Transmission Revenue/Expenses (1 pg.) (02/04/14)
4			
5			
6			AVISTA: KAREN S. FELTES
7 KSF-1T	--	157	Prefiled Direct Testimony of Karen S. Feltes (25 pp.) (02/04/14)
8			
9			AVISTA: JAMES M. KENSOK
10 JMK-1T	--	157	Prefiled Direct Testimony of James M. Kensok (42 pp.) (02/04/14)
11			
12 JMK-2C	--	157	***CONFIDENTIAL*** Overview of Avista's Project Compass with attachments, dated August 2013 (243 pp.) (02/04/14)
13			
14			
15			AVISTA: DAVE B. DEFELICE
16 DBD-1T	--	157	Prefiled Direct Testimony of Dave B. DeFelice (30 pp.) (02/04/14)
17			
18 DBD-2	--	157	Graph entitled Capital Expenditures (1 pg.) (02/04/14)
19			
20			
21			
22			
23			
24			
25			

20

21

22

23

24

25

0135

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

INDEX OF EXHIBITS (CONTINUED)

EXHIBIT:	OFD:	AD:	DESCRIPTION:
DBD-3	--	157	Graphs entitled Handy Whitman Cost Index: Transmission Substations; Handy Whitman Cost Index: Transmission Equipment Accts. 354, 355, and 356; Handy Whitman Cost Index: Distribution Substations; and Handy Whitman Cost Index: Distribution Equipment Accts. 364, 365 & 368 (4 pp.)
			(02/04/14)
DBD-4	--	157	Table entitled Avista 2013 Capital Additions Detail (System) (8 pp.)
			(02/04/14)
DBD-5	--	157	Business Cases Including: Project Description, Project Alternatives, Cost Summary, Business Risk, Financial Assessment, Strategic Assessment, Justification for the Project, Milestones, Key Performance Indicators, Et Cetera (301 pp.)
			(02/04/14)
EMA-1T	--	157	AVISTA: ELIZABETH M. ANDREWS Prefiled Direct Testimony of Elizabeth M. Andrews
			(112 pp.) (02/04/14)
EMA-2	--	157	Electric Attrition Study (10 pp.) (02/04/14)
EMA-3	--	157	Natural Gas Attrition Study (10 pp.) (02/04/14)

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

INDEX OF EXHIBITS (CONTINUED)

EXHIBIT:	OFD:	AD:	DESCRIPTION:
EMA-4	--	157	Electric Pro Forma Cross Check Study (10 pp.) (02/04/14)
EMA-5	--	157	Natural Gas Pro Forma Cross Check Study (10 pp.) (02/04/14)
EMA-6	--	157	Electric and Natural Gas 2016 Attrition Studies (16 pp.) (02/04/14)
EMA-7	--	157	Allocation Processes & Methodologies (28 pp.) (02/04/14)
TLK-1T	--	157	AVISTA: TARA L. KNOX Prefiled Direct Testimony of Tara L. Knox (16 pp.) (02/04/14)
TLK-2	--	157	Spreadsheet entitled Average Production and Transmission Cost Washington Electric (2 pp.) (02/04/14)
TLK-3	--	157	Narrative entitled Electric Cost of Service (9 pp.) (02/04/14)
TLK-4	--	157	Spreadsheet entitled Cost of Service Basic Summary Washington Jurisdiction Electric Utility (4 pp.) (02/04/14)
JDM-1T	--	157	AVISTA: JOSEPH D. MILLER Prefiled Direct Testimony of Joseph D. Miller (12 pp.) (02/04/14)

0137

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3 JDM-2	--	157	Narrative entitled Natural Gas Cost of Service Study (9 pp.) (02/04/14)
4			
5 JDM-3	--	157	Spreadsheet entitled Cost of Service General Summary Natural Gas Utility (4 pp.) (02/04/14)
6			
7			
8			
			AVISTA: PATRICK D. EHRBAR
9 PDE-1T	--	157	Prefiled Direct Testimony of Patrick D. Ehrbar (81 pp.) (02/04/14)
10			
11 PDE-2	--	157	Avista's Present Electric Tariffs/Service Schedules (20 pp.) (02/04/14)
12			
13 PDE-3	--	157	Avista's Proposed Electric Tariff Sheets (29 pp.) (02/04/14)
14			
15 PDE-4	--	157	Spreadsheet entitled Avista Utilities Washington Electric Proposed Increase by Service Schedule (3 pp.) (02/04/14)
16			
17			
18			
19 PDE-5	--	157	Avista's Present Natural Gas Tariff Sheets (13 pp.) (02/04/14)
20			
21 PDE-6	--	157	Avista's Proposed Natural Gas Tariff Sheets (18 pp.) (02/04/14)
22			
23			
24			
25			

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3 PDE-7	--	157	Spreadsheet entitled Avista Utilities Washington Natural Gas Proposed Increase by Service Schedule (3 pp.) (02/04/14)
6 PDE-8	--	157	Spreadsheet entitled 2015 Incremental Lost Margin from DSM Pro Forma Cross Check Study (1 pg.) (02/04/14)
9 PDE-9	--	157	Spreadsheet entitled Avista Utilities Electric Decoupling Mechanism, Development of Allowed Non-Power Supply Revenue by Rate Schedule Electric (4 pp.) (02/04/14)
14 PDE-10	--	157	Spreadsheet entitled Avista Utilities Natural Gas Decoupling Mechanism, Development of Allowed Delivery Revenue by Rate Schedule Natural Gas (4 pp.) (02/04/14)
19 JH-1T	--	157	STAFF: JOANNA HUANG Prefiled Response Testimony of Joanna Huang (6 pp.) (07/22/14)
21 JH-2	--	157	Attachments C and F of Avista's Response to Staff's Data Request No. 115 (4 pp.) (07/22/14)

24

25

0139

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

INDEX OF EXHIBITS (CONTINUED)

EXHIBIT:	OFD:	AD:	DESCRIPTION:
		STAFF:	BETTY A. ERDAHL
BAE-1T	--	157	Prefiled Response Testimony of Betty A. Erdahl (14 pp.) (07/22/14)
BAE-2	--	157	Combined Working Capital Summary (1 pg.) (07/22/14)
BAE-3	--	157	Combined Working Capital for the Twelve Month Period Ended December 31, 2013, AMA (1 pg.) (07/22/14)
BAE-4	--	157	Combined Working Capital Calculation Allocated to Operating and Non-Operating Business (1 pg.) (07/22/14)
BAE-5	--	157	Combined Working Capital Detail (4 pp.) (07/22/14)
		STAFF:	CHRISTOPHER T. MICKELSON
CTM-1T	--	157	Prefiled Response Testimony of Christopher T. Mickelson (71 pp.) (07/22/14) revised 08/05/14
CTM-2	--	157	Electric Cost of Service (5 pp.) (07/22/14)
CTM-3	--	157	Electric Revenue Allocation and Rate Design (8 pp.) (07/22/14) revised 08/05/14

0140

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3 CTM-4	--	157	Electric Cost
4			Classifications and
5			Allocations (5 pp.)
			(07/22/14) revised
			08/05/14
6 CTM-5	--	157	Natural Gas Cost of
7			Service (6 pp.)
			(07/22/14)
8 CTM-6	--	157	Natural Gas Revenue
9			Allocation and Rate
			Design (6 pp.) (07/22/14)
			revised 08/05/14
10 CTM-7	--	157	Natural Gas Cost
11			Classifications and
12			Allocations (3 pp.)
			(07/22/14)
13 CTM-8	--	157	Allocation of Natural Gas
14			Distribution Mains
			(1 pg.) (07/22/14)
			STAFF: KENNETH L. ELGIN
16 KLE-1T	--	157	Prefiled Response
17			Testimony of Kenneth L.
			Elgin (73 pp.) (07/22/14)
18 KLE-2	--	157	Experience and
19			Qualifications (4 pp.)
			(07/22/14)
20 KLE-3	--	157	Avista Cost of Debt
21			(2 pp.) (07/22/14)
22 KLE-4	--	157	Standard & Poor's
			RatingsDirect: Avista May
			9, 2014 (6 pp.)
23			(07/22/14)
24 KLE-5	--	157	Value Line, Avista
25			Corporation, November 1,
			2013 (1 pg.) (07/22/14)

0141

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3 KLE-6	--	157	Calculation of Cost of Capital for Full Decoupling (1 pg.) (07/22/14)
4			
5 KLE-7	--	157	Selected Historical Financial Data Avista Corporation (11 pp.) (07/22/14)
6			
7			
8 KLE-8	--	157	Avista Corporation Historical Stock Prices (1 pg.) (07/22/14)
9			
10			
11 TES-1T	--	157	STAFF: THOMAS E. SCHOOLEY Prefiled Response Testimony of Thomas E. Schooley (40 pp.) (07/22/14) revised
12			
13			
14 TES-2C	--	157	08/05/14 ***CONFIDENTIAL*** Staff Decoupling Proposal Electric (4 pp.) (07/22/14) revised
15			
16			
17 TES-3C	--	157	08/05/14 ***CONFIDENTIAL*** Staff Decoupling Proposal Natural Gas (4 pp.) (07/22/14) revised
18			
19			
20 TES-4C	--	157	08/05/14 ***CONFIDENTIAL*** Avista Exhibit No. PDE-9 Revised (4 pp.) (07/22/14)
21			
22 TES-5	--	157	Decoupling Results Compared (1 pg.) (07/22/14)
23			
24			
25			

0142

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT: OFD: AD: DESCRIPTION:

3

STAFF: JASON L. BALL

4

JLB-1T

--

157

Prefiled Response
Testimony of Jason L.

5

6

JLB-2

--

157

Ball (13 pp.) (07/22/14)
Testimony of Alan P.
Buckley (15 pp.)

7

8

JLB-3C

--

157

(07/22/14)
CONFIDENTIAL Net
Power Supply Expense

9

10

JLB-4C

--

157

(3 pp.) (07/22/14)
CONFIDENTIAL ERM
Authorized Power Supply
Expense (1 pg.)
(07/22/14)

11

12

JLB-5

--

157

Avista Response to
Staff's Data Request No.
162 (2 pp.) (07/22/14)

13

14

STAFF: DAVID C. GOMEZ

15

DCG-1CT

--

157

CONFIDENTIAL
Prefiled Response
Testimony of David C.

16

17

DCG-2

--

157

Gomez (18 pp.) (07/22/14)
Avista's Construction
Work in Progress (CWIP)
Balances (1 pg.)
(07/22/14)

18

19

DCG-3

--

157

Avista's Capital
Expenditures; Variances
from 2012 GRC Estimates

20

21

22

DCG-4

--

157

(1 pg.) (07/22/14)
Avista's Capital
Additions; Variances from
2012 Estimates (1 pg.)
(07/22/14)

23

24

25

0143

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3 DCG-5	--	157	Avista's Annual Capital Expenditures, Additions and CWIP Balances (1 pg.) (07/22/14)
4			
5 DCG-6C	--	157	***CONFIDENTIAL*** Avista's Response to Public Counsel's Data Request No. 22, Confidential Attachment A (51 pp.) (07/22/14)
6			
7			
8			
9 DCG-7	--	157	Avista Capital Addition Estimate Updates from Original Filing (1 pg.) (07/22/14)
10			
11			STAFF: JULIANA M. WILLIAMS
12			
13 JMW-1T	--	157	Prefiled Response Testimony of Juliana M. Williams (23 pp.) (07/22/14) revised 08/05/14
14			
15			
16 JMW-2	--	157	Pilot Electric and Natural Gas Low-Income Rate Discount (5 pp.) (07/22/14) revised 08/05/14
17			
18			
19 JMW-3	--	157	Avista Low-Income Rate Assistance Program Summary Report, Program Year 2012-13 (23 pp.) (07/22/14)
20			
21			STAFF: BRADLEY T. CEBULKO
22			
23 BTC-1T	--	157	Prefiled Response Testimony of Bradley T. Cebulko (19 pp.) (07/22/14)
24			
25			

0144

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

INDEX OF EXHIBITS (CONTINUED)

EXHIBIT:	OFD:	AD:	DESCRIPTION:
BTC-2	--	157	IEEE and Regional Benchmarks (4 pp.) (07/22/14)
BTC-3	--	157	Service Quality and Reliability Report Card (3 pp.) (07/22/14)
CRM-1CT	--	157	STAFF: CHRIS R. MCGUIRE ***CONFIDENTIAL*** Prefiled Response Testimony of Chris R. McGuire (54 pp.) (07/22/14) revised 08/05/14
CRM-2	--	157	Electric Attrition Analysis (10 pp.) (07/22/14) revised 08/05/14
CRM-3	--	157	Natural Gas Attrition Analysis (10 pp.) (07/22/14) revised 08/05/14
CRM-4	--	157	REC Revenues Rebate (2 pp.) (07/22/14)
CME-1T	--	157	ENERGY PROJECT: CHARLES M. EBERDT Prefiled Response Testimony of Charles M. Eberdt (11 pp.) (07/22/14)
CME-2	--	157	Brief Resume (1 pg.) (07/22/14)

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

INDEX OF EXHIBITS (CONTINUED)

EXHIBIT:	OFD:	AD:	DESCRIPTION:
			PUBLIC COUNSEL: JAMES R. DITTMER
JRD-1CT	--	157	***CONFIDENTIAL*** Prefiled Response Testimony of James R. Dittmer (86 pp.) (07/22/14)
JRD-2	--	157	Summary of Public Counsel Electric Adjustments (8 pp.) (07/22/14)
JRD-3	--	157	Summary of Public Counsel Natural Gas Adjustments (8 pp.) (07/22/14)
JRD-4C	--	157	***CONFIDENTIAL*** Response to Staff's Data Request No. 92 (1 pg.) (07/22/14)
JRD-5C	--	157	***CONFIDENTIAL*** Response to Public Counsel's Data Request No. 22 (52 pp.) (07/22/14)
JRD-6	--	157	Response to Public Counsel's Data Request No. 136 (2 pp.) (07/22/14)
JRD-7	--	157	Response to Public Counsel's Data Request No. 191 (3 pp.) (07/22/14)
JRD-8	--	157	Summary of Experience and Qualifications (2 pp.) (07/22/14)

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT: OFD: AD: DESCRIPTION:

3

PUBLIC COUNSEL: GLENN A. WATKINS

4

GAW-1T

--

157

Prefiled Response
Testimony of Glenn A.
Watkins (33 pp.)
(07/22/14)

5

6

GAW-2

--

157

Background & Experience
Profile (3 pp.)
(07/22/14)

7

8

GAW-3

--

157

Workpaper JDM-G-44 of
Joseph Miller, Tab:
"Mains-Weighted Cost"

9

10

(2 pp.) (07/22/14)

11

GAW-4

--

157

Avista Response to Public
Counsel Data Request No.

12

13

GAW-5

--

157

161 (2 pp.) (07/22/14)
Public Counsel Natural
Gas Class Cost of Service

14

15

GAW-6

--

157

Study (4 pp.) (07/22/14)
Public Counsel Customer
Cost Analyses (Electric &
Natural Gas) (1 pg.)
(07/22/14)

16

17

PUBLIC COUNSEL: STEPHEN G. HILL

18

SGH-1T

--

157

Prefiled Response
Testimony of Stephen G.
Hill (80 pp.) (07/22/14)

19

20

SGH-2

--

157

Electric Utility Industry
Common Equity Ratios
(1 pg.) (07/22/14)

21

22

SGH-3

--

157

Sample Group Selection

23

24

SGH-4

--

157

(1 pg.) (07/22/14)
DCF Growth Rate
Parameters (4 pp.)

25

(07/22/14)

0147

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3	SGH-5	--	157 DCF Growth Rates (2 pp.) (07/22/14)
4	SGH-6	--	157 Stock Price, Dividend
5			Yield (1 pg.) (07/22/14)
6	SGH-7	--	157 DCF Cost of Equity Capital (1 pg.)
7			(07/22/14)
8	SGH-8	--	157 Mechanical DCF Analysis (1 pg.) (07/22/14)
9	SGH-9	--	157 CAPM Cost of Equity Capital (1 pg.) (07/22/14)
10			
11	SGH-10	--	157 Earnings-Price Ratio
12			Proof (1 pg.) (07/22/14)
13	SGH-11	--	157 Modified Earnings-Price Ratio Analysis (1 pg.)
14			(07/22/14)
15	SGH-12	--	157 Market-To-Book Ratio Analysis (2 pp.)
16			(07/22/14)
17	SGH-13	--	157 Washington Electric Operations (4 pp.)
18			(07/22/14)
19	SGH-14	--	157 Washington Natural Gas (4 pp.) (07/22/14)
20	SGH-15	--	157 Overall Cost of Capital
21			(1 pg.) (07/22/14)
22	SGH-16	--	157 Education and Employment History of Stephen G.
23			Hill (1 pg.) (07/22/14)
24			
25			

25

0148

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

INDEX OF EXHIBITS (CONTINUED)

EXHIBIT:	OFD:	AD:	DESCRIPTION
SGH-17	--	157	Determinants of Long-Run Sustainable Growth in the DCF Model (5 pp.) (07/22/14)
SGH-18	--	157	Sample Company Growth Rate Analyses (7 pp.) (07/22/14)
SGH-19	--	157	Quantifying Decoupling Risk (16 pp.) (07/22/14)
			PUBLIC COUNSEL: LEA FISHER
LF-1CT	--	157	***CONFIDENTIAL*** Prefiled Response Testimony of Lea Fisher (19 pp.) (07/22/14)
LF-2	--	157	REC Revenue Rebate Calculation with Public Counsel's Proposed Interest Rate (1 pg.) (07/22/14)
LF-3	--	157	REC Revenue Rebate Calculation with Public Counsel's Proposed REC Purchase Adjustment and Interest Rate (1 pg.) (07/22/14)
LF-4	--	157	Public Counsel Proposed REC Rebate Allocation (1 pg.) (07/22/14)
LF-5C	--	157	***CONFIDENTIAL*** Total REC Expenses, January 2012-June 2016 (1 pg.) (07/22/14)
LF-6	--	157	Avista's Response to Public Counsel's Data Request No. 130 (1 pg.) (07/22/14)

(07/22/14)

1

INDEX OF EXHIBITS (CONTINUED)

2

3

EXHIBIT:
LF-7

OFD:
--

AD:
157

DESCRIPTION:

Avista's Response to
Public Counsel's Data
Request No. 210 and
Attachment A (2 pp.)

4

5

6

LF-8

--

157

(07/22/14)

Avista's Response to
Public Counsel's Data
Request No. 207 (2 pp.)
(07/22/14)

7

8

ICNU: ROBERT R. STEPHENS

9

10

RRS-1T

--

157

Prefiled Response
Testimony of Robert R.
Stephens (30 pp.)
(07/22/14)

11

12

RRS-2

--

157

Qualifications of Robert
R. Stephens (2 pp.)
(07/22/14)

13

14

RRS-3

--

157

Monthly Peak Demands as a
Percent of the Annual
System Peak (1 pg.)

15

16

(07/22/14)

17

RRS-4

--

157

Allocation of System Peak
Day Capacity (1 pg.)

18

19

RRS-5

--

157

Production-Related Costs
Allocated Using a 4 CP

20

21

RRS-6

--

157

Method (1 pg.) (07/22/14)

Production-Related Costs
Allocated Using a 4 CP
Method (Peak Credit)
(1 pg.) (07/22/14)

22

23

RRS-7

--

157

Section 34 of Avista's
Open Access Transmission
Tariff (3 pp.) (07/22/14)

24

25

0150

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3 RRS-8	--	157	Modifications for Production-Related Cost Allocation & Transmission Cost Allocation (1 pg.)

4

5

(07/22/14)

6

7 BGM-1CT	--	157	ICNU: BRADLEY G. MULLINS ***CONFIDENTIAL*** Prefiled Response Testimony of Bradley G. Mullins (39 pp.) (07/22/14) revised 08/01/14
-----------	----	-----	--

8

9

10

11 BGM-2	--	157	Qualification Statement of Bradley G. Mullins (2 pp.) (07/22/14)
----------	----	-----	--

12

13 BGM-3	--	157	Attrition Study Adjustment Calculation for Cost of Capital
----------	----	-----	--

14

15 BGM-4	--	157	(1 pg.) (07/22/14) Pro Forma Cross Check Study Adjustment Calculation for Cost of Capital (2 pp.)
----------	----	-----	---

16

17 BGM-5	--	157	(07/22/14) Attrition Study Adjustment Calculation to Remove Trending from Attrition Study (1 pg.)
----------	----	-----	---

18

19 BGM-6	--	157	(07/22/14) Pro Forma Cross Check Study Adjustment Calculation for Forecast Capital Expenditures
----------	----	-----	---

20

(2 pp.) (07/22/14)

21

22

23

24

25

0151

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
BGM-7	--	157	Pro Forma Cross Check Study Adjustment Calculation for Lost Energy Efficiency Margins

5

BGM-8	--	157	(2 pp.) (07/22/14) Attrition Study Adjustment Calculation for Net Power Supply Cost Adjustments (1 pg.)
-------	----	-----	---

8

BGM-9	--	157	(07/22/14) Pro Forma Cross Check Study Adjustment Calculation for Net Power Supply Cost Adjustments
-------	----	-----	---

11

BGM-10	--	157	(2 pp.) (07/22/14) Avista Responses to ICNU Data Requests (6 pp.)
--------	----	-----	---

13

MPG-1CT	--	157	(07/22/14) ICNU & NWIGU: MICHAEL P. GORMAN ***CONFIDENTIAL*** Prefiled Response Testimony of Michael P. Gorman (68 pp.)
---------	----	-----	--

17

MPG-2	--	157	(07/22/14) Qualifications of Michael P. Gorman (4 pp.)
-------	----	-----	--

19

MPG-3	--	157	(07/22/14) Rate of Return (1 pg.) (07/22/14)
-------	----	-----	--

21

MPG-4C	--	157	***CONFIDENTIAL*** Capital Structure (1 pg.) (07/22/14)
--------	----	-----	---

23

MPG-5	--	157	Cost of Debt (1 pg.)
-------	----	-----	----------------------

24

(07/22/14)

25

0152

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:	
3				
4	MPG-6	--	157	Proxy Group (1 pg.)
5	MPG-7	--	157	(07/22/14) Consensus Analysts' Growth Rates (1 pg.)
6				(07/22/14)
7	MPG-8	--	157	Constant Growth DCF Model (Consensus Analysts' Growth Rates) (1 pg.)
8				(07/22/14)
9	MPG-9	--	157	Payout Ratios (1 pg.)
10				(07/22/14)
11	MPG-10	--	157	Sustainable Growth Rate (2 pp.) (07/22/14)
12	MPG-11	--	157	Constant Growth DCF Model (Sustainable Growth Rate) (1 pg.) (07/22/14)
13				
14	MPG-12	--	157	Electricity Sales are Linked to U.S. Economic Growth (1 pg.) (07/22/14)
15				
16	MPG-13	--	157	Multi-Stage Growth DCF
17				Model (1 pg.) (07/22/14)
18	MPG-14	--	157	Common Stock Market/Book Ratio (1 pg.) (07/22/14)
19	MPG-15	--	157	Equity Risk Premium Treasury Bond (1 pg.) (07/22/14)
20				
21	MPG-16	--	157	Equity Risk Premium Utility Bond (1 pg.) (07/22/14)
22				
23	MPG-17	--	157	Bond Yield Spreads
24				(1 pg.) (07/22/14)
25				

0153

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT:	OFD:	AD:	DESCRIPTION:
3	MPG-18	--	157 Treasury and Utility Bond Yields (3 pp.) (07/22/14)
4			
5	MPG-19	--	157 Value Line Beta (1 pg.)
6			(07/22/14)
6	MPG-20	--	157 CAPM Return (1 pg.)
7			(07/22/14)
8	MPG-21C	--	157 ***CONFIDENTIAL***
9			Standard & Poor's Credit Metrics (4 pp.)
10			(07/22/14)
10	MPG-22	--	157 Revised McKenzie DCF Cost of Equity Estimates
11			(1 pg.) (07/22/14)
12	MPG-23	--	157 Variations of the CAPM and Beta Calculations
13			(3 pp.) (07/22/14)
14			
15		NWIGU:	MICHAEL P. GORMAN
15	MPG-24T	--	157 Prefiled Response
16			Testimony of Michael P. Gorman (15 pp.)
17			(07/22/14)
18	MPG-25	--	157 Attrition Revenue Requirement (2 pp.)
19			(07/22/14)
20	MPG-26	--	157 Capital Account Escalation Rate (1 pg.)
21			(07/22/14)
22	MPG-27	--	157 Natural Gas Results
23			(1 pg.) (07/22/14)

24

25

0154

1

INDEX OF EXHIBITS (CONTINUED)

2

EXHIBIT: OFD: AD: DESCRIPTION:

3

NWIGU: BRIAN C. COLLINS

4

BCC-1T

--

157

Prefiled Response
Testimony of Brian C.
Collins (22 pp.)
(07/22/14)

5

6

BCC-2

--

157

Qualifications of Brian
C. Collins (3 pp.)
(07/22/14)

7

8

BCC-3

--

157

Summary of Natural Gas

9

10

BCC-4

--

157

Margin (1 pg.) (07/22/14)
Distribution Net Plant
Allocation (1 pg.)

11

12

BCC-5

--

157

(07/22/14)
Allocation of System Peak
Day Capacity (1 pg.)

13

(07/22/14)

14

15

16

17

18

19

20

21

22

23

24

25

0155

1 OLYMPIA, WASHINGTON; SEPTEMBER 23, 2014

2 10:15 A.M.

3 -o0o-

4

5 JUDGE FRIEDLANDER: All right. Let's be
6 on the record. My name is Marguerite Friedlander, I'm
7 the administrative law judge for the Commission
8 presiding over the matter of Dockets UE-140188 and
9 UG-140189, Avista's general rate case. The Commission
10 has convened this hearing to examine the settlement
11 agreement that was filed on August 18th, 2014.

12 So we will begin by taking brief appearances,
13 just name and who you are representing. We will start
14 with the Company.

15 MR. MEYER: Appearing on behalf of
16 Avista, David Meyer.

17 JUDGE FRIEDLANDER: Thank you.

18 And Public Counsel?

19 MS. GAFKEN: Lisa Gafken, Assistant
20 Attorney General, on behalf Public Counsel.

21 JUDGE FRIEDLANDER: Okay.

22 And appearing on behalf of Staff?

23 MR. SHEARER: Brett Shearer, Assistant
24 Attorney General, and my colleague, Pat Oshie.

25 JUDGE FRIEDLANDER: Great, thank you.

0156

1 Appearing on behalf of the Industrial
2 Customers of Northwest Utilities?

3 MR. WEBER: Josh Weber with Davison
4 Van Cleve, on behalf of ICNU.

5 JUDGE FRIEDLANDER: Thank you.

6 Appearing on behalf of the NWIGU?

7 MR. STOKES: Good morning. Chad Stokes
8 for the Northwest Industrial Gas Users.

9 JUDGE FRIEDLANDER: Great, thank you.

10 And appearing today on behalf of The Energy
11 Project?

12 MR. ROSEMAN: Ronald Roseman appearing
13 on behalf The Energy Project.

14 JUDGE FRIEDLANDER: Thank you.

15 Is there anyone on the conference bridge who
16 would like to put in appearance today?

17 Okay, hearing nothing, I think this would be
18 the appropriate time to admit the exhibits. Is there
19 anyone who would raise an objection to admission of
20 all the exhibits of the prefiled testimony, attached
21 exhibits, Bench Requests 1 and 2, the settlement
22 agreement and supporting documentation?

23 All right. Hearing nothing, those will be
24 admitted.

25

0157

1 (Exhibit Nos. 1 thru BCC-5 were admitted
2 into the record.)

3 JUDGE FRIEDLANDER: Is there any other
4 procedural business before we go ahead and swear in
5 the witnesses?

6 MS. GAFKEN: Your Honor, this isn't
7 necessarily a procedural issue, but I wanted to bring
8 it up before I forget and the hearing ends.

9 JUDGE FRIEDLANDER: Sure.

10 MS. GAFKEN: We wanted to ask what you
11 wanted us to do with the public comment exhibit.

12 JUDGE FRIEDLANDER: Absolutely.

13 MS. GAFKEN: We do have a proposal, in
14 terms of timing.

15 JUDGE FRIEDLANDER: Okay. I know that
16 we typically will have a public comment exhibit coming
17 from Public Counsel, so let's designate that as No. 5,
18 Exhibit No. 5 --

19 MS. GAFKEN: Okay.

20 JUDGE FRIEDLANDER: -- under the bench
21 exhibits.

22 You said that you have a proposal as far as
23 timing.

24 MS. GAFKEN: Right. We usually receive
25 from Commission Staff what they have received

0158

1 throughout the case. We need to coordinate with them
2 to get that. We thought that perhaps by mid next week
3 we could have everything pulled together.

4 JUDGE FRIEDLANDER: So we are looking
5 at, say, around the 30th or the 1st?

6 MS. GAFKEN: Gosh, are we already at --
7 yes.

8 JUDGE FRIEDLANDER: Because today is the
9 23rd, so around the 30th or the 1st.

10 MS. GAFKEN: Yes.

11 JUDGE FRIEDLANDER: That's acceptable.
12 I don't have any issues with that. We will designate
13 it as Exhibit No. 5.

14 Okay. With that, I think we are ready to
15 swear in the settlement panel. So if you will all
16 rise and raise your right hand.

17

18 CHARLES EBERDT, BRADLEY MULLINS, KELLY NORWOOD, EDWARD
19 FINKLEA, LEA FISHER, THOMAS SCHOOLEY, witnesses
20 herein, having been first duly sworn on oath, were
21 examined and testified as follows:

22 MULTIPLE SPEAKERS: I do.

23 JUDGE FRIEDLANDER: Please be seated.

24 And let me go ahead and I will get the
25 Commissioners. We will go off the record for a brief

0159

1 moment.

2 MS. GAFKEN: Your Honor, if I may --

3 JUDGE FRIEDLANDER: Yes.

4 MS. GAFKEN: -- just one more thing.

5 JUDGE FRIEDLANDER: Certainly.

6 MS. GAFKEN: And I would have expected
7 that they would have stood and also taken the oath.
8 We do have our witnesses that filed testimony, Jim
9 Dittmer, Stephen Hill and Glenn Watkins, available on
10 the bridge line, just in case there is any technical
11 question that --

12 JUDGE FRIEDLANDER: Okay, okay. And as
13 long as I have the settlement panel sworn in, I'm
14 happy. If we have other questions for additional
15 witnesses, we can swear them in at that time.
16 Thank you, though.

17 And when I come back with the Commissioners, I
18 will expect to have opening statements from the
19 parties. First of all, please don't repeat anything
20 you may have said already in joint testimony or
21 previously filed testimony.

22 The other thing is, we only really need --
23 when we get into the questions for clarification
24 purposes, we really only need one person who can
25 answer the question. From there on if you hear

0160

1 something that doesn't ring true to you, please feel
2 free to interject. Otherwise, we just expect one
3 answer, not six.

4 I think that's it. So we will be off the
5 record for a minute.

6 (A brief recess.)

7 JUDGE FRIEDLANDER: We'll go back on the
8 record. I am joined now by Chairman David Danner and
9 Commissioners Jeffrey Goltz and Philip Jones. We have
10 empaneled the settlement witnesses, and we would like
11 to have a brief statement, as brief as you can, about
12 the public interest that may have been met with this
13 settlement agreement.

14 So we will begin with, I guess, Mr. Schooley.

15 MR. SCHOOLEY: Good morning,
16 Commissioners. Good morning everybody here. This
17 case presented Staff with an opportunity to closely
18 examine important issues regarding attrition,
19 decoupling and cost of capital.

20 While Staff was clearly ready to advance an
21 in-depth analysis of each of these topics, with
22 specific attention to Mr. McGuire's testimony on
23 attrition, we believe that the settlement we have
24 arrived at is fair and a balanced result that is in
25 the public interest.

0161

1 Setting rates is not a precise exercise, but
2 one which recognizes that the public interest is found
3 within a broad range of reasonable outcomes. Staff
4 considered many possible ways this case could go and
5 concluded that the settlement is fair. The revenue
6 increases in electricity and natural gas are
7 reasonable, the decoupling plan is fair and complete,
8 and the revision to the energy recovery mechanism is a
9 needed improvement. Staff agrees that this settlement
10 is in the public interest.

11 JUDGE FRIEDLANDER: Thank you.

12 And, Ms. Fisher?

13 MS. FISHER: Good morning,
14 Commissioners, and everyone else in the room. This is
15 Lea Fisher on behalf of Public Counsel. My comments
16 are slightly longer than Mr. Schooley's, but I will
17 try to keep them fairly brief.

18 Public Counsel's decision to join this
19 settlement was based on a number of factors. The most
20 important, in our view, include the overall agreed
21 upon revenue requirement, the agreement on rate spread
22 and rate design and the outcomes on certain policy
23 issues, including decoupling and attrition.

24 With respect to the agreed on revenue
25 requirement, the overall rate impact on customers is

0162

1 always very important to Public Counsel, and is a key
2 element in consideration of any settlement we agree
3 to. In this case, for both gas and electric, the
4 overall proposed rate increases have been reduced
5 substantially. On the electric side, residential and
6 small business customers will experience a less than
7 1 percent bill increase in 2015, and gas customers
8 will experience approximately a 5.6 percent increase.
9 The overall revenue requirement and the amount that
10 was -- that was reduced from the filed case, was one
11 of the key factors in reaching agreement for Public
12 Counsel.

13 As I mentioned, rate spread and rate design in
14 this case were also particularly important to Public
15 Counsel. The settlement provides for an equal
16 percentage increase on the electric side and very
17 nearly an equal percentage increase on the gas side.
18 That was particularly important, given the testimony
19 provided by other parties in this case, that would
20 have shifted cost recovery significantly to the
21 residential class. So this outcome that allows for
22 equal percentage increase on cost of -- on rate
23 spread, and also no agreement on cost of service was
24 very important to Public Counsel.

25 In addition, the monthly fixed customer charge

0163

1 is another issue that is very important to us. Avista
2 proposed dramatic increases to both the gas and
3 electric basic charges in its directly filed case.
4 The proposed settlement, however, only allows for 50
5 cent increase and a dollar increase to electric and
6 gas charges respectively.

7 Another important piece of the settlement for
8 Public Counsel is the agreement on decoupling. Public
9 Counsel is generally supportive of full decoupling, as
10 is proposed in this case, however, it was very
11 important to us that the mechanism was designed with
12 customer protections in place. It was also important
13 for us that the settlement acknowledged there is a
14 reduction and risk associated with the adoption of
15 decoupling, and for this to be reflected in the rates
16 that were agreed to in the settlement.

17 Ultimately, on both these important issues for
18 us there was agreement, and so there is customer
19 protections associated with decoupling in this case,
20 and there's also a recognition that with decoupling,
21 there is a risk shift, and the overall revenue
22 requirement reflects that. So ultimately, Public
23 Counsel views the settlement on decoupling to be a
24 positive outcome for the Company and the ratepayers,
25 and this helped us reach agreement in this case.

0164

1 Lastly, it was important to Public Counsel
2 that there is no agreement that an attrition
3 adjustment is the basis for the revenue increases
4 under the settlement.

5 While certain parties may have relied on their
6 attrition analyses and their individual evaluations of
7 the settlement, the stipulation itself is not based on
8 an attrition adjustment, which is important to us
9 because we oppose the adjustment in this case.

10 The settlement agreement also recommends a
11 policy proceeding to address attrition and other
12 ratemaking policy issues. We see this as a very
13 important opportunity to be able to explore the
14 question of what is attrition and other possible
15 remedies for that issue and to develop a consistent
16 approach among all stakeholders and possibly other
17 electric and gas utilities.

18 In conclusion, we are pleased that the parties
19 were successful in reaching an agreement that we
20 believe fairly balances the positions of all involved,
21 and we think the settlement today is in the public
22 interest and should be approved.

23 JUDGE FRIEDLANDER: Thank you.

24 Mr. Finklea.

25 MR. FINKLEA: Good morning,

0165

1 Commissioners. I am Ed Finklea, the Executive
2 Director of the Northwest Industrial Gas Users.

3 The primary reason the Gas Users believe that
4 this settlement stipulation is in the public interest
5 is that the agreement did bring down the overall gas
6 revenue requirement to 8.5 million, from the
7 originally filed 12.1 million that was requested by
8 Avista.

9 Another reason it was important to us is that
10 we did reach a compromise on rate spread. Under the
11 settlement stipulation, it was particularly important
12 to the Gas Users that Schedule 146 move toward its
13 relative cost of service. Moving rates closer to cost
14 of service is appropriate, and it is a significant
15 reason why the Gas Users support the stipulated
16 settlement.

17 The 146 rate design was also important to us.
18 Under the stipulation, the customer charge will go
19 from \$400 to \$500 a month, and then all of the blocks
20 on 146 will have an equal percentage of margin
21 increase to those blocks. This was a compromise for
22 our group, with the other parties, but we believe the
23 compromise reaches a public interest standard.

24 It's also important for the Gas Users that
25 Avista, from the beginning of when it filed the case,

0166

1 proposed to exclude Schedule 146 transportation
2 customers from the decoupling mechanism. That was a
3 consideration in our support of the stipulation.

4 The last issue, from our perspective, was how
5 we address the risk associated with decoupling.
6 Although the parties disagree on the impacts
7 decoupling may have on specific components of Avista's
8 rate case, it was important, from the Gas Users'
9 perspective, to have some acknowledgment of the
10 reduction of risk that's associated with decoupling,
11 and the return that we feel is embedded in the
12 settlement, from our perspective, does reflect a
13 reduced risk, and it was a compromise on the part of
14 all the parties. So it was in that spirit of
15 compromise that we feel that this is in the public
16 interest.

17 JUDGE FRIEDLANDER: Thank you,
18 Mr. Finklea.

19 Mr. Norwood.

20 Oh, and by the way, whoever printed the signs,
21 I do appreciate that. That's very helpful.

22 MR. NORWOOD: Thank you. Good morning,
23 Commissioners. Kelly Norwood with Avista.

24 I would like to take just a couple of minutes
25 to step back and talk with you about what we were

0167

1 looking at and what we were trying to achieve as we
2 worked the parties related to settlement. I would
3 like to reference one page of testimony to do that.
4 We have provided copies of that. It's Page 13 of my
5 testimony, KON-1T. Let's take a couple of minutes
6 here to focus on what we were trying to accomplish as
7 we worked through settlement.

8 On this line graph -- I'm looking at the line
9 graph there. The very bottom of the line graph, you
10 see two relatively flat lines. The blue line with the
11 stars on it, that represents retail therm sales from
12 2005 to 2013 on a natural basis.

13 Does anyone have a copy? Good.

14 And then from 2014 to 2017, those numbers
15 represent estimates for the future. So the blue is
16 retail therm sales, the purple is retail kilowatt hour
17 sales. And what those numbers show you is that the
18 growth in sales has been relatively low, both
19 historically, and the expectation for the future is
20 the same.

21 The green line you see up above represents the
22 change over time on a percentage basis in our non-fuel
23 O&M and A&G. So you can see that that has been
24 growing at a pace up through 2012. And you remember
25 from testimony, that we implemented the voluntary

0168

1 severance incentive plan in late 2012 in order to try
2 to manage those costs going forward, where we
3 eliminated 55 positions.

4 What we also did recently is we changed our
5 pension plan going forward, where we are no longer
6 offering a defined benefit plan for new employees,
7 beginning 1/1/14. We also changed our medical plan
8 for retirees going forward this past year. And so
9 what you see there is a drop in non-fuel O&M in 2013,
10 and a slower or a lower slope of the line from '14 to
11 2017, with regard to non-fuel O&M and A&G.

12 The red line represents the change over time
13 to net plant investment, so that's the dollars we are
14 spending to invest in the plant to serve customers.
15 What you see there is a slight uptick in the slope,
16 beginning in really '12 and '13, going forward, which
17 reflects our recent decision to invest more in utility
18 plant, driven primarily by the fact that in recent
19 years, we have not been approving the level of
20 investment that departments have been requesting. And
21 so we have chosen to approve more of those
22 expenditures going forward. And now is a good time to
23 do that, given the low interest rates, low inflation
24 and relative slack commodity costs.

25 So the point of referencing this slide is to

0169

1 point out that revenues are increasing at a slower
2 pace than our costs and investment. What that
3 represents is what we have defined, and what has been
4 defined earlier as attrition. And so there's a need,
5 then -- as we look at, for example, the test year of
6 2013, and for setting rates for 2015, there's a need,
7 then, to reflect the increased investment and
8 increased costs, as compared to the increase in
9 revenues.

10 So that is what we were looking at as we
11 worked with the parties on establishing or developing
12 this settlement agreement. And as it has already been
13 pointed out, there was not agreement by the parties on
14 the use of a specific attrition adjustment. But in
15 the end, what we were focused on is the end result,
16 and we believe the end result accomplishes what we
17 needed in terms of getting the revenues that we need
18 to be able to cover our costs and earn a reasonable
19 return.

20 Secondly, I would like to talk just briefly
21 about the last rate case. In the last case, parties
22 proposed the Commission approve a two-year rate plan,
23 and so we are a year and a half into that rate plan.
24 And in the last order the Commission pointed out,
25 recognized that they saw an attrition issue. Staff

0170

1 recognized that, the Company recognized that. And so
2 it was recognized that -- in the last order, that
3 there was an attrition problem, and so part of the
4 revenues that were granted were related to the
5 attrition issue.

6 So this is a good opportunity, then, to look
7 back and see, well, how did we do in the last case, if
8 indeed there was an attrition problem, and so there
9 was recognition of that. And so as we pointed out in
10 testimony, if we look back at 2013, on a normalized
11 basis, Avista earned pretty close to its allowed
12 return in 2013, and we are pretty much on track for
13 that in 2014. Now, the year is not over with yet, but
14 time will tell. And so at the end of the year, we can
15 take a look at how we did.

16 So I think that's helpful as we look forward
17 to how we do ratemaking. Whether it's using attrition
18 or other methods, the important thing is to reflect in
19 rates the costs related to certain customers.

20 Multiyear rate plan. In the last case that
21 was approved, a two-year plan. I thought that was a
22 very good method to address ratemaking, and so I think
23 that was a positive outcome. In settlement
24 discussions, there was discussion about multiyear rate
25 plans, and so going forward, that's something that we

0171

1 would like to talk about more.

2 Avista did not propose a two-year plan in this
3 filing. We provided additional information. I think
4 going forward, I would like for us all to all work
5 together to figure out how to work toward multiyear
6 rate plans.

7 The power supply update. The settlement
8 agreement calls for an update in November of this
9 year, which I think is a positive component of the
10 settlement agreement. What it really does is, it says
11 just before rates go into effect, let's look at what
12 the best estimate is of the costs that we are going to
13 incur during the time rates go into effect. I believe
14 that's a positive component of the stipulation.

15 Decoupling. I believe that the decoupling
16 mechanisms in the stipulation are very good,
17 well-designed mechanisms. They are patterned very
18 much after what was approved in the Puget case. A lot
19 of the parties spent a lot of time developing that. I
20 believe what is in front of you are two well-designed
21 mechanisms for electric and natural gas.

22 The rate adjustments are expected to go both
23 directions, both rebates and surcharges for customers,
24 and that the weather is included in the mechanism. It
25 also gives the Company more freedom to further pursue

0172

1 not only energy efficiency, but I would put in there
2 fuel switching. I think we just filed with this
3 Commission a proposal to increase funding to work with
4 customers to switch from electric space and water heat
5 to natural gas for that purpose, which again gets to
6 overall efficiency of the use of natural gas. It also
7 frees up the Company to pursue the distributed
8 generation issue with solar and others. I think the
9 use of decoupling is very positive in this case.

10 There's an earnings test associated with
11 decoupling at that rate of 7.32 percent rate of
12 return. What that does is it provides a sharing of
13 any earnings if the Company should earn above the 7.32
14 percent rate of return.

15 The parties worked together very well to
16 attempt to mitigate the bill impacts to customers here
17 by using ERM dollars. There's roughly \$16 million of
18 ERM money on our balance sheet that we owe customers.
19 So I think this is a very good way to return some of
20 those dollars to customers.

21 And then pricing for distributed generation.
22 We had proposed originally to increase the basic
23 charge, especially on the electric side. We did not
24 accomplish that in the settlement agreement, and we do
25 support what is included in the settlement agreement.

0173

1 As we go forward, we are interested in more discussion
2 with the parties and the Commission on working toward
3 making sure we get the pricing right related to
4 distributed generation, both for customers, the
5 vendors that are working with customers, as well as
6 the Company.

7 One other comment, and then I will close, and
8 that has to do with the risk reduction related to
9 decoupling. I am going to refer to Page 5 of the
10 stipulation, which is marked as Exhibit 3. In
11 Paragraph 10 it says, "The agreed-upon revenue
12 increases reflect a reduction in risk associated with
13 the adoption of decoupling." And I think it is
14 important to recognize what -- what is included in the
15 stipulation and what isn't included in the
16 stipulation.

17 What's in the stipulation is a recognition,
18 that we believe there is a reduction of risk
19 associated with the design of the decoupling mechanism
20 that's proposed here. What I would point out from --
21 just from Avista's perspective is when you have an
22 adjustment of risk, reduction or increase, it does not
23 necessarily in each and every event lead to a
24 corresponding adjustment to cost of capital, whether
25 that be ROE or the cap structure. I'll give you an

0174

1 example.

2 Many years ago we adjusted the deadband for
3 the energy recovery mechanism. It used to be
4 \$9 million per year and now it's \$4 million per year.
5 Well, that reflects a change in risk, a reduction of
6 risk to the Company, but that didn't at that point in
7 time lead to a reduction or change in the ROE or in
8 the equity layer, and so it can go both ways.

9 So the point is, we do agree and we support
10 the statement that's here, that there is a change in
11 risk, reduction in risk related to the mechanism
12 itself, but it wouldn't necessarily lead to a
13 corresponding explicit change in cost of capital.

14 JUDGE FRIEDLANDER: Thank you.

15 MR. NORWOOD: That concludes my
16 comments.

17 JUDGE FRIEDLANDER: Thank you,
18 Mr. Norwood.

19 Mr. Mullins.

20 MR. MULLINS: Good morning,
21 Commissioners. My name is Brad Mullins, and I
22 appreciate the opportunity to be here today on behalf
23 of the Industrial Customers of Northwest Utilities, in
24 support of the all-party settlement reached in
25 Avista's general rate case.

0175

1 ICNU views this as a reasonable settlement
2 resulting in rates and policy that we consider to be
3 in the public interest. This settlement, in resolving
4 all of the issues raised by parties in this
5 proceeding, involved a series of trade-offs between
6 complex matters. And so I am here today to support
7 the reasonableness of the settlement, its stipulation,
8 as an integrated document, rather than any individual
9 issue or component of the settlement viewed in
10 isolation.

11 Notwithstanding that, a key factor for ICNU in
12 joining the settlement was the reduced bill impact and
13 rate stability that the -- that it will provide
14 relative to the Company's initial filing. The
15 settlement represents a substantial reduction to the
16 Company's -- to the initial rate case -- rate increase
17 that the Company requested in its initial filing. We
18 view this to be a positive outcome and consider this
19 end result, which required many compromises between
20 parties, to be in the public interest.

21 ICNU also believes that it is in the public
22 interest to exempt Schedule 25 from the proposed
23 decoupling mechanism, as is accomplished under this
24 settlement. Thus, the settlement is in the public
25 interest because it reduces the bill impacts of the

0176

1 Company's filing and it adopts a policy that is
2 positive and rational.

3 I would again like to express my appreciation
4 for the opportunity to be here today and welcome any
5 questions.

6 JUDGE FRIEDLANDER: Thank you,
7 Mr. Mullins.

8 Mr. Eberdt.

9 MR. EBERDT: My name is Chuck Eberdt. I
10 am here for The Energy Project. I know that -- well,
11 I have been expecting the first question to be how am
12 I supporting the settlement, because I know in public
13 testimony in Spokane, you heard from one of the
14 agencies that I represent that they weren't happy
15 about the settlement, so let's start there.

16 The fact of the matter is, Julie Honekamp was
17 really expressing how difficult it is for someone who
18 is working on behalf of low income people to deal with
19 any rate increase. In particular, I know she cited
20 the fact that the economy in Spokane hasn't even
21 returned to 2008 levels yet and yet there have been
22 rate increases.

23 The fact of the matter is that there is always
24 a balance, and we all know this. There has to be a
25 balance. The utility has to be able to run the

0177

1 company. There has been a lot of attention paid here
2 to keeping the increase in base charges and to keeping
3 the rates down to a level that ratepayers are going to
4 be more able to handle.

5 For us in particular, there is also attention
6 to the low income issue in the case. I don't want to
7 repeat everything that I said in testimony, so I won't
8 go into the detail. The fact is that there is some
9 additional funding for the LIRAP program to compensate
10 for the increase in rates, as well as extend more
11 benefit to at least a couple hundred more households
12 getting some assistance in this case. Those things
13 are really important to us.

14 I would say the fact that the stipulation
15 calls for a study group or a work group to start to
16 really dig in and focus on the low income issue, for
17 me and for our agencies, is a very hopeful thing,
18 looking forward to see if we can find much better ways
19 to deal with the low income issues, and that's why we
20 are supporting the stipulation.

21 JUDGE FRIEDLANDER: Thank you,
22 Mr. Eberdt.

23 Why don't we go ahead and begin going through
24 the clarification questions. You can go ahead and let
25 me know who is going to be answering each one.

0178

1 MR. NORWOOD: I think I will start with
2 the first group, related to decoupling, if that's
3 okay?

4 JUDGE FRIEDLANDER: Okay. That's fine.
5 Thank you.

6 MR. NORWOOD: Others can chime in.

7 JUDGE FRIEDLANDER: Yes. And we will
8 interrupt, too, if we need further clarification.

9 MR. NORWOOD: Do you want me to read the
10 point, just so we know what we are talking about?

11 JUDGE FRIEDLANDER: Sure, sure.

12 MR. NORWOOD: The first one is related
13 to decoupling. "With regard to the earnings test,
14 please be prepared to describe the difference, if any,
15 between the Settlement's use of the phrase 'one-half
16 the rate of return in excess of 7.32%,' and the phrase
17 'one-half the revenue causing the rate of return in
18 excess of 7.32%.'"

19 The answer is there is no difference between
20 the two. And the way this would be done is, for
21 example, if we would earn 7.42 percent instead of 7.32
22 percent, you have ten basis points difference. So
23 that's -- you would take half of that, which is five
24 basis points, times rate base, and that's your -- half
25 your earnings, you would convert that to revenue

0179

1 requirement, and that would be credited back to
2 customers.

3 Item No. 2. "What happens when the rate of
4 return is exactly 7.32%?"

5 There would be no adjustment related to the
6 earnings test in that event.

7 Item 3. "How many additional megawatt-hours
8 of conservation does Avista commit to achieve in this
9 biennium? Is this the amount 5 percent of the
10 biennial target?"

11 During this --

12 CHAIRMAN DANNER: Mr. Norwood, I just
13 want to make sure that if anyone here disagrees with
14 anything that Mr. Norwood is saying as he answers the
15 questions, please step in and share your thoughts.

16 MR. NORWOOD: With regard to the
17 biennial target, for 2014, 2015 our electric
18 conservation target is 64,956 megawatt-hours, and the
19 Company would agree to increase that by 5 percent in
20 total, which is 3,248 megawatt-hours for the two-year
21 period. Even though we're halfway through '14, we
22 would agree to do 5 percent for the total -- whole
23 period.

24 COMMISSIONER GOLTZ: Can we just go
25 back, before we lose the train of thought on the

0180

1 earlier set of questions, so I understand the
2 decoupling -- the earnings test.

3 The -- so if there's a very modest decoupling,
4 I guess it's a -- rebate balance means there's money
5 going back to the customers.

6 MR. NORWOOD: That's correct.

7 COMMISSIONER GOLTZ: So let's
8 say there's a -- on the flip side, there's a very
9 modest surcharge balance, you know, \$1,000. But the
10 rate of return earned is whooping, it's 8.32, so it's
11 1 percent above. The only impact of that earnings
12 test would be to reduce the \$1,000 down to zero and
13 that's it.

14 MR. NORWOOD: I don't believe that's the
15 case.

16 COMMISSIONER GOLTZ: In other words, I
17 guess my question is, is does the earnings test relate
18 just to decoupling surcharges and rebates or it
19 relates to the whole -- the -- all earnings?

20 MR. NORWOOD: It relates to all
21 earnings.

22 COMMISSIONER GOLTZ: Okay.

23 MR. NORWOOD: So there would be a
24 sharing of the total overearning. And to the
25 extent it would -- in this case, it would eliminate

0181

1 the \$1,000 and then we would return half of the total.

2 COMMISSIONER GOLTZ: Of the remainder?

3 MR. NORWOOD: Remaining, exactly. And I

4 think the rebate is also important to talk about.

5 Because if there's a rebate due to the customers and

6 we overearn, we would take half of the overearnings

7 and add it to the rebate.

8 COMMISSIONER GOLTZ: Sorry to stop your

9 flow.

10 MR. NORWOOD: That's okay.

11 We are on Item No. 4. "If he decoupling

12 mechanism ends mid-biennium, how will that impact

13 Avista's conservation commitment in that biennium?"

14 Our commitment would be to follow through on

15 the full 5 percent for the full two-year biennium.

16 Item 5. "Will the decoupling deferrals accrue

17 interest? If so, at what rate?"

18 Someone noticed that we forgot to include a

19 specific rate in the stipulation and the joint

20 testimony. If you look back at the Appendix, if you

21 do the math, there's a 3.25 percent interest rate

22 embedded in there. In our original filing, we had

23 proposed to use the FERC rate, which is updated

24 quarterly, and right now that's 3.25 percent. So our

25 proposal would be to use the FERC rate, which is

0182

1 updated quarterly.

2 COMMISSIONER GOLTZ: Everyone agrees
3 with that?

4 COMMISSIONER JONES: Mr. Norwood, slow
5 down a little bit, if you would, please. Which
6 appendix is that to the settlement agreement? Is that
7 34? Could you just direct me to that?

8 MR. NORWOOD: Let me go to it.

9 COMMISSIONER JONES: I'm looking at
10 Appendix 4 now. It's titled "Electric Decoupling
11 Mechanism." Appendix 5 is "Natural Gas Decoupling
12 Mechanism."

13 MR. NORWOOD: I think I may have to
14 retract. It may have been in our original testimony.
15 We included the interest rate, but --

16 COMMISSIONER JONES: Which exhibit is
17 that? Is that Ms. Andrews or Mr. --

18 MR. NORWOOD: It would be in
19 Mr. Ehrbar's testimony.

20 COMMISSIONER JONES: Can you give us a
21 reference? I'm not going to dwell on this, I just
22 want it for the record.

23 MR. NORWOOD: I'm looking at
24 Mr. Ehrbar's exhibit in the original filing, Exhibit
25 No. 10, on Page 4. On Line 17 it says the FERC rate.

0183

1 COMMISSIONER JONES: Okay.

2 MR. NORWOOD: I apologize. It is not
3 attached to the stipulation. It's in his original
4 testimony.

5 COMMISSIONER GOLTZ: So, Mr. Norwood, on
6 that point, and this is probably a nit, but -- so it
7 would be 3.25 percent. So if the -- if the per
8 customer sales increase, there would be a rebate
9 balance, and you would pay -- when you make the rebate
10 adjustment, in addition to the aggregate amount would
11 be a 3.25 percent interest rate given back to the
12 customers.

13 MR. NORWOOD: Yes. Each month we will
14 actually look at what the actual revenues are versus
15 the authorized revenues on a per-customer basis.

16 COMMISSIONER GOLTZ: Right.

17 MR. NORWOOD: We'll end up with a dollar
18 difference, either plus or minus. So each month will
19 have a dollar amount and then we would accrue the
20 3.25 percent on whatever that number is.

21 COMMISSIONER GOLTZ: So the whole point
22 of decoupling is to make the Company agnostic as to
23 sales or conservation. And if the 3.25 is a little
24 bit on the low side, that's -- you'd still have a
25 modest incentive to -- I mean if you are earning more

0184

1 than 3.25 percent on your balances, you have incentive
2 to increase sales.

3 It strikes me that 3.25 seems a tad low.

4 MR. NORWOOD: No, I think actually, if
5 anything, it might be a tad high. And I hate to say
6 that, but here's why. It's because decoupling is
7 designed to address the changes in between rate cases,
8 which may be a year or two. In the short term
9 interest rate, in fact if you look at our credit
10 facility, the interest rate and fees on it, it's
11 roughly 3 percent. So we're kind of indifferent,
12 really, is probably the better answer.

13 MR. SCHOOLEY: Mr. Goltz, they would not
14 have any incentive to increase sales because if they
15 increase sales, they have to give the money back,
16 because the revenue per customer determination. If
17 anything, they might have the incentive to decrease
18 sales so that they can get the money returned to them
19 with interest.

20 MS. FISHER: Just one other point. This
21 is Lea Fisher on behalf of Public Counsel. I would
22 just point out the current natural gas decoupling
23 mechanism that has been in place for a while did use
24 the 3.25 percent interest rate.

25 MR. NORWOOD: Item No. 6. "Does the

0185

1 third-party evaluation commitment bind the Company
2 to examine any particular aspect or concern about
3 decoupling pilot?"

4 And in the stipulation, there's no specific
5 provision on what we are going to do or not going to
6 do. Our plan would be to work with the parties when
7 we get to that point. In fact, back in '09 when we
8 did an evaluation of a prior mechanism, we actually
9 consulted with the parties, to have them give us names
10 of consultants to use. We made the ultimate decision,
11 but we took into account their preference for
12 consultants. After that, we also worked with the
13 parties to identify the issues that need to be
14 addressed by the evaluation. So that would be our
15 plan going forward, to work with the parties.

16 COMMISSIONER GOLTZ: It seems to me that
17 probably around the country, there's probably --
18 there's got to be a number of evaluative studies on
19 decoupling. I mean is there -- does any of the panel
20 have knowledge of -- is there a template out there
21 that's a good one, or are we just kind of trusting the
22 negotiation process to come up with one?

23 MR. NORWOOD: Well, we'll do research,
24 and I'm sure the other parties will do some research
25 on who the likely best candidates would be for the

0186

1 type of mechanism that we have.

2 COMMISSIONER GOLTZ: Okay. And I just
3 had one other question. This is probably a nit too.
4 It says on Paragraph 13A, that this third-party
5 evaluation of the mechanism would be paid for by
6 Avista. Later on when you talk about the third-party
7 facilitator on low income rate assistance, it says it
8 will be paid for by Avista shareholders. Is that
9 just -- is that additional word, "shareholders,"
10 meaningful or are you talking shareholders in each
11 case?

12 MR. NORWOOD: In both cases, the intent
13 was for Avista shareholders to cover the costs.

14 Item 7, perhaps, is related to 6. "What
15 analysis will the evaluation expected to include?"

16 Our plan would be to work with the parties to
17 identify the issues that need to be addressed.

18 MR. SCHOOLEY: This is Tom Schooley. I
19 would like to add a little color to that, in that I
20 think, at a minimum, the evaluation would cover the
21 increase in conservation that may have been incited
22 by the decoupling. The stabilizing effect on revenues
23 should be evaluated, and also the schedules that are
24 excluded from decoupling should be evaluated to
25 determine if they are fully recovering the fixed costs

0187

1 on the system as they're intended to. Those are three
2 basic issues I think should be recovered -- should be
3 covered in the evaluation.

4 COMMISSIONER JONES: Mr. Schooley, for
5 the record, which schedules are excluded again? I
6 think Mr. Finklea said --

7 MR. SCHOOLEY: Electric Schedule 25 and
8 Gas Schedule 146.

9 COMMISSIONER JONES: Those two on
10 electric and gas?

11 MR. NORWOOD: And on the gas side, 112,
12 122 and 132.

13 COMMISSIONER JONES: Okay.

14 MR. NORWOOD: And transport.

15 JUDGE FRIEDLANDER: And I think on the
16 electric schedule, it's in -- this is found in the
17 settlement, Paragraph 13 b), Electric Schedules 41
18 through 48.

19 MR. NORWOOD: Yes, and those will also
20 be excluded, thank you.

21 JUDGE FRIEDLANDER: Okay.

22 COMMISSIONER JONES: So, Mr. Schooley,
23 when you say you would like to see an analysis done of
24 the rate schedules, rate classes are truly recovering
25 their costs, what do you mean by that? Is that going

0188

1 to be a pretty extensive sort of analysis? That could
2 be pretty detailed I would think.

3 MR. SCHOOLEY: It could. What I'm
4 stating is that the intention for excluding those
5 classes or schedules is that they are to be recovering
6 their fixed costs in the basic charges and demand
7 charges, and not in the volumetric charges. I think
8 there should be at least a study to see, of the costs
9 that are allocated to them presently, are those fully
10 being recovered in the fixed and demand costs, basic
11 charges and demand costs.

12 COMMISSIONER JONES: Okay. Well, that
13 makes sense to me.

14 MR. NORWOOD: Item No. 8. "What process
15 will the Company use to develop the RFP for the
16 third-party evaluation of the decoupling mechanism?
17 Will this process involve the Company's Conservation
18 Advisory Group," and I've already addressed that.

19 Attrition is the next set.

20 COMMISSIONER JONES: Mr. Norwood, before
21 you go forward. On decoupling, I've got a couple more
22 questions.

23 So this is a five-year pilot, right?

24 MR. NORWOOD: Correct.

25 COMMISSIONER JONES: Five years is a

0189

1 long time. So I think you're familiar, that we did a
2 two-year rate plan for you and approved it. We have a
3 longer plan in effected for PSE. With PSE, we asked
4 them to come in and brief us this summer on expense
5 control, cap X, you know, the whole range of issues,
6 how it's working. I personally was not able to attend
7 that, but I heard it was somewhat useful, but not
8 entire -- I mean, there were -- I'm not -- I'm not
9 sure if we really got to the core of the issue.

10 So how would you, as a company -- and others
11 chime in on this -- how would you -- recognizing five
12 years is a long time, how would you suggest that you
13 involve the Commission, not just Staff. This earnings
14 test I get, I understand, but how would you suggest --
15 any suggestions? Now, it's not in the settlement
16 agreement at all. It's pretty mechanistic, what you
17 propose there.

18 MR. NORWOOD: Right. I actually think
19 it's a good idea to do a check-in with not only the
20 parties at the tables here, but also with the
21 Commissioners. Because I believe it's all of our
22 intention to do this right. And even though people
23 here have spent a lot of time and worked at it very
24 carefully, you can always overlook something, and it
25 may not be working right, and that could go two

0190

1 different directions.

2 So I think it's important that we do a
3 check-in. So we are open to a check-in, whether it's
4 once a year, where we file some kind of a report, do a
5 check-in on how it's going, what we're seeing. My
6 preference is not -- that it be a quarterly thing,
7 maybe semiannually, but I'd prefer an annual thing,
8 just to let it run a year and see how it's going.

9 COMMISSIONER JONES: At least speaking
10 for me, that's not my preference. But I think maybe a
11 recessed open meeting, you know, we're doing those,
12 and make it kind of -- if I would say routine, routine
13 in the sense that you knew it was coming, other
14 stakeholders would be put on notice that the
15 Commissioners would be reviewing this in more detail.

16 Second question: Were you at the Spokane
17 public hearings? I don't recall seeing you there.

18 MR. NORWOOD: I was not; I was out of
19 town.

20 COMMISSIONER JONES: Well, I'm sure you
21 got a Staff report.

22 MR. NORWOOD: I did.

23 COMMISSIONER JONES: But there were a
24 number of questions about decoupling. And the sense
25 that I got from the public comments was that people

0191

1 don't understand decoupling, it's very complicated.
2 And the customers, when they receive a surcharge when
3 they think they've been conserving, putting in CFLs,
4 whatever, weatherstripping, shell measures, whatever
5 you have, or just trying to conserve less, we had
6 testimony about people who can't afford to pay their
7 electric or natural gas bills, so they would keep
8 certain rooms cold, you know, they wouldn't turn on
9 the heat.

10 So my concern is that when these people get a
11 surcharge on their bill, they are going to be upset
12 and they won't understand it. Because even the
13 more -- even the business people, I think we had a
14 couple of businesses come in, and we tried to explain
15 decoupling, the basics of it.

16 Public Counsel, I think you put out a good
17 overview on that. But even after reading all of that,
18 they don't understand. So how are you going to
19 educate people? Because the last thing that I would
20 want to see is a lot of calls coming in to our
21 consumer complaints office, and I'm sure your customer
22 service people are busy already. It's not in the
23 settlement agreement, but how do you plan to deal with
24 that?

25 MR. NORWOOD: Right. We don't have a

0192

1 specific plan right now. But you're exactly right on,
2 and it really needs education. The reality is we need
3 to help customers understand that it is much less
4 costly for them long-term for everyone to participate
5 and to conserve energy because their bills will be
6 lower. And as a result of that, there's going to be
7 some increment of a rate increase, whether it's in
8 between rate cases or even after the next rate case,
9 that reduction in usage is going to be factored into
10 the overall rates. Long-term it's less costly for
11 customers, as we all know, than building new power
12 plants to serve higher loads.

13 So it does get down to education. As you
14 know, we have an extensive energy efficiency program,
15 and think we'll need to think about how do we roll the
16 decoupling message in there to help them better
17 understand that, assuming that the Commission approves
18 it, then we have something we can talk about and
19 explain to customers. So I would agree that's
20 something important for us to do.

21 COMMISSIONER JONES: And Chairman Danner
22 as well, we did show the video, you know, the UTC
23 video, a couple of times over there. But we may want
24 to look at maybe the Commission affirmatively trying
25 to explain some of these concepts, too, if decoupling

0193

1 really takes off and is implemented. Because we
2 showed the video. I think there's a mention of
3 decoupling in there. But again, when you get down to
4 it, they don't -- it's complicated, and fixed costs --
5 just getting to what is a fixed cost, what is variable
6 cost, volumetric rates, they don't necessarily get
7 that.

8 MR. NORWOOD: Right. And most people
9 don't focus on it, so it's hard to keep their
10 attention long enough to actually explain it to them,
11 but we'll have to think about that.

12 COMMISSIONER JONES: And then just one
13 last question in the section on decoupling, this is on
14 distributed generation, or what we call distributed
15 energy resources. I'm on Page 29 of your joint
16 testimony. That's exhibit -- what exhibit is the
17 joint testimony, Judge Friedlander?

18 JUDGE FRIEDLANDER: 4.

19 COMMISSIONER JONES: Could you turn to
20 that page? It's up at the top.

21 MR. NORWOOD: I'm there.

22 COMMISSIONER JONES: So I'm a little
23 curious, this is the first time in a decoupling
24 discussion where I think I've seen the company witness
25 say -- mention DG, distributed generation. So I'm

0194

1 curious as to why you included this in the decoupling
2 section. Are you -- and I think there was some
3 discussion before. Are you saying that this is going
4 to be an important element for you, to give you
5 assurance on cost recovery as you offer more
6 distributed generation services under tariff in your
7 service territory to meet consumer demand? Is that
8 what you're trying to --

9 MR. NORWOOD: Right now this not a make
10 or break issue. We had a relatively small number of
11 distributed energy resources on our system.

12 COMMISSIONER JONES: We know that.
13 Yeah, you have a very low number.

14 MR. NORWOOD: Right. Avista recently
15 appointed a manager of solar projects, Kelly Magulski
16 [phonetic]. And so we are ramping up our interest in
17 work on -- in selling solar in our service area. In
18 fact, we recently received a grant from the State of
19 Washington to pursue that.

20 So in terms of -- the point here is that with
21 decoupling, again, in between rate cases, is really
22 what this affects. To the extent we bring on new
23 distributed energy resources at a customer's
24 residence, whether it's residential, commercial or
25 otherwise, they're going to use less energy. And so

0195

1 this actually would end up picking up that difference
2 in between a rate case.

3 COMMISSIONER JONES: So instead of
4 increasing the basic charge, what you're saying, or --
5 or you're not ruling that out, but you're saying that
6 the -- in between rate cases a decoupling mechanism
7 would help make you whole if solar -- if distributed
8 solar and other DER really picks up in your territory?

9 MR. NORWOOD: It would, but I would also
10 say that I think the impact on Avista in between rate
11 cases is probably a smaller issue than the issue of
12 getting the pricing right for customers. And right
13 now a customer is paying us \$8 per month for their
14 electric service. And our cost of service analysis
15 shows that the fixed cost, just the distribution,
16 meter and otherwise, not even talking about
17 transmission and generation that's standing by, it's
18 33, \$35 per month just to have that equipment standing
19 there ready to serve them.

20 My concern is, I see solar taking off and
21 there being more solar. I'm concerned about the
22 vendors and customers looking at this and saying,
23 okay, I can save because I'm paying \$8 per month and I
24 can save all my energy usage. And later down the
25 road, if we choose, okay, this is not fair, let's fix

0196

1 it, and it needs to be \$35 per month, or we need to
2 have a completely separate tariff, the net effect is
3 the customers would be participating now, under this
4 pricing scenario, when the reality is, it needs to be
5 changed going forward. So that's our interest, is
6 primarily the customers' impacts and the vendors'
7 impact.

8 CHAIRMAN DANNER: Yeah, I read this and
9 I -- as you are flagging the issue. We've had
10 workshops where we've had this -- this has been
11 identified to us as a -- certainly as a problem in the
12 future if DG penetration goes up. And I see -- I mean
13 we have a settlement before us. But it may be that
14 the issue of fixed charges is going to be one that
15 we're going to see in the future. And this is just
16 putting us on notice of something we've already been
17 on notice for. So I don't know that it's anything
18 more than information for us. Thank you.

19 MR. SCHOOLEY: I can contribute a little
20 bit more to this part of the conversation. This is
21 Tom Schooley.

22 We have focused on conservation as a reason
23 for decoupling, but as a full decoupling program,
24 there's far more changes to load than what
25 conservation will provoke. I think that makes it

0197

1 almost easier to explain, that your receipt of power
2 is going to be the same regardless of how much you
3 take, and that's going to vary by weather more so than
4 conservation. So, yes, it's important to conserve.
5 But the fixed costs are going to be recovered one way
6 or the other, and that's the message that I think we
7 need to make.

8 COMMISSIONER JONES: Yes, Mr. Schooley,
9 I agree, the weather is probably a bigger impact, and
10 also the economy. Economic cycles can have a huge --
11 can have a fairly significant impact. That's always
12 been one of the difficulties of decoupling analysis,
13 is which factor proportionally has the bigger impact
14 when we do the ex post facto analysis.

15 So we're all going to have to learn about this
16 together. I'm hoping we don't have another big
17 recession like we did in '08 and '09 to test this out,
18 or I'm hoping that we don't have a big weather
19 variation, but it's entirely conceivable that we
20 could.

21 JUDGE FRIEDLANDER: Go ahead.

22 COMMISSIONER GOLTZ: I had a couple
23 questions related to decoupling. In Mr. Norwood's
24 opening statement he talking about the agreement that
25 the overall rates reflect reduction and risk because

0198

1 of the decoupling mechanism. I think I heard you
2 basically say you agree to that, but don't hold us to
3 it in the future. Is that an accurate summary of what
4 you said?

5 MR. NORWOOD: No, I don't agree. Here's
6 the way -- and this is my perspective. Obviously, we
7 were at the table, other parties were at the table,
8 and they will no doubt weigh in.

9 As you can see, there was no agreement on ROE
10 and cap structure, and there's lots of testimony
11 you've seen that's already been filed with different
12 views on what the adjustment should or shouldn't be
13 with decoupling. The point being that the parties
14 came together and agreed that the end result, the
15 revenue increase, is reasonable. We could not come to
16 terms on the ROE or cap structure. And decoupling and
17 adjustment with or without that is one of the issues,
18 but also it's just the overall ROE, what should it be.

19 So the point is there was no agreement on any
20 specific adjustment related to decoupling, or no
21 agreement on ROE or cap structure to begin with. And
22 so I think you would end up with different views on
23 that from the different parties. So my point is there
24 is recognition, and we agree, there's a change in risk
25 associated with the decoupling that's designed here.

0199

1 The question is: What is the impact of that?
2 And -- that's where the disagreement is. There wasn't
3 a need to solve that because for us, we would use a
4 certain cost of money as we developed our settlement
5 scenario. They may have used a different cost of
6 money which may have reflected a reduction in risk.
7 But in the end, we came together. We didn't define
8 the pieces, but we agreed the end result is
9 reasonable.

10 COMMISSIONER GOLTZ: So it could have
11 been 20 basis points; it could have been 200ths of a
12 basis point.

13 MR. NORWOOD: Right. We may have had
14 zero and someone else may have had 20 or 30 or pick a
15 number.

16 COMMISSIONER GOLTZ: So let me ask you
17 this, and I'll ask Ms. Fisher this: So going forward
18 at the next rate case, whenever that is, does this
19 agreement, this stipulation as to these rates reflect
20 a reduction in risk because of the decoupling, does
21 that have any meaning whatsoever in the next rate case
22 given that, when you're determining the cost of
23 capital or capital structure, presumably the cost of
24 capital experts will be looking at comparable
25 companies that may themselves have decoupling, so this

0200

1 will get all washed out.

2 MR. NORWOOD: That's right. In my view,
3 this has no precedent-setting effect. There's
4 basically no agreement on cost of money, there's no
5 agreement on an adjustment related to decoupling.
6 There's just agreement -- there's an impact on risk
7 here but we didn't try to --

8 COMMISSIONER GOLTZ: Right. I'm just
9 wondering -- Ms. Fisher or Mr. Finklea may have to
10 comment on what's -- what do -- what are we -- a year
11 from now or two years from now, whenever it may be,
12 when there's a next rate case, how will we see this
13 stipulation show up in the testimony?

14 MS. FISHER: This is Lea Fisher on
15 behalf of Public Counsel. In my view, I think the
16 answer to that is pretty simple. As Mr. Norwood said,
17 there isn't an agreement how you reflect that risk
18 reduction in the cost of capital, so whether you make
19 an adjustment to the ROE or the equity ratio or some
20 other way to address that, but there is a recognition
21 that there should be a reduction somewhere. So I'm
22 not sure where else that reduction would go, other
23 than cost of capital, in our view. There may be some
24 creative proposals out there, but I think
25 realistically, all the parties here are agreeing that

0201

1 there is a reduction in risk that needs to
2 be reflected in future cases, because we've all agreed
3 to that. Whether we do or don't see that will be --
4 the future will show, but I think ultimately that's
5 what we've agreed to here.

6 MR. NORWOOD: And I actually do take
7 exception to the -- the words are important, the
8 meanings are important here. There is agreement,
9 there's an impact on risk, there's a reduction of
10 risk. There was no agreement that there should be a
11 specific adjustment to ROE or cap structure. So we
12 will debate that to the future, but I think we do
13 agree there's a change in risk.

14 COMMISSIONER GOLTZ: Mr. Schooley.

15 MR. SCHOOLEY: From Staff's perspective,
16 this was an important piece of language here. And it
17 specifically states that revenues may have a risk
18 reduction, and the risk is that the revenues have been
19 stabilized. The rate of return or the earnings that
20 the Company has is as much a function of costs as the
21 revenues. And the costs are not touched by this
22 language or by the risk involved here.

23 So it's the revenues that are being
24 stabilized, not the return, or not the earnings of the
25 Company.

0202

1 MR. GOLTZ: I guess I've always looked
2 at this issue of reduction of risk, looking back to
3 the Commission's policy statement on decoupling, as
4 whether -- when one first commences decoupling,
5 whether it -- the issue of whether is -- looking back
6 to the policy statement of the Commission on
7 decoupling, that whether or not there's an X basis
8 point reduction in the ROE or an adjustment to capital
9 structure, it's relevant at the implementation of
10 decoupling for the rate year following. But after
11 that, decoupling is in place for years and years and
12 years. Then would we, in the rate making process,
13 have an explicit reduction in ROE because of
14 decoupling, or would that risk reduction or not,
15 whatever it be, just sort itself out in the cost of
16 capital analysis?

17 MR. NORWOOD: I have an answer.

18 MR. SCHOOLEY: I don't see even at the
19 implementation that there is any literal change in the
20 risk to the Company's earnings. All we've done is
21 stabilize the revenues. And the Company will have a
22 better opportunity to predict the revenue since they
23 are based on the number of customers. They have to
24 manage their costs to achieve their earnings one way
25 or the other, and that's not part of the equation in

0203

1 this case for certain, because all we've agreed to is
2 an increase in the revenues. The rate of return is a
3 portion of how you derive the revenue requirements.
4 And we specifically have waited saying that in the
5 agreement, in the settlement.

6 COMMISSIONER JONES: Mr. Schooley, this
7 is Commissioner Jones. But don't earnings flow from
8 revenues? I mean this is kind of like basic
9 economics. Don't -- if costs are reasonably stable,
10 and I'm not going to get into the argument about how
11 many risk reduction mechanisms, power costs, others of
12 the Company already has, but for a normal business,
13 isn't it true that as you increase revenues or lower
14 revenues, that has a direct impact on NOI, net
15 operating income, and earnings?

16 MR. SCHOOLEY: Just as much as expenses
17 do, yes.

18 COMMISSIONER JONES: I know.

19 MR. SCHOOLEY: I guess my point is just
20 that --

21 COMMISSIONER JONES: I think you're
22 trying to parse words a little bit here.

23 MR. SCHOOLEY: You are taking the
24 variability out of the revenues dues to weather and
25 any other impacts.

0204

1 COMMISSIONER JONES: Right.

2 MR. SCHOOLEY: So is that a risk
3 reduction, or is that just the same risk for either
4 side of the parties? Either the customers can benefit
5 in this scenario when it's cold weather and the
6 revenues have gone up, but the Company may have
7 greater earnings, but then they have to return that to
8 the customers. So the customers come out ahead on
9 that side of the equation.

10 COMMISSIONER JONES: Oh, I know that.
11 I'm just asking you as an accountant, revenues, take
12 out costs, capital expenditures, O&M, and you get to
13 something that's called net operating income and then
14 net earnings, right?

15 MR. SCHOOLEY: Correct.

16 COMMISSIONER JONES: So if there's no
17 major inflation, if there's no major cap X program, if
18 the power costs are protected under the ERM,
19 et cetera, it seems to me, and their VCEP program that
20 Mr. Norwood talked about, their expense reduction
21 program they've implemented on pensions, it seems to
22 me that costs are reasonably stable.

23 MR. NORWOOD: Right.

24 COMMISSIONER JONES: Maybe inflation,
25 maybe 2, 3 percent. So it just kind of confounds me

0205

1 that you are parsing words between earnings and
2 revenue requirements, that's all. It seems to me they
3 flow pretty directly one to another.

4 MR. SCHOOLEY: And I'm saying they flow
5 both directions.

6 COMMISSIONER GOLTZ: Mr. Norwood had a
7 response to my question, and then Mr. Finklea or
8 Mr. Mullins has the response.

9 MR. FINKLEA: I just have one
10 observation and it goes to your observation,
11 Commissioner Goltz.

12 I do think as we go into the future, markets
13 should start to reflect what we expect, which is that
14 the risk is lower than it used to be, but the
15 advantage of having that debate two years from now is
16 we'll have actual data, including what the Company's
17 costs of capital over the next two years becomes. So
18 that when we're having that debate in 2016 or
19 whenever, we'll have the advantage, that we don't have
20 today, of seeing how the market actually does respond.

21 MR. MULLINS: I guess I would just echo
22 Ms. Fisher's comments, that a reduction in revenue
23 volatility is a reduction in risk, which in turn
24 impacts ROE, so we would expect that to have some
25 impact in future rate cases.

0206

1 CHAIRMAN DANNER: So just to clarify,
2 though, by accepting this settlement, what are we
3 binding ourselves to. Because, you know, in our last
4 rate case Mr. Cavanagh had testimony about decoupling
5 and its effects on ROE and revenues. And so
6 by accepting this -- you are making acknowledgments.
7 By accepting this, I just want to be clear that I'm
8 not sure that I am. So, you know, it might be a
9 discussion for off in the future.

10 MR. NORWOOD: From my perspective, and
11 again I go back to what is in the document and what's
12 not in the document. And what is in here is that
13 there's agreement there's a reduction of risk. What
14 isn't in there is any specific adjustment that should
15 or could be made related to that change in risk. It
16 may be zero, and we'll have that discussion in the
17 next case, no doubt.

18 COMMISSIONER GOLTZ: So I gather from
19 that, if everyone agreed that there's a reduction in
20 risk, does that mean -- and I'll just ask everybody --
21 does that mean that if the -- there had not been a
22 decoupling mechanism, then the risk would have been
23 higher, therefore the rates would have been higher?
24 Is that true?

25 MR. NORWOOD: I would say not

0207

1 necessarily.

2 COMMISSIONER GOLTZ: I think Ms. Fisher
3 would disagree with you.

4 MS. FISHER: Yeah, that's right.

5 COMMISSIONER GOLTZ: So you would say,
6 Ms. Fisher, that except for the decoupling mechanism,
7 but for the decoupling mechanism, the rate, fair,
8 just, reasonable and sufficient rates would have been
9 slightly higher than they are in the settlement?

10 MS. FISHER: Yes, definitely. From our
11 perspective, that's right.

12 MR. FINKLEA: And that's true from the
13 Gas Users' perspective.

14 MR. MULLINS: And we agree with that as
15 well.

16 MR. NORWOOD: Which is why there was no
17 agreement on cost of --

18 (Laughter.)

19 COMMISSIONER JONES: Mr. Norwood, I'm
20 not going to beat this drum once more. This is more
21 of my personal opinion. But we adjudicate cases based
22 on facts and evidence presented to the Commission. In
23 this case we have four cost of capital witnesses.
24 Three, to my reading, suggested an adjustment to
25 either the capital structure or the ROE based on a

0208

1 full decoupling mechanism. And that to me speaks -- I
2 mean a settlement agreement flows out of evidence
3 presented in the case, right, direct and responsive?
4 So that's the only point I would make, is that we have
5 a lot of evidence in this case, Public Counsel, ICNU,
6 Staff put on witnesses. There's evidence in the case.
7 I don't think your cost of capital witness
8 Mr. McKenzie did, but that's three to one. I'm just
9 pointing that out to you.

10 MR. NORWOOD: And the only response I
11 would have to that is that I think it's important to
12 recognize here that what you have is an all-party
13 settlement, where all the parties agree that the end
14 result here, the revenue of increases that are in
15 front of you, reflect their own view of whatever they
16 think the adjustment should be is already factored in.
17 I think that's the point. We think it maybe should be
18 zero, they think it should be something. Well, they
19 factored it in in their sausage making.

20 COMMISSIONER JONES: We're back to
21 legislation now.

22 JUDGE FRIEDLANDER: I think maybe we
23 will move on to attrition.

24 MR. NORWOOD: Attrition, Item No. 1.
25 "Be prepared to discuss the capital reporting

0209

1 provision. For example, will the reports separately
2 list: Investment in replacement from new load serving
3 plant?" Item b. is "Gas pipeline replacement from
4 other investments?"

5 We currently have some reporting that we're
6 doing related to the last case. And what we put in
7 the settlement agreement here is actually to provide
8 more detail. I'm looking for the words that someone
9 gave me. We're going to actually provide the data by
10 expenditure request. So that gets into more detail
11 than what we're providing today. So in terms of the
12 new load serving plant, replacement of other
13 investments, those will be separate items that will be
14 included in the reporting.

15 And as is indicated in the stipulation, the
16 plan is to get together with the parties prior to
17 January 31, '15, to make sure we're all on the same
18 page as to what kind of information is going to be
19 provided.

20 COMMISSIONER JONES: Mr. Norwood, just
21 on that point, the gas pipeline replacement, this
22 whole issue of accelerating gas pipeline replacement,
23 the Aldo A-pipe has been a big issue for the
24 Commission and for you. So how is that currently
25 accounted for on your general ledger? Is that a

0210

1 separate account? My recollection is that it could be
2 in Mr. Kopczynski's testimony, DFK-1, I'm not sure.
3 But is that -- from an accounting standpoint, is it
4 separately accounted for right now?

5 MR. NORWOOD: We are keeping track of
6 that investment separately, and that information is
7 available.

8 COMMISSIONER JONES: So how does
9 the settlement agreement change this, if at all?

10 MR. NORWOOD: It will actually provide a
11 little more detail than what we've been providing
12 related to that.

13 COMMISSIONER JONES: More detail?

14 MR. NORWOOD: Right.

15 COMMISSIONER JONES: Okay.

16 MR. NORWOOD: Item No. 2 under
17 Attrition. "In paragraph 21, the Settling Parties
18 recommend the Commission provide a separate forum to
19 discuss attrition and other ratemaking policy issues,
20 be prepared to discuss:" Item a), "What are these
21 'other ratemaking policy issues?' What are the
22 parties' expectations regarding the forum's
23 participants? What are the parties' expectations
24 regarding the outcome of the forum's meeting? (e.g.,
25 joint agreement, joint statement, policy statement.)"

0211

1 From Avista's perspective, this was something
2 that was raised by other parties at the table. We are
3 supportive of a forum. If that forum occurs, our
4 preference would be that the Commissioners are
5 present. The Commission has, in the past several
6 years, put together a workshop where we put the tables
7 in the middle and everyone sits around the table. All
8 the issues get on the table, and there's a pretty good
9 open discussion of the issues. So that would be our
10 preference.

11 JUDGE FRIEDLANDER: So -- oh, go ahead.

12 COMMISSIONER JONES: On that point,
13 Mr. Norwood, I recall in the last case that you
14 specifically sponsored an attrition adjustment
15 witness, did you not?

16 MR. NORWOOD: That's correct.

17 COMMISSIONER JONES: So would it be
18 possible for you to bring -- and this is hypothetical,
19 but I'm just thinking about how this workshop or
20 collaborative would be structured. Would it be
21 possible for you to bring in somebody like that maybe
22 to educate the Commissioners, if the three of us are
23 there, and Mr. McGuire put on, I thought, very good
24 testimony for Staff in this case. He went through in
25 great detail, attrition adjustment and how it works on

0212

1 revenue requirements, so I would expect Mr. McGuire
2 would be there too, so -- so would that be possible?

3 MR. NORWOOD: I think it's possible, but
4 I think we should think about whether it's needed. If
5 you look at -- and Mr. McGuire did do a good job, I
6 believe. He actually used a model very similar to
7 ours, made some adjustments to it. But we were, for
8 the most part, on the same page in terms of how you
9 approach the adjustment. The assumptions were the --
10 where we differed on that.

11 If we look back to the prior case, where we
12 hired a consultant, the reality was we spent a lot of
13 time working with the consultant to help him do what
14 he presented. So I'm a little bit concerned about the
15 value there, and I think that Mr. McGuire's work --
16 and Ms. Andrews sponsored the adjustment here. It's
17 pretty straightforward. Actually, a lot of detail,
18 but it's fairly straightforward.

19 COMMISSIONER JONES: Well, I'm not
20 diminishing the work of Ms. Andrews, and that would be
21 totally fine too. But my point is that, if we do have
22 an attrition adjustment workshop, I think you're
23 right, we need to scope it out pretty well. The
24 burden is going to be on -- I think the primary burden
25 will still be on you as the Company, because you're

0213

1 the one who asked for revenue requirement increases
2 using certain mechanisms, right?

3 So if it's Ms. Andrews or somebody else in
4 your regulatory shop, or somebody else, I'm just
5 saying we have to make this worthwhile, and scoping it
6 and doing some prework I think would be important.
7 Because we've been discussing attrition adjustments
8 almost as long as I've been a commissioner, and that's
9 a long time, I mean it goes back five, six years, and
10 it's not just with your company.

11 MS. FISHER: This Lea Fisher for Public
12 Counsel. If I can just add just a little bit more
13 color on what we were hoping to get out of this
14 ratemaking policy issue forum. This was a piece that
15 we advocated for. I think certainly in addition to
16 attrition and exploring different ways to do that and
17 conditions that should be in place to potentially
18 allow for something, a mechanism to address attrition.

19 We would also hope that the forum would
20 discuss alternatives to attrition that also can
21 address regulatory lag in attrition. And so certainly
22 you see in Mr. Dittmer's testimony, he put forth other
23 alternatives to attrition to address this issue. So
24 to be explicit, we would hope that this forum would
25 address expedited rate making, end of period rate

0214

1 base, pro forma adjustments, et cetera. And we would
2 also hope that it would not just be an Avista
3 proceeding, that it would also involve the other
4 electric and gas IOUs and other stakeholders so that
5 we can all sit at the table and work through the
6 different options and hopefully reach a consensus on
7 approaches to take going forward.

8 JUDGE FRIEDLANDER: I guess the question
9 I would have, then, is what would be your expectations
10 for the outcome of the forum's meetings? Are you
11 looking toward a policy statement? We are just kind
12 of at a loss as to what you might see as the end
13 result.

14 MS. FISHER: Yeah, we realize we didn't
15 put a whole lot of detail in the settlement, so it's a
16 fair question. I think we are open to different
17 outcomes. One preferred outcome from Public Counsel's
18 perspective would be the workshop forum and then
19 having a policy statement that comes out after that.
20 I think that would be our ideal solution, but
21 certainly not the only one. It could be dealt with in
22 a rule, but I think a workshop with a policy statement
23 is our preferred approach.

24 JUDGE FRIEDLANDER: Thank you.

25 MR. NORWOOD: If I may, from Avista's

0215

1 perspective, we would not necessarily be looking for a
2 policy statement, but rather if the forum occurs, let
3 the forum dictate what the outcome might be in terms
4 of additional guidance, whether it's formal or
5 informal, or some other outcome.

6 JUDGE FRIEDLANDER: Thank you.

7 MR. FINKLEA: Ed Finklea for the Gas
8 Users. I would just add that Mr. Gorman did testify
9 on our behalf on this issue as well. And I agree with
10 Ms. Fisher, that some kind of a workshop is probably
11 the best form to have that kind of exchange. It
12 certainly would be one where we would want Mr. Gorman
13 to participate. It's not something where I'm going to
14 opine on and answer. It's something that we need
15 expertise on. Mr. Gorman brought that. Public
16 Counsel's people brought it, Staff brought it. So I
17 envision a workshop forum where folks who have really
18 given it thought, and our experts can help guide you
19 as to how to go forward.

20 COMMISSIONER GOLTZ: I have a couple
21 questions that I believe fit here. Mr. Norwood, in
22 the testimony on Page 13, a copy of which you passed
23 out ahead of time and referenced earlier in his
24 opening statement. Looking at Illustration No. 3,
25 that graph there, and I gather that's an attempt to

0216

1 illustrate the attrition problem in some way?

2 MR. NORWOOD: That's correct. These are
3 actual numbers and the forecast is right out of our
4 forecast.

5 COMMISSIONER GOLTZ: So let me ask first
6 of all, the red line, which is Net Plant Investment,
7 is that the same as rate base?

8 MR. NORWOOD: It's rate base, except
9 that it doesn't include deferred taxes. You would
10 take this number, subtract deferred tax, then you'd
11 have rate base. So it's representative of the change
12 in rate base.

13 COMMISSIONER GOLTZ: So the change year
14 over year, the increase from say 2012 to 2013 --

15 MR. NORWOOD: Yes.

16 COMMISSIONER GOLTZ: -- would be the
17 amount of new investment minus the depreciation
18 expense for that year?

19 MR. NORWOOD: That's correct.

20 COMMISSIONER GOLTZ: So if -- if we had
21 a situation where you're -- what also is missing from
22 this chart is actual revenues, right? You have sales
23 but you don't have revenues.

24 MR. NORWOOD: This is actual sales,
25 that's correct.

0217

1 COMMISSIONER GOLTZ: It's therms and
2 kilowatt hours. And so if you were to have another
3 line on there starting in 2005 that showed revenues,
4 it would reflect from 2005 to the present date, the
5 line would have some slope to it, it would not be flat
6 because there has been rate increases during that
7 time.

8 MR. NORWOOD: Right. And that actually
9 gets to the point that we are trying to make here.
10 From 2013 -- I agree with you, there have been rate
11 increases. The point here is that going forward for
12 '14, '15, '16, so if there are no rate increases to
13 reflect the growth, then your revenue line is going to
14 be flat. It's going to follow this line right here.

15 COMMISSIONER GOLTZ: Right. I guess I'm
16 saying look at -- someone who is sort of unfamiliar
17 with the history from 2005 to 2013, looked at this,
18 and they would say, oh, my gosh, there's a huge
19 triangle of lost money, that is a problem, but in fact
20 a good portion of that triangle is filled.

21 MR. NORWOOD: That's correct. In fact,
22 getting back to what you're saying, these -- these
23 sales lines, if you made them revenue, with the
24 revenue adjustments that we actually got, they should
25 track similar to the rate base or actually net plan

0218

1 and expense lines. And then once you get to the
2 vertical black line, the future, they would flatten
3 out.

4 COMMISSIONER GOLTZ: Of course. That's
5 where we are now.

6 MR. NORWOOD: That's correct.

7 COMMISSIONER GOLTZ: And I gather that
8 if we have an -- if we had a situation where -- going
9 forward, the red line, the gray line and a revenue
10 line were all -- or the -- in that case would be sales
11 line, were all in synch, then there would be no
12 attrition problem.

13 MR. NORWOOD: That's correct.

14 COMMISSIONER GOLTZ: So looking at the
15 red line going forward, you said that was a sum of
16 your various departments' requests?

17 MR. NORWOOD: No, that is actually the
18 approved budget by the board for projects we're
19 actually going to do. Many of those, especially for
20 '14 are well underway, and '15, they've already -- are
21 underway. This does not include other requests that
22 have been turned down.

23 COMMISSIONER GOLTZ: Okay. And -- now,
24 I gather that one of the causes of the increase -- the
25 slope of the red line is the fact that the new plant

0219

1 is replacing fully depreciated plant. At some point
2 that's got to stop, right? At some point all your --
3 I mean at some point isn't all the fully depreciated
4 plant going to be replaced?

5 MR. NORWOOD: No. The slope of the line
6 is going to move over time. For example, 20 years
7 from now, we will have replaced a lot of plant. But
8 in that 20 years, your other plant will have aged 20
9 years. I mentioned earlier, we have now an asset
10 optimization, some modeling that we're using, so as
11 well at, for example, worst feeders, we have some
12 feeders in rural areas that are in bad shape. So we
13 are prioritizing those and we will replace those over
14 a 50-year time frame. When you're done, the new ones
15 are 50 years old.

16 So this will be continuing. As long as
17 there's inflation, then your depreciation expense
18 every year is going to be less than what it cost you
19 to replace it. But the slope will change depending on
20 what inflation does.

21 COMMISSIONER GOLTZ: So you are saying
22 that that is a function of -- if you had no inflation,
23 would my statement have been correct, at some point
24 you would -- the issue of attrition as it relates to
25 your plant would be solved?

0220

1 MR. NORWOOD: Generally speaking, I
2 would agree, as long as you're replacing plant for
3 plant, you don't have additional requirements,
4 additional load.

5 COMMISSIONER GOLTZ: Right.

6 MR. NORWOOD: I would agree.

7 COMMISSIONER GOLTZ: Okay.

8 MR. SCHOOLEY: Another thing that you
9 might want to do is have cars hit only the oldest
10 poles, not the new ones. It would help.

11 (Laughter.)

12 COMMISSIONER GOLTZ: That's all I have.

13 COMMISSIONER JONES: Mr. Norwood, since
14 Commissioner Goltz referred to this in your direct
15 testimony, on Page 5 of your direct testimony, you had
16 a graph on commission basis reports, actual ROE versus
17 authorized. 2013 is blank. Do you have the numbers
18 for 2013 yet, your actual earned ROE based on the CBR?

19 MR. NORWOOD: We do have it.

20 COMMISSIONER JONES: Could you provide
21 that for the record?

22 MR. NORWOOD: Yes, we can.

23 COMMISSIONER JONES: Could you make that
24 a bench request, then?

25 JUDGE FRIEDLANDER: Absolutely. We can

0221

1 make that No. 6.

2 When do you anticipate being able to get that?

3 MR. NORWOOD: We probably have it in the
4 room.

5 JUDGE FRIEDLANDER: Then why don't we
6 just get the number.

7 MR. MEYER: We can go on and we will
8 just fill it into the record.

9 JUDGE FRIEDLANDER: Thank you.

10 Commissioner Jones, did you have anything
11 further?

12 COMMISSIONER JONES: On attrition, no.

13 JUDGE FRIEDLANDER: Then let's continue.

14 MR. NORWOOD: The next section is on
15 power supply costs. I think Mr. Schooley was going to
16 address those.

17 MR. SCHOOLEY: Yes, I'll address these.
18 The first part is "...be prepared to elaborate on the
19 following aspects of power cost recovery: a.
20 Production asset costs collected through the revenue
21 per customer under the decoupling mechanism and
22 basic/demand charges."

23 Yes. Fixed production costs are recovered
24 through the decoupling revenue per customer. I think
25 this question gets to something of a definition of

0222

1 what the differences are between revenue per customer
2 and the collection of revenues versus the costs -- the
3 uses versus the payments that the customers make.

4 The determination of revenues has three basic
5 sources, and this is on my testimony, TES-1T at 15.
6 The Decoupled Revenue per customer, the Variable power
7 supply revenue and the Basic charge revenue all add up
8 together to get total revenues.

9 The customers' payments are set to collect
10 those revenues through the volumetric KWH charge plus
11 the -- which includes the variable power supply cost
12 and the basic charge payments that they make on their
13 bills. These charges are just forms of payments to
14 collect the receivable that the revenue sources
15 create. So there's no direct tie between the
16 decoupling revenue per customer and the basic charges.
17 The basic charges are just one form of collecting
18 revenues.

19 And Part b. says, "The impact of the
20 application of the reduced Retail Revenue Credit
21 adjustment on the ERM balances."

22 And Part c: "Explanation of the costs that the
23 Retail Revenue Credit Adjustment are expected to
24 offset to prevent over or under recovery."

25 I'll take Part C first.

0223

1 The retail revenue credit, which is misnomer
2 since is it goes both ways, corrects the ERM for
3 double recovery of the variable net power costs. For
4 example, if the net power cost is set at \$1 million in
5 a general rate case and is embedded in general rates
6 based on the expected level of KWH sales, and the
7 \$1 million is also the baseline for determining the
8 variances in the ERM, in the first period, KWH sales
9 are higher due to cold weather, but the power prices
10 per unit are static. The power purchases are higher
11 to meet the higher load, but the customers pay higher
12 bills which also include those variable embedded
13 costs.

14 The higher purchases will be recorded as the
15 actual cost in the period and compared to the baseline
16 cost with that variance booked as the deferral.
17 However, the customers have also paid for a greater
18 power cost in their bills. This double collection of
19 the cost -- this would be a double collection of costs
20 absent any corrections, and the retail revenue credit
21 is that correction.

22 It works the same way if KWH sales are below
23 expectations, except in the opposite direction.

24 So in response to Part b., the retail revenue
25 credit properly corrects the ERM to reflect only the

0224

1 change in net power costs due to price or cost
2 changes, not to volumetric changes.

3 So that's -- does that clarify things?

4 COMMISSIONER JONES: So what you're
5 saying, Mr. Schooley, it's a misnomer. It's truly not
6 a credit, it goes both ways.

7 MR. SCHOOLEY: Yes.

8 COMMISSIONER JONES: It could be a
9 surcharge or a credit. And it tries to account for
10 changes in production-related variable costs?

11 MR. SCHOOLEY: No. We've taken
12 production costs, or the generation costs out of this,
13 the fixed costs. This came about as we were
14 evaluating the Company's proposal on decoupling, and
15 they were using the retail revenue credit number to
16 take power cost out of what's collected in decoupling.
17 And through this, like, entire afternoon, Jason Ball
18 and I were evaluating this and came to the conclusion
19 that they were actually removing fixed costs from
20 being recovered in the decoupling mechanism, and we
21 didn't think that was the intent.

22 And as we explored it a little further, we
23 determined that, yes, you still need to have a retail
24 revenue correction in there or you engender this
25 double over recovery or under recovery, because as

0225

1 volumes change, there is a component of that volume
2 change that's also recovering the volumetric change in
3 your costs.

4 So even though it may be a smaller number, it
5 is the proper number to reach the needed result in the
6 energy recovery mechanism.

7 COMMISSIONER JONES: This is something,
8 at least speaking for me, where I need a graph or a
9 table, not narrative.

10 MR. SCHOOLEY: I wish I could do that.

11 COMMISSIONER JONES: Is that in your
12 testimony? You mentioned Page 15. Do you actually go
13 through --

14 MR. SCHOOLEY: Well, that was my --

15 COMMISSIONER JONES: -- this with
16 Mr. Ball?

17 MR. SCHOOLEY: I'm sorry. That was the
18 definition in my things, but I do try to explain this
19 in my testimony as well.

20 COMMISSIONER JONES: And Mr. Ball does
21 as well?

22 MR. SCHOOLEY: Yes, he does, on his
23 power costs side.

24 COMMISSIONER JONES: Okay.

25 Mr. Norwood, do you have any comments on this

0226

1 very complicated subject being described in narrative
2 form?

3 MR. NORWOOD: Actually, I do. I agree
4 with the math that Mr. Schooley walked through. We
5 agree that the mechanics are correct and they prevent
6 double recovery or over recovery, and under recovery
7 also. There is some debate that may happen to the
8 future as to whether it should be those variable
9 costs, whether it should be the embedded
10 energy-related costs, whether it should be the
11 wholesale market rate. And again, this is a rate
12 that's used in between rate cases when loads vary from
13 what's built in the base rates.

14 So, you know, there's an argument that
15 says that if loads vary in between a rate case, what
16 is the impact to the income statement at the Company,
17 and it's really what is the short-term market rate.
18 So that's even a different rate than what we have
19 today than what's being proposed. So -- but because
20 it's being used both for decoupling, as well as the
21 ERM, there's an apples-to-apples, and it works, and so
22 we're supportive of what's in here.

23 JUDGE FRIEDLANDER: Okay. Continuing on
24 with the next part.

25 MR. NORWOOD: The next part is related

0227

1 to rate spread/rate design. "In Appendix 2 to the
2 Settlement at Page 7, the spreadsheet shows a decrease
3 in the Minimum Charge rows for Schedules 111 and 121.
4 Whereas, the Settlement in paragraph 15(b)(iii),
5 describes the modification as an increase in the
6 Minimum Charge. Please explain this discrepancy."

7 And this is the Schedule 111 and 121 of
8 Commercial Natural Gas Schedules. Last year Avista
9 made a filing with the Commission to remove the
10 commodity costs from those tariff schedules. But as
11 Avista worked with Staff, and I don't remember if
12 other parties were involved or not, the agreement was
13 let's not pull the commodity from the minimum charges.
14 And so the agreement was let's do it in the next rate
15 case.

16 So what you see on the Appendix is a minimum
17 charge which includes the commodity costs. When the
18 reality is -- and then what you see in the settlement
19 agreement is the commodity costs having been removed.
20 Because at the conclusion of this case, we want
21 minimum charges that exclude commodity.

22 So when you look at -- when you remove
23 commodity, that's going to reduce the minimum charge.
24 If you assume that that's done, because that was
25 agreed to last year, then you end up with a lower

0228

1 minimum charge. And now if you apply a slight rate
2 increase, you're going to see an increase to that
3 minimum charge.

4 I think I did a terrible job explaining that.
5 I'll move on to Item No. 2.

6 JUDGE FRIEDLANDER: Maybe I can just
7 kind of see if I understand what you are saying. So
8 has the commodity charge been removed from the
9 spreadsheet?

10 MR. NORWOOD: My understanding, it has
11 not. And if I may, I'll look around and see if --

12 MR. EHRBAR: It's in the settlement.
13 It's now out. Set the minimum charge without it,
14 before application of the rate increase.

15 MR. NORWOOD: We can put him on the
16 witness stand.

17 JUDGE FRIEDLANDER: Yeah, how do we do
18 that?

19 MR. NORWOOD: Or have a bench question.

20 COMMISSIONER GOLTZ: Why don't we do a
21 bench request.

22 JUDGE FRIEDLANDER: That's fine.

23 MR. NORWOOD: It is kind of complicated,
24 so it would be better to give you an example of how it
25 works.

0229

1 JUDGE FRIEDLANDER: Okay.

2 And just stay standing for a moment and
3 raise your right hand because we will need to swear
4 you in.

5
6 PATRICK EHRBAR, witness herein, having been
7 first duly sworn on oath, was
8 examined and testified as follows:

9
10 JUDGE FRIEDLANDER: Please be seated.

11 MR. EHRBAR: (Complies.)

12 JUDGE FRIEDLANDER: And if you could
13 clarify, that would be greatly appreciated.

14 MR. EHRBAR: You bet.

15 COMMISSIONER JONES: And you are Mr.
16 Ehrbar?

17 MR. EHRBAR: Patrick Ehrbar.

18 JUDGE FRIEDLANDER: Can you spell your
19 last name?

20 MR. EHRBAR: You bet. It's E-H-R-B-A-R.

21 So I'll see if I can take a stab at this too.

22 So the minimum charge for Schedule 111, when
23 we filed the case, at present rates, that are in
24 effect today, still currently includes natural gas
25 commodity costs in the amount.

0230

1 So the first step that we did when we filed
2 the case and built the rates, was Step 1 was to remove
3 those gas costs from the minimum charge and get the
4 minimum charge down to a margin level, a level that
5 doesn't include gas costs like the rest of the base
6 rates. So that results in a rate -- a, quote/unquote,
7 minimum charge rate decrease. And so that's why we
8 say decrease and increase. That's the decrease part
9 of it.

10 JUDGE FRIEDLANDER: So if I'm looking
11 at -- because I have the settlement stipulation in
12 front of me.

13 MR. EHRBAR: Yes.

14 JUDGE FRIEDLANDER: If I look at
15 Appendix 2, Page 7 of 8.

16 MR. EHRBAR: Yes.

17 JUDGE FRIEDLANDER: And you've got the
18 large general service Schedule 11 minimum charge per
19 month, when you have a general rate increase, and it's
20 in the ellipses there, it looks like a decrease.

21 MR. EHRBAR: It's a negative, yes. So
22 there's two items that are embedded in that number.

23 JUDGE FRIEDLANDER: Okay.

24 MR. EHRBAR: The first is the removal of
25 the gas cost, which I don't have the number in front

0231

1 of me, but let's just say that that's a reduction of
2 \$80 per month.

3 JUDGE FRIEDLANDER: Okay, okay.

4 MR. EHRBAR: But then you have a slight
5 increase, and just let's say for illustrative purposes
6 here, that's an increase of 6.

7 JUDGE FRIEDLANDER: Okay.

8 MR. EHRBAR: That net number is the 74.

9 JUDGE FRIEDLANDER: I see.

10 MR. EHRBAR: So there's two moving parts
11 there.

12 JUDGE FRIEDLANDER: Okay, okay. And I
13 think that maybe was what was unclear in the
14 testimony, because it was just conveyed with the
15 increase --

16 MR. EHRBAR: Correct.

17 JUDGE FRIEDLANDER: -- not parsing out
18 of the commodity.

19 MR. EHRBAR: Correct.

20 JUDGE FRIEDLANDER: Okay.

21 MR. EHRBAR: The billing rate for that
22 saw a decrease. The base rate part of it saw an
23 increase.

24 JUDGE FRIEDLANDER: Okay, okay.

25 Are there any further questions from the

0232

1 bench?

2 COMMISSIONER JONES: No.

3 JUDGE FRIEDLANDER: Okay. You just
4 saved yourself a bench request.

5 MR. EHRBAR: Thank you.

6 COMMISSIONER GOLTZ: I have more
7 questions on other topics, but not on that one.

8 JUDGE FRIEDLANDER: Okay. Did you have
9 anything else on this rate spread question?

10 COMMISSIONER GOLTZ: No.

11 COMMISSIONER JONES: No.

12 JUDGE FRIEDLANDER: I did want to go
13 back just for a moment to the power costs. Because
14 it's my understanding that Avista will be filing a
15 power cost update when you rerun the numbers
16 November 1st.

17 MR. NORWOOD: That's correct.

18 JUDGE FRIEDLANDER: You'll be filing it
19 November 7th?

20 MR. NORWOOD: November 17th, I believe.

21 JUDGE FRIEDLANDER: The 17th. My
22 mistake. Okay. So November 17th.

23 Can you include with that updated power cost
24 compliance filing, the level of the Company's planned
25 hedging for the rate year and what has been included

0233

1 in the ERM baseline rates, baseline power costs? Can
2 you do that?

3 MR. NORWOOD: For the calendar year '15?

4 JUDGE FRIEDLANDER: No, it would be '14.

5 MR. NORWOOD: We are setting power
6 supply costs for calendar year '15.

7 JUDGE FRIEDLANDER: You're right.

8 January 1st through December 31st, 2015, so it would
9 be for the rate year.

10 MR. NORWOOD: So what you want is our
11 planned hedging for that period?

12 JUDGE FRIEDLANDER: Right.

13 COMMISSIONER GOLTZ: Or what's in place
14 right now?

15 MR. NORWOOD: That's my clarifying
16 question.

17 JUDGE FRIEDLANDER: Can you give us
18 both?

19 MR. NORWOOD: Yes.

20 JUDGE FRIEDLANDER: If you could include
21 that with the update, that would be good.

22 MR. NORWOOD: We can do that.

23 JUDGE FRIEDLANDER: Okay.

24 MR. NORWOOD: And when we put together
25 our cost supply costs that are reviewed by all the

0234

1 parties, we do include the specific contracts that are
2 already hedged, already in place.

3 JUDGE FRIEDLANDER: Right. And we want
4 that level.

5 MR. NORWOOD: Okay.

6 JUDGE FRIEDLANDER: Yeah, that would be
7 good.

8 COMMISSIONER GOLTZ: I have one other
9 question. I'm sorry to go back to my questions on
10 Illustration No. 3. I neglected to ask a question on
11 the O&M line. As I recall, we had some --

12 MR. NORWOOD: I'm sorry, I gave away my
13 testimony.

14 COMMISSIONER GOLTZ: I don't think you
15 need it, actually. The question was basically on the
16 O&M line, as I recall in past cases, we were talking
17 about the coal strip O&M costs. Can you -- did any of
18 those spike up and how are those reflected in this
19 line here?

20 MR. NORWOOD: I'm trying to --

21 COMMISSIONER GOLTZ: I thought those had
22 increased somewhat dramatically. My recollection may
23 be fading.

24 MR. NORWOOD: I don't remember any
25 information that -- I may be wrong. We would just

0235

1 have to look at that.

2 COMMISSIONER GOLTZ: Okay.

3 MR. NORWOOD: I honestly don't know the
4 answer.

5 COMMISSIONER GOLTZ: If we want to
6 pursue it we will send out a bench request and get it.

7 MR. NORWOOD: Okay.

8 JUDGE FRIEDLANDER: I'm not sure if we
9 have already covered this, but the second
10 clarification question under rate spread/rate design
11 was whether or not the minimum charges for Schedules
12 111 and 121 were calculated in the same way as the
13 2012 GRC. I'm guessing they are not --

14 MR. NORWOOD: No, they were --

15 JUDGE FRIEDLANDER: -- because you
16 are excluding the --

17 MR. NORWOOD: The commodities out.

18 JUDGE FRIEDLANDER: Right.

19 MR. NORWOOD: But in terms of using 200
20 therms per month to establish the minimum for Schedule
21 111 is the same as what we did before.

22 JUDGE FRIEDLANDER: Okay.

23 MR. NORWOOD: And then for 121, we used
24 500 therms to determine the minimum per month, and
25 that's the same as the prior case.

0236

1 JUDGE FRIEDLANDER: Okay.

2 MR. NORWOOD: And hopefully Mr. Ehrbar
3 is shaking his head yes.

4 JUDGE FRIEDLANDER: Okay, great. So I
5 think we can move on to the LIRAP program.

6 COMMISSIONER GOLTZ: Judge Friedlander,
7 I will have one question that came up in the public
8 hearings about Schedule 25. We can do it at the end.

9 JUDGE FRIEDLANDER: Do you want to do it
10 now?

11 COMMISSIONER GOLTZ: We can do it now.

12 JUDGE FRIEDLANDER: Yeah, let's go --

13 COMMISSIONER GOLTZ: It will just take a
14 second.

15 JUDGE FRIEDLANDER: Yes.

16 COMMISSIONER GOLTZ: At the public
17 hearing, I remember there's a Mr. Vorhees of Spokane
18 Industries who was testifying about, he kind of had a
19 question or a comment about Schedule 25 and he was
20 reading. And this is on pages, starting on Page 102
21 of the transcript, going through Page 104, I believe.
22 He was saying that, according to information he read,
23 he would end up with a 1.9 percent increase. But then
24 when he figured out that his demand charge -- or basic
25 charge was going to go way up, it turned out to be

0237

1 more like a 5 or 6 percent increase for him.

2 So I gather -- it was more of a comment than a
3 question, but I said -- I told him I would inquire
4 about it, so that's what I'm doing. In Schedule 25, I
5 gather there was an increase in the electric demand
6 charge and a decrease in the energy charges. If you
7 can explain what the rationale was for the change in
8 Schedule 25.

9 So why would it so differently affect
10 Mr. Vorhees' company, than and what he was hoping for.

11 MR. NORWOOD: Yes, and we expected the
12 question to come.

13 COMMISSIONER GOLTZ: Did I get it right?

14 (Laughter.)

15 MR. NORWOOD: I understand the question,
16 and it's good question, and it's an important one.

17 Schedule 25 has a broad range of customers
18 that are served under that schedule. Some of them
19 have a relatively low load factor and others have what
20 I would call a very high load factor. And so
21 obviously our objective in ratemaking is to try to set
22 rates that cost-based as best that we can. And what
23 we found is -- and this customer is one that has a
24 pretty low load factor. And so Mr. Ehrbar actually
25 looked to see -- well, with the change that we have

0238

1 here, is he better off on Schedule 21, the next
2 schedule down. Well, he's not. He's better off on
3 Schedule 25, even with this change.

4 What we did was we increased the -- basically
5 the demand charge, the first 3,000 kilowatt hours up
6 to, what, 20-, 21,000 per month. And so that's
7 basically \$7,000. But when you look at costs of
8 service, the math shows it's really more like 10,500
9 per month, is what the customers really ought to be
10 paying.

11 So what this represents is a movement closer
12 to cost of service. And so by doing that, those
13 customers that have a lower load factor are going to
14 see a higher bill increase with this result than those
15 with a higher load factor. But what it represents is
16 a movement toward cost of service. Not all the way,
17 but toward cost of service.

18 The other consideration in this was, as we
19 thought about decoupling, Schedule 25, these large
20 industrial customers are excluded from decoupling. By
21 trying to get cost of service -- or the rates closer
22 to the cost of service, it's less of an issue to
23 exclude from them ratemaking.

24 So that's really what went into --

25 COMMISSIONER GOLTZ: So what you said

0239

1 you explored about for this customer, him going to
2 Schedule 21, what -- what would -- he's eligible for
3 21 as well?

4 MR. NORWOOD: He actually is. You know,
5 a customer -- there's a minimum requirement for them
6 to go to 25, which is a lower cost schedule, and he
7 meets that requirement. But if he went back to 21, he
8 could go there, but it would cost him more money than
9 this outcome.

10 COMMISSIONER GOLTZ: Because the
11 kilowatt hour charge is higher?

12 MR. NORWOOD: Yes.

13 COMMISSIONER GOLTZ: Okay.

14 MR. NORWOOD: The overall costs are
15 higher.

16 COMMISSIONER GOLTZ: But you're also
17 implying, though, that maybe this was like a step or
18 two toward cost of service and maybe there would be
19 subsequent steps later on?

20 MR. NORWOOD: There could be more. But
21 this gets us much closer. And part of this is an art
22 versus a science. There's a balance there. So I
23 think this gets us much closer to where it really
24 should be.

25 COMMISSIONER GOLTZ: Thank you.

0240

1 JUDGE FRIEDLANDER: Okay.

2 CHAIRMAN DANNER: We're at the end of --

3 JUDGE FRIEDLANDER: Right. So we did
4 have a couple of -- I'm sorry, Mr. Norwood. Did you
5 have something else that you wanted to --

6 MR. NORWOOD: I have been provided the
7 ROE request that Mr. Jones had requested on page, I
8 think it was Page 5 of my testimony, on the bar chart.
9 And in our response to Public Counsel Data Request
10 No. 95 revised, we provided our basically commission
11 basis ROE for 2013 and that was 9.5 percent.

12 COMMISSIONER JONES: As I recall, your
13 currently authorized ROE is --

14 MR. NORWOOD: 9.8.

15 COMMISSIONER JONES: -- 9.8 percent, so
16 you're 30 basis points apart, as opposed to your graph
17 on Page 5?

18 MR. NORWOOD: That's correct.

19 COMMISSIONER JONES: Which shows spreads
20 of, what, 60, 80, 100 basis points, if memory serves?

21 MR. NORWOOD: It's actually more like
22 160 basis points or more. Almost 200 basis points.

23 COMMISSIONER JONES: So the gap is
24 lessening.

25 MR. NORWOOD: Exactly.

0241

1 COMMISSIONER JONES: We don't know why
2 but it is.

3 MR. NORWOOD: We know why.

4 JUDGE FRIEDLANDER: Okay.

5 COMMISSIONER JONES: Well, I have a few
6 questions about LIRAP.

7 JUDGE FRIEDLANDER: Yes, I think that's
8 where we are going next. Because while we've
9 exhausted the clarification questions from the notice,
10 we do have a couple of questions related to Low Income
11 Rate Assistance Program.

12 COMMISSIONER JONES: So before we get to
13 the more technical questions on the discount program,
14 let me start by asking the parties why the consensus
15 was not able to be achieved in this area. We have
16 been discussing low income bill assistance programs
17 for years. In the last rate plan, there was really a
18 directive to the parties to get together and work
19 things out. And now we have -- Mr. Eberdt appears to
20 be agreeing with the Company, and the Company says
21 it's premature to do even a pilot that has -- that
22 accounts maybe 4- or \$500,000 a year but is 8 percent
23 of a program of five and a half to six million a year,
24 right? That's the total.

25 I'm just a little bit confused. So I would

0242

1 like -- and maybe start with the Company and then go
2 to Mr. Eberdt and others. Why couldn't you achieve
3 consensus both on -- not so much the amount of
4 funding, but the energy burden issue, what an ending
5 balance in the program is, and could that be used for
6 a pilot or not in response to Ms. Williams' testimony.
7 So why don't we start there, as to why consensus could
8 not be achieved.

9 MR. NORWOOD: And My preference would be
10 to ask Ms. Gervais to come and respond. You're going
11 to get much better answers from her than you will from
12 me. She was actually the person from Avista who
13 worked with the other parties. So my interest is
14 getting you good answers. Linda will hate me, but...

15 COMMISSIONER JONES: That's fine.

16 JUDGE FRIEDLANDER: And if you want to
17 remain standing for a minute.

18

19 LINDA GERVAIS, witness herein, having been
20 first duly sworn on oath, was
21 examined and testified as follows:

22

23 JUDGE FRIEDLANDER: Thank you.

24 MS. GERVAIS: Hate is a strong word.

25 (Laughter.)

0243

1 MS. GERVAIS: To give you a little bit
2 of background, when we were discussing in the last
3 case some changes or some possible changes to the
4 LIRAP program, we took into account the fact that we
5 had just changed the current LIRAP program to extend
6 it to match the LIHEAP years. You may recall that
7 that program ended in April, typically, and so we
8 extended it to run equal to LIHEAP. So we were trying
9 to kind of see how that, lengthening that period of
10 time, would affect the energy burden.

11 So then later we did get together, I believe
12 September of 2013, with all parties to discuss -- and
13 actually with all the other utilities to discuss
14 programs. As we were discussing programs and kind of
15 hearing about what was going on within our state, we
16 realized, you know, things for our current program
17 were running pretty good. So we wanted to get a
18 little bit more information, a little bit more detail.

19 There had been some analysis done on the
20 discount rate program, but we weren't quite sure how
21 that was going to work within our system. We were
22 currently in the middle of replacing or customer
23 service system as well, so trying to take that into
24 account was factored in.

25 So as a group, in discussing the different

0244

1 types of programs that are happening across the
2 country, we thought it would be a better opportunity
3 for us to get together with a facilitator, have some
4 good data, and take a look and then decide what type
5 of pilot might work within our service territory.

6 COMMISSIONER JONES: So the meeting was
7 in the spring of 2013, according to your testimony,
8 right, with all parties?

9 MS. GERVAIS: That is correct.

10 COMMISSIONER JONES: And then we had a
11 low income workshop here, right, at the commission, in
12 May of this year, right?

13 MS. GERVAIS: Yes.

14 COMMISSIONER JONES: So that indicates
15 that we continue to be interested in this program --

16 MS. GERVAIS: Yes.

17 COMMISSIONER JONES: -- I would think.

18 All right. Thank you.

19 So Do you have any specific objections? Why
20 don't you go first and then Mr. Eberdt and Public
21 Counsel go later. The only word in the settlement is
22 premature, it's premature. Mr. Kopczynski says it's
23 premature, and then Mr. Eberdt says, well, I kind of
24 agree with the Company. So why is it premature?

25 MS. GERVAIS: Again, I think it's

0245

1 getting back to the fact that we just have our first
2 year of data, information of running a program for a
3 full calendar year. Basically, Avista's program
4 continues to run. And so I think that was what made
5 it kind of premature. We wanted to take a look at the
6 burden.

7 COMMISSIONER JONES: Okay.

8 Mr. Eberdt?

9 MR. EBERDT: This is Chuck Eberdt from
10 the Energy Project. We thought that Ms. Williams'
11 proposal was really misdirected. I probably wouldn't
12 have used the term "premature." In that there were
13 some assumptions in the program that really didn't
14 work for the agencies. One of those being that there
15 was surplus money.

16 The way that the LIRAP program was set up, the
17 utilities don't spend the money until it's collected.
18 And so there's a 30-day lag after the money has been
19 collected before it even gets to the agencies.

20 So you have -- and with the way the program is
21 set up, it shuts down at the end of June. So then
22 that means you collect money for -- the money that's
23 collected actually through May doesn't get delivered
24 until the program is shut down at the end of June.
25 You continue to collect money in June, July, August,

0246

1 September, before the next program year starts up. So
2 there's an accumulation there that's just going to
3 happen.

4 COMMISSIONER JONES: Right.

5 MR. EBERDT: There was also a reason to
6 do that, and that is because you need the money to
7 open. In previous years, because of the federal
8 government never making a decision about a continuing
9 resolution or a budget in time for the program to
10 start, if you look back over the last seven years,
11 there was never a year that it actually started in
12 October, when it was supposed to start, the federal
13 LIHEAP program.

14 And so the utility and the agencies got
15 together and said if we can reserve some of the money
16 that we collect to open, we can open the program
17 earlier and provide service when people start to see
18 need in October.

19 When we looked at the other aspects of the
20 rate design, discounted rate proposal, whereas on the
21 average, if you look at say, just the zero to
22 50 percent federal poverty level people, and you look
23 at the average benefit that those people get and you
24 equate that with a discount on the rate, what that
25 ends up doing is -- well, first of all, it's an

0247

1 average. So that means on the average it's right, but
2 almost 99 percent of the time it's wrong. It's either
3 too high or too low for the particular household
4 that's involved. And that really sets agencies off
5 quite a bit.

6 But the other part about that, too, is that it
7 ends up, because -- and I appreciate the intention
8 here, because the rate -- the discounted rate was an
9 annual application, it ends up shifting benefit from
10 the wintertime months, when the bills are going to be
11 the highest, into the summertime months, when the
12 bills are not so high for the low income housing. So
13 we felt that also was a -- not what was intended.

14 The third difference is the way the current
15 program runs, the household could actually have enough
16 credit on the bill not to have to pay the bill on a
17 certain month, or two months, even. And when someone
18 is out of work, that's really a good thing. Whereas a
19 discounted rate, there's going to be a bill every
20 month that has to be paid. Not an intention and --
21 not what was intended, I mean, but that could result
22 in more disconnects, which is not what we want to see.
23 We want to see fewer disconnects.

24 So those were all considerations for us, that
25 gave us pause to being able to support that. We

0248

1 wanted to be able to think things through more
2 completely.

3 And in the time frame that we had, between
4 this proposal being made and trying to settle the case
5 and all of that, we just weren't going to work out
6 those kind of details. We think this is -- we think
7 there are some good things that can be done to improve
8 the program. We won't pretend that we know where all
9 of those are.

10 We also think that one of things that can
11 really serve the program better is to know more about
12 the low income population than we currently know.
13 Because we know a 30 percent slice of the population,
14 and we don't know whether that is a good
15 characterization of the entire population or whether
16 it really represents a very specific sector who come
17 in for help because they really need help, and maybe
18 other low income households aren't in the same
19 situation or don't have as much need. But we don't
20 know because we don't know if they don't come in
21 because we can't reach them or because they don't know
22 about the program or because they have certain other
23 reasons. We know we're never going to get
24 100 percent, we just don't know whether the sample
25 that we have is a generic sampling.

0250

1 have to come through and earn their keep. They're
2 getting 70 to \$80 per -- for -- for -- so I'm just
3 saying that's -- that, to me, is not an issue of
4 rejecting a pilot program that may involve 8-, 900
5 households and take maybe 4- or \$500,000 a year out of
6 a budget of five and a half million.

7 MR. EBERDT: Well, I think the other
8 reaction there is that, you're right, the agencies do
9 have to step up. And -- but the agencies weren't
10 given the opportunity to have any input into that
11 design. We want to have input into the design.

12 And that's why I think the proposal in the
13 stipulation for bimonthly meetings -- that's every two
14 months, right? I never can remember that -- until we
15 get some resolution or get some program designs that
16 are good.

17 I mean we have ideas about how we can change
18 the existing program to satisfy some of the concerns,
19 but there are also I think ways to add things to the
20 program or different components that augment the
21 program that will answer other questions as well. But
22 we really need to work through those carefully, I
23 think.

24 COMMISSIONER JONES: I think there's an
25 unfortunate wording on surplus or ending balance or

0251

1 whatever. According to your report, the annual LIRAP
2 report, you call it, quote, an ending balance. And I
3 don't know if Ms. Williams used surplus in her
4 testimony. You just used surplus as well, but I think
5 it's more accurate to describe this -- to describe
6 that 1.5 million at the end of 2013 as an ending
7 balance. That's all it is.

8 MR. EBERDT: We don't call it a surplus.

9 COMMISSIONER JONES: Okay.

10 MR. EBERDT: One other thing that's
11 changed, that I don't know whether the Company is
12 aware of, I don't think Ms. William was aware of at
13 all, but one of the other things that changed for the
14 agencies is that commerce previously always issued the
15 LIHEAP contracts as a 12-month contract. Starting
16 last year, they have made it an 18-month contract.
17 And that I think is another difference that makes a
18 little bit different how we would interface that with
19 the utility dollars. So we don't necessarily need to
20 have reserved as much utility money, depending on how
21 the LIHEAP spending has gone.

22 COMMISSIONER JONES: And I understand
23 your concerns about LIHEAP. Congress can't -- they
24 are just doing th -- they keep doing these continuing
25 resolutions, and it's difficult for you, the State,

0252

1 commerce, the CAAs to depend on a certain budget
2 figure.

3 Public Counsel, do you have any comment on why
4 this consensus was not reached?

5 MS. FISHER: I don't have any specific
6 comments on why consensus wasn't reached, other than
7 it just seems that there were two different proposals
8 on the table and there wasn't time to work through
9 some of the differences there in the time the case --
10 that was provided within the case. I do think,
11 though, that all the parties are coming at it with the
12 right intentions and desire to fix the problems going
13 forward. I really think the agreement that allows
14 everyone to come together and have the discussions on
15 how to figure this out, to have a facilitator, I think
16 those are all positive things and we look forward to
17 participating in that as well.

18 COMMISSIONER JONES: Okay.

19 Ms. Gervais, any comments?

20 MS. GERVAIS: Nothing to add.

21 COMMISSIONER JONES: Ms. Gervais, what
22 is the rationale for exempting the third block of
23 Schedule 25?

24 MS. GERVAIS: I will need to defer that
25 to Mr. Norwood.

0253

1 COMMISSIONER JONES: And you're probably
2 going to have to come back.

3 MR. NORWOOD: Just from our perspective
4 on that, there's a lot of discussion about LIRAP. And
5 we became aware that in some other states some of the
6 industrial customers are actually excluded altogether
7 from the LIRAP program.

8 COMMISSIONER JONES: Which other states?

9 MR. NORWOOD: Oregon, I believe is --

10 COMMISSIONER JONES: Pardon?

11 MR. NORWOOD: Oregon. And I might defer
12 to -- Mr. Finklea might know more about that.

13 So in terms of just the balance of interest,
14 if you look at Schedule 25, especially with some of
15 those larger customers, it's a way to balance the
16 funding from those larger customers.

17 COMMISSIONER JONES: So Let's talk about
18 funding for a minute. Would the parties -- and start
19 with you, Mr. Norwood. Would the parties be amenable
20 to further increasing LIRAP funding, in fact to double
21 the funding, from 200,000 to 400,000 electric, 214- to
22 428- gas? Would you be amenable to that?

23 MR. NORWOOD: Yes. We're -- I think
24 there is a balance there. We are open to that if
25 that's the Commission's decision. I have to look at

0254

1 numbers. Ms. Gervais might know. But I think in
2 terms of the funding for Avista versus other Northwest
3 utilities, ours tends to be a little higher than
4 others. But on the other hand, I think our service
5 area might have possibly a greater proportion of low
6 income than others, so it maybe appropriate. We would
7 be open to that.

8 COMMISSIONER JONES: Staff,
9 Mr. Schooling? I know Ms. Williams. I don't see her
10 here.

11 MR. SCHOOLEY: I'm sure that would be a
12 subject to debate among the various Staff members. I
13 don't have an immediate answer to that.

14 COMMISSIONER JONES: Mr. Eberdt?

15 MR. EBERDT: In our initial testimony,
16 we actually recommended a floor for the increase of
17 10 percent.

18 COMMISSIONER JONES: Yes, you did. This
19 is more than 10 percent.

20 MR. EBERDT: It certainly is. And I
21 would never say no to an increase to LIRAP. We need
22 to start there.

23 (Laughter.)

24 COMMISSIONER JONES: Mr. Eberdt, how
25 would you distinguish when -- were you there for the

0255

1 public comment hearings in Spokane?

2 MR. EBERDT: No, I was not in Spokane.

3 COMMISSIONER JONES: I think there's
4 fairly widespread evidence that Spokane County,
5 according to either the OFM data or the Eastern
6 Washington University study, that their federal
7 poverty rate by census block is like 2 percent or
8 3 percent above the state average, right?

9 MR. EBERDT: Yes.

10 COMMISSIONER JONES: So could you
11 distinguish it that way? Would that be a --

12 MR. EBERDT: I'm not sure what you mean
13 by "could."

14 COMMISSIONER JONES: Well, in terms of
15 upping the -- and when Commissioner Goltz and I were
16 there for the public comment hearing, we heard a lot
17 about this. In fact, the person from SNAP,
18 Ms. Honekamp, specifically did not support the
19 settlement.

20 MR. EBERDT: Right.

21 COMMISSIONER JONES: Because the low
22 income assistance increases and the rejection of rate
23 discounts and some other reasons. I don't think SNAP
24 really appreciated that.

25 MR. EBERDT: Well, I work really closely

0256

1 with SNAP on this. So when she felt -- well, when she
2 answered your question, you direct question about
3 support, afterwards she called me. And I was a little
4 surprised to find what her answer was, because we had
5 worked quite closely together, about what I was doing
6 and what we were doing in the settlement discussions.
7 She knew where we were going. And so her response did
8 make me think about, boy, how am I going to deal with
9 this at the hearing.

10 So I don't think her objection was to the
11 rejection of the discount pilot by any means. Her
12 concern is that there are a lot of people that are
13 hurting and we're not getting to enough of them. You
14 know, we -- yeah, I don't know what else to say,
15 actually, at this point.

16 COMMISSIONER JONES: Okay.

17 COMMISSIONER GOLTZ: A couple of
18 questions, Mr. Eberdt. You posed a question about,
19 well, we had a discounted rate program in parallel
20 with the LIRAP grant program, there might be
21 confusion, one customer gets one, one customer gets
22 the other; one client gets one, one client gets the
23 other. But right now, do we have that confusion? One
24 client gets LIRAP funding, the next client says -- is
25 told, sorry, it's all gone? That seems to me to be a

0257

1 bigger problem.

2 MR. EBERDT: That is a bigger problem,
3 but that is not -- it's not a discriminatory problem
4 in the sense that the funding is expended until it's
5 gone. If there is no money, then you are not choosing
6 somebody get something that somebody else doesn't get.

7 COMMISSIONER GOLTZ: But with that
8 rationale, you can never have a low income pilot
9 program, a discounted rate pilot. If you say that's a
10 deal ender, you could never have a pilot program
11 because -- unless you eliminated the LIRAP program at
12 the same time.

13 MR. EBERDT: No, I don't think that's
14 true. I think you could have a pilot program, you
15 just need to set it up in a way that it doesn't
16 conflict with the target population that you are
17 trying to serve. So if the pilot program is designed
18 so it serves a particular target audience, then it's
19 meeting that need, and it's not going to conflict with
20 the other program that isn't necessarily targeting
21 that particular --

22 COMMISSIONER GOLTZ: Well, I didn't read
23 Ms. Williams' testimony as proposing a program that
24 conflicted. I read it as being sort of a new idea, a
25 modest scope, that could be run in parallel to try to

0258

1 try it out. And so I don't know how -- I guess I
2 don't understand the last response. Because unless
3 you were to say, okay, in this geographic area we're
4 going to only have a rate discount program and
5 everywhere else it's going to be business as usual.

6 MR. EBERDT: No, but you could -- I
7 wouldn't think of it in terms of geographic
8 separation. I would think of it more in terms of
9 characteristics of the customer. So you might have
10 some customers who are more inclined to be able to use
11 a discount, whereas they would not come in and apply
12 for the LIRAP program as it exists right now. Carol
13 Welts, who is the program manager at SNAP, when we
14 were talking about this -- one of the concerns about
15 what Ms. Williams' proposed was what's not defined.
16 We didn't know how we were going to institute that
17 program. So that's one of the reasons that we weren't
18 really excited about it.

19 But, you know, there may be a place where a
20 rate discount of that nature works better for certain
21 parts of the population. And the example that Carol
22 provided to me is, you know, we have a lot of seniors
23 on fixed incomes who will not come in and apply for
24 LIRAP, but they would accept a discount. So that's a
25 way to target the program, so you don't have that

0259

1 conflict.

2 COMMISSIONER GOLTZ: That also would
3 address your point with a number of your clients
4 getting LIRAP that had, perhaps even had zero income
5 at certain times of the year.

6 MR. EBERDT: Yes.

7 COMMISSIONER GOLTZ: So a rate discount,
8 they couldn't even afford that.

9 MR. EBERDT: Exactly. And we have not
10 assumed that something along the lines of what
11 Juliana -- I'm sorry, Ms. Williams proposed is totally
12 off the table, we just want to look at it in more
13 detail, in context.

14 COMMISSIONER GOLTZ: Getting to the
15 issue, your initial objection, you are taking issue
16 with her use of the term "surplus," preferring the
17 term "ending balance." I guess my question is: Is
18 there anytime during the year when the balance is zero
19 or close to zero, or is there always a balance as
20 opposed to a surplus? Is there always a balance in
21 there?

22 MR. EBERDT: Well, I think there's
23 always a balance because of that ending balance being
24 carried forward.

25 COMMISSIONER GOLTZ: Right. So I guess

0260

1 my question is: Is Ms. Williams' proposal on
2 funding -- although she used the word "surplus" --
3 let's scratch surplus and put in "balance." If
4 there's always a balance of several hundred thousand
5 dollars, isn't that -- recognizing you need some
6 balance so you don't drop below zero, but isn't that
7 kind of available?

8 MR. EBERDT: Again, I think it could be.
9 The reason there is a balance was because of a design
10 choice that Avista and the agencies agreed to in order
11 to reserve money for when the big crunch comes in the
12 fall.

13 COMMISSIONER GOLTZ: Right. And I guess
14 my question I had, though, is when the big crunch
15 comes, and you go through the crunch and you survive
16 another crunch, has there always been during that
17 crunch time a balance, and if so, what is that?

18 MR. EBERDT: The -- well, six different
19 agencies will actually handle their funding process --
20 spending process differently. I know that what SNAP
21 does, for example, is they look forward at the
22 resources, they schedule out until they think they are
23 basically going to spend out, and see how far they go.

24 Somewhere in midcourse, then, they have an
25 idea of what their cash flow is, and they reevaluate

0261

1 and then schedule more appointments. And so it's kind
2 of always a rolling sort of process in that regard.

3 The -- you know, the other way one could also
4 deal with this issue of having a large accumulation of
5 money, one of the things we talked about is tweaking
6 the existing program now without actually introducing
7 anything new, except not shutting the program down in
8 June, you know. If we don't shut the program down in
9 June, then -- the largest expenditures in the LIRAP
10 program are in what's called LIRAP heat. Those are
11 the biggest benefit levels. If we don't close that
12 program down in June, they will still -- they get far
13 fewer applications in the summer, but they will still
14 get applications.

15 COMMISSIONER GOLTZ: It's still true, as
16 we heard at the public hearing in Spokane, that the
17 demand for LIRAP funding exceeds the supply --

18 MR. EBERDT: Yes.

19 COMMISSIONER GOLTZ: -- substantially.

20 MR. EBERDT: Yes.

21 COMMISSIONER GOLTZ: Let me ask one
22 other thing we heard at the Spokane hearing. And I
23 heard this actually several times in past rate cases,
24 too, I think, with Avista. There are some folks that
25 were urging us to not look at the federal poverty

0262

1 level as the -- to supply the criteria for
2 eligibility, but something called the Elder Economic
3 Security Standard Index. Do you have any comments on
4 that?

5 MR. EBERDT: Two. One I don't know what
6 the Elder Economic Securities Standard Index is.

7 COMMISSIONER GOLTZ: And I think it's
8 now in the record. We have a booklet about it.

9 MR. EBERDT: So I can't comment on that
10 specifically. Washington is kind of unique in the
11 sense that we have held -- commerce has held the
12 LIHEAP program to 125 percent of the federal poverty
13 level. There are only two other states that are that
14 low, I think, if I recall correctly. The rest of them
15 are using 150, 175, 200 percent of the federal poverty
16 level.

17 COMMISSIONER GOLTZ: And that's a
18 problem for you?

19 MR. EBERDT: I'm not sure what you mean
20 by "problem." The reason that it is done in
21 Washington is because we have so many people who are
22 at that level who need assistance. Commerce and a lot
23 of agencies don't want to raise the income level
24 because they feel that they should be serving the
25 lowest of the low.

0263

1 It is a problem for some of the agencies. For
2 example, in Snohomish County, the agency there will
3 tell you that you can't live in the county at that
4 125 percent. So they see a lot of people whose
5 incomes are actually higher than the federal level.
6 Remember, this is a national level, it is not tuned to
7 local economics. So you can be above 125 percent of
8 the federal poverty level and still be in your local
9 area living in a fairly dire circumstance.

10 COMMISSIONER GOLTZ: I guess the answer
11 I had expected was, well, because the Feds tell us
12 that. And what you are saying is it's not some
13 federal agency saying you have to use federal
14 poverty -- or that 125 percent you are saying is
15 commerce that is requiring that.

16 MR. EBERDT: In this case it is a
17 commerce decision, yes.

18 COMMISSIONER GOLTZ: But as far as
19 switching the eligibility criteria from federal
20 poverty level of some percentage to something else,
21 that would -- would that be -- are there federal
22 requirements that we get in the way of that?

23 MR. EBERDT: Well, LIRAP already
24 actually extends above the 125 percent in the senior
25 program, for example. Again, you've got a defined

0264

1 population that you are targeting, and so -- and
2 generally people on fixed incomes again. We have
3 extended to a higher income level in that
4 particular --

5 COMMISSIONER GOLTZ: I guess my
6 question, though, is it just -- does the
7 federal government, as part of the LIRAP funding,
8 require some use of federal poverty level criteria for
9 eligibility?

10 MR. EBERDT: Yeah. It's usually
11 characterized as some percentage of the federal
12 poverty level, yes.

13 COMMISSIONER GOLTZ: And does the
14 Company have any comment on the use of the different
15 index? I think Ms. Gervais may have heard the same
16 testimony that I did.

17 MS. GERVAIS: Yeah, I would just say
18 that because LIRAP has a little bit more flexibility,
19 as Mr. Eberdt said, for the senior program, we are at
20 200 percent, and so I think it meets our current need.

21 COMMISSIONER GOLTZ: I have one other
22 question about the process that's being proposed. I'm
23 a big fan of collaboratives, a big fan of workshops, a
24 big fan of getting together and talking outside of
25 adjudication, try to come up with proposals that then

0265

1 later can be implemented in adjudication. So my
2 modest amount of frustration with this is we went
3 through a low income workshop, where we talked about
4 that, we finished that. And now we come to
5 adjudication where one would hope we would implement
6 something that came out of that. And instead, we're
7 having a proposal to have another workshop, and it
8 goes on.

9 And so at some point, you've just got to kind
10 of stop talking and decide. And so I guess I'm -- I'm
11 looking for a question here. But maybe it's this: So
12 let's -- so you have a workshop and there's not an
13 agreement. Then what?

14 I mean, it seems -- do we have to wait for the
15 next rate case and then hear another bunch of other
16 proposals, or would the workshop -- and I forget what
17 the proposal is. You'll agree upon modifications by
18 June 1, 2015. That's not very far away. But if you
19 don't agree with that by 2015, could -- could it be --
20 the settlement only talks about if we agree. Well,
21 what about if you don't agree? Would it be possible
22 to say okay, by June 1, 2015, we either submit an
23 agreed proposal or we submit alternate proposals and
24 then decide? I'm looking for a decision point so we
25 can stop talking.

0266

1 Does that sound like a reasonable thing to do,
2 that you could come up with alternate proposals,
3 Mr. Eberdt, as well?

4 I got a nod of yes from Ms. Gervais.

5 MR. EBERDT: I think we always assumed
6 that we would be able to suggest something if we
7 couldn't agree.

8 COMMISSIONER GOLTZ: I'm hearing some
9 pretty disparate views between Commission Staff and
10 you on this, on the rate discount program. I mean
11 there's not necessarily a lot of common ground. There
12 might be.

13 MR. EBERDT: Well, the stipulation
14 actually makes a distinction between modifications to
15 the existing program and additions to the program, and
16 gives more time to plan additions to the program.

17 COMMISSIONER GOLTZ: Okay. That's all.

18 COMMISSIONER JONES: Ms. Gervais, could
19 you explain, at least to me, why you have such a large
20 ending balance at the end of every year? I'm looking
21 at your LIRAP report to the Commission. 2011 it was
22 2.6 million, 2012, 2.0, 2013, 1.5 roughly. It's
23 coming down.

24 MS. GERVAIS: Yes.

25 COMMISSIONER JONES: So what does this

0267

1 do to -- do you agree with Mr. Eberdt? That seems
2 like a large -- too large of an ending balance to me.

3 MS. GERVAIS: If you take a look at
4 those years when they were pretty high, that was when
5 we were ending the program in April, at the end of
6 April. So then you all -- let's say you have May,
7 June, July. You had all these years where that
8 balance was accumulating that was -- allowed the
9 programs to begin early in the fall. So you can see
10 when we changed the program to a full year, those
11 balances started to reduce because they were able to
12 get the money out.

13 MR. EBERDT: If I may add to that, there
14 was one year, and it may be have been the 2011 year,
15 whichever year you see the largest ending balance,
16 LIHEAP wasn't released until February.

17 COMMISSIONER JONES: I get it. Okay.

18 MR. EBERDT: And the way LIHEAP works is
19 you spend it or you don't get it. So agencies put all
20 their effort into spending LIHEAP. Worked with
21 Avista. Avista said, fine, you know, hold onto our
22 money, spend the LIHEAP money.

23 COMMISSIONER JONES: Just wrapping up
24 here --

25 MR. EBERDT: And it's difficult to spend

0268

1 out after that sometimes.

2 COMMISSIONER JONES: Right. Just
3 wrapping up here, I agree with Commissioner Goltz,
4 that we have talked far too much about this issue, and
5 we need accelerated work on this subject. So a few
6 questions.

7 I think Commissioner Goltz asked it, I'm going
8 to ask it again: If the parties do not reach a
9 consensus on modifications to LIRAP, whether it's
10 early next year or June, I would prefer to see
11 something earlier, would they agree to file multiple
12 proposals for the Commission's consideration
13 consistent with what you think we want? Would you
14 agree to that?

15 MS. GERVAIS: Yes.

16 MR. EBERDT: Yes.

17 COMMISSIONER JONES: Okay. When
18 considering modifications to LIRAP, would the parties
19 also commit to looking at a different screening
20 criteria, Commissioner Goltz mentioned one, to FPG,
21 Federal Poverty Guidelines, and make a recommendation
22 serving the appropriate screening criteria for the low
23 income customers in Spokane, Pend Oreille and Whitman
24 Counties?

25 MS. GERVAIS: Yes.

0269

1 MR. EBERDT: Sure. Yes, sir.

2 COMMISSIONER JONES: And then finally,
3 the Company has agreed to hire a third party to
4 facilitate this collaborative process, as Commissioner
5 Goltz says, we do a lot of collaboratives, to discuss,
6 as you say, Mr. Eberdt, modifications and additions to
7 LIRAP. Would the Company's shareholders also cover
8 the travel and lodging expenses for community action
9 agencies who may be on the west side or somewhere
10 around the state to administer LIRAP?

11 This is a question for you, Ms. Gervais.

12 MS. GERVAIS: Yes.

13 COMMISSIONER JONES: Okay. Thank you
14 very much.

15 MR. EBERDT: If I may add one other
16 thing. I want to make a distinction between what we
17 proposed and a workshop, because I think a workshop is
18 a one-time exploration of a topic.

19 COMMISSIONER JONES: Right, right.

20 MR. EBERDT: And that's what we had
21 last -- well, it was September, but I don't remember
22 what year.

23 COMMISSIONER JONES: September of 2013
24 was Avista only, and May of 2014 was an all company
25 workshop here.

0270

1 MR. EBERDT: And actually, at the
2 September meeting we had the other utilities there as
3 well.

4 COMMISSIONER JONES: Oh, did you?

5 MR. EBERDT: And it was interesting. It
6 was exploratory and we learned a lot about differences
7 between the programs. But I think what we're
8 intending with the work group is to roll up our
9 sleeves and dig in and do something that's more than
10 oh, well, this is what we do, and that's what you do,
11 and gee, isn't that nice. I want something to come
12 out of this. We need to move ahead.

13 COMMISSIONER JONES: It sounds like
14 we're getting to a consensus. Thank you.

15 CHAIRMAN DANNER: As you are working
16 ahead on this, and it's always helpful to have clear
17 goals. In her testimony on Page 8, Ms. Williams
18 actually listed two goals. She suggested the primary
19 goal for LIRAP would be keeping low income customers
20 connected to electricity and natural gas service.

21 And then she said Avista should establish a
22 secondary goal of reducing low income customers'
23 energy burden to an appropriate amount compared to
24 nonlow energy -- or low income customers to be
25 determined in coordination with CAAs and Staff.

0271

1 And I notice in the settlement, you actually
2 took that primary intention and put it down almost
3 verbatim, but you did not adopt the secondary goal.
4 Now, is that because you have issues with that
5 particular goal of reducing the low income customers'
6 energy burden to an appropriate amount compared to the
7 nonlow income customers?

8 MR. EBERDT: We certainly don't have any
9 issues with trying to do that. It's a pretty large
10 goal. I mean a nonlow income customer probably pays
11 somewhere between 2 and 4 percent of their income for
12 their -- and some of these low income people are
13 paying 30 percent. So trying to get them down to
14 4 percent is going to be pretty hard.

15 SNAP and Avista have looked at the reduction
16 in burden that results, and it doesn't get down to
17 that low of a level. But they do -- generally
18 speaking, they reduce the burden by half, which is
19 pretty good.

20 CHAIRMAN DANNER: So I don't think
21 actually what it was saying is that you wanted to get
22 it to an amount the same as the low income, it just
23 said to an appropriate amount compared to, which I
24 mean I think it's -- he says do what you can.

25 So in that regard, it was interesting that you

0272

1 admitted the second goal while taking in the first
2 goal almost verbatim and was just wondering what the
3 opposition there was, if there was any.

4 Ms. Gervais.

5 MS. GERVAIS: No, there's no opposition.
6 I think that's always our goal, is to be able to do
7 that and reduce that. SNAP is our only agency in
8 Spokane that actually is able to track that and do
9 that. We have five other agencies and they are very
10 small. So we just have to do a different kind of
11 analysis with that. But I think that's always our
12 intent. And I don't think that it was ever our intent
13 to not put that in there. We were always striving for
14 that.

15 CHAIRMAN DANNER: So we can assume that
16 as you have your bimonthly meetings and you are
17 developing proposals for modifications and additions,
18 that this secondary goal will be something that you
19 will keep in the back of your heads?

20 MS. GERVAIS: Yes.

21 CHAIRMAN DANNER: Okay. And then the
22 other thing I noticed in Page 21 of Ms. Williams'
23 testimony is that she made a recommendation that
24 Avista adopt a policy to hold off on disconnecting
25 customers in the process of applying for assistance

0273

1 through any LIRAP program. Is that something that you
2 talked about in the -- in developing the settlement?
3 Was that under consideration?

4 MR. EBERDT: I actually didn't think we
5 had any issue with Avista on that. At the September
6 meeting, and maybe at the workshop, I don't recall if
7 this came up at the workshop here, but historically,
8 it was always a policy for a utility not to disconnect
9 a low income customer who informed them that they had
10 an appointment for LIHEAP intake or if there was a
11 utility program. Over the last five years, that's
12 changed with some utilities, but I didn't think it had
13 with Avista. I thought Avista was still honoring
14 that.

15 MS. GERVAIS: Yeah, that is one issue
16 that we haven't had any problems with. Because our
17 agencies have been able to get customers in and they
18 contact our contact center. And if the customer is in
19 real trouble, we also have our CARES group, which kind
20 of takes them even more under their wing and works
21 with them, so we haven't had an issue with that.

22 CHAIRMAN DANNER: Okay. So the
23 recommendation that adopt a policy, you just see that
24 as not necessary right now because --

25 MS. GERVAIS: I would agree with that.

0274

1 MR. EBERDT: I felt like it was the
2 policy, so...

3 CHAIRMAN DANNER: All right. Those are
4 my questions.

5 JUDGE FRIEDLANDER: Any other questions
6 from the bench?

7 Okay. Is there --

8 MR. FINKLEA: I was just going to make
9 one comment.

10 JUDGE FRIEDLANDER: Sure.

11 MR. FINKLEA: The Industrial Gas Users
12 are committed to participate in this process as well.
13 And it's not my members' desire to be excluded from
14 participating and making sure that low income people
15 in our communities can afford their energy.

16 So however it has been done in the past, I am
17 committing as -- for our organization, that we will
18 participate in this process, and we are happy to do
19 something. Because we recognize that this recession
20 has hit low income people, and ironically, and some
21 businesses harder than it has hit a lot of the rest of
22 us, and we need to do something in these communities.

23 JUDGE FRIEDLANDER: Thank you. Okay.
24 So are there any procedural matters that we need to
25 address? I know Public Counsel is going to file a

0275

1 public comment exhibit in approximately a week. I
2 apologize for not giving you a bathroom break, but now
3 you don't have to come back after lunch. And with
4 that, I guess we are adjourned. Thank you.

5 (Hearing adjourned 12:40 p.m.)

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

0276

1

C E R T I F I C A T E

2

3

STATE OF WASHINGTON

4

COUNTY OF KING

5

6

I, Sherrilyn Smith, a Certified

7

Shorthand Reporter in and for the State of Washington,

8

do hereby certify that the foregoing transcript is

9

true and accurate to the best of my knowledge, skill

10

and ability.

11

12

13

14

15

16

17

SHERRILYN SMITH

18

19

20

21

22

23

24

25